

NORTH RED DEER RIVER WATER SERVICES COMMISSION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
FINANCIAL STATEMENTS
DECEMBER 31, 2013**

	Page
Auditors' Report	1
Consolidated Statement of Financial Position	2
Consolidated Statement of Operations	3
Statement of Change in Net Debt	4
Consolidated Statement of Cash Flows	5
Notes to the Consolidated Financial Statements	6
Schedules	12



Tel: 403 342 2500
Fax: 403 343 3070
www.bdo.ca

BDO Canada LLP
Millennium Centre
600, 4909 - 49th Street
Red Deer AB T4N 1V1 Canada

Independent Auditor's Report

**To the Members of the Board of the
North Red Deer River Water Services Commission**

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of North Red Deer River Water Services Commission, which comprise the Consolidated Statement of Financial Position as at December 31, 2013, and the Consolidated Statements of Operations, Change in Net Assets and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of North Red Deer River Water Services Commission as at December 31, 2013, and the results of its operations, change in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

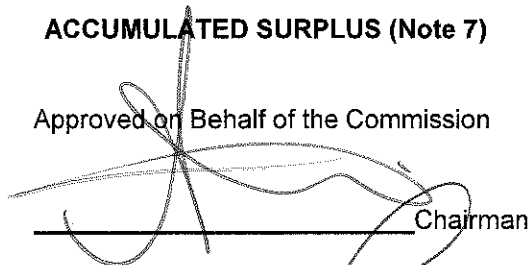
Red Deer, Alberta
April 14, 2014

CHARTERED ACCOUNTANTS

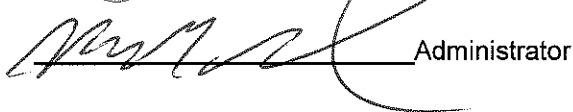
**NORTH RED DEER RIVER WATER SERVICES COMMISSION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013 For the Year Ended**

	2013	2012
	\$	\$
ASSETS		
Cash	2,853,009	1,492,139
Trade and Other Receivables	656,179	961,782
Due from City of Lacombe	-	379,241
	<u>3,509,188</u>	<u>2,833,162</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts Payable and Accrued Liabilities	347,044	321,203
Current Portion of Long-term Debt	589,444	563,737
	<u>936,488</u>	<u>884,940</u>
Long-term Debt, Net of Current Portion	14,757,858	15,347,301
	<u>15,694,346</u>	<u>16,232,241</u>
Net Debt	<u>(12,185,158)</u>	<u>(13,399,079)</u>
Non-financial assets		
Tangible Capital Assets	33,127,854	33,593,464
Inventory of Supplies	63,413	63,412
	<u>21,006,108</u>	<u>20,257,797</u>
ACCUMULATED SURPLUS (Note 7)		

Approved on Behalf of the Commission



Chairman



Administrator

The accompanying notes are an integral part of these financial statements.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budget \$	2013 \$	2012 \$
REVENUE			
Water Sales to Commission Members	5,120,705	5,142,826	4,890,880
Service Fees Charged to Commission Members	134,000	136,432	134,177
Interest income	14,960	32,644	16,662
Other Revenue	-	750	5,914
	<u>5,269,665</u>	<u>5,312,652</u>	<u>5,047,633</u>
OPERATING EXPENSES			
Accounting and Audit Fees	8,875	10,605	8,750
Board Remuneration	4,750	3,550	3,700
Board Travel	2,500	260	372
Communication	9,545	8,787	8,653
General Materials and Supplies	1,300	431	589
Insurance	5,500	4,480	4,331
Interest on Long-term Debt	711,164	714,143	729,322
Legal	1,000	-	125
Management Fees	48,825	47,440	44,730
Office	250	20	-
Operator Costs	100,000	93,139	83,546
Other Expenses	500	799	279
Other Professional Fees	50,882	20,448	12,958
Purchase of Water	3,164,828	3,166,327	2,907,659
Repairs and Maintenance	15,000	7,724	5,374
SCADA Maintenance	11,500	10,764	10,764
Utilities	5,000	4,096	4,246
Valves	5,000	5,717	(2,851)
Amortization of Capital Assets	465,610	465,610	465,610
	<u>4,612,029</u>	<u>4,564,340</u>	<u>4,288,157</u>
EXCESS OF REVENUES OVER EXPENSES	<u>657,636</u>	<u>748,312</u>	<u>759,476</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR	93,899	20,257,794	19,498,318
ACCUMULATED SURPLUS, END OF YEAR	<u>751,535</u>	<u>21,006,108</u>	<u>20,257,797</u>

The accompanying notes are an integral part of these financial statements.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budget	2013	2012
	\$	\$	\$
INCOME FROM OPERATIONS	657,636	748,312	759,476
Amortization of Capital Assets	465,610	465,610	465,610
Inventory of Supplies	-	-	(6,766)
Net Change in Net Debt	1,123,246	1,213,923	1,218,322
Net Debt, Beginning of Year	(13,399,081)	(13,399,081)	(14,617,403)
NET FINANCIAL ASSETS (DEBT), END OF YEAR	(1,123,246)	(12,185,158)	(13,399,079)

The accompanying notes are an integral part of these financial statements.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	2013	2012
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenues over Expenses	748,313	759,478
Items which do not affect cash:		
Amortization of Capital Assets	465,610	465,610
Net change in non-cash working capital balances:		
Decrease (Increase) in Trade and other Receivables	684,843	878,010
(Increase) in Inventory of Supplies	-	(6,765)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	25,841	(37,179)
	1,924,607	2,059,154
CASH FLOWS FROM INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Debenture Debt	(563,737)	(539,151)
CAPITAL ACTIVITIES:		
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	1,360,870	1,520,003
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,492,139	(27,864)
CASH AND CASH EQUIVALENTS - END OF YEAR	2,853,009	1,492,139

The accompanying notes are an integral part of these financial statements.

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

1. Significant Accounting Policies

a. Management's Responsibility for the Financial Statements

The financial statements of the North Red Deer River Water Services Commission (the "Commission") are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board. The Commission is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs on June 8, 2004, for the purpose of constructing, maintaining, controlling, and managing a regional water system. The members of the Commission are the City of Lacombe, Lacombe County, Ponoka County, Town of Blackfalds, and the Town of Ponoka.

b. Budget Amounts

The budget amounts presented on the statement of financial activities are taken from the commission's annual budget.

c. Revenue Recognition

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Government transfers are received from third parties pursuant to agreement and may only be used for the completion of specific work or for the purchase of tangible capital assets. Revenue is recognized in the period when the related expenses are incurred, or the tangible capital assets are acquired.

d. Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenue and expenditure during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

e. Inventories

Inventories of materials and supplies for consumption are valued at the lower of cost or net replacement cost.

f. Tangible Capital Assets

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Contributed tangible capital assets are recorded at fair value at the date of contribution and are also recorded as revenue.

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

1 Significant Accounting Policies continued

f. Tangible Capital Assets continued

The cost, less residual value, of the tangible capital asset are amortized on a straight line basis over the estimated useful life as follows:

<u>ASSET CLASS</u>	<u>YEARS</u>
Buildings	25-50
Engineered structures	
Water systems	45-75
Machinery, equipment and furnishings	5-30
Vehicles	10-25

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

2. FINANCIAL INSTRUMENTS

The Commission utilizes various financial instruments. It is management's opinion that the Commission is not exposed to significant interest or currency risks arising from these financial instruments.

The carrying value of these financial instruments approximates their fair value.

3. INVENTORIES OF SUPPLIES

	2013	2012
	\$	\$
Valves	38,921	38,921
Material and Supplies	8,660	8,660
Pipe	8,513	8,513
Couplings	2,707	2,707
Miscellaneous	4,612	4,612
	63,413	63,413

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

4. LONG-TERM DEBT

	2013	2012
	\$	\$
4.46% debenture, repayable \$66,762 semi-annually, due September 15, 2031	1,640,486	1,698,885
4.515% debenture, repayable \$570,688 semi-annually, due June 15, 2031	13,706,815	14,212,153
	15,347,301	15,911,038
Less current portion	589,444	563,737
Long-Term Portion	14,757,857	15,347,301

Principal and interest repayments are as follows:

	Principal	Interest	Total
	\$	\$	\$
2014	589,444	685,458	1,274,902
2015	616,323	658,578	1,274,901
2016	644,428	630,473	1,274,901
2017	673,815	601,085	1,274,900
2018	704,542	563,359	1,267,901
Subsequent	12,118,749	3,884,279	16,003,028
	15,347,301	7,023,232	22,370,533

Debenture debt is issued on the credit of the Commission at large. The Commission has agreed to levy upon the member municipalities, a cubic meter water service fee based on actual use sufficient to provide for annual funds to pay principal and interest due each year on debentures and annual operating costs.

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

5. DEBT LIMITS

Section 3 of Alberta Regulation No. 76/2000 and requires that debt and debt limits for the Commission to be disclosed. The Commission has received approval to borrow up to \$27 million under ministerial orders L:043/05 (\$22,000,000) and L:148/05 (\$5,000,000) to complete the project and as such, has not exceeded its debt limit at December 31, 2013. The debt limit and debt service limit otherwise determined are as follows:

	2013	2012
	\$	\$
Total debt limit	10,625,304	10,095,267
Current Portion of Long-Term debt	(15,347,302)	(15,911,038)
	(4,721,998)	(5,815,771)
Debt servicing limit	1,859,428	1,766,672
Debt Servicing	(1,274,901)	(1,274,901)
	584,527	491,771

The debt limit is calculated at 2 times the revenue of the Commission (as defined in Alberta Regulation 76/2000) and the debt service limit is calculated at 0.35 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify Commissions that could be at financial risk if further debt is acquired. The calculation alone does not represent the financial stability of the Commission. Rather, the financial statements must be interpreted as a whole.

6. EQUITY IN TANGIBLE CAPITAL ASSETS

Net assets invested in capital assets is calculated as follows:

	2013	2012
	\$	\$
Total property, plant and equipment	33,127,854	33,593,464
Current Portion of Long-Term debt	(15,347,302)	(15,911,038)
	17,780,552	17,682,426

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

7. ACCUMULATED SURPLUS

	2013	2012
	\$	\$
	<hr/>	<hr/>
Unrestricted Operating Surplus	1,542,049	1,577,800
Unrestricted Capital Surplus	233,104	233,104
Operating Reserve	706,845	486,517
Capital Reserve	743,559	277,949
Equity in Tangible Capital Assets	17,780,552	17,682,426
	<hr/>	<hr/>
	21,006,109	20,257,796

The Capital Reserve is used to provide funds for specific capital equipment purchases to enhance or improve service delivery. Operating Reserves are funds for emergency situations. Both are funded out of year-end surplus and allocated based on Board Policy.

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

8. RELATED PARTY TRANSACTIONS

City of Lacombe, Town of Blackfalds, Town of Ponoka, Lacombe County, and Ponoka County are members of the Commission and, as such, have been identified as related parties.

a. WATER SALES:

Water sales charged to Commission members are as follows:

	2013	2012
	\$	\$
City of Lacombe	2,512,928	2,368,963
Town of Ponoka	1,416,189	1,390,579
Town of Blackfalds	1,202,014	1,122,055
Ponoka County	11,695	9,283
	<u>5,142,826</u>	<u>4,890,880</u>

b. SERVICE FEES:

Service fees are based on the actual net operating costs of the Commission and are allocated among various Commission members based on earlier agreement. service fees charged to Commission members are as follows:

	2013	2012
	\$	\$
Lacombe County	68,216	67,088
Ponoka County	68,216	67,088
	<u>136,432</u>	<u>134,176</u>

c. OTHER FEES:

The commission is provided accounting, management and operations services by the City of Lacombe for a total cost of \$140,559 (2012 - \$128,276)

Included in accounts receivable are \$649,937 (2012- \$955,905) due from various member municipalities.

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

9. SIGNIFICANT AGREEMENTS

a. CITY OF RED DEER

The Commission has entered into a 25 year agreement with the City of Red Deer, expiring August 31, 2030, to purchase water. The agreement may be terminated by either party by giving five year's written notice. Under the agreement, the Commission is obligated to purchase an annual quantity of water to be determined by negotiation between the parties at a rate calculated on a cost of service basis utilizing the principles set out in the American Water Works Association manuals of practice dealing with water rates and charges.

b. RELATED PARTIES

The Commission has entered into agreements with the City of Lacombe, Town of Ponoka, Town of Blackfalds, and Ponoka County to supply water. Under the agreement, the Commission is obligated to provide a maximum allocation of water to each municipality for a price determined annually by October 31st of the prior year.

10. SUPPLEMENTARY CASH FLOW INFORMATION

	2013	2012
	\$	\$
Interest income	32,644	16,662
Interest on Long-term Debt	714,143	729,322

11. APPROVAL OF FINANCIAL STATEMENTS

Commission Board and Administration have approved these financial statements.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
 SCHEDULE OF TANGIBLE CAPITAL ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

Schedule 1

	Cost										2013	2012
	Beginning of year	Acquisition	Change in assets under construction	Disposals	Write Down	End of year	Beginning of year	Amortization	Disposals	End of year		
Engineered Structures	34,776,820	-	-	-	-	34,776,820	3,005,049	(465,610)	-	3,470,659	31,306,161	31,771,771
Land	1,821,692	-	-	-	-	1,821,692	-	-	-	-	1,821,692	1,821,692
	36,598,512	-	-	-	-	36,598,512	(3,005,049)	(465,610)	-	(3,470,659)	33,127,854	33,593,464