

**NORTH RED DEER RIVER
WATER SERVICES COMMISSION
Financial Statements
Year Ended December 31, 2015**

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Red Deer River Water Services Commission, which comprise the Statement of Financial Position as at December 31, 2015, and the Statements of Operations, Change in Net Debt 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, 2015, 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 18, 2016

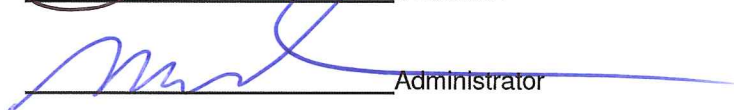
CHARTERED PROFESSIONAL ACCOUNTANTS

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

	2015 \$	2014 \$
ASSETS		
Cash	4,975,103	4,013,761
Trade and Other Receivables	822,614	645,644
	<u>5,797,717</u>	<u>4,659,405</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts Payable and Accrued Liabilities	344,045	336,849
Current Portion of Long-term Debt (Note 5)	644,428	616,323
	<u>988,473</u>	<u>953,172</u>
Long-term Debt, Net of Current Portion (Note 5)	13,497,107	14,141,535
	<u>14,485,580</u>	<u>15,094,707</u>
Net Debt	<u>(8,687,863)</u>	<u>(10,435,302)</u>
Non-financial assets		
Tangible Capital Assets (Schedule 1)	32,196,633	32,662,244
Inventory of Supplies (Note 3)	73,760	67,282
ACCUMULATED SURPLUS (Note 8)	<u>23,582,530</u>	<u>22,294,224</u>

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
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budget \$	2015 \$	2014 \$
REVENUE			
Water Sales to Commission Members (Note 9)	5,407,597	5,760,182	5,522,603
Service Fees Charged to Commission Members (Note 9)	134,000	138,286	138,088
Interest income	37,530	43,757	39,863
Rebates & Dividends (Note 10)	50	350,662	409,855
Other Revenue	1,750	1,000	2,000
	5,580,927	6,293,887	6,112,409
OPERATING EXPENSES			
Accounting and Audit Fees	8,000	8,031	8,052
Board Remuneration	3,800	2,900	3,200
Board Travel	2,500	298	435
Communication	9,389	8,748	8,697
General Materials and Supplies	1,100	711	648
Insurance	5,500	4,157	4,386
Interest on Long-term Debt	658,578	656,651	683,614
Legal	500	-	-
Management Fees	52,230	52,316	50,286
Office	250	-	-
Operator Costs	107,580	111,314	111,125
Other Expenses	500	284	522
Other Professional Fees	50,044	51,472	59,202
Purchase of Water	3,374,201	3,597,885	3,369,086
Repairs and Maintenance	7,500	17,497	38,809
SCADA Maintenance	10,800	11,481	10,764
Utilities	5,000	3,525	3,829
Valves	5,000	12,701	6,028
Amortization of Capital Assets	465,610	465,610	465,610
	4,768,082	5,005,581	4,824,293
EXCESS OF REVENUES OVER EXPENSES	812,845	1,288,306	1,288,116
ACCUMULATED SURPLUS, BEGINNING OF YEAR	22,294,224	22,294,224	21,006,108
ACCUMULATED SURPLUS, END OF YEAR	23,107,069	23,582,530	22,294,224

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

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
STATEMENT OF CHANGES IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budget	2015	2014
	\$	\$	\$
EXCESS OF REVENUE OVER EXPENDITURES	812,845	1,288,306	1,288,116
Amortization of Capital Assets	465,610	465,610	465,610
Increase in Inventory Supplies	-	(6,479)	(3,870)
Net Change in Net Debt	1,278,455	1,747,437	1,749,856
Net Debt, Beginning of Year	(10,435,302)	(10,435,302)	(12,185,158)
NET DEBT, END OF YEAR	<u>(9,156,847)</u>	<u>(8,687,865)</u>	<u>(10,435,302)</u>

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

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015	2014
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenues over Expenses	1,288,306	1,288,116
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	(176,970)	9,925
(Increase) in Inventory of Supplies	(6,479)	(3,870)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	7,198	(9,585)
	1,577,665	1,750,196
CASH FLOWS FROM INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Debenture Debt	(616,323)	(589,444)
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	961,342	1,160,752
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,013,761	2,853,009
CASH AND CASH EQUIVALENTS - END OF YEAR	4,975,103	4,013,761

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

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Financial Statements
December 31, 2015

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, and the amount to be received is reasonably assured.

d. Use of Estimates

The preparation of financial statements in conformity with public sector accounting standards 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 Financial Statements
December 31, 2015

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>2015</u>
Engineered structures	
Water systems	45-75

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.

g. Liability for Contaminated Sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environment standard.

Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the organization is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made.

The liability includes all costs directly attributed to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries.

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.

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Financial Statements
December 31, 2015

3 INVENTORIES OF SUPPLIES

	2015	2014
	\$	\$
Valves	48,979	42,789
Material and Supplies	8,659	8,660
Pipe	8,513	8,513
Couplings	2,707	2,707
Miscellaneous	4,902	4,612
	73,760	67,282

4 BANK OVERDRAFT

The Commission has an unused overdraft protection agreement with a maximum overdraft of \$1 million and interest charged at lender prime less .25%, Collateral is comprised of a general security agreement specifically pledging all grant proceeds and debenture products. As at year end December 31, 2015 the prime rate was 2.70%

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Financial Statements
December 31, 2015

5 LONG-TERM DEBT

	2015	2014
	\$	\$
4.46% debenture, repayable \$66,762 semi-annually, due September 15, 2031	1,515,671	1,579,456
4.515% debenture, repayable \$570,688 semi-annually, due June 15, 2031	12,625,864	13,178,402
	14,141,535	14,757,858
Less: Current Portion of Long-Term Debt	644,428	616,323
Long-Term Portion	13,497,107	14,141,535

Principal and interest repayments are as follows:

	Principal \$	Interest \$	Total \$
2016	644,428	630,473	1,274,901
2017	673,815	601,086	1,274,901
2018	704,542	570,359	1,274,901
2019	736,670	538,231	1,274,901
2020	770,263	504,638	1,274,901
Subsequent	10,611,817	2,841,392	13,453,209
	14,141,535	5,686,179	19,827,714

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 Financial Statements
December 31, 2015

6 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, 2015. The debt limit and debt service limit otherwise determined are as follows:

	2015	2014
	\$	\$
Total Debt limit	12,587,774	12,224,818
Total Long-Term debt	(14,141,535)	(14,757,858)
	<u>(1,553,761)</u>	<u>(2,533,040)</u>
Debt servicing limit	2,202,860	2,139,343
Debt Servicing	(1,274,901)	(1,274,901)
	<u>927,959</u>	<u>864,442</u>

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.

7 EQUITY IN TANGIBLE CAPITAL ASSETS

Net assets invested in capital assets is calculated as follows:

	2015	2014
	\$	\$
Tangible Capital Assets	32,196,633	32,662,244
Total Long-Term Debt	(14,141,535)	(14,757,858)
	<u>18,055,098</u>	<u>17,904,386</u>

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Financial Statements
December 31, 2015

8 ACCUMULATED SURPLUS

	2015	2014
	\$	\$
Unrestricted Operating Surplus	2,029,457	2,056,144
Unrestricted Capital Surplus	233,104	233,104
Operating Reserve	1,301,221	891,421
Capital Reserve	1,963,650	1,209,169
Equity in Tangible Capital Assets	18,055,098	17,904,386
	<u>23,582,530</u>	<u>22,294,224</u>

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 Financial Statements
December 31, 2015

9 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:

	2015 \$	2014 \$
City of Lacombe	2,764,335	2,696,869
Town of Ponoka	1,451,612	1,434,114
Town of Blackfalds	1,527,218	1,376,728
Ponoka County	17,017	14,892
	<u>5,760,182</u>	<u>5,522,603</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:

	2015 \$	2014 \$
Lacombe County	69,143	69,044
Ponoka County	69,143	69,044
	<u>138,286</u>	<u>138,088</u>

c. OTHER FEES:

The commission is provided accounting, management and operations services by the City of Lacombe for a total cost of \$173,389 (2014 - \$169,554)

Included in accounts receivable are \$811,603 (2014- \$632,567) due from various member municipalities.

Included in accounts payable is \$7,590 (2014 - \$12,180) due to various member municipalities

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Financial Statements
December 31, 2015

10 REBATES

Based on the terms of the water supply agreement with the City of Red Deer effective September 1, 2005, annual water rates are based on forecasted consumption volume and costs which are subject to annual reconciliation. A "true-up" transaction, where one party compensates the other for variance in consumption and/or cost, is only applicable when the difference between forecasted and actual consumption and costs results in an actual cost per cubic metre variance greater than 10%. The rebate received in 2015 is a result of the reconciliation of actual annual costs and volumes to annual budgeted costs and volumes completed by the City of Red Deer for the 2014 calendar year and resulted in a rebate of \$350,662 (2014- \$409,800). The reconciled amount and resulting rebate or payable is not calculated until subsequent to the year end and as a result is recognized in the financial statements when known or received.

11 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.

12 SUPPLEMENTARY CASH FLOW INFORMATION

	2015	2014
	\$	\$
Interest income	43,757	39,863
Interest on Long-Term Debt	656,651	683,614

13 APPROVAL OF FINANCIAL STATEMENTS

Commission Board and Administration have approved these financial statements.

Schedule 1

	Cost		Amortization			2015	2014
	Beginning of year	End of year	Beginning of year	Amortization	Disposals	\$	\$
Engineered Structures	34,776,820	34,776,820	3,936,269	465,610	-	30,374,941	30,840,551
Land	1,821,692	1,821,692	-	-	-	1,821,692	1,821,692
	36,598,512	36,598,512	3,936,269	465,610	-	32,196,633	32,662,244