

**NORTH RED DEER RIVER
WATER SERVICES COMMISSION**

Financial Statements

Year Ended December 31, 2018

North Red Deer River Water Services Commission
Financial Statements
For the year ended December 31, 2018

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of the North Red Deer River Water Services Commission (the Commission), which comprise the statement of financial position as at December 31, 2018, and the statement of operations, statement of changes in net debt, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Commission in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting

Independent Auditor's Report

a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants,
Red Deer, Alberta
April 8, 2019

North Red Deer River Water Services Commission
Statement of Financial Position

<u>December 31</u>	<u>2018</u>	<u>2017</u>
Financial assets		
Cash	\$ 1,997,021	\$ 6,341,364
Investments (Note 3)	5,000,000	-
Trade and Other Receivables	870,305	1,005,534
	<u>7,867,326</u>	<u>7,346,898</u>
Liabilities		
Accounts payable and accrued liabilities	413,175	390,887
Current Portion of Long-term Debt (Note 4)	736,670	704,542
	<u>1,149,845</u>	<u>1,095,429</u>
Long-term Debt, Net of Current Portion (Note 4)	<u>11,382,079</u>	<u>12,118,749</u>
	<u>12,531,924</u>	<u>13,214,178</u>
Net debt	<u>(4,664,598)</u>	<u>(5,867,280)</u>
Non-financial assets		
Tangible capital assets (Note 6)	30,810,439	31,265,413
Inventory of Supplies (Note 7)	74,841	78,758
	<u>30,885,280</u>	<u>31,344,171</u>
Accumulated surplus (Note 9)	<u>\$ 26,220,682</u>	<u>\$ 25,476,891</u>
 Commitments (Note 11)		

North Red Deer River Water Services Commission

Statement of Operations

For the year ended December 31	Budget 2018	2018	2017
Revenue			
Water Sales to Commission Members (Note 10) \$	5,762,523	\$ 6,005,778	\$ 5,651,937
Service Fees to Commission Members (Note 10)	140,390	142,848	141,012
Interest income	50,000	173,449	71,068
Rebates & Dividends (Note 12)	30	26	388
Other Revenue	1,500	500	1,750
Total revenue	5,954,443	6,322,601	5,866,155
Expenses			
Accounting and Audit Fees	8,000	9,381	8,321
Board Remuneration	3,800	4,600	4,611
Board Travel	1,350	391	409
Communication	9,152	9,534	8,333
General Material and Supplies	1,450	1,999	2,137
Insurance	3,889	4,240	3,933
Interest Long-Term Debt	570,359	568,157	598,979
Legal	500	4,490	100
Management Fees	56,844	56,844	55,728
Office	150	-	111
Operator Costs	123,887	100,393	112,377
Other Expenses	25	20	5
Other Professional Fees	27,396	18,770	16,662
Purchase of Water	4,096,061	4,284,939	3,878,105
Repairs and Maintenance	9,500	3,846	6,850
SCADA Maintenance	9,025	29,554	8,725
Utilities	3,500	3,565	2,649
Valves	5,000	12,477	546
Amortization of Capital Assets	465,610	465,610	465,610
Total expenses	5,395,498	5,578,810	5,174,191
Excess of revenue over expenses	558,945	743,791	691,964
Accumulated surplus, beginning of year	25,476,891	25,476,891	24,784,927
Accumulated surplus, end of year	\$ 26,035,836	\$26,220,682	\$ 25,476,891

The accompanying summary of significant accounting policies and 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	Budget 2018	2018	2017
Excess of revenue over expenses	\$ 558,945	\$ 743,791	\$ 691,964
Acquisition of tangible capital assets	-	(10,636)	-
Amortization of tangible capital assets	465,610	465,610	465,610
	<u>1,024,555</u>	<u>1,198,765</u>	<u>1,157,574</u>
Decrease (increase) in Inventory of Supplies	-	3,917	(6,309)
Net change in net debt	1,024,555	1,202,682	1,151,265
Net debt, beginning of year	<u>(5,867,280)</u>	<u>(5,867,280)</u>	<u>(7,018,545)</u>
Net debt, end of year	<u>\$ (4,842,725)</u>	<u>\$ (4,664,598)</u>	<u>\$ (5,867,280)</u>

North Red Deer River Water Services Commission
Statement of Cash Flows

For the year ended December 31	2018	2017
Operating transactions		
Excess of revenue over expenses	\$ 743,791	\$ 691,964
Items not involving cash		
Amortization	465,610	465,610
Changes in non-cash operating balances		
Accounts receivable	135,229	(325,230)
Inventories of supplies	3,917	(6,309)
Accounts payable and accrued liabilities	22,288	91,257
	<u>1,370,835</u>	<u>917,292</u>
Capital transactions		
Acquisition of tangible capital assets	<u>(10,636)</u>	-
Investing transactions		
Acquisition of investments	<u>(5,000,000)</u>	-
Financing transactions		
Repayment of long-term debt	<u>(704,542)</u>	<u>(673,815)</u>
Net change in cash and bank indebtedness	(4,344,343)	243,477
Cash, beginning of year	<u>6,341,364</u>	<u>6,097,887</u>
Cash, end of year	<u>\$ 1,997,021</u>	<u>\$ 6,341,364</u>

North Red Deer River Water Services Commission

Summary of Significant Accounting Policies

December 31, 2018

**Management's
Responsibility for the
Financial Statements**

The financial statements of 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 of the Chartered Professional Accountants of Canada. The North Red Deer River Water Services Commission (the "Commission") was established for the purposes of constructing and operating a water supply system. The Commission is made up of member municipalities and requisitions funds from its members. The members of the Commission are City of Lacombe, Lacombe County, Ponoka County, Town of Blackfalds, and the Town of Ponoka.

Investments

Investments are recorded at cost unless there has been a decline in the market value which is other than temporary in nature in which case the investments are written down to market value.

Budget Amounts

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

Inventories

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

**Tangible Capital
Assets**

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue. Amortization is recorded on a straight-line basis over the estimated life of the tangible capital asset commencing once the asset is available for productive use as follows:

Engineered Structures - Water System	45 to 75 years
Equipment	5 to 45 years

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. Funds received for specific purposes which are externally restricted by legislation, regulation or agreement and are not available for general purposes are accounted for as deferred revenue. The revenue is recognized in the statement of operations in the year in which it is used for the specified purpose.

North Red Deer River Water Services Commission

Summary of Significant Accounting Policies

December 31, 2018

Liability for

Contaminated Sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental 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 attributable to the remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded at net of any expected recoveries.

Use of Estimates

The preparation of financial statements in accordance with Canadian Public Sector Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

1. 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

2. Bank Overdraft

The Commission has an unused overdraft protection agreement with a maximum overdraft of \$1 million and interest charged at lender prime less 0.25%. Collateral is comprised of a general security agreement specifically pledging all grant proceeds and debenture products. As at year end December 31, 2018 the prime rate was 3.95%.

North Red Deer River Water Services Commission
Notes to Financial Statements

December 31, 2018

3. Investments

	<u>2018</u>	<u>2017</u>
Short-term & medium-term Canadian bank paper notes, Principal protected notes yielding effective annual rates of 2.57% to 4.89% to maturity at cost.	<u>\$ 5,000,000</u>	<u>\$ -</u>

The market value of the Commission's investments was \$4,973,432.

North Red Deer River Water Services Commission
Notes to Financial Statements

December 31, 2018

4. Long-term Debt

Long-term debt reported on the statement of financial position is comprised of the following:

	<u>2018</u>	<u>2017</u>
4.46% debenture, repayable \$66,762, semi-annually, due September 15, 2031	\$ 1,306,535	\$ 1,379,344
4.515% debenture, repayable \$570,688 semi-annually, due June 15, 2031	<u>10,812,214</u>	<u>11,443,947</u>
	<u>12,118,749</u>	<u>12,823,291</u>

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 736,670	\$ 538,231	\$ 1,274,901
2020	770,264	504,637	1,274,901
2021	805,389	469,512	1,274,901
2022	842,116	432,785	1,274,901
2023	880,518	394,383	1,274,901
Thereafter	<u>8,083,792</u>	<u>1,544,730</u>	<u>9,628,522</u>
	<u>\$ 12,118,749</u>	<u>\$ 3,884,278</u>	<u>\$ 16,003,027</u>

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 Financial Statements

December 31, 2018

5. Debt Limits

Section 3 Alberta Regulation No. 76/2000 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 order 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, 2018. The debt limit and debt service limit otherwise determined are as follows:

	2018	2017
Total debt limit	\$ 12,645,200	\$ 11,732,310
Total debt	(12,118,749)	(12,823,291)
Total debt limit exceeded	526,451	(1,090,981)
Debt servicing limit	2,212,910	2,053,154
Debt servicing	(1,274,901)	(1,274,901)
Total debt servicing limit	938,009	778,253

The debt limit is calculated at two times the revenue of the Commission (as defined in Alberta Regulation No. 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.

North Red Deer River Water Services Commission
Notes to Financial Statements

December 31, 2018

6. Tangible Capital Assets

	2018			
	Engineered Structures	Land	Equipment	Total
Cost,				
beginning of year	\$ 34,776,820	\$ 1,821,692	\$ -	\$ 36,598,512
Additions		-	10,636	10,636
Disposals				-
Cost, end of year	\$ 34,776,820	\$ 1,821,692	\$ 10,636	\$ 36,609,148
Accumulated amortization,, beginning of year	\$ 5,333,099	\$ -	\$ -	\$ 5,333,099
Amortization	465,610	-	-	465,610
Disposals				-
Accumulated amortization, end of year	\$ 5,798,709	\$ -	\$ -	\$ 5,798,709
Net carrying amount, end of year	\$ 28,978,111	\$ 1,821,692	\$ 10,636	\$ 30,810,439

	2017			
	Engineered Structures	Land	Equipment	Total
Cost,				
beginning of year	\$ 34,776,820	\$ 1,821,692	\$ -	\$ 36,598,512
Additions	-	-	-	-
Disposals	-	-	-	-
Cost, end of year	\$ 34,776,820	\$ 1,821,692	\$ -	\$ 36,598,512
Accumulated amortization, beginning of year	\$ 4,867,489	\$ -	\$ -	\$ 4,867,489
Amortization	465,610	-	-	465,610
Accumulated amortization, end of year	\$ 5,333,099	\$ -	\$ -	\$ 5,333,099
Net carrying amount, end of year	\$ 29,443,721	\$ 1,821,692	\$ -	\$ 31,265,413

North Red Deer River Water Services Commission
Notes to Financial Statements

December 31, 2018

7. Inventories of Supplies

	2018	2017
Valves	\$ 41,846	\$ 45,204
Materials and supplies	8,523	8,523
Pipe	8,512	8,512
Couplings	4,266	4,266
Miscellaneous	11,694	12,253
	<u>\$ 74,841</u>	<u>\$ 78,758</u>

8. Equity in Tangible Capital Assets

	2018	2017
Tangible capital assets	\$ 30,810,439	\$ 31,265,413
Total Long-Term Debt	(12,118,749)	(12,823,291)
	<u>\$ 18,691,690</u>	<u>\$ 18,442,122</u>

9. Accumulated Surplus

The Commission segregates its accumulated surplus in the following categories:

	2018	2017
Unrestricted Operating Surplus	1,407,356	1,375,621
Unrestricted Capital Surplus	233,104	233,104
Operating Reserve	1,268,512	1,250,363
Capital Reserve	3,339,209	2,894,870
Equity in tangible capital assets	\$18,691,690	\$ 18,442,122
Rate Stabilization Reserve	1,280,811	1,280,811
	<u>\$26,220,682</u>	<u>\$ 25,476,891</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 Financial Statements

December 31, 2018

10. 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.

Water sales charged to Commission members are as follows:

	<u>2018</u>	<u>2017</u>
City of Lacombe	\$ 2,769,872	\$ 2,602,751
Town of Ponoka	1,464,979	1,397,499
Town of Blackfalds	1,750,051	1,625,047
Ponoka County	18,926	20,312
City of Red Deer	1,950	6,328
	<u>\$ 6,005,778</u>	<u>\$ 5,651,937</u>

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:

	<u>2018</u>	<u>2017</u>
Lacombe County	71,424	70,506
Ponoka County	71,424	70,506
	<u>\$ 142,848</u>	<u>\$ 141,012</u>

The Commission is provided accounting, management and operations services by the City of Lacombe for a total cost of \$156,499 (2017 - \$178,184).

Included in accounts receivable are \$606,088 (2017- \$995,344) due from various members municipalities.

Included in accounts payable is \$7,367 (2017 - \$7,830) due to various member Municipalities.

North Red Deer River Water Services Commission
Notes to Financial Statements

December 31, 2018

11. Commitments

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 manual or 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. 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" transactions, where one party compensates the other for variance in consumption and/or costs results in an actual cost per cubic metre variance greater than 10%. The rebate received in 2018 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 2017 calendar year and resulted in a rebate of \$0 (2017 -\$0). The reconciled amount and resulting rebate or payable is not calculated until subsequent to year end and as a result is recognized in the financial statements when known or received.

13. Approval of Financial Statements

The Board and Management approved these financial statements.
