

**North Red Deer River Water Services
Commission
Financial Statements
For the year ended December 31, 2017**

North Red Deer River Water Services Commission
Financial Statements
For the year ended December 31, 2017

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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, 2017, 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, 2017, and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Red Deer, Alberta
April 9, 2018

CHARTERED PROFESSIONAL ACCOUNTANTS

North Red Deer River Water Services Commission
Statement of Financial Position

| December 31 | 2017 | 2016 |
|--|---------------------|----------------------|
| Financial assets | | |
| Cash | \$ 6,341,364 | \$ 6,097,887 |
| Trade and Other Receivables | 1,005,534 | 680,304 |
| | <u>7,346,898</u> | <u>6,778,191</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | 390,887 | 299,629 |
| Current Portion of Long-term Debt (Note 3) | 704,542 | 673,815 |
| | <u>1,095,429</u> | <u>973,444</u> |
| Long-term Debt, Net of Current Portion (Note 3) | <u>12,118,749</u> | <u>12,823,291</u> |
| | <u>13,214,178</u> | <u>13,796,735</u> |
| Net debt | <u>(5,867,280)</u> | <u>(7,018,544)</u> |
| Non-financial assets | | |
| Tangible capital assets (Note 5) | 31,265,413 | 31,731,023 |
| Inventory of Supplies (Note 6) | 78,758 | 72,449 |
| | <u>31,344,171</u> | <u>31,803,472</u> |
| Accumulated surplus (Note 8) | <u>\$25,476,891</u> | <u>\$ 24,784,928</u> |

Commitments (Note 10)

North Red Deer River Water Services Commission
Statement of Operations

| For the year ended December 31 | Budget 2017 | 2017 | 2016 |
|---|----------------------|----------------------|----------------------|
| Revenue | | | |
| Water Sales to Commission Members (Note 9) | \$ 5,617,068 | \$ 5,651,937 | \$ 5,485,677 |
| Service Fees to Commission Members (Note 9) | 140,390 | 141,012 | 140,350 |
| Interest income | 43,511 | 71,068 | 50,059 |
| Rebates (Note 11) | 30 | 388 | 348,371 |
| Other Revenue | 1,000 | 1,750 | 573 |
| Total revenue | 5,801,999 | 5,866,155 | 6,025,030 |
| Expenses | | | |
| Accounting and Audit Fees | 8,000 | 8,321 | 8,243 |
| Board Remuneration | 3,800 | 4,611 | 4,000 |
| Board Travel | 1,500 | 409 | 317 |
| Communication | 8,472 | 8,333 | 8,387 |
| General Material and Supplies | 900 | 2,137 | 737 |
| Insurance | 3,889 | 3,933 | 3,903 |
| Interest Long-Term Debt | 601,086 | 598,979 | 628,458 |
| Legal | 500 | 100 | 300 |
| Management Fees | 55,728 | 55,728 | 54,595 |
| Office | 150 | 111 | 120 |
| Operator Costs | 121,550 | 112,377 | 101,860 |
| Other Expenses | 25 | 5 | 20 |
| Other Professional Fees | 57,192 | 16,662 | 20,283 |
| Purchase of Water | 3,863,404 | 3,878,105 | 3,510,318 |
| Repairs and Maintenance | 7,500 | 6,850 | 861 |
| SCADA Maintenance | 8,300 | 8,725 | 9,014 |
| Utilities | 3,500 | 2,649 | 2,732 |
| Valves | 5,000 | 545 | 2,877 |
| Amortization of Capital Assets | 465,610 | 465,610 | 465,610 |
| Total expenses | 5,216,106 | 5,174,190 | 4,822,635 |
| Excess of revenue over expenses | 585,893 | 691,965 | 1,202,395 |
| Accumulated surplus, beginning of year | 24,784,928 | 24,784,928 | 23,582,533 |
| Accumulated surplus, end of year | \$ 25,370,821 | \$ 25,476,893 | \$ 24,784,928 |

North Red Deer River Water Services Commission
Statement of Change in Net Debt

| For the year ended December 31 | Budget 2017 | 2017 | 2016 |
|--|-----------------------|------------------------------|-----------------------|
| Excess of revenue over expenses | \$ 585,893 | \$ 691,965 | \$ 1,202,395 |
| Amortization of tangible capital assets | 465,610 | 465,610 | 465,610 |
| | <u>1,051,503</u> | <u>1,157,575</u> | <u>1,668,005</u> |
| Decrease (increase) in Inventory of Supplies | - | (6,311) | 1,314 |
| Net change in net debt | 1,051,503 | 1,151,264 | 1,669,319 |
| Net debt, beginning of year | <u>(7,018,544)</u> | <u>(7,018,544)</u> | <u>(8,687,863)</u> |
| Net debt, end of year | <u>\$ (5,967,041)</u> | <u>\$ (5,867,280)</u> | <u>\$ (7,018,544)</u> |

North Red Deer River Water Services Commission
Statement of Cash Flows

| For the year ended December 31 | 2017 | 2016 |
|---|----------------------------|----------------------------|
| Operating transactions | | |
| Excess of revenue over expenses | \$ 691,965 | \$ 1,202,395 |
| Items not involving cash | | |
| Amortization | 465,610 | 465,610 |
| Changes in non-cash operating balances | | |
| Accounts receivable | (325,230) | 142,310 |
| Inventories of supplies | (6,311) | 1,311 |
| Accounts payable and accrued liabilities | 91,258 | (44,414) |
| | <u>917,292</u> | <u>1,767,212</u> |
| Financing transactions | | |
| Repayment of long-term debt | <u>(673,815)</u> | <u>(644,428)</u> |
| Net change in cash and bank indebtedness | 243,477 | 1,122,784 |
| Cash, beginning of year | <u>6,097,887</u> | <u>4,975,103</u> |
| Cash, end of year | <u>\$ 6,341,364</u> | <u>\$ 6,097,887</u> |

North Red Deer River Water Services Commission Summary of Significant Accounting Policies

December 31, 2017

**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.

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 |
|--------------------------------------|----------------|

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.

**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.

North Red Deer River Water Services Commission Summary of Significant Accounting Policies

December 31, 2017

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, 2017 the prime rate was 3.20%.

North Red Deer River Water Services Commission
Notes to Financial Statements

December 31, 2017

3. Long-term Debt

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

| | 2017 | 2016 |
|---|---------------------|--------------|
| 4.46% debenture, repayable \$66,762, semi-annually, due September 15, 2031 | \$ 1,379,344 | \$ 1,449,010 |
| 4.515% debenture, repayable \$570,688 semi-annually, due June 15, 2031 | 11,443,947 | 12,048,096 |
| | 12,823,291 | 13,497,106 |

Principal and interest repayments are as follows:

| | Principal | Interest | Total |
|------------|----------------------|---------------------|----------------------|
| 2018 | \$ 704,542 | \$ 570,359 | \$ 1,274,901 |
| 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 |
| Thereafter | 8,964,310 | 1,939,094 | 10,903,404 |
| | \$ 12,823,291 | \$ 4,454,618 | \$ 17,277,909 |

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, 2017

4. 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, 2017. The debt limit and debt service limit otherwise determined are as follows:

| | 2017 | 2016 |
|----------------------------|---------------------|---------------|
| Total debt limit | \$11,732,310 | \$ 12,050,064 |
| Total debt | (12,823,291) | (13,497,106) |
| Total debt limit exceeded | (1,090,981) | (1,447,042) |
| | | |
| Debt servicing limit | 2,053,154 | 2,108,761 |
| Debt servicing | (1,274,901) | (1,274,901) |
| Total debt servicing limit | 778,253 | 833,860 |

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, 2017

5. Tangible Capital Assets

| | 2017 | | |
|---|--------------------------|--------------|---------------|
| | Engineered Structures | Land | Total |
| Cost, beginning of year | \$ 34,776,820 | \$ 1,821,692 | \$ 36,598,512 |
| Additions | | - | - |
| 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 |

| | 2016 | | |
|---|--------------------------|--------------|---------------|
| | Engineered Structures | Land | Total |
| Cost, beginning of year | \$ 34,776,820 | \$ 1,821,692 | \$ 36,598,512 |
| Additions | - | - | - |
| Cost, end of year | \$ 34,776,820 | \$ 1,821,692 | \$ 36,598,512 |
| Accumulated amortization, beginning of year | \$ 4,401,879 | \$ - | \$ 4,401,879 |
| Amortization | 465,610 | - | 465,610 |
| Accumulated amortization, end of year | \$ 4,867,489 | \$ - | \$ 4,867,489 |
| Net carrying amount, end of year | \$ 29,909,331 | \$ 1,821,692 | \$ 31,731,023 |

North Red Deer River Water Services Commission
Notes to Financial Statements

December 31, 2017

6. Inventories of Supplies

| | 2017 | 2016 |
|------------------------|-----------|-----------|
| Valves | \$ 45,204 | \$ 45,750 |
| Materials and supplies | 8,523 | 8,852 |
| Pipe | 8,512 | 8,512 |
| Couplings | 4,266 | 4,266 |
| Miscellaneous | 12,253 | 5,069 |
| | \$ 78,758 | \$ 72,449 |

7. Equity in Tangible Capital Assets

| | 2017 | 2016 |
|-------------------------|---------------|---------------|
| Tangible capital assets | \$ 31,265,413 | \$ 31,731,023 |
| Total Long-Term Debt | (12,823,291) | (13,497,106) |
| | \$ 18,442,122 | \$ 18,233,917 |

8. Accumulated Surplus

The Commission segregates its accumulated surplus in the following categories:

| | 2017 | 2016 |
|-----------------------------------|--------------|---------------|
| Unrestricted Operating Surplus | \$ 1,375,621 | \$ 1,915,441 |
| Unrestricted Capital Surplus | 233,104 | 233,104 |
| Operating Reserve | 1,250,363 | 1,212,773 |
| Capital Reserve | 2,894,870 | 2,429,260 |
| Equity in tangible capital assets | 18,442,122 | 18,233,917 |
| Rate Stabilization Reserve | 1,280,811 | 760,433 |
| | \$25,476,891 | \$ 24,784,928 |

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, 2017

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.

Water sales charged to Commission members are as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------|---------------------|---------------------|
| City of Lacombe | \$ 2,602,751 | \$ 2,555,540 |
| Town of Ponoka | 1,397,499 | 1,413,211 |
| Town of Blackfalds | 1,625,047 | 1,497,192 |
| Ponoka County | 20,312 | 19,734 |
| | <u>\$ 5,645,609</u> | <u>\$ 5,485,677</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>2017</u> | <u>2016</u> |
|----------------|-------------------|-------------------|
| Lacombe County | 70,506 | 70,175 |
| Ponoka County | 70,506 | 70,175 |
| | <u>\$ 141,012</u> | <u>\$ 140,350</u> |

The Commission is provided accounting, management and operations services by the City of Lacombe for a total cost of \$178,184 (2016 - \$166,638).

Included in accounts receivable are \$995,344 (2016- \$669,947) due from various members municipalities.

Included in accounts payable is \$7,830 (2016 - \$14,648) due to various member Municipalities.

December 31, 2017

10. 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 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.

11. 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 2017 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 2016 calendar year and resulted in a rebate of \$nil (2016 -\$348,357). 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.

12. Approval of Financial Statements

The Board and Management approved these financial statements.
