

**NORTH RED DEER RIVER
WATER SERVICES COMMISSION**

**Consolidated Financial Statements
Year Ended December 31, 2014**

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
FINANCIAL STATEMENTS
DECEMBER 31, 2014**

| | |
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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 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, 2014, 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, 2014, 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 13, 2015

CHARTERED ACCOUNTANTS

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014 For the Year Ended**

| | 2014 | 2013 |
|---|---------------------|---------------------|
| | \$ | \$ |
| ASSETS | | |
| Cash | 4,013,761 | 2,853,009 |
| Trade and Other Receivables | 645,644 | 656,179 |
| | 4,659,405 | 3,509,188 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts Payable and Accrued Liabilities | 336,849 | 347,044 |
| Current Portion of Long-term Debt (Note 5) | 616,323 | 589,444 |
| | 953,172 | 936,488 |
| Long-term Debt, Net of Current Portion (Note 5) | 14,141,535 | 14,757,858 |
| | 15,094,707 | 15,694,346 |
| Net Debt | (10,435,302) | (12,185,158) |
| Non-financial assets | | |
| Tangible Capital Assets | 32,662,244 | 33,127,854 |
| Inventory of Supplies (Note 3) | 67,283 | 63,412 |
| ACCUMULATED SURPLUS (Note 8) | 22,294,224 | 21,006,108 |

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, 2014**

| | Budget | 2014 | 2013 |
|---|-------------------|-------------------|-------------------|
| | \$ | \$ | \$ |
| REVENUE | | | |
| Water Sales to Commission Members | 5,134,906 | 5,522,603 | 5,142,826 |
| Service Fees Charged to Commission Members | 134,000 | 138,088 | 136,432 |
| Interest income | 33,000 | 39,863 | 32,623 |
| Rebates & Dividends (Note 10) | 50 | 409,855 | 21 |
| Other Revenue | 1,000 | 2,000 | 750 |
| | 5,302,956 | 6,112,409 | 5,312,652 |
| OPERATING EXPENSES | | | |
| Accounting and Audit Fees | 8,900 | 8,052 | 10,605 |
| Board Remuneration | 4,750 | 3,200 | 3,550 |
| Board Travel | 2,500 | 435 | 260 |
| Communication | 9,389 | 8,697 | 8,787 |
| General Materials and Supplies | 1,100 | 648 | 431 |
| Insurance | 5,500 | 4,386 | 4,480 |
| Interest on Long-term Debt | 685,458 | 683,614 | 714,143 |
| Legal | 500 | - | - |
| Management Fees | 50,202 | 50,286 | 47,440 |
| Office | 250 | - | 20 |
| Operator Costs | 96,300 | 111,125 | 93,139 |
| Other Expenses | 500 | 522 | 799 |
| Other Professional Fees | 47,738 | 59,202 | 20,448 |
| Purchase of Water | 3,114,356 | 3,369,086 | 3,166,327 |
| Repairs and Maintenance | 7,500 | 38,809 | 7,724 |
| SCADA Maintenance | 10,800 | 10,764 | 10,764 |
| Utilities | 5,000 | 3,829 | 4,096 |
| Valves | 5,000 | 6,028 | 5,717 |
| Amortization of Capital Assets | 465,610 | 465,610 | 465,610 |
| | 4,521,353 | 4,824,293 | 4,564,340 |
| EXCESS OF REVENUES OVER EXPENSES | 781,603 | 1,288,116 | 748,312 |
| ACCUMULATED SURPLUS, BEGINNING OF YEAR | 21,006,108 | 21,006,108 | 20,257,797 |
| ACCUMULATED SURPLUS, END OF YEAR | 21,787,711 | 22,294,224 | 21,006,108 |

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, 2014**

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, 2014**

| | Budget | 2014 | 2013 |
|---|---------------------|---------------------|---------------------|
| | \$ | \$ | \$ |
| INCOME FROM OPERATIONS | 781,603 | 1,288,116 | 748,312 |
| Amortization of Capital Assets | 465,610 | 465,610 | 465,610 |
| Inventory Supplies | - | (3,870) | - |
| Net Change in Net Debt | 1,247,213 | 1,749,856 | 1,213,922 |
| Net Debt, Beginning of Year | (12,185,158) | (12,185,158) | (13,399,081) |
| NET FINANCIAL ASSETS (DEBT), END OF YEAR | (10,937,946) | (10,435,302) | (12,185,158) |

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, 2014**

| | 2014 | 2013 |
|---|------------------|-----------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Excess of Revenues over Expenses | 1,288,116 | 748,313 |
| 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 | 9,925 | 684,843 |
| (Increase) in Inventory of Supplies | (3,870) | - |
| Increase (Decrease) in Accounts Payable and Accrued Liabilities | (9,585) | 25,841 |
| | 1,750,196 | 1,924,607 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of Debenture Debt | (589,444) | (563,737) |
| CAPITAL ACTIVITIES: | | |
| CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR | 1,160,752 | 1,360,870 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 2,853,009 | 1,492,139 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | 4,013,761 | 2,853,009 |

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

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
December 31, 2014

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 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 Consolidated Financial Statements
December 31, 2014

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

| | 2014 | 2013 |
|-----------------------|---------------|--------|
| | \$ | \$ |
| Valves | 42,791 | 38,920 |
| Material and Supplies | 8,660 | 8,660 |
| Pipe | 8,513 | 8,513 |
| Couplings | 2,707 | 2,707 |
| Miscellaneous | 4,612 | 4,612 |
| | 67,283 | 63,412 |

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
December 31, 2014

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, 2014 the prime rate was 3%

5 LONG-TERM DEBT

| | 2014 | 2013 |
|---|-------------------|------------|
| | \$ | \$ |
| 4.46% debenture, repayable \$66,762 semi-annually, due September 15, 2031 | 1,579,456 | 1,640,487 |
| 4.515% debenture, repayable \$570,688 semi-annually, due June 15, 2031 | 13,178,402 | 13,706,815 |
| | 14,757,858 | 15,347,302 |
| Current Portion of Long-term Debt | 616,323 | 589,444 |
| Long-Term Portion | 14,141,535 | 14,757,858 |

Principal and interest repayments are as follows:

| | Principal | Interest | Total |
|------------|-------------------|------------------|-------------------|
| | \$ | \$ | \$ |
| 2015 | 616,323 | 658,578 | 1,274,901 |
| 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 |
| Subsequent | 11,382,080 | 3,346,048 | 14,728,128 |
| | 14,757,858 | 6,344,775 | 21,102,633 |

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
December 31, 2014

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, 2014. The debt limit and debt service limit otherwise determined are as follows:

| | 2014 | 2013 |
|----------------------|---------------------|--------------|
| | \$ | \$ |
| Total debt limit | 12,224,818 | 10,625,304 |
| Total Long-Term debt | (14,757,858) | (15,347,302) |
| | (2,533,040) | (4,721,998) |
| Debt servicing limit | 2,139,343 | 1,859,428 |
| Debt Servicing | (1,274,901) | (1,274,901) |
| | 864,442 | 584,527 |

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:

| | 2014 | 2013 |
|-------------------------|---------------------|--------------|
| | \$ | \$ |
| Tangible Capital Assets | 32,662,244 | 33,127,854 |
| Total Long-Term debt | (14,757,858) | (15,347,302) |
| | 17,904,386 | 17,780,552 |

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
December 31, 2014

8 ACCUMULATED SURPLUS

| | 2014 | 2013 |
|-----------------------------------|-------------------------------|------------------------|
| | \$ | \$ |
| | <hr/> | <hr/> |
| Unrestricted Operating Surplus | 2,056,144 | 1,542,049 |
| Unrestricted Capital Surplus | 233,104 | 233,104 |
| Operating Reserve | 891,421 | 706,845 |
| Capital Reserve | 1,209,169 | 743,559 |
| Equity in Tangible Capital Assets | 17,904,386 | 17,780,552 |
| | <hr/> 22,294,224 <hr/> | <hr/> 21,006,109 <hr/> |

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
December 31, 2014

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:

| | 2014 | 2013 |
|--------------------|-------------------------|------------------|
| | \$ | \$ |
| City of Lacombe | 2,696,869 | 2,512,928 |
| Town of Ponoka | 1,434,114 | 1,416,189 |
| Town of Blackfalds | 1,376,728 | 1,202,014 |
| Ponoka County | 14,892 | 11,695 |
| | <u>5,522,603</u> | <u>5,142,826</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:

| | 2014 | 2013 |
|----------------|-----------------------|----------------|
| | \$ | \$ |
| Lacombe County | 69,044 | 68,216 |
| Ponoka County | 69,044 | 68,216 |
| | <u>138,088</u> | <u>136,432</u> |

c. OTHER FEES:

The commission is provided accounting, management and operations services by the City of Lacombe for a total cost of \$161,411 (2013 - \$140,559)

Included in accounts receivable are \$632,567 (2013- \$649,937) due from various member municipalities.

NORTH RED DEER RIVER WATER SERVICES COMMISSION
Notes to the Consolidated Financial Statements
December 31, 2014

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 2014 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 2013 calendar year and resulted in a rebate of \$409,800 (2013- \$0). 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

| | 2014 | 2013 |
|----------------------------|----------------|-------------|
| | \$ | \$ |
| Interest income | 39,863 | 32,623 |
| Interest on Long-term Debt | 683,614 | 714,143 |

13 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
DECEMBER 31, 2014**

Schedule 1

| | Cost | | Amortization | | | | 2014 | 2013 |
|-----------------------|-------------------|-------------------|-------------------|------------------|-----------|------------------|-------------------|-------------------|
| | Beginning of year | End of year | Beginning of year | Amortization | Disposals | End of year | \$ | \$ |
| Engineered Structures | 34,776,820 | 34,776,820 | 3,470,659 | 465,610 | - | 3,936,269 | 30,840,551 | 31,306,161 |
| Land | 1,821,692 | 1,821,692 | - | - | - | - | 1,821,692 | 1,821,692 |
| | 36,598,512 | 36,598,512 | - | 3,470,659 | - | 3,936,269 | 32,662,243 | 33,127,853 |