

NORTH RED DEER RIVER WATER SERVICES COMMISSION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010



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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, 2010, and the Consolidated 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 generally accepted accounting principles, 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, 2010, and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Red Deer, Alberta
April 18, 2011

CHARTERED ACCOUNTANTS

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>2010</u>	<u>2009</u>
	\$	\$
Financial assets		
Cash	1,030,674	1,099,922
Trade and other receivables (Note 3)	<u>790,788</u>	<u>553,644</u>
	<u>1,821,462</u>	<u>1,653,566</u>
Liabilities		
Accounts payable and accrued liabilities	368,504	350,248
Current portion of long-term debt (Note 5)	<u>515,637</u>	<u>493,149</u>
	884,141	843,397
Long-term debt, net of current portion (Note 5)	<u>16,450,189</u>	<u>16,965,825</u>
	<u>17,334,330</u>	<u>17,809,222</u>
Net debt	<u>(15,512,868)</u>	<u>(16,155,656)</u>
Non-financial assets		
Tangible capital assets (Note 7)	<u>34,524,684</u>	<u>34,990,293</u>
Accumulated surplus (Note 9)	<u>19,011,816</u>	<u>18,834,637</u>

Approved on Behalf of the Commission

_____ Chairperson

_____ 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, 2010**

REVENUE	Budget \$	2010 \$	2009 \$
Water sales to commission members (Note 10)	4,540,000	4,022,840	4,191,224
Service fees charged to commission members (Note 10)	150,000	132,771	134,036
Water costs recovered	-	137	165
Interest (Note 12)	-	8,736	4,710
Other revenue	-	2,242	-
	<u>4,690,000</u>	<u>4,166,726</u>	<u>4,330,135</u>
OPERATING EXPENSES			
Accounting and audit fees	16,000	14,500	14,500
Advertising and promotions	-	945	845
Board remuneration	15,000	5,150	4,341
Board travel	5,000	754	673
Communication	14,000	8,870	10,155
Computer expenses	4,500	2,250	3,694
General materials and supplies	-	3,971	232
Insurance	11,000	4,376	4,796
Interest on long-term debt (Note 12)	781,751	780,436	801,789
Legal	1,000	-	100
Management fees	42,000	39,659	36,287
Office	7,000	388	678
Operator costs	105,000	91,001	89,917
Other expenses	1,000	790	-
Other fees	1,500	179,456	3,889
Purchase of water	2,405,800	2,369,297	2,100,706
Rent	3,600	600	1,200
Repairs and maintenance	15,000	1,390	1,335
SCADA maintenance	10,000	15,729	13,878
Travel	4,400	1,430	3,359
Utilities	18,000	2,945	4,375
Amortization of capital assets	-	465,610	462,350
	<u>3,461,551</u>	<u>3,989,547</u>	<u>3,559,099</u>
EXCESS OF REVENUE OVER EXPENSES	<u>1,228,449</u>	<u>177,179</u>	<u>771,036</u>
ACCUMULATED SURPLUS, beginning of year	<u>18,834,637</u>	<u>18,834,637</u>	<u>18,063,601</u>
ACCUMULATED SURPLUS, end of year	<u><u>20,063,086</u></u>	<u><u>19,011,816</u></u>	<u><u>18,834,637</u></u>

The accompanying notes are an integral part of these financial statements

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budget \$	2010 \$	2009 \$
	<u> </u>	<u> </u>	<u> </u>
Excess of revenue over expenses	1,228,449	177,179	771,036
Acquisition of tangible capital assets	-	-	(96,997)
Amortization of tangible capital assets	<u>-</u>	<u>465,609</u>	<u>462,350</u>
Net change in net debt	1,228,449	642,788	1,136,389
Net debt, beginning of year	(16,155,656)	(16,155,656)	(17,292,045)
Net debt, end of year	<u>(14,927,207)</u>	<u>(15,512,868)</u>	<u>(16,155,656)</u>

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, 2010**

	2010	2009
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	177,179	771,036
Items which do not affect cash:		
Amortization of capital assets	465,610	462,350
Net change in non-cash working capital balances:		
Decrease (increase) in trade and other receivables	(237,144)	449,004
Increase (decrease) in accounts payable and accrued liabilities	18,256	(318,730)
	<u>423,901</u>	<u>1,363,660</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	-	(96,997)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debenture debt	(493,149)	(471,641)
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	(69,248)	795,022
CASH POSITION AT BEGINNING OF YEAR	1,099,922	304,900
CASH POSITION AT END OF YEAR	<u>1,030,674</u>	<u>1,099,922</u>

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, 2010**

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.

The Commission is exempt from income taxation under Section 149 of the Canada Income Tax Act.

- b) **Budget Amounts** - The operating budget amounts presented on the Statement of Operations are taken from the Commission's annual budget. The Commission did not approve a formal capital budget for 2010.
- 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) **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.

The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over the estimated useful life commencing once the asset is available for productive use as follows:

	YEARS
Buildings	25 - 50
Engineering Structures	
Water system	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.

e) **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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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. ACCOUNTS RECEIVABLE

Accounts receivable includes an allowance for doubtful accounts in the amount of \$9,335.

4. BANK OVERDRAFT

Bank overdraft is comprised of an 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 proceeds.

5. LONG-TERM DEBT

	<u>2010</u>	<u>2009</u>
	<u>\$</u>	<u>\$</u>
4.46% debenture, repayable \$66,762 semi-annually, due September 15, 2031	1,808,230	1,859,389
4.515% debenture, repayable \$570,688 semi-annually, due June 15, 2031	<u>15,157,596</u>	<u>15,599,585</u>
	<u>16,965,826</u>	<u>17,458,974</u>
Less current portion	<u>515,637</u>	<u>493,149</u>
Long-term portion	<u>16,450,189</u>	<u>16,965,825</u>

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
2011	515,637	759,264	1,274,901
2012	539,151	735,750	1,274,901
2013	563,737	711,165	1,274,901
2014	589,444	685,457	1,274,901
2015	616,323	658,578	1,274,901
Subsequent	<u>14,141,534</u>	<u>5,686,195</u>	<u>19,827,729</u>
	<u>16,965,826</u>	<u>9,236,409</u>	<u>26,202,234</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 THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

6. DEBT LIMIT

Section 3 of 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 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, 2010. The debt limit and debt service limit otherwise determined are as

	<u>2010</u>	<u>2009</u>
	<u>\$</u>	<u>\$</u>
Total debt limit	8,333,452	8,660,270
Total debt	(16,965,826)	(17,458,974)
Amount of debt limit exceeded	<u>(8,632,374)</u>	<u>(8,798,704)</u>
Debt servicing limit	1,458,354	1,515,547
Debt servicing	(1,274,901)	(1,274,901)
Amount of debt servicing unused	<u>183,453</u>	<u>240,646</u>

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 THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

7. TANGIBLE CAPITAL ASSETS

			2010
	Land	Engineered Structures	Total
Cost, beginning of year	1,821,692	34,776,820	36,598,512
Additions	-	-	-
Cost, end of year	1,821,692	34,776,820	36,598,512
Accumulated amortization, beginning of year	-	1,608,219	1,608,219
Amortization	-	465,610	465,610
Accumulated amortization, end of year	-	2,073,829	2,073,829
Net carrying amount, end of year	<u>1,821,692</u>	<u>32,702,991</u>	<u>34,524,684</u>
			2009
	Land	Engineered Structures	Total
Cost, beginning of year	1,821,692	34,679,823	36,501,515
Additions	-	96,997	96,997
Cost, end of year	1,821,692	34,776,820	36,598,512
Accumulated amortization, beginning of year	-	1,145,869	1,145,869
Amortization	-	462,350	462,350
Accumulated amortization, end of year	-	1,608,219	1,608,219
Net carrying amount, end of year	<u>1,821,692</u>	<u>33,168,601</u>	<u>34,990,293</u>

8. EQUITY IN TANGIBLE CAPITAL ASSETS

Net assets invested in capital assets is calculated as follows:

	2010	2009
	\$	\$
Capital assets	<u>34,524,684</u>	34,990,293
Long-term debt	<u>(16,965,826)</u>	(17,458,974)
	<u>17,558,858</u>	<u>17,531,319</u>

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

9. ACCUMULATED SURPLUS

	<u>2010</u>	<u>2009</u>
	\$	\$
Unrestricted surplus	<u>1,244,390</u>	1,094,750
Capital operating reserve	<u>208,568</u>	208,568
Equity in tangible capital assets	<u>17,558,858</u>	17,531,319
	<u><u>19,011,816</u></u>	<u><u>18,834,637</u></u>

The capital projects reserve is used to provide funds for specific capital equipment purchases to enhance or improve service delivery. Appropriations to the capital projects reserve from unrestricted net assets are established in the annual operating budget.

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.

i) Water sales charged to Commission members are as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
City of Lacombe	<u>1,930,271</u>	2,037,792
Town of Ponoka	<u>1,196,178</u>	1,282,762
Town of Blackfalds	<u>891,793</u>	862,602
Ponoka County	<u>4,598</u>	8,068
	<u><u>4,022,840</u></u>	<u><u>4,191,224</u></u>

ii) 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>2010</u>	<u>2009</u>
	\$	\$
Lacombe County	<u>66,385</u>	67,018
Ponoka County	<u>66,385</u>	67,018
	<u><u>132,771</u></u>	<u><u>134,036</u></u>

iii)

The Commission is provided computer services, office space, administrative, accounting, management, and operations support by the City of Lacombe for a total cost of \$122,253 (2009 - \$101,076) to the Commission.

Included in accounts receivable are \$786,888 (2009 - \$550,653) due from various member municipalities.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2010**

11. SIGNIFICANT AGREEMENTS

- i) 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.
- ii) The Commission has entered into agreements with the City of Lacombe, Town of Ponoka, and Town of Blackfalds 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

	<u>2010</u>	<u>2009</u>
	<u>\$</u>	<u>\$</u>
Interest earned	<u>8,736</u>	<u>4,710</u>
Interest paid	<u>781,753</u>	<u>803,260</u>

13. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Commission.