

North Red Deer Regional Wastewater
Services Commission
Financial Statements
For the year ended December 31, 2021

North Red Deer Regional Wastewater Services Commission
Financial Statements
For the year ended December 31, 2021

| | Contents |
|--|-------------|
| Independent Auditor's Report | 1 |
| Financial Statements | |
| Statement of Financial Position | 3 |
| Statement of Operations | 4 |
| Statement of Change in Net Debt | 5 |
| Statement of Cash Flows | 6 |
| Summary of Significant Accounting Policies | 7 - 8 |
| Notes to the Financial Statements | 8-11 |

Independent Auditor's Report

To the Members of the Board of the
North Red Deer Regional Wastewater Services Commission

Opinion

We have audited the financial statements of the North Red Deer Regional Wastewater Services Commission (the "Commission"), which comprise the statement of financial position as at December 31, 2021, 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, 2021 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, continued

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.

Chartered Professional Accountants,
Red Deer, Alberta
April 4, 2022

North Red Deer Regional Wastewater Services Commission
Statement of Financial Position

| December 31, 2021 | 2021 | 2020 |
|---|--------------|---------------|
| Financial assets | | |
| Cash | \$ 1,314,970 | \$ 289,200 |
| Accounts receivable | 555,460 | 500,865 |
| | 1,870,430 | 790,065 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 297,039 | 598,033 |
| Current Portion of Long-term Debt (Note 2) | 187,231 | 142,485 |
| | 484,270 | 740,518 |
| Long-term Debt, Net of Current Portion (Note 2) | 5,293,846 | 4,521,077 |
| | 5,778,116 | 5,261,595 |
| Net debt | (3,907,686) | (4,471,530) |
| Non-financial assets | | |
| Tangible capital assets (Note 4) | 68,018,813 | 69,022,191 |
| Prepaid expenses | 55,270 | 46,150 |
| | 68,074,083 | 69,068,341 |
| Accumulated surplus (Note 6) | \$64,166,397 | \$ 64,596,811 |

Approved on behalf of the Commission:

North Red Deer Regional Wastewater Services Commission
Statement of Operations

| For the year ended December 31, 2021 | Budget 2021 | 2021 | 2020 |
|--|----------------------|---------------------|----------------------|
| Revenue | | | |
| Wastewater sales to Commission members (Note 7) | \$ 4,126,598 | \$ 3,660,104 | \$ 4,005,559 |
| Interest income | - | 7,714 | 1,132 |
| Other revenue | - | 276,906 | 198 |
| Service fees to Commission members (Note 7) | 435,402 | 433,442 | 369,066 |
| Total revenue | 4,562,000 | 4,378,166 | 4,375,955 |
| Expenses | | | |
| Accounting and audit fees | 9,000 | 7,950 | 9,060 |
| Board travel & subsistence | 1,000 | 126 | - |
| General material and supplies | 269,156 | 285,776 | 312,797 |
| Insurance | 61,000 | 58,204 | 53,502 |
| Interest on long-term debt | 177,917 | 175,958 | 156,175 |
| Management fees | 20,000 | 42,771 | 28,419 |
| Legal fees | 5,000 | 86 | 315 |
| Operator costs | 374,324 | 372,798 | 366,984 |
| Other expenses | 14,900 | 11,703 | 11,790 |
| Repairs and maintenance | 20,800 | 105,003 | 50,985 |
| Treatment charges | 2,587,075 | 2,270,100 | 2,460,009 |
| Utilities | 330,630 | 324,097 | 312,203 |
| Amortization of capital assets | 1,154,008 | 1,154,008 | 1,149,158 |
| Total expenses | 5,024,810 | 4,808,580 | 4,911,397 |
| Excess of revenue over expenses | (462,810) | (430,414) | (535,442) |
| Accumulated surplus, beginning of year | 64,596,811 | 64,596,811 | 65,132,253 |
| Accumulated surplus, end of year | \$ 64,134,001 | \$64,166,397 | \$ 64,596,811 |

North Red Deer Regional Wastewater Services Commission
Statement of Change in Net Debt

| For the year ended December 31, 2021 | Budget 2021 | 2021 | 2020 |
|---|-----------------------|-----------------------|-----------------------|
| Excess of revenue over expenses | \$ (462,810) | \$ (430,414) | \$ (535,442) |
| Acquisition of tangible capital assets | - | (150,630) | (357,074) |
| Amortization of tangible capital assets | 1,154,008 | 1,154,008 | 1,149,158 |
| | <u>691,198</u> | <u>572,964</u> | <u>256,642</u> |
| Increase in prepaid expenses | - | (9,120) | (1,878) |
| Net change in net debt | 691,198 | 563,844 | 254,764 |
| Net debt, beginning of year | <u>(4,471,530)</u> | <u>(4,471,530)</u> | <u>(4,726,294)</u> |
| Net debt, end of year | <u>\$ (3,780,332)</u> | <u>\$ (3,907,686)</u> | <u>\$ (4,471,530)</u> |

North Red Deer Regional Wastewater Services Commission
Statement of Cash Flows

| For the year ended December 31, 2021 | 2021 | 2020 |
|--|---------------------|-------------------|
| Operating transactions | | |
| Excess of revenue over expenses | \$ (430,414) | \$ (535,442) |
| Items not involving cash | | |
| Amortization | 1,154,008 | 1,149,158 |
| Changes in non-cash operating balances | | |
| Accounts receivable | (54,595) | (90,008) |
| Prepaid expenses | (9,120) | (1,878) |
| Accounts payable and accrued liabilities | (300,994) | 45,599 |
| | <u>358,885</u> | <u>567,429</u> |
| Capital transactions | | |
| Acquisition of tangible capital assets | (150,630) | (357,074) |
| Increase in Asset Under Construction | - | - |
| | <u>(150,630)</u> | <u>(357,074)</u> |
| Financing transactions | | |
| Proceeds from issuance of long-term debt | 1,000,000 | - |
| Repayment of long-term debt | (182,485) | (137,891) |
| | <u>817,515</u> | <u>(137,891)</u> |
| Net change in cash and bank indebtedness | 1,025,770 | 72,464 |
| Cash, beginning of year | <u>289,200</u> | <u>216,736</u> |
| Cash, end of year | <u>\$ 1,314,970</u> | <u>\$ 289,200</u> |

North Red Deer Regional Wastewater Services Commission Summary of Significant Accounting Policies

December 31, 2021

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 Regional Wastewater Services Commission (the "Commission") was established for the purposes of constructing, maintaining, controlling, and managing a regional Wastewater 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, Town of Blackfalds.

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 - Wastewater 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.

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 Regional Wastewater Services Commission
Summary of Significant Accounting Policies

December 31, 2021

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. Bank Overdraft

The Commission has an unused overdraft protection agreement with a maximum overdraft of \$2,000,000 (2020 - \$2,000,000) and interest charged at lender prime. Collateral is comprised of a general security agreement specifically pledging all grant proceeds and debenture products. As at year end December 31, 2021 the prime rate was 2.45% (2020 - 2.45%).

2. Long-term Debt

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

| | 2021 | 2020 |
|--|--------------|--------------|
| 3.304% debenture, repayable \$147,701, semi-annually, due March 15, 2043. | \$ 4,521,077 | \$ 4,663,562 |
| 2.80% Long term debt, repayable \$20,000 fixed principal semi-annually, interest compounded daily and payable monthly, due December 1, 2025. | \$ 960,000 | \$ - |
| Current portion | 187,231 | 142,485 |
| Long term portion | 5,293,846 | 4,521,077 |

Principal and interest repayments are as follows:

| | Principal | Interest | Total |
|------------|--------------|--------------|--------------|
| 2022 | \$ 187,231 | \$ 174,955 | \$ 362,186 |
| 2023 | 192,136 | 168,923 | 361,059 |
| 2024 | 197,204 | 162,795 | 359,999 |
| 2025 | 1,002,441 | 156,362 | 1,158,803 |
| 2026 | 167,853 | 127,549 | 295,402 |
| Thereafter | 3,734,212 | 1,139,916 | 4,874,128 |
| | \$ 5,481,077 | \$ 1,930,500 | \$ 7,411,577 |

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 Wastewater 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 Regional Wastewater Services Commission
Notes to Financial Statements

December 31, 2021

3. Debt Limits

Section 3 Alberta Regulation No. 76/2000 requires that debt and debt limits for the Commission to be disclosed. The debt limit and debt service limit otherwise determined are as follows:

| | <u>2021</u> | <u>2020</u> |
|----------------------------|------------------|------------------|
| Total debt limit | \$ 8,756,333 | \$ 8,751,909 |
| Total debt | <u>5,481,077</u> | <u>4,663,562</u> |
| Total debt limit | <u>3,275,256</u> | <u>4,088,347</u> |
| | | |
| Debt servicing limit | 1,532,358 | 1,531,584 |
| Debt servicing | <u>362,186</u> | <u>295,402</u> |
| Total debt servicing limit | <u>1,170,172</u> | <u>1,236,182</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 Regional Wastewater Services Commission
Notes to Financial Statements

December 31, 2021

4. Tangible Capital Assets

| | 2021 | | | |
|---|--------------------------|--------------|-----------|---------------|
| | Engineered Structures | Land | Equipment | Total |
| Cost, beginning of year | \$ 68,682,265 | \$ 3,157,505 | \$ 7,518 | \$ 71,847,288 |
| Additions & Transfers from WIP | 150,630 | - | - | 150,630 |
| Cost, end of year | \$ 68,832,895 | \$ 3,157,505 | \$ 7,518 | \$ 71,997,918 |
| Accumulated amortization, beginning of year | \$ 2,821,337 | - | \$ 3,760 | \$ 2,825,097 |
| Amortization | 1,152,504 | - | 1,504 | 1,154,008 |
| Accumulated amortization, end of year | \$ 3,973,841 | - | \$ 5,264 | \$ 3,979,105 |
| Net carrying amount, end of year | \$ 64,859,054 | \$ 3,157,505 | \$ 2,254 | \$ 68,018,813 |

4. Tangible Capital Assets (continued)

| | 2020 | | | |
|---|--------------------------|--------------|-----------|---------------|
| | Engineered Structures | Land | Equipment | Total |
| Cost, beginning of year | \$ 68,325,191 | \$ 3,157,505 | \$ 7,518 | \$ 71,490,214 |
| Additions & Transfers from WIP | 357,074 | - | - | 357,074 |
| Cost, end of year | \$ 68,682,265 | \$ 3,157,505 | \$ 7,518 | \$ 71,847,288 |
| Accumulated amortization, beginning of year | \$ 1,673,683 | - | \$ 2,256 | \$ 1,675,939 |
| Amortization | 1,147,654 | - | 1,504 | 1,149,158 |
| Accumulated amortization, end of year | \$ 2,821,337 | - | \$ 3,760 | \$ 2,825,097 |
| Net carrying amount, end of year | \$ 65,860,928 | \$ 3,157,505 | \$ 3,758 | \$ 69,022,191 |

North Red Deer Regional Wastewater Services Commission
Notes to Financial Statements

December 31, 2021

5. Equity in Tangible Capital Assets

| | <u>2021</u> | <u>2020</u> |
|--------------------------|---------------------|----------------------|
| Tangible capital assets | \$71,997,918 | \$ 71,847,288 |
| Accumulated amortization | (3,979,105) | (2,825,097) |
| Total Long-Term Debt | <u>(5,481,077)</u> | <u>(4,663,562)</u> |
| | <u>\$62,537,736</u> | <u>\$ 64,358,629</u> |

6. Accumulated Surplus

| | | |
|-----------------------------------|---------------------|----------------------|
| Unrestricted Operating Surplus | 123,080 | (811,818) |
| Unrestricted Capital Surplus | 65,101 | - |
| Operating Reserve | 400,000 | 400,000 |
| Capital Reserve | 1,040,480 | 650,000 |
| Equity in tangible capital assets | <u>\$62,537,736</u> | <u>\$ 64,358,629</u> |
| | <u>\$64,166,397</u> | <u>\$ 64,596,811</u> |

North Red Deer Regional Wastewater Services Commission
Notes to Financial Statements

December 31, 2021

7. Related Party Transactions

City of Lacombe, Town of Blackfalds, and Lacombe County are members of the Commission and, as such, have been identified as related parties.

Wastewater sales charged to Commission members are as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------|---------------------|---------------------|
| City of Lacombe | \$ 2,423,664 | \$ 2,740,904 |
| Town of Blackfalds | <u>1,235,823</u> | <u>1,264,655</u> |
| | <u>\$ 3,659,487</u> | <u>\$ 4,005,559</u> |

During the year the Town of Blackfalds purchased 15,441 m³ (2020 - 14,054 m³) of wastewater from the Commission and resold the water to Lacombe County to service the Aspelund Business Park. The cost of water attributed to the Town of Blackfalds, above, includes the water it resold to Lacombe County.

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>2021</u> | <u>2020</u> |
|--------------------|-------------------|-------------------|
| City of Lacombe | 174,829 | 147,920 |
| Town of Blackfalds | 174,470 | 147,626 |
| County of Lacombe | <u>84,143</u> | <u>73,520</u> |
| | <u>\$ 433,442</u> | <u>\$ 369,066</u> |

The Commission is provided accounting, management and operations services by the City of Lacombe for a total cost of \$372,798 (2020 - \$366,984).

Included in accounts receivable are \$520,211 (2020 - \$454,982) due from various members municipalities.

Included in accounts payable is \$9,418 (2020 - \$44,981) due to various member Municipalities.

8. Approval of Financial Statements

The Board and Management approved these financial statements.
