

**North Red Deer Regional Wastewater
Services Commission
Financial Statements
For the year ended December 31, 2019**

North Red Deer Regional Wastewater Services Commission
Financial Statements
For the year ended December 31, 2019

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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, 2019, 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, 2019 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 6, 2020

North Red Deer Regional Wastewater Services Commission
Statement of Financial Position

December 31, 2019	2019	2018
Financial assets		
Cash	\$ 216,736	\$ 499,960
Accounts receivable	410,857	793,028
Security Deposit	-	25,000
	<u>627,593</u>	<u>1,317,988</u>
Liabilities		
Accounts payable and accrued liabilities	552,434	958,161
Current Portion of Long-term Debt (Note 2)	137,891	133,446
	<u>690,325</u>	<u>1,091,607</u>
Long-term Debt, Net of Current Portion (Note 2)	<u>4,663,562</u>	<u>4,801,453</u>
	<u>5,353,887</u>	<u>5,893,060</u>
Net debt	<u>(4,726,294)</u>	<u>(4,575,072)</u>
Non-financial assets		
Tangible capital assets (Note 4)	69,814,275	68,884,629
Prepaid expenses	44,272	50,279
	<u>69,858,547</u>	<u>68,934,908</u>
Accumulated surplus (Note 6)	<u>\$ 65,132,253</u>	<u>\$ 64,359,836</u>

Approved on behalf of the Commission:

North Red Deer Regional Wastewater Services Commission
Statement of Operations

For the year ended December 31, 2019	Budget 2019	2019	2018
Revenue			
Wastewater Sales to Commission Members (Note 7)	\$ 3,685,352	\$ 3,936,008	\$ 2,873,893
Interest income	-	9,310	4,852
Provincial Grant	-	1,172,224	12,071,862
Other Revenue	-	255	9,124
Service Fees to Commission Members (Note 7)	641,909	369,109	270,498
Total revenue	4,327,261	5,486,906	15,230,229
Expenses			
Accounting and Audit Fees	12,000	17,894	18,134
Board Travel & Subsistence	500	993	4,881
General Material and Supplies	329,772	223,296	168,444
Insurance	47,000	59,020	2,219
Interest Long-Term Debt	-	160,665	130,398
Management Fees	44,000	19,861	26,862
Legal Fees	1,000	7,400	4,157
Operator Costs	359,784	350,748	279,253
Other Expenses	2,040	3,678	24,497
Repairs and Maintenance	30,000	43,525	2,192
Treatment charges	2,152,123	2,384,381	1,773,563
Utilities	268,800	318,730	221,322
Amortization of Capital Assets	-	1,124,298	551,641
Total expenses	3,247,019	4,714,489	3,207,563
Excess of revenue over expenses	1,080,242	772,417	12,022,666
Accumulated surplus, beginning of year	64,359,836	64,359,836	52,337,170
Accumulated surplus, end of year	\$ 65,440,078	\$ 65,132,253	\$ 64,359,836

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

For the year ended December 31, 2019	Budget 2019	2019	2018
Excess of revenue over expenses	\$ 1,080,242	\$ 772,417	\$ 12,022,666
Acquisition of tangible capital assets	-	(2,053,944)	(8,813,590)
Amortization of tangible capital assets	-	1,124,298	551,641
	<u>1,080,242</u>	<u>(157,229)</u>	<u>3,760,717</u>
Decrease (increase) in Inventory of Supplies	-	6,007	-
Use/consumption of prepaid expenses	-	-	(50,279)
Net change in net debt	1,080,242	(151,222)	3,710,438
Net debt, beginning of year	<u>(4,575,072)</u>	<u>(4,575,072)</u>	<u>(8,285,510)</u>
Net debt, end of year	<u>\$ (3,494,830)</u>	<u>\$ (4,726,294)</u>	<u>\$ (4,575,072)</u>

North Red Deer Regional Wastewater Services Commission
Statement of Cash Flows

For the year ended December 31, 2019	2019	2018
Operating transactions		
Excess of revenue over expenses	\$ 772,417	\$ 12,022,666
Items not involving cash		
Amortization	1,124,298	551,641
Changes in non-cash operating balances		
Accounts receivable	382,171	14,955,226
Security Deposit	25,000	-
Prepaid expenses	6,007	(50,279)
Accounts payable and accrued liabilities	<u>(405,727)</u>	<u>(7,698,046)</u>
	<u>1,904,166</u>	<u>19,781,208</u>
Capital transactions		
Acquisition of tangible capital assets	(2,053,944)	(8,813,590)
Increase in Asset Under Construction	<u>-</u>	<u>-</u>
	<u>(2,053,944)</u>	<u>(8,813,590)</u>
Financing transactions		
Proceeds from issuance of long-term debt	-	5,000,000
Repayment of long-term debt	<u>(133,446)</u>	<u>(65,101)</u>
	<u>(133,446)</u>	<u>4,934,899</u>
Net change in cash and bank indebtedness	(283,224)	15,902,517
Cash (Bank indebtedness), beginning of year	<u>499,960</u>	<u>(15,402,557)</u>
Cash (Bank indebtedness), end of year	\$ 216,736	\$ 499,960

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

December 31, 2019

**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	10 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, 2019

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 million (2018 - \$5,190,544) and interest charged at the lenders prime rate. Collateral is comprised of a general security agreement specifically pledging all grant proceeds and debenture products. As at year end December 31, 2019 the prime rate was 3.95% (2018 - 3.95%).

2. Long-term Debt

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

	2019	2018
3.304% debenture, repayable \$147,701, semi-annually, due March 15, 2043	\$ 4,801,453	\$ 4,934,899
Current portion	137,891	133,446
Long term portion	4,663,562	4,801,453

Principal and interest repayments are as follows:

	Principal	Interest	Total
2020	\$ 137,891	\$ 157,510	\$ 295,401
2021	142,485	152,917	295,402
2022	147,232	148,170	295,402
2023	152,136	143,266	295,402
2024	157,204	138,197	295,401
Thereafter	4,064,505	1,400,426	5,464,931
	\$ 4,801,453	\$ 2,140,486	\$ 6,941,939

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, 2019

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>2019</u>	<u>2018</u>
Total debt limit	\$ 8,629,363	\$ 6,316,734
Total debt	<u>4,801,453</u>	<u>4,934,899</u>
Total debt limit	<u>3,827,910</u>	<u>1,381,835</u>
Debt servicing limit	1,510,139	1,105,428
Debt servicing	<u>295,401</u>	<u>295,402</u>
Total debt servicing limit	<u>1,214,738</u>	<u>810,026</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, 2019

4. Tangible Capital Assets

	2019			
	Engineered Structures	Land	Equipment	Total
Cost, beginning of year	\$ 66,293,122	\$ 3,135,630	\$ 7,518	\$ 69,436,270
Additions	2,032,069	21,875	-	2,053,944
	-	-	-	-
Cost, end of year	\$ 68,325,191	\$ 3,157,505	\$ 7,518	\$ 71,490,214
Accumulated amortization, beginning of year	\$ 550,889	\$ -	\$ 752	\$ 551,641
Amortization	1,122,794	-	1,504	1,124,298
Accumulated amortization, end of year	\$ 1,673,683	\$ -	\$ 2,256	\$ 1,675,939
Net carrying amount, end of year	\$ 66,651,508	\$ 3,157,505	\$ 5,262	\$ 69,814,275

4. Tangible Capital Assets (continued)

	2018			
	Engineered Structures	Land	Equipment	Total
Cost, beginning of year	\$ -	\$ -	\$ -	-
Additions & transfers from WIP	66,293,122	3,135,630	7,518	69,436,270
Cost, end of year	\$ 66,293,122	\$ 3,135,630	\$ 7,518	\$ 69,436,270
Accumulated amortization, beginning of year	\$ -	\$ -	\$ -	-
Amortization	550,889	-	752	551,641
Accumulated amortization, end of year	\$ 550,889	\$ -	\$ 752	\$ 551,641
Net carrying amount, end of year	\$ 65,742,233	\$ 3,135,630	\$ 6,766	\$ 68,884,629

North Red Deer Regional Wastewater Services Commission
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5. Equity in Tangible Capital Assets

	<u>2019</u>	<u>2018</u>
Tangible capital assets	\$ 71,490,214	\$ 69,436,270
Accumulated amortization	(1,675,939)	(551,641)
Total Long-Term Debt	<u>(4,801,453)</u>	<u>(4,934,899)</u>
	<u>\$ 65,012,822</u>	<u>\$ 63,949,730</u>

6. Accumulated Surplus

Unrestricted Operating Surplus	(430,569)	260,106
Operating Reserve	200,000	100,000
Capital Reserve	350,000	50,000
Equity in tangible capital assets	<u>\$ 65,012,822</u>	<u>\$ 63,949,730</u>
	<u>\$ 65,132,253</u>	<u>\$ 64,359,836</u>

North Red Deer Regional Wastewater Services Commission
Notes to Financial Statements

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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>2019</u>	<u>2018</u>
City of Lacombe	\$ 2,683,458	\$ 1,963,005
Town of Blackfalds	1,252,550	910,888
	<u>\$ 3,936,008</u>	<u>\$ 2,873,893</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>2019</u>	<u>2018</u>
City of Lacombe	147,938	106,718
Town of Blackfalds	147,644	106,523
County of Lacombe	73,528	57,257
	<u>\$ 369,110</u>	<u>\$ 270,498</u>

The Commission is provided accounting, management and operations services by the City of Lacombe for a total cost of \$353,898 (2018 - \$279,253).

Included in accounts receivable are \$372,555 (2018- \$573,344) due from various members municipalities.

8. Approval of Financial Statements

The Board and Management approved these financial statements.
