

Financial Statements of

ALBERTA CAPITAL REGION WASTEWATER COMMISSION

December 31, 2019

Independent auditor's report

To the Members of the
Alberta Capital Region Wastewater Commission

Opinion

We have audited the financial statements of the **Alberta Capital Region Wastewater Commission** [the "Commission"] which comprise the statement of financial position as at December 31, 2019, and the statement of operations and accumulated surplus, statement of change 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 results of operations and its cash flows for the year then ended in accordance with Canadian 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 the 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.

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 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.

Edmonton, Canada
March 20, 2020

Ernst & Young LLP

Chartered Professional Accountants

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019
(in 000's)

	2019	2018
FINANCIAL ASSETS		
Cash	\$ 4,019	\$ 2,663
Receivables from Commission members (Note 13)	3,025	2,688
Other receivables	419	706
Investments (Note 4)	78	2,065
	7,541	8,122
 LIABILITIES		
Accounts payable and accrued liabilities (Note 13)	3,040	6,757
Debt (Notes 5,12)	42,601	40,960
Other liabilities	309	252
	45,950	47,969
 NET DEBT	(38,409)	(39,847)
 NON-FINANCIAL ASSETS		
Tangible capital assets (Note 6)	213,565	210,132
Inventory held for consumption	808	463
Prepaid expenses	209	107
	214,582	210,702
 ACCUMULATED SURPLUS (Note 8)	\$ 176,173	\$ 170,855
Contractual commitments (Note 10)		

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

	2019 Actual	2019 Budget	2018 Actual
REVENUES			
Treatment charges (Note 13)	\$ 40,301	\$ 40,000	\$ 39,355
Investment income	74	48	105
Other revenue	73	73	86
Total revenues	<u>40,448</u>	<u>40,121</u>	<u>39,546</u>
EXPENSES (Note 9)			
Plant/pump station	30,741	29,915	29,134
Corporate services	1,956	1,978	1,984
Engineering	1,028	1,226	1,137
Regulatory services	1,307	1,341	1,278
Board	98	95	134
Total expenses	<u>35,130</u>	<u>34,555</u>	<u>33,667</u>
Excess of revenues over expenses	5,318	5,566	5,879
Accumulated surplus at beginning of year	<u>170,855</u>	<u>170,855</u>	<u>164,976</u>
Accumulated surplus at end of year	<u><u>\$ 176,173</u></u>	<u><u>\$ 176,421</u></u>	<u><u>\$ 170,855</u></u>

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

	2019 Actual	2019 Budget	2018 Actual
Excess of revenues over expenses	\$ 5,318	\$ 5,566	\$ 5,879
Acquisition of tangible capital assets	(11,328)	(20,000)	(25,616)
Amortization of tangible capital assets	7,233	7,100	6,723
Loss on disposal of tangible capital assets	662	-	921
Change in inventory held for consumption	(345)	-	(101)
Change in prepaid expenses	(102)	-	1
Change in net debt	1,438	(7,334)	(12,193)
Net debt at beginning of year	(39,847)	(39,847)	(27,654)
Net debt at end of year	\$ (38,409)	\$ (47,181)	\$ (39,847)

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

	<u>2019</u>	<u>2018</u>
Cash flows from operating transactions		
Cash receipts from members, government transfers and other	\$ 40,324	\$ 39,049
Cash paid to employees	(5,968)	(5,750)
Cash paid to suppliers	(20,300)	(19,003)
Interest received	133	44
Interest on debt	(1,261)	(1,006)
	<u>12,928</u>	<u>13,334</u>
Cash flows from capital transactions		
Acquisition of tangible capital assets	<u>(15,142)</u>	<u>(23,735)</u>
Cash flows from investing transactions		
Decrease in investments	<u>1,929</u>	<u>-</u>
Cash flows from financing transactions		
Proceeds from debt	6,000	12,000
Repayment of debt	(4,359)	(4,025)
	<u>1,641</u>	<u>7,975</u>
Increase (decrease) in cash	1,356	(2,426)
Cash, beginning of year	<u>2,663</u>	<u>5,089</u>
Cash, end of year	<u>\$ 4,019</u>	<u>\$ 2,663</u>

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

1. NATURE OF THE ORGANIZATION

The Alberta Capital Region Wastewater Commission (the "Commission") is constituted under the *Municipal Government Act*. Alberta Regulation 129/85 established the Commission in May 1985 for the purposes of constructing, maintaining, controlling, and managing a regional wastewater treatment system.

The members of the Commission include City of Fort Saskatchewan, City of Leduc, City of Spruce Grove, City of St. Albert, Town of Beaumont, Town of Bon Accord, Town of Gibbons, Town of Morinville, Town of Stony Plain, Leduc County, Parkland County, Strathcona County, and Sturgeon County.

The Commission is exempt from income taxation under section 149 of the *Income Tax Act* (Canada).

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared by management in accordance with Canadian public sector accounting standards and reflect the following policies:

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the period in which the transactions or events occur and are measurable. Expenses are recognized in the period goods and services are consumed, or a liability is incurred.

Investments

Investments consist of guaranteed investment certificates and deposits that are redeemable at the Commission's discretion. When there has been a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss.

Revenue Recognition

Government transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

Treatment charges, investment and other revenue are recognized as revenue when earned and collection is reasonably assured.

Non-financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Engineering Structures	10 - 75
Machinery & Equipment	10

Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Interest capitalization

The Commission does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(iv) Leased tangible capital assets

Leases that transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(v) Inventory held for consumption

Inventory held for consumption consists of spare parts used in the maintenance of Commission facilities and is valued at the lower of cost or replacement costs. Inventory items issued out are expensed to materials, goods, supplies and utilities. The cost of inventory is assigned by using the first-in-first-out cost formula.

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of tangible capital assets. Actual results could differ from those estimates.

3. FINANCIAL INSTRUMENTS

The Commission's financial instruments consist of cash, investments, receivables from Commission members, other receivables, accounts payable and accrued liabilities, debt and other liabilities. It is management's opinion that the Commission is not exposed to significant interest, currency, or credit risk arising from these financial instruments. Long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method. Unless otherwise noted, the fair value of these financial instruments approximates their carrying value.

4. INVESTMENTS

Investments consist of a notice demand account that bears interest at rate of 2.5% (2018 - 2.5%) with a maturity date of 90 days' notice (2018 – 90 days' notice).

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

5. DEBT

	2019	2018
Debenture payable to Alberta Capital Finance Authority, due in semi-annual installments of \$196 including principal and interest, bears interest at 5.387% and matures June 15, 2019.	\$ -	\$ 191
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$238 including principal and interest, bears interest at 4.951% and matures September 15, 2019.	-	459
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$257 including principal and interest, bears interest at 4.654% and matures December 15, 2019.	-	496
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$70 including principal and interest, bears interest at 4.643% and matures March 16, 2020.	69	201
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$217 including principal and interest, bears interest at 3.569% and matures June 15, 2026.	2,494	2,830
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$246 including principal and interest, bears interest at 2.769% and matures March 15, 2027.	3,308	3,700
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$243 including principal and interest, bears interest at 2.599% and matures September 17, 2027.	3,487	3,874
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$347 including principal and interest, bears interest at 3.586% and matures September 16, 2028.	5,300	5,791
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$123 including principal and interest, bears interest at 2.814 % and matures September 15, 2029.	2,136	2,318
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$120 including principal and interest, bears interest at 2.385 % and matures September 15, 2030.	2,301	2,482
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$287 including principal and interest, bears interest at 2.768 % and matures December 15, 2032.	6,225	6,618
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$209 including principal and interest, bears interest at 3.051 % and matures September 17, 2033.	4,733	5,000

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

5. DEBT (continued)

Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$84 including principal and interest, bears interest at 3.051 % and matures September 17, 2033.	1,893	2,000
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$211 including principal and interest, bears interest at 3.201 % and matures December 17, 2033.	4,736	5,000
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$124 including principal and interest, bears interest at 2.872 % and matures March 15, 2034.	2,919	-
Debenture payable to Alberta Capital Finance Authority due in semi-annual installments of \$121 including principal and interest, bears interest at 2.552 % and matures December 16, 2034.	3,000	-
	\$ 42,601	\$ 40,960

Debt principal and interest amounts in each of the next five years are as follows:

	Principal	Interest	Total
2020	\$ 3,492	\$ 1,239	\$ 4,731
2021	3,527	1,134	4,661
2022	3,633	1,028	4,661
2023	3,743	918	4,661
2024	3,856	805	4,661
Balance to Maturity	24,350	2,854	27,204
	\$ 42,601	\$ 7,978	\$ 50,579

The Commission has a demand operating line of credit available for use, up to a maximum of \$2,000 bearing interest at prime rate (2018 - prime rate) and unsecured. As at December 31, 2019, nil (2018 - nil) was drawn against the available operating line of credit.

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

6. TANGIBLE CAPITAL ASSETS

	Land	Engineering Structures	Machinery & Equipment	2019 Totals	2018 Totals
Cost:					
Balance at beginning of year	\$ 2,206	\$ 332,046	\$ 1,236	\$ 335,488	\$ 312,126
Additions	141	11,187	-	11,328	25,616
Disposals	-	(2,634)	(238)	(2,872)	(2,254)
Cost at end of year	2,347	340,599	998	343,944	335,488
Accumulated amortization:					
Balance at beginning of year	-	124,471	885	125,356	119,966
Amortization in the year	-	7,157	76	7,233	6,723
Accumulated amortization disposals	-	(1,973)	(237)	(2,210)	(1,333)
Accumulated amortization at end of year	-	129,655	724	130,379	125,356
Net book value	\$ 2,347	\$ 210,944	\$ 274	\$ 213,565	\$ 210,132

The net book value of tangible capital assets includes \$4,045 (2018 - \$11,284) related to engineering structures in design or under construction that are not amortized in the year. Contributed tangible capital assets in 2019 were nil (2018 - nil).

7. EQUITY IN TANGIBLE CAPITAL ASSETS

	2019	2018
Tangible capital assets	\$ 343,944	\$ 335,488
Accumulated amortization	(130,379)	(125,356)
Long-term debt	(42,601)	(40,960)
	\$ 170,964	\$ 169,172

8. ACCUMULATED SURPLUS

	2019	2018
Reserves		
Capital	\$ 1,164	\$ 683
Operating	4,045	1,000
	5,209	1,683
Equity in tangible capital assets (Note 7)	170,964	169,172
Total accumulated surplus	\$ 176,173	\$ 170,855

The Capital Reserve sets aside funds for the purpose of financing future capital acquisitions and development. This reserve is funded from annual surplus funds and disposals of capital assets. Surplus funds in excess of the required contribution to the Operating Reserve are contributed to the Capital Reserve.

The Operating Reserve was established to provide rate stability and to provide funds for years when unforeseen expenses or lost revenues accrue. It is maintained at a minimum balance of 10% and maximum of 15% of annual gross revenue. Increases to the reserve are funded from the annual surplus.

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

9. EXPENSES BY OBJECT

	2019 Actual	2019 Budget	2018 Actual
Salaries and benefits	\$ 5,994	\$ 6,173	\$ 5,794
Contracted and general services	15,683	15,570	14,054
Materials, goods, supplies and utilities	3,611	3,333	3,529
Purchased from other governments	690	1,020	1,597
Interest	1,257	1,359	1,049
Amortization	7,233	7,100	6,723
Loss on disposal of tangible capital assets	662	-	921
	\$ 35,130	\$ 34,555	\$ 33,667

10. CONTRACTUAL COMMITMENTS

In 2015, the Commission entered into a biosolids management contract with the City of Edmonton. This agreement expires in 2025. In 2019, the agreements were officially transferred to EPCOR Utilities.

In 2008, the Commission entered into the Regional Wastewater Exchange Agreement with the City of Edmonton. This agreement expires in 2028. In 2019, the agreements were officially transferred to EPCOR Utilities.

In 2019, the Commission extended the contract with Instinct Trucking to haul sludge. This contract expires in 2022 with two one-year extensions.

In 2018, the Commission entered into a contract with Enmax to supply electricity and natural gas. This agreement expires in 2023.

In 2018, the Commission entered into a contract with Direct Energy to supply natural gas. This agreement expires in 2022.

As of December 31, 2019, the Commission has contractual commitments for work still outstanding for the following projects:

- St. Albert Regional Trunk West of DND project for \$4,916 with \$2,778 of work still outstanding. Completion expected in 2020.
- St. Albert Regional Trunk 34 St. and Combination Chamber Emergency Replacement project for \$1,990 with \$1,990 of work still outstanding. Completion expected in 2020.

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

11. LOCAL AUTHORITIES PENSION PLAN

All eligible employees of the Alberta Capital Region Wastewater Commission participate in the LAPP (Local Authorities Pension Plan) under the *Public Sector Pension Plans Act*. Required contributions by the Commission to the Local Authorities Pension Plan are 9.39% (2018 - 10.39%) of pensionable earnings up to the year's pensionable earnings maximum under the Canada Pension Plan and 13.84% (2018 - 14.84%) on pensionable earnings above this amount. Employees are required to contribute 8.39% (2018 - 9.39%) of pensionable salary up to the year's maximum pensionable salary and 12.84% (2018 - 13.84%) on pensionable salary above this amount.

Contributions for current service are recorded as expenditures in the year in which they become due. Contributions made during the year by the Alberta Capital Region Wastewater Commission and its employees were \$490 and \$447, respectively (2018 - \$519 by the Commission and \$476 from its employees).

At December 31, 2018, the LAPP disclosed an actuarial surplus of \$3,469 million.

12. DEBT LIMITS

Section 3 of Alberta Regulation No. 76/2000 requires that debt and debt servicing limits for the Commission be disclosed as follows:

	2019	2018
Total debt limit	\$ 80,896	\$ 79,092
Total debt	42,601	40,960
Amount of total debt limit remaining	<u>\$ 38,295</u>	<u>\$ 38,132</u>
Debt servicing limit	\$ 14,157	\$ 13,841
Debt servicing	<u>4,731</u>	<u>5,497</u>
Amount total debt servicing remaining	<u><u>\$ 9,426</u></u>	<u><u>\$ 8,344</u></u>

The debt limit is calculated at 2 times revenue of the Commission (as defined in Alberta Regulations No. 76/2000) and the debt servicing limit is calculated at 0.35 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of 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 taken alone does not represent the financial stability of the Commission. Rather, the financial statements must be interpreted as a whole.

The Commission has a debt management policy with a self-imposed debt limit of 1.5 times revenue. The total debt limit with the 1.5 times revenue is \$60,672 with \$18,071 total debt limit remaining.

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in 000's)

13. RELATED PARTY TRANSACTIONS

The municipalities that are members of the Commission are considered to be related parties.

At year end, receivables from Commission members include a total of \$3,025 (2018 - \$2,688) receivable from the various member municipalities and accounts payable and accrued liabilities include \$100 (2018 - \$1,058) payable to various member municipalities.

Revenues generated include \$34,860 (2018 - \$34,304) paid by member municipalities.

Contracted and general services include \$620 (2018 - \$6,126) paid to Strathcona County for transmission maintenance services.

These transactions are in the normal course of operations and are measured at the exchange amounts as established and agreed to by the related parties.

14. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors and management have approved these financial statements.