

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

AND

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

INDEPENDENT AUDITOR'S REPORT

To the Members of **Highway 14 Regional Water Services Commission**:

We have audited the accompanying financial statements of **Highway 14 Regional Water Services Commission** which consist of the statement of financial position at December 31, 2017, and the statements of changes in net assets, operations, 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 the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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 **Highway 14 Regional Water Services Commission** as at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Edmonton, Alberta
March 29, 2018

 **Yaremchuk & Annicchiarico LLP**
Chartered Professional Accountants

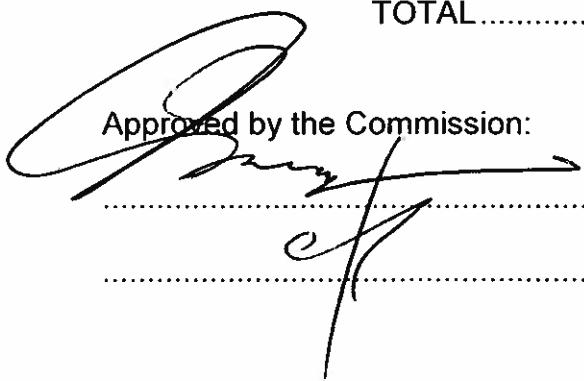
HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 731,847	\$ 1,178,973
Accounts receivable	263,601	291,313
Inventory	72,176	69,296
Prepaid expenses	<u>10,631</u>	<u>-</u>
Total current assets	1,078,255	1,539,582
PROPERTY AND EQUIPMENT (Note 3)	10,797,827	10,535,314
INTANGIBLE ASSETS - net of accumulated amortization of \$39,548 (2016 - \$34,333)	<u>169,062</u>	<u>174,277</u>
TOTAL	<u>\$12,045,144</u>	<u>\$12,249,173</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 212,323	\$ 304,629
Customer deposits	78,778	74,656
Bank loan (Note 5)	787,876	825,930
Current portion of debenture payable	<u>288,817</u>	<u>279,655</u>
Total current liabilities	<u>1,367,794</u>	<u>1,484,870</u>
DEBENTURE PAYABLE (Note 6)	<u>7,160,838</u>	<u>7,449,654</u>
NET ASSETS:		
Invested in property and equipment	2,841,096	2,271,359
Invested in intangible assets	56,714	57,798
Internally restricted	606,494	975,299
Unrestricted	<u>12,208</u>	<u>10,193</u>
Total net assets	<u>3,516,512</u>	<u>3,314,649</u>
TOTAL	<u>\$12,045,144</u>	<u>\$12,249,173</u>

Approved by the Commission:



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HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Invested in property and equipment</u>	<u>Invested in intangible assets</u>	<u>Internally Restricted</u>	<u>Unrestricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Balance at the beginning of the year.....	\$2,271,359	\$57,798	\$975,299	\$ 10,193	\$3,314,649	\$2,900,354
Excess of revenue (expenses) for the year	(235,661)	(5,215)	-	442,739	201,863	414,295
Purchase of property and equipment.....	498,174	-	(398,805)	(99,369)	-	-
Repayment of bank loan	36,798	495	-	(37,293)	-	-
Repayment of debenture payable	270,426	3,636	-	(274,062)	-	-
Contribution to internally restricted.....	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>	<u>-</u>
Balance at end of the year.....	<u>\$2,841,096</u>	<u>\$56,714</u>	<u>\$606,494</u>	<u>\$ 12,208</u>	<u>\$3,516,512</u>	<u>\$3,314,649</u>

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
REVENUE - water sales	\$2,638,484	\$2,710,149
COST OF SALES - water purchases.....	<u>801,962</u>	<u>846,527</u>
GROSS MARGIN	<u>1,836,522</u>	<u>1,863,622</u>
EXPENSES:		
Advertising and promotion	7,971	2,578
Amortization - property and equipment.....	235,661	217,670
- intangible assets.....	5,215	5,215
Automotive.....	29,966	30,614
Bank charges and interest.....	16,355	14,961
Computer.....	23,871	21,275
Contract services.....	83,944	59,765
Insurance.....	10,423	10,855
Interest - bank loan.....	24,346	23,945
- debenture payable.....	248,549	257,421
Meetings.....	11,703	13,809
Office and postage	44,195	29,623
Professional fees.....	18,856	19,115
Rent (Note 11).....	119,718	94,564
Repairs and maintenance.....	110,182	113,743
Salaries and benefits	554,818	456,003
Telephone and utilities.....	82,226	74,621
Training.....	<u>6,660</u>	<u>3,550</u>
Total expenses	<u>1,634,659</u>	<u>1,449,327</u>
EXCESS OF REVENUE FOR THE YEAR	<u>\$ 201,863</u>	<u>\$ 414,295</u>

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES:		
Cash from operations:		
Excess of revenue for the year	\$ 201,863	\$ 414,295
Item not involving cash for operations - amortization	<u>240,876</u>	<u>222,885</u>
	442,739	637,180
Increase (decrease) in non-cash working capital balances:		
Accounts receivable	27,712	(49,784)
Inventory	(2,880)	(13,437)
Prepaid expenses	(10,631)	11,524
Accounts payable and accrued liabilities	(92,306)	143,166
Customer deposits	<u>4,122</u>	<u>7,557</u>
Net cash from operating activities	<u>368,756</u>	<u>736,206</u>
FINANCING ACTIVITIES:		
Repayment of bank loan	(38,054)	(38,455)
Repayment of debenture payable	<u>(279,654)</u>	<u>(270,783)</u>
Net cash used in financing activities	<u>(317,708)</u>	<u>(309,238)</u>
INVESTING ACTIVITY - purchase of property and equipment	<u>(498,174)</u>	<u>(544,498)</u>
DECREASE IN CASH DURING THE YEAR	(447,126)	(117,530)
CASH AT BEGINNING OF THE YEAR	<u>1,178,973</u>	<u>1,296,503</u>
CASH AT END OF THE YEAR	<u>\$ 731,847</u>	<u>\$1,178,973</u>

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. NATURE OF OPERATIONS:

The Commission was established to provide water transmission services to its member municipalities through the construction of a municipal waterline from Strathcona County through Beaver County. The initial members of the Commission were Beaver County, Strathcona County, Town of Tofield, Village of Holden, Village of Ryley and Town of Viking.

Effective May 21, 2011 the Commission acquired the water systems assets held by CU Water Limited for cash consideration of \$15.4 million. Subsequent to this date, the Commission will operate and maintain the water supply system and provide water transmission services to its member municipalities.

Effective January 1, 2012 Strathcona County purchased a portion of the water systems assets held by the Commission for cash consideration of approximately \$5.3 million. In conjunction with the purchase of water systems assets, Strathcona County discontinued its membership in the Commission effective January 1, 2012. Proceeds were used to repay outstanding debt.

2. ACCOUNTING POLICIES:

The financial statements of Highway 14 Regional Water Services Commission are the representation of management prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies are as follows:

Revenue recognition:

Revenue from water sales is recognized when the water has been transmitted to the customer.

Inventory:

Inventory consists of parts and is stated at lower of cost and net realizable value.

Property and equipment:

Property and equipment are stated at cost. Amortization is provided at the following annual rates:

Automotive equipment	30% declining balance
Buildings.....	2.5% straight-line
Computer equipment.....	30% declining balance
Distribution and transmission equipment ..	1.5% - 2.5% straight-line
Office and field equipment	20% declining balance
Scada equipment	10% straight-line
Leasehold improvements	5% straight-line

Property and equipment under development represents capital projects under construction and are therefore not being amortized.

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. ACCOUNTING POLICIES (continued):

Intangible assets:

Intangible assets consist of land rights and are stated at cost. Amortization is provided using the straight-line method at a rate of 2.5% per annum.

Pension expenditures:

Contributions for current and past service pension benefits are recorded as expenditures in the year in which they became due.

Invested in property and equipment:

Invested in property and equipment represents the Commission's net investment in property and equipment, after deducting the portion financed by third parties through debt or other long-term capital borrowings.

Invested in intangible assets:

Invested in intangible assets represents the Commission's net investment in intangible assets, after deducting the portion financed by third parties through debt or other long-term capital borrowings.

Internally restricted net assets:

Net assets are internally restricted at the discretion of the Commission to set aside funds for future expenditures.

Financial instruments:

The Commission initially measures its financial assets and liabilities at fair value.

The Commission subsequently measures all its financial assets and financial liabilities at amortized cost.

The Commission's financial instruments measured at amortized cost consists of cash, accounts receivable, accounts payable and accrued liabilities, customer deposits, bank loan and debenture payable.

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. Any previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount of impairment recognized previously. The amount of the reversal is recognized in net income.

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. ACCOUNTING POLICIES (continued):

Cash and cash equivalents:

Cash and cash equivalents consist of balances with banks and short-term investments that can be converted readily to cash.

Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. PROPERTY AND EQUIPMENT:

The major categories of property and equipment and related accumulated amortization are as follows:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2017</u>	<u>2016</u>
Land	\$ 410,563	\$ -	\$ 410,563	\$ 377,500
Automotive equipment.....	171,399	107,898	63,501	41,359
Buildings.....	1,029,209	95,689	933,520	390,752
Computer equipment.....	55,800	40,295	15,505	18,270
Distribution and transmission equipment....	10,368,136	1,171,892	9,196,244	9,208,652
Field equipment.....	28,625	11,864	16,761	8,925
Office equipment	50,881	8,684	42,197	1,914
Scada equipment	225,603	153,995	71,608	68,835
Leasehold improvements ...	37,643	2,823	34,820	36,702
Property and equipment under development.....	<u>13,108</u>	<u>-</u>	<u>13,108</u>	<u>382,405</u>
	<u>\$12,390,967</u>	<u>\$1,593,140</u>	<u>\$10,797,827</u>	<u>\$10,535,314</u>

4. BANK INDEBTEDNESS:

The revolving demand loan bears interest at the bank prime rate plus 0.25% per annum and is authorized to a maximum of \$600,000. There was no balance outstanding on the loan at December 31, 2016 or 2017. The loan is secured by a general security agreement over all assets of the Commission.

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

5. BANK LOAN:

Bank loan bears interest at the bank prime rate plus 0.25% per annum and is due in monthly payments of \$5,200, principal and interest combined with the balance due December 31, 2018.

Bank loan is due on demand, however the bank has agreed to accept payments as indicated.

Bank loan is secured by a general security agreement over all assets of the Commission.

6. DEBENTURE PAYABLE:

The debenture is repayable to the Alberta Capital Finance Authority, bears interest at a rate of 3.25% per annum and is repayable in semi-annual payments of \$264,302, principal and interest combined on June 15 and December 15 each year with the balance due December 15, 2036.

Debenture payable is issued on the credit and security of the Commission at large.

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 288,817	\$ 239,787	\$ 528,604
2019	298,280	230,324	528,604
2020	308,053	220,551	528,604
2021	318,146	210,458	528,604
2022	328,570	200,034	528,604
Thereafter	<u>5,907,789</u>	<u>1,492,647</u>	<u>7,400,436</u>
	<u>\$7,449,655</u>	<u>\$2,593,801</u>	<u>\$10,043,456</u>

7. DEBT LIMITS:

Section 602.29 of the Municipal Government Act requires that debt and debt limits as defined by Alberta Regulation 76/100 for the Highway 14 Regional Water Services Commission be disclosed as follows:

	<u>2017</u>	<u>2016</u>
Total debt limit.....	\$17,000,000	\$17,000,000
Total debt.....	<u>8,237,531</u>	<u>8,555,239</u>
Amount of total debt limit remaining.....	<u>\$ 8,762,469</u>	<u>\$ 8,444,761</u>
Debt servicing limit	\$ 923,469	\$ 948,552
Debt servicing	<u>591,004</u>	<u>591,004</u>
Amount of total debt servicing remaining	<u>\$ 332,465</u>	<u>\$ 357,548</u>

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

7. DEBT LIMITS (continued):

The debt limit represents 2 times the eligible revenue of the Commission, and the debt servicing limit represents 0.35 times the eligible revenue. On January 18, 2012, the Minister of Municipal Affairs authorized the commission to borrow up to \$17,000,000 to fully acquire the water supply system assets from CU Water Limited as outlined in Note 1.

8. FINANCIAL INSTRUMENTS:

The Commission is exposed to risk on certain financial instruments as follows:

Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Commission is exposed to credit risk on accounts receivable. In order to reduce its credit risk, the Commission has adopted credit policies which include the analysis of the financial position of debtors and the regular review of their credit limits. The Commission also provides for doubtful accounts based on the estimated realizable value of the accounts receivable.

Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Commission is mainly exposed to interest rate risk.

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Commission is exposed to interest rate risk on bank loan and debenture payable. The fixed-rate instruments subject the Commission to a fair value risk while the floating-rate instruments subject it to a cash flow risk.

9. COMMITMENTS/ECONOMIC DEPENDENCE:

The Commission entered into an agreement, dated January 1, 2012 to purchase water from Strathcona County for sale and delivery through the system. The agreement is for a 25 year term from the date of execution of the agreement and renewable until cancelled.

The Commission is economically dependent on Strathcona County for the purchase of water.

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

10. LEASE COMMITMENTS:

The Commission has entered into the following lease commitments:

- a) Lease of truck fill property and equipment from a member of the Commission, Beaver County under a lease agreement which expires March, 2020. The minimum rent payable effective April 1 of each year is due in equal monthly instalments of the annual rent calculated for the previous year ended March 31. The minimum annual rent is calculated by multiplying the total cubic metres of water sold at the truck fill station by a rate of \$0.75 per cubic metre. Any difference between the total monthly instalments paid and annual rent calculated as of March 31 each year will either be paid to or refunded by Beaver County without interest being assessed.

The lease contains an option for the Commission to purchase the truck fill property and equipment for a purchase price of \$1,101,603 plus interest calculated at a rate of 1.5% per annum from the date of commencement of the lease, April 1, 2015, less the sum of the rental payments paid by the Commission for the period April 1, 2015 to the date the purchase option is exercised.

- b) Lease of truck fill property and equipment from a member of the Commission, Town of Tofield, under a lease agreement which expires December, 2036. The minimum rent payable is due in monthly instalments by multiplying the total cubic metres of water sold at the truck fill station for the previous month by a rate of \$0.25 per cubic metre plus the reimbursement of the bulk water charges in the previous month to the Town of Tofield.

11. RELATED PARTY TRANSACTIONS:

During the year, the Commission paid property and equipment rent to members of the Commission as follows:

	<u>2017</u>	<u>2016</u>
Beaver County	\$ 75,930	\$36,020
Town of Tofield	<u>32,707</u>	<u>21,336</u>
	<u>\$108,637</u>	<u>\$57,356</u>

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

12. LOCAL AUTHORITIES PENSION PLAN:

Employees of the Commission participate in the Local Authorities Pension Plan (LAPP), which is covered by the Public Sector Pension Plans Act. It is financed by employer and employee contributions and investment earnings of the LAPP fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

The Commission is required to make current service contributions to the plan of 11.39% of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings and 15.84% for the excess.

At December 31, 2016, the Local Authorities Pension Plan disclosed an actuarial deficit of approximately \$0.64 billion. No liability has been recorded in these financial statements at December 31, 2017 related to this actuarial deficit.

13. INCOME TAX STATUS:

The Commission is a non-profit organization within the meaning of the Income Tax Act (Canada) and is exempt from income taxes.

14. APPROVAL OF FINANCIAL STATEMENTS:

These financial statements were approved by the Commission and Management.