

SOUTH RED DEER REGIONAL WASTEWATER COMMISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2020

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MANAGEMENT'S REPORT

To the Members of South Red Deer Regional Wastewater Commission

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The elected board is composed entirely of neither management nor employees of the Commission. The board has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The board is responsible for recommending the appointment of the Commission's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the board to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the board and management to discuss their audit findings. The accompanying financial statements are the responsibility of the management of South Red Deer Regional Wastewater Commission.

 E-SIGNED by Michael Wuetherick

Michael Wuetherick
Chief Administrative Officer

To the Board of Directors of South Red Deer Regional Wastewater Commission:

Opinion

We have audited the financial statements of South Red Deer Regional Wastewater Commission (the "Commission"), which comprise the statement of financial position as at December 31, 2020, and the statements of operations, changes in net debt, cash flows and the related schedules, 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, 2020, and the results of its operations, changes in net debt, 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.

Red Deer, Alberta

April 26, 2021

MNP LLP

Chartered Professional Accountants

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020**

	2020	2019
FINANCIAL ASSETS	\$	\$
Cash and cash equivalents <i>(note 3)</i>	1,458,379	2,104,301
Accounts receivable <i>(note 7)</i>		
Provincial government	619,142	619,142
Local governments	1,102,604	1,269,066
Other	32,343	8,812
Investments <i>(note 4)</i>	1,255,786	1,232,567
TOTAL FINANCIAL ASSETS	4,468,254	5,233,888
LIABILITIES		
Trade payables & accrued liabilities	3,268,283	2,417,740
Long-term debt <i>(note 9)</i>	12,559,264	13,049,982
TOTAL LIABILITIES	15,827,547	15,467,722
NET DEBT	(11,359,293)	(10,233,834)
NON-FINANCIAL ASSETS		
Inventory for consumption <i>(note 6)</i>	225,011	255,114
Prepaid expenses <i>(note 5)</i>	38,362	52,274
Tangible capital assets <i>(schedule 1) (note 12)</i>	112,480,483	114,222,541
TOTAL NON-FINANCIAL ASSETS	112,743,856	114,529,929
ACCUMULATED SURPLUS <i>(note 15)</i>	101,384,563	104,296,095
COMMITMENTS <i>(note 17)</i>		
CONTINGENCIES <i>(note 20)</i>		

Approved by the Board of Directors

E-SIGNED by Mike Walsh Director

E-SIGNED by Jean Bota Director

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Budget \$ (Note 19)	2020 \$	2019 \$
REVENUE			
Wastewater services revenue	7,637,374	8,348,087	7,552,452
Resale of chemical	-	105,420	-
Interest & other	29,460	49,568	94,859
	<u>7,666,834</u>	<u>8,503,075</u>	<u>7,647,311</u>
EXPENSES			
Waste water treatment	3,680,800	4,041,744	3,628,259
Utilities	404,646	483,045	408,751
Operations & maintenance contract	498,404	534,009	517,691
Odor management (chemicals)	469,985	1,008,279	527,104
Repairs & maintenance	301,746	889,943	501,061
Professional services	144,988	659,544	325,211
Amortization	2,694,981	2,806,468	2,751,730
Governance, administration & interest	698,274	634,525	626,516
	<u>8,893,824</u>	<u>11,057,557</u>	<u>9,286,323</u>
Deficiency of revenue over expenses, before other	(1,226,990)	(2,554,482)	(1,639,012)
OTHER			
Loss on disposal of tangible capital assets	-	(357,050)	-
Right of way expense	-	-	(679)
	<u>-</u>	<u>-</u>	<u>(679)</u>
Deficiency of revenue over expenses	(1,226,990)	(2,911,532)	(1,639,691)
Accumulated surplus, beginning of year	104,296,095	104,296,095	105,935,786
Accumulated surplus, end of year (Note 15)	<u>103,069,105</u>	<u>101,384,563</u>	<u>104,296,095</u>

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
STATEMENT OF CHANGES IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Budget	2020	2019
	\$	\$	\$
Deficiency of revenue over expenses	(1,226,990)	(2,911,532)	(1,639,691)
Amortization of tangible capital assets	2,694,981	2,806,468	2,751,730
Acquisition of tangible capital assets	(2,815,500)	(1,421,460)	(766,080)
Disposal of tangible capital assets	-	357,050	-
Change in inventories and prepaid expenses	-	44,015	(46,384)
	<hr/>	<hr/>	<hr/>
Decrease (increase) in net debt	(1,347,509)	(1,125,459)	299,575
Net debt, beginning of year	<hr/> (10,233,834)	<hr/> (10,233,834)	<hr/> (10,533,409)
Net debt, end of year	<hr/> (11,581,343)	<hr/> (11,359,293)	<hr/> (10,233,834)

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	2020	2019
OPERATING ACTIVITIES	\$	\$
Deficiency of revenue over expenses	(2,911,532)	(1,639,691)
Items not affecting cash		
Amortization of tangible capital assets	2,806,468	2,751,730
Loss on disposal of tangible capital assets	357,050	-
Changes in non-cash working capital		
Accounts receivable	142,931	(477,957)
Accounts payable and accrued liabilities	302,321	(35,856)
Inventory	30,103	(35,831)
Prepays	13,910	(10,552)
	<u>741,251</u>	<u>551,843</u>
CAPITAL ACTIVITY		
Acquisition of tangible capital assets	<u>(873,236)</u>	<u>(766,080)</u>
INVESTING ACTIVITY		
Purchase of investments	(1,255,786)	(1,232,567)
Proceeds on disposal of investments	1,232,567	1,209,933
	<u>(23,219)</u>	<u>(22,634)</u>
FINANCING ACTIVITIES		
Repayment of long-term payable	<u>(490,718)</u>	<u>(476,854)</u>
Net increase (decrease) in cash	(645,922)	(713,725)
Cash and cash equivalents, beginning of year	2,104,301	2,818,026
Cash and cash equivalents, end of year	<u>1,458,379</u>	<u>2,104,301</u>

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
SCHEDULE OF TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020
SCHEDULE 1**

	Land	Lift Stations and Equipment	Pipeline	Construction in Progress	Total 2020	Total 2019
	\$	\$	\$	\$	\$	\$
Original Cost:						
Balance, beginning of year	30,532	41,230,237	88,372,709	169,756	129,803,234	129,037,154
Acquisition of tangible capital assets	-	888,982	665,744	(133,266)	1,421,460	766,080
Disposition of tangible capital assets		(451,499)	(7,330)	-	(458,829)	-
Balance, end of year	30,532	41,667,720	89,031,123	36,490	130,765,865	129,803,234
Accumulated Amortization:						
Balance, beginning of year	-	(8,140,553)	(7,440,140)	-	(15,580,693)	(12,828,963)
Annual amortization	-	(1,497,601)	(1,308,867)	-	(2,806,468)	(2,751,730)
Disposition of tangible capital assets	-	101,402	377	-	101,779	-
Balance, end of year	-	(9,536,752)	(8,748,630)	-	(18,285,382)	(15,580,693)
Net Book Value of Tangible Capital Assets	30,532	32,130,968	80,282,493	36,490	112,480,483	114,222,541
2019 Net Book Value of Tangible Capital Assets	30,532	33,089,684	80,932,569	169,756		114,222,541

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
SCHEDULE OF EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2020
SCHEDULE 2**

	Budget \$	2020 \$	2019 \$
Board per diems	20,259	16,587	17,107
Contracted and purchased services	4,831,341	6,315,862	5,115,080
Materials, goods, supplies, and utilities	946,877	1,548,361	1,018,785
Long term debt interest	399,866	370,178	384,106
Amortization of tangible capital assets	2,694,981	2,806,468	2,751,730
Provision for allowances and bank charges	500	101	194
	<u>8,893,824</u>	<u>11,057,557</u>	<u>9,287,002</u>

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

1. Incorporation and nature of the Commission

The South Red Deer Regional Wastewater Commission (the "Commission") is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs in April 2008 for the purpose of constructing, maintaining, controlling, and managing a wastewater transmission system.

The members of the Commission are Town of Bowden, Town of Innisfail, Town of Olds, Town of Penhold, Mountain View County, and Red Deer County.

The Commission, being a government organization, is exempt from income taxation under Section 149 of the Income Tax Act (Canada).

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS") and include the following significant accounting policies:

Cash and cash equivalents

Balances with original maturities of less than 3 months are included in cash and cash equivalents. Marketable securities with prices quoted in an active market are measured at fair value while those that are not quoted in an active market are measured at cost less impairment.

Revenue recognition

Service fees and sales of goods are recognized as revenue in the period in which the service is delivered or in which the transactions or events occurred that gave rise to the revenue. Member contributions are recognized once amounts are approved by the board. Interest revenue is recognized as earned on a time-proportioned basis. Other revenue is recognized upon confirmation of benefit and when collection is reasonably assured.

Government transfers

Government transfers or grants are the transfer of monetary or tangible capital assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, and are not the result of a direct financial return.

Government transfers are recognized in the financial statements as revenue 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 determined. If eligibility requirements have not been met in the current period the transfer will be recorded as deferred revenue until the eligibility requirements are met.

Expenses

Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or legal obligation to pay.

Non-financial assets

Non-financial assets are assets that are not available to discharge existing liabilities but held for use in Commission operations. Such assets have useful lives extending beyond the current year and are not intended for sale in the normal course of Commission operations.

Tangible capital assets

Tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded in the financial statements at fair market value at the time of contribution.

Amortization is provided using the straight-line method over the following periods:

	<u>Period</u>
Pipelines and Lift Stations (Original Waskasoo Line)	40 years
Pipelines (all others)	
Pipelines and Valve Vaults	70 years
Valves and Other	15 - 25 years
Lift Stations (all others)	11-20
Site Civil Works	15 - 25 years
Buildings and Tankage	50 years
Process Equipment	5 - 25 years
Electrical and Other Systems	15 - 25 years

Tangible capital assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be fully recoverable. An impairment loss is recognized when and to the extent that management assesses the future useful life of an asset to be less than originally estimated.

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

2. Significant accounting policies (continued from previous page)

Inventory

Inventory of construction items for consumption is recorded in the financial statements at lower of the cost of the specific item or net realizable value. Net realizable value is the value the inventory could be sold for less estimated costs of disposal.

Use of estimates

The preparation of financial statements in accordance with PSAS 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 statement of financial position date, and the reported amounts of revenue and expenses during the reporting period. Key components of the financial statements requiring management to make estimates include the provision for doubtful accounts in respect of receivables, the net realizable value of inventories, the useful lives of long-lived assets and the potential impairment of assets. Actual results could differ from these estimates.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in excess of revenue over expenses in the periods in which they become known.

Investment

Investments are recorded at market value. Investment premiums and discounts are amortized proportionately over the term of the respective investments. When there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

3. Cash and cash equivalents

	2020	2019
	\$	\$
Cash on deposit in excess of outstanding cheques		
General Account (Servus)	1,458,379	354,301
Servus GIC - Rate 2.06% which matured February 14, 2020	-	1,750,000
Total Cash	1,458,379	2,104,301

The Commission has a demand operating credit facility to a maximum of \$2,000,000, bearing interest at the bank's prime interest rate per annum. At December 31, 2020, Nil (December 31, 2019 - Nil) has been drawn down on this facility.

4. Investments

	2020	2019
	\$	\$
GICs - rates between 0.79% - 2.28%, maturing between July 2021 and August 2023 (2019 - 2.07% - 2.28%, maturing July 2021)	1,255,786	1,232,567

5. Prepaid Expenses

	2020	2019
	\$	\$
Prepaid insurance	36,362	52,274
Prepaid rent	2,000	-
	38,362	52,274

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

6. Inventory for Consumption

	2020	2019
	\$	\$
Cement barricades	12,870	12,870
Pipe and related equipment	137,414	103,679
Chemicals	74,727	129,569
Other materials	-	8,996
	225,011	255,114

7. Accounts Receivable

	2020	2019
	\$	\$
Provincial		
Alberta Government - Accrued Grant Revenue	619,142	619,142
Local governments		
Member Municipalities (<i>note 13</i>)	1,102,604	1,269,066
Total government receivables	1,721,746	1,888,208
Other receivable		
Trade accounts receivable	36,945	13,414
Allowance for doubtful accounts	(4,602)	(4,602)
Total other receivables	32,343	8,812
Total receivables	1,754,089	1,897,020

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

8. Eligible Expenditure, Deferred Revenue and Funding Deficiency

	2020	2019
	\$	\$
Eligible expenditure		
Capital expenditures (<i>Schedule 1</i>)	130,765,865	129,803,234
Capital written off	458,829	-
Commissioning Start up Costs covered by Grant Funding (not capital)	99,540	99,540
Regional Alignment	2,822,794	2,822,794
Right of Way	10,718,111	10,718,111
Total expenditures	144,865,139	143,443,679
Less 2016 Lift Station #1 Upgrade (ineligible for grant funding)	(1,353,028)	(1,353,028)
Less Waskasoo Pipeline (ineligible for grant funding)	(2,709,950)	(1,913,783)
Less other ineligible expenditures	(872,107)	(246,814)
Less interest to date	(238,308)	(238,308)
Total eligible expenditures	139,691,746	139,691,746
Deferred revenue		
Provincial grant revenue received to date (including capital interest)	124,959,205	124,959,205
Lesser of:		
90% of total eligible expenditure to date	(125,722,571)	(125,722,571)
Cap on funding approved to date	(125,565,616)	(125,565,616)
A/R - Government of Alberta	606,411	606,411
Total deferred revenue	-	-
Funding deficiency		
Total expenditure	(144,865,139)	(143,443,679)
Debenture Debt Issued	15,300,000	15,300,000
Capped amount funded by the Government	125,565,616	125,565,616
Funded with interest	238,308	238,308
Regional alignment	282,556	282,556
Funded from reserves	1,421,460	
Government of Canada (Bowden Institution)	20,844	20,844
Operating deficit on internally funded tangible capital assets (<i>note 15</i>)	(2,036,355)	(2,036,355)

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

9. Long term debt

	Interest rate	Anniversary Date	Original Principal \$	2020 \$	2019 \$
Debentures					
Debenture 4001483	3.08%	December 2037	3,000,000	2,275,250	2,375,812
Debenture 4001838	2.78%	March 2040	8,000,000	6,680,701	6,935,721
Debenture 4001871	2.94%	June 2040	4,300,000	3,603,313	3,738,449
Total Principal			15,300,000	12,559,264	13,049,982

The purpose of the debentures is to finance the Commissions share of construction costs. The debenture is re-payable over 25 years to the Province of Alberta. The debenture has payments due twice a year.

Estimated principal and interest payments for the next five years are as follows:

	Principal	Interest	Payments
2021	505,123	358,127	863,250
2022	519,803	343,447	863,250
2023	534,914	328,336	863,250
2024	550,462	312,788	863,250
2025	566,463	296,787	863,250
Thereafter	9,882,499	2,202,459	12,084,958
	12,559,264	3,841,944	16,401,208

10. Debt limit

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

	2020 \$	2019 \$
Debt Limit		
Total Annual Revenue	8,503,075	7,647,311
Total debt limit (maximum allowed at 2 times annual revenue)	17,006,150	15,294,622
Total debt (current)	12,559,264	13,049,982
Amount below (above) total debt limit	4,446,886	2,244,641
Total Debt as a factor of Annual Revenue	1.5	1.7
Service on debt limit (maximum allowed at 35% of annual revenue)	2,976,076	2,676,559
Service on debt (current)	863,250	863,249
Amount below limit on debt service	2,112,826	1,813,310
Actual Debt Servicing as % of Annual Revenue	10%	11%

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

10. Debt limit (continued from previous page)

The debt limit is calculated at two times revenue of the Commission (as defined in Alberta Regulation 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 taken alone does not represent the financial stability of the Commission. Rather, the financial statements must be interpreted as a whole.

As at December 31, 2020, the Commission has \$12,559,264 (December 31, 2019 - \$13,049,082) of total debt outstanding, which is below the total debt limit threshold.

11. Reserves

	Beginning of year	Additions	Reductions	End of year
	\$	\$	\$	\$
Reserves for operating and capital activities are as follows:				
OPERATING RESERVES: (note 15)				
Rate stabilization	277,675	50,000	-	327,675
Emergency	741,931	100,000	-	841,931
Total Operating Reserves	1,019,606	150,000	-	1,169,606
CAPITAL RESERVE: (note 15)				
General Capital Reserve	1,465,388	750,000	1,387,412	827,976
Septage Receiving Station Capital Reserve	171,000	34,000	34,048	170,952
Total Capital Reserves	1,636,388	784,000	1,421,460	998,928
TOTAL RESERVES:	2,655,994	934,000	1,421,460	2,168,534

The purposes of the reserves are as follows:

- 1) Rate Stabilization - to provide funds to lessen the impact of rate changes,
- 2) Emergency - to provide funds to respond to an emergency situation (e.g. a pipeline leak),
- 3) Capital - to provide funds for equipment replacement.

The reserves were first established in 2012. These reserves are partially funded by funds held in investments (note 4).

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

12. Tangible capital assets

Total land holdings of the Commission are comprised of the land surrounding the 7 lift stations owned by the Commission.

Of the 7 lift stations owned by the Commission, 3 were part of the existing Waskasoo system that was purchased by the Commission and 4 have been constructed by the Commission, coming into service progressively during 2013 - 2015.

Pipelines consist of the Waskasoo system which runs from Springbrook to the wastewater treatment facility in the City of Red Deer and the Regional Line which include segments the Innisfail to Springbrook line and the Innisfail to Olds line. The Innisfail to Springbrook line came into service early in 2013 and the Innisfail to Olds line in late 2013.

Construction in Progress includes projects which have commenced but which were not completed as at December 31, 2020. No amortization of these assets has been recorded as the assets are still under development.

During the year, the Commission acquired tangible capital assets at an aggregate cost of \$1,421,460 (2019 - \$766,080) and disposed of tangible capital assets with a net book value of \$357,050 (2019 - \$0) for proceeds of \$0 (2019 - \$0). Of the additions \$548,221 (\$0 in 2019) are considered non-cash as the amounts are still in payables at year end.

Refer to Schedule 1 for the Schedule of Tangible Capital Assets.

13. Related party transactions

Town of Bowden, Town of Innisfail, Town of Olds, Town of Penhold, Mountain View County and Red Deer County are members of the Commission and, as such, have been identified as related parties.

	2020	2019
	\$	\$
Accounts receivable		
Town of Penhold	102,599	100,236
Town of Bowden	27,021	46,774
Town of Olds	403,690	428,248
Town of Innisfail	334,094	452,024
Red Deer County	233,715	237,553
Mountain View County	1,485	4,231
	<u>1,102,604</u>	<u>1,269,066</u>
 Trade payables & accrued liabilities		
Town of Penhold	11,798	-
Town of Bowden	1,772	-
Town of Innisfail	822	-
Red Deer County	207	481
	<u>14,599</u>	<u>481</u>
 Transmission services		
Town of Penhold	670,876	601,376
Town of Bowden	490,714	326,908
Town of Olds	3,083,335	2,958,402
Town of Innisfail	2,364,051	2,040,026
Red Deer County	1,589,535	1,479,001
Mountain View County	12,461	19,658
	<u>8,210,972</u>	<u>7,425,371</u>
 Operating expenses		
Town of Penhold	210,461	10,572
Town of Bowden	22,144	-
Town of Olds	30,989	-
	<u>263,594</u>	<u>10,572</u>

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13. Related party transactions *(continued from previous page)*

The Commission recovers governance and administration expense through rates. Members of the management team (Racin Management Consulting Inc. and MPM Services) were paid \$266,517 (2019 - \$246,642) for services they provided.

Unless specifically indicated all transactions with related parties are at fair market value.

Transmission services revenue is based on actual service utilization during the year.

These transactions and others noted above were considered to be in the normal course of operations and measured at the exchange amount, which is the amount established and agreed to by the related parties.

14. Equity in tangible capital assets

	2020	2019
	\$	\$
Tangible capital assets <i>(schedule 1)</i>	130,765,865	129,803,234
Accumulated amortization <i>(schedule 1)</i>	(18,285,382)	(15,580,693)
Long term debt <i>(note 9)</i>	(12,559,264)	(13,049,982)
Total	99,921,219	101,172,559

15. Accumulated surplus

Accumulated surplus consists of restricted and unrestricted amounts and equity in tangible capital assets as follows:

	2020	2019
	\$	\$
Unappropriated operating equity	1,331,165	2,503,897
Operating reserves <i>(note 11)</i>	1,169,606	1,019,606
Capital reserves <i>(note 11)</i>	998,928	1,636,388
Operating deficit on internally funded tangible capital assets <i>(note 8)</i>	(2,036,355)	(2,036,355)
Equity in tangible capital assets <i>(note 14)</i>	99,921,219	101,172,559
	101,384,563	104,296,095

16. Financial instruments

All financial instruments are initially measured at fair value and subsequently measured at fair value, cost or amortized cost.

The Commissions' financial instruments measured at fair value are cash and cash equivalents and investments. The Commission's financial instruments measured at cost or amortized cost are accounts receivable, trade payables and accrued liabilities and long-term debt.

It is management's opinion that the Commission is not exposed to significant price, credit, liquidity or cash flow risks arising from these financial instruments. The risk is detailed below.

The Commission is exposed to interest rate price risk as temporary investments and long-term debt bear interest at fixed interest rates. Interest rate price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Commission is exposed to credit risk as it grants credit to its customers in the normal course of business. This risk is largely mitigated since the majority of receivables are generated from other governments or government related parties. Financial instruments that potentially subject the Commission to concentrations of credit risk are accounts receivable. The Commission believes that there is minimal risk associated with the collection of these amounts.

**SOUTH RED DEER REGIONAL WASTEWATER COMMISSION
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17. Commitments

The Commission has entered into several agreements for purposes of managing the operations of the Commission as well as for planning the construction of the wastewater transmission line. The following agreements are in effect:

Administrative Services

The Commission has entered into a contract with Racin Management Consulting Inc. to provide management services and act as the Chief Administrative Officer of the Commission from December 11, 2020 to June 30, 2022. The contract initially provided for payment of service fees of \$120 per hour from the period July 1, 2018 - June 30, 2020, and \$125 per hour from the period July 1, 2020 to June 30, 2022. Per the contract, \$125 per hour for special projects and project management above and beyond the scope of administrative services which must be approved by the board. The contract may be terminated by either party on 8 weeks notice.

The Commission remains contracted into a lease agreement for office rental in the amount of \$24,000 for 2021 and \$4,000 in 2022.

Operations

The Commission has an energy services agreement with Unified Energy (8760) Ltd. to provide electricity and natural gas for the Commission. The agreement was effective September 1, 2013, for an initial term of three years and can be extended beyond the initial term if the Commission continues to use the service. The fees for the services include monthly management fees of \$1.50 per megawatt hour of electricity and \$0.15 per gigajoule of natural gas, and additional expenses for the Commission's electricity consumption. Under this contract the Commission had a total electricity and natural gas cost in 2020 of \$471,403 (2019 - \$400,855). For expenditures under this contract, the Commission has budgeted \$400,146 for 2020 (2019 - \$537,000).

Capital Projects

Regional System Project

There remains one expropriation action in which the compensation for land taken has not been finalized.

Waskasoo System

Following completion of the Region System in 2015, the Commission began funding capital deficiencies identified in the 2017 Engineering Evaluation of the Waskasoo System. The Commission has completed upgrades of the control systems and replaced the emergency generators at each of the three Waskasoo lift stations, and also replaced a portion of the Waskasoo transmission line at Willow Street. As of December 31, 2020, the Willow Street project was complete, with approximately \$30,000 of remaining work to finish related to final clean-up in the spring. As well, the Commission has budgeted for \$220,000 in 2021 and \$1,067,500 in 2022 for the Waskasoo system.

Equalization Storage

The development of equalization storage at the Bowden and Innisfail Lift Stations was initially planned as part of the original Regional System Project but was deferred for lack of funding approval. Equalization storage would provide a temporary storage area for wastewater volume where the capacity of the Regional System is unable to meet peak flows arising from storm events or where there is an interruption in the operation of the System. The estimated cost for fully developing the two storage areas is \$1.31 Million. A party was engaged in December 2020 to construct the Bowden storage pond for an estimated cost of \$329,000, the work for which commenced in January 2021. This will be funded by a grant from the Green Infrastructure Project.

Contract Operations

The Commission has entered into contract operating agreements with the Town of Olds, Bowden, Innisfail, and Penhold to allow for continuous operation of the pipeline. Specifically, the Town operations services will provide operating, maintenance and related services to maintain operations. Each of the agreements will be for the duration of January 1, 2021 to December 31, 2023.

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18. Economic dependence

The Commission's primary source of funding is provincial government capital grants. The grant funding is under a cost sharing arrangement where the province pays 90% of the cost and the Commission 10%. The Commission's ability to maintain viable operations is dependent upon receiving additional provincial government grant funding to levels allowing for completion of the entire wastewater system.

The Commission receives almost all of its operating income from six member municipalities (note 13). The Commission is dependent on the continued participation of its members.

19. Budget information

The disclosed budget information has been approved by the board, but expenditures have been reclassified in certain areas for comparability and reconciled to the same basis as financial reporting.

	2020
	\$
Total expenses per budget	7,666,834
Amortization per budget table 6.5	2,694,981
Budgeted debt repayments	(863,249)
Add: interest payments included in budgeted debt repayments	399,866
Less: reserve transfer	(1,004,608)
Less: capital projects	-
Reconciled budgeted expenditures	8,893,824

20. Contingencies

In the normal conduct of operations, there are pending claims by and against the Commission. Litigation is subject to many uncertainties. In the opinion of management, based on the advice and information provided by its legal counsel, it is not possible to predict the ultimate outcome of these claims or to estimate the gain or loss, if any, which may result.

As identified in note 17, there remains one expropriation action for which a settlement has not been achieved. The potential exposure to loss is not determinable at this time.

21. Asset retirement obligation

An asset retirement obligation is a legal obligation associated with the retirement of a tangible long-lived asset that an entity is required to settle as a result of an existing or enacted law, statute, ordinance or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. The Commission has developed the Regional System with pipelines and lift Stations to transport wastewater from the Members to the City of Red Deer for treatment. As well, the Commission operates the Waskasoo System, an existing system with transmission pipelines and lift stations. This System had been in operation for over two decades and was acquired by the Commission shortly after formation. The Regional Line and the Waskasoo Line constitute tangible long-lived assets that are required to settle in reclamation.

In that the infrastructure of the Regional Line has just been constructed and has an expected asset life ranging from 25 to 70 years depending on the component, the level of reclamation required cannot be determined as at December 31, 2020.

22. Emerging Risk

The recent outbreak of the coronavirus (COVID-19) may affect the Commission's operations. A novel strain of the coronavirus emerged in December 2019, and the virus has spread to Canada. The extent to which the coronavirus impacts the Commission's operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. In particular, the continued spread of the coronavirus could materially and adversely impact operations, including without limitation, contractor health and productivity, and collectibility of accounts receivable. These factors may have a material and adverse effect on the Commission, its financial condition and results of operations.

23. Approval of financial statements

These financial statements were approved by the Board and management.