

**WEST INTER LAKE DISTRICT REGIONAL
WATER SERVICES COMMISSION**

ALBERTA BEACH, ALBERTA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

INDEPENDENT AUDITORS' REPORT

To the Members of the West Inter Lake District Regional Water Services Commission

Opinion

We have audited the financial statements of the West Inter Lake District Regional Water Services Commission (the "Commission"), which comprise the statement of financial position as at December 31, 2019, and the statements of operations and accumulated surplus, changes in net financial debt and 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 the results of its operations and accumulated surplus and the changes in its net financial debt and 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 *Auditors' 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 ethical responsibilities in accordance with these requirements. We believe 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 relating 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.

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Auditor's Responsibility 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 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 auditors' 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 auditors' 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.

METRIX GROUP LLP

Chartered Professional Accountants

Edmonton, Alberta
May 20, 2020

WEST INTER LAKE DISTRICT REGIONAL WATER SERVICES COMMISSION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

	<u>2019</u>	<u>2018</u>
FINANCIAL ASSETS		
Cash	\$ 2,379,472	\$ 244,882
Accounts receivable	204,071	474,948
Goods and Services Tax receivable	169,743	288,733
Government grants receivable	<u>3,405,979</u>	<u>2,602,586</u>
	<u>6,159,265</u>	<u>3,611,149</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	1,578,723	1,162,115
Deferred revenue (Note 5)	3,357,042	1,669,476
Long-term debt (Note 6)	<u>3,166,938</u>	<u>3,264,224</u>
	<u>8,102,703</u>	<u>6,095,815</u>
NET FINANCIAL DEBT	<u>(1,943,438)</u>	<u>(2,484,666)</u>
NON-FINANCIAL ASSETS		
Tangible Capital Assets (Note 3)	41,313,534	39,338,130
Prepaid expenses	<u>19,125</u>	<u>17,989</u>
	<u>41,332,659</u>	<u>39,356,119</u>
ACCUMULATED SURPLUS (Note 7)	\$ <u>39,389,221</u>	\$ <u>36,871,453</u>

CONTINGENT LIABILITIES (Note 13)

ON BEHALF OF THE COMMISSION:

_____ Chairman

_____ Treasurer

WEST INTER LAKE DISTRICT REGIONAL WATER SERVICES COMMISSION

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>2019</u>	<u>2018</u>
Revenue		
Government transfers for capital	\$ 3,242,121	\$ 6,392,229
Water sales	966,953	804,371
Requisitions from members	<u>263,719</u>	<u>425,637</u>
	<u>4,472,793</u>	<u>7,622,237</u>
Expenses		
Water purchases	611,532	529,015
System operations	155,894	152,196
Repairs and maintenance	124,884	60,628
Interest on long-term debt	109,083	196,237
Utilities	99,595	74,687
Administration	34,147	30,503
Management	32,000	30,000
Fill station processing fees	27,290	23,637
Insurance	22,915	17,406
Communications	14,083	14,402
Professional fees	11,050	9,500
Board honorariums and expenses	4,997	-
Office	3,693	3,576
Telephone	1,800	1,800
Bank charges	68	52
Amortization of tangible capital assets	<u>701,994</u>	<u>658,005</u>
	<u>1,955,025</u>	<u>1,801,644</u>
Excess of Revenue Over Expenses	2,517,768	5,820,593
Accumulated Surplus, Beginning of Year	<u>36,871,453</u>	<u>31,050,860</u>
Accumulated Surplus, End of Year	<u>\$ 39,389,221</u>	<u>\$ 36,871,453</u>

WEST INTER LAKE DISTRICT REGIONAL WATER SERVICES COMMISSION

STATEMENT OF CHANGES IN NET FINANCIAL DEBT

FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>2019</u>	<u>2018</u>
Excess of Revenue Over Expenses	\$ 2,517,768	\$ 5,820,593
Acquisition of tangible capital assets	(2,677,398)	(4,447,050)
Amortization of tangible capital assets	701,994	658,005
Acquisition of prepaid expenses	<u>(1,136)</u>	<u>(7,337)</u>
Increase in Net Financial Debt	541,228	2,024,211
Net Financial Debt, Beginning of Year	<u>(2,484,666)</u>	<u>(4,508,877)</u>
Net Financial Debt, End of Year	<u>\$ (1,943,438)</u>	<u>\$ (2,484,666)</u>

WEST INTER LAKE DISTRICT REGIONAL WATER SERVICES COMMISSION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>2019</u>	<u>2018</u>
Operating Activities		
Excess of revenue over expenses	\$ 2,517,768	\$ 5,820,593
Amortization of tangible capital assets	701,994	658,005
Change in non-cash working capital balances related to operations:		
Accounts receivable	270,877	(199,255)
Goods and Services Tax receivable	118,990	252,332
Government grant receivable	(803,393)	405,990
Accounts payable and accrued liabilities	416,607	(3,575,121)
Deferred revenue	1,687,566	(15,322)
Prepaid expenses	(1,136)	(7,337)
	<u>4,909,273</u>	<u>3,339,885</u>
Financing Activities		
Repayment of long-term debt	(97,285)	(865,358)
Long-term debt proceeds	<u>-</u>	<u>2,000,000</u>
	<u>(97,285)</u>	<u>1,134,642</u>
Investing Activities		
Purchase of tangible capital assets	<u>(2,677,398)</u>	<u>(4,447,050)</u>
Change in Cash During the Year	2,134,590	27,477
Cash, Beginning of Year	<u>244,882</u>	<u>217,405</u>
Cash, End of Year	\$ <u>2,379,472</u>	\$ <u>244,882</u>

WEST INTER LAKE DISTRICT REGIONAL WATER SERVICES COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

1. NATURE OF THE ORGANIZATION

The Commission is constituted under the *Municipal Government Act* and was approved by the Minister of Municipal Affairs on October 1, 2008, O.C. 463/2008, for the purpose of providing and operating a water supply system.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

These financial statements have been prepared in accordance with Canadian public sector accounting standards for local governments established by the Canadian Public Sector Accounting Board.

(b) Revenue Recognition

Water sales are recognized in the period in which the service is delivered or in which the transactions or events occurred that gave rise to the revenue.

Government transfers are recognized as revenues when the transfer is authorized, any eligibility criteria are met, and reasonable estimates of the amounts can be made. Government transfers are recognized as deferred revenue when amounts have been received but not all eligibility criteria have been met.

Investment income is recognized as revenue when earned.

(c) Cash

Cash includes chequing and savings accounts that are readily converted into known amounts of cash and are subject to an insignificant change in value.

(d) Tangible Capital Assets

Tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Engineered structures	60 years
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Tangible capital assets are written down when conditions indicate that they no longer contribute to the Commission's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as an expense in the statement of operations.

(e) Measurement Uncertainty

The preparation of the financial statements in accordance with Canadian public sector accounting standards, requires management to make estimates regarding significant items such as allowances for uncollectible receivables, amounts relating to impairment assessments and amortization of tangible capital assets that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

WEST INTER LAKE DISTRICT REGIONAL WATER SERVICES COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2019

3. TANGIBLE CAPITAL ASSETS

	<u>Balance</u> <u>Beginning of year</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>End of year</u>
Cost				
Engineered Structures	\$ 40,478,018	\$ 2,677,398	\$ -	\$ 43,155,416
Land	<u>88,960</u>	<u>-</u>	<u>-</u>	<u>88,960</u>
	40,566,978	2,677,398	-	43,244,376
Accumulated Amortization				
Engineered Structures	<u>1,228,848</u>	<u>701,994</u>	<u>-</u>	<u>1,930,842</u>
Net Book Value	<u>\$ 39,338,130</u>	<u>\$ 3,379,392</u>	<u>\$ -</u>	<u>\$ 41,313,534</u>

Cost includes construction in progress amounts of \$1,035,808 (2018 - \$997,734) on which no amortization expense has been recorded. Amortization will begin in the period in which the asset is complete and in use.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2019</u>	<u>2018</u>
Trade payables	\$ 939,824	\$ 227,454
Holdbacks payable	610,000	897,800
Interest payable	20,399	20,979
Accrued liabilities	<u>8,500</u>	<u>15,882</u>
	<u>\$ 1,578,723</u>	<u>\$ 1,162,115</u>

5. DEFERRED REVENUE

Deferred revenue consists of the following amounts, which have been restricted by third parties for a specified purpose. These amounts are recognized as revenue in the period in which the related expenses are incurred.

	<u>2019</u>	<u>2018</u>
Federal Water Line Grant	\$ 1,650,329	\$ 1,669,476
Provincial Water Line Grants	<u>1,706,713</u>	<u>-</u>
	<u>\$ 3,357,042</u>	<u>\$ 1,669,476</u>

WEST INTER LAKE DISTRICT REGIONAL WATER SERVICES COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2019

6. LONG-TERM DEBT

	<u>2019</u>	<u>2018</u>
Debt held by Alberta Capital Finance Authority, repayable in semi-annual installments of \$59,080 including interest at 3.304%; due March 15, 2043.	\$ 1,920,581	\$ 1,973,960
Debt held by Alberta Capital Finance Authority, repayable in semi-annual installments of \$44,394 including interest at 3.508%; due June 16, 2039.	<u>1,246,357</u>	<u>1,290,264</u>
	<u>\$ 3,166,938</u>	<u>\$ 3,264,224</u>

Future principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 100,617	\$ 106,331	\$ 206,948
2021	104,064	102,885	206,949
2022	107,628	99,320	206,948
2023	111,314	95,634	206,948
2024	115,127	91,821	206,948
Thereafter	<u>2,628,188</u>	<u>845,207</u>	<u>3,473,395</u>
	<u>\$ 3,166,938</u>	<u>\$ 1,341,198</u>	<u>\$ 4,508,136</u>

Debt is repayable to Alberta Capital Finance Authority and is issued on the credit and security of the Commission at large.

7. ACCUMULATED SURPLUS

	<u>2019</u>	<u>2018</u>
Unrestricted surplus	\$ 1,842,625	\$ 1,845,112
Restricted surplus	10,000	10,000
Equity in tangible capital assets (Note 8)	<u>37,536,596</u>	<u>35,016,341</u>
	<u>\$ 39,389,221</u>	<u>\$ 36,871,453</u>

8. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2019</u>	<u>2018</u>
Tangible capital assets (Note 3)	\$ 43,244,376	\$ 40,566,978
Accumulated amortization (Note 3)	(1,930,842)	(1,228,848)
Long-term debt (Note 6)	(3,166,938)	(3,264,224)
Payables related to tangible capital assets	<u>(610,000)</u>	<u>(1,057,565)</u>
	<u>\$ 37,536,596</u>	<u>\$ 35,016,341</u>

WEST INTER LAKE DISTRICT REGIONAL WATER SERVICES COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2019

9. RELATED PARTY TRANSACTIONS

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

Amounts receivable from Commission members at year end is \$151,131 (2018 - \$247,151).

Requisition revenue from Commission members was \$263,719 (2018 - \$425,637).

Water sales to Commission members was \$598,543 (2018 - \$585,256).

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.

10. DEBT LIMITS

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

	<u>2019</u>	<u>2018</u>
Total debt limit	\$ 2,461,344	\$ 2,460,016
Total debt	<u>3,166,938</u>	<u>3,264,224</u>
Unused debt limit	\$ <u>(705,594)</u>	\$ <u>(804,208)</u>
Service on debt limit	\$ 430,735	\$ 430,503
Service on debt	<u>206,948</u>	<u>206,949</u>
Unused service on debt limit	\$ <u>223,787</u>	\$ <u>223,554</u>

The debt limit is calculated at 2 times revenue of the Commission (as defined in the Alberta Regulation 76/2000) and the debt service limit is calculated as 0.35 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Alberta Municipal Affairs. The Commission has obtained the required approval from the Minister of Alberta Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify Commissions that could be at a 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.

11. CREDIT FACILITIES

The Commission has an authorized revolving operating loan with a limit of \$500,000 and a non-revolving term loan with a limit of \$6,700,000. There are no balances outstanding at December 31, 2019.

WEST INTER LAKE DISTRICT REGIONAL WATER SERVICES COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2019

12. FINANCIAL INSTRUMENTS

The Commission's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and long-term debt. It is management's opinion that the Commission is not exposed to significant interest rate, liquidity, currency, credit, market or other price risk arising from these financial instruments. Unless otherwise noted, the fair values of these financial instruments approximates their carrying values.

13. CONTINGENT LIABILITIES

Legal Claims:

As of December 31, 2019 the Commission was involved in legal disputes related to the construction of the water line. It is not possible to estimate the outcome of these disputes at December 31, 2019.

14. SUBSEQUENT EVENT

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization and on March 17, 2020 the Province of Alberta declared a public health emergency. Many businesses and individuals in a variety of sectors may experience an economic loss due to COVID-19 which may have a financial impact on the Commission. An estimate of the potential financial impact cannot be made at this time.