

Financial Statements of
ALBERTA CAPITAL REGION WASTEWATER COMMISSION
December 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Members of Alberta Capital Region Wastewater Commission

We have audited the accompanying financial statements of Alberta Capital Region Wastewater Commission ("the Commission"), which comprise the statement of financial position as at December 31, 2012, the statements of operations, change in net financial assets (debt), and cash flows for the year then ended, and notes, comprising 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 these 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.

Auditors' 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 our 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, we consider 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 the Commission as at December 31, 2012, and the results of its operations, changes in its net financial assets (debt), and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

March 15, 2013
Edmonton, Canada

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)

	2012	2011
FINANCIAL ASSETS		
Cash	\$ 3,025	\$ 5,278
Receivables from Commission members	1,721	1,783
Other receivables	602	982
Investments (Note 4)	11,648	5,488
	<u>16,996</u>	<u>13,531</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	4,275	3,695
Debt (Notes 5,11)	27,070	16,936
Other liabilities	599	278
	<u>31,944</u>	<u>20,909</u>
NET FINANCIAL ASSETS (DEBT)	<u>(14,948)</u>	<u>(7,378)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 6)	156,361	148,857
Inventory held for consumption	322	299
Prepaid expenses	101	122
	<u>156,784</u>	<u>149,278</u>
ACCUMULATED SURPLUS (Note 7)	<u>\$ 141,836</u>	<u>\$ 141,900</u>
Contractual commitments (Note 9)		

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)

	2012 Actual	2012 Budget	2011 Actual
	(unaudited)		
REVENUES			
Treatment charges from Commission members	\$ 25,357	\$ 26,289	\$ 24,194
Investment income	205	84	204
Government transfers	8	-	1,066
Other revenue	101	82	113
Total revenues	<u>25,671</u>	<u>26,455</u>	<u>25,577</u>
EXPENSES (Note 8)			
Plant/pump station	22,907	21,218	19,953
Administration	1,825	1,965	1,720
Engineering	859	908	837
Board	144	161	128
Total expenses	<u>25,735</u>	<u>24,252</u>	<u>22,638</u>
ANNUAL SURPLUS (DEFICIT) BEFORE THE UNDERNOTED	<u>(64)</u>	<u>2,203</u>	<u>2,939</u>
Contributed tangible capital assets	-	-	1,595
ANNUAL SURPLUS (DEFICIT)	<u>(64)</u>	<u>2,203</u>	<u>4,534</u>
Accumulated surplus at beginning of year	<u>141,900</u>	<u>141,900</u>	<u>137,366</u>
Accumulated surplus at end of year	<u><u>141,836</u></u>	<u><u>144,103</u></u>	<u><u>141,900</u></u>

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (DEBT)
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)

	2012 Actual	2012 Budget	2011 Actual
		(unaudited)	
Annual surplus (deficit)	\$ (64)	\$ 2,203	\$ 4,534
Acquisition of tangible capital assets	(14,397)	(17,615)	(16,477)
Contributed tangible capital assets	-	-	(1,595)
Amortization of tangible capital assets	6,360	5,000	4,666
Loss on disposal of tangible capital assets	217	-	613
Write down on tangible capital assets	316	-	-
Change in inventory held for consumption	(23)	-	(26)
Change in prepaid expenses	21	-	19
 Change in net financial assets (debt)	 (7,570)	 (10,412)	 (8,266)
 Net financial assets (debt) at beginning of year	 (7,378)	 (7,378)	 888
 Net financial assets (debt) at end of year	 \$ (14,948)	 \$ (17,790)	 \$ (7,378)

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)

	<u>2012</u>	<u>2011</u>
Cash flows from operating transactions		
Cash receipts from members, government transfers and other	\$ 26,137	\$ 24,416
Cash paid to suppliers and employees	(17,325)	(15,096)
Interest received	205	210
Interest on debt	(847)	(751)
	<u>8,170</u>	<u>8,779</u>
 Cash flows from capital transactions		
Aquisition of tangible capital assets	<u>(14,397)</u>	<u>(16,477)</u>
 Cash flows from investing and financing transactions		
Decrease (increase) in investments	(6,160)	6,740
Proceeds from debt	12,000	5,000
Repayment of debt	(1,866)	(1,499)
	<u>3,974</u>	<u>10,241</u>
 Increase (decrease) in cash	 (2,253)	 2,543
 Cash, beginning of year	 <u>5,278</u>	 <u>2,735</u>
 Cash, end of year	 <u>\$ 3,025</u>	 <u>\$ 5,278</u>

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)

1. NATURE OF THE ORGANIZATION

The Alberta Capital Region Wastewater 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 Canada Income Tax Act.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared 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 and/or creation of a legal obligation to pay.

Investments

Investments consist of bankers acceptances, guaranteed investment certificates, deposits and bonds 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 income 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, 2012
(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, are 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 which 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 and replacement cost. Inventory items issued out are expensed to materials, goods and supplies. The cost of inventory is assigned by using the first-in-first-out cost formula.

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.

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)

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. Management estimates the fair value of debt approximates the carrying value due to the nature of the debt with Alberta Capital Finance Authority. Unless otherwise noted, the fair value of these financial instruments approximates their carrying value.

4. INVESTMENTS

Investments consist of term deposits which bear interest at rates ranging from 1.15% to 1.4% (2011- 1.15% to 5.1%) with maturities ranging from January 15, 2013 to November 15, 2015 (2011- November 7, 2012 to November 17, 2014).

5. DEBT

	2012	2011
Debenture payable to Alberta Capital Finance Authority, due in annual installments of \$60 including principal and interest, bears interest at 5.5% and matures December 15, 2013.	\$ 57	\$ 110
Debenture payable to Alberta Capital Finance Authority, due in annual installments of \$346 including principal and interest, bears interest at 5.375% and matures December 15, 2018.	1,734	1,974
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.	2,127	2,393
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.	2,788	3,114
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.	3,038	3,398
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.	878	974
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.	4,611	4,873
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	5,837	-
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 15, 2027	6,000	-
	\$27,070	\$16,936

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)

5. DEBT (continued)

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

	Principal	Interest	Total
2013	2,345	993	3,338
2014	2,384	894	3,278
2015	2,485	793	3,278
2016	2,590	688	3,278
2017	2,700	578	3,278
Balance to Maturity	14,566	1,907	16,473
	\$27,070	\$5,853	\$32,923

The Commission has a demand operating line of credit available for use, up to a maximum of \$500, bearing interest at prime rate and is unsecured. As at December 31, 2012 nil (2011 - nil) was drawn against the available operating line of credit.

6. TANGIBLE CAPITAL ASSETS

	Land	Engineering Structures	Machinery & Equipment	2012 Totals	2011 Totals
Cost:					
Balance at beginning of year	\$ 2,207	\$ 237,519	\$1,925	\$ 241,651	\$ 224,744
Additions	-	14,354	43	14,397	16,477
Disposals	-	(285)	-	(285)	(1,165)
Write down of tangible capital assets	-	(316)	-	(316)	-
Contributed tangible capital assets	-	-	-	-	1,595
Cost at end of year	2,207	251,272	1,968	255,447	241,651
Accumulated amortization:					
Balance at beginning of year	-	91,323	1,471	92,794	88,680
Amortization in the year	-	6,260	100	6,360	4,666
Accumulated amortization disposals	-	(68)	-	(68)	(553)
Accumulated amortization end of year	-	97,515	1,571	99,086	92,794
Net book value	\$ 2,207	\$ 153,757	\$ 397	\$ 156,361	\$ 148,857

The net book value of tangible capital assets includes \$25,115 (\$11,710 in 2011) related to engineering structures under construction and not amortized in the period. Contributed tangible capital assets in 2012 were nil (\$1,595 in 2011). This non-cash transaction is not reflected in the Statement of Cash Flows.

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)

7. ACCUMULATED SURPLUS

Accumulated surplus consists of individual fund surpluses and reserves as follows:

	2012	2011
Reserves		
Capital	\$ 9,978	\$ 7,528
Rate stabilization	2,567	2,451
	<u>12,545</u>	<u>9,979</u>
Investment in tangible capital assets	<u>129,291</u>	<u>131,921</u>
Total accumulated surplus	<u>\$141,836</u>	<u>\$141,900</u>

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 Rate Stabilization Reserve are contributed to the Capital Reserve.

The Rate Stabilization 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 maximum balance of 10% of annual gross revenue. Increases to the reserve are funded from the annual surplus.

8. EXPENSES BY OBJECT

	2012 Actual	2012 Budget	2011 Actual
		(unaudited)	
Salaries and benefits	\$ 4,546	\$ 4,619	\$ 4,210
Contracted and general services	10,224	10,458	9,510
Materials, goods and supplies	918	1,102	858
Utilities	2,224	2,015	2,030
Interest	930	1,058	751
Amortization	6,360	5,000	4,666
Loss on disposal of tangible capital assets	217	-	613
Write down of tangible capital assets	316	-	-
	<u>\$ 25,735</u>	<u>\$ 24,252</u>	<u>\$ 22,638</u>

9. CONTRACTUAL COMMITMENTS

In 2002, the Commission entered into a biosolids management contract with the City of Edmonton. This agreement expires in 2013.

In 2008, the Commission entered into the Regional Wastewater Exchange Agreement with the City of Edmonton. This agreement expires in 2028.

**ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)**

9. CONTRACTUAL COMMITMENTS (continued)

In 2010, the Commission entered into a five year contract with four, one year extensions with Instinct Trucking to haul sludge. This contract expires in 2015.

In 2009, the Commission entered into a contract with Nexen Marketing to supply electricity and natural gas. This agreement expires in 2013.

In 2011, the Commission entered into a cost sharing (50/50) agreement with the Town of Morinville for the upgrade to the Morinville pump station and lagoon. Substantial completion expected in 2013.

In 2012, the Commission entered into a cost sharing (65/35) agreement with the Town of Beaumont for the Beaumont Line Twinning project. Substantial completion expected in 2013.

As of December 31, 2012 the Commission has contractual commitments of \$41,449 with \$22,259 of work still outstanding for the following projects:

- Clarifier 5&7 and UV 2 for \$19,000 with \$16,361 of work still outstanding. Substantial completion expected in 2015.
- St. Albert pump station upgrades for \$17,400 with \$2,944 of work still outstanding. Substantial completion expected in 2013.
- Digester mixing for \$4,129 with \$2,443 of work still outstanding. Substantial completion expected in 2013.
- Beaumont line twinning for \$158 with \$30 of work still outstanding. Substantial completion expected in 2013.
- Northwest hydraulics model study for \$150 with \$79 of work still outstanding. Substantial completion expected in 2013.
- Morinville pump station upgrade for \$267 with \$124 of work still outstanding. Substantial completion expected in 2013.
- Gibbons PLC replacement for \$109 with \$108 of work still outstanding. Substantial completion expected in 2013.
- Boiler Replacement for \$236 with \$170 of work still outstanding. Substantial completion expected in 2014.

10. LOCAL AUTHORITIES PENSION PLAN

All eligible employees of the Alberta Capital Region Wastewater Commission participate in the Local Authorities Pension Plan under the Public Sector Pension Plans Act. Required contributions by the Commission to the Local Authorities Pension Plan are 9.91% (2011 – 9.49%) of pensionable earnings up to the year's pensionable earnings maximum under the Canada Pension Plan and 13.74% (2011 – 13.13%) on pensionable earnings above this amount. Employees are required to contribute 8.91% (2011 – 8.49%) of pensionable salary up to the year's maximum pensionable salary and 12.74% (2011 – 12.13%) 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 \$370 and \$337 respectively (2011 - \$336 by the Commission and \$305 from its employees).

At December 31, 2011, the LAPP disclosed an actuarial deficiency of \$4.6 Billion.

ALBERTA CAPITAL REGION WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in 000's)

11. DEBT LIMITS

Section 602.29 of the Municipal Government Act requires that the debt and debt limits as defined by Alberta Regulation 76/2000 for the Alberta Capital Region Wastewater Commission is disclosed as follows:

	2012	2011
Total debt limit	\$ 51,326	\$ 49,022
Total debt	27,070	16,936
Amount total debt limit remaining	<u>\$ 24,256</u>	<u>\$ 32,086</u>
Debt servicing limit	\$ 8,982	\$ 8,579
Debt servicing	<u>3,338</u>	<u>2,468</u>
Amount total debt servicing remaining	<u>\$ 5,644</u>	<u>\$ 6,111</u>

The debt limit represents two times the eligible revenue of the Commission, and the debt servicing represents 0.35 times the eligible revenue.

12. APPROVAL OF FINANCIAL STATEMENTS

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