

**CAPITAL REGION NORTHEAST
WATER SERVICES COMMISSION**

Financial Statements

For the Year Ended December 31, 2020

INDEPENDENT AUDITORS' REPORT

To the Members of Capital Region Northeast Water Services Commission

Opinion

We have audited the financial statements of Capital Region Northeast Water Services Commission (the Commission), which comprise the statement of financial position as at December 31, 2020, and the statements of operations and accumulated surplus, changes in net financial assets 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, 2020 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *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 other ethical responsibilities in accordance with those 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 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 (the Board) are responsible for overseeing the Commission's financial reporting process.

(continues)



Auditors' 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 auditors' 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 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

April 26, 2021

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Statement of Financial Position

As at December 31, 2020

	<u>2020</u>	<u>2019</u>
FINANCIAL ASSETS		
Cash and cash equivalents <i>(Note 2)</i>	\$ 13,512,644	\$ 11,490,658
Accounts receivable <i>(Note 3)</i>	<u>1,475,833</u>	<u>3,195,741</u>
	<u>14,988,477</u>	<u>14,686,399</u>
LIABILITIES		
Accounts payable and accrued liabilities	1,177,495	1,783,651
Long-term debt <i>(Note 4)</i>	<u>8,229,174</u>	<u>8,537,064</u>
	<u>9,406,669</u>	<u>10,320,715</u>
NET FINANCIAL ASSETS	<u>5,581,808</u>	<u>4,365,684</u>
NON-FINANCIAL ASSETS		
Tangible capital assets <i>(Schedule 2)</i>	34,501,853	32,911,839
Inventory for consumption	72,648	72,648
Prepaid expenses	<u>20,432</u>	<u>19,352</u>
	<u>34,594,933</u>	<u>33,003,839</u>
ACCUMULATED SURPLUS <i>(Schedule 1)</i>	<u>\$ 40,176,741</u>	<u>\$ 37,369,523</u>
Contingent liability <i>(Note 7)</i>		
Contractual obligations <i>(Note 8)</i>		

ON BEHALF OF THE BOARD:

_____ Director

_____ Director

The accompanying notes are an integral part of these financial statements.

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Statement of Operations and Accumulated Surplus

For the Year Ended December 31, 2020

	2020 (Budget) (Note 12)	2020 (Actual)	2019 (Actual)
WATER SALES (Note 5)	\$ 9,359,820	\$ 8,855,939	\$ 8,624,235
WATER PURCHASES			
EPCOR water purchases (Note 9)	6,005,000	5,421,187	5,541,328
Strathcona water purchases (Note 5)	355,950	325,464	245,281
	6,360,950	5,746,651	5,786,609
GROSS PROFIT (35%, 2019 - 33%)	2,998,870	3,109,288	2,837,626
EXPENSES			
Amortization of tangible capital assets	755,000	555,498	518,588
Interest on long-term debt	368,243	334,592	346,580
Operating contract (Note 8)	357,000	295,211	295,211
Contracted services	175,000	176,423	124,486
Engineering fees	150,000	159,212	68,247
Administration contract (Note 8)	146,000	148,499	152,322
Utilities	89,150	84,627	85,627
Other	44,100	41,576	27,289
Insurance	24,000	20,191	18,534
Training and conferences	15,000	13,614	7,024
Audit	14,000	12,500	11,200
Honourariums	15,500	12,247	8,812
Legal fees	28,000	11,996	12,995
Cathodic protection	50,000	8,953	32,950
Alberta One-Call maintenance	7,650	4,056	5,424
Records management supplies and storage	2,500	960	721
Bank charges	-	582	415
	2,241,143	1,880,737	1,716,425
ANNUAL SURPLUS BEFORE OTHER REVENUE	757,727	1,228,551	1,121,201
OTHER REVENUE			
Government transfers for capital	3,391,250	1,417,726	5,804,123
Transfer of tangible capital assets (Schedule 2)	-	-	2,819,801
Investment income	150,000	148,566	270,040
Other	2,000	4,500	2,360
Gain (loss) on disposal of tangible capital assets	-	7,875	(232,124)
	3,543,250	1,578,667	8,664,200
ANNUAL SURPLUS	4,300,977	2,807,218	9,785,401
ACCUMULATED SURPLUS, BEGINNING OF YEAR	37,369,523	37,369,523	27,584,122
ACCUMULATED SURPLUS, END OF YEAR	\$ 41,670,500	\$ 40,176,741	\$ 37,369,523

The accompanying notes are an integral part of these financial statements.

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Statement of Changes in Net Financial Assets

For the Year Ended December 31, 2020

	2020 (Budget) (Note 12)	2020 (Actual)	2019 (Actual)
ANNUAL SURPLUS	\$ 4,300,977	\$ 2,807,218	\$ 9,785,401
Acquisition of tangible capital assets	(4,807,866)	(2,145,512)	(9,587,438)
Amortization of tangible capital assets	755,000	555,498	518,588
Proceeds on disposal of tangible capital assets	-	7,875	-
Loss (gain) on disposal of tangible capital assets	-	(7,875)	232,124
	248,111	1,217,204	948,675
Acquisition (use) of prepaid expenses	-	(1,080)	(2,001)
INCREASE IN NET FINANCIAL ASSETS	248,111	1,216,124	946,674
NET FINANCIAL ASSETS - BEGINNING OF YEAR	4,365,684	4,365,684	3,419,010
NET FINANCIAL ASSETS - END OF YEAR	\$ 4,613,795	\$ 5,581,808	\$ 4,365,684

The accompanying notes are an integral part of these financial statements.

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION**Statement of Cash Flows****For the Year Ended December 31, 2020**

	2020	2019
OPERATING ACTIVITIES		
Annual surplus	\$ 2,807,218	\$ 9,785,401
Non-cash item not included in annual surplus:		
Contributed tangible capital assets	-	(2,819,801)
Amortization of tangible capital assets	555,498	518,588
Loss (gain) on disposal of tangible capital assets	(7,875)	232,124
	3,354,841	7,716,312
Changes in non-cash working capital balances related to operations:		
Accounts receivable	1,719,908	(2,306,894)
Accounts payable and accrued liabilities	(606,156)	1,137,874
Prepaid expenses	(1,080)	(2,001)
	1,112,672	(1,171,021)
Cash flow from operating activities	4,467,513	6,545,291
CAPITAL ACTIVITIES		
Purchase of tangible capital assets	(2,145,512)	(6,767,637)
Proceeds on disposal of tangible capital assets	7,875	-
Cash flow used by capital activities	(2,137,637)	(6,767,637)
FINANCING ACTIVITIES		
Repayment of long-term debt	(307,890)	(295,990)
CHANGE IN CASH AND CASH EQUIVALENTS DURING YEAR	2,021,986	(518,336)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,490,658	12,008,994
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 13,512,644	\$ 11,490,658

The accompanying notes are an integral part of these financial statements.

Schedule of Changes in Accumulated Surplus

For the Year Ended December 31, 2020

(Schedule 1)

	Equity in Tangible Capital Assets	Restricted Surplus (Note 6)	Unrestricted	2020	2019
BALANCE, BEGINNING OF YEAR	\$ 25,930,657	\$ 11,438,866	\$ -	\$ 37,369,523	\$ 27,584,122
Annual surplus	-	-	2,807,218	2,807,218	9,785,401
Amortization of tangible capital assets	(555,498)	-	555,498	-	-
Acquisition of tangible capital assets	2,145,512	-	(2,145,512)	-	-
Repayment of long-term debt	307,890	-	(307,890)	-	-
Utilization of debt for tangible capital assets	(67,710)	-	67,710	-	-
Net transfers to restricted surplus	-	977,024	(977,024)	-	-
BALANCE, END OF YEAR	\$ 27,760,851	\$ 12,415,890	\$ -	\$ 40,176,741	\$ 37,369,523

Schedule of Tangible Capital Assets

For the Year Ended December 31, 2020

(Schedule 2)

	Pre-1996 Pooled Assets	Engineered Structures	Machinery & Equipment	Land	Work in Progress	2020	2019
COST							
Balance, beginning of the year	\$ 4,543,595	\$ 30,814,477	\$ 1,525,085	\$ 2,625,817	\$ 601,651	\$ 40,110,625	\$ 31,027,515
Additions	-	2,134,295	11,217	-	-	2,145,512	9,587,438
Transfers	-	601,651	-	-	(601,651)	-	-
Disposals	-	-	(71,244)	-	-	(71,244)	(504,328)
Balance, end of year	4,543,595	33,550,423	1,465,058	2,625,817	-	42,184,893	40,110,625
ACCUMULATED AMORTIZATION							
Balance, beginning of year	4,543,595	1,888,831	766,360	-	-	7,198,786	6,952,402
Amortization	-	490,948	64,550	-	-	555,498	518,588
Disposals	-	-	(71,244)	-	-	(71,244)	(272,204)
Balance, end of year	4,543,595	2,379,779	759,666	-	-	7,683,040	7,198,786
NET BOOK VALUE	\$ -	\$ 31,170,644	\$ 705,392	\$ 2,625,817	\$ -	\$ 34,501,853	\$ 32,911,839
NET BOOK VALUE, 2019	\$ -	\$ 28,925,646	\$ 758,725	\$ 2,625,817	\$ 601,651	\$ -	\$ 32,911,839

Work in progress represents assets under construction which are not being amortized as they are not yet in service.

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Notes to Financial Statements

For the Year Ended December 31, 2020

NATURE OF THE ORGANIZATION

The Capital Region Northeast Water Services Commission (the Commission) commenced operation on September 1, 1984. It was established by the Province of Alberta under Section 602.02 of the *Municipal Government Act* to replace the Northeast Water Board. The Commission's main purpose is to supply water to its members and customers. The Commission is exempt from income tax under Section 149(1)(d) of the *Income Tax Act*.

The Commission's members are: the City of Fort Saskatchewan, the Towns of Redwater, Bon Accord, and Gibbons, as well as Sturgeon and Strathcona Counties.

The Commission also provides water to non-members such as the John S. Batiuk Regional Water Commission and Highway 28/63 Regional Water Services Commission.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Capital Region Northeast Water Services Commission are the representations of management, prepared in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Commission are as follows:

(a) *Reporting Entity*

The financial statements reflect the assets, liabilities, revenues and expenses, and changes in financial position of Capital Region Northeast Water Services Commission.

(b) *Basis of Accounting*

The basis of accounting followed in the financial statement presentation includes revenues recognized in the period in which the transactions or events occurred that gave rise to the revenues, and expenses recognized in the period the goods and services are acquired and a liability is incurred.

(c) *Use of Estimates*

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions regarding significant items such as amounts relating to amortization, impairment assessments of tangible capital assets, government contributions for capital, deferred revenue, and allowances for uncollectible receivables that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized above. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

(d) *Cash and cash equivalents*

Cash and cash equivalents includes items that are readily convertible to known amounts of cash, are subject to an insignificant risk of change in value, and have a maturity of one year or less at acquisition.

(continues)

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Notes to Financial Statements

For the Year Ended December 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) 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. The change in non-financial assets during the year, together with the annual surplus, provides the change in net financial assets for the year.

(f) Tangible Capital Assets

Tangible capital assets are stated at cost less accumulated amortization and any provision for impairment. Where an asset is disposed of, the gain or loss recognized in the statement of operations is calculated as the difference between the net sale price and the carrying amount of the fixed asset. Contributed assets are recorded at fair value at the date of contribution. Assets under construction are not amortized until the asset is put into use.

The cost, less the residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Machinery & Equipment	
Pumping equipment, control valves, parking lots	6.67%
Instrumentation equipment	5.00% - 10.00%
Computers and software	33.33%
Engineered Structures	
Pre 1996 engineered structures	5.00%
Pump houses, buildings & reservoirs	2.00% - 5.00%
Pipeline and appurtenances	1.33%

The Commission regularly reviews its tangible capital assets to eliminate obsolete items. In the year of acquisitions, full year rates are applied. In the year of disposal, no amortization is applied.

(g) Inventory for Consumption

Inventories held for consumption are recorded at the lower of cost and replacement cost.

(h) Revenue Recognition

Sales of water are recognized as revenue in the period in which the water is supplied to the customer.

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or 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.

Other revenues are recognized when earned.

(continues)

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Notes to Financial Statements

For the Year Ended December 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Restricted Surplus

Reserves are established at the discretion of the Board to set aside funds for the future operating expenses and capital purchases.

The Commission maintains a Rate Stabilization Reserve to manage and mitigate the impact of change in revenue requirements and therefore reduce the impact on rates charged from year-to-year.

The Commission maintains a Capital Reserve Fund to support a portion of future capital acquisition and development requirements in order to maintain an appropriate ratio of equity in tangible capital assets.

Other reserves established at the discretion of the Board include a Board development reserve fund and a water line infrastructure failure reserve.

(j) Contaminated Sites

Contaminated sites are defined as a result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. A liability for remediation on contaminated sites is recognized, net of any recoveries, when an environmental standard exists, contamination exceeds the environmental standard, the Commission is directly responsible for or accepts responsibility for the liability, future economic benefits will be given up, and a reasonable estimate of the liability can be made.

(k) New Accounting Standards not yet Adopted

Effective for fiscal years beginning on or after April 1, 2022, PS 3280 Asset Retirement Obligations provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

Effective for fiscal years beginning on or after April 1, 2023, PS 3400 Revenue provides guidance on how to account for and report revenue, and specifically, it addresses revenue arising from exchange transactions and non-exchange transactions.

2. CASH AND CASH EQUIVALENTS

	<u>2020</u>	<u>2019</u>
90 day notice on amount bank account	\$ 7,985,780	\$ 7,880,760
Savings bank account	2,186,549	2,165,316
Chequing bank account	3,340,315	1,444,582
	<u>\$ 13,512,644</u>	<u>\$ 11,490,658</u>

The Commission has established a demand loan facility with a maximum balance of \$175,000 bearing interest at prime rate. No funds were drawn against this facility at December 31, 2020 or December 31, 2019.

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Notes to Financial Statements

For the Year Ended December 31, 2020

3. RECEIVABLES

	<u>2020</u>	<u>2019</u>
Water sales (Note 5)	\$ 691,337	\$ 979,345
Government transfers	302,824	1,881,102
Goods and Services Tax	481,672	331,175
Accrued interest	-	3,119
Other	-	1,000
	<u>\$ 1,475,833</u>	<u>\$ 3,195,741</u>

4. LONG-TERM DEBT

	<u>2020</u>	<u>2019</u>
Government of Alberta debenture repayable in semi-annual installments of \$185,468 including interest at 4.046% maturing in September 2038.	\$ 4,709,954	\$ 4,884,996
Government of Alberta debenture repayable in semi-annual installments of \$136,908 including interest at 3.895% maturing in December 2038.	<u>3,519,220</u>	<u>3,652,068</u>
	<u>\$ 8,229,174</u>	<u>\$ 8,537,064</u>

Principal repayment terms are approximately:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 320,269	\$ 324,482	\$ 644,751
2022	333,145	311,606	644,751
2023	346,540	298,211	644,751
2024	360,473	284,278	644,751
2025	374,966	269,785	644,751
Thereafter	<u>6,493,781</u>	<u>1,887,991</u>	<u>8,381,772</u>
	<u>\$ 8,229,174</u>	<u>\$ 3,376,353</u>	<u>\$ 11,605,527</u>

The Commission's total cash payments for interest in 2020 was \$336,861 (2019 - \$348,761).

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Notes to Financial Statements

For the Year Ended December 31, 2020

5. RELATED PARTY TRANSACTIONS

The Commission's members are the City of Fort Saskatchewan, the Towns of Redwater, Bon Accord, and Gibbons, as well as Sturgeon and Strathcona Counties.

The Commission also provides water to non-members such as the John S. Batiuk Regional Water Commission and Hwy 28/63 Regional Water Services Commission.

	<u>2020</u>	<u>2019</u>
Water Sales		
<i>Members</i>		
City of Fort Saskatchewan	\$ 3,816,535	\$ 3,738,116
Sturgeon County	1,223,341	1,196,725
Town of Gibbons	409,169	402,822
Town of Redwater	317,418	304,755
Town of Bon Accord	202,996	208,249
Strathcona County	27,066	26,607
	<u>5,996,525</u>	<u>5,877,274</u>
<i>Non-Members</i>		
John S. Batiuk Regional Water Commission	2,257,666	2,187,665
Highway 28/63 Regional Water Services Commission	601,748	559,296
	<u>2,859,414</u>	<u>2,746,961</u>
	<u>\$ 8,855,939</u>	<u>\$ 8,624,235</u>

Water Purchases

The Commission also purchases water from Strathcona County as disclosed in the statement of operations and accumulated surplus.

Accounts Receivable

Accounts receivable includes \$474,527 (2019 - \$734,769) due from member municipalities.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities includes \$165,150 (2019 - \$54,128) due to member municipalities.

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Notes to Financial Statements

For the Year Ended December 31, 2020

6. RESTRICTED SURPLUS

The Board has internally restricted funds for future operating and capital purposes. These internally restricted amounts are not available for other purposes without the approval of the Board.

	<u>2020</u>	<u>2019</u>
Capital reserve	\$ 7,086,420	\$ 6,159,396
Rate stabilization reserve	5,001,470	5,001,470
Water line infrastructure failure reserve	250,000	200,000
Board development reserve	78,000	78,000
	<u>\$ 12,415,890</u>	<u>\$ 11,438,866</u>

7. CONTINGENT LIABILITY

The contractor responsible for the Heartland Regional Water Pipeline project has submitted claims of \$288,000 for amounts owing under the project contract and damages in the amount of \$3,950,000, interest and other costs. It is the Commission's position that the claim is without merit. A liability has not been recorded.

8. CONTRACTUAL OBLIGATIONS

The Commission has entered into administrative and operating contracts which expire December 31, 2023 and March 31, 2026, respectively. Future payments (excluding Goods and Services Tax) required under the terms of these agreements are as follows:

2021	\$ 442,589
2022	454,331
2023	462,666
2024	326,031
2025	326,031
Thereafter	81,951
	<u>\$ 2,093,599</u>

9. ECONOMIC DEPENDENCE

The Commission purchases substantially all of its water from Epcor Water Services Inc. under a long-term supply agreement expiring May 12, 2038. Purchases for the year ended December 31, 2020 were \$5,421,187 (2018 - \$5,541,328).

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Notes to Financial Statements

For the Year Ended December 31, 2020

10. FINANCIAL INSTRUMENTS

The Commission's financial instruments consist of cash and cash equivalents, 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 or currency risk arising from these financial instruments. Unless otherwise noted, the fair values of these financial instruments approximate their carrying values.

The Commission is exposed to credit risk with respect to trade and other receivables. Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their obligations. The number and diversity of customers minimizes the Commission's credit risk.

The Commission is exposed to interest rate price risk with respect to its long term debt and cash which bears interest at fixed interest rates. Interest rate price risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Commission manages exposure through its normal operating and financing activities.

11. DEBT LIMITS

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

	<u>2020</u>	<u>2019</u>
Total debt limit	\$ 18,018,009	\$ 17,793,270
Total debt	<u>(8,229,174)</u>	<u>(8,537,064)</u>
Total debt limit remaining	\$ 9,788,835	\$ 9,256,206
Service on debt limit	\$ 3,153,152	\$ 3,113,822
Service on debt	<u>(644,751)</u>	<u>(644,751)</u>
Total service on debt limit remaining	\$ 2,508,401	\$ 2,469,071

The debt limit is calculated at 2 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 limits requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify Commissions which could be a financial risk if further debt is acquired. The calculation taken alone does not represent the stability of the Commission. Rather, the financial statements must be interpreted as a whole.

CAPITAL REGION NORTHEAST WATER SERVICES COMMISSION

Notes to Financial Statements

For the Year Ended December 31, 2020

12. BUDGET FIGURES

	2020 (Budget)	2020 (Actual)
Annual surplus	\$ 4,300,977	\$ 2,807,218
Acquisition of tangible capital assets	(4,807,866)	(2,145,512)
Net transfers to restricted surplus	787,182	(977,024)
Repayment of long-term debt	(280,293)	(307,890)
	<u>\$ -</u>	<u>\$ (623,208)</u>

The budget data presented in these financial statements is based on the operating and capital budgets approved by the Commission Board on November 25, 2019. The table above reconciles the approved financial plan to the figures reported in these financial statements.

13. UNCERTAINTY DUE TO COVID-19

On March 11, 2020, the World Health Organization declared a global pandemic which has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused significant disruptions to businesses, governments, and other organizations resulting in an economic slow-down and increased volatility. Governments have responded with significant monetary and fiscal interventions designed to stabilize economic conditions.

While COVID-19 has not significantly impacted the Commission's operations or financial condition to date, the rapidly evolving event, including health and safety conditions, economic environment and resulting government measures, creates a high level of uncertainty and risk that may have a financial impact on the Commission's activities, operations and financial condition in the future.

14. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board and management.
