

FOOTHILLS REGIONAL SERVICES COMMISSION

FINANCIAL STATEMENTS

For the year ended December 31, 2017

FOOTHILLS REGIONAL SERVICES COMMISSION
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For the year ended December 31, 2017

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CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To: The Board of
Foothills Regional Services Commission

We have audited the accompanying financial statements of Foothills Regional Services Commission, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Foothills Regional Services Commission as at December 31, 2017 and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Lethbridge, Alberta

April 23, 2018

A handwritten signature in cursive script that reads "Avail LLP".

Chartered Accountants

FOOTHILLS REGIONAL SERVICES COMMISSION
STATEMENT OF FINANCIAL POSITION
As at December 31, 2017

	2017	2016
Financial assets		
Cash	\$ 4,052,907	\$ 5,174,928
Trade and other receivables (note 3)	492,265	359,458
Due from Commission members (note 4)	80,770	80,748
Investments (note 5)	14,212,782	11,209,794
	18,838,724	16,824,928
Liabilities		
Accounts payable and accrued liabilities	336,533	197,977
Landfill closure and post-closure liability (note 6)	1,875,020	1,857,253
Deferred revenue	3,509	2,936
Long-term debt (note 7)	334,809	371,809
	2,549,871	2,429,975
Net financial assets	16,288,853	14,394,953
Non-financial assets		
Prepaid expenses	23,080	23,709
Tangible capital assets (schedule 1)	9,010,414	8,995,130
	9,033,494	9,018,839
Accumulated surplus (note 8, schedule 2)	\$ 25,322,347	\$ 23,413,792

Approved on behalf of the board:

Member _____

Member _____

FOOTHILLS REGIONAL SERVICES COMMISSION
STATEMENT OF OPERATIONS
For the year ended December 31, 2017

	Budget (unaudited)	2017	2016
Revenue			
Landfill (schedule 3)	\$ 5,408,550	\$ 4,919,251	\$ 4,838,412
Frank Lake (schedule 4)	139,050	116,889	114,654
	5,547,600	5,036,140	4,953,066
Expenses			
Landfill (schedule 3)	3,576,344	2,909,733	2,895,930
Frank Lake (schedule 4)	232,050	217,852	215,445
	3,808,394	3,127,585	3,111,375
Excess of revenue over expenses	1,739,206	1,908,555	1,841,691
Accumulated surplus, beginning of year	23,413,792	23,413,792	21,572,101
Accumulated surplus, end of year	\$ 25,152,998	\$ 25,322,347	\$ 23,413,792

FOOTHILLS REGIONAL SERVICES COMMISSION
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
For the year ended December 31, 2017

	Budget (unaudited)	2017	2016
Excess of revenue over expenses	\$ 1,739,206	\$ 1,908,555	\$ 1,841,691
Acquisition of tangible capital assets	(1,343,000)	(1,129,028)	(304,675)
Amortization of tangible capital assets	739,621	785,739	762,192
Proceeds on disposal of tangible capital assets	-	371,500	72,475
Write-downs of tangible capital assets	-	(43,497)	(63,000)
	(603,379)	(15,286)	466,992
Net change in prepaid expenses	-	631	(720)
Change in net financial assets	1,135,827	1,893,900	2,307,963
Net financial assets, beginning of year	14,394,953	14,394,953	12,086,990
Net financial assets, end of year	\$ 15,530,780	\$ 16,288,853	\$ 14,394,953

FOOTHILLS REGIONAL SERVICES COMMISSION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2017

	2017	2016
Operating transactions		
Excess of revenue over expenses	\$ 1,908,555	\$ 1,841,691
Adjustments for items which do not affect cash		
Gain on disposal of tangible capital assets	(43,497)	(63,000)
Amortization of tangible capital assets	785,739	762,192
Closure and post closure costs	17,767	12,095
	2,668,564	2,552,978
Net change in non-cash working capital items		
Trade and other receivables	(132,807)	402,034
Due from Commission members	(17)	(13,182)
Prepaid expenses	629	(720)
Accounts payable and accrued liabilities	138,556	(124,538)
Deferred revenue	573	(4,599)
	2,675,498	2,811,973
Capital transactions		
Proceeds on disposal of tangible capital assets	371,500	72,475
Acquisition of tangible capital assets	(1,129,028)	(304,675)
	(757,528)	(232,200)
Investing transactions		
Change in investments	(3,002,992)	(2,557,331)
Financing transactions		
Repayment of long-term debt	(36,999)	(35,436)
Decrease in cash	(1,122,021)	(12,994)
Cash, beginning of year	5,174,928	5,187,922
Cash, end of year	\$ 4,052,907	\$ 5,174,928

FOOTHILLS REGIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

1. Nature of operations

Foothills Regional Services Commission is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs on July 10, 1989 for the purpose of supplying sewage transmission and treatment services and waste management services.

The members of the Commission are the MD of Foothills No.31, the Town of High River and the Town of Okotoks. The members of the landfill operation include the preceding, as well as the Town of Black Diamond, the Town of Nanton and the Town of Turner Valley.

The Commission is exempt from income taxation under Section 149 of the Canada Income Tax Act.

2. Significant accounting policies

The financial statements reflect the assets, liabilities, revenues and expenses, and change in the financial position of the Commission. Significant aspects of the accounting policies adopted by the Commission are as follows:

(a) Basis of presentation

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards

(b) 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.

Restricted investment income is recognized as revenue in the year in which the related expenditures are incurred. Unrestricted investment income is recognized as revenue when earned.

Government transfers are recognized in the period when the related expenses are incurred, services performed, or the tangible capital assets acquired.

(c) Cash

The Commission includes cash on hand, held by financial institutions in operating accounts, and temporary investments in the determination of cash.

(d) Investments

Investments are recorded at amortized cost. When there has been a loss in value that is other than a temporary decline, the investment is written down to recognize the loss.

FOOTHILLS REGIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

2. Significant accounting policies, continued

- (e) Contaminated sites liability
Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of a contaminated site is recognized when a site is not in productive use and is management's estimate of the cost of post-remediation including operation, maintenance and monitoring.
- (f) Landfill closure and post-closure liability
Pursuant to the Alberta Environment Protection and Enhancement Act, the Commission is required to fund the closure of its landfill site and provide for post-closure care of the facility. Closure and post-closure activities include the final clay cover, landscaping, as well as surface and ground water monitoring, leachate control and visual inspection. The requirement is being provided for over the estimated remaining life of the landfill site based on usage.
- (g) 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 normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the consolidated Change in Net Financial Assets for the year.
- (i) Tangible capital assets
Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	Years
Land improvements	25
Buildings	25
Equipment	10
Transfer sites	10
Frank Lake pipeline	35

Full annual amortization is charged in the year of acquisition and none in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

- (h) Budget amounts
The budget amounts presented on the statement of operations are taken from the Commission's annual budget. Certain budget amounts have been reclassified to conform with the current year's financial statement presentation.

FOOTHILLS REGIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

2. Significant accounting policies, continued

(i) 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

A significant area requiring the use of management's estimates was the landfill closure/post-closure liability. The liability was calculated based on estimated future cash flows required to cover the costs of landfill closure and groundwater monitoring.

The effect on the financial statements of changes in such estimates in future periods could be significant.

3. Trade and other receivables

	2017	2016
Trade receivables	\$ 427,382	\$ 309,793
GST receivable	28,112	17,041
Interest receivable	43,515	32,624
Allowance for doubtful accounts	(6,744)	-
	<u>\$ 492,265</u>	<u>\$ 359,458</u>

FOOTHILLS REGIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

4. Due from Commission members

Amounts due from Commission members are payable on receipt of the invoice and have arisen from the service fees charged during the year. Amounts due from Commission members are as follows:

	2017	2016
Town of High River	\$ 39,561	\$ 43,072
Town of Okotoks	15,237	14,747
Town of Nanton	4,410	1,745
Town of Black Diamond	2,796	3,542
M.D. of Foothills No.31	841	858
Town of Turner Valley	17,925	16,784
	\$ 80,770	\$ 80,748

5. Investments

	2017		2016	
	Cost	Market value	Cost	Market value
Alberta capital finance authority	\$ 10	\$ 10	\$ 10	\$ 10
Fixed income	14,212,772	14,739,144	11,209,784	11,849,863
	\$ 14,212,782	\$ 14,739,154	\$ 11,209,794	\$ 11,849,873

Fixed income investments consists of bonds, notes and debentures with interest rates ranging from 2.33% to 11.6%, and maturity dates ranging from 2019 to 2029.

FOOTHILLS REGIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

6. Landfill closure and post-closure liability

Alberta environmental law requires closure and post-closure care of landfill sites, which includes final covering and landscaping, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspections and maintenance.

Management estimated the total liability is based on the sum of discounted future cash flows for closure and post-closure activities for 25 years after closure using a discount rate of 1.5%.

The accrued liability portion is based on the cumulative capacity used at year end compared to the estimated total landfill capacity. The existing landfill site is expected to reach capacity in approximately 29 years.

In 2017 the Commission has designated \$17,767 (2016 - \$12,095) for landfill closure and post-closure costs.

	2017	2016
Estimated closure costs	\$ 1,202,297	\$ 1,184,530
Estimated post-closure costs	672,723	672,723
Estimated total liability	\$ 1,875,020	\$ 1,857,253

7. Long-term debt

	2017	2016
Debentures payable	\$ 334,809	\$ 371,809
Current portion	\$ 38,631	\$ 36,999

Principal and interest repayments are due as follows:

	Principal	Interest	Total
2018	\$ 38,631	\$ 14,194	\$ 52,825
2019	40,336	12,490	52,826
2020	42,115	10,710	52,825
2021	43,973	8,852	52,825
2022	45,913	6,913	52,826
Thereafter	123,841	8,223	132,064
	\$ 334,809	\$ 61,382	\$ 396,191

FOOTHILLS REGIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

7. Long-term debt, continued

Debenture debt is repayable to Alberta Capital Finance Authority and matures in 2020. The interest rate is 4.364%, before Provincial subsidy. For qualifying debentures, the Province of Alberta rebates 60% of interest in excess of 8%, 9%, and 11% to a maximum annual rate of 12.5%, depending on the date borrowed. Debenture debt is issued on the credit and security of the Commission at large.

Section 3 of Alberta Regulation 76/2000 requires that debt and debt limits for the Commission be disclosed as follows:

	2017	2016
Total debt limit	\$ 10,072,280	\$ 9,906,132
Total debt	334,809	371,809
	\$ 9,737,471	\$ 9,534,323
Debt servicing limit	\$ 1,762,649	\$ 1,733,573
Debt servicing	52,826	52,826
	\$ 1,709,823	\$ 1,680,747

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 limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify Commissions which 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.

8. Accumulated surplus

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

	2017	2016
Unrestricted surplus	\$ 3,211,944	\$ 2,633,685
Internally restricted surplus (reserves) (note 9)	13,434,798	12,156,786
Equity in tangible capital assets (note 10)	8,675,605	8,623,321
	\$ 25,322,347	\$ 23,413,792

FOOTHILLS REGIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

9. Reserves

	2017	2016
Landfill:		
Site closure/replacement and trench liner	\$ 9,950,805	\$ 9,200,805
Equipment replacement	3,108,797	2,608,797
Recycling initiative	20,000	20,000
	13,079,602	11,829,602
Frank Lake:		
Equipment replacement	\$ 355,196	\$ 327,184
	\$ 13,434,798	\$ 12,156,786

10. Equity in tangible capital assets

	2017	2016
Tangible capital assets (schedule 1)	\$ 15,623,544	\$ 15,076,095
Accumulated amortization (schedule 1)	(6,613,130)	(6,080,965)
Long-term debt (note 7)	(334,809)	(371,809)
	\$ 8,675,605	\$ 8,623,321

FOOTHILLS REGIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

11. Related party transactions

The MD of Foothills No. 31, the Town of High River, the Town of Okotoks, the Town of Black Diamond, the Town of Nanton and the Town of Turner Valley are members of the Commission and, as such, have been identified as related parties.

Service fees are based on the budgeted net operating costs of the Commission and are allocated among the Commission members based on actual service utilization during the year. Service fees charged to Commission members are as follows:

	2017	2016
Town of High River	\$ 267,640	\$ 259,043
Town of Okotoks	234,831	258,574
MD of Foothills No. 31	40,512	31,269
Town of Black Diamond	52,909	52,002
Town of Turner Valley	55,418	54,249
Town of Nanton	29,326	25,905
	\$ 680,636	\$ 681,042

Expenses charged by Commission members are as follows:

	2017	2016
MD of Foothills No. 31	\$ 1,493,228	\$ 1,511,519
Town of High River	18,385	21,369
	\$ 1,511,613	\$ 1,532,888

	2017	2016
Trade and other receivables include amounts receivable from:		
MD of Foothills No. 31	\$ 9,237	\$ 5,510

	2017	2016
Accounts payable and accrued liabilities include amounts payable to:		
MD of Foothills No. 31	\$ 171,174	\$ 142,023
Town of High River	1,198	2,947
	\$ 172,372	\$ 144,970

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

FOOTHILLS REGIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

12. Financial instruments

The Commission's financial instruments consist of trade and other receivables, amounts due from Commission members and accounts payable and accrued liabilities. It is management's opinion that the Commission is not exposed to significant interest or currency risks arising from these financial instruments.

The carrying value of these financial instruments approximates their fair value.

13. Budget amounts

The 2017 budget was approved by the Commission and has been reported in the financial statements for information purposes only. The budget amounts have not been audited, reviewed, or otherwise verified.

Budgeted surplus per financial statements	\$ 1,739,206
Less: Capital expenditures	(1,343,000)
Long-term debt repayments	(36,999)
Transfers to reserves	(497,000)
Add: Amortization	140,000
<u>Equals: budgeted surplus</u>	<u>\$ 2,207</u>

14. Approval of financial statements

These financial statements were approved by the Board and Management.

FOOTHILLS REGIONAL SERVICES COMMISSION
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

Schedule of tangible capital assets	Schedule 1						
	Land and improvements	Buildings	Engineered structures	Machinery and equipment	Transfer sites	2017	2016
Cost:							
Balance, beginning of year	\$ 6,640,832	\$ 1,281,572	\$ 3,280,239	\$ 3,793,190	\$ 80,262	\$ 15,076,094	\$ 15,132,961
Acquisitions	26,447	341,059	-	661,455	-	1,028,961	304,675
Construction-in-progress	100,067	-	-	-	-	100,067	-
Disposals	-	(45,821)	-	(535,757)	-	(581,578)	(361,541)
Balance, end of year	6,767,346	1,576,810	3,280,239	3,918,888	80,262	15,623,544	15,076,095
Accumulated amortization:							
Balance, beginning of year	2,427,167	469,904	1,681,588	1,422,044	80,262	6,080,965	5,670,840
Annual amortization	259,437	58,566	93,721	374,015	-	785,739	762,192
Disposals	-	(29,325)	-	(224,249)	-	(253,574)	(352,067)
Balance, end of year	2,686,604	499,145	1,775,309	1,571,810	80,262	6,613,130	6,080,965
Net book value	\$ 4,080,742	\$ 1,077,665	\$ 1,504,930	\$ 2,347,078	\$ -	\$ 9,010,414	\$ 8,995,130
2016 net book value	\$ 4,213,665	\$ 811,668	\$ 1,598,651	\$ 2,371,146	\$ -	\$ 8,995,130	

FOOTHILLS REGIONAL SERVICES COMMISSION
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

Schedule of changes in accumulated surplus

Schedule 2

	Unrestricted	Internally restricted (reserves)	Equity in tangible capital assets	2017	2016
Balance, beginning of year	\$ 2,633,685	\$ 12,156,786	\$ 8,623,321	\$ 23,413,792	\$ 21,572,101
Excess of revenue over expenses	1,908,555	-	-	1,908,555	1,841,691
Unrestricted funds designated for future use	(1,278,012)	1,278,012	-	-	-
Current year funds used for tangible capital assets	(1,129,027)	-	1,129,027	-	-
Disposal of tangible capital assets	328,003	-	(328,003)	-	-
Annual amortization expense	785,739	-	(785,739)	-	-
Long-term debt repaid	(36,999)	-	36,999	-	-
Change in accumulated surplus	578,259	1,278,012	52,284	1,908,555	1,841,691
Balance, end of year	\$ 3,211,944	\$ 13,434,798	\$ 8,675,605	\$ 25,322,347	\$ 23,413,792

FOOTHILLS REGIONAL SERVICES COMMISSION
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

Schedule of Landfill	Budget (Unaudited)	2017	Schedule 3 2016
Revenue			
Landfill service fees	\$ 5,072,332	\$ 4,260,214	\$ 4,397,616
Investment income	227,055	385,389	218,529
Other service fees and sales of goods	109,163	230,151	159,267
Gain on disposal of tangible capital assets	-	43,497	63,000
	5,408,550	4,919,251	4,838,412
Expenses			
Salaries, wages and benefits	1,356,817	1,316,176	1,250,168
Materials, goods and utilities	565,130	429,541	392,055
Contracted and general services	878,950	424,786	533,963
Bank charges and short-term interest	60,000	60,134	68,302
Closure and post-closure costs	100,000	17,767	12,095
Interest on long-term debt	15,826	15,756	17,322
Amortization of tangible capital assets	599,621	645,573	622,025
	3,576,344	2,909,733	2,895,930
Excess of revenue over expenses	\$ 1,832,206	\$ 2,009,518	\$ 1,942,482

FOOTHILLS REGIONAL SERVICES COMMISSION
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2017

Schedule of Frank Lake	Schedule 4		
	Budget (Unaudited)	2017	2016
Revenue			
Other service fees and sales of goods	\$ 135,050	\$ 112,800	\$ 111,711
Investment income	4,000	4,089	2,943
	139,050	116,889	114,654
Expenses			
Contracted and general services	63,000	47,478	48,430
Materials, goods and utilities	29,050	30,208	26,848
Amortization of tangible capital assets	140,000	140,166	140,167
	232,050	217,852	215,445
Deficiency of revenue over expenses	\$ (93,000)	\$ (100,963)	\$ (100,791)