



Province of Alberta
Order in Council

O.C. 322 / 2003 ^{Appendix A}
JUL 09 2003

ORDER IN COUNCIL

Approved and ordered:

Lieutenant Governor

The Lieutenant Governor in Council makes the Kneehill Regional Water Services Commission Regulation set out in the attached Appendix.

CHAIR

Certified a True Copy

Bruce G. Baugh
Registrar of Regulations

FILED UNDER
THE REGULATIONS ACT
as ALBERTA REGULATION 224/2003
ON July 10 20 03
REGISTRAR OF REGULATIONS

Alberta

For Information only

Recommended by: Minister of Municipal Affairs

Authority: Municipal Government Act
(section 602.02)

APPENDIX

Municipal Government Act

KNEEHILL REGIONAL WATER SERVICES
COMMISSION REGULATION*Table of Contents*

Establishment	1
Members	2
Services	3
Operating deficits	4
Sale of property	5
Profit and surpluses	6
Approval	7

Establishment 1 A regional services commission known as the Kneehill Regional Water Services Commission is established.

Members 2 The following municipalities are members of the Commission:

- (a) Kneehill County;
- (b) Municipal District of Rocky View No. 44;
- (c) Village of Acme;
- (d) Village of Beiseker;
- (e) Village of Carbon;
- (f) Village of Irricana;
- (g) Village of Linden.

Services 3 The Commission is authorized to provide and operate a water supply system.

Operating deficits 4 The Commission may not assume operating deficits that are shown on the books of any of the member municipalities.

Sale of property 5(1) The Commission may not, without the approval of the Minister, sell any of its land, buildings, equipment or inventory whose purchase has been funded wholly or partly by grants from the Government of Alberta.

(2) The Minister may not approve a sale under subsection (1) unless the Minister is satisfied

- (a) as to the repayment of the grants from the Government of Alberta and outstanding debt associated with that portion of the land, buildings, equipment or inventory to be sold,
- (b) that the sale would not have a significant adverse effect on the services the Commission provides, and
- (c) that the sale will be properly reflected in the rates subsequently charged to the customers of the Commission.

Profit and
surpluses

6 Unless otherwise approved by the Minister, the Commission may not

- (a) operate for the purposes of making a profit, or
- (b) distribute any of its surpluses to its member municipalities.

Approval

7 The Minister may make an approval under section 5 or 6 subject to any terms or conditions the Minister considers appropriate.

KNEEHILL REGIONAL WATER SERVICES COMMISSION

BY-LAW 1-2003

BEING A BY-LAW RESPECTING THE APPOINTMENT OF A BOARD OF DIRECTORS AND CHAIRMAN, GOVERNING THE FEES TO BE CHARGED BY THE COMMISSION AND THE GOVERNANCE OF ADMINISTRATION OF THE COMMISSION

WHEREAS, pursuant to the provisions of the *Municipal Government Act RSA 2000, CM-26 as amended*, (hereinafter referred to as the "Act"), the Board of the Commission must pass By-Laws respecting the appointment of its directors and the designation of its Chair, governing the fees to be charged by the Commission for services and may pass By-Laws respecting the provision of the Commission's services and the governance of the Administration of the Commission;

NOW THEREFORE, the Board enacts the following:

I. DEFINITIONS

- 1.1 "Act" means the Municipal Government Act;
- 1.2 "Annual Meeting" means the Meeting of the Board and the Members to be held on a date and at a location to be determined by the Board in accordance with this By-Law;
- 1.3 "Auditor" shall mean the person appointed by the Board to prepare the financial statements for the Commission's operations'
- 1.4 "Board" means the Board of Directors of the Commission;
- 1.5 "Borrowing" means as defined in the Municipal Government Act;
- 1.6 "Chair" means the Chairperson of the Board;
- 1.7 "Commission" means the Kneehill Regional Water Services Commission;
- 1.8 "Director" means the representative of a Member of the Board appointed in accordance with this By-Law;
- 1.9 "Founding Member" means one of the communities that was a member at the time the Commission was formed, those being Acme, Beiseker, Carbon, Irricana, Linden, Kneehill County and MD of Rocky View;
- 1.10 "Manager" means the person appointed by the Board to carry out the directions of the Board regarding the operation of the Commission;
- 1.11 "Member" means a municipal authority listed;
- 1.12 "Regular Meeting" means the meetings of the Board to be held each year on dates and at locations determined by resolution of the Board;
- 1.13 "Regulation" means Alberta Regulation
- 1.14 "Special Meeting" means a meeting of the Board called in accordance with Section 4.12 of this Bylaw;
- 1.15 "Treasurer" means the person appointed by the Board to be responsible for the financial affairs of the Commission;
- 1.16 All other words in this By-Law are as defined or used in Part 15.1 of the Act.

II. OBJECT

- 2.1 The objectives of the Commission are:
 - (a) to provide wholesale water services to its Members;
 - (b) to provide water services to other customers on such terms and conditions as the Commission may determine.

III MANAGEMENT

- 3.1 The management of the Commission shall be vested in the Board of the Commission and appointed pursuant to this By-Law, the Act and Regulations.

IV BOARD OF DIRECTORS

- 4.1 The proceedings of the Board shall be conducted in accordance with the Act, the Regulations and this By-Law. In all cases not provided for by the Act, the Regulations and this By-Law, *Roberts Rules of Order* shall be followed so far as they may be applicable.
- 4.2 Subject to Section 602.04 of the Act, the Board shall consist of the following:
- (a) One Director to be appointed by the Council of each Member;
 - (b) The Director shall be a Councillor of a Member;
- 4.3 The Directors shall elect, from amongst their number, a Chair at the first Regular Meeting of the Board following the Municipal Election or before December 31st.
- 4.4 The term of office for the Chair is one year.
- 4.5 The Chair shall preside over all Regular Meetings, Special Meetings and the Annual Meeting of the Board.
- 4.6 The Chair shall vote on all matters before the Board.
- 4.7 The Board shall elect, from amongst their number, a Vice-Chair at the first Regular Meeting of the Board following the Municipal Election or before December 31st.
- 4.8 The term of office for the Vice-Chair is one year.
- 4.9 In the absence of the Chair at any meeting, the Vice-Chair shall preside over the meeting for that meeting only. In the absence of the Chair or Vice-Chair the Directors in attendance shall appoint an Acting Chair for that meeting only.
- 4.10 The term of office for any Director shall coincide with the term of Municipal Elections in the Province of Alberta. In the event of a vacancy on the Board, the same Member may appoint an alternate Director for the un-expired balance of the term of the Director.
- 4.11 The Board, by resolution may establish the date and number of Regular Meetings held during a year, however, there shall be not less than four (4) Regular Meetings per year.

- 4.12 The Chair or any of the Directors may call a Special Meeting of the Board upon no less than forty-eight (48) hours written notice to each Director except that written notice may be sent to the Municipal Offices of each Director and a waiver of notice may be signed by the majority of the Directors.
- 4.13 Meetings of the Board may be held in conjunction with, preceding or following any Annual Meeting of the Commission.
- 4.14 Five (5) Directors present in any Board meeting shall constitute a quorum.
- 4.15 Any matter except the amendment of this By-Law shall be decided by the majority vote of the Directors in attendance at the Board Meeting.
- 4.16 Duties of the Board
- a) The Board shall be responsible for the management and conduct of the affairs of the Commission;
 - b) The Board shall have power such as to hire staff; enter into agreements; engage consultants;
 - c) The Board's obligations to oversee the operations of the Commission shall include, but not be limited to, the following:
 - (i) to participate generally in developing and evaluating the policies and programs of the Commission;
 - (ii) to approve an operating and capital budget presented by the Manager for the forthcoming year;
 - (iii) to maintain the operations of the Commission in a manner which benefits its Members;
 - (iv) to safeguard the storage and use of the seal of the Commission;
 - (v) to maintain the minute books and financial records of the Commission and to make the same available to the Members;
 - (vi) to acquire funds and approve financing arrangements.
- 4.17 The Directors shall receive for attendance at any Board meeting or carrying out any Director responsibilities, meeting fees established by the Board from time to time and any expenses, including mileage permitted by the Board.
- 4.18 The Conflict of Interest provisions in the Municipal Government Act will apply to the Board of Directors.

V. MEETINGS

- 5.1 The Board shall call each year the Annual Meeting.
- 5.2 The Annual Meeting shall be held no later than April 30th each year.

- 5.3 Written notice of the Annual Meeting shall be provided to each Member by mail postmarked not less than thirty (30) days prior to the date of the Annual Meeting.
- 5.4 At the Annual Meeting, the Auditor shall present the audited financial statements and the Manager shall report on the activities of the past year to the Members and the Board.
- 5.5 The Board shall appoint an Auditor at the Annual Meeting for the following year.
- 5.6 The Chair or the Manager shall establish the agenda for any meeting of the Board. A matter may be added to or deleted from the agenda for any meeting of the Board by the Board. A Member may place an item on the agenda by submitting a written request to the Manager at least forty-eight (48) hours before the meeting.

VI. ADMINISTRATION

- 6.1 One of the Chair or Vice-Chair together with one of the Manager or Secretary/Treasurer shall have signing authority on behalf of the Commission and are authorized to execute and deliver any cheque's, promissory notes and bills of exchange and other instruments, whether negotiable or not, on behalf of the Commission.
- 6.2 The Manager shall have custody of the Corporate Seal. Whenever used, the Seal shall be authenticated by the Chair, Vice-Chair, Manager or Secretary/Treasurer.
- 6.3 The Manager shall act as the Administrative Head of the Commission and without limiting the foregoing, the Manager shall:
 - a) ensure that the policies and programs of the Commission are implemented;
 - b) advise and inform the Board on the operations and affairs of the Commission;
 - c) maintain custody of the seal of the Commission and when required on any instrument requiring the seal of the Commission, affix the same together with one of the Manager or Secretary/Treasurer and one of the Chair or the Vice-Chair;
 - d) perform the duties and exercise the powers assigned to the Manager in this By-Law;
 - e) perform the duties and exercise the powers assigned to the Manager in the Act or any other applicable legislation;
 - f) cause the funds of the Commission to be received and disbursed in accordance with the directions of the Board, subject to this Bylaw;
 - g) cause to be kept detailed accounts of all income and expenditures including proper vouchers for all disbursements of the Commission;

- h) cause to be rendered to the Board at Regular Meetings or whenever required by the Board an account of all transactions of the Commission and the financial position of the Commission;
 - i) cause all facts and minutes of all proceedings to be kept on all meetings of the Commission;
 - j) cause all notices to be given to Members and to Directors required by this By-Law;
 - k) cause to be kept all books, papers, records, correspondence, contracts and other documents belonging to the Commission and shall cause the same to be delivered up when required by the Act or when authorized by the Board to such person as may be named by the Board;
 - l) shall carry out any lawful direction of the Board from time to time.
- 6.4 Members acting reasonably shall have the right to inspect and may obtain extracts or copies of all books and records of the Commission subject to the provisions in the Freedom of Information and Protection of Privacy Act.

VII. FINANCIAL

- 7.1 The financial year of the Commission shall be the calendar year.
- 7.2 Without limiting the requirements for the Budget pursuant to the Act, the Board in the fall of each year will prepare the Financial Plan for the forthcoming three (3) financial years and the Budget for the next financial year will set out the:
- a) expected consumption requirements of the Members;
 - b) estimate expenditures for the:
 - (i) operations of the Board and Manager;
 - (ii) operations of the pipeline system;
 - (iii) purchase of water;
 - (iv) repayment of debt obligations;
 - (v) non-cash expenditures; and
 - (vi) return on equity and investments.
 - c) estimated revenue requirements to meet the expenditures of the Commission and the rates and fees to be charged to Members and Customers of the Commission;
 - d) second and third year projections of operating expenditure, revenue requirements and rate trends;

- e) capital projects planned and expected to be completed in the forthcoming financial year and the second and third financial years of the Financial Plan;
- f) estimated costs and sources of revenue for each year of the Financial Plan;
- g) rates of remuneration and expenses to be provided to the Directors.

VIII. SERVICE FEE

- 8.1 The aggregate annual service fees charged by the Commission to its Members and Non-Members shall not be less than the estimated aggregate amount required to cover all costs or other commitments of the Commission less any grants, transfers from reserves, interests, rents and other revenue.
- 8.2 All service fees shall be established by the Board by By-Law and approved at the time the annual budgets for the Commission are approved.
- 8.3 A rate structure will be established on a user basis (volume). All members will pay the same rate based on volume.
- 8.4 A decision to change the rates or rate structure must receive seventy- five (75) percent consent of the Board.
- 8.5 Commission operational costs, including booster stations, will be levied through the fee and rate structure.
- 8.6 New facilities and add-on lines will be granted reasonable access given regard for long-term capacity. Any costs to operate the system beyond the trunk line will be borne by the individual user and not included in the Commission operating costs.
- 8.7 All funds required for the operation of the Commission shall be recovered from the sale of water volume sales.
- 8.8 The Commission shall sell water services to its members.

IX. AMENDMENTS

- 9.1 An amendment to this By-Law may be passed by the Board when there is a three quarters majority of the Directors present.
- 9.2 Written notice of a proposed amendment to this By-Law shall be provided to each Member not less than thirty (30) days in advance of the meeting at which the amendment is to be considered.


X. EFFECTIVE DATE AND REPEAL


10.1 This By-Law shall come into force and effect upon the date of approval of the Minister of Municipal Affairs.

READ A FIRST TIME THIS 11th DAY OF AUGUST, 2003.

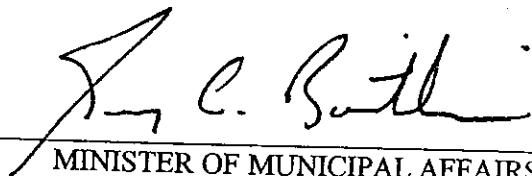
READ A SECOND TIME THIS 11th DAY OF AUGUST, 2003.

READ A THIRD TIME THIS AND FINALLY PASSED THIS 11th DAY OF AUGUST, 2003.


CHAIRMAN


SECRETARY/TREASURER

APPROVED by the Honorable Minister of Municipal Affairs this 30th DAY OF September, 2003.

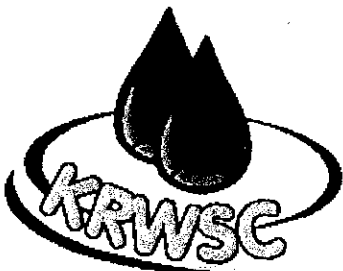

MINISTER OF MUNICIPAL AFFAIRS

Kneehill Regional Water Services Commission

Regional Water Transmission Line Preliminary Design Report



Open the Gateway to the Country
VILLAGE OF IRRICANA



November 2003



Stantec

**KNEEHILL REGIONAL WATER SERVICES COMMISSION PRELIMINARY
DESIGN**

Table of Contents

Page

1	INTRODUCTION	
1.1	Acknowledgement	1.1
1.2	Project Background	1.1
1.3	Project Scope	1.1
1.4	Previously Completed Studies	1.1
1.5	Abbreviations and Conversion Factors	1.2
2	EXISTING FACILITIES	
2.1	Town of Drumheller	2.1
2.2	Carbon	2.1
2.3	Acme	2.2
2.4	Linden	2.2
2.5	Beiseker	2.3
2.6	Irricana	2.3
3	SYSTEM WATER DEMANDS	
3.1	Water Consumption Components	3.1
3.2	Per Capita Water Demands	3.1
3.3	Peaking Factor	3.2
3.4	Fire Flow Protection	3.3
3.5	Urban Water Demands	3.4
3.6	Rural Water Demands	3.5
3.7	Intensive Livestock Water Demands	3.6
	19 September 2003	1.1

Stantec

9.4	Soils	9.10
9.5	Native Vegetation	9.11
9.6	Wildlife	9.14
9.7	Summary of Regulatory Requirements	9.16
9.8	Monitoring	9.19
9.9	References	9.20
10	GEOTECHNICAL REVIEW	
10.1	Introduction	10.1
10.2	Methodology	10.1
10.3	Description of Alignment	10.2
10.4	Preliminary Geotechnical Design Recommendations	10.8
11	PROJECT DESIGN AND CONSTRUCTION SCHEDULE	
11.1	Project Milestones and Scheduling Issues	11.1
11.2	Proposed Schedule	11.2
12	PROJECT COSTS	
12.1	Update of System Cost Estimate	12.1
12.2	Capital Cost Estimates	12.5
12.3	Life Cycle Cost Estimates for Options 1, 2 and 3	12.7
12.4	Summary	12.7
13	CONCLUSIONS AND RECOMMENDATIONS	
13.1	Conclusions	13.1
13.2	Recommendations	13.3

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APPENDIX A – COST ESTIMATES

APPENDIX B – PROJECT PHOTOGRAPHS

APPENDIX C – LANDOWNER DATABASE

**APPENDIX D – ALBERTA ENVIRONMENT LETTER OF SUPPORT, AND
SUPPORTING FIGURES**

APPENDIX E – RELATED TOWN OF DRUMHELLER COUNCIL RESOLUTIONS

**KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN
REPORT**

Table	Description	Page
9.7.1	Conditions attached to Approval Pursuant to CEAA	9.16
10.1	Acme to Drumheller	10.4
12.1	Hydraulic Option Capital Cost Estimates	12.6
12.2	Present Worth Lifecycle Costs	12.8

Stantec

01 September 2003

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1.1

KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN REPORT

List of Figures

Figure	Description	Following Page
3.1	Waterline Connection Survey	3.5
3.2	Existing ILOs	3.7
3.3	Overall System Flows	3.8
4.1	Overall System	4.21
4.2 –4.18	Alignment Drawings	4.21
4.19	Right of Way Management Plan	4.21
6.1	Hydraulic Grade Line Option 1	6.2
6.2	Hydraulic Grade Line Option 2A	6.3
6.3	Hydraulic Grade Line Option 2B	6.3
6.4	Hydraulic Grade Line Option 3	6.4
7.1	Reservoir / Pump Station Preliminary Design Layout	7.4
7.2	Reservoir / Pump Station Section	7.4
7.3	Typical Tie-in Connection Detail	7.6
7.4	Typical Air Relief Station Detail	7.7
9.1	Proposed Waterline Alignment	9.1
9.2	Proposed Waterline Alignment HRIA Requirements	9.6
9.3	Proposed Waterline Alignment Watercourse Crossings	9.8
9.4	Proposed Waterline Alignment Native Vegetation	9.12
10.1	Quaternary Geology	10.2
11.1	Project Schedule	11.2



ALBERTA
MINISTER OF TRANSPORTATION

MLA Vegreville - Viking

NOV 19 2002

His Worship Robert Jackson
Village of Acme
P.O. Box 299
Acme AB TOM OAO

Dear Mayor Jackson:

It is my pleasure to advise you that the Government of Alberta has chosen to nominate the Kneehill Regional Water Line Project under the *Projects Nominated by Canada or Alberta* component of the Infrastructure Canada-Alberta Program (ICAP). This is in recognition of the many stakeholders that have worked so diligently in bringing this project forward, and the importance that clean drinking water has for the development and well-being of our communities.

Although this is an important step in the project's approval process, please note that this letter does not constitute final project approval, which can only be provided once the project meets all applicable environmental requirements and further federal approvals.

It is important that your project construction not proceed until final written approval is given. If construction starts prior to final approval, the project may not be eligible for funding under ICAP. Engineering design and other eligible pre-construction costs can be incurred at the applicant's risk prior to formal approval. However, if for any reason final approval is not given, these costs may not be claimed for reimbursement.

If you have any questions, please contact Andrew Cathcart, ICAP Director at (780) 422-1152.

Again, the Government of Alberta is pleased to be able to nominate this very important project.

Yours truly,

A handwritten signature in black ink, appearing to read 'Ed'.

Ed Stelmach
Minister

cc: Distribution

320 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 Telephone 780/415-9390, Fax 780/415-9412
Box 451, 4945 - 51 Avenue, Vegreville, Alberta, Canada T9C 1R6 Telephone 780/632-6840, Fax 780/632-6888

Kneehill Regional Water Committee

Acme, Beiseker, Carbon, Irricana, Linden
Kneehill County and MD of Rockyview
Box 299, Acme, AB TOM OAO
Phone: (403) 546-3783 Fax: (403) 546-3014

March 10, 2003

Ms. C. Parkins
Municipal Services
Alberta Municipal Affairs
17th Floor, Commerce Place
10155 – 102 Street
Edmonton, AB T5J 4L4

Dear Ms. Parkins:

Re: Kneehill Regional Water Services Commission Debt Limit

The Village's of Carbon, Acme, Linden, Beiseker, Irricana along with Kneehill County and the MD of Rockyview have forwarded documentation to Minister Guy Boutilier for the formation of a Regional Services Commission. The Commission will be providing potable water from the Town of Drumheller to the above mentioned communities.

The group has gone through extensive research and development of the project with cost reviews of capital and operating requirements. To fund the capital project it is anticipated that approximately 10,000,000 dollars will have to be debentured. This amount exceeds the debt limit as stated in the Legislation.

Attached for your review is a breakdown of costs, operating budget and letters of support from the municipalities. Also included are estimates from a 2002 Capital Project/Concept Refinement Engineering Report.

The group is in the early stages of development of the project, but the amount of debt borrowing has to be addressed prior to detailed engineering.

Please review the documentation and contact me at (403)391-0270 if any questions arise.

Sincerely,
Kneehill Regional Water Services Committee

John Van Doesburg
Manager

cc: Bert Jackson, KRWSC Chairman

FINANCIAL REVIEW

CAPITAL COSTS	\$28,539,239.00
GRANT FUNDING	\$19,026,159.33
REMAINING COSTS	\$ 9,513,079.67
NET GST	\$ 856,177.00
TOTAL COSTS	\$10,369,256.67
Annual Debenture Costs (25 years at 6.25%)	\$ 761,948.00

ANNUAL OPERATIONS

Yearly Debenture	\$ 761,948.00
Cost of Water	520,958.00
Electrical & Operations	114,356.00
TOTAL ANNUAL COSTS	\$1,397,262.00

Volume of water first year 127,063 – 1,000,000 gallons per year



403 277 5977 P.02
Appendix C
MUNICIPAL DISTRICT OF ROCKY VIEW No. 44

911- 32nd Avenue N.E., Calgary, Alberta T2E 6X6
Telephone (403) 230-1401 • Fax (403) 277-5977
Website: www.gov.mdrockyview.ab.ca
E-mail: comments@gov.mdrockyview.ab.ca

May 21, 2003

Kneehill Regional Water Services Committee
c/o Village of Acme
Box 299
Acme, AB T0M 0A0

File: 400-17

Attention: Joanne Weller, Chief Administrative Officer

Dear Mrs. Weller:

Re: Kneehill Regional Water Services Committee Request

I am pleased to inform you that after careful review and consideration, Council for the Municipal District of Rocky View No. 44 has agreed to support the objectives of the Kneehill Regional Water Services Committee (KRWSC) to provide water services to its members.

Furthermore, the Council for the Municipal District of Rocky View No. 44 has approved the proposed terms contained within the Memorandum of Agreement, which outlines the financial authority and obligations of the KRWSC and its constituent members. These terms include borrowing of funds from AMFC over a twenty-five year term at an interest rate not to exceed 8%; that the cost of borrowing for principal and interest be included in the per cubic meter water service fee levied on its members of the commission and that the annual operating costs be paid on the metered use of water.

Accordingly, I can confirm that the Municipal District of Rocky View No. 44, represented by the Reeve and Chief Administrative Officer, will sign the Memorandum of Agreement once it has been executed by the other parties.

Yours truly,

A handwritten signature in black ink, appearing to read "Brian Chambers", with a long horizontal line extending to the right.

Brian Chambers
Chief Administrative Officer

BC:wga



Kneehill County

232 Main Street
Post Office Box 400
Three Hills, Alberta
T0M 2A0

April 30, 2003

Kneehill Regional Water Committee
C/O Joanne Weller
Box 299
Acme, AB T0M 0A0

Re: Memorandum of Agreement – Kneehill Regional Water Services Commission

Please be advised that the Kneehill County Council authorized the Reeve and Chief Administrative Officer to sign the Memorandum of Agreement on behalf of Kneehill County between the Kneehill Regional Water Services Commission and the participating municipalities at their April 22, 2003 council meeting.

Kneehill County Council approved the terms of the memorandum of agreement which includes borrowing of funds from AMFC over a twenty five year term at an interest rate not to exceed 8%; that the cost of borrowing for principal and interest be included in the per cubic meter water service fee levied on its members of the commission and that the annual operating costs be paid on the metered use of water.

Sincerely,
KNEEHILL COUNTY

Gene Kiviaho
C.A.O.

Cc: Ken Hoppins, Reeve
Kneehill County



VILLAGE OF LINDEN

Box 213 Linden, Alberta T0M 1J0 Ph. (403) 546-3888 Fax (403) 546-2112

May 14, 2003

FAXED

Kneehill Regional Water Committee
c/o Joanne Weller
Box 299
Acme, AB T0M 0A0

RE: Memorandum of Agreement -- Kneehill Regional Water Services Commission

This letter is to advise that at the April 28, 2003 Village of Linden regular Council meeting a motion was passed to authorize Mayor Amnon Hovde and Municipal Administrator Tammie Dick, on behalf of the Village of Linden, to sign the Memorandum of Agreement between the Kneehill Regional Water Services Commission and the participating municipalities.

Council approved the terms of the Memorandum of Agreement that include borrowing of funds from the Alberta Municipal Financing Corporation over a twenty-five year period in annual installments, at an interest rate not to exceed eight percent (8%) per annum, paid annually; that the cost of borrowing for principal and interest be included in the per cubic meter water service fee levied on its members of the commissions; and that the annual operating costs be paid on the metered use of the water.

We trust that this shall now allow the process for the formation of the commission to proceed.

Sincerely,

Tammie Dick
Municipal Administrator



VILLAGE OF ACME

Box 299, Acme, AB TOM 0A0

Phone (403) 546-3783 Fax (403) 546-3014

April 22, 2003

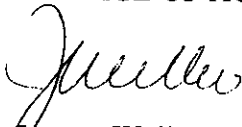
Kneehill Regional Water Committee
c/o Joanne Weller
Box 299
Acme, AB TOM 0A0

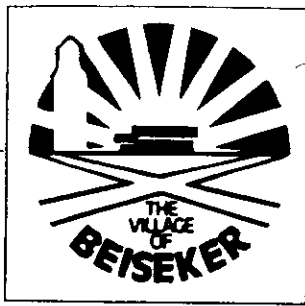
Re: Memorandum of Agreement – Kneehill Regional Water Services Commission

Please be advised that the Village of Acme Council authorized the Mayor and Chief Administrative Officer to sign the Memorandum of Agreement on behalf of the Village of Acme between the Kneehill Regional Water Services Commission and the participating municipalities at their April 14, 2003 council meeting.

The council approves the terms of the memorandum of agreement which includes borrowing of funds from AMFC over a twenty five year term at an interest rate not to exceed 8%; that the cost of borrowing for principal and interest be included in the per cubic meter water service fee levied on its members of the commission and that the annual operating costs be paid on the metered use of water.

Sincerely,
VILLAGE OF ACME


Joanne Weller
C.A.O.



VILLAGE OF BEISEKER

Appendix C

OFFICE OF MAYOR AND MUNICIPAL ADMINISTRATOR

P.O. Box 349 • Beiseker, Alberta T0M 0G0
Tel. (403) 947-3774 • Fax (403) 947-2146

email: beiseker@cadvision.com
www.beiseker.com

April 29, 2003

Kneehill Regional Water Committee
c/o Joanne Weller
Box 299
Acme, AB T0M 0A0

Re: Memorandum of Agreement – Kneehill Regional Water Services Commission

Please be advised that at the regular meeting of Council held on April 28, 2003, the Village of Beiseker Council by Council Resolution #2003-35 authorized the Mayor and Chief Administrative Officer on behalf of the Village of Beiseker to sign the Memorandum of Agreement between the Kneehill Regional Water Commission and the participating municipalities

Council approves of the terms of the Memorandum of Agreement which includes the borrowing of funds from AMFC over a twenty five year term, at an interest rate not to exceed 8%; and that the cost of borrowing for the principal and interest be included in the per cubic meter water service fee levied on its members of the commission and that the annual operating costs are to be paid on the metered use of water.

Yours very truly,
VILLAGE OF BEISEKER

Per:

Ruth Copeland-Brunelle,
Chief Administrative Officer

/rec

Open the Gateway to the Country
VILLAGE OF IRRICANA

By Fax: (403)546-3014



Office of the Chief Administrative Officer
 Box 100, IRRICANA, ALBERTA T0M 1B0

April 17, 2003

Kneehill Regional Water Committee
 c/o Joanne Weller, Secretary
 Box
 Acme, AB

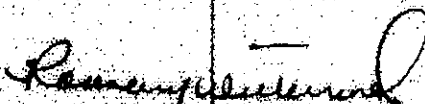
Re: Memorandum of Agreement – Kneehill Water Committee

Please be advised that the Village of Irricana Council authorized the Mayor and Chief Administrative Officer to sign the Memorandum of Agreement for the Kneehill Water Commission at their April 7, 2002 Regular Meeting.

The Council agrees to the memorandum of agreement terms which include borrowing of funds from the AMFC over a twenty-five year term at an interest rate to not exceed 8%, including the cost of borrowing for principal and interest in the per cubic meter water service fee levied on the members of the commission; and that annual operating costs be paid on the metered use of water.

Trusting this is the information you require.

Yours truly,


 Rosemary Wittevrangel, CLGM
 Chief Administrative Officer

RW/e

April 21, 2003

Kneehill Regional Water Services
c/o Village of Acme
Box 299
Carbon, AB
T0M 0L0

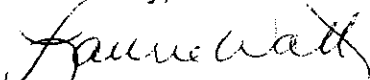
RE: Memorandum of Agreement

The Village of Carbon Council has authorized the Mayor and CAO to sign the Kneehill Regional Water Services Commission Memorandum of Agreement outlined as follows:

1. The Board of Directors of the Commission are hereby empowered and authorized to borrow by way of debenture or credit and security of the Commission at large, sufficient funds to complete the construction of the Regional Water Transmission Line
2. The debentures shall be issued in such a manner that the principal and interest will be combined and made payable, as nearly as possible, over a period of twenty five (25) years, in accordance with the schedule attached and forming part of each debenture.
3. There shall be a per cubic meter water service fee established and levied upon Carbon, Linden, Acme, Beiseker, Irricana, Kneehill and Rockyview based on actual metered use which will be sufficient to provide annual funds to pay for the principal and interest due in such year on such debentures as part of the annual operating cost.
4. The communities of Carbon, Linden, Acme, Beiseker, Irricana, Kneehill and Rockyview shall pay on metered use of water for annual operating costs. It is agreed that the water service charge based on cubic meter of water may change in the future so it is based on actual water volume of water used.
5. This agreement may be amended by mutual consent of all the parties.

Please contact our office should you require any additional information.

Yours truly,



Laurie Watt
Municipal Administrator

Infrastructure Canada - Alberta Program**Programme Infrastructures Canada - Alberta**

July 11, 2003

File No. 8600-CA-16

Ms. Joanne Weller
Chief Administrative Officer
Village of Acme
P.O. Box 299
Acme, Alberta TOM OAO

Dear Madam:

Re: Infrastructure Canada-Alberta Program

I am pleased to advise that the Kneehill Regional Water Line - 2002 has been approved.

It is important to note that all approvals granted are subject to the following:

- ✓ All relevant provisions of the Infrastructure *Canada-Alberta* Program Agreement and all provisions of the Contribution Agreement to be signed between Alberta and the Village of Acme.
- All applicable provincial and federal laws, regulations, standards, approvals or other requirements which must be met and complied with by the Village of Acme.
- All projects must comply with the *Canadian Environmental Assessment Act* mitigation measures as per the attached correspondence.
- All public information material related to *calls* and *tenders* for projects receiving funding under this Agreement shall clearly and prominently indicate that such funding was provided under the terms of the "Infrastructure *Canada-Alberta* Program Agreement".
- All Applicants are required to publicly tender their infrastructure project, unless prior approval has been given by the Program Secretariat to do otherwise.
- The staging and financial management of the project is the responsibility of the Village of Acme and must be managed in a manner which recognizes the cash flow available from the Program in any given fiscal year.

VILLAGE OF ACME
JULY 11, 2003

PAGE 2

- The Infrastructure *Canada-Alberta* Program Management Committee reserves the right to audit the expenditures made against any project. For this purpose, records must be retained at a minimum until the later of March 31, 2007 or three years after financial accounts for the project are closed.
- After consultation with Management Committee, all public announcements will be made jointly by the federal and provincial governments and the Village of Acme.
- Where Signage is provided by the Program Secretariat, the Village must install, maintain and remove the Signage at their expense.

We have enclosed three Claim Forms which are to be used when sending in your project expenditure claims. Expenditure claims should not be submitted more frequently than once a month. Final expenditure claims, along with the Final Report, are required within 60 days of the project completion.

Yours sincerely,



Andrew Cathcart
Director, Program Secretariat

AC/st

cc: John Van Doesburg

Enclosures: Project Decision Notice
Claim Forms
CEAA Correspondence



Infrastructure Canada-Alberta Program



Programme Infrastructures Canada-Alberta

**PROJECT DECISION NOTICE
PROJECTS NOMINATED BY CANADA OR ALBERTA
Village of Acme**

New Project Approvals

SIMSI NO.	PROJECT TITLE	TOTAL PROJECT COSTS	TOTAL PROVINCIAL and FEDERAL SHARE	APPROVAL DATE
8741	Kneehill Regional Water Line - 2002	30,632,239.00	\$ 19,085,492.00	09-Jul-03
Previously Approved Projects				
TOTAL PROJECTS APPROVED TO DATE				
		\$ 30,632,239.00	\$ 19,085,492.00	




AR24135

ALBERTA
MINISTER OF MUNICIPAL AFFAIRS

*Office of the Minister
MLA, Fort McMurray*

October 1, 2004

Mr. Robert Jackson
Chairman
Kneehill Regional Water
Services Commission
Box 592
Acme, Alberta
T0M 0A0


Dear Mr. Jackson:

Thank you for the letter of July 28, 2004, from John VanDoesburg, Administrator, Kneehill Regional Water Services Commission, requesting a revised debt limit extension for the commission.

I am pleased to inform you that a revised debt limit extension for Kneehill Regional Water Services Commission has been approved pursuant to the attached Ministerial Order No. L:158/04.

The extension allows the commission to borrow up to \$15 million to complete construction of the regional water transmission line. It should be noted that any additional borrowing by the commission would require my approval until such time as the commission is within the regulated debt limit.

I wish you every success in this project.

Best personal regards,


Guy Boutflier
Minister

cc: John VanDoesburg, Administrator
Kneehill Regional Water Services Commission



ALBERTA
MINISTER OF MUNICIPAL AFFAIRS

*Office of the Minister
MLA, Fort McMurray*

MINISTERIAL ORDER NO. L:158/04

I, Guy Boutilier, Minister of Municipal Affairs, pursuant to section 602.28 of the Municipal Government Act, make the following order:

That the Kneehill Regional Water Services Commission is authorized to borrow up to \$15,000,000 to complete construction of a regional water transmission line.

Ministerial Order No. L:094/03 is hereby rescinded.

Dated at Edmonton, Alberta, this 3 day of October, 2004.

A handwritten signature in black ink, appearing to read "Guy Boutilier", written over a horizontal line.

Guy Boutilier
Minister of Municipal Affairs



ALBERTA
MINISTER OF MUNICIPAL AFFAIRS

*Office of the Minister
MLA, Fort McMurray*

MINISTERIAL ORDER NO. L:094/03

I, Guy Boutilier, Minister of Municipal Affairs, pursuant to section 602.28 of the Municipal Government Act make the following order:

That the Kneehill Regional Water Services Commission is authorized to borrow up to \$11,000,000 to complete construction of a regional water transmission line.

Dated at Edmonton, Alberta, this 4 day of August, 2003.

A handwritten signature in black ink, appearing to read 'Guy Boutilier'.

Guy Boutilier
Minister of Municipal Affairs

Part 15.1 of the Municipal Government Act (MGA), in particular Division 3 establishes the statutes concerning financial matters for Regional Services Commissions. The following are statutes of particular interest during the inspection:

Operating budget

602.19 – A commission must adopt an operating budget for each calendar year.

Contents of operating budget

602.2(1) – An operating budget must include the estimated amount of each of the following expenditures and transfers:

- a) the amount needed to enable the commission to provide its services;
- b) the amount needed to pay the debt obligations in respect of borrowings made to acquire, construct, remove or improve capital property;
- c) if necessary, the amount needed to provide for a depreciation or depletion allowance, or both, for any public utility it is authorized to provide;
- d) the amount to be transferred to reserves;
- e) the amount to be transferred to the capital budget;
- f) the amount needed to cover any deficiency as required under section 602.21.

602.2(2) – An operating budget must include the estimated amount of each of the following sources of revenue and transfers:

- a) fees for services provided;
- b) grants;
- c) transfers from the commission's accumulated surplus funds or reserves;
- d) any other sources of revenue.

602.2(3) – The estimated revenue and transfers under subsection (2) must be at least sufficient to pay the estimated expenditures and transfers under subsection (1)

Deficiency

602.21(1) - If the total revenues and transfers of a commission over a 3-year period are less than the total expenditures and transfers of the commission for the same period, the operating budget for the commission for the year following the 3-year period must include an expenditure to cover the deficiency.

602.21(2) – If a commission has a deficiency referred to in subsection (1), the commission may, with the Minister's approval, spread the expenditures to cover the deficiency over more than one calendar year.

602.21(3) – If the Minister considers it to be necessary, the Minister may establish the budget for a commission that has a deficiency referred to in subsection (1) for a calendar year, and the budget

- a) is for all purposes the commission's budget for that calendar year, and
- b) may not be amended or replaced by the commission's board.

Borrowing

602.28 – No commission may make a borrowing if the borrowing will cause the commission to exceed its debt limit, unless the borrowing is approved by the Minister.

Civil liability of directors

602.3(1) – When a commission makes a borrowing that causes the commission to exceed its debt limit, a director who voted to authorize the borrowings is liable to the commission for the amount borrowed, unless the borrowing has been approved by the Minister.

602.3(2) – If subsection (1) applies to more than one director, the directors are jointly and severally liable to the commission for the amount borrowed.

602.3(3) – The liability may be enforced by action by

- a) – the commission,
- b) – a member of the commission,
- c) – a taxpayer of a member of the commission, or
- d) – a person who holds a security under a borrowing made by the commission.

INVOICE

Appendix E

Drumheller
703 2ND AVENUE W
DRUMHELLER, AB T0J0Y3
Phone: (403) 823-6300 Fax: (403) 823-7739



Customer Number : 6193
Invoice Number : 10473
Invoice Date : 07-Dec-2005
Customer P.O. No.
Due Date : 07-Dec-2005

KNEEHILL REGIONAL WATER SERVICES COMMISSION
BOX 592
ACME, AB T0M 0A0

Product	Description	Quantity	Unit Price	Amount
MS	GST EXEMPT Second instalment capital contribution as per schedule "c" of water service agreement dated June 15/05 <div style="text-align: center;"> <p>K.R.W.S.C</p> <p>DATE PAID: <u>Dec 19 2005</u></p> <p>CHEQ NUMBER: <u>0570</u> <i>Cancel</i></p> <p>G/L NUMBER: _____</p> <p>PO #: _____</p> <p>APPROVAL: </p> </div>	1.0000	1,200,000.0000	\$1,200,000.00
				Total Gross \$1,200,000.00
				G.S.T. \$0.00
				Total Invoice \$1,200,000.00

G.S.T. Registration Number : 106930100RT0004

Please return this portion with your payment

Customer Number : 6193
Customer Name : KNEEHILL REGIONAL WATER SERVICES COMMISSION
BOX 592
ACME, AB T0M 0A0


Invoice Number : 10473
Invoice Amount : \$1,200,000.00
Amount Paid :

Town of Drumheller
703 2ND AVENUE W
DRUMHELLER, AB T0J0Y3

⑆ 2 248 9 9001 ⑆

DATE 19 12 2005
D D M M Y Y Y Y

1473
3c-2005
3c-2005

PAY to Town of Drumheller \$1,200,000.00
the order of One million, two hundred thousand dollars — KY DOLLARS 
100

ATB Financial™
104 CENTRAL AVE. E.
LINDEN, ALTA. T0M 1J0

Kneehill Regional Water Services Commission

RE Capital Contribution - 2nd installment.



PER [Signature]
PER [Signature]

⑈000570⑈ ⑆07539⑈ 219⑆ 1045687⑈ 24⑈

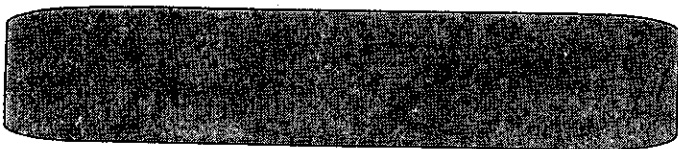
Date	Description	Amount	Quantity	Unit Price	Amount
	BALANCE FORWARD	1200000.00	1.0000	1,200,000.0000	\$1,200,000.00
	K.R.W.S.C				
	DATE PAID: <u>July 30/06</u>				
	CHEQ NUMBER: <u>840</u>				
	G/L NUMBER: _____				
	PO #: _____				
	APPROVAL: <u>[Signature]</u>				
	<i>As per Board decision July 27/06. Payment of \$600,000 - the remaining \$600,000 to be included in Drumheller's water rate</i>				
				Total Gross	\$1,200,000.00
				G.S.T.	\$0.00
				Total Invoice	\$1,200,000.00
0.00	0.00	1200000.00	0.00	1200000.00	
CURRENT	30-60	60-90	OVER 90	PLEASE PAY THIS AMOUNT	
0.00	0.00	0.00	0.00		
OVER 180	OVER 365				

965
Cancel

with your payment

ISSION Invoice Number : 10473
Invoice Amount : \$1,200,000.00
Amount Paid :

GST Registration No. 106930100RT0001



WATER SUPPLY AGREEMENT

**KNEEHILL REGIONAL WATER SERVICES COMMISSION
("THE COMMISSION")**

- and -

**TOWN OF DRUMHELLER
("THE TOWN")**

Introduction:

1. The Town currently manages the distribution, treatment and transmission assets of The Town of Drumheller Water Department used to provide water service to customers, including regional customers.
2. The Commission wishes to purchase Water from The Town and The Town wishes to sell and deliver Water to The Commission.
3. The Commission and The Town recognize that conservation of water resources is an important goal.

In consideration of the mutual and other promises described in this Agreement, The Town and The Commission covenant and agree as follows:

1. Definitions

In this Agreement, each of the following words will have the meaning for that word described below unless expressly stated otherwise:

- (a) **Agreed Variance** means the standard for accuracy for the Meter being tested as specified in the latest edition of the American Water Works Association 700 Series Standards;
- (b) **Agreement** means this Water Supply Agreement including the Introduction clauses, all attached Schedules and all documents produced or delivered according to the terms of this Agreement;
- (c) **Annual Quantity** means for each calendar year the quantity of Water for that year determined according to the provisions of Part 1 of the attached Schedule "A";

- (d) **Commercially Reasonable Efforts** means, in relation to the performance of an obligation, efforts that are sensible and practical, and involve the exercise of reasoned and sound judgement having regard to all of the relevant circumstances;
- (e) **Commission** means a regional services commission as defined by the Municipal Government Act as defined by Part 15.1;
- (f) **Commission's Boundaries** means the aggregate of:
 - i) the legal municipal boundary of those members of The Commission that are urban municipalities;
 - ii) the boundary of that area of those members of The Commission that are rural municipalities as shown in the attached Schedule "B";
- (g) **Confined Feeding Operation** means an activity on land that is fenced or enclosed or within buildings where livestock are confined for the purpose of growing, sustaining, finishing or breeding by means other than grazing, but does not include seasonal feeding and bedding sites;
- (h) **Cross Connection** means any physical connection to The Town's or The Commission's Watermains whereby Water may become contaminated;
- (i) **Equipment** means all necessary valves, pressure and flow controls, associated equipment and pipes with respect to a Meter Chamber. Equipment does not include the Meter;
- (j) **Maximum Daily Quantity** means for each day during a calendar year the maximum quantity of Water for that day determined according to the provisions of Part 2 of the attached Schedule "A";
- (k) **Meter** means the consumption measuring device owned by The Town which is located in a Meter Chamber;
- (l) **Meter Chamber** means the physical structure and all equipment and instrumentation which houses the Meter and where The Town measures the quantity of Water delivered to The Commission. A Meter Chamber is located at each Point of Delivery;
- (m) **ML** means one million (1,000,000) litres;
- (n) **Normal Domestic and Municipal Purposes** means the use of water for the purposes of human consumption, sanitation, fire prevention and watering animals, gardens, lawns and trees.

- (o) **Peak Hour Draw Rate** means the greatest quantity of Water delivered to Commission in a single hour;
- (p) **Points of Delivery** means the places described in the attached Schedule "D" where Water is sold and delivered to The Commission by The Town;
- (q) **Rate** means the price for Water established from time to time according to the provisions of the attached Schedule "E";
- (r) **Schedules** means those Schedules attached hereto which form part of this Agreement including:
 - Schedule "A" - Part 1 – Annual Quantity
Part 2 – Maximum Daily Quantity
 - Schedule "B" - The Commission Boundaries
 - Schedule "C" - Capital Contribution
 - Schedule "D" - Points of Delivery and Meter Chambers
 - Schedule "E" - How the Rate is Determined
 - Schedule "F" - Parties to Whom the Commission May Resell Water Outside of the Commission Boundaries
 - Schedule "G" - Dispute Resolution Process
 - Schedule "H" - Map showing Town Limits
 - Schedule "I" - Map showing Water Transmission Main and Water Chamber Meter
- (s) **Town's Representative** means a designated official of the Town;
- (t) **Water** means water which has been treated and is safe for human consumption (potable water).
- (u) **Watermain** means a water pipe line under pressure used to supply or deliver Water.

2. **General Terms**

- (a) This Agreement may not be assigned without the prior written consent of the other party, which consent shall not be unreasonably withheld, provided however, that prior to The Town assigning this Agreement;
 - (i) The Town shall consult with The Commission, in respect of any proposed assignment in order to obtain The Commission's views and comments in respect of the assignment;
 - (ii) notwithstanding the provisions of paragraph 12(a) of this Agreement, if The Commission advised The Town in writing during the consultation provided for in paragraph 2(a)(i), above, that The Commission was opposed to the proposed assignment and The Town assigns the Agreement

to a third party, The Commission may terminate this Agreement on five (5) years written notice to The Town and the third party provided that such notice is received by The Town and the third party within six (6) months of The Town providing written notice to The Commission that The Town will be assigning this Agreement to a third party, the written notice from The Town to The Commission to be provided to The Commission prior to The Town entering into an agreement to assign this Agreement to the third party; and

- (iii) nothing in (i) and (ii), above, shall restrict or otherwise limit The Town's right to deal with its assets and rights in a manner in which The Town determines to be in its best business interest;

provided further that nothing in paragraph 2(a) shall require The Town to obtain The Commission's consent to any assignment that occurs in relation to a reorganization of The Town's corporate structure, business or affairs involving one or more subsidiaries or affiliates of Town.

- (b) This Agreement is for the benefit of and binds the parties and their respective successors and permitted assigns.
- (c) Any term of this Agreement which is determined to be void, unenforceable or illegal will be severed from this Agreement. The remaining terms will be effective and enforceable.
- (d) The headings are for reference only and will not be used to interpret or construe this Agreement.
- (e) Time is of the essence for every part of this Agreement.
- (f) Any notice, consent or communication required by this Agreement must be in writing and will be delivered by hand or by courier to the following addresses or will be telecopied to the following telecopier numbers, as the case may be:

To The Town at:

The Town of Drumheller
703 – 2nd Avenue West, Drumheller, AB, T0J 0Y3
Attention: Chief Administrative Officer
Telecopier / Fax No.: (403) 823-8006

To The Commission at:

Box 592, Acme, AB, TOM 0A0
Attention: Commission Administrator
Telecopier / Fax No.: (403) 546-3014

- (g) This Agreement will be governed by and construed according to the laws in force in the Province of Alberta.
- (h) All changes of gender and number will be made where required.
- (i) The Effective Date of this Agreement is upon execution.
- (j) The term of this Agreement is 25 years commencing from the Effective Date. This Agreement may only be renewed by further written agreement between the parties.
- (k) This Agreement is the only agreement between the parties in relation to the subject matter hereof, and supersedes and replaces all prior agreements, representations, warranties, statements, promises, information, arrangements and understandings, whether oral or written, express or implied, with respect to the subject matter hereof. This Agreement may only be amended or modified by a further written agreement of the parties.
- (l) The specific values / numbers as noted in Schedule "A" and "D" shall be inserted into the agreement on completion of The Commission's and The Town's engineering studies. The Deadline for the completion of the information shall be December 31, 2004.
- (m) The quality of water The Town provides to The Commission will be of the same standard it supplies to the residents of The Town in accordance with the Approval issued by the Province of Alberta.

3. Obligations of the Parties

- (a) The Town agrees to sell and deliver Water to The Commission at the Points of Delivery and to meter the Water supplied to The Commission according to the terms of this Agreement.
- (b) The Commission agrees to buy and accept delivery of Water from The Town at the Points of Delivery according to the terms of this Agreement.
- (c) Subject to the exceptions in clauses (d) and (e) below, The Commission, during the term of this Agreement, shall obtain all of its Water requirements from The Town.
- (d) Where The Town is unable to at any time to supply the Annual Quantity or the Maximum Daily Quantity to The Commission, The Commission must purchase from The Town the maximum amount of Water which The Town is able to supply and after giving prior notice to The Town, The Commission may use an alternate source of supply to supplement its needs, but only until such time as The Town is able to supply the Annual Quantity or Maximum Daily Quantity.

- (e) Where the quantity of Water that will be required by The Commission will exceed the Annual Quantity, The Town shall firstly be given the opportunity to supply the additional quantity of Water required above the Annual Quantity (the "Additional Quantity"). Should The Town decline to supply the Additional Quantity, The Commission may use an alternate source to supply the Additional Quantity and shall not be required to purchase the Additional Quantity from The Town should The Town in future be able to supply the Additional Quantity.
- (f) The Commission will provide The Town with such information as The Town may reasonably request from time to time in respect of The Commission's actual consumption of Water.
- (g) The Town will use Commercially Reasonable Efforts to:
 - (i) make Water available to The Commission each year as required by The Commission to a maximum amount equal to the Annual Quantity for that year;
 - (ii) subject to paragraph 3(g)(i), above, make Water available to The Commission each day as required by The Commission up to a maximum amount equal to the Maximum Daily Quantity for that day;
 - (iii) avoid situations where it is unable to supply to The Commission the quantity of Water required by The Commission.
- (h) The Commission and The Town will work cooperatively and each of them will use Commercially Reasonable Efforts to manage and control the Peak Hour Draw Rate so as to optimize the operation of the water supply system providing water to The Commission under this agreement.
- (i) The Commission will pay for all Water measured by The Town at the Points of Delivery.
- (j) The Commission will pay for all Water at the Rate established and in effect from time to time in accordance with Section 4 herein and the attached Schedule "E".
- (k) The Commission will pay for all Water by monthly payments based upon billings prepared by The Town. The Town will provide monthly billings to The Commission at least 30 days in advance of the due date for payment. If The Commission fails to pay by the due date, then The Commission must pay the late payment charge specified in the monthly billing.
- (l) Subject to paragraph 3(m), The Commission may buy untreated water from sources other than The Town.

- (m) The Commission will only sell Water bought from The Town for the sole purpose of distributing the Water:
 - (i) within The Commission Boundaries; and
 - (ii) to customers outside of The Commission Boundaries that are identified in the attached Schedule "F".
- (n) The Commission and The Town are individually responsible for obtaining, at their sole expense, all necessary consents, approvals or orders from any level of government, board, tribunal, commission or other regulatory authority which is or are required in order for each of them to enter into this Agreement or to perform and satisfy their respective obligations described herein. The Commission and The Town will cooperate with each other and will provide reasonable assistance to each other, when requested.
- (o) The Commission and The Town will not allow or permit any Cross Connections.
- (p) In the event that The Town purchases Water from The Commission where the Water being purchased has been previously sold to The Commission by The Town pursuant to the terms of this Water Supply Agreement or The Town receives transportation service from The Commission through The Commission's facilities, the rate applicable to the purchase and sale of such Water or the transportation services, as the case may be, shall be determined in a manner consistent with Schedule "E" to this Agreement.
- (q) The Commission shall be responsible for obtaining the required Provincial approval to authorize withdrawal of water from the Red Deer River.

4. **Rates**

- (a) Annually, by November 1st, The Town shall forward to The Commission, the Rates to be charged for Water supplied by The Town under this Agreement to become effective on January 1st of the following year.
- (b) The Rates to be charged shall be calculated in accordance with the provisions of Schedule "E" of this Agreement.

5. **Costs of Construction of Watermain Within Town Limits**

- (a) That the Commission shall construct at its own cost an 18-inch diameter watermain from the Drumheller tie-in on 4th Avenue South West to the Town limits and further shall construct a water meter chamber at the reservoir site near Town limits, all in accordance with Town standards and specifications and as shown on the map attached as Schedule "I" to this Agreement, which costs shall be borne by the Commission, with no costs attributable to the Town.

- (b) That the Commission shall: design; prepare plans and specifications; provide material, equipment, tools and labour; construct; inspect; test; pressure test; leakage test; disinfect; flush and put into operation; all in accordance with Town standards and specifications, and at the sole risk and expense of the Commission with no cost to the Town the following:
- i) The 18-inch diameter watermain from the point of connection with the Town water system at 4th Avenue South West in the Town of Drumheller, to the end of the line; and
 - ii) The water meter chamber at the Commission reservoir site west of Town limits;

As shown on Schedule "P" attached hereto and such construction shall be completed by December 31, 2004.

6. Ownership of Watermain and Water Meter

- (a) That all title and ownership to both the 18-inch diameter watermain from 4th Avenue South West to the existing Town limits and the water meter including but not limited to meters; pipe; valves; fittings; appurtenances; controls; telemetry system and flow recording equipment; land, easements and rights-of-way; all associated with the construction of the aforesaid watermain and the water meter, shall be transferred to the Town, at no cost to the Town, upon occurrence of all the following events:
- (i) The completion of construction of the 18-inch diameter watermain and water meter chamber; and
 - (ii) The lapse of a period of at least One (1) year from the date of issuance of a construction completion certificate by the Town to the Commission; and
 - (iii) The expiry of any and all maintenance periods in existence as between the Commission and the contractor or contractors constructing the aforesaid watermain and water meter chamber; and
 - (iv) The fulfillment of any terms of any maintenance agreement in existence as between the Commission and the contractor or contractors constructing the aforesaid watermain and the meter chamber; and
 - (v) The testing by the Commission to Town standards and specifications of the aforesaid watermain and water meter chamber, the results of which testing shall be to the satisfaction of the Town Engineer; and
 - (vi) The correction, modification, or alteration by the Commission of any deficiency disclosed by the aforesaid testing, which corrections, modifications, or alterations are deemed necessary by the Town to the aforesaid watermain and meter chamber and which corrections, modifications, or alterations shall be completed by the Commission at its own risk and expense and to the satisfaction of the Town Engineer; and
 - (vii) The issuance of a final acceptance certificate by the Town to the Commission.

- (b) That upon the happening of any annexation of any lands or any portion of lands lying west of the present and existing boundary of the Town, the Town shall have the option to assume ownership and control of any portion of the 18-inch diameter watermain lying within the area so annexed and any portion of the said watermain shall be provided to the Town at no cost to the Town.
- (c) That all title and ownership to land, easements and right-of-way associated with the watermain lying within the area so annexed shall be transferred to the Town upon the Town assuming ownership and control.
- (d) That the Commission at its own risk and expense will be responsible for:
 - i) the control, operation and maintenance of the 18-inch diameter watermain and water meter chamber that is not under ownership and control of the Town; and
 - ii) all necessary alterations, renewals, additions, repairs and changes to the 18-inch diameter watermain lying west of the boundary of the Town.
- (e) That the Commission shall obtain and secure to the satisfaction of the Town all necessary easements; rights-of-way; land purchases; line assignments; all indemnification agreements; permits; development permits; building permits; licenses; and all other approvals; as may be required by any authority having jurisdiction or any control agency or owner or from any other source, to construct the 18-inch diameter watermain from the point of connection to the Town water system at 4^h Avenue South West to the water system belonging to the Commission, including but not limited to the access road, fencing, gate and telemetry system at the water meter chamber.

7. Metering and Supply

- (a) The Commission shall construct Meter Chambers at each Point of Delivery described in the attached Schedule "D".
- (b) The Commission will care for, keep safe, maintain, repair and replace all Meter Chambers.
- (c) The Meter Chambers are The Commission's property and all Meters are The Town's property.
- (d) The Town and The Commission may agree to additional Points of Delivery and if they do, then Schedule "D" will be amended.
- (e) Any additional Points of Delivery and required Meter Chambers will be constructed by The Commission at its expense and will be The Commission

property, provided that all Meters will be purchased and installed by The Town at its expense and will be The Town's property.

- (f) Any upgrades or modifications to existing or future Meter Chambers (including the equipment and instrumentation):
 - (i) required solely for The Commission, will be completed at The Commission's expense, and;
 - (ii) required solely for The Town, will be completed at The Town's expense.
- (g) The Town will care for, maintain, repair and replace the Meters.
- (h) Once every three years, The Town will test all Meters for accuracy. The Town will pay for these tests.
- (i) After notifying The Town in writing, The Commission may require The Town to have a Meter tested for accuracy.
- (j) If at any time a Meter Chamber or a Meter is out of service or is being repaired so that the measurement of the volume of Water being delivered is not being recorded accurately within the Agreed Variance, or if a test determines that a Meter is not registering accurately within the Agreed Variance, the Meter Chamber or Meter shall be repaired or adjusted as soon as practical, the measurement shall be corrected for a period definitely known or agreed upon, or if not known or agreed upon for one-half of the period since the last Meter test, and the measurements shall be determined or adjusted, as the case may be, to correct for the degree of inaccuracy using the best available data in the following priority:
 - (i) by using any check measuring equipment if installed and if accurately registering within the Agreed Variance.
 - (ii) by correcting the error, if the percentage of the error is ascertainable by calibration, test or mathematical calculation; or
 - (iii) by estimating the volume based upon deliveries under similar conditions during a period of time when the Meter Chamber and Meter were working accurately.

Where a test (other than a tri-annual test) indicates that the accuracy of a Meter exceeds the Agreed Variance, The Town will pay for the test. Where a test (other than a tri-annual test) does not indicate that the accuracy of a Meter exceeds the Agreed Variance, The Commission will pay for the test.

- (k) The Commission will allow The Town reasonable access to all Meter Chambers at reasonable times for the purposes of performing its obligations to care for, maintain, repair, replace and test the Meters.
- (l) That the Commission shall, at its own risk and expense, design and supply to Town standards and specifications and put into operation a telemetry system and flow recording equipment to transmit records of water flow from the water meter chamber to the control room at the Drumheller water treatment plant. The Commission shall install the telemetry system and flow recording equipment at all locations with the exception that the Town will carry out the installation of the aforesaid system and equipment in the control room at the Drumheller water treatment plant only. The Commission shall calibrate the equipment and continue to make such modifications and adjustments to the telemetry system and equipment as are necessary until the telemetry system and flow recording equipment are performing to the satisfaction of the Town. The cost of the aforesaid modifications and adjustments are to be borne by the Commission.
- (m) That upon completion of construction of the 18-inch diameter watermain and water meter chamber the Commission shall provide to the Town, at no cost to the Town, as-built drawings of that portion of the construction lying within the existing Town limits. The Commission shall update existing and adjoining block profile drawings affected by the new construction by the Commission within the existing Town limits.
- (n) That unless the Town at its own discretion otherwise agrees in writing, the Town shall not be obligated under the terms of this Agreement to supply water service for any purpose other than normal domestic and municipal purposes.
- (o) In an effort to preserve tourism and the environment immediate to Drumheller, the Commission shall be prohibited from supplying water to any consumer for confined feeding operation purposes within fifteen kilometres from the Town Limits without prior written approval from the Town.
- (p) Should the Town from time to time agree to supply water service for purposes other than normal domestic and municipal purposes, such supply shall be made on an interruptible and off-peak demand basis.
- (q) That the Commission shall be responsible for ensuring chlorine residuals in the water supply to all of the Commission's water consumers are in accordance with the requirements of the Province of Alberta.
- (r) The Town adds fluorine to the water within the Town water system and the Commission shall accept the water so fluoridated and shall have no right of appeal or objection from any party receiving such water under this Agreement.

8. Repairs, Maintenance and Replacements

- (a) The Town may interrupt or curtail Water service for periods of time as it may reasonably require for the purpose of effecting any repairs, maintenance, replacement, upgrading or other work related to its water supply system providing service under this Agreement provided that (i) The Town has given The Commission at least forty-eight (48) hours prior notice or, in the event of unforeseen circumstances, The Town gives notice of such interruption or curtailment as soon as is reasonably possible and (ii) The Town acts reasonably in using Commercially Reasonable Efforts to restore services as soon as reasonably possible.
- (b) The Town will use Commercially Reasonable Efforts to coordinate the repairs, maintenance, replacement, upgrading and other work referred to in paragraph 8(a), above, with The Commission so as to minimize to the extent reasonable the inconvenience to The Commission of interruptions and curtailments.
- (c) During periods of interruption or curtailment provided for in paragraph 8(a), above, The Town may reduce the level, quality or quantity of service provided to The Commission under this Agreement, provided that The Town shall treat all of its customers affected by the interruption or curtailment, including The Commission, fairly, equitably, and without preference, consistent with any operating constraints then in effect. The Town and The Commission shall use Commercially Reasonable Efforts to keep each other apprised of and up-to-date in respect of the relevant circumstances during each interruption or curtailment.

9. Reduced Availability of Water

Where the flow in the Red Deer River is insufficient to allow The Town to withdraw the volume of water required to meet the needs of The Town and the Commission, The Town and Commission shall incur reductions proportionate to previous annual water consumption by all users subject to any prior obligations under agreements already in place prior to the signing of this agreement, namely, the Water Supply Agreement between the Town of Drumheller and Her Majesty The Queen dated January 1, 1978.

10. Force Majeure

The Town shall not be liable for any failure of or delay in performance of its obligations hereunder or be deemed to be in breach of this Agreement if such failure or delay arise from "force majeure".

- (a) For the purposes of this Agreement, "force majeure" shall mean any cause not reasonably within The Town's control and will include, without limitation, mechanical failure, acts of God, strikes, lockouts or other industrial disturbances,

acts of public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, storms, floods, high waters, washouts, inclement weather, orders or acts of evil or military authorities, civil disturbances, or any other causes, whether of the kind herein enumerated or otherwise, not within the reasonable control of The Town and which, by the exercise of due diligence, The Town is unable to overcome, provided that lack of funds shall not be a cause beyond control.

- (b) The Town shall give The Commission prompt notice of such circumstances and shall take all reasonable steps to remove such disability. The Town shall not be entitled to the benefit of this force majeure clause to the extent the failure to provide Water was caused by The Town having failed to remedy the force majeure condition where it was reasonably able to do so and to resume the supply of water with reasonable dispatch.
- (c) The Town, through its Chief Administrative Officer, may impose reasonable restrictions on the delivery of Water, provided that The Town shall treat all of its customers affected by the force majeure, including The Commission, fairly, equitably and without preference, consistent with any operating constraints then in effect.
- (d) The parties agree that the settlement of strikes, lockouts, and other industrial disturbances shall be entirely within the discretion of the particular party involved therein and such party may make settlement thereof in such time and on such terms and conditions as it may deem to be advisable and no delay in making such settlement shall deprive such party of the benefits of this section.
- (e) A force majeure event will merely suspend contractual obligations, and not bring this Agreement or any portion thereof to an end.

11. **Liability, Damages and Mutual Indemnity**

- (a) Unless the cause is proven to be due directly to the negligence of The Town, its employee's or agents, The Town will have no liability to The Commission whatsoever for any damage, loss, cost or expense resulting from, arising out of or associated with:
 - (i) a break of any Watermain, service pipe or collapse of any ditch or trench.
 - (ii) the interference or suspension of the supply of Water due to maintenance work to, repair work to or replacement work for The Town's water system or an emergency situation regarding any part of The Town's water system, and
 - (iii) any accident to or failure of any part of The Town's water system;

- (b) Notwithstanding any other provision of this Agreement, neither The Commission nor The Town will be liable to the other for (i) any losses or costs arising from third party claims or causes of action, including claims or causes of action of the other's customers or for (ii) any indirect, consequential or punitive damages, including loss of profits or revenues or other similar damages.
- (c) Each party (the "indemnifying party") agrees to indemnify and save harmless the other party (the "indemnified party"), its agents and employees from and against any and all damage, injury, loss, costs, causes of action, including legal costs on solicitor and own client basis, and claims suffered or incurred by the indemnified party, its agents or employees which are in any way connected with the performance or non-performance of this agreement and which are caused either directly or indirectly or contributed to in whole or in part by any act or failure to act of the indemnifying party, its agents and employees, in respect of which indemnifying party, its agents or employees is liable or otherwise responsible in law, provided that such indemnity shall be limited to an amount in proportion to which the indemnifying party, its agents and employees are at fault or otherwise held responsible in law.

12. Termination, Arbitration and Remedies

- (a) Either party may terminate this Agreement before the expiry of the original term or any renewed term by giving five (5) years prior written notice of termination.
- (b) If a dispute arises between The Commission and The Town regarding the interpretation, application, operation or breach of this Agreement or any part of it the dispute must be submitted to the dispute resolution process described in the attached Schedule "G" before either party may take any other action or step or pursue any available remedy in relation to the dispute regardless of whether such action, steps or remedy involves the courts, the Alberta Energy and Utilities Board or any successor tribunal or entity, provided however that either party may file a complaint or other document required to be filed with the courts, Board or any successor tribunal or entity and take any other action or step prior to submitting any dispute to the dispute resolution process if such filing, action or step is necessary to preserve its right to pursue the dispute in the event that the dispute resolution process is unsuccessful in resolving the dispute.

Notwithstanding that the dispute resolution process is involved, the parties will continue to perform their obligations described in this Agreement until such time as the dispute resolution process is complete.

- (c) Subject to paragraph 12 (b), if a party breaches this Agreement, then the other party will have all available legal, equitable and other remedies.

13. Strategic Planning and Consultation

- (a) The Commission and The Town will create and develop a process of planning and consultation. As a first step, the parties agree to the establishment of a joint steering committee (the “Joint Steering Committee”). Initially, the Joint Steering Committee will be composed of:
 - (i) three representatives of The Commission;
 - (ii) up to three representatives of The Town.
- (b) The rules and procedures of the Joint Steering Committee will be established from time to time by it. However:
 - (i) the Joint Steering Committee will meet not less than twice per year;
 - (ii) the role of the chair for each meeting will be rotated alternatively between The Town and The Commission;
 - (iii) the location of each meeting will be rotated among all Joint Steering Committee Members.
- (c) The mandate of the Joint Steering Committee is to:
 - (i) enhance communications between and among The Town and The Commission.
 - (ii) analyze and improve operations under this Agreement;
 - (iii) engage in a process of strategic planning regarding such issues as the supply and delivery of Water, water conservation, capital expenditures and rates and rate increases or decreases; and
 - (iv) provide a forum for the discussion of issues respecting Annual Quantity determinations under Part I of the attached Schedule “A” and any other concerns respecting the purchase, supply and delivery of Water;

provided however that it shall not be necessary for The Town or The Commission to take any dispute to the Joint Steering Committee prior to submitting the dispute to the dispute resolution process in accordance with section 12(b) of this Agreement. In order to carry out its mandate, the Joint Steering Committee may delegate tasks to sub-committees. The sub-committees may be composed of people who are not members of the Joint Steering Committee.

In witness whereof the parties have signed this Agreement to be effective from and after the Effective Date.

THE TOWN OF DRUMHELLER

Per: 

Per: 

Date: June 15, 2004

KNEEHILL REGIONAL WATER SERVICES COMMISSION

Per: 

Per: 

CAO: 

Date: June 15, 2004

SCHEDULE "A"

PART 1
ANNUAL QUANTITY

1. Subject to section 2 of this Schedule, The Commission and The Town agree that the Annual Quantity of Water for each of the following years shall be the quantity set forth opposite that year:

- 2004.....
- 2005.....
- 2006.....
- 2007.....
- 2008.....

2. The Annual Quantity of Water for a calendar year will be determined or re-determined, as the case may be, as follows:

- (a) Prior to October 1st in each year of this Agreement, The Commission will provide to The Town:
 - (i) a written forecast of the quantity of Water which The Commission reasonably expects to purchase from The Town during each of the next five calendar years and which The Commission proposes as the Annual Quantity of Water for each of those years (the "forecast"); and
 - (ii) engineering and other information supporting the forecast, including without restriction information regarding The Commission's forecast population, business and industrial growth.
- (b) Prior to July 31st of the following year The Commission and The Town will meet to review The Commission's forecast and review planning issues and The Town will give The Commission notice as to whether The Town agrees with the quantity of Water proposed by The Commission as the Annual Quantity of Water for a calendar year as set forth in the forecast.
- (c) If The Town agrees with the quantity proposed by The Commission as the Annual Quantity of Water for each calendar years as set forth in a forecast, those quantities will become the Annual Quantity of water for each of those calendar years.

- (d) If The Town does not agree with the quantity proposed by The Commission as the Annual Quantity of Water for any calendar year as set forth in a forecast, The Commission and The Town will work together in good faith to reach agreement on the quantity that will be the Annual Quantity of Water for each of the years covered by the forecast.
3. Unless and until The Commission and The Town reach agreement on a different quantity as the Annual Quantity of Water for a calendar year pursuant to section 2 of this Schedule:
- (a) in the case of a calendar year set forth in section 1 of this Schedule (a “Scheduled Year”):
 - (i) if The Commission and The Town have not agreed pursuant to section 2 on a quantity to be the Annual Quantity for that Scheduled Year different than the quantity set forth in section 1, the Annual Quantity will be the quantity set forth opposite the Scheduled Year in section 1; or
 - (ii) if The Commission and The Town have agreed pursuant to section 2 on a quantity to be the Annual Quantity for that Scheduled Year different than the quantity set forth in section 1, the Annual Quantity will be the quantity last agreed on by The Commission and The Town for that Scheduled Year;
 - (b) in the case of a calendar year after the last Scheduled Year (a “Non-Scheduled Year”):
 - (i) if The Commission and The Town have not agreed pursuant to section 2 on a quantity to be the Annual Quantity for that Non-Scheduled Year, the Annual Quantity will be the quantity set forth opposite 2008 in section 1 of this Schedule;
 - (ii) if The Commission and The Town have agreed pursuant to section 2 on a quantity to be the Annual Quantity for that Non-Scheduled Year, the Annual Quantity will be the quantity last agreed on by The Commission and The Town for that Scheduled Year;
 - (iii) if The Commission and The Town have agreed pursuant to section 2 on a quantity to be the Annual Quantity for a Non-Scheduled Year but have not agreed on the quantity to be the Annual Quantity for the Non-Scheduled Year in question, the Annual Quantity for the Non-Scheduled Year in question will be the quantity for the last Non-Scheduled Year for which they reached agreement unless and until The Commission and The Town reach agreement on a different quantity for the Non-Scheduled Year in question pursuant to section 2.

4. For greater certainty, each of The Town and The Commission shall act reasonably in preparing and reviewing each forecast, and in all discussions and negotiations in relation to each forecast and the establishment of an Annual Quantity of Water for each year. The Commission shall use commercially reasonable efforts in the preparation of each forecast to ensure to the extent reasonably possible that it is not over-estimating or otherwise inflating its Water needs. The Town shall exercise sound engineering judgement and, where appropriate, consult with The Commission when reviewing the technical aspects of The Commission's forecast. The parties expressly and explicitly acknowledge and agree that it would be reasonable for The Town to refuse to agree to the quantity proposed by The Commission for any bona fide reason, including any bona fide economic, legal, regulatory, technical or engineering reason, but that it would be unreasonable and improper for The Town to refuse to agree to a quantity proposed by The Commission primarily for the purpose of limiting or otherwise controlling the growth of residential, commercial or industrial development within The Commission's Boundaries.
5. **Maximum Quantity**
The Maximum Annual Quantity of water to be allocated from the Town's water system to the Commission shall be 3,000 (dam³) or 3,000,000 m³ as referenced in the Urban System Report dated June, 2000.

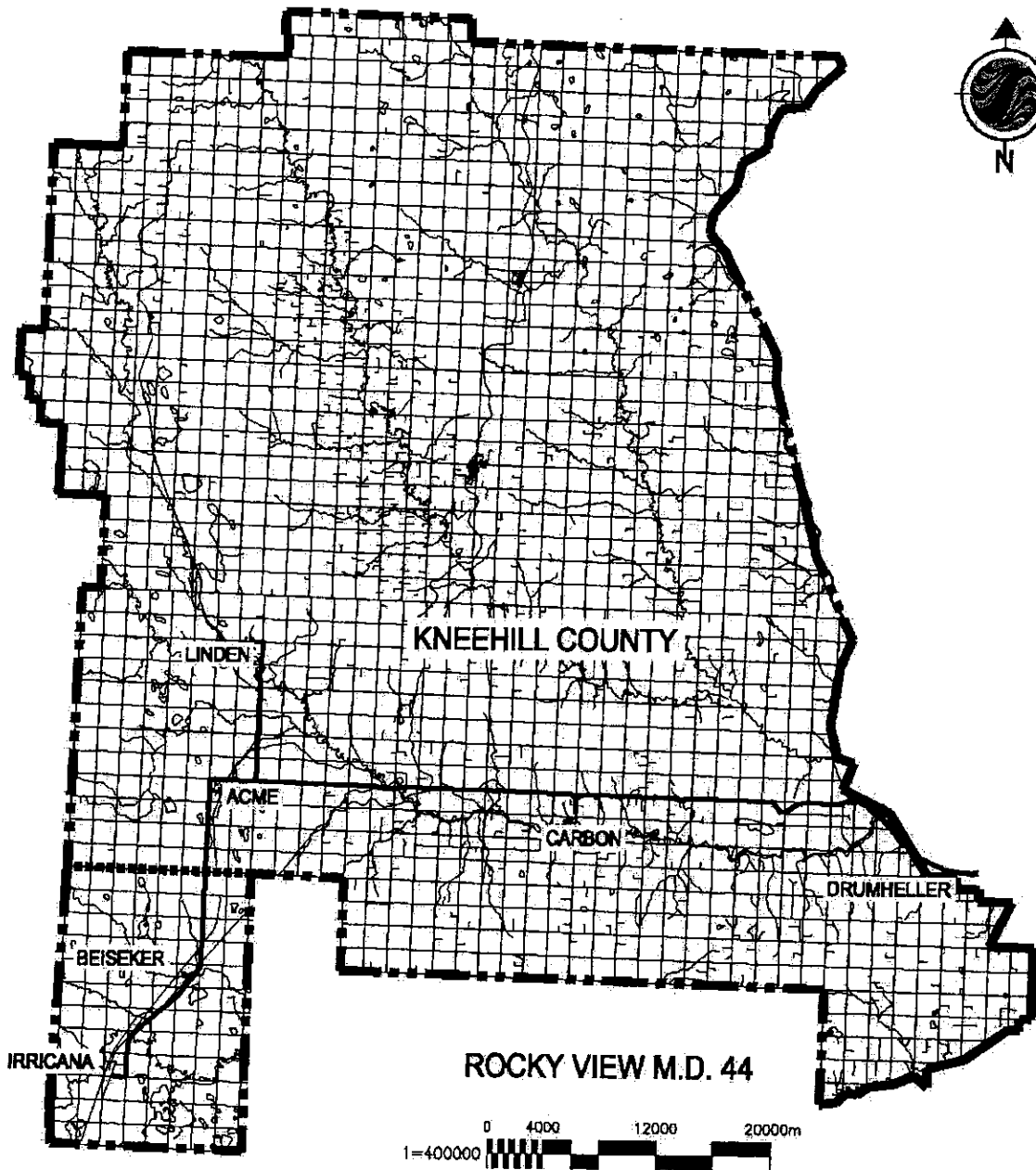
SCHEDULE "A"**PART 2****MAXIMUM DAILY QUANTITY**

The Maximum Daily Quantity for each day shall be equal to the quantity (expressed in mega litres or cubic metres) determined as follows:

$$\text{Maximum Daily Quantity} = (\text{AQ}/365) \times 1.8$$

Where AQ equals the Annual Quantity for the calendar year in which that day falls.

SCHEDULE "B"
THE COMMISSION BOUNDARIES






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2004-05-21 03:29PM By: ssonderson

MAY, 2004
112872701

ORIGINAL SHEET - ANSI A



Stantec Consulting Ltd.
600, 4808 Ross Street
Red Deer AB Canada
T4N 1X5
Tel. 403.341.3320
Fax. 403.342.0969
www.stantec.com

BOUNDARY 
COUNTY DIVIDER 
WATER LINE 

Client/Project
KWSC TRANSMISSION LINE

Figure No.
1.0

Title
SCHEDULE B

SCHEDULE "C"
CAPITAL CONTRIBUTION

The Commission and the Town have reviewed the Capital upgrades undertaken by the Town of Drumheller to produce and deliver water. The calculation follows the terms as stated in the American Water Works Association (AWWA) manual of practice dealing with water rates and charges as reviewed and updated from time to time and in accordance with the findings and directives of the Alberta Energy and Utilities Board.

It has been determined that the Capital Contribution for the amount of water required in the agreement for the Commission is \$2,400,000.

The Commission will on January 1, 2005, provide a payment of \$1,200,000 as its first payment to the Town of Drumheller for the Capital Contribution.

At the end of the project or by December 31, 2005, the Commission will forward a final settlement of monies as determined by the grant allocation and final construction costs.

CALCULATION OF CAPITAL COST TO WATER RATE

The capital cost component of the water rate will be determined by the amount of capital cost contribution as per the calculation of the Campbell Ryder Report of 2004. The Commission and the Town will review the final capital cost contribution and if agreed the outstanding capital contribution will be included in the water rates in accordance with Schedule "E".

ACKNOWLEDGEMENT OF CAPITAL CONTRIBUTION

The Town acknowledges the capital contribution of the Commission made to the Town for the supply of water.

SCHEDULE "E"
HOW THE RATE IS DETERMINED

A. HOW THE RATE IS DETERMINED

Rates will be calculated on a cost of service basis utilizing the principles set out in the American Water Works Association (AWWA) manuals of practice dealing with water rates and charges, as revised and updated from time to time, and in accordance with the findings and directives of the Alberta Energy and Utilities Board.

Principles and practices to be applied to determine Rates maybe changed from time to time by way of negotiated agreement between the parties or as a result of a decision or order of the Alberta Energy and Utilities Board, or a successor tribunal or authority.

Notwithstanding anything contained in this Schedule or in the Agreement (to which this Schedule is attached), the principles and practices used to determine Rates may be changed as a result of negotiated agreement between The Town and The Commission or as a result of either party exercising its rights under the applicable legislation in effect at that time.

B. MINIMUM SALES CALCULATION

There is a significant amount of capital expenditure by The Town to meet the needs of The Commission; a minimum sales calculation shall be made each year. This minimum amount will be calculated utilizing the cost figures for the fixed or capital costs associated with the production of water by The Town for The Commission.

The minimum rate will be based on a minimum fixed amount of water that recognizes the recovery of appropriate fixed costs.

Actual sales volumes and in the interim period of the phasing of The Commission water line predicted volumes of water be used as a base for the calculations.

SCHEDULE "F" AS AMENDED
PARTIES TO WHOM THE COMMISSION
MAY RESELL THE TOWN'S WATER
OUTSIDE OF THE COMMISSION BOUNDARIES

1. Corporate Boundaries of the Hamlet of Kathryn IN AN AMOUNT NOT EXCEEDING 2,200 m³ (TWO THOUSAND TWO HUNDRED CUBIC METRES) per day.

THE TOWN OF DRUMMELLER

Per: 

Per: 

Date: December 10, 2008

KNEEHILL REGIONAL WATER SERVICES
COMMISSION

Per: 

Per: 

CAO: 

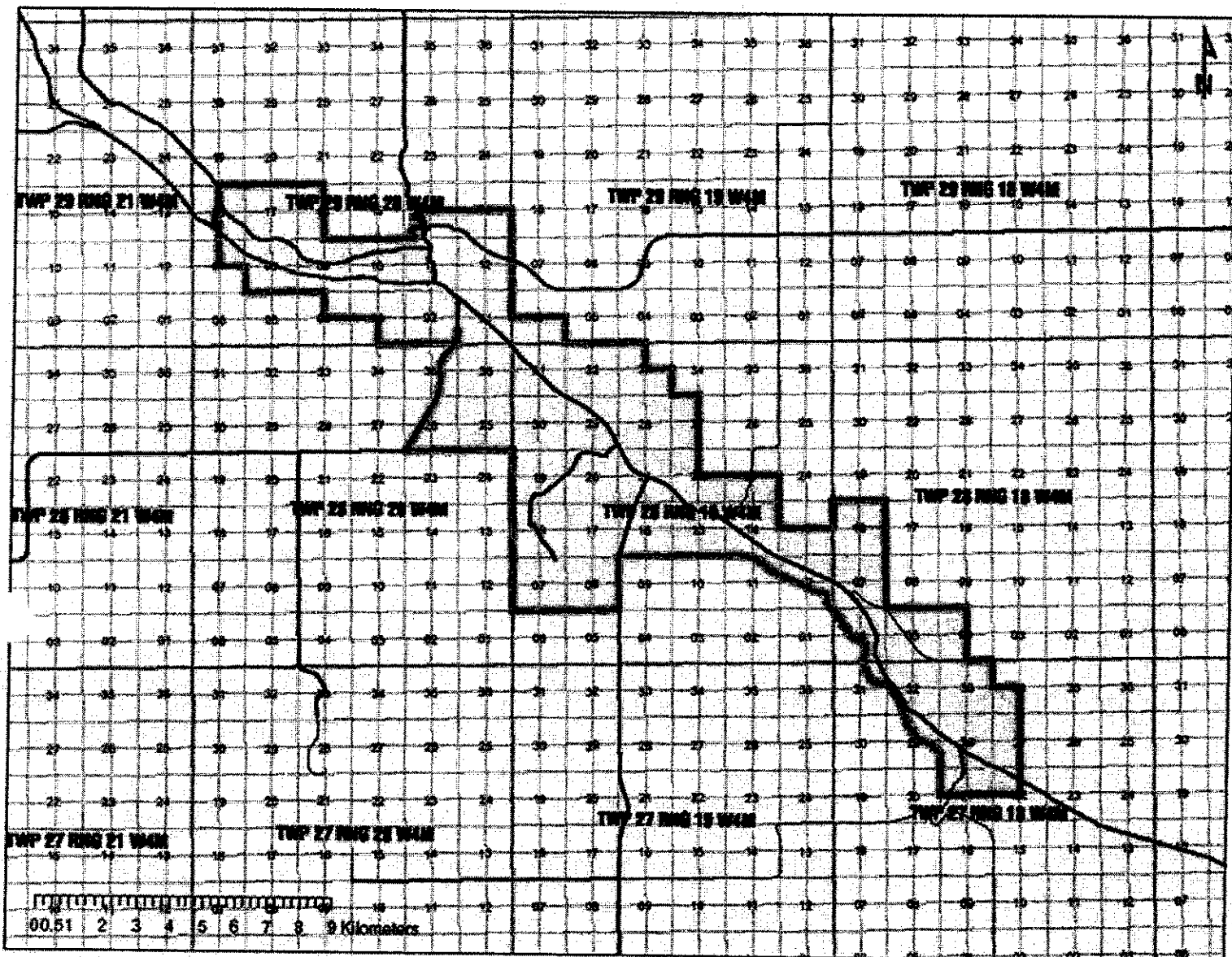
Date: Nov 27, 2008

SCHEDULE "G"
DISPUTE RESOLUTION PROCESS

The Commission and The Town acknowledge that in any business relationship a difference of opinion or interpretation or a divergence of interest may arise. The Commission and The Town are committed to resolving any disputes in a non-adversarial, informal, and cost efficient manner. Therefore The Commission and The Town agree as follows:

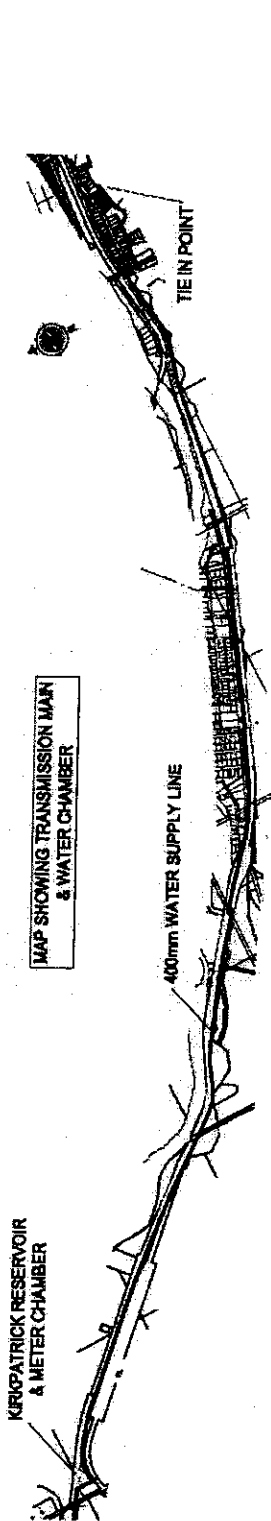
1. The Commission and The Town will attempt to resolve any dispute through direct negotiation.
2. Failing successful negotiation they will resort to mediation as follows:
 - (a) Either party may give written notice to the other, request that the parties select a mediator. The parties shall endeavour to select a Mediator agreeable to both from a list of suitable mediators maintained by the Alberta Arbitration and Mediation Society.
 - (b) Within 7 days of his or her selection, the Mediator will designate a time for a meeting among the Mediator and a representative of each The Commission and The Town. Each representative must have authority to agree to a resolution of the dispute.
 - (c) Subject to paragraph 12(b) of the Agreement, for a 45 day period of time from the written notice requesting the selection of a mediator, neither The Commission nor The Town will take any action or step or pursue any available remedy other than to use its commercially reasonable efforts to participate in the mediation process.
 - (d) The cost and expense of the Mediator and the mediation process will be paid for equally by The Commission and The Town.
 - (e) The mediation process, including all discussions, proposals and written materials made or prepared, will be strictly confidential and cannot be used or referred to in any subsequent action, step or proceedings.
 - (f) The Mediator cannot be called by either party as a witness in any subsequent action, step or proceeding.
 - (g) Should the parties fail to agree on a mediator under sub clause a) within a period of 21 days from the date of written notice, a mediator shall be appointed by Alberta Municipal Affairs or failing them the Alberta Arbitration and Mediation Society or its successor in kind.

SCHEDULE "H" MAP SHOWING TOWN LIMITS



Town of Drumheller

SCHEDULE "I" MAP SHOWING WATER TRANSMISSION MAIN AND WATER CHAMBER METER



MAP SHOWING TRANSMISSION MAIN & WATER CHAMBER

Map No. 11/06/2011

Client/Project: KIRKPATRICK TRANSMISSION LINE

Scale: 1:0
SCHEDULE I

Notes

Legend

11/10/2011 10:45:11 AM C:\Users\j\Documents\Projects\Kirkpatrick\Kirkpatrick\Kirkpatrick.dwg

Siersted Consulting Ltd.
600, 4808 Ross Street
Red Deer AB Canada
T4N 1X5
Tel. 403.341.3320
Fax. 403.342.0969
www.siersted.com



**LICENCE TO DIVERT WATER
PROVINCE OF ALBERTA
WATER ACT, R.S.A. 2000, c.W-3, as amended**

LICENCE NO.: 00234476-00-00FILE NO.: 00193242PRIORITY NO.: 2003-11-28-001EFFECTIVE DATE: October 3, 2006EXPIRY DATE: October 2, 2031SOURCE OF WATER: Red Deer River (through the works of the Town of Drumheller)POINT OF DIVERSION: SE 01-029-20-W4LICENSEE: Kneehill Regional Water Services Commission

Pursuant to Division 2, of Part 4, of the *Water Act*, R.S.A. 2000, c.W-3, as amended, a licence is issued to the Licensee to:

operate a works and to divert up to 2,350,000 cubic metres of water annually at a maximum rate of diversion of 0.075 cubic metres per second from the source of water for the purpose(s) of municipal

subject to the attached terms and conditions.

Designated Director under the Act: 

David L. Ardell, P.Eng.

Date Signed: October 3, 2006

**Kneehill Regional Water Services Commission
Capital Purchases and Related Funding**

	Total	2006	2005	2004	2003
Capital Assets @ cost					
Land	38,802.00	-	-	38,802.00	-
Engineering structures	31,178,903.00	423,127.00	11,626,970.00	18,736,508.00	392,298.00
Computer equipment	5,220.00	-	-	-	5,220.00
Supervisor Control/Data Acq	150,000.00	-	150,000.00	-	-
	<u>31,372,925.00</u>	<u>423,127.00</u>	<u>11,776,970.00</u>	<u>18,775,310.00</u>	<u>397,518.00</u>
Water Capital Contribution Agreement Town of Drumheller	2,400,000.00		2,400,000.00		
	<u>33,772,925.00</u>	<u>423,127.00</u>	<u>14,176,970.00</u>	<u>18,775,310.00</u>	<u>397,518.00</u>
Funding of Project:					
Capital Contributions - Water System	(20,380,053.00)	(784,541.00)	(6,912,318.00)	(12,420,825.00)	(262,369.00)
Capital Contributions - Supply Agreement	(1,495,200.00)	-	(1,495,200.00)	-	-
Long term debt - prom note	-	-	50,000.00	-	(50,000.00)
Long term debt - debenture	(12,158,062.00)	-	(4,120,562.00)	(8,037,500.00)	-
	<u>(34,033,315.00)</u>	<u>(784,541.00)</u>	<u>(12,478,080.00)</u>	<u>(20,458,325.00)</u>	<u>(312,369.00)</u>
Under(over) Funding of Project	(260,390.00)				

COMMISSION FINANCIAL INFORMATION RETURN

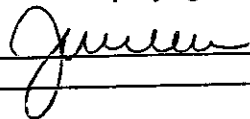
FOR THE PERIOD ENDING DECEMBER 31, 2004

Report of Commission Manager

Commission Name: Kneehill Regional Water Services Commission

**This Commission Financial Information Return, to the best of my knowledge,
is fairly presented and was prepared in compliance with the
accompanying Financial Information Return manual.**

Signature



Dated

Alberta Municipal Affairs



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
B.A., B.Comm., C.A.
Professional Corporation

Shelley Harriman
Certified General Accountant
Professional Corporation

**AUDITORS' REPORT
ON COMMISSION FINANCIAL INFORMATION RETURN**

To the Minister of Alberta Municipal Affairs

We have audited the commission financial information return of the Kneehill Regional Water Services Commission for the period ended December 31, 2004. This financial information is the responsibility of the commission's administration. Our responsibility is to express an opinion on this financial information based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether this financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information return. An audit also includes assessing the accounting principles used and significant estimates made by the commission's administration, as well as evaluating the overall presentation of the financial information.

In our opinion, this financial information return presents fairly, in all material respects, the financial position of the commission as at December 31, 2004 and the results of its financial activities and the changes in its financial position for the year then ended in accordance with the accounting principles prescribed by the Minister of Alberta Municipal Affairs as provided for in Section 602.32 of the Municipal Government Act.

It is understood that this report, as requested by the Minister of Alberta Municipal Affairs, is to be used primarily for provincial statistical purposes. We have issued an audit report dated April 1, 2005 on the financial statements of the Kneehill Regional Water Services Commission for the period ended December 31, 2004 and reference should be made to those audited financial statements for complete information.

Strathmore, Alberta
April 1, 2005

Shelley Harriman & Associates
Gregory, Harriman & Associates
Professional Accountants

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Association of two Professional Corporations that are in the practice of accountancy

**COMMISSION
FINANCIAL POSITION**

Schedule A

		Operating 1	Capital 2	Reserves 3	Total 4
Assets	0010				
Cash and Temporary Investments	0020	0			0
Taxes and Grants in Place Receivables	0030				
Current	0040				
Arrears	0050				
Allowance	0060				
Receivable From Governments	0070	70	5,400,015		5,400,085
Loans Receivable	0080				0
Trade and Other Receivables	0090				0
Due From General Functions	0100				
Due From Other Funds	0110	269,242			
Inventory of Consumable Supplies	0120				0
Inventories Held for Resale	0130				
Land	0140				0
Other	0150				0
Prepaid Expenses	0160				0
Long Term Investments	0170				
Federal Government	0180				0
Provincial Government	0190				0
Local Governments	0200				0
Other	0210	5,000			5,000
Capital Property	0220		1,673		1,673
Other Current Assets	0230				0
Other Long Term Assets	0240		19,167,608		19,167,608
	0250	274,312	24,569,296	0	
Total Assets	0260				24,574,366
Liabilities	0270				
Temporary Loans Payable	0280	387,806			387,806
Payable To Governments	0290				0
Accounts Payable & Accrued Liabilities	0300	7,564	3,532,907		3,540,471
Deposit Liabilities	0310				0
Due To General Functions	0320				
Due To Other Funds	0330		269,242		
Deferred Revenue	0340	3,854			3,854
Long Term Debt	0350		8,087,500		8,087,500
Other Current Liabilities	0360				0
Other Long Term Liabilities	0370		12,679,647		12,679,647
	0380	399,224	24,569,296	0	
Total Liabilities	0390				24,699,278
Equity	0400				
Restricted Fund Balances	0405				0
Unrestricted Fund Balances	0406	-124,912	0		-124,912
Total Fund Balances	0410	-124,912	0	0	-124,912
Unfunded Liabilities	0415				
	0418	-124,912	0	0	-124,912
Total Equity	0420	274,312	24,569,296	0	
Total Liabilities and Equity	0430				24,574,366

**COMMISSION
FUND EQUITY**

Schedule B

		Operating 1	Capital 2	Reserves 3	Total 4
Net Revenue (Expenditure)	0500	-112,835	0		-112,835
Net Transfers From / To Reserves Fund	0510				
Net Transfers From / To General Functions	0520				
Net Transfers From / To Operating / Capital Funds	0530				
Transfer To Capital: Principal Repayments on L/T Debt ..	0540				
Appropriated From Beginning of Year Fund Balance.....	0550				0
Other Inter-Fund Adjustments	0560				
Increase (Decrease) in Unfunded Liabilities	0565				
Change in Fund Balances					
	0570	-112,835	0	0	-112,835
Fund Balances					
	0575				
Balance at Beginning of Year	0580	-12,077	0		-12,077
Prior Period Adjustments	0590				0
Appropriated To Operating Fund	0600				0
Other Adjustments	0610				0
Balance at End of Year					
	0620	-124,912	0	0	-124,912

**COMMISSION
FINANCIAL ACTIVITIES BY TYPE / OBJECT**

Schedule D

		Operating 1	Capital 2	Total 3
Revenues	1700			
Taxation and Grants in Place	1710			
Property (Net Municipal)	1720			
Business	1730			
Business Revitalization Zone	1740			
Special	1750			
Well Drilling	1760			
Local Improvement	1770			
Mobile Home License Fees	1780			
Sales To Governments	1790			0
Sales and User Charges	1800			0
Penalties and Costs on Taxes	1810			
Licenses and Permits	1820			0
Fines	1830			0
Franchise and Concession Contracts	1840			0
Returns on Investments	1850	4,752		4,752
Rentals	1860			0
Insurance Proceeds	1870			0
Proceeds From Disposal of Capital Property	1880			0
Federal Government Unconditional Transfers	1890			0
Federal Government Conditional Transfers	1900			0
Provincial Government Unconditional Transfers	1910			0
Provincial Government Conditional Transfers	1920	2,172	1,740	3,912
Local Government Transfers	1930			0
Transfers From Local Boards and Agencies	1940			0
Drawn From Allowances	1950			
Developers' Agreements and Levies	1960			0
Other Revenues	1970	11		11
Total Revenue	1980	6,935	1,740	8,675
Expenditures	1990			
Salaries, Wages, and Benefits	2000	15,369		15,369
Contracted and General Services	2010	25,922		25,922
Purchases from Governments	2020			0
Materials, Goods, Supplies, and Utilities	2030	2,944		2,944
Provision For Allowances	2040			0
Transfers to Governments	2050			0
Transfers to Local Boards and Agencies	2060			0
Transfers to Individuals and Organizations	2070			0
Bank Charges and Short Term Interest	2080	35,705		35,705
Interest on Operating Long Term Debt	2090			0
Interest on Capital Long Term Debt	2100	37,500		37,500
Amortization of Capital Property	2110		1,740	1,740
Unamortized Cost of Capital Property Disposed	2120			0
Other Expenditures	2130	2,330		2,330
Total Expenditures	2140	119,770	1,740	121,510
Net Revenue (Expenditure)	2150	-112,835	0	-112,835

**COMMISSION
CAPITAL FUND SUPPLEMENTARY DETAIL**

Schedule F

Capital Fund Long Term Debt

Principal Additions During Year	Principal Reductions During Year
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1	2
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Total	3126	8,037,500	0
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CHANGES IN CAPITAL PROPERTY

Schedule G

Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
1	2	3	4

Capital Property - Cost	3200				
Engineering Structures	3210			0	
Buildings	3220			0	
Machinery and Equipment	3230	5,423	203	5,220	
Land	3240			0	
Vehicles	3250			0	
Total Capital Property Cost	3260	5,423	0	203	5,220
Capital Property - Accumulated Amortization	3270				
Engineering Structures	3280			0	
Buildings	3290			0	
Machinery and Equipment	3300	3,547		3,547	
Land	3310			0	
Vehicles	3320			0	
Total Capital Property Accumulated Amortization	3330	0	3,547	0	3,547
Total Capital Property Net of Accum. Amortization	3340	5,423	-3,547	203	1,673

**COMMISSION
LONG TERM DEBT SUPPORT**

Schedule H

		Operating 1	Capital 2	Total 3
Long Term Debt Support	3400			
Supported by General Tax Levies	3410			
Supported by Special Levies	3420			
Supported by Utility Rates	3430			0
Other	3440		8,087,500	8,087,500
Total Long Term Debt Principal Balance	3450	0	8,087,500	8,087,500

LONG TERM DEBT SOURCES

Schedule I

		Operating 1	Capital 2	Total 3
Alberta Capital Finance Authority	3500		8,037,500	8,037,500
Province of Alberta	3510			0
Canada Mortgage and Housing Corporation	3520			0
Municipal Development and Loan Board	3530		50,000	50,000
Government of Canada	3540			0
Alberta Mortgage and Housing Corporation	3550			0
Alberta Opportunity Company	3560			0
PubliCBond Issue	3570			0
United States Market	3580			0
European Market	3590			0
Mortgage Borrowing	3600			0
Other	3610			0
Total Long Term Debt Principal Balance	3620	0	8,087,500	8,087,500

FUTURE LONG TERM DEBT REPAYMENTS

Schedule J

		Operating 1	Capital 2	Total 3
Principal Repayments by Year	3700			
Current + 1	3710		69,382	69,382
Current + 2	3720		195,262	195,262
Current + 3	3730		154,377	154,377
Current + 4	3740		164,066	164,066
Current + 5	3750		174,361	174,361
Thereafter	3760		7,330,052	7,330,052
Total Principal	3770	0	8,087,500	8,087,500
Interest by Year	3780			
Current + 1	3790		248,359	248,359
Current + 2	3800		490,220	490,220
Current + 3	3810		481,103	481,103
Current + 4	3820		471,416	471,416
Current + 5	3830		461,119	461,119
Thereafter	3840		5,697,312	5,697,312
Total Interest	3850	0	7,849,529	7,849,529

DEBT LIMIT

Schedule AA

Debt Limit 5700 15,000,000

Total Debt
Debt Service Limit
Total Debt Service Costs

5710	8,087,500
5720	n/a
5730	n/a



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
B.A., B.Comm., C.A.
Professional Corporation

Shelley Harriman
Certified General Accountant
Professional Corporation

KNEEHILL REGIONAL WATER SERVICES COMMISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2004

KNEEHILL REGIONAL WATER SERVICES COMMISSION

DECEMBER 31, 2004

CONTENTS

	Page
AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**



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Karen A. Gregory
B.A., B.Comm., C.A.
Professional Corporation

Shelley Harriman
Certified General Accountant
Professional Corporation

AUDITORS' REPORT

To the Members of the Board of
Kneehill Regional Water Services Commission

We have audited the Statement of Financial Position of the Kneehill Regional Water Services Commission as at December 31, 2004 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the commission's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Kneehill Regional Water Services Commission as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Strathmore, Alberta
April 1, 2005

Gregory, Harriman & Associates
Gregory, Harriman & Associates
Professional Accountants

Kneehill Regional Water Services Commission
Statement of Financial Position
As at December 31, 2004

Appendix G

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash (Note 4)	\$ -	\$ 12,331
Accounts receivable (Note 5)	5,400,085	247,328
	<u>5,400,085</u>	<u>259,659</u>
INVESTMENTS (Note 6)	5,000	-
CAPITAL ASSETS UNDER CONSTRUCTION (Note 7)	19,167,608	392,298
CAPITAL ASSETS (Note 8)	<u>1,673</u>	<u>3,413</u>
TOTAL ASSETS	<u><u>\$ 24,574,366</u></u>	<u><u>\$ 655,370</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bank indebtedness (Note 9)	\$ 387,806	-
Accounts payable and accrued liabilities (Note 10)	3,540,471	350,859
Deferred revenue (Note 11)	3,854	6,026
Current portion of long term debt (Note 14)	<u>69,382</u>	<u>-</u>
	<u>4,001,513</u>	<u>356,885</u>
LONG TERM LIABILITIES		
Deferred contributions related to capital assets (Note 12)	1,673	3,413
Deferred contributions related to capital assets under construction (Note 13)	12,677,974	257,149
Long term debt, net of current portion (Note 14)	<u>8,018,118</u>	<u>50,000</u>
	<u>20,697,765</u>	<u>310,562</u>
TOTAL LIABILITIES	<u>24,699,278</u>	<u>667,447</u>
NET ASSETS		
Invested in capital assets (Note 2,15)	-	-
Unrestricted (Note 2)	<u>(124,912)</u>	<u>(12,077)</u>
TOTAL NET ASSETS	<u>(124,912)</u>	<u>(12,077)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 24,574,366</u></u>	<u><u>\$ 655,370</u></u>

Approved by : _____ Chairman _____ Director

Kneehill Regional Water Services Commission
Statement of Operations
For the Year Ended December 31, 2004

Appendix G

	2004	2003
REVENUE		
Government transfers	\$ 3,912	\$ 1,808
Investment income	4,752	40
Other revenue	11	2,318
TOTAL REVENUE	8,675	4,166
EXPENSES		
Amortization	1,740	1,808
Bank charges and short term interest	35,705	72
Contracted and general services	25,922	10,533
Director's fees	15,369	3,510
Interest on capital long term debt	37,500	-
Materials, goods, supplies and utilities	2,944	311
Other expenditures	2,330	9
TOTAL EXPENSES	121,510	16,243
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(112,835)	(12,077)
NET ASSETS AT BEGINNING OF YEAR	(12,077)	-
NET ASSETS AT END OF YEAR	\$ (124,912)	\$ (12,077)

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

Gregory, Harriman & Associates, Professional Accountants

Kneehill Regional Water Services Commission
Statement of Changes in Net Assets
For the Year Ended December 31, 2004

Appendix G

			2004	2003
	Invested in Capital Assets	Unrestricted	Total	Total
NET ASSETS AT BEGINNING OF YEAR	\$ -	\$ (12,077)	\$ (12,077)	\$ -
Excess (deficiency) of revenue over expenses	-	(112,835)	(112,835)	(12,077)
Purchase of capital assets	-	-	-	-
Proceeds from disposal of capital assets	-	-	-	-
Long term debt proceeds	-	-	-	-
Principal repayments of long term debt	-	-	-	-
NET ASSETS AT END OF YEAR	<u>\$ -</u>	<u>\$ (124,912)</u>	<u>\$ (124,912)</u>	<u>\$ (12,077)</u>

Kneehill Regional Water Services Commission
Statement of Cash Flows
For the Year Ended December 31, 2004

Appendix G

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (112,835)	\$ (12,077)
Items which do not affect cash:		
Amortization of capital assets	1,740	1,808
Net changes in non-cash working capital balances		
Decrease (increase) in grants receivable	(3,932,734)	(226,680)
Decrease (increase) in GST payable/receivable	(1,220,024)	(20,648)
Increase (decrease) in deferred revenue	(2,172)	6,026
Increase (decrease) in deferred contributions related to capital assets	(1,740)	3,413
Increase (decrease) in deferred contributions related to capital assets under construction	12,420,825	257,149
Increase (decrease) in accounts payable and accrued liabilities	3,189,612	350,859
	<u>10,342,672</u>	<u>359,850</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,000)	-
Purchase of capital assets	-	(5,221)
Purchase of capital assets under construction	(18,775,309)	(392,298)
Proceeds from disposal of capital assets	-	-
	<u>(18,780,309)</u>	<u>(397,519)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Long term debt issued	8,037,500	50,000
Long term debt repaid	-	-
	<u>8,037,500</u>	<u>50,000</u>
 CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	 (400,137)	 12,331
 CASH POSITION AT BEGINNING OF YEAR	 <u>12,331</u>	 <u>-</u>
 CASH POSITION AT END OF YEAR	 <u>\$ (387,806)</u>	 <u>\$ 12,331</u>

The accompanying notes form an integral part of these financial statements.
 Gregory, Harriman & Associates, Professional Accountants

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2004

1) Nature of the Organization

Kneehill Regional Water Services Commission (Commission) is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs on September 30, 2003, for the purpose of constructing, maintaining, controlling and managing a regional potable water supply system.

The members of the commission are the Village of Acme, the Village of Beiseker, the Village of Carbon, the Village of Irricana, the Village of Linden, Kneehill County and the Municipal District of Rockyview.

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

2) Significant Accounting Policies

a. Basis of Presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

b. Revenue Recognition

The commission follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonable assured.

Contributions specified for capital purposes are recorded as deferred capital asset contributions. These deferred contributions are taken into income as the related capital costs are amortized.

c. Capital Assets Under Construction

Capital assets under construction are recorded at cost and include all costs directly attributable to the construction and development of the capital asset.

d. Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over the following periods:

Computer equipment	3 years
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e. Invested in Capital Assets

The balance represents Kneehill Regional Water Services Commission's net investment in capital assets. It is the original asset cost, less accumulated amortization, debt directly related to the asset and any deferred contributions related to the asset.

f. Unrestricted Net Assets

These amounts are not restricted by the Board and are available for any purpose approved by the Members of the Board.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2004

2) Significant Accounting Policies (continued)

g. Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

3) Financial Instruments

The commission's financial instruments consist of cash, accounts receivable, investments, bank indebtedness, 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 risks arising from these financial instruments.

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

4) Cash		2004	2003
ATB - Chequing		<u>\$ -</u>	<u>\$ 12,331</u>
5) Accounts Receivable		2004	2003
Operating			
Accrued interest receivable		\$ 70	\$ -
Capital			
Provincial government transfers		2,079,672	113,340
Federal government transfers		2,079,672	113,340
GST receivable		<u>1,240,671</u>	<u>20,648</u>
		<u>\$ 5,400,085</u>	<u>\$ 247,328</u>
6) Investments		2004	2003
ATB Flexible GIC		<u>\$ 5,000</u>	<u>\$ -</u>
The investment consists of a two year flexible GIC maturing July 15, 2006 and bearing interest of 3% per annum.			
7) Capital Assets Under Construction		2004	2003
Land		\$ 38,802	\$ -
Engineering structures - Water distribution system		<u>19,128,806</u>	<u>392,298</u>
		<u>\$ 19,167,608</u>	<u>\$ 392,298</u>
8) Capital Assets		2004	2003
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	<u>\$ 5,221</u>	<u>\$ 3,548</u>	<u>\$ 1,673</u>
			<u>\$ 3,413</u>

**Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2004**

Appendix G

9) Bank Indebtedness	2004	2003
ATB - chequing	\$ 1,005	\$ -
Bank line of credit	<u>386,801</u>	<u>-</u>
	<u>\$ 387,806</u>	<u>\$ -</u>

The Commission has an authorized revolving line of credit of \$5,000,000 at a rate of Prime less 0.25% covered by a general security agreement, of which \$4,613,199 remained unused at year end.

10) Accounts Payable and Accrued Liabilities	2004	2003
Operating		
Trade payables	\$ 2,749	\$ -
Accrued liabilities	<u>4,815</u>	<u>4,815</u>
	7,564	4,815
Capital		
Trade payables	<u>3,532,907</u>	<u>346,044</u>
	<u>\$ 3,540,471</u>	<u>\$ 350,859</u>

11) Deferred Revenue	2004	2003
Provincial government transfer - start-up costs	<u>\$ 3,854</u>	<u>\$ 6,026</u>

12) Deferred Contributions Related to Capital Assets

Deferred contributions related to capital assets represent the unamortized portion of the provincial government grant relating to capital start up costs. Changes in the deferred contributions balance are as follows:

Beginning balance	\$ 3,413	\$ 5,220
Less amounts amortized to revenue	<u>(1,740)</u>	<u>(1,807)</u>
	<u>\$ 1,673</u>	<u>\$ 3,413</u>

13) Deferred Contributions Related to Capital Assets Under Construction

Deferred contributions related to capital assets under construction represent government grants received for the construction of the water distribution system. Changes in the deferred contributions balance are as follows:

Beginning balance	\$ 257,149	\$ -
Add contributed revenue	<u>12,420,825</u>	<u>257,149</u>
	<u>\$ 12,677,974</u>	<u>\$ 257,149</u>

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2004

14) Long Term Debt	2004	2003
Promissory note	\$ 50,000	\$ 50,000
Debenture	<u>8,037,500</u>	<u>-</u>
	8,087,500	50,000
Less: Current portion	<u>(69,382)</u>	<u>-</u>
Long term portion	<u>\$ 8,018,118</u>	<u>\$ 50,000</u>

Principal and interest repayments are due as follows:

	Principal	Interest	Total
2005	\$ 69,382	\$ 248,359	\$ 317,741
2006	195,262	490,220	685,482
2007	154,377	481,103	635,480
2008	164,066	471,416	635,482
2009	174,361	461,120	635,481
Thereafter	<u>7,330,052</u>	<u>5,697,312</u>	<u>13,027,364</u>
	<u>\$ 8,087,500</u>	<u>\$ 7,849,530</u>	<u>\$ 15,937,030</u>

Promissory note is unsecured, due on demand and no later than August 2006, and bears interest at 0.00%.

Debenture debt will accrue interest until June 15, 2005 at a rate of 3%. At June 15, 2005 the rate changes to 6.18% per annum and the debenture debt is repayable to the Alberta Capital Finance Authority beginning December 15, 2005. Debenture debt is issued on the credit and security of the commission at large.

	2004	2003
Total debt limit	\$ 15,000,000	\$ 11,000,000
Total debt	<u>8,087,500</u>	<u>50,000</u>
Amount of debt limit unused	<u>\$ 6,912,500</u>	<u>\$ 10,950,000</u>
Debt servicing limit	N/A	N/A

The debt limit is calculated at 2 times the revenue of the commission (as defined in Alberta Regulation No. 76/2000) and the debt service limit is calculated at 0.35 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify commissions that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the commission. Rather, the financial statements must be interpreted as a whole.

Alberta Municipal Affairs has issued Ministerial Order No. L:158/04 authorizing the commission to borrow up to \$15,000,000 to complete construction of the regional water transmission line. As the debt is prescribed by a Ministerial Order, the debt service limit is not applicable.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2004

15) Net Assets Invested in Capital Assets

Net assets invested in capital assets is calculated as follows:

	2004	2003
Capital assets	\$ 1,673	\$ 3,413
Deferred contributions related to capital assets	<u>(1,673)</u>	<u>(3,413)</u>
	<u>\$ -</u>	<u>\$ -</u>

16) Contingency

The commission has contingent legal issues regarding the agreements with land owners from whom the commission has purchased land easements.

17) Subsequent Event

The Commission will be taking a final draw of \$2,000,000 from the Alberta Capital Finance Authority on June 15, 2005. This additional long term debt, plus interest capitalized in the amount of \$120,563, will result in additional future principal and interest repayments as follows:

	Principal	Interest
2005	\$ 18,305	\$ 65,525
2006	38,325	129,336
2007	40,730	126,932
2008	43,285	124,375
2009	46,002	121,659
Thereafter	<u>1,933,916</u>	<u>1,503,141</u>
	<u>\$ 2,120,563</u>	<u>\$ 2,070,968</u>

18) Commitments

The Commission is committed to payments under a Water Supply Agreement with the Town of Drumheller as follows:

January 1, 2005	\$ 1,200,000
December 31, 2005	<u>1,200,000</u>
	<u>\$ 2,400,000</u>

19) Approval of Financial Statements

The Board of Directors of the Commission approved these financial statements.



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
B.A., B.Comm., C.A.
Professional Corporation

Shelley Harriman
Certified General Accountant
Professional Corporation

April 1, 2005

To the Chairman and Board of the
Kneehill Regional Water Services Commission

Dear Chairman and Board:

We have finalized the audit of the Kneehill Regional Water Services Commission (the "KRWSC") for the year ended December 31, 2004. We would like to take this opportunity to thank Joanne Weller for her cooperation and assistance during the course of this audit. The objective of an audit is to obtain reasonable assurance that the financial statements are free of material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly, an audit would not usually identify all such matters. However, we encountered some weaknesses in the control systems that should be addressed. These weaknesses have been identified solely as a result of the audit and are not the result of a detailed study of the accounting systems of the Commission. The matters identified are as follows:

1. The Commission has over-claimed GST rebates.

In reviewing the GST rebates claimed by the Commission, it was determined that several invoices dated prior to January 31, 2004 were entered into the system using a date later than January 31, 2004. As a result, the GST rebate claimed (\$42,772.30) for these invoices was claimed at the 100% rebate level rather than the 57.14% rebate level (\$24,440.09). The Commission has received (\$18,332.21) more in GST rebate than it is entitled to.

2. GST is not currently being tracked separately in the Simply accounting system.

The Simply accounting system has been set up to track GST paid by the Commission on the GST reports. However, all GST paid is added to the expense account to which the expense being paid relates. This results in the expenses being overstated by 57.14% of the GST (Jan/04) and 100% of the GST (Feb/04 - Dec/04). All GST had to be reviewed to adjust the expenses being recorded. It is recommended that the Simply system be reset to record the GST in a separate GST receivable account.

3. Initial payment on contract to the Town of Drumheller in the amount of \$1,200,000 was dated December 31, 2004.

The KRWSC is required, by the Water Supply Agreement between the Commission and the Town of Drumheller, to pay the Town of Drumheller \$2.4 million in capital contributions for upgrading the Town's water treatment plant. \$1.2 million is due January 1, 2005 and \$1.2 million is due December 31, 2005. The KRWSC issued a cheque dated December 31, 2004 and entered the payment in the system on that date. This payment has been reversed at year end as the cheque had not been released at year end and the payment is not due until January 1, 2005.

4. The Board meeting minutes are not being signed on a timely basis.

The meeting minutes for the last three meetings of the Commission in 2004 were not signed by the Chairman and one other Director. As the minutes are official legal documents of the Commission and contain documentation of all the decisions and motions of the Board of Directors, it is important they be signed by the Chairman and one other Director in a timely manner.

5. The bank service charge assessed by Alberta Treasury Branches is viewed to be excessive.

The KRWSC incurred a penalty of \$17,000 on January 26, 2005 as a result of overdrawing their bank account in excess of the minimum LOC authorization. According to ATB, the KRWSC has a revolving line of credit of \$5 million. However, only \$1 million of this amount is available at any time without further ATB authorization. The Commission is required to submit the most recent ICAP claim form to ATB (for which payments are being made) in order for ATB to authorize the release of LOC funds in excess of the \$1 million. It is recommended that KRWSC discuss this issue with ATB.

6. Invoices reviewed were not consistently approved for payment.

It is recommended that approval for payment of invoices be noted on each invoice on a consistent basis to identify that authorization has been given for payment to be made. This serves to protect the Board in that all payments are supported by the appropriate internal controls being followed.

7. No Asset Acquisition and Disposal Policy has been formulated by the Commission.

It is recommended that KRWSC establish an asset acquisition and disposition policy. The policy should reference criteria to be followed regarding capitalization of assets.

8. The current capital budget covers the entire project and the operating budget covers two fiscal periods.

It is recommended that the Commission establish annual capital and operating budgets to allow for relevant actual-to-budget comparisons at year end and appropriate prescribed financial statement reporting.

9. The Commission does not currently have Board Governance policies and procedures in place.

As a Board in a developmental stage, consideration should be given to the establishment of Board Policies and Procedures and the formal documentation of such, to ensure that Board Governance Policies are clearly defined and well documented.

If you have any questions or require assistance with the implementation of any of the above recommendations, please do not hesitate to contact our office. This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

Yours truly,



S. Harriman, C.G.A.
Gregory, Harriman & Associates
Professional Accountants



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
B.A., B.Comm., C.A.
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Certified General Accountant
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KNEEHILL REGIONAL WATER SERVICES COMMISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2006

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Association of two Professional Corporations that are in the practice of accountancy

KNEEHILL REGIONAL WATER SERVICES COMMISSION

DECEMBER 31, 2006

CONTENTS

	Page
AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 12



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

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Certified General Accountant
Professional Corporation

AUDITORS' REPORT

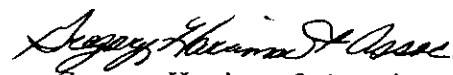
To the Members of the Board of
Kneehill Regional Water Services Commission

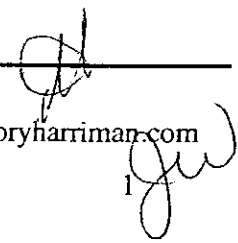
We have audited the Statement of Financial Position of the Kneehill Regional Water Services Commission as at December 31, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the commission's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Kneehill Regional Water Services Commission as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Strathmore, Alberta
March 21, 2007


Gregory, Harriman & Associates
Professional Accountants



Kneehill Regional Water Services Commission
Statement of Financial Position
As at December 31, 2006

Appendix H

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash	\$ 315,471	\$ -
Short term investments (Note 3)	-	5,000
Accounts receivable (Note 4, 15)	<u>154,383</u>	<u>1,664,765</u>
	469,854	1,669,765
LONG TERM INVESTMENTS (Note 5)	5,000	-
CAPITAL ASSETS (Note 6)	30,037,241	30,675,567
OTHER ASSETS (Note 7)	<u>2,280,000</u>	<u>2,376,000</u>
TOTAL ASSETS	<u><u>\$ 32,792,095</u></u>	<u><u>\$ 34,721,332</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bank indebtedness (Note 8)	\$ -	\$ 332,806
Accounts payable and accrued liabilities (Note 9)	914,657	1,752,751
Deferred revenue (Note 10)	-	3,588
Current portion of long term debt (Note 13)	<u>242,361</u>	<u>278,832</u>
	1,157,018	2,367,977
LONG TERM LIABILITIES		
Deferred contributions related to capital assets (Note 11)	19,419,212	19,395,761
Deferred contributions related to water capital contribution (Note 12)	1,420,440	1,480,248
Long term debt, net of current portion (Note 13)	<u>11,599,183</u>	<u>11,841,544</u>
	32,438,835	32,717,553
TOTAL LIABILITIES	<u>33,595,853</u>	<u>35,085,530</u>
NET ASSETS		
Invested in capital assets (Note 2, 14)	(335,867)	64,230
Unrestricted (Note 2)	<u>(467,891)</u>	<u>(428,428)</u>
TOTAL NET ASSETS	<u>(803,758)</u>	<u>(364,198)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 32,792,095</u></u>	<u><u>\$ 34,721,332</u></u>

Commitments (Note 16)

Contingencies (Note 17)

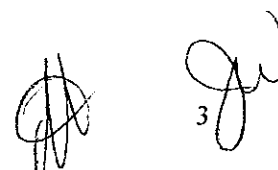
Approved by : _____ Chairman _____ Director

The accompanying notes form an integral part of these financial statements.
 Gregory, Harriman & Associates, Professional Accountants

Kneehill Regional Water Services Commission
Statement of Operations
For the Year Ended December 31, 2006

	2006	2005
REVENUE		
Water sales to commission members <i>(Note 15)</i>	\$ 1,212,846	\$ 294,973
Government transfers	3,588	266
Investment income	20,140	21,245
Other revenue	7,195	4,373
Amortization of deferred water capital contribution	59,808	14,952
Amortization of deferred capital asset contributions	761,090	196,204
TOTAL REVENUE	<u>2,064,667</u>	<u>532,013</u>
EXPENSES		
Amortization of capital assets	1,061,452	270,683
Amortization of water capital contribution	96,000	24,000
Bank charges and short term interest	6,895	154
Contracted and general services <i>(Note 15)</i>	62,844	79,744
Director's fees	13,037	13,584
Manager's fees	39,870	-
Interest on capital long term debt <i>(Note 13)</i>	705,819	210,262
Materials, goods, supplies and utilities	488,491	200,209
Other expenditures	29,819	10,163
TOTAL EXPENSES	<u>2,504,227</u>	<u>808,799</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(439,560)	(276,786)
NET ASSETS AT BEGINNING OF YEAR	<u>(364,198)</u>	<u>(87,412)</u>
NET ASSETS AT END OF YEAR	<u>\$ (803,758)</u>	<u>\$ (364,198)</u>

The accompanying notes form an integral part of these financial statements.
 Gregory, Harriman & Associates, Professional Accountants



**Kneehill Regional Water Services Commission
Statement of Changes in Net Assets
For the Year Ended December 31, 2006**

Appendix H

			2006	2005
	Invested in Capital Assets	Unrestricted	Total	Total
NET ASSETS AT BEGINNING OF YEAR	\$ 64,230	\$ (428,428)	\$ (364,198)	\$ (87,412)
Excess (deficiency) of revenue over expenses	(300,362)	(139,198)	(439,560)	(276,786)
Purchase of capital assets	423,127	(423,127)	-	-
Long term debt proceeds	-	-	-	-
Deferred contributions	(784,541)	784,541	-	-
Principle repayments of long term debt	<u>261,679</u>	<u>(261,679)</u>	<u>-</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ (335,867)</u>	<u>\$ (467,891)</u>	<u>\$ (803,758)</u>	<u>\$ (364,198)</u>

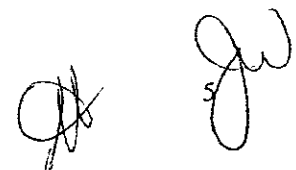
The accompanying notes form an integral part of these financial statements.
Gregory, Harriman & Associates, Professional Accountants

Kneehill Regional Water Services Commission
Statement of Cash Flows
For the Year Ended December 31, 2006

Appendix H

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (439,560)	\$ (276,786)
Items which do not affect cash:		
Amortization of capital assets	1,061,452	270,683
Amortization of water capital contribution	96,000	24,000
Amortization of deferred capital contribution	(761,090)	(196,204)
Amortization of deferred water capital contribution	(59,808)	(14,952)
Net changes in non-cash working capital balances		
Decrease (increase) in grants receivable	1,030,948	2,979,058
Decrease (increase) in Goods and Services Tax payable/receivable	479,434	756,263
Increase (decrease) in deferred revenue	(3,588)	(266)
Increase (decrease) in deferred contributions related to capital assets	784,541	19,590,292
Increase (decrease) in deferred contributions related to water capital contributions	-	1,495,200
Increase (decrease) in deferred contributions related to capital assets under construction	-	(12,677,974)
Increase (decrease) in accounts payable and accrued liabilities	(838,094)	(1,787,720)
	<u>1,350,235</u>	<u>10,161,594</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	-
Purchase of capital assets	(423,127)	(30,944,577)
Purchase of capital assets under construction	-	19,205,108
Payment of water capital contribution	-	(2,400,000)
	<u>(423,127)</u>	<u>(14,139,469)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term debt issued	-	4,120,562
Long term debt repaid	(278,831)	(87,687)
	<u>(278,831)</u>	<u>4,032,875</u>
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	648,277	55,000
CASH POSITION AT BEGINNING OF YEAR	<u>(332,806)</u>	<u>(387,806)</u>
CASH POSITION AT END OF YEAR	<u>\$ 315,471</u>	<u>\$ (332,806)</u>

The accompanying notes form an integral part of these financial statements.
 Gregory, Harriman & Associates, Professional Accountants



Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2006

1) Nature of the Organization

Kneehill Regional Water Services Commission (the "Commission") is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs on September 30, 2003, for the purpose of constructing, maintaining, controlling and managing a regional potable water supply system.

The members of the Commission are the Village of Acme, the Village of Beiseker, the Village of Carbon, the Town of Irricana, the Village of Linden, Kneehill County and the Municipal District of Rocky View.

2) Significant Accounting Policies

a. Basis of Presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

b. Revenue Recognition

Sales of goods are recognized as revenue in the period in which the transaction occurred that gave rise to the revenues.

The Commission follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions specified for capital purposes are recorded as deferred capital asset contributions. These deferred contributions are taken into income as the related capital costs are amortized.

c. Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over the following periods:

Computer equipment	3 years
Supervisory control and data acquisition (SCADA)	5 years
Engineering structures	25 and 50 years

d. Income Taxes



The Commission is exempt from income taxation under Section 149 (1) (d.5) of the Canada Income Tax Act.

e. Invested in Capital Assets

The balance represents Kneehill Regional Water Services Commission's net investment in capital assets. It is the original asset cost, less accumulated amortization, debt directly related to the asset, and any deferred contributions related to the asset.

f. Unrestricted Net Assets

These amounts are not restricted and are available for any purpose approved by the Members of the Board.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2006

2) **Significant Accounting Policies** *(continued)*

g. Measurement Uncertainty

The financial statements have been prepared in accordance with Canadian generally accepted accounting policies. The precise value of many assets and liabilities is dependent on future events. As a result, the preparation of financial statements for a period involves the use of approximations, which have been made using careful judgement by management. Actual results could differ from those approximations.

3) **Short Term Investments**

	2006	2005
ATB Financial Flexible GIC	<u>\$ -</u>	<u>\$ 5,000</u>

The investment consisted of a two year flexible GIC, which matured July 15, 2006.

4) **Accounts Receivable**

	2006	2005
Accrued interest receivable	\$ 70	\$ 70
Trade accounts receivable <i>(Note 15)</i>	149,339	110,859
Provincial government transfers	-	534,714
Federal government transfers	-	534,714
Goods and Services Tax receivable	4,974	484,408
	<u>\$ 154,383</u>	<u>\$ 1,664,765</u>

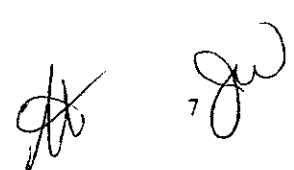
5) **Long Term Investments**

	2006	2005
ATB Financial Flexible GIC	<u>\$ 5,000</u>	<u>\$ -</u>

The investment consists of a two year flexible GIC maturing July 17, 2008, and bearing interest of 4.45% per annum.

6) **Capital Assets**

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 38,802	\$ -	\$ 38,802	\$ 38,802
Engineering structures	31,178,903	1,316,964	29,861,939	30,494,265
Computer equipment	5,220	5,220	-	-
Supervisory control and data acquisition (SCADA)	150,000	13,500	136,500	142,500
Totals	<u>\$ 31,372,925</u>	<u>\$ 1,335,684</u>	<u>\$ 30,037,241</u>	<u>\$ 30,675,567</u>



Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2006

Appendix H

7) Other Assets	2006	2005
Water capital contribution	\$ 2,400,000	\$ 2,400,000
Less: Accumulated amortization	<u>(120,000)</u>	<u>(24,000)</u>
	<u>\$ 2,280,000</u>	<u>\$ 2,376,000</u>

A review of the capital upgrades undertaken by the Town of Drumheller to produce and deliver water was done by the Commission and the Town of Drumheller. It was determined that the contribution required to support the capital upgrades of the Town of Drumheller's water treatment facility, to supply the water capacity required by the Commission, was \$2,400,000. This contribution is being recognized by the Commission over 25 years, which is the term of the agreement with the Town of Drumheller.

8) Bank Indebtedness	2006	2005
ATB Financial - Chequing	\$ -	\$ 127,050
Bank line of credit	<u>-</u>	<u>205,756</u>
	<u>\$ -</u>	<u>\$ 332,806</u>

The Commission has an authorized revolving line of credit of \$5,000,000 at a rate of Prime less 0.50% covered by a general security agreement, a trust agreement between the borrower and the Village of Acme, and the assignment of the water supply agreement with the Town of Drumheller, of which \$5,000,000 remained unused at year end.

9) Accounts Payable and Accrued Liabilities	2006	2005
Trade payables	\$ 856,699	\$ 1,694,520
Accrued liabilities	<u>57,958</u>	<u>58,231</u>
	<u>\$ 914,657</u>	<u>\$ 1,752,751</u>

10) Deferred Revenue	2006	2005
Provincial government transfer - start-up costs	<u>\$ -</u>	<u>\$ 3,588</u>

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2006

Appendix H

11) Deferred Contributions Related to Capital Assets

Deferred contributions related to capital assets represent the unamortized portion of government grants relating to capital costs. Changes in the deferred contributions balance are as follows:

	2006	2005
Balance at beginning of year	\$ 19,395,761	\$ 1,673
Add: Transfer from deferred contributions related to capital assets under construction	-	12,677,974
Add: Contributed revenue	784,541	6,912,318
Less: Amounts amortized to revenue	(761,090)	(196,204)
Balance at end of year	<u>\$ 19,419,212</u>	<u>\$ 19,395,761</u>

12) Deferred Contributions Related to Water Capital Contribution

	2006	2005
Contributed revenue	\$ 1,495,200	\$ 1,495,200
Less: Amounts amortized to revenue	(74,760)	(14,952)
	<u>\$ 1,420,440</u>	<u>\$ 1,480,248</u>

13) Long Term Debt

	2006	2005
Promissory note	\$ -	\$ 50,000
Debenture	11,841,544	12,070,376
	<u>11,841,544</u>	<u>12,120,376</u>
Less: Current portion	(242,361)	(278,832)
Long term portion	<u>\$ 11,599,183</u>	<u>\$ 11,841,544</u>

Principle and interest repayments are due as follows:

	Principal	Interest	Total
2007	\$ 242,361	\$ 693,375	\$ 935,736
2008	256,703	679,033	935,736
2009	271,907	663,829	935,736
2010	288,025	647,711	935,736
2011	305,112	630,624	935,736
Thereafter	10,477,436	6,899,976	17,377,412
	<u>\$ 11,841,544</u>	<u>\$ 10,214,548</u>	<u>\$ 22,056,092</u>

Debenture debt will accrue interest at a rate of 6.18% per annum from June 15, 2005 to June 15, 2030 on \$9,886,789. The remaining \$1,954,755 will accrue interest at a rate of 4.392% per annum from September 15, 2005 to September 15, 2030. The debenture debt is repayable to the Alberta Capital Finance Authority beginning December 15, 2005. Debenture debt is issued on the credit and security of the Commission at large.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2006

13) Long Term Debt (continued)

	2006	2005
Total debt limit	\$ 15,000,000	\$ 15,000,000
Total debt	<u>11,841,544</u>	<u>12,120,376</u>
Amount of debt limit unused	<u>\$ 3,158,456</u>	<u>\$ 2,879,624</u>
Debt servicing limit	N/A	N/A

The debt limit is calculated at 2 times the revenue of the Commission (as defined in Alberta Regulation No. 76/2000) and the debt service limit is calculated at 0.35 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify commissions that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the Commission. Rather, the financial statements must be interpreted as a whole.

Alberta Municipal Affairs has issued Ministerial Order No. L:158/04 authorizing the Commission to borrow up to \$15,000,000 to complete construction of the regional water transmission line. As the debt is prescribed by a Ministerial Order, the debt service limit is not applicable.

14) Net Assets Invested in Capital Assets

Net assets invested in capital assets is calculated as follows:

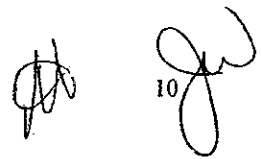
	2006	2005
Capital assets	\$ 30,037,241	\$ 30,675,567
Long term debt related to capital assets	(10,953,896)	(11,215,576)
Deferred contributions related to capital assets	<u>(19,419,212)</u>	<u>(19,395,761)</u>
	<u>\$ (335,867)</u>	<u>\$ 64,230</u>

15) Related Party Transactions

The Village of Acme, Village of Beiseker, Village of Carbon, Village of Linden, Town of Irricana, Kneehill County and Municipal District of Rocky View are members of the Commission and, as such, have been identified as related parties. The commission has entered into agreements with these related parties to supply water service to their customers.

Service fees are based on budgeted operating costs of the Commission and are allocated among commission members. Water sales are based on actual water consumption during the year. Fees and rates are reviewed by the Commission on an annual basis. Service fees and water sales charged to commission members are as follows:

	2006	2005
Village of Acme	\$ 156,870	\$ 45,874
Village of Beiseker	288,882	69,332
Village of Carbon	134,404	37,759
Village of Linden	271,672	61,610
Town of Irricana	206,662	71,728
Kneehill County	16,676	6,110
Municipal District of Rocky View	<u>137,680</u>	<u>2,560</u>
	<u>\$ 1,212,846</u>	<u>\$ 294,973</u>


10

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2006

15) Related Party Transactions (continued)

Amounts due from commission members are payable upon receipt of invoice, and have arisen from water sales charged and service fees provided during the year. Amounts due from the commission members at the end of the year are as follows:

	2006	2005
Village of Acme	\$ 11,604	\$ 12,647
Village of Beiseker	43,540	41,284
Village of Carbon	19,599	10,621
Village of Linden	31,751	18,231
Town of Irricana	39,769	20,686
Kneehill County	2,436	4,830
Municipal District of Rocky View	640	2,560
	\$ 149,339	\$ 110,859

Kneehill County has been contracted by the Commission to provide services for the maintenance of the water transmission and distribution lines. Payments are based on an applied hourly rate. During 2006, fees in the amount of \$17,546 were paid to Kneehill County.

16) Commitments

Commencing in 2005, the commission entered into 20 year lease agreements with various landowners for land use. Rental terms are \$2,600 per year.

Commencing in 2004, the commission entered into a 25 year agreement with the Town of Drumheller to purchase treated water. Rates are calculated on a cost of service basis utilizing the principles set out in the American Water Works Association (AWWA) manuals of practice dealing with water rates and charges. Rates are reviewed on an annual basis.

17) Contingencies

The commission has a potential claim against a contractor involved in the construction of the water line for damages incurred during the activation and operations of the water line and its related systems. The outcome of the claim is indeterminable, therefore, no provision has been included in these financial statements.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2006

18) Financial Instruments

The Commission's financial instruments consist of cash, short term investments, accounts receivable, long term investments, bank indebtedness, accounts payable and accrued liabilities and long term debt.

Credit Risk

Credit risk arises from the possibility that the entities to which the Commission provides services may experience financial difficulty and be unable to fulfill their obligations. The Commission is exposed to financial risk that arises from the credit quality of the entities to which it provides services. As the Commission provides products and services to a variety of customers, its credit risk is minimized.

Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Commission is exposed to financial risk from interest rate differentials between market interest rates and the rates used on their financial instruments.

Fair Value

The fair value of cash, short term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities, corresponds approximately to their carrying amount because of their short term maturity dates.

The fair value of long term debt is determined using the present value of future cash flows under current financing agreements.

19) Approval of Financial Statements

The Board of Directors of the Commission approved these financial statements.

 
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**G
H
A**
**GREGORY,
 HARRIMAN
 & ASSOCIATES
 PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
 B.A., B.Comm., C.A.
 Professional Corporation

Shelley Harriman
 Certified General Accountant
 Professional Corporation

March 21, 2007

To the Chairman and Board of the
 Kneehill Regional Water Services Commission

Dear Chairman and Board:

We have finalized the audit of the Kneehill Regional Water Services Commission (the "KRWSC") for the year ended December 31, 2006. We would like to take this opportunity to thank Joanne Weller for her cooperation and assistance during the course of this audit. The objective of an audit is to obtain reasonable assurance that the financial statements are free of material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly, an audit would not usually identify all such matters. However, we encountered some weaknesses in the control systems that should be addressed. These weaknesses have been identified solely as a result of the audit and are not the result of a detailed study of the accounting systems of the Commission. The matters identified are as follows:

1. Regular backups of accounting data are not done.

To ensure that accounting data is not lost due to computer failures, we recommend that bi-weekly backups be done. Tapes used should be grandfathered with one copy kept onsite, as well as a copy retained offsite.

2. Maintenance services agreement with Kneehill County not signed.

The agreement with Kneehill County for provision of maintenance services on the transmission and distribution lines to KRWSC has not been signed by Kneehill County. As this is a legal contract for which KRWSC is obligated to provide payment for services provided by Kneehill County, it is important to obtain a signed copy from Kneehill County.

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3. Bank reconciliations were not done properly, as they were balanced by expensing the difference to interest and bank charges.

Reconciliation of bank accounts represent a very important internal control to ensure accurate bookkeeping and appropriate allocation of expenses are claimed throughout the year. It is important that bank reconciliations are done properly and on a timely basis each month to ensure the integrity of the financial information.

4. Amounts owing to the Town of Drumheller as a capital contribution have not been paid in total by the December 31, 2005 deadline. As at December 31, 2006, \$600,000 was still outstanding of the \$2,400,000 agreed upon.

As per the agreement with the Town of Drumheller, the capital contribution relating to the water line was to be paid by December 31, 2005. Prompt payment of this amount should be made to ensure conformity with grant application and qualification.

5. During the year it was discovered that the Commission made a claim to ICAP and ATU for expenditures incurred in the development of the water system, and was paid by both.

We have calculated the amount to be repaid to ICAP for the over claimed amount to be \$234,926.15. This should be paid back as soon as the Commission has the funds to do so.

6. No asset acquisition and disposal policy has been formulated by the Commission.

It is recommended that KRWSC establish an asset acquisition and disposition policy. The policy should reference criteria to be followed regarding capitalization of assets.

7. The Commission does not currently have Board Governance policies and procedures in place.

As a Board in a developmental stage, consideration should be given to the establishment of Board Policies and Procedures and the formal documentation of such, to ensure that Board Governance Policies are clearly defined and well documented.

8. Three-year financial plan not formulated.

Bylaw No. 1-2003 requires the Commission to prepare a three-year financial plan once the Commission is complete and operational. The three-year financial plan should form part of the Commission's 2007 budget package.

9. Manager agreement with Mr. Van Doesburg not updated or signed.

The manager agreement with Mr. Van Doesburg to provide services to the Commission has not been signed or dated by the parties involved. As this is a legal contract for which KRWSC is obligated to provide payment for services provided by Mr. Van Doesburg, it is important to obtain a signed copy.

10. Billings and collections for water sales to the various municipalities were not always done in a timely manner.

Preparation of water billings to the various municipalities for water usage should be prepared and sent in a timely manner. The issuance and collection of these billings are essential for the Commission to maintain an effective cash flow throughout the year.

If you have any questions or require assistance with the implementation of any of the above recommendations, please do not hesitate to contact our office. This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

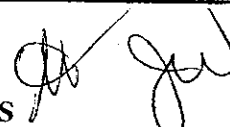
Yours truly,



S. Harriman, C.G.A.
Gregory, Harriman & Associates
Professional Accountants



GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS





**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
B.A., B.Comm., C.A.
Professional Corporation

Shelley Harriman
Certified General Accountant
Professional Corporation

KNEEHILL REGIONAL WATER SERVICES COMMISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2007

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KNEEHILL REGIONAL WATER SERVICES COMMISSION

DECEMBER 31, 2007

CONTENTS

	Page
AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 14





**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
B.A., B.Comm., C.A.
Professional Corporation

Shelley Harriman
Certified General Accountant
Professional Corporation

AUDITORS' REPORT

To the Members of the Board of
Kneehill Regional Water Services Commission

We have audited the Statement of Financial Position of the Kneehill Regional Water Services Commission as at December 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the commission's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Kneehill Regional Water Services Commission as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Strathmore, Alberta
April 19, 2008

Gregory, Harriman & Assoc.
Gregory, Harriman & Associates
Professional Accountants

Kneehill Regional Water Services Commission
Statement of Financial Position
As at December 31, 2007

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash (Note 3)	\$ -	\$ 315,471
Short term investments (Note 4)	5,000	-
Accounts receivable (Note 5, 15)	147,773	154,383
	152,773	469,854
LONG TERM INVESTMENTS (Note 6)	-	5,000
CAPITAL ASSETS (Note 7)	28,981,946	30,037,241
OTHER ASSETS (Note 8)	2,184,000	2,280,000
	2,184,000	2,280,000
TOTAL ASSETS	\$ 31,318,719	\$ 32,792,095
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bank indebtedness (Note 9)	\$ 108,384	\$ -
Accounts payable and accrued liabilities (Note 10)	921,082	914,657
Current portion of long term debt (Note 13)	256,703	242,361
	1,286,169	1,157,018
LONG TERM LIABILITIES		
Deferred contributions related to capital assets (Note 11)	18,649,057	19,419,212
Deferred contributions related to water capital contribution (Note 12)	1,360,632	1,420,440
Long term debt, net of current portion (Note 13)	11,342,480	11,599,183
	31,352,169	32,438,835
TOTAL LIABILITIES	32,638,338	33,595,853
NET ASSETS		
Invested in capital assets (Note 2, 14)	(396,815)	(335,867)
Unrestricted (Note 2)	(922,804)	(467,891)
	(1,319,619)	(803,758)
TOTAL NET ASSETS	(1,319,619)	(803,758)
TOTAL LIABILITIES AND NET ASSETS	\$ 31,318,719	\$ 32,792,095

Commitments (Note 17)

Contingencies (Note 18)

Approved by : _____ Chairman _____ Director

Kneehill Regional Water Services Commission
Statement of Operations
For the Year Ended December 31, 2007

	2007	2006
REVENUE		
Water sales to commission members <i>(Note 15)</i>	\$ 1,142,822	\$ 1,212,846
Government transfers	-	3,588
Investment income	9,419	20,140
Other revenue	12,075	7,195
Amortization of deferred water capital contribution	59,808	59,808
Amortization of deferred capital asset contributions	770,155	761,090
TOTAL REVENUE	<u>1,994,279</u>	<u>2,064,667</u>
EXPENSES		
Amortization of capital assets	1,061,709	1,061,452
Amortization of water capital contribution	96,000	96,000
Bank charges and short term interest	1,283	6,895
Contracted and general services <i>(Note 15)</i>	70,196	62,844
Director's fees	14,838	13,037
Manager's fees	50,670	39,870
Interest on capital long term debt <i>(Note 13)</i>	692,230	705,819
Materials, goods, supplies and utilities	443,914	488,491
Other expenditures	20,638	29,819
TOTAL EXPENSES	<u>2,451,478</u>	<u>2,504,227</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM	(457,199)	(439,560)
EXTRAORDINARY ITEM <i>(Note 16)</i>	<u>(58,662)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(515,861)	(439,560)
NET ASSETS AT BEGINNING OF YEAR	<u>(803,758)</u>	<u>(364,198)</u>
NET ASSETS AT END OF YEAR	<u>\$ (1,319,619)</u>	<u>\$ (803,758)</u>

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

Gregory, Harriman & Associates, Professional Accountants

Kneehill Regional Water Services Commission
Statement of Changes in Net Assets
For the Year Ended December 31, 2007

			2007	2006
	Invested in Capital Assets	Unrestricted	Total	Total
NET ASSETS AT BEGINNING OF YEAR	\$ (335,867)	\$ (467,891)	\$ (803,758)	\$ (364,198)
Excess (deficiency) of revenue over expenses	(291,554)	(165,645)	(457,199)	(439,560)
Extraordinary item	-	(58,662)	(58,662)	-
Purchase of capital assets	6,414	(6,414)	-	-
Long term debt proceeds	-	-	-	-
Deferred contributions	(18,169)	18,169	-	-
Principal repayments of long term debt	242,361	(242,361)	-	-
NET ASSETS AT END OF YEAR	<u>\$ (396,815)</u>	<u>\$ (922,804)</u>	<u>\$ (1,319,619)</u>	<u>\$ (803,758)</u>

Kneehill Regional Water Services Commission
Statement of Cash Flows
For the Year Ended December 31, 2007

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (457,199)	\$ (439,560)
Extraordinary item	(58,662)	-
	<u>(515,861)</u>	<u>(439,560)</u>
Items which do not affect cash:		
Amortization of capital assets	1,061,709	1,061,452
Amortization of water capital contribution	96,000	96,000
Amortization of deferred capital contribution	(770,155)	(761,090)
Amortization of deferred water capital contribution	(59,808)	(59,808)
Net changes in non-cash working capital balances		
Decrease (increase) in accounts receivable	13,817	1,030,948
Decrease (increase) in Goods and Services Tax payable/receivable	(7,207)	479,434
Increase (decrease) in deferred revenue	-	(3,588)
Increase (decrease) in deferred contributions related to capital assets	-	784,541
Increase (decrease) in deferred contributions related to water capital contributions	-	-
Increase (decrease) in deferred contributions related to capital assets under construction	-	-
Increase (decrease) in accounts payable and accrued liabilities	6,425	(838,094)
	<u>340,781</u>	<u>1,789,795</u>
Net cash provided (used) by Operating Activities	(175,080)	1,350,235
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	-
Purchase of capital assets	(6,414)	(423,127)
Purchase of capital assets under construction	-	-
Payment of water capital contribution	-	-
Net cash provided (used) by Investing Activities	<u>(6,414)</u>	<u>(423,127)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term debt issued	-	-
Long term debt repaid	(242,361)	(278,831)
Net cash provided (used) by Financing Activities	<u>(242,361)</u>	<u>(278,831)</u>
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	(423,855)	648,277
CASH POSITION AT BEGINNING OF YEAR	<u>315,471</u>	<u>(332,806)</u>
CASH POSITION AT END OF YEAR	<u>\$ (108,384)</u>	<u>\$ 315,471</u>
Cash Flow Supplementary Information		
Interest paid on long term debt (Note 13)	<u>\$ 692,230</u>	<u>\$ 705,819</u>

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

Gregory, Harriman & Associates, Professional Accountants

**Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2007**

1) Nature of the Organization

Kneehill Regional Water Services Commission (the "Commission") is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs on September 30, 2003, for the purpose of constructing, maintaining, controlling and managing a regional potable water supply system.

The members of the Commission are the Village of Acme, the Village of Beiseker, the Village of Carbon, the Village of Linden, the Town of Irricana, Kneehill County and the Municipal District of Rocky View.

2) Significant Accounting Policies

a. Basis of Presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

b. Financial Instruments

As required by the CICA, on January 1, 2007, Kneehill Regional Water Services Commission adopted CICA Handbook Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3865, *Hedges*. The adoption of these new standards resulted in changes in the accounting and presentation for financial instruments. As required by the implementation of the new standards, the prior period's financial statements have not been restated. The principle changes in the accounting for financial instruments, due to the adoption of these accounting standards, are described below.

a) Section 1530, Comprehensive Income

Section 1530 requires a Statement of Comprehensive Income, which consists of net income and other comprehensive income ("OCI"). OCI is a new requirement to temporarily present unrecognized gains and losses from changes in fair value outside net income. It includes Kneehill Regional Water Services Commission's unrealized gains and losses resulting from market value fluctuations of financial instruments classified as available for sale. Comprehensive income and its components are presented in the Statement of Operations. Currently, Kneehill Regional Water Services Commission has no financial instruments designated as available for sale; hence there is no balance in the Statement of Comprehensive Income.

**b) Section 3855, Financial Instruments – Recognition and Measurement
Section 3861, Financial Instruments – Disclosure and Presentation**

Section 3855 requires upon initial adoption of the new standards that Kneehill Regional Water Services Commission designate its financial instruments into one of the following five categories: 1) Loans and receivables; 2) Assets held to maturity; 3) Assets available for sale; 4) Other financial liabilities; 5) Held for trading assets and liabilities.

Section 3855 also requires that all financial assets and financial liabilities are initially recognized at fair value and their subsequent measurements are dependent on their classification, as described below.

The classification depends on the purpose for which the financial instruments were acquired or issued; their characteristics and Kneehill Regional Water Services Commission's designation of such instruments are as follows:

- Kneehill Regional Water Services Commission currently has no financial instruments classified as loans and receivables.
- Kneehill Regional Water Services Commission currently has no financial instruments classified as assets held to maturity.
- Kneehill Regional Water Services Commission currently has no financial instruments classified as assets available for sale.
- Kneehill Regional Water Services Commission currently has no financial instruments classified as other financial liabilities.
- Cash and cash equivalents, accounts receivable, accrued interest receivable, accounts payable and accrued liabilities, and obligations under capital lease are classified as held for trading. Changes in fair value for the period are recorded as an unrecognized gain or loss on financial instruments on the Statement of Operations.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2007

2) **Significant Accounting Policies** *(continued)*

Trade date accounting continues to be used for all financial assets:

Loans and Receivables

Loans and receivables are non-derivative financial assets that are initially recognized at fair value and, thereafter, are accounted for at cost or amortized cost using the effective interest method.

Held to Maturity

Held to maturity financial assets are initially recognized at fair value and, thereafter, are accounted for at cost or amortized cost using the effective interest method.

Available for Sale

Available for sale financial assets are measured at fair value at the date of the Statement of Financial Position. Interest paid or earned, interest accrued and gains and losses realized on disposal are included in the Statement of Operations and Changes in Fund Balances. Unrealized gains and losses from market fluctuations are included in the Statement of Comprehensive Income.

Other Liabilities

Other liabilities are non-derivative financial liabilities that are initially recognized at fair value and, thereafter, are recorded at cost or amortized cost.

Held for Trading

Held for trading financial assets and liabilities are measured at fair value at the date of the Statement of Financial Position. Interest paid or earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in the Statement of Operations. Kneehill Regional Water Services Commission has not designated any non-derivative financial liabilities as fair value financial liabilities.

Derivatives

Derivatives, including embedded derivatives that meet separate recognition criteria, are carried at fair value and are reported as assets when they have a positive fair value and as a liability when they have a negative fair value, unless the derivative is designated and qualifies for hedge accounting. Changes in fair value during the period are recorded in the Statement of Operations. As at December 31, 2007, Kneehill Regional Water Services Commission has no outstanding derivatives.

Transaction Costs

Transaction costs are expensed as incurred. Transaction costs do not include debt premiums or discounts or financing costs, which are netted against the carrying value of the liability and then amortized over the expected life of the instrument using the effective interest method.

Determination of Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed on in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2007

2) **Significant Accounting Policies** *(continued)*

c) Section 3865, Hedges

Section 3865 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purpose of applying hedge accounting. It also establishes conditions for applying, and the discontinuance of hedge accounting and hedge effectiveness testing requirements. Kneehill Regional Water Services Commission currently has no hedging contracts.

d) Transitional Adjustments

On January 1, 2007, Kneehill Regional Water Services Commission did not need to make any transitional adjustments to its Statement of Financial Position to adopt the new requirements.

e. **Revenue Recognition**

Sales of goods are recognized as revenue in the period in which the transaction occurred that gave rise to the revenues.

The Commission follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions specified for capital purposes are recorded as deferred capital asset contributions. These deferred contributions are taken into income as the related capital costs are amortized.

d. **Capital Assets**

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over the following periods:

Computer equipment	3 years
Supervisory control and data acquisition (SCADA)	5 years
Engineering structures	25 and 50 years

e. **Income Taxes**

The Commission is exempt from income taxation under Section 149 (1) (d.5) of the Canada Income Tax Act.

f. **Invested in Capital Assets**

The balance represents Kneehill Regional Water Services Commission's net investment in capital assets. It is the original asset cost, less accumulated amortization, debt directly related to the asset, and any deferred contributions related to the asset.

g. **Unrestricted Net Assets**

These amounts are not restricted and are available for any purpose approved by the Members of the Board.

h. **Measurement Uncertainty**

The financial statements have been prepared in accordance with Canadian generally accepted accounting policies. The precise value of many assets and liabilities is dependent on future events. As a result, the preparation of financial statements for a period involves the use of approximations, which have been made using careful judgement by management. Actual results could differ from those approximations.

Keechill Regional Water Services Commission
Notes to Financial Statements
December 31, 2007

3)	Cash	2007	2006
	ATB Financial - Chequing	\$ -	\$ 315,471
		<u> </u>	<u> </u>
4)	Short Term Investments	2007	2006
	ATB Financial Flexible GIC	\$ 5,000	-
		<u> </u>	<u> </u>
	The investment consists of a two year flexible GIC, which matures July 17, 2008, and bearing interest of 4.45% per annum.		
5)	Accounts Receivable	2007	2006
	Accrued interest receivable	\$ 326	\$ 70
	Trade accounts receivable	12,054	-
	Related party receivable (Note 15)	123,212	149,339
	Provincial government transfers	-	-
	Federal government transfers	-	-
	Goods and Services Tax receivable	12,181	4,974
		<u>\$ 147,773</u>	<u>\$ 154,383</u>
6)	Long Term Investments	2007	2006
	ATB Financial Flexible GIC	-	\$ 5,000
		<u> </u>	<u> </u>
	The investment consists of a two year flexible GIC maturing July 17, 2008, and bearing interest of 4.45% per annum.		
7)	Capital Assets	2007	2006
		Cost	Accumulated
		Amortization	Net Book
		Value	Value
	Land	\$ 38,802	\$ -
		\$ 38,802	\$ 38,802
	Engineering structures	31,185,317	2,372,673
		28,812,644	29,861,939
	Computer equipment	5,220	5,220
		-	-
	Supervisory control and data acquisition (SCADA)	150,000	19,500
		130,500	136,500
	Totals	<u>\$ 31,379,339</u>	<u>\$ 2,397,393</u>
		<u>\$ 28,981,946</u>	<u>\$ 30,037,241</u>

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2007

8) Other Assets	2007	2006
Water capital contribution	\$ 2,400,000	\$ 2,400,000
Less: Accumulated amortization	<u>(216,000)</u>	<u>(120,000)</u>
	<u>\$ 2,184,000</u>	<u>\$ 2,280,000</u>

A review of the capital upgrades undertaken by the Town of Drumheller to produce and deliver water was done by the Commission and the Town of Drumheller. It was determined that the contribution required to support the capital upgrades of the Town of Drumheller's water treatment facility, to supply the water capacity required by the Commission, was \$2,400,000. This contribution is being recognized by the Commission over 25 years, which is the term of the agreement with the Town of Drumheller.

9) Bank Indebtedness	2007	2006
ATB Financial - Chequing	\$ 22,192	\$ -
Bank line of credit	<u>86,192</u>	<u>-</u>
	<u>\$ 108,384</u>	<u>\$ -</u>

The Commission has an authorized revolving line of credit of \$3,000,000 at a rate of Prime less 0.50% covered by a general security agreement, a trust agreement between the borrower and the Village of Acme, and the assignment of the water supply agreement with the Town of Drumheller, of which \$2,913,808 remained unused at year end.

10) Accounts Payable and Accrued Liabilities	2007	2006
Trade payables	\$ 860,982	\$ 856,700
Accrued liabilities	<u>60,100</u>	<u>57,957</u>
	<u>\$ 921,082</u>	<u>\$ 914,657</u>

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2007

11) Deferred Contributions Related to Capital Assets

Deferred contributions related to capital assets represent the unamortized portion of government grants relating to capital costs. Changes in the deferred contributions balance are as follows:

	2007	2006
Balance at beginning of year	\$ 19,419,212	\$ 19,395,761
Add: Transfer from deferred contributions related to capital assets under construction	-	-
Add: Contributed revenue	-	784,541
Less: Amounts amortized to revenue	<u>(770,155)</u>	<u>(761,090)</u>
Balance at end of year	<u>\$ 18,649,057</u>	<u>\$ 19,419,212</u>

12) Deferred Contributions Related to Water Capital Contribution

	2007	2006
Contributed revenue	\$ 1,495,200	\$ 1,495,200
Less: Amounts amortized to revenue	<u>(134,568)</u>	<u>(74,760)</u>
	<u>\$ 1,360,632</u>	<u>\$ 1,420,440</u>

13) Long Term Debt

	2007	2006
Debenture	\$ 11,599,183	\$ 11,841,544
	11,599,183	11,841,544
Less: Current portion	<u>(256,703)</u>	<u>(242,361)</u>
	<u>\$ 11,342,480</u>	<u>\$ 11,599,183</u>

Principal and interest repayments are due as follows:

	Principal	Interest	Total
2008	\$ 256,703	\$ 679,033	\$ 935,736
2009	271,907	663,829	935,736
2010	288,025	647,711	935,736
2011	305,112	630,624	935,736
2012	323,227	612,509	935,736
Thereafter	<u>10,154,209</u>	<u>6,287,467</u>	<u>16,441,676</u>
	<u>\$ 11,599,183</u>	<u>\$ 9,521,173</u>	<u>\$ 21,120,356</u>

Debenture debt will accrue interest at a rate of 6.18% per annum from June 15, 2005 to June 15, 2030 on \$9,691,682. The remaining \$1,907,501 will accrue interest at a rate of 4.392% per annum from September 15, 2005 to September 15, 2030. The debenture debt is repayable in semi-annual installments of \$401,571 and \$66,297. Debenture debt is issued on the credit and security of the Commission at large.

Interest on long term debt amounted to \$692,230 (2006 - \$705,819).

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2007

13) Long Term Debt (continued)		2007	2006
Total debt limit		\$ 15,000,000	\$ 15,000,000
Total debt		<u>11,599,183</u>	<u>11,841,544</u>
Amount of debt limit unused		<u>\$ 3,400,817</u>	<u>\$ 3,158,456</u>
Debt servicing limit		N/A	N/A

The debt limit is calculated at 2 times the revenue of the Commission (as defined in Alberta Regulation No. 76/2000) and the debt service limit is calculated at 0.35 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify commissions that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the Commission. Rather, the financial statements must be interpreted as a whole.

Alberta Municipal Affairs has issued Ministerial Order No. L:158/04 authorizing the Commission to borrow up to \$15,000,000 to complete construction of the regional water transmission line. As the debt is prescribed by a Ministerial Order, the debt service limit is not applicable.

14) Net Assets Invested in Capital Assets

Net assets invested in capital assets is calculated as follows:

	2007	2006
Capital assets	\$ 28,981,946	\$ 30,037,241
Long term debt related to capital assets	(10,729,704)	(10,953,896)
Deferred contributions related to capital assets	<u>(18,649,057)</u>	<u>(19,419,212)</u>
	<u>\$ (396,815)</u>	<u>\$ (335,867)</u>

15) Related Party Transactions

The Village of Acme, Village of Beiseker, Village of Carbon, Village of Linden, Town of Irricana, Kneehill County and Municipal District of Rocky View are members of the Commission and, as such, have been identified as related parties. The commission has entered into agreements with these related parties to supply water service to their customers.

Service fees are based on budgeted operating costs of the Commission and are allocated among commission members. Water sales are based on actual water consumption during the year. Fees and rates are reviewed by the Commission on an annual basis. Service fees and water sales charged to commission members are as follows:

	2007	2006
Village of Acme	\$ 148,493	\$ 156,870
Village of Beiseker	241,131	288,882
Village of Carbon	123,896	134,404
Village of Linden	252,682	271,672
Town of Irricana	215,516	206,662
Kneehill County	23,424	16,676
Municipal District of Rocky View	<u>137,680</u>	<u>137,680</u>
	<u>\$ 1,142,822</u>	<u>\$ 1,212,846</u>

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2007

15) Related Party Transactions (continued)

Amounts due from commission members are payable upon receipt of invoice, and have arisen from water sales charged and service fees provided during the year. Amounts due from the commission members at the end of the year are as follows:

	2007	2006
Village of Acme	\$ 12,809	\$ 11,604
Village of Beiseker	38,211	43,540
Village of Carbon	10,455	19,599
Village of Linden	17,241	31,751
Town of Irricana	38,162	39,769
Kneehill County	5,054	2,436
Municipal District of Rocky View	1,280	640
	<u>\$ 123,212</u>	<u>\$ 149,339</u>

Kneehill County has been contracted by the Commission to provide services for the maintenance of the water transmission and distribution lines. Payments are based on an applied hourly rate. During 2007, fees in the amount of \$11,979 (2006 - \$17,546) were paid to Kneehill County.

16) Extraordinary Item

During the year \$58,662 was paid in relation to a boil water advisory issued by the Town of Drumheller.

17) Commitments

Commencing in 2005, the commission entered into 20 year lease agreements with various landowners for land use. Total rental payments are \$2,600 per year.

Commencing in 2004, the commission entered into a 25 year agreement with the Town of Drumheller to purchase treated water. Rates are calculated on a cost of service basis utilizing the principles set out in the American Water Works Association (AWWA) manuals of practice dealing with water rates and charges. Rates are reviewed on an annual basis.

18) Contingencies

During the year, a boil water advisory was issued. The Commission along with the member communities incurred numerous expenditures during the time when the boil water advisory was in effect. The Commission has prepared a request for reimbursement of the additional costs incurred, due to the boil water order, with the Town of Drumheller. The Town of Drumheller has submitted this claim to their insurance company. At this time it is unknown if, or how much of these costs will be recovered.

The Commission has received an invoice from the Town of Drumheller requesting a contribution towards the Town of Drumheller Water Treatment Plant Master Plan Update. The Commission and the Town are not in agreement that this obligation is owed by the Commission. Due to the uncertainty of the outcome, no liability has been recognized in the financial statements at year end.

**Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2007**

19) Financial Instruments

The Commission's financial instruments consist of cash, short term investments, accounts receivable, long term investments, bank indebtedness, accounts payable and accrued liabilities and long term debt.

Credit Risk

Credit risk arises from the possibility that the entities to which the Commission provides services may experience financial difficulty and be unable to fulfill their obligations. The Commission is exposed to financial risk that arises from the credit quality of the entities to which it provides services. As the Commission provides products and services to a variety of customers, its credit risk is minimized.

Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Commission is exposed to financial risk from interest rate differentials between market interest rates and the rates used on their financial instruments.

Fair Value

The fair value of cash, short term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities, corresponds approximately to their carrying amount because of their short term maturity dates.

The fair value of long term debt is determined using the present value of future cash flows under current financing agreements.

20) Approval of Financial Statements

The Board of Directors of the Commission approved these financial statements.

21) Comparative Figures

The prior year comparative figures have been reclassified to conform to the current year's presentation.



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
B.A., B.Comm., C.A.
Professional Corporation

Shelley Harriman
Certified General Accountant
Professional Corporation

April 19, 2008

To the Chairman and Board of the
Kneehill Regional Water Services Commission

Dear Chairman and Board Members:

We have finalized the audit of the Kneehill Regional Water Services Commission (the "KRWSC") for the year ended December 31, 2007. We would like to take this opportunity to thank Joanne Weller for her cooperation and assistance during the course of this audit. The objective of an audit is to obtain reasonable assurance that the financial statements are free of material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly, an audit would not usually identify all such matters. However, we encountered some weaknesses in the control systems that should be addressed. These weaknesses have been identified solely as a result of the audit and are not the result of a detailed study of the accounting systems of the Commission. The matters identified are as follows:

1. Maintenance Services Agreement with Kneehill County not signed.

The agreement with Kneehill County for provision of maintenance services on the transmission and distribution lines to KRWSC has not been signed by Kneehill County. As this is a legal contract for which KRWSC is obligated to provide payment for services provided by Kneehill County, it is important to obtain a signed copy from Kneehill County. This ensures that the terms of the agreement are clearly identified, documented and communicated to all parties.

2. Amounts owing to the Town of Drumheller as a capital contribution, have not been paid in total by the December 31, 2005 deadline. As at December 31, 2007, \$600,000 was still outstanding of the \$2,400,000 agreed upon.

As per the agreement with the Town of Drumheller, the capital contribution relating to the water line was to be paid by December 31, 2005. Prompt payment of this amount should be made to ensure conformity with grant application and qualification.

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3. During 2006, it was discovered that the Commission made a claim to ICAP and ATU for expenditures incurred in the development of the water system, and was paid by both.

We have calculated the amount to be repaid to ICAP for the over-claimed amount to be \$234,926.15. The Commission needs to be aware that this amount is still outstanding. ICAP has indicated that they will not be asking that this amount be repaid, but will reduce any future grants entitlements by this amount.

4. Potential grant funding relating to the track flow system has not been pursued.

The Innovation Grant Program was applied for previously, however the Commission was turned down due to the number of applicants at that time. As per the 2006 Board Minutes and discussion with Joanne Weller, a subsequent grant application was to be made for this grant but has not been completed.

5. The Commission continues to reflect an operating deficit in its financial statements.

Based on the operating results for 2006 and 2007, it is recommended that the Commission review its five year financial plan in light of this matter. We have been forwarded recent correspondence received by the Commission from the Minister of Municipal Affairs indicating that the government is unable to provide any additional financial support to the Commission at this time. This leaves the Commission to review this situation and seek an independent solution. The correspondence does suggest that the Board consider a corporate review of its operational and financial planning practices, and we strongly recommend that this be pursued by the Board.

6. No asset acquisition and disposal policy has been formulated by the Commission.

It is recommended that KRWSC establish an asset acquisition and disposition policy. The policy should reference criteria to be followed regarding capitalization of assets.

7. The Commission does not currently have Board Governance Policies and Procedures in place.

The Board should consider establishing Board Policies and Procedures and formal documentation of such, to ensure that Board Governance Policies are clearly defined and well documented.

If you have any questions or require assistance with the implementation of any of the above recommendations, please do not hesitate to contact our office. This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

Yours truly,



S. Harriman, C.G.A.
Gregory, Harriman & Associates
Professional Accountants



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
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Shelley Harriman
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KNEEHILL REGIONAL WATER SERVICES COMMISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2008

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KNEEHILL REGIONAL WATER SERVICES COMMISSION

DECEMBER 31, 2008

CONTENTS

	Page
AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 13



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**



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AUDITORS' REPORT

To the Members of the Board of
Kneehill Regional Water Services Commission

We have audited the Statement of Financial Position of the Kneehill Regional Water Services Commission as at December 31, 2008 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the commission's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Kneehill Regional Water Services Commission as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Strathmore, Alberta
March 4, 2009

Gregory, Harriman & Assoc.
Gregory, Harriman & Associates
Professional Accountants

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Kneehill Regional Water Services Commission
Statement of Financial Position
As at December 31, 2008

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash (Note 7)	\$ -	\$ -
Short term investments (Note 3)	-	5,000
Accounts receivable (Note 4, 13)	<u>170,558</u>	<u>147,773</u>
	170,558	152,773
CAPITAL ASSETS (Note 5)	27,920,237	28,981,946
OTHER ASSETS (Note 6)	<u>2,088,000</u>	<u>2,184,000</u>
TOTAL ASSETS	<u>\$ 30,178,795</u>	<u>\$ 31,318,719</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bank indebtedness (Note 7)	\$ 519,017	\$ 108,384
Accounts payable and accrued liabilities (Note 8)	796,238	921,082
Current portion of long term debt (Note 11)	<u>271,907</u>	<u>256,703</u>
	1,587,162	1,286,169
LONG TERM LIABILITIES		
Deferred contributions related to capital assets (Note 9)	18,045,715	18,649,057
Deferred contributions related to water capital contribution (Note 10)	1,300,824	1,360,632
Long term debt, net of current portion (Note 11)	<u>11,070,573</u>	<u>11,342,480</u>
	30,417,112	31,352,169
TOTAL LIABILITIES	<u>32,004,274</u>	<u>32,638,338</u>
NET ASSETS		
Invested in capital assets (Note 2, 12)	(617,720)	(396,815)
Unrestricted (Note 2)	<u>(1,207,759)</u>	<u>(922,804)</u>
TOTAL NET ASSETS	<u>(1,825,479)</u>	<u>(1,319,619)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,178,795</u>	<u>\$ 31,318,719</u>

Commitments (Note 15)

Contingencies (Note 16)

Approved by  Chairman  Director

**Kneehill Regional Water Services Commission
Statement of Operations
For the Year Ended December 31, 2008**

	2008	2007
REVENUE		
Water sales to commission members <i>(Note 13)</i>	\$ 1,061,480	\$ 1,142,822
Government transfers	-	-
Investment income	87	9,419
Other revenue	178	12,075
Amortization of deferred water capital contribution	59,808	59,808
Amortization of deferred capital asset contributions	778,740	770,155
TOTAL REVENUE	<u>1,900,293</u>	<u>1,994,279</u>
EXPENSES		
Amortization of capital assets	1,061,709	1,061,709
Amortization of water capital contribution	96,000	96,000
Bank charges and short term interest	7,057	1,283
Contracted and general services <i>(Note 13)</i>	63,348	70,196
Director's fees	7,925	14,838
Manager's fees	39,015	50,670
Interest on capital long term debt <i>(Note 11)</i>	677,560	692,230
Materials, goods, supplies and utilities	431,867	443,914
Other expenditures	21,672	20,638
TOTAL EXPENSES	<u>2,406,153</u>	<u>2,451,478</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM	(505,860)	(457,199)
EXTRAORDINARY ITEM <i>(Note 14)</i>	<u>-</u>	<u>(58,662)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(505,860)	(515,861)
NET ASSETS AT BEGINNING OF YEAR	<u>(1,319,619)</u>	<u>(803,758)</u>
NET ASSETS AT END OF YEAR	<u>\$ (1,825,479)</u>	<u>\$ (1,319,619)</u>

The accompanying notes form an integral part of these financial statements.
Gregory, Harriman & Associates, Professional Accountants

Kneehill Regional Water Services Commission
Statement of Changes in Net Assets
For the Year Ended December 31, 2008

			2008	2007
	Invested in Capital Assets	Unrestricted	Total	Total
NET ASSETS AT BEGINNING OF YEAR	\$ (396,815)	\$ (922,804)	\$ (1,319,619)	\$ (803,758)
Excess (deficiency) of revenue over expenses	(282,969)	(222,891)	(505,860)	(457,199)
Extraordinary item	-	-	-	(58,662)
Purchase of capital assets	-	-	-	-
Long term debt proceeds	-	-	-	-
Other inter-fund adjustments	(175,397)	175,397	-	-
Deferred contributions	(19,242)	19,242	-	-
Principal repayments of long term debt	<u>256,703</u>	<u>(256,703)</u>	<u>-</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ (617,720)</u>	<u>\$ (1,207,759)</u>	<u>\$ (1,825,479)</u>	<u>\$ (1,319,619)</u>

The accompanying notes form an integral part of these financial statements.
 Gregory, Harriman & Associates, Professional Accountants

**Kneehill Regional Water Services Commission
Statement of Cash Flows
For the Year Ended December 31, 2008**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (505,860)	\$ (457,199)
Extraordinary item	-	(58,662)
	<u>(505,860)</u>	<u>(515,861)</u>
Items which do not affect cash:		
Amortization of capital assets	1,061,709	1,061,709
Amortization of water capital contribution	96,000	96,000
Amortization of deferred capital contribution	(603,342)	(770,155)
Amortization of deferred water capital contribution	(59,808)	(59,808)
Net changes in non-cash working capital balances		
Decrease (increase) in accounts receivable	(27,349)	13,817
Decrease (increase) in Goods and Services Tax payable/receivable	4,563	(7,207)
Increase (decrease) in deferred revenue	-	-
Increase (decrease) in deferred contributions related to capital assets	-	-
Increase (decrease) in deferred contributions related to water capital contributions	-	-
Increase (decrease) in deferred contributions related to capital assets under construction	-	-
Increase (decrease) in accounts payable and accrued liabilities	(124,843)	6,425
	<u>346,930</u>	<u>340,781</u>
Net cash provided (used) by Operating Activities	<u>(158,930)</u>	<u>(175,080)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	-
Purchase of capital assets	-	(6,414)
Disposal of investments	5,000	-
Purchase of capital assets under construction	-	-
Payment of water capital contribution	-	-
Net cash provided (used) by Investing Activities	<u>5,000</u>	<u>(6,414)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term debt issued	-	-
Long term debt repaid	(256,703)	(242,361)
Net cash provided (used) by Financing Activities	<u>(256,703)</u>	<u>(242,361)</u>
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	(410,633)	(423,855)
CASH POSITION AT BEGINNING OF YEAR	<u>(108,384)</u>	<u>315,471</u>
CASH POSITION AT END OF YEAR	<u>\$ (519,017)</u>	<u>\$ (108,384)</u>
Cash Flow Supplementary Information		
Interest paid on long term debt (Note 11)	<u>\$ 677,560</u>	<u>\$ 692,230</u>

The accompanying notes form an integral part of these financial statements.
Gregory, Harriman & Associates, Professional Accountants

**Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2008**

1) **Nature of the Organization**

Kneehill Regional Water Services Commission (the "Commission") is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs on September 30, 2003, for the purpose of constructing, maintaining, controlling and managing a regional potable water supply system.

The members of the Commission are the Village of Acme, the Village of Beiseker, the Village of Carbon, the Village of Linden, the Town of Irricana, Kneehill County and the Municipal District of Rocky View.

2) **Significant Accounting Policies**

A. Basis of Presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

B. Financial Instruments

As required by the CICA, on January 1, 2007, Kneehill Regional Water Services Commission adopted CICA Handbook Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3865, *Hedges*. The adoption of these new standards resulted in changes in the accounting and presentation for financial instruments. As required by the implementation of the new standards, the prior period's financial statements have not been restated. The principal changes in the accounting for financial instruments, due to the adoption of these accounting standards, are described below.

a) **Section 1530, Comprehensive Income**

Section 1530 requires a Statement of Comprehensive Income, which consists of net income and other comprehensive income ("OCI"). OCI is a new requirement to temporarily present unrecognized gains and losses from changes in fair value outside net income. It includes Kneehill Regional Water Services Commission's unrealized gains and losses resulting from market value fluctuations of financial instruments classified as available for sale. Comprehensive income and its components are presented in the Statement of Operations. Currently, Kneehill Regional Water Services Commission has no financial instruments designated as available for sale; hence there is no balance in the Statement of Comprehensive Income.

b) **Section 3855, Financial Instruments – Recognition and Measurement
Section 3861, Financial Instruments – Disclosure and Presentation**

Section 3855 requires upon initial adoption of the new standards that Kneehill Regional Water Services Commission designate its financial instruments into one of the following five categories: 1) Loans and receivables; 2) Assets held to maturity; 3) Assets available for sale; 4) Other financial liabilities; 5) Held for trading assets and liabilities.

Section 3855 also requires that all financial assets and financial liabilities are initially recognized at fair value and their subsequent measurements are dependent on their classification, as described below.

The classification depends on the purpose for which the financial instruments were acquired or issued; their characteristics and Kneehill Regional Water Services Commission's designation of such instruments are as follows:

- Kneehill Regional Water Services Commission currently has no financial instruments classified as loans and receivables.
- Kneehill Regional Water Services Commission currently has no financial instruments classified as assets held to maturity.
- Kneehill Regional Water Services Commission currently has no financial instruments classified as assets available for sale.
- Kneehill Regional Water Services Commission currently has no financial instruments classified as other financial liabilities.
- The Commission has the following financial assets and liabilities classified as held for trading: cash and cash equivalents, accounts receivable, accrued interest receivable, accounts payable and accrued liabilities. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized in the Statement of Operations. Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Gains and losses arising from changes in fair value are recognized immediately in the Statement of Operations. The fair value of cash and cash equivalents, accounts receivable, accrued interest receivable, accounts payable and accrued liabilities approximates their carrying value due to their short term nature.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2008

2) **Significant Accounting Policies** *(continued)*

Trade date accounting continues to be used for all financial assets:

Loans and Receivables

Loans and receivables are non-derivative financial assets that are initially recognized at fair value and, thereafter, are accounted for at cost or amortized cost using the effective interest method.

Held to Maturity

Held to maturity financial assets are initially recognized at fair value and, thereafter, are accounted for at cost or amortized cost using the effective interest method.

Available for Sale

Available for sale financial assets are measured at fair value at the date of the Statement of Financial Position. Interest paid or earned, interest accrued and gains and losses realized on disposal are included in the Statement of Operations and Changes in Fund Balances. Unrealized gains and losses from market fluctuations are included in the Statement of Comprehensive Income.

Other Liabilities

Other liabilities are non-derivative financial liabilities that are initially recognized at fair value and, thereafter, are recorded at cost or amortized cost.

Held for Trading

Held for trading financial assets and liabilities are measured at fair value at the date of the Statement of Financial Position. Interest paid or earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in the Statement of Operations. Kneehill Regional Water Services Commission has not designated any non-derivative financial liabilities as fair value financial liabilities.

Derivatives

Derivatives, including embedded derivatives that meet separate recognition criteria, are carried at fair value and are reported as assets when they have a positive fair value and as a liability when they have a negative fair value, unless the derivative is designated and qualifies for hedge accounting. Changes in fair value during the period are recorded in the Statement of Operations. As at December 31, 2008, Kneehill Regional Water Services Commission has no outstanding derivatives.

Transaction Costs

Transaction costs are expensed as incurred. Transaction costs do not include debt premiums or discounts or financing costs, which are netted against the carrying value of the liability and then amortized over the expected life of the instrument using the effective interest method.

Determination of Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed on in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

**Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2008**

2) **Significant Accounting Policies (continued)**

c) **Section 3865, Hedges**

Section 3865 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purpose of applying hedge accounting. It also establishes conditions for applying, and the discontinuance of hedge accounting and hedge effectiveness testing requirements. Kneehill Regional Water Services Commission currently has no hedging contracts.

d) **Transitional Adjustments**

On January 1, 2008, Kneehill Regional Water Services Commission did not need to make any transitional adjustments to its Statement of Financial Position to adopt the new requirements.

C. Revenue Recognition

Sales of goods are recognized as revenue in the period in which the transaction occurred that gave rise to the revenues.

The Commission follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions restricted for capital purposes are recorded as deferred capital asset contributions. These deferred contributions are taken into income at the corresponding to the amortization rate for the related capital assets.

D. Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. No amortization is taken in the year of disposal. Capital assets are amortized on a straight-line basis over the following periods:

Computer equipment	3 years
Supervisory control and data acquisition (SCADA)	5 years
Engineering structures	25 and 50 years

E. Income Taxes

The Commission is exempt from income taxation under Section 149 (1) (d.5) of the Income Tax Act.

F. Invested in Capital Assets

The balance represents Kneehill Regional Water Services Commission's net investment in capital assets. It is the original asset cost, less accumulated amortization, debt directly related to the asset, and any deferred contributions related to the asset.

G. Unrestricted Net Assets

These amounts are not restricted and are available for any purpose approved by the Members of the Board.

H. Measurement Uncertainty

The financial statements have been prepared in accordance with Canadian generally accepted accounting policies. The precise value of many assets and liabilities is dependent on future events. As a result, the preparation of financial statements for a period involves the use of approximations, which have been made using careful judgement by management. Actual results could differ from those approximations.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2008

3)	Short Term Investments	2008	2007
	ATB Financial Flexible GIC	<u>\$ -</u>	<u>5,000</u>
	The investment consisted of a two year flexible GIC, which matured July 17, 2008, at an interest rate of 4.45% per annum.		
4)	Accounts Receivable	2008	2007
	Accrued interest receivable	\$ -	\$ 326
	Trade accounts receivable	51,923	12,054
	Related party receivable (Note 13)	111,017	123,212
	Provincial government transfers	-	-
	Federal government transfers	-	-
	Goods and Services Tax receivable	7,618	12,181
		<u>\$ 170,558</u>	<u>\$ 147,773</u>
5)	Capital Assets	2008	2007
		Cost	Accumulated Amortization
		Net Book Value	Net Book Value
	Land	\$ 38,802	\$ -
	Engineering structures	31,185,316	3,428,381
	Computer equipment	5,220	5,220
	Supervisory control and data acquisition (SCADA)	150,000	25,500
	Totals	<u>\$ 31,379,338</u>	<u>\$ 3,459,101</u>
		<u>\$ 27,920,237</u>	<u>\$ 28,981,946</u>
6)	Other Assets	2008	2007
	Water capital contribution	\$ 2,400,000	\$ 2,400,000
	Less: Accumulated amortization	<u>(312,000)</u>	<u>(216,000)</u>
		<u>\$ 2,088,000</u>	<u>\$ 2,184,000</u>

A review of the capital upgrades undertaken by the Town of Drumheller to produce and deliver water was done by the Commission and the Town of Drumheller. It was determined that the contribution required to support the capital upgrades of the Town of Drumheller's water treatment facility, to supply the water capacity required by the Commission, was \$2,400,000. This contribution is being recognized by the Commission over 25 years, which is the term of the agreement with the Town of Drumheller.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2008

7)	Bank Indebtedness	2008	2007
	ATB Financial - Chequing	\$ 41,981	\$ 22,192
	ATB Financial - Savings	(5,274)	-
	Bank line of credit	<u>482,310</u>	<u>86,192</u>
		<u>\$ 519,017</u>	<u>\$ 108,384</u>
<p>The Commission has an authorized revolving line of credit of \$3,000,000 at a rate of Prime less 0.50% covered by a general security agreement, a trust agreement between the borrower and the Village of Acme, and the assignment of the water supply agreement with the Town of Drumheller, of which \$2,475,709 remained unused at year end.</p>			
8)	Accounts Payable and Accrued Liabilities	2008	2007
	Trade payables	\$ 26,170	\$ 26,056
	Accrued liabilities	58,617	60,100
	ICAP payable	-	234,926
	ATU payable	111,451	-
	Water capital payable	<u>600,000</u>	<u>600,000</u>
		<u>\$ 796,238</u>	<u>\$ 921,082</u>
9)	Deferred Contributions Related to Capital Assets		
<p>Deferred contributions related to capital assets represent the unamortized portion of government grants relating to capital costs. Changes in the deferred contributions balance are as follows:</p>			
		2008	2007
	Balance at beginning of year	\$ 18,649,057	\$ 19,419,212
	Add: Transfer from deferred contributions related to capital assets under construction	-	-
	Add: Contributed revenue	-	-
	Less: Amounts amortized to revenue	<u>(603,342)</u>	<u>(770,155)</u>
	Balance at end of year	<u>\$ 18,045,715</u>	<u>\$ 18,649,057</u>
10)	Deferred Contributions Related to Water Capital Contribution	2008	2007
	Contributed revenue	\$ 1,495,200	\$ 1,495,200
	Less: Amounts amortized to revenue	<u>(194,376)</u>	<u>(134,568)</u>
		<u>\$ 1,300,824</u>	<u>\$ 1,360,632</u>
11)	Long Term Debt	2008	2007
	Debenture	\$ 11,342,480	\$ 11,599,183
	Less: Current portion	<u>(271,907)</u>	<u>(256,703)</u>
		<u>\$ 11,070,573</u>	<u>\$ 11,342,480</u>

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2008

11) Long Term Debt (continued)

Principal and interest repayments are due as follows:

	Principal	Interest	Total
2009	\$ 271,907	\$ 663,829	\$ 935,736
2010	288,025	647,711	935,736
2011	305,112	630,624	935,736
2012	323,227	612,509	935,736
2013	342,433	593,333	935,766
Thereafter	9,811,776	5,694,135	15,505,911
	<u>\$ 11,342,480</u>	<u>\$ 8,842,141</u>	<u>\$ 20,184,621</u>

Debenture debt will accrue interest at a rate of 6.18% per annum from June 15, 2005 to June 15, 2030 on \$9,484,330. The remaining \$1,858,150 will accrue interest at a rate of 4.392% per annum from September 15, 2005 to September 15, 2030. The debenture debt is repayable in semi-annual installments of \$401,571 and \$66,297. Debenture debt is issued on the credit and security of the Commission at large.

Interest on long term debt amounted to \$677,560 (2007 - \$692,230).

	2008	2007
Total debt limit	\$ 15,000,000	\$ 15,000,000
Total debt	<u>11,342,480</u>	<u>11,599,183</u>
Amount of debt limit unused	<u>\$ 3,657,520</u>	<u>\$ 3,400,817</u>
Debt servicing limit	N/A	N/A

The debt limit is calculated at 2 times the revenue of the Commission (as defined in Alberta Regulation No. 76/2000) and the debt service limit is calculated at 0.35 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify commissions that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the Commission. Rather, the financial statements must be interpreted as a whole.

Alberta Municipal Affairs has issued Ministerial Order No. L:158/04 authorizing the Commission to borrow up to \$15,000,000 to complete construction of the regional water transmission line. As the debt is prescribed by a Ministerial Order, the debt service limit is not applicable.

12) Net Assets Invested in Capital Assets

Net assets invested in capital assets is calculated as follows:

	2008	2007
Capital assets	\$ 27,920,237	\$ 28,981,946
Long term debt related to capital assets	(10,492,242)	(10,729,704)
Deferred contributions related to capital assets	<u>(18,045,715)</u>	<u>(18,649,057)</u>
	<u>\$ (617,720)</u>	<u>\$ (396,815)</u>

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2008

13) Related Party Transactions

The Village of Acme, Village of Beiseker, Village of Carbon, Village of Linden, Town of Irricana, Kneehill County and Municipal District of Rocky View are members of the Commission and, as such, have been identified as related parties. The Commission has entered into agreements with these related parties to supply water service to their customers.

Service fees are based on budgeted operating costs of the Commission and are allocated among commission members. Water sales are based on actual water consumption during the year. Fees and rates are reviewed by the Commission on an annual basis. Service fees and water sales charged to Commission members are as follows:

	2008	2007
Village of Acme	\$ 157,346	\$ 148,493
Village of Beiseker	253,486	241,131
Village of Carbon	129,668	123,896
Village of Linden	231,696	252,682
Town of Irricana	251,957	215,516
Kneehill County	29,007	23,424
Municipal District of Rocky View	8,320	137,680
	<u>\$ 1,061,480</u>	<u>\$ 1,142,822</u>

Amounts due from Commission members are payable upon receipt of invoice, and have arisen from water sales charged and service fees provided during the year. Amounts due from the Commission members at the end of the year are as follows:

	2008	2007
Village of Acme	\$ 13,968	\$ 12,809
Village of Beiseker	21,700	38,211
Village of Carbon	10,317	10,455
Village of Linden	22,068	17,241
Town of Irricana	36,638	38,162
Kneehill County	5,046	5,054
Municipal District of Rocky View	1,280	1,280
	<u>\$ 111,017</u>	<u>\$ 123,212</u>

Kneehill County has been contracted by the Commission to provide services for the maintenance of the water transmission and distribution lines. Payments are based on an applied hourly rate. During 2008, fees in the amount of \$17,138 (2007 - \$11,979) were paid to Kneehill County.

14) Extraordinary Item

During 2007 \$58,662 was paid in relation to a boil water advisory issued by the Town of Drumheller.

15) Commitments

Commencing in 2005, the Commission entered into 20 year lease agreements with various landowners for land use. Total rental payments are \$2,600 per year.

Commencing in 2004, the Commission entered into a 25 year agreement with the Town of Drumheller to purchase treated water. Rates are calculated on a cost of service basis utilizing the principles set out in the American Water Works Association (AWWA) manuals of practice dealing with water rates and charges. Rates are reviewed on an annual basis.

Kneehill Regional Water Services Commission
Notes to Financial Statements
December 31, 2008

16) Contingencies

During the prior year, a boil water advisory was issued. The Commission along with the member communities incurred numerous expenditures during the time when the boil water advisory was in effect. The Commission has prepared a request for reimbursement of the additional costs incurred, due to the boil water order, with the Town of Drumheller. The Town of Drumheller has submitted this claim to their insurance company. At this time it is unknown if, or how much of these costs will be recovered.

The Commission has received an invoice from the Town of Drumheller requesting a contribution towards the Town of Drumheller Water Treatment Plant Master Plan Update. The Commission and the Town are not in agreement that this obligation is owed by the Commission. Due to the uncertainty of the outcome, no liability has been recognized in the financial statements at year end.

17) Financial Instruments

The Commission's financial instruments consist of cash, short term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and long term debt.

Credit Risk

Credit risk arises from the possibility that the entities to which the Commission provides services may experience financial difficulty and be unable to fulfill their obligations. The Commission is exposed to financial risk that arises from the credit quality of the entities to which it provides services. As the Commission provides products and services to a variety of customers, its credit risk is minimized.

Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Commission is exposed to financial risk from interest rate differentials between market interest rates and the rates used on their financial instruments.

Fair Value

The fair value of cash, short term investments, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities, corresponds approximately to their carrying amount because of their short term maturity dates.

The fair value of long term debt is determined using the present value of future cash flows under current financing agreements.

18) Approval of Financial Statements

The Board of Directors of the Commission approved these financial statements.



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

Karen A. Gregory
B.A., B.Comm., C.A.
Professional Corporation

Shelley Harriman
Certified General Accountant
Professional Corporation

March 4, 2009

To the Chairman and Board of the
Kneehill Regional Water Services Commission

Dear Chairman and Board Members:

We have finalized the audit of the Kneehill Regional Water Services Commission (the "KRWSC") for the year ended December 31, 2008. We would like to take this opportunity to thank Joanne Weller for her cooperation and assistance during the course of this audit. The objective of an audit is to obtain reasonable assurance that the financial statements are free of material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly, an audit would not usually identify all such matters. However, we encountered some weaknesses in the control systems that should be addressed. These weaknesses have been identified solely as a result of the audit and are not the result of a detailed study of the accounting systems of the Commission. The matters identified are as follows:

1. The Commission continues to reflect an operating deficit in its 2008 financial statements and had budgeted for an operating deficit in their 2008 financial budget.

Based on the operating results for 2006 through 2008, it is recommended that the Commission develop a five year financial plan in which to address steps, which can be taken by the Commission in order to address their current financial situation. We suggest that the Board consider a corporate review of its operational and financial planning practices.

2. Amounts owing to the Town of Drumheller as a capital contribution, have not been paid in total by the December 31, 2005 deadline. As at December 31, 2008, \$600,000 was still outstanding of the \$2,400,000 agreed upon.

As per the agreement with the Town of Drumheller, the capital contribution relating to the water line was to be paid by December 31, 2005. Prompt payment of this amount should be made to ensure conformity with grant application and qualification.

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www.gh-a.com

Association of two Professional Corporations that are in the practice of accountancy

3. During 2006, it was discovered that the Commission made a claim to ICAP and ATU for expenditures incurred in the development of the water system, and was paid by both.

We have calculated the amount to be repaid to ICAP for the over-claimed amount to be \$234,926.15. The Commission needs to be aware that this amount is still outstanding. ICAP has indicated that they will not be asking that this amount be repaid, but future grants or entitlements of the applicant, Village of Acme, may be reduced to offset this payable. The Commission will therefore, have a payable to the Village of Acme for this amount.

4. Subsequent to year end, a grant claim was submitted to ICAP. Upon review of the grant claim form, it appears that many expenses listed were claimed under a previous claim.

The Commission needs to review the expenses to ensure that expenditures are not being double claimed.

5. The Commission does not currently have Board Governance Policies and Procedures in place.

The Board should consider establishing Board Policies and Procedures and formal documentation of such, to ensure that Board Governance Policies are clearly defined and well documented.

6. The bank reconciliations were not completed correctly.

The amounts relating to the line of credit were not posted to the proper account. This resulted in large expenses being recorded to a suspense account throughout the year. All transactions clearing the bank need to be posted to the general ledger accurately and on a timely basis. This will provide management and the Board with accurate financial data on which to base their financial decisions.

7. No asset acquisition and disposal policy has been formulated by the Commission.

It is recommended that KRWSC establish an asset acquisition and disposition policy. The policy should reference criteria to be followed regarding capitalization of assets.

8. Potential grant funding relating to the track flow system has not been pursued.

The Innovation Grant Program was applied for previously, however the Commission's application was not accepted at that time due to the high number of applicants. A subsequent grant application should be prepared to potentially access the funds available.




GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS

If you have any questions or require assistance with the implementation of any of the above recommendations, please do not hesitate to contact our office. This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

Yours truly,



S. Harriman, C.G.A.
Gregory, Harriman & Associates
Professional Accountants



**GREGORY,
HARRIMAN
& ASSOCIATES
PROFESSIONAL ACCOUNTANTS**

OF THE KNEEHILL REGIONAL WATER SERVICES COMMISSION
hereinafter referred to as the "Commission"
IN THE PROVINCE OF ALBERTA

*Revised
Replaced to
Bylaw 2003-03*

THIS BYLAW AUTHORIZES THE BOARD OF THE COMMISSION TO INCUR AN INDEBTEDNESS FROM THE ALBERTA TREASURY BRANCH, BY THE ISSUANCE OF A REVOLVING LINE OF CREDIT AND A CAPITAL LOAN TO FINANCE THE CONSTRUCTION OF THE KNEEHILL WATER LINE

WHEREAS, the board of the Commission has decided to issue a bylaw pursuant to Sections 256 and 257 of the Municipal Government Act to authorize short term financing to construct a capital property.

In order to finance short term obligations, it will be necessary for the commission to borrow up to the aggregate amount of Eleven million dollars (\$11,000,000.00) on the terms and conditions referred to in this Bylaw.

The Municipality will repay the indebtedness by making monthly interest payments on the amount borrowed at the Alberta Treasury Branch not to exceed the prime lending rate as established by ATB from time to time. Such interest will be calculated daily and due and payable on the last day of each and every month.

THEREFORE, the Board of the Kneehill Regional Water Services Commission duly assembled enacts as follows:

1. That the Kneehill Regional Water Services Commission borrow from time to time from the Alberta Treasury Branch, a sum or sums not exceeding the aggregate amount of Eleven Million Dollars (\$11,000,000.00) which the Board deems necessary to expend to meet expenditures during construction of the waterline.
2. That for the purpose of financing short term obligations, the sum of Three Million dollars (\$3,000,000.00) be borrowed from the Alberta Treasury Branch by way of an authorized overdraft lending loan and Ten million Dollars (\$10,000,000.00) capital loan on the credit and security as promised in the agreement between the Alberta Treasury Branch and the Kneehill Regional Water Services Commission which is to paid with sources of money from:
 - a) Provincial and Federal Grant monies; and
 - b) Alberta Capital Authority.
3. The revolving line of credit loan shall bear interest on the amount drawn, not exceeding the 0.25% below the prime rate as set by the Alberta Treasury Branch from time to time and interest shall be payable on a monthly basis on the amount drawn.
4. The capital loan shall bear interest on the amount drawn, not exceeding the prime rate as set by the Alberta Treasury Branch from time to time and interest shall be payable on a monthly basis on the amount drawn.

Bylaw # 2003-03

Page 2

5. The loan shall be payable in lawful money of Canada at the Alberta Treasury Branch in the Village of Linden.
6. The loan shall be signed by the Chairman and the Secretary Treasurer of the Commission and the Secretary Treasurer shall affix the corporate seal of the Commission to the loan papers.
7. The indebtedness is contracted on the credit and security as outlined in the Security Documents section of the Banking Agreement.
8. The net amount realized by the issuance of the loan authorized under this bylaw shall be applied only for the purpose for which the indebtedness was created.
9. The Board of the Kneehill Regional Water Services Commission shall review the terms and conditions set out in this bylaw periodically as determined by the Alberta Treasury Branch.
10. That nothing herein contained shall waive, prejudicially affect or exclude any right, power, benefit or security by statute, common-law or otherwise given to or implied in favor of the said Bank.
11. In the event that the Municipal Government Act permits extension of the term of the loan and in the event the board of the Corporation decides to extend the loan and ATB is prepared to extend the loan, any renewal or extension, bill, debenture, promissory note, or other obligation executed by the officers designated in paragraph 3 hereof and delivered to ATB will be valid and conclusive proof as against the Corporation of the decision of the Board to extend the loan in accordance with the terms of such renewal or extension, bill, debenture, promissory note, or other obligation, and ATB will not be bound to inquire into the authority of such officers to execute and deliver any such renewal extension document or security.
12. This Bylaw comes into force on the final passing thereof.

Bylaw # 2003-03
Page 3

Certificate

WE HEREBY CERTIFY that the foregoing resolution was duly passed by the Board of the Kneehill Regional Water Services Commission therein mentioned at a duly and regularly constituted meeting thereof held on the 23RD day of OCTOBER, 2003 at which a quorum was present, as entered in the minutes of the said Commission, and that the Bylaw has come into force and is still in full force and effect.

WITNESS our hands and seal of the Commission this 23RD day of OCTOBER, 2003.

READ A FIRST TIME THIS 23rd DAY OF OCTOBER, 2003.

READ A SECOND TIME THIS 23rd DAY OF OCTOBER, 2003.

READ A THIRD TIME AND FINALLY PASSED THIS 23rd DAY OF OCTOBER, 2003.



CHAIRMAN



SECRETARY/TREASURER

COMMITMENT LETTER

LENDER: ALBERTA TREASURY BRANCHES

BORROWER: KNEEHILL REGIONAL WATER SERVICES COMMISSION

1. AMOUNTS AND TYPES OF FACILITIES (each referred to as a "Facility")

Facility #1 - Operating Loan Facility (Revolving) – Cdn. \$3,000,000.00

- Facility #1 is available by way of:
 - Prime-based loans in Canadian dollars
 - Letters of Credit/Letters of Guarantee (to an aggregate maximum of \$250,000.00) in Canadian dollars, to be contained within the \$1,000,000.00 margin free amount.
- Facility #1 is to be used for the general operating purposes of Borrower during construction to provide bridge for long term financing.
- Advances will be limited to the amount equal to the lesser of:
 - the maximum principal amount of Facility #1; and
 - the cost to complete the project, as certified by the Project Engineer.
 - \$1,000,000.00 provided on a margin free basis to accommodate timing differences.

Other Facilities – Foreign Exchange, Interest Rate and Commodity Derivatives

- At Borrower's request, Lender may enter into foreign exchange forward contracts and/or interest rate and commodity derivatives with Borrower from time to time. Lender makes no commitment to enter into any such contract or derivative and may at any time in its sole discretion decline to enter into any such contract or derivative. Any Security Documents will also secure Borrower's liability and obligations pursuant to any such contracts or derivatives.

2. INTEREST RATES AND PREPAYMENT:

Facility #1:

- Pricing applicable to Facility #1 is as follows:
 - Prime-based loans: Interest is payable in Canadian dollars at Prime minus 0.50% per 365-day period
 - Letters of Credit/Letters of Guarantee: Fee is 2% per annum with a minimum fee of \$200.00 plus extra pocket expenses.
- Facility #1 may be prepaid in whole or in part at any time (subject to the notice periods provided hereunder) without penalty.

May 20, 2008

3. REPAYMENT:**Facility #1:**

- Facility #1 is payable in full on demand by Lender, and Lender may terminate the availability thereof (including any undrawn portion) at any time without notice.
- Facility #1 may revolve in multiples as permitted hereunder, and Borrower may borrow, repay, reborrow and convert between types of Borrowings, up to the amount and subject to the notice periods provided hereunder.
- Quarterly funds received from Infrastructure Canada-Alberta Program (ICAP) and Alberta Capital Finance Authority (ACFA) by the Borrower to be applied at Lender's option firstly to accrued interest and secondly to principal.

4. FEES:

- Any amount in excess of established credit facilities may be subject to a fee where Lender in its sole discretion permits excess Borrowings, if any.
- For annual reports or statements not received within the stipulated periods (and without limiting Lender's rights by virtue of such default), Borrower will be subject to a fee of \$250 per month (per report or statement) for each late reporting occurrence, which will be deducted from Borrower's account.

5. SECURITY DOCUMENTS:

All security documents (whether held or later delivered) (collectively referred to as the "Security Documents") shall secure all Facilities and all other obligations of Borrower to Lender (whether present or future, direct or indirect, contingent or matured). The parties acknowledge that the following security documents are currently held:

- (a) General Security Agreement from Borrower providing a security interest over all present and after acquired personal property;
- (b) Trust Agreement between the Borrower and the Village of Acme – TO BE RELEASED;
- (c) Assignment of the Water Supply Agreement with the Town of Drumheller.

The security documents are registered in the following jurisdictions: Alberta.

6. REPRESENTATIONS AND WARRANTIES:

Borrower represents and warrants to Lender that:

- (a) if a Loan Party is a corporation, it is a corporation duly incorporated, validly existing and duly registered or qualified to carry on business in the Province of Alberta and in each other jurisdiction where it carries on any material business;
- (b) if a Loan Party is a partnership, it is a partnership duly created, validly existing and duly registered or qualified to carry on business in the Province of Alberta and in each other jurisdiction where it carries on any material business;

May 20, 2008

- (c) the execution, delivery and performance by each Loan Party of this agreement and each Security Document to which it is a party have been duly authorized by all necessary actions and do not violate its governing documents or any applicable laws or agreements to which it is subject or by which it is bound;
- (d) no event has occurred which constitutes, or which, with notice, lapse of time, or both, would constitute, a breach of any provision of this agreement or any Security Document given in connection herewith;
- (e) the most recent financial statements of Borrower and, if applicable, any Guarantor, provided to Lender fairly present its financial position as of the date thereof and its results of operations and cash flows for the fiscal period covered thereby, and since the date of such financial statements, there has occurred no material adverse change in its business or financial condition;
- (f) each Loan Party has good and marketable title to all of its properties and assets, free and clear of any encumbrances, other than Permitted Encumbrances;
- (g) each Loan Party is in compliance in all material respects with all applicable laws including, without limitation, all environmental laws, and there is no existing material impairment to its properties and assets as a result of environmental damage, except to the extent disclosed in writing to Lender and acknowledged by Lender; and
- (h) Borrower has no Subsidiaries.

7. POSITIVE COVENANTS:

Borrower (and, to the extent applicable, each other Loan Party) covenants with Lender that so long as it is indebted or otherwise obligated (contingently or otherwise) to Lender, it will do and perform the following covenants. If any such covenant is to be done or performed by a Guarantor, Borrower also covenants with Lender to cause Guarantor to do or perform such covenant.

- (a) Borrower will pay to Lender when due all amounts (whether principal, interest or other sums) owing by it to Lender from time to time;
- (b) Borrower will deliver to Lender the Security Documents, in all cases in form and substance satisfactory to Lender and Lender's solicitor;
- (c) Borrower will ensure that at least 95% of its consolidated assets are held by those Loan Parties which have provided security in favour of Lender;
- (d) Borrower will use the proceeds of loans only for the purposes approved by Lender;
- (e) each Loan Party will maintain its valid existence as a corporation or partnership, as the case may be, and except to the extent any failure to do so could not reasonably be expected to have a Material Adverse Effect, will maintain all licenses and authorizations required from regulatory or governmental authorities or agencies to permit it to carry on its business, including, without limitation, any licenses, certificates, permits and consents for the protection of the environment;
- (f) each Loan Party will maintain appropriate books of account and records relative to the operation of its business and financial condition;

May 20, 2008

- (g) each Loan Party will maintain and defend title to all of its property and assets and continuously carry on and conduct its business in a proper, efficient and businesslike manner;
- (h) each Loan Party will maintain appropriate types and amounts of insurance with Lender shown as first loss payee on any property insurance covering any assets on which Lender has security, and promptly advise Lender in writing of any significant loss or damage to its property;
- (i) each Loan Party will provide evidence of insurance to Lender:
 - i) in situations where Lender has taken a fixed charge on an asset or property whether on real property or personal property; and
 - ii) in all other situations, on request;
- (j) each Loan Party will maintain, repair and keep in good working order and condition all of its property and assets except to the extent any failure to do so could not reasonably be expected to have a Material Adverse Effect;
- (k) each Loan Party will permit Lender, by its officers or authorized representatives at any reasonable time, to enter its premises and to inspect its plant, machinery, equipment and other real and personal property and their operation, and to examine and copy all of its relevant books of accounts and records;
- (l) Borrower will provide to Lender as soon as possible and in any event:
 - within 90 days after the end of each of its fiscal years:
 - (I) financial statements of Borrower on an audited basis prepared by a firm of qualified accountants;
 - at each request for funding, an updated annual budgets and costs report from Borrower;
- (m) each Loan Party will provide to Lender on request any further information regarding its assets, operations and financial condition that Lender may from time to time reasonably require;
- (n) each Loan Party will remit all sums when due to tax and other governmental authorities (including, without limitation, any sums in respect of employees and GST), except to the extent any failure to do so could not reasonably be expected to have a Material Adverse Effect, and upon request, will provide Lender with such information and documentation in respect thereof as Lender may reasonably require from time to time;
- (o) each Loan Party will comply with all applicable laws, including without limitation, environmental laws, except to the extent any failure to do so could not reasonably be expected to have a Material Adverse Effect;
- (p) Borrower will promptly advise Lender in writing, giving reasonable details, of (i) the discovery of any contaminant or any spill, discharge or release of a contaminant into the environment from or upon any property of a Loan Party which could reasonably be expected to result in a Material Adverse Effect, (ii) any event which constitutes, or which

May 20, 2008

with notice, lapse of time or both, would constitute a breach of any provision hereof or of any Security Documents, and (iii) each event which has or is reasonably likely to have a Material Adverse Effect.

8. NEGATIVE COVENANTS:

Borrower (and, to the extent applicable, each other Loan Party) covenants with Lender that while it is indebted or otherwise obligated (contingently or otherwise) to Lender, it will not do any of the following, without the prior written consent of Lender. If a Guarantor is not to do an act, Borrower also covenants with Lender not to permit Guarantor to do such act.

- (a) a Loan Party will not create or permit to exist any mortgage, charge, lien, encumbrance or other security interest on any of its present or future assets, other than Permitted Encumbrances;
- (b) a Loan Party will not create, incur, assume or allow to exist any Indebtedness other than:
 - i) trade payables incurred in the ordinary course of business;
 - ii) any Indebtedness owing to another Loan Party (but only if that Loan Party has provided security in favour of Lender);
 - iii) any Indebtedness secured by a Permitted Encumbrance;
 - iv) any unsecured advances from affiliates/shareholders which are postponed in all respects to the Facilities; and
 - v) any Indebtedness owing to Lender;
- (c) a Loan Party will not sell, lease or otherwise dispose of any assets except (i) inventory sold, leased or disposed of in the ordinary course of business, (ii) assets sold, leased or disposed of to another Loan Party (but only if that Loan Party has provided security in favour of Lender), and (iii) assets sold, leased or disposed of during a fiscal year having an aggregate fair market value not exceeding \$100,000 for such fiscal year;
- (d) a Loan Party will not provide financial assistance (by means of a loan, guarantee or otherwise) to any person (other than Lender) other than loans permitted under clause (b) above;
- (e) a Loan Party will not pay to or for the benefit of shareholders or persons associated with shareholders (within the meaning of the Alberta Business Corporations Act) by way of salaries, bonuses, dividends, management fees, repayment of loans or otherwise, any amount which would cause a breach of a provision hereof;
- (f) a Loan Party will not reduce its capital or redeem, purchase or otherwise acquire, retire or pay off any of its present or future share capital other than to another Loan Party;
- (g) a Loan Party will not amalgamate, consolidate, or merge with any person other than a Loan Party and then only if no default or event of default is then in existence or would thereafter be in existence, and will not enter into any partnership with any other person unless the partnership becomes a Loan Party hereunder and provides security in favour of Lender;

May 20, 2008

- (h) a Loan Party will not consent to or facilitate a change in the ownership of its shares [or allow a material change in its management] without the prior written consent of Lender;
- (i) a Loan Party will not move or allow any of its assets to be moved to a jurisdiction where Lender has not registered or perfected the Security Documents;
- (j) a Loan Party will not change the present nature of its business;
- (k) Borrower will not operate accounts with or otherwise conduct any banking business with any financial institution other than Lender, other than to the extent expressly permitted in the definition of Permitted Encumbrances hereunder;
- (l) a Loan Party will not enter into any commodity, currency or interest rate hedging arrangement on a speculative basis;
- (m) a Loan Party will not allow any pollutant (including any pollutant now on, under or about such land) to be placed, handled, stored, disposed of or released on, under or about any of its lands unless done in the normal course of its business and then only as long as it complies with all applicable laws in placing, handling, storing, transporting, disposing of or otherwise dealing with such pollutants, except to the extent any failure to do so could not reasonably be expected to have a Material Adverse Effect;
- (n) Borrower will not utilize Borrowings to finance a hostile takeover.

9. CONDITIONS PRECEDENT:

No Facilities will be available until the following conditions precedent have been satisfied, unless waived by Lender:

- (a) Lender has received all Security Documents and all registrations and filings have been completed in Alberta, in all cases in form and substance satisfactory to Lender;
- (b) Borrower and Guarantors (if any) have provided all authorizations and all financial statements, appraisals, environmental reports and any other information that Lender may require;
- (c) Lender has received payment of all fees due in respect hereof;
- (d) Lender is satisfied as to the value of Borrower's and any Guarantor's assets and financial condition, and Borrower's and any Guarantor's ability to carry on business and repay any amount owed to Lender from time to time;
- (e) There is no default hereunder or under any Security Document;
- (f) All representations and warranties hereunder are true and correct in all material respects as if made on such date;
- (g) Construction advances to be made on a cost to complete basis, evidenced by the Project Engineer's Progress Certificate and supported by:
 - i) Statutory Declaration given by the Borrower stating that all accounts payable up to date of the last advance have been paid in full;

May 20, 2008

- ii) Worker's Compensation Board letter of clearance up to the date of the last advance.

It is a condition precedent to each subsequent advance hereunder that, at the time of such advance, there must be no default hereunder or under any Security Document.

10. AUTHORIZATIONS AND SUPPORTING DOCUMENTS

Borrower has delivered or will deliver the following authorizations and supporting documents to Lender:

- Borrower:
 - a) Incorporation Society and Municipal Body Agreement.

11. DRAWDOWNS, PAYMENTS AND EVIDENCE OF INDEBTEDNESS

- Interest on Prime-based loans is calculated on the daily outstanding principal balance, and is payable on the last day of each month.
- If revolvment of loans is permitted hereunder, principal advances and repayments on Prime-based loans are to be in the minimum sum of Cdn. \$0.01 or multiples of it.
- If Letters of Credit/Letters of Guarantee are available hereunder, the term of each Letter of Credit/Letter of Guarantee shall not exceed one (1) year, although automatic extensions thereof (unless notified by Lender) are permitted. On any demand being made by a beneficiary for payment under a Letter of Credit/Letter of Guarantee, the amount so paid shall be automatically deemed to be outstanding as a Prime-based loan under the relevant Facility.
- Borrower shall monitor its Borrowings (including the face amount and maturity date of each Letter of Credit/Letter of Guarantee) to ensure that the Borrowings hereunder do not exceed the maximum amount available hereunder. Lender shall have no obligation to make any Borrowing available in excess of amounts available hereunder.
- Borrower shall provide notice to Lender prior to requesting an advance or making a repayment or conversion of Borrowings hereunder, as follows:
 - For Borrowings:
 - under Cdn. \$5,000,000 – same day notice
 - Cdn. \$5,000,000 and over – one Business Day prior written notice
- Borrower may cancel the availability of any unused portion of a Facility on five Business Days' notice. Any such cancellation is irrevocable.
- The annual rates of interest or fees to which the rates calculated in accordance with this agreement are equivalent, are the rates so calculated multiplied by the actual number of days in the calendar year in which such calculation is made and divided by 365.
- If any amount due hereunder is not paid when due, Borrower shall pay interest on such unpaid amount (including without limitation, interest on interest) if and to the fullest extent permitted by applicable law, at a rate per annum equal to Prime plus 5%.

May 20, 2008

- The branch of Lender (the "Branch of Account") where Borrower maintains an account and through which the Borrowings will be made available is located at Linden Branch, 104 Central Avenue East, Linden, Alberta T0M 1J0. Funds under the Credit Facilities will be advanced into and repaid from account no. 753-1045687-24 at the Branch of Account, or such other branch or account as Borrower and Lender may agree upon from time to time.
- Lender shall open and maintain at the Branch of Account accounts and records evidencing the Borrowings made available to Borrower by Lender under this agreement. Lender shall record the principal amount of each Borrowing and the payment of principal, interest and fees and all other amounts becoming due to Lender under this agreement. Lender's accounts and records constitute, in the absence of manifest error, conclusive evidence of the indebtedness of Borrower to Lender pursuant to this agreement.
- Borrower authorizes and directs Lender to automatically debit, by mechanical, electronic or manual means, any bank account of Borrower for all amounts payable by Borrower to Lender pursuant to this agreement. Any amount due on a day other than a Business Day shall be deemed to be due on the Business Day next following such day, and interest shall accrue accordingly.

12. MISCELLANEOUS:

- (a) All legal and other costs and expenses incurred by Lender in respect of the Facilities, the Security Documents and other related matters will be paid or reimbursed by Borrower on demand by Lender.
- (b) All Security Documents will be prepared by or under the supervision of Lender's solicitors, unless Lender otherwise permits. Acceptance of this offer will authorize Lender to instruct Lender's solicitors to prepare all necessary Security Documents and proceed with related matters.
- (c) Lender, without restriction, may waive in writing the satisfaction, observance or performance of any of the provisions of this Commitment Letter. The obligations of a Guarantor (if any) will not be diminished, discharged or otherwise affected by or as a result of any such waiver, except to the extent that such waiver relates to an obligation of such Guarantor. Any waiver by Lender of the strict performance of any provision hereof will not be deemed to be a waiver of any subsequent default, and any partial exercise of any right or remedy by Lender shall not be deemed to affect any other right or remedy to which Lender may be entitled.
- (d) Borrower shall reimburse Lender for any additional cost or reduction in income arising as a result of (i) the imposition of, or increase in, taxes on payments due to Lender hereunder (other than taxes on the overall net income of Lender), (ii) the imposition of, or increase in, any reserve or other similar requirement, (iii) the imposition of, or change in, any other condition affecting the Facilities imposed by any applicable law or the interpretation thereof.
- (e) Lender is authorized but not obligated, at any time, to apply any credit balance, whether or not then due, to which Borrower or Guarantor is entitled on any account in any currency at any branch or office of Lender in or towards satisfaction of the obligations of Borrower or such Guarantor due to Lender under this agreement or any guarantee granted

May 20, 2008

in support hereof, as applicable. Lender is authorized to use any such credit balance to buy such other currencies as may be necessary to effect such application.

- (f) Words importing the singular will include the plural and vice versa, and words importing gender will include the masculine, feminine and neuter, and anything importing or referring to a person will include a body corporate and a partnership and any entity, in each case all as the context and the nature of the parties requires.
- (g) Where more than one person is liable as Borrower (or as a Guarantor) for any obligation hereunder, then the liability of each such person for such obligation is joint and several with each other such person.
- (h) If any portion of this agreement is held invalid or unenforceable, the remainder of this agreement will not be affected and will be valid and enforceable to the fullest extent permitted by law.
- (i) Where the interest rate for a credit is based on Prime, the applicable rate on any day will depend on the Prime rate in effect on that day, as applicable. The statement by Lender as to Prime and as to the rate of interest applicable to a credit on any day will be binding and conclusive for all purposes.
- (j) All interest rates specified are nominal annual rates. The effective annual rate in any case will vary with payment frequency. All interest payable hereunder bears interest as well after as before maturity, default and judgment with interest on overdue interest at the applicable rate payable hereunder. To the extent permitted by law, Borrower waives the provisions of the *Judgment Interest Act* (Alberta).
- (k) Any written communication which a party may wish to serve on any other party may be served personally (in the case of a body corporate, on any officer or director thereof) or by leaving the same at or couriering or mailing the same by registered mail to the Branch of Account (for Lender) or to the last known address (for Borrower or any Guarantor), and in the case of mailing will be deemed to have been received two (2) Business Days after mailing except in the case of postal disruption.
- (l) Unless otherwise specified, references herein to "\$" and "dollars" mean Canadian dollars.
- (m) If for the purpose of obtaining judgment in any court in any jurisdiction with respect to this Agreement, it is necessary to convert into the currency of such jurisdiction (the "Judgment Currency") any amount due hereunder in any currency other than the Judgment Currency, then conversion shall be made at the rate of exchange prevailing on the Business Day before the day on which judgment is given. For this purpose, rate of exchange means the rate at which Lender would, on the relevant date, be prepared to sell a similar amount of such currency against the Judgment Currency, in accordance with normal banking procedures. In the event that there is a change in the rate of exchange prevailing between the Business Day before the day on which judgment is given and the date of payment of the amount due, Borrower will, on the date of payment, pay such additional amounts as may be necessary to ensure that the amount paid on such day is the amount in the Judgment Currency which, when converted at the rate of exchange prevailing on the date of payment, is the amount then due under this Agreement in such other currency. Any additional amount due from Borrower under this paragraph will be due as a separate debt and shall not be affected by judgment being obtained for any other sums due in connection with this Agreement.

- (n) This agreement shall be governed by the laws of Alberta.
- (o) Lender shall have the right to assign, sell or participate its rights and obligations in the Facilities or in any Borrowing thereunder, in whole or in part, to one or more persons, provided that the consent of Borrower shall be required if no default is then in existence, such consent not to be unreasonably withheld or delayed.
- (p) Borrower shall indemnify Lender against all losses, liabilities, claims, damages or expenses (including without limitation legal expenses on a solicitor and his own client basis) (i) incurred in connection with the entry into, performance or enforcement of this agreement, the use of the Facility proceeds or any breach by Borrower or any Guarantor of the terms hereof or any document related hereto, or (ii) arising out of or in respect of: (A) the release of any hazardous or toxic waste or other substance into the environment from any property of Borrower or any of its Subsidiaries, and (B) the remedial action (if any) taken by Lender in respect of any such release, contamination or pollution. This indemnity will survive the repayment or cancellation of any of the Facilities or any termination of this agreement.
- (q) Time shall be of the essence in all provisions of this agreement.
- (r) This agreement may be executed in counterpart.

13. NEXT REVIEW DATE:

All demand Facilities are subject to review by Lender at any time in its sole discretion, and at least annually. The next annual review date has been set for March 31, 2009 but may be set at an earlier or later date at the sole discretion of Lender.

14. DEFINITIONS:

"Borrowings" means all amounts outstanding under the Facilities, or if the context so requires, all amounts outstanding under one or more of the Facilities or under one or more borrowing options of one or more of the Facilities.

"Business Day" means a day, excluding Saturday and Sunday, on which banking institutions are open for business in the province of Alberta and, when used in connection with a Libor-based loan, means a day on which dealings in U.S. currency deposits may also be concluded by and between leading banks in the London inter-bank market.

"Generally Accepted Accounting Principles" or **"GAAP"** means generally accepted accounting principles as may be described in the Canadian Institute of Chartered Accountants Handbook and other primary sources recognized from time to time by the Canadian Institute of Chartered Accountants.

"Indebtedness" means all present and future obligations and indebtedness of a person, whether direct or indirect, absolute or contingent, including all indebtedness for borrowed money, all obligations in respect of swap or hedging arrangements and all other liabilities which in accordance with GAAP would appear on the liability side of a balance sheet (other than items of capital, retained earnings and surplus or deferred tax reserves).

"Loan Parties" means the Borrower and all Guarantors other than any individual Guarantors, and **"Loan Party"** means any of them.

"Material Adverse Effect" means a material adverse effect on:

- (a) the financial condition of Borrower or of any Guarantor; or
- (b) the ability of Borrower or any Guarantor to repay amounts owing hereunder or under its guarantee in respect hereof.

"Permitted Encumbrances" means, in respect of the Borrower and any Guarantor, the following:

- (a) liens for taxes, assessments or governmental charges not yet due or delinquent or the validity of which is being contested in good faith;
- (b) liens arising in connection with workers' compensation, unemployment insurance, pension, employment or other social benefits laws or regulations which are not yet due or delinquent or the validity of which is being contested in good faith;
- (c) liens under or pursuant to any judgment rendered or claim filed which are or will be appealed in good faith provided any execution thereof has been stayed;
- (d) undetermined or inchoate liens and charges incidental to construction or current operations which have not at such time been filed pursuant to law or which relate to obligations not due or delinquent;
- (e) liens arising by operation of law such as builders' liens, carriers' liens, materialmens' liens and other liens of a similar nature which relate to obligations not due or delinquent;
- (f) easements, rights-of-way, servitudes or other similar rights in land (including, without in any way limiting the generality of the foregoing, rights-of-way and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) granted to or reserved or taken by other persons which singularly or in the aggregate do not materially detract from the value of the land concerned or materially impair its use in the operation of the business of Borrower or such Guarantor;
- (g) security given to a public utility or any municipality or governmental or other public authority when required by such utility or municipality or other authority in connection with the operations of Borrower or such Guarantor, all in the ordinary course of its business which singularly or in the aggregate do not materially impair the operation of the business of Borrower or such Guarantor;
- (h) the reservation in any original grants from the Crown of any land or interests therein and statutory exceptions to title;
- (i) operating leases;
- (j) capital lease transactions (according to GAAP) or sale-leaseback transactions where the indebtedness represented by all such transactions does not at any time exceed \$100,000 in aggregate;

- (k) security interests granted or assumed to finance the purchase of any property or asset (a "Purchase Money Security Interest") where:
 - i) the security interest is granted at the time of or within 60 days after the purchase,
 - ii) the security interest is limited to the property and assets acquired, and
 - iii) the indebtedness represented by all Purchase Money Security Interests does not at any time exceed \$100,000 in aggregate;
- (l) security interests or liens (other than those hereinbefore listed) of a specific nature (and excluding for greater certainty floating charges) on properties and assets having a fair market value not in excess of \$100,000 in aggregate;

"Prime" means the prime lending rate per annum established by Lender from time to time for commercial loans denominated in Canadian dollars made by Lender in Canada.

"Subsidiaries" means

- (a) a person of which another person alone or in conjunction with its other subsidiaries owns an aggregate number of voting shares sufficient to elect a majority of the directors regardless of the manner in which other voting shares are voted; and
- (b) a partnership of which at least a majority of the outstanding income interests or capital interests are directly or indirectly owned or controlled by such person,

and includes a person in like relation to a Subsidiary.

Kneehill Regional Water Services Commission Revenue & Expenses (Per Audited Financial Statements) January 1st to December 31st Appendix L	Years Volume 113,083 (4 months) 2005	Budget 2005	Variance	Breakeven Volume 1,487,746
WATER SALES:				
Acme	43,313.55	41,340.00	1,973.55	
Beiseker	66,772.30	61,340.00	5,432.30	
Carbon	35,199.15	34,440.00	759.15	
Irricana	69,168.40	55,940.00	13,228.40	
Linden	59,049.90	68,540.00	-9,490.10	
Kneehill County	3,550.05	0.00	3,550.05	
Rocky View	0.00	0.00	0.00	
TOTAL WATER SALES	277,053.35	261,600.00	15,453.35	3,644,978.82
LESS WATER PURCHASES	-102,330.51	0.00	-102,330.51	-1,346,284.18
GROSS PROFIT	174,722.84	261,600.00	-86,877.16	2,298,694.64
ADD: ROCKY VIEW GRANT	0.00	0.00	0.00	0.00
ADD: SERVICE FEE REVENUE	17,920.00	17,920.00	0.00	17,920.00
REVENUE BEFORE DIRECT EXPENSES	192,642.84	279,520.00	-86,877.16	2,316,614.64
LESS DIRECT EXPENSES:				
Maintenance fees (variable)	-14,250.00	0.00	-14,250.00	-187,476.34
Miscellaneous purchases	-100.00	0.00	-100.00	-100.00
Operator Contract Kneehill (variable)	-44,156.79	0.00	-44,156.79	-580,937.08
Operator Contract Drumheller	0.00	0.00	0.00	0.00
Insurance	-916.70	-750.00	-166.70	-916.70
WCB	-818.00	-760.00	-58.00	-818.00
Operation supplies(variable)	-17,654.01	0.00	-17,654.01	-232,260.29
Repairs and maintenance(variable)	-21,772.93	0.00	-21,772.93	-286,449.77
Long term debt interest	-210,261.61	0.00	-210,261.61	-210,261.61
Utilities (variable)	-51,648.64	0.00	-51,648.64	-679,501.61
Total direct expenses	-361,578.68	-1,510.00	-360,068.68	-2,178,721.41
CONTRIBUTION MARGIN (DEFICIT)	-168,935.84	278,010.00	-446,945.84	137,893.23
LESS ADMINISTRATIVE EXPENSES:				
Legal fees	-755.60	-500.00	-255.60	-755.60
Land compensation payments	0.00	0.00	0.00	0.00
Delivery	0.00	-100.00	100.00	0.00
Director fees	-13,584.00	-12,000.00	-1,584.00	-13,584.00
Manager contract	0.00	-24,000.00	24,000.00	0.00
Secretary treasurer contract	-14,112.20	-12,000.00	-2,112.20	-14,112.20
Accounting expense	-6,570.00	-5,300.00	-1,270.00	-6,570.00
Courses & conventions	-50.00	0.00	-50.00	-50.00
Memberships	-80.00	-96.00	16.00	-80.00
Promotional expenses	-6,044.07	0.00	-6,044.07	-6,044.07
Postage	-250.00	0.00	-250.00	-250.00
Interest and bank charges	-154.40	-250.00	95.60	-154.40
Office supplies	-1,411.28	-750.00	-661.28	-1,411.28
Property taxes	-1,867.15	0.00	-1,867.15	-1,867.15
Office & tower rent	-1,200.00	-1,200.00	0.00	-1,200.00
1st Call locates	0.00	0.00	0.00	0.00
Telephone	-3,861.54	0.00	-3,861.54	-3,861.54
Office startup	-265.99	-1,672.00	1,406.01	-265.99
Total administrative expenses	-50,206.23	-57,868.00	7,661.77	-50,206.23
NET REVENUE (EXPENDITURES) BEFORE OTHER	-219,142.07	220,142.00	-439,284.07	87,687.00
OTHER REVENUE AND EXPENDITURES:				
Grant revenue	266.00	0.00	266.00	
Interest revenue	21,245.27	0.00	21,245.27	
Miscellaneous revenue	4,372.51	8,372.00	-3,999.49	
NET REVENUE (EXPENDITURES) BEFORE AMORTIZATION	-193,258.29	228,514.00	-421,772.29	
Amortization of deferred water capital contributions	14,952.00	0.00	14,952.00	
Amortization of deferred capital asset contributions	196,203.81	0.00	196,203.81	
Amortization of capital assets	-294,683.43	0.00	-294,683.43	
DEFICIENCY OF REVENUE OVER EXPENSES (I/S)	-276,785.91	228,514.00	-505,299.91	
NET REVENUE (EXPENDITURES) BEFORE PRINCIPAL PAYMENTS	-219,142.07			87,687.00
LESS PRINCIPAL PAYMENTS ON DE BENTURES	-87,687.00			-87,687.00
OPERATIONAL CASH FLOW IMPLICATIONS	-306,829.07			0.00

KNEEHILL REGIONAL WATER - ADMINISTRATION BUDGET
APPROVED MAY 25TH, 2006

	PREV YEAR		2005		2006	
	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET
REVENUES						
VILLAGE OF ACME		43,900.00	45,873.55		160,000.00	
VILLAGE OF BEISEKER		63,900.00	69,332.30		300,000.00	
VILLAGE OF CARBON		37,000.00	37,759.15		150,000.00	
VILLAGE OF LINDEN		58,500.00	61,609.90		220,000.00	
TOWN OF IRRICANA		71,100.00	71,728.40		300,000.00	
KNEEHILL COUNTY		2,560.00	6,110.05		36,000.00	
MD OF ROCKYVIEW		2,560.00	2,560.00		240,000.00	
CONTRACTOR - FOR START UP CEREMONY		4,000.00	4,000.00			
MISC REVENUE RECEIVED		4,372.00	4,372.51			
INTEREST REVENUE			21,245.27			
GST REBATE			277,927.27			
AMORTIZATION - DEFERRED CAP. ASSET			196,203.81			
AMORTIZATION - DEFERRED WATER CONTRIB.			14,952.00			
TOTAL REVENUES		287,892.00	813,674.21		1,406,000.00	
EXPENDITURES						
DIRECTOR FEES	18,866.52	12,000.00	13,584.00		10,000.00	
ADMINISTRATOR CONTRACT		24,000.00	-		36,000.00	
SECRETARY/TREASURER CONTRACT	17,972.41	12,000.00	14,112.20		15,000.00	
AUDIT FEES	5,296.50	5,300.00	6,320.00		5,300.00	
INSURANCE	1,064.00	750.00	916.70		1,750.00	
MEMBERSHIP FEES	95.60	96.00	80.00		96.00	
LEGAL		500.00	755.06		500.00	
BANK CHARGES AND INTEREST	72.01	250.00	154.40		200.00	
OFFICE RENT		1,200.00	1,200.00		1,200.00	
OFFICE SET UP EXPENSE	9,218.52	1,672.00	265.99		250.00	
POSTAGE			6,044.07		250.00	
PROMOTIONAL EXPENSE						
WCB	760.00	760.00	818.00		450.00	

KRWSC - PAGE 2 BUDGET	PREV YEAR		2005		2006	
	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET
MISCELLANEOUS PURCHASES			100.00			
MAINTENANCE FEES			14,250.00		15,000.00	
COURSES/CONVENTIONS			50.00		1,000.00	
KC OPERATIONS CONTRACT			44,156.79		50,000.00	
DRUMHELLER OPERATIONS CONTRACT						
OFFICE SUPPLIES	35.00	750.00	1,411.28		500.00	
OPERATION SUPPLIES			17,654.01		20,000.00	
PURCHASE OF WATER (DRUMHELLER)			102,330.51		400,000.00	
PROPERTY TAX (IRRICANA & MD of Rocky View)			1,867.15		1,200.00	
REPAIRS & MAINTENANCE			21,772.93		5,000.00	
UTILITIES					75,000.00	
ELECTRICITY			44,294.39			
NATURAL GAS			7,354.25			
TELEPHONE (Regular & Cell)			3,861.54		2,000.00	
FREIGHT/COURIER		100.00	253.24			
DEBENTURE INTEREST #1	23.41		210,261.61		619,556.00	
DEBENTURE PRINCIPAL#1					183,586.00	
DEBENTURE INTEREST # 2					87,349.00	
DEBENTURE PRINCIPAL # 2					45,245.00	
LOAN PRINCIPAL - WREDC					50,000.00	
AMORTIZATION			294,683.43			
TOTAL OPERATING EXPENSES	53,403.97	61,383.00	810,806.55	61,383.00	1,628,188.00	

KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN REPORT

3.0 System Water Demands

3.1 WATER CONSUMPTION COMPONENTS

Total water demand for the regional system is comprised of three primary water users: the urban municipalities, which include the Villages of Acme, Beiseker, Carbon, Irricana and Linden, rural domestic water users within the alignment corridor in Kneehill County and the Municipal District of Rocky View, and rural livestock water users.

Demands for the three groups of users were considered based on well pumping information obtained from the five urban municipalities for 2001 and 2002, and from previously compiled information in the Regional Water System Concept Refinement (Urban Systems, 2002) and the Regional Water System Feasibility Study (Urban Systems, 1999).

Existing system demands were combined with projected urban and rural population growth rates and livestock estimates to identify water demands to the system design year of 2026.

3.2 PER CAPITA WATER DEMANDS

In order to consider the impacts of this growth on the system water demands, water consumption in each of the communities was reviewed. The Regional Water System Concept Refinement Study noted increases in the average daily per capita water demands in four of the five urban municipalities, and a moderate drop in water demand in Linden between the years 1999 and 2001. To confirm these flows, water pumping records for 2001 and 2002 were obtained from the five communities to identify trends in average daily usage and maximum day demands (MDD).

Table 3.1 summarizes the average daily demands (ADD) of the five urban municipalities for the years 1999, 2001 and 2002.

Table 3.1 - Per Capita Average Day Water Usage

Community	2001 (L/cap/day)	2002 (L/cap/day)
Acme	323	346
Beiseker	440	425

**KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN
REPORT**
SYSTEM WATER DEMANDS

Table 3.1 - Per Capita Average Day Water Usage

Carbon	365	332
Irricana	424	333
Linden	408	305
Weighted Average	399	351

Based on the weighted average per capita water consumptions of the urban municipality users as recorded in Table 3.2, a per capita water demand of 380 L/cap/day was selected as the design parameter for urban users in the regional system.

As there is no available data on the water consumption of rural residents in the project area, a per capita ADD rate of 325 L/cap/day (71 lgal/cap/day) was assumed for this population. This rate was selected to reflect the lower water demands in rural areas without significant commercial or industrial bases.

3.3 PEAKING FACTOR

Sizing of the various regional waterline segments is based on meeting system demands through a combination of transmission line capacity and water storage. To determine the amount of transmission line capacity and water storage required for a system, a proper understanding of critical system demand conditions is necessary. Table 3.2 illustrates the relationship between ADD conditions and Maximum Day Demand (MDD) conditions, experienced in each of the urban municipalities during 2001 and 2002.

Table 3.2 – Ratio of ADD and MDD Conditions

Community	2001 ADD (L/cap/day)	2001 MDD (L/cap/day)	2001 Ratio	2002 ADD (L/cap/day)	2002 MDD (L/cap/day)	2002 Ratio
Acme	323	442	1.4	346	469	1.4

KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN REPORT

SYSTEM WATER DEMANDS

Table 3.2 – Ratio of ADD and MDD Conditions

Beiseker	440	573	1.3	425	730	1.7
Carbon	365	662 ¹	1.8	331	457	1.4
Irricana	424	759	1.8	333	575	1.7
Linden ²	408	NA	NA	305	NA	NA

The Concept Refinement Study included an assumed ADD of 410 L/cap/day (90 lgal/day) water consumption for the five urban municipalities, and an MDD of 2 times the ADD for use in determining the water supply and transmission line sizing requirements for the urban municipalities, which are conservative when compared to the flows noted in Table 3.2. Based on the current per capita ADD rates, and the general relationship between MDD and ADD flows, the design MDD factor can be reduced to 1.8 times ADD flow without negatively impacting the projected urban municipality service requirements of the system to 2026, if adequate water storage is available in the urban areas to meet their individual needs. Therefore, line sizes for the system are based on an MDD factor of 1.8 times the ADD flow rates for each community and for rural residents.

3.4 FIRE FLOW PROTECTION

Providing fire flow on a regional basis to the Commission would result in cost-prohibitive increases to the system pipe sizes and storage and pumping requirements. These requirements can be more cost-effectively implemented at the community level with the provision of fire flow pumps and fire flow storage at the Community reservoirs and pump stations. Therefore, no allowance for fire flow is included in the design of the regional system, and responsibility for the provision of fire flow storage and pumping capacity is assumed to be the responsibility of the individual communities.

¹ A MDD of 980 L/cap/day was recorded July 10, 2001, but has been omitted because of concerns regarding its validity. The displayed MDD was the second highest recorded flow in 2001 (September 10, 2001).

² Because daily well pumping volumes were not recorded by in Linden, MDD flows and ratios were not recorded for that community.

KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN REPORT

SYSTEM WATER DEMANDS

3.5 URBAN WATER DEMANDS

Table 3.3 outlines the populations of the five urban municipalities in 2001, as identified in the Concept Refinement Study, as well as the 2026 populations of those communities, based on their respective growth projections.

Table 3.3 - Urban Municipality Populations³

Community	2001	Projected Annual Growth	2026 (Projected Population)
Acme	661	1.67%	1,000
Beiseker	810	1.58%	1,199
Carbon	501	3.56%	1,201
Irricana	1,016	4.43%	3,003
Linden	630	3.5%	1,489

Based on their growth projections, the five urban municipalities project a growth in total population from 3,618 in 2001 to 7,892 in 2026, an increase of 118%.

Total urban municipality flows for the ultimate design horizon were determined by multiplying the assumed ADD and MDD demands by the projected population of each community, and yielded total volumes as summarized in Table 3.4.

Table 3.4 – Urban Municipality Ultimate Water Demands

Community	Ultimate Design Population	ADD Volume (m ³ /day)	MDD Volume (m ³ /day)	MDD Flow (L/s)
Acme	1,000	380	684	7.9
Beiseker	1,199	456	821	9.5
Carbon	1,201	456	821	9.5
Irricana	3,003	1,141	2,053	23.8

³ Source: Concept Refinement Study (Urban Systems, 2001)

**KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN
REPORT**
SYSTEM WATER DEMANDS

Table 3.4 – Urban Municipality Ultimate Water Demands

Linden	1,489	566	1,019	11.9
Total	7,892	2,999	5,398	62.6

From Table 3.4, the regional water transmission line will be sized to accommodate an ultimate flow of 62.6 L/s to the urban municipalities.

3.6 RURAL WATER DEMANDS

The Regional Water System Concept Refinement Study provided population growth and water usage projections for the rural populations serviceable by the regional system in Kneehill County, the MD of Rocky View and Mountain View County. Populations for different sections of land were based on census data provided by Kneehill County, and extrapolated to areas where no data was available. It was assumed that 60% of the estimated 2,375 existing rural residents will connect to the system, and all of the future 718 rural residents will connect to the system, for a total of 2,143 rural residents serviced by the system. As this data was extrapolated from Census information, and generally accepted as reasonable by the Commission, no adjustments were made to the number of system users.

However, per capita water demands for rural users were revised to 325 L/cap/day to reflect lower consumption rates than residents of the urban municipalities who have water demands associated with commercial and industrial uses. Based on the rural per capita water demand of 325 L/cap/day, and an MDD factor of 1.8 times ADD, rural water demands are summarized in Table 3.5. Figure 3.1 illustrates the location of rural residents who expressed interest in connecting to a regional water system through a recent survey conducted by Kneehill County.

**KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN
REPORT**
SYSTEM WATER DEMANDS

Table 3.5 – Rural Dwelling Water Demands

Design Criteria	Per Capita Flow of 325 L/cap/day MDD = 1.8 x ADD
Initial Connected Population	1,425
Initial ADD Volume (m ³ /day)	463
Initial MDD Volume (m ³ /day)	834
Initial MDD Flow (L/s)	9.6
10-Year Horizon Connected Population	1,670
10-Year ADD Volume (m ³ /day)	543
10-Year MDD Volume (m ³ /day)	977
10-Year MDD Flow (L/s)	11.3
2026 Connected Population	2,143
2026 ADD Volume (m ³ /day)	696
2026 MDD Volume (m ³ /day)	1,254
2026 MDD Flow (L/s)	14.5

3.7 INTENSIVE LIVESTOCK WATER DEMANDS

The Regional Water System Concept Refinement Study outlined water demands and population growth projections for cattle, swine and poultry. Per capita demands were determined to be 50 L/cap/day (11 lgpd) for cattle, 15.9L/cap/day (3.5 lgpd) for swine and 0.27L/cap/day (0.06 lgpd) for poultry.



Information on livestock water demands was obtained from the Alberta Agriculture, Food and Rural Development Ag-Info Centre. That information included standardized water consumption rates for various livestock, and refined demands based on animal

KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN REPORT

SYSTEM WATER DEMANDS

size, age and temperature. Generally, the information supplied by the Ag-info centre is consistent with the water demands for cattle, swine and poultry. Therefore the previously estimated livestock water demands are maintained in this report.

Livestock populations are projected to double over the system design horizon. Because water demands for livestock do not vary as much on a seasonal basis as water demands for human consumption, an MDD factor of 1 times ADD was chosen for livestock demands. Figure 3.2 identifies the locations of existing livestock operations in the area of the proposed regional system.

System connectivity will vary with the type of livestock operation, as some forms of livestock production are more successful than others with high quality water. It is assumed that 20% of existing cattle and swine operations will eventually connect to the regional system, while 50% of existing poultry operations will connect. It is also assumed that 50% of future cattle and swine, and 75% of future poultry operations will connect to the system. Based on these projected existing livestock populations and connectivity rates, an initial livestock demand of 14.6 L/sec (277,505 lgal/day) will increase to 48.9 L/sec (929,058 lgal/day). Overall system demands as noted in the Concept Refinement Study are as follows:

Table 3.6 – Livestock Water Demands

	Cattle	Swine	Poultry	Total
Initial Connected Population	15,330	23,620	436,750	
Initial ADD Volume (m ³ /day)	767	376	119	1,262
Initial MDD Volume (m ³ /day)	767	376	119	1,262
Initial MDD Flow (L/s)	8.9	4.3	1.4	14.6
10-Year Horizon Population	22,046	33,966	628,088	
10-Year ADD Volume (m ³ /day)	1,106	538	140	1,784
10-Year MDD Volume (m ³ /day)	1,106	538	140	1,784
10-Year MDD Flow (L/s)	12.8	6.2	1.6	20.6
2026 Connected Population	53,665	82,670	1,091,875	

Stantec

**KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN
REPORT**
SYSTEM WATER DEMANDS

Table 3.6 – Livestock Water Demands

2026 ADD Volume (m ³ /day)	2,687	1,315	225	4,227
2026 MDD Volume (m ³ /day)	2,687	1,315	225	4,227
2026 MDD Flow (L/s)	31.1	15.2	2.6	48.9

3.8 RURAL FLOW ALLOCATION ALONG THE PIPELINE ROUTE

Because of the rural and intensive livestock components in the system, the allocation flow along the regional waterline included a review of existing intensive livestock operation (ILO) locations and consideration for future ILO and rural needs.

Generally, there appear to be a concentration of ILOs in the Beiseker-Acme-Linden corridor. To conservatively allow for the vast majority of rural and intensive livestock flows to be concentrated in this region, 25% of the combined rural and intensive livestock flows were attributed to each of those three communities. Because there are numerous farms, and rural communities such as the Hamlet of Swallowwell and Hutterite colonies in the Carbon area, an assumption of 20% percent of the combined rural and intensive livestock flows were allocated at Carbon. The remaining 5% of the combined rural and intensive livestock flows were allocated at Irricana. Figure 3.3 outlines the overall allocation of flows throughout the regional system for the initial, 10-year and ultimate design scenarios.

Overall, this allocation of rural and intensive livestock flow is conservative, as it allows 80% of the rural and intensive livestock flow to Acme and downstream, which results in higher system design pressures, and flow capacities than may be ultimately required. (Further discussion of the pressure and flow capacity issues are contained in Sections 5 and 6).

3.9 OVERALL SYSTEM FLOWS

Table 3.7 summarizes the initial, 10-year and ultimate design flows of the system on the basis of the per capita rates and MDD factors established in this section.

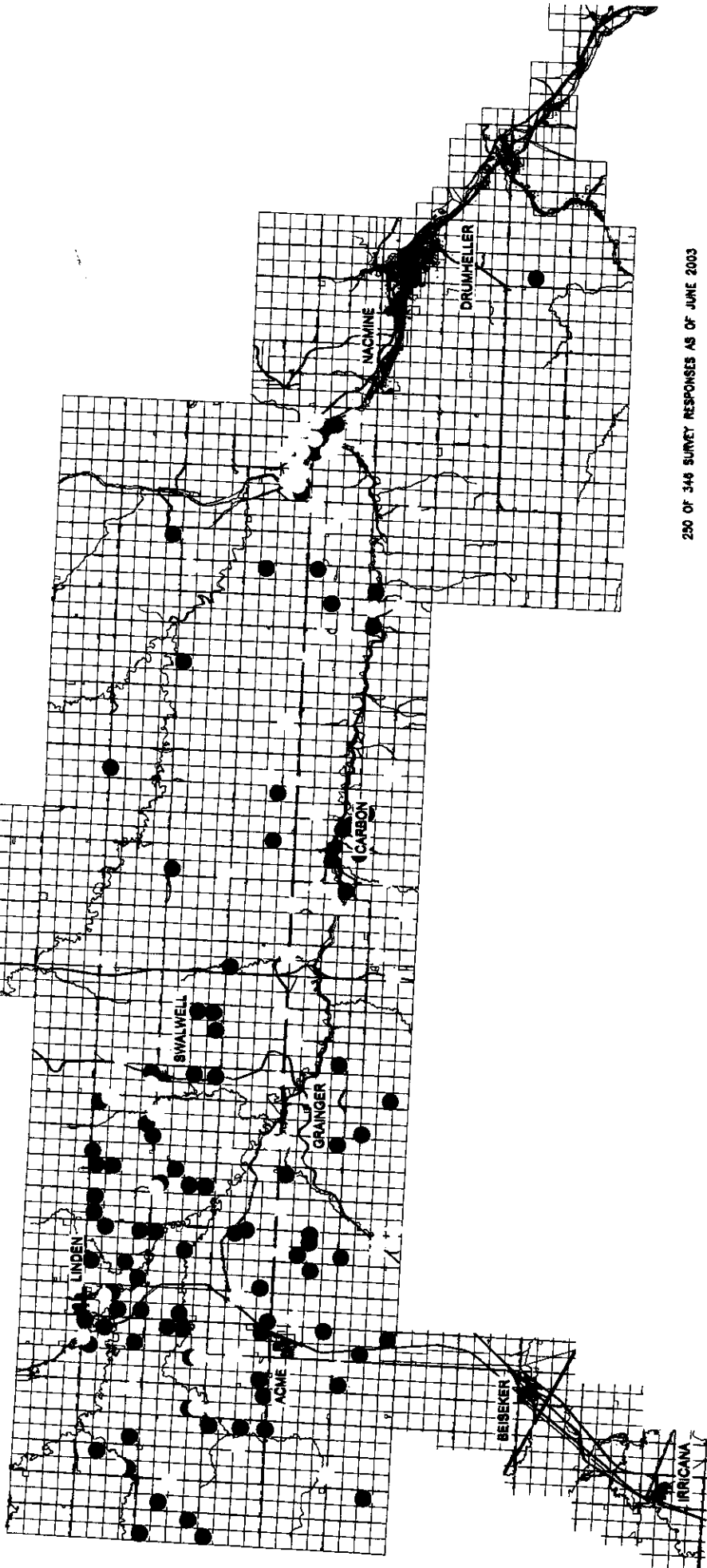
KNEEHILL REGIONAL WATER TRANSMISSION LINE PRELIMINARY DESIGN REPORT

SYSTEM WATER DEMANDS

Table 3.7 – System Design Flow Summary

Water User	Initial ADD Flows (L/s)	Initial MDD Flows (L/s)	10-Year ADD Flows (L/s)	10-Year MDD Flows (L/s)	Ultimate ADD Flows (L/s)	Ultimate MDD Flows (L/s)
Acme	2.9	5.2	3.4	6.2	4.4	7.9
Beiseker	3.6	6.4	4.2	7.5	5.3	9.5
Carbon	2.4	4.3	3.8	6.8	5.3	9.5
Irricana	4.8	8.6	8.2	14.8	13.2	23.8
Linden	3.0	5.4	4.7	8.5	6.6	11.9
Subtotal – Urban Municipalities	16.7	30.1	24.3	43.8	34.8	62.6
Rural Dwellings	5.3	9.6	5.6	10.1	8.1	14.5
Livestock	14.6	14.6	20.6	20.6	48.9	48.9
Total	36.6	54.3	50.5	74.5	91.8	126

From Table 3.7, the total regional system flow under MDD conditions at the ultimate design year is 126 L/s, and will form the basis of the design of the regional system components.



230 OF 345 SURVEY RESPONSES AS OF JUNE 2003

Surrette Scientific
 10000 10th Street
 Fort Collins, CO 80526
 Phone: 970.221.2200
 Fax: 970.221.2200
 Email: info@surrette.com

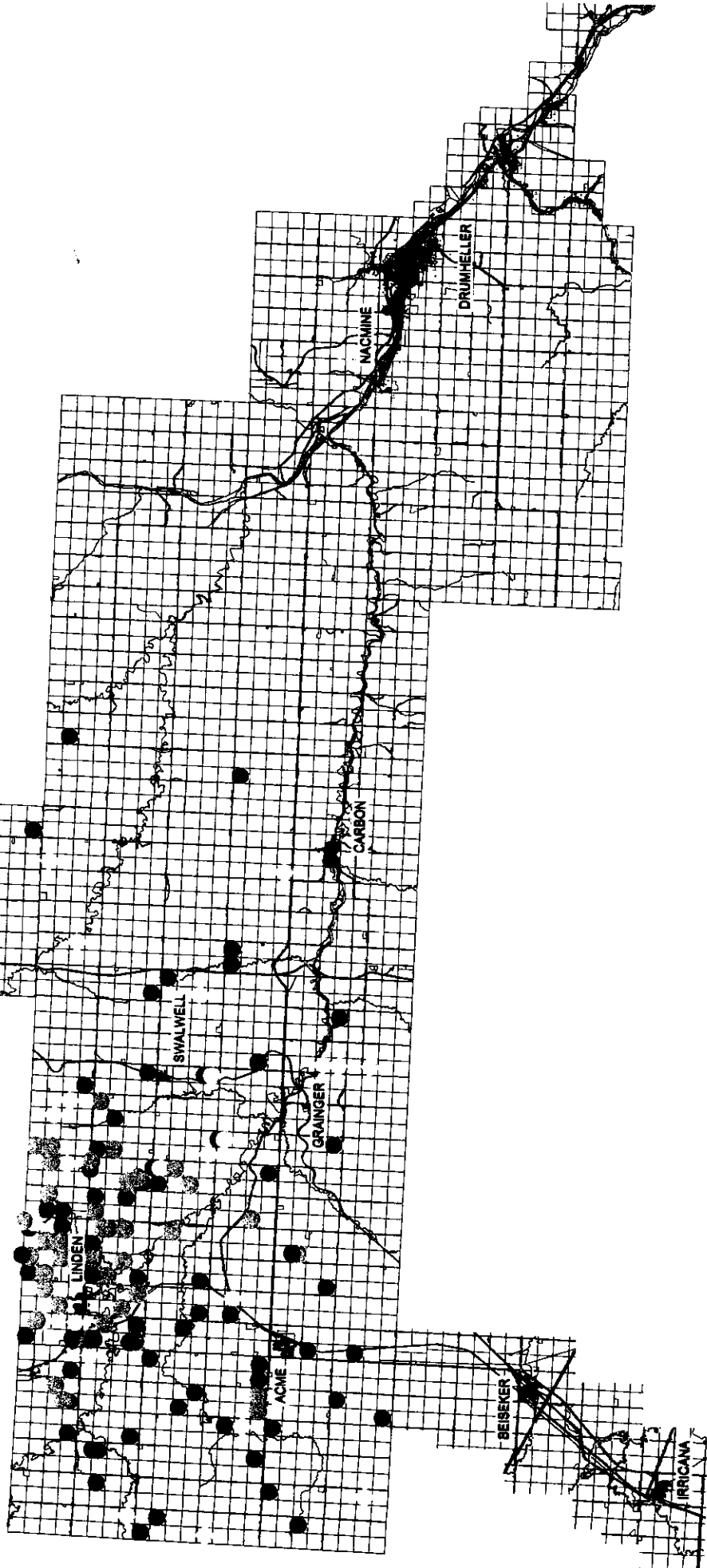
Kneehill Regional Water Line Water Line Connection Survey

- HOUSE
- LIVESTOCK
- HOUSE AND LIVESTOCK



Graphic Courtesy of USGS
 1:50,000 Scale
 1 inch = 4,166 feet
 1 centimeter = 39.37 inches

WATER LINE CONNECTION SURVEY
 PRELIMINARY DESIGN REPORT
 October, 2003 14872509

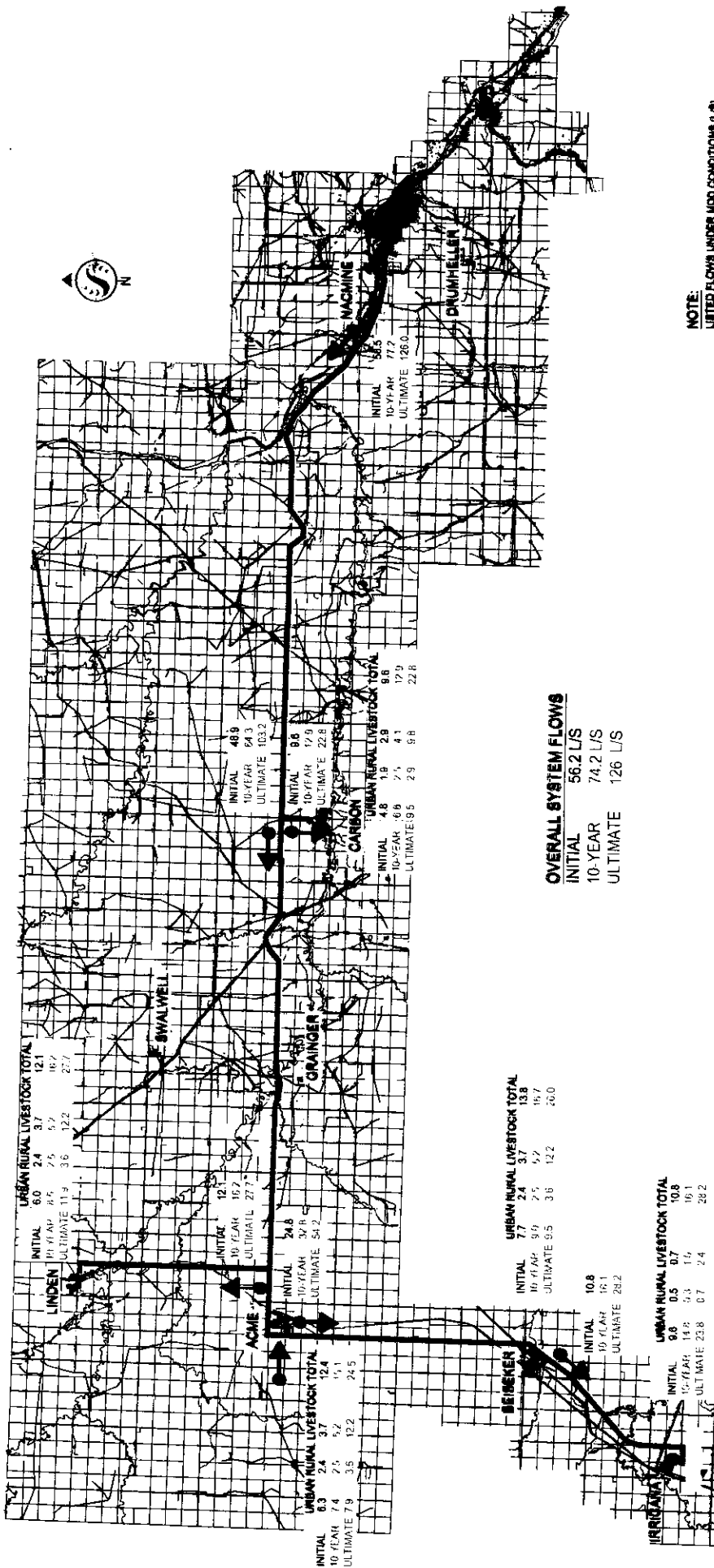


Spartan Irrigation, Ltd.
 100 West 20th Street
 Fort Collins, CO 80521
 Phone: 970.221.2200
 Fax: 970.221.2200
 www.spartanirrigation.com

Kneehill Regional Water Line Existing Intensive Livestock Operations

- POULTRY
- BEEF
- HOG
- DAIRY

DATE: 11/11/11
 DRAWING TRANSMISSION LINE
 PRELIMINARY DESIGN REPORT
 FIG. NO. 3.2
 SHEET NO. 18
 Existing Intensive Livestock Operations
 October, 2010 11072709



NOTE: LIMITED FLOWS UNDER MOD CONDITIONS (L/S)
SCALE



Kneehill Regional Water Line Overall Alignment System Flows

Symbic Engineering
 10000 10th Street
 Suite 100
 Denver, CO 80231
 Phone: 303.751.1000
 Fax: 303.751.1001
 Email: info@symbiceng.com

PROJECT: KNEEHILL REGIONAL WATER LINE
 PRELIMINARY DESIGN REPORT
 SHEET: 13
 Overall System Flows
 DATE: 08/15/2011 10:27:58 AM



ALBERTA
MINISTER OF MUNICIPAL AFFAIRS

June 26, 2006

Office of the Minister
MLA, Medicine Hat

Mr. Annon Hovde
Chairman
Kneehill Regional Water Services Commission
Box 592
Acme, Alberta
T0M 0A0

Dear Mr. Hovde

Thank you for your letter of May 29, 2006, requesting my approval of your operational plan and projected 2006 and 2007 deficit budgets.

Please find attached a copy of Ministerial Order No. L:123/06. The order extends the period for recovery of your financial deficiency to 2009 pursuant to section 602.21 of the *Municipal Government Act*. This approval is based on the understanding that the commission will establish the water rates as described in the operational plan. The authority provided under this order should help you to resolve your immediate budgetary concerns.

With regard to provincial financial assistance, I have been advised that the commission received funding from the Infrastructure Canada-Alberta Program in the amount of \$17,085,492. When the project costs escalated additional funding in the amount of \$2,941,300 was then provided from the Alberta Municipal Water/Wastewater Program. This additional grant was provided as a special consideration to allow the commission project to proceed.

Sincerely

Rob Renner
Minister

Attachment

cc: Honourable Ty Lund
Minister of Infrastructure and Transportation

Mr. Richard Marz, MLA
Olds-Didsbury-Three Hills Constituency





ALBERTA
MINISTER OF MUNICIPAL AFFAIRS

Office of the Minister
MLA, Medicine Hat

MINISTERIAL ORDER NO. L:123/06

I, Rob Renner, Minister of Municipal Affairs, pursuant to section 602.21 of the *Municipal Government Act*, make the following order:

1. Kneehill Regional Water Services Commission may spread the annual operating expenditures required to recover its accumulated financial deficiency over a four-year period.
2. The expenditures required to recover the accumulated deficiency must be included in the Kneehill Regional Water Services Commission's 2006 through 2009 annual operating budgets.
3. The Kneehill Regional Water Services Commission's accumulated financial deficiency must be fully recovered by 2009.

Dated at Edmonton, Alberta, this 5th day of July, 2006.

Rob Renner
Minister of Municipal Affairs

Kneehill Regional Water Services Commission Revenue & Expenses (Per Audited Financial Statements) January 1st to December 31st Appendix O	Years Volume 420,035	Budget 2006	Variance	Breakeven Volume 864,744
WATER SALES:				
Acme	149,190.30	152,320.00	-3,129.70	
Beiseker	281,201.20	292,320.00	-11,118.80	
Carbon	126,723.70	142,320.00	-15,596.30	
Irricana	263,992.40	292,320.00	-28,327.60	
Linden	198,981.65	212,320.00	-13,338.35	
Kneehill County	8,996.40	28,320.00	-19,323.60	
Rocky View	0.00	0.00	0.00	
TOTAL WATER SALES	1,029,085.65	1,119,920.00	-90,834.35	2,118,622.00
LESS WATER PURCHASES	-294,806.32	-400,000.00	105,193.68	-606,930.20
GROSS PROFIT	734,279.33	719,920.00	14,359.33	1,511,691.80
ADD: SERVICE FEE REVENUE	53,760.00	46,080.00	7,680.00	53,760.00
REVENUE BEFORE DIRECT EXPENSES	788,039.33	766,000.00	22,039.33	1,565,451.80
LESS DIRECT EXPENSES:				
Maintenance fees (variable)	0.00	-15,000.00	15,000.00	0.00
Miscellaneous purchases	-12,946.88	0.00	-12,946.88	-12,946.88
Operator Contract Kneehill (variable)	-17,546.30	0.00	-17,546.30	-36,123.31
Operator Contract Drumheller (variable)	-20,295.28	-50,000.00	29,704.72	-41,782.75
Insurance	-5,132.49	-1,750.00	-3,382.49	-5,132.49
WCB	-450.00	-450.00	0.00	-450.00
Operation supplies (variable)	-9,465.11	-20,000.00	10,534.89	-19,486.22
Repairs and maintenance (variable)	-24,887.69	-5,000.00	-19,887.69	-51,237.34
Long term debt interest	-705,818.70	-706,905.00	1,086.30	-705,818.70
Utilities (variable)	-149,439.14	-75,000.00	-74,439.14	-307,656.66
Total direct expenses	-945,981.59	-874,105.00	-71,876.59	-1,180,634.34
CONTRIBUTION MARGIN (DEFICIT)	-157,942.26	-108,105.00	-49,837.26	384,817.46
LESS ADMINISTRATIVE EXPENSES:				
Legal fees	-1,500.00	-500.00	-1,000.00	-1,500.00
Land compensation payments	-2,556.00	0.00	-2,556.00	-2,556.00
Delivery	-533.26	0.00	-533.26	-533.26
Director fees	-13,036.62	-10,000.00	-3,036.62	-13,036.62
Manager contract	-39,869.61	-36,000.00	-3,869.61	-39,869.61
Secretary treasurer contract	-14,829.30	-15,000.00	170.70	-14,829.30
Accounting expense	-8,673.53	-5,300.00	-3,373.53	-8,673.53
Courses & conventions	0.00	-1,000.00	1,000.00	0.00
Memberships	-90.00	-96.00	6.00	-90.00
Promotional expenses		0.00	0.00	0.00
Postage	-250.00	-250.00	0.00	-250.00
Interest and bank charges	-6,894.70	-200.00	-6,694.70	-6,894.70
Office supplies	-695.77	-500.00	-195.77	-695.77
Property taxes	-1,895.83	-1,200.00	-695.83	-1,895.83
Office & tower rent	-4,200.00	-1,200.00	-3,000.00	-4,200.00
1st Call locates	0.00	0.00	0.00	0.00
Telephone	-7,374.03	-2,000.00	-5,374.03	-7,374.03
Office startup	-3,587.81	0.00	-3,587.81	-3,587.81
Total administrative expenses	-105,986.46	-73,246.00	-32,740.46	-105,986.46
NET REVENUE (EXPENDITURES) BEFORE OTHER	-263,928.72	-181,351.00	-82,577.72	278,831.00
OTHER REVENUE AND EXPENDITURES:				
Grant revenue	3,587.81	0.00	3,587.81	
Special grant - Rocky View	130,000.00	240,000.00	-110,000.00	
Interest revenue	20,139.97	0.00	20,139.97	
Miscellaneous revenue	7,195.33	0.00	7,195.33	
NET REVENUE (EXPENDITURES) BEFORE AMORTIZATION	-103,005.61	58,649.00	-161,654.61	
Amortization of deferred water capital contributions	59,808.00	0.00	59,808.00	
Amortization of deferred capital asset contributions	761,090.07	0.00	761,090.07	
Amortization of capital assets	-1,157,452.30	0.00	-1,157,452.30	
DEFICIENCY OF REVENUE OVER EXPENSES	-439,559.84	58,649.00	-498,208.84	
NET REVENUE (EXPENDITURES) BEFORE PRINCIPAL PAYMENTS	-103,005.61			278,831.00
LESS PRINCIPAL PAYMENTS ON DE BENTURES	-278,831.00			-278,831.00
OPERATIONAL CASH FLOW IMPLICATIONS	-381,836.61			0.00

KNEEHILL REGIONAL WATER - ADMINISTRATION BUDGET
APPROVED MAY 25TH, 2006

	PREV YEAR		2005		2006	
	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET
REVENUES						
VILLAGE OF ACME		43,900.00	45,873.55		160,000.00	
VILLAGE OF BEISEKER		63,900.00	69,332.30		300,000.00	
VILLAGE OF CARBON		37,000.00	37,759.15		150,000.00	
VILLAGE OF LINDEN		58,500.00	61,609.90		220,000.00	
TOWN OF IRRICANA		71,100.00	71,728.40		300,000.00	
KNEEHILL COUNTY		2,560.00	6,110.05		36,000.00	
MD OF ROCKYVIEW		2,560.00	2,560.00		240,000.00	
CONTRACTOR - FOR START UP CEREMONY		4,000.00	4,000.00			
MISC REVENUE RECEIVED		4,372.00	4,372.51			
INTEREST REVENUE			21,245.27			
GST REBATE			277,927.27			
AMORTIZATION - DEFERRED CAP. ASSET			196,203.81			
AMORTIZATION - DEFERRED WATER CONTRIB.			14,952.00			
TOTAL REVENUES		287,892.00	813,674.21		1,406,000.00	
EXPENDITURES						
DIRECTOR FEES	18,866.52	12,000.00	13,584.00		10,000.00	
ADMINISTRATOR CONTRACT		24,000.00	-		36,000.00	
SECRETARY/TREASURER CONTRACT	17,972.41	12,000.00	14,112.20		15,000.00	
AUDIT FEES	5,296.50	5,300.00	6,320.00		5,300.00	
INSURANCE	1,064.00	750.00	916.70		1,750.00	
MEMBERSHIP FEES	95.60	96.00	80.00		96.00	
LEGAL		500.00	755.06		500.00	
BANK CHARGES AND INTEREST	72.01	250.00	154.40		200.00	
OFFICE RENT		1,200.00	1,200.00		1,200.00	
OFFICE SET UP EXPENSE	9,218.52	1,672.00	265.99			
POSTAGE			250.00		250.00	
PROMOTIONAL EXPENSE			6,044.07			
WCB	760.00	760.00	818.00		450.00	

KRWSC - PAGE 2 BUDGET		PREV YEAR	2005	2005	2005	2006
		ACTUAL	BUDGET	ACTUAL	BUDGET	BUDGET
MISCELLANEOUS PURCHASES				100.00		
MAINTENANCE FEES				14,250.00		15,000.00
COURSES/CONVENTIONS				50.00		1,000.00
KC OPERATIONS CONTRACT				44,156.79		50,000.00
DRUMHELLER OPERATIONS CONTRACT						
OFFICE SUPPLIES		35.00	750.00	1,411.28		500.00
OPERATION SUPPLIES				17,654.01		20,000.00
PURCHASE OF WATER (DRUMHELLER)				102,330.51		400,000.00
PROPERTY TAX (IRRICANA & MD of Rocky View)				1,867.15		1,200.00
REPAIRS & MAINTENANCE				21,772.93		5,000.00
UTILITIES						75,000.00
ELECTRICITY				44,294.39		
NATURAL GAS				7,354.25		
TELEPHONE (Regular & Cell)				3,861.54		2,000.00
FREIGHT/COURIER					100.00	
DEBENTURE INTEREST #1		23.41		253.24		
DEBENTURE PRINCIPAL #1				210,261.61		619,556.00
DEBENTURE INTEREST # 2						183,586.00
DEBENTURE PRINCIPAL # 2						87,349.00
LOAN PRINCIPAL - WREDC						45,245.00
AMORTIZATION						50,000.00
TOTAL OPERATING EXPENSES		53,403.97	61,383.00	810,806.55	61,383.00	1,628,188.00

THIS AGREEMENT ENTERED INTO on September 27, 2006.

BETWEEN

KNEEHILL REGIONAL WATER SERVICES COMMISSION
(Hereinafter referred to as the "Commission")

AND

MUNICIPAL DISTRICT OF ROCKY VIEW # 44
(Hereinafter referred to as the "Community")

1. **BACKGROUND**

WHEREAS, the Commission has constructed a Regional Water System from Drumbeller to Irricana, serving the communities of Carbon, Linden, Acme, Beiseker, Irricana, Kneehill County and Municipal District of Rocky View (Appendix "A").

AND WHEREAS, the Commission has through a separate agreement with all its members, agreed on a volume of water to be allocated from an existing Commission water license to provide water to the Community (Appendix "C").

AND WHEREAS, the Community requires an increase of that volume to be delivered by the Commission

AND WHEREAS, the Commission is desirous to provide increased water services to the Community

IN CONSIDERATION, of mutual promises and covenants contained herein, the parties agree as follows:

2. **DEFINITIONS**

In this agreement unless the content or subject matter is inconsistent therewith:

- a) **Reservoir** – means the reservoirs located at:
 - i) **KIRKPATRICK** – located at Kirkpatrick
 - ii) **ACME** – to be located at Acme
 - iii) **BALZAC** – to be located at Balzac
- b) **Water** – means the water treated by the Town of Drumbeller and supplied to the Commission and in turn conveyed for and supplied to the Community.
- c) **Commission** means the Kneehill Regional Water Services Commission
- d) **Community** means the Municipal District of Rocky View # 44
- e) **Kneehill Extension Project** (the project) means the water line extension complete with reservoirs from Acme to a point near Balzac in the Community (Appendix "B")

- f) License means the water diversion license issued by Alberta Environment
- g) Operational Date means the date of water services to start
- h) Regional Line means the Commission's existing Regional Water Line from Kirkpatrick to Irricana (Schedule "A")

3. BASIC AGREEMENT

WHEREAS, the Commission and Community, as partners in the Kneehill Regional Water Services Commission, have an existing water supply agreement (Appendix "C"), this agreement will be specifically for the description, detail, construction, development and start up operation of the Kneehill Extension Project as outlined in Appendix "B".

The Community is a member of the Kneehill Regional Water Services Commission and is entitled to 2200 m3 per day. This volume of water is available to the Community on application of right for withdrawal.

4. GENERAL TERMS

- a) This agreement is for the benefit of and binds the parties and their respective successors and permitted assigns.
- b) Any term of this agreement which is determined to be void, unenforceable or illegal will be severed from this Agreement. The remaining terms will be effective and enforceable.
- c) The headings are for reference only and will not be used to interpret or construe this agreement.
- d) Time is of the essence for every part of this Agreement.
- e) Any notice, consent or communication required by this Agreement must be in writing and will be delivered by hand or by courier to the following addresses or will be telecopied to the following telecopier numbers as the case may be:

TO THE COMMISSION AT:

KNEEHILL REGIONAL WATER SERVICES COMMISSION
BOX 592
203 CLARKE STREET
ACME, AB T0M 0A0
ATTENTION: MANAGER

PHONE - (403)546-3783
FAX - (403)546-3014

TO THE COMMUNITY AT:

MUNICIPAL DISTRICT OF ROCKY VIEW # 44
911-32 AVE NE
CALGARY, AB T2E 6X6
ATTENTION: INFRASTRUCTURE & OPERATION DIRECTOR

PHONE - (403)230-1401
FAX - (403)277-5977

- f) This agreement will be governed by and construed according to the laws in force in the Province of Alberta.
- g) All changes of gender and number will be made where required.
- h) The Effective Date of this Agreement is upon execution
- i) This agreement is the only agreement between the parties in relation to the subject matter hereof, and supersedes and replaces all prior agreements, representations, warranties, statements, promises, information, arrangements and understandings, whether oral or written, express or implied, with respect to the subject matter hereof. This Agreement may only be amended or modified by a further written agreement between the parties.

5. TERMS

- a) The term of this Agreement is twenty five (25) years, commencing from the effective date. This Agreement may only be renewed by further written agreement between the parties.

6. TERMS AND CONDITIONS

- a) The Commission will provide additional water to the Community in an amount not to exceed the existing allocation plus the Community's diversion license once approved, while ensuring that at no time will the volume of water already allocated to any of the Municipalities of the Commission be at risk.
- b) License - The Community will be responsible to acquire a separate Water Diversion License in its own name from Alberta Environment for any requirements beyond the 2200 m3 allocation presently available from the Commission.
- c) Cost - All costs for the Kneehill Extension (Schedule "B") will be the responsibility of the Community.
- d) Water Levy 2006-2007 - In recognition of its original commitments to purchase water and the existing financial situation of the Commission, the Community will pay a sum of \$130,000 to the Commission on November 30th of 2006 and 2007 assuming the amount is not superseded by a demand that equals at least that much in actual payment based on applicable rates at the time.

26

MP

PBC

- e) The Commission presently contracts Stantec Consulting Ltd as its engineers. On the project Stantec Consulting Ltd will provide engineering services, as agreed by the Community and the Commission, and the applicable standards for engineering design for any other firms to ensure that the specifications meet Commission standards.
- f) Outside Engineering Firms may be engaged to do a portion of the work with approval of the Commission. Project Manager/Administrator and such approval will not be unreasonably withheld..
- g) Drumheller Treatment – The Community and the Commission will approach and request agreement from the Town of Drumheller to treat and supply the additional water volume requested by the Commission in a time frame which is recognized as being well ahead of the forecast demands originally given to the Town of Drumheller (Appendix "D").

7. DISPUTE

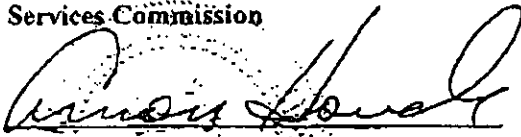
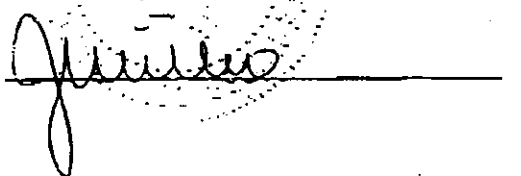
The parties hereto covenant and agree that all disputes will be settled in the following manner.

- a) Notification to the other party by written notice. The parties will have 30 days to resolve the issue.
- b) If the issue is not resolved, both parties will jointly appoint an arbitrator to review and settle the issue.
- c) Both parties will agree to the arbitrator's decision.

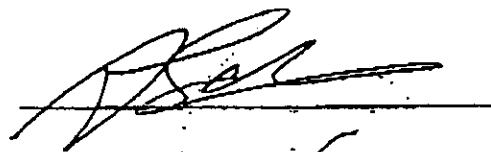
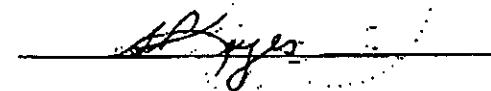
8. GENERAL COVENANT

On the affixing of the parties signatures and seals, both parties agree to these terms and conditions of this agreement.

**Kneehill Regional Water
Services Commission**

Municipal District of Rocky View #44

MP

Kneehill Regional Water Services Commission
Revenue & Expenses
(Per Audited Financial Statements)
January 1st to December 31st
Appendix Q

Years
Volume
391,454

Breakeven
Volume

903,671

	2007	Budget 2007	Variance	
WATER SALES:				
Acme	140,813.75	144,320.00	-3,506.25	
Belseker	233,450.70	292,320.00	-58,869.30	
Carbon	116,215.75	122,320.00	-6,104.25	
Irricana	245,002.45	292,320.00	-47,317.55	
Linden	207,835.95	197,320.00	10,515.95	
Kneehill County	15,743.60	28,320.00	-12,576.40	
Rocky View	0.00	0.00	0.00	
TOTAL WATER SALES	959,062.20	1,076,920.00	-117,857.80	2,213,994.12
LESS WATER PURCHASES	-247,263.11	-320,000.00	72,736.89	-570,806.64
GROSS PROFIT	711,799.09	756,920.00	-45,120.91	1,643,187.48
ADD: SERVICE FEE REVENUE	53,760.00	51,840.00	1,920.00	53,760.00
REVENUE BEFORE DIRECT EXPENSES	765,559.09	808,760.00	-43,200.91	1,696,947.48
LESS DIRECT EXPENSES:				
Maintenance fees	0.00	-7,500.00	7,500.00	0.00
Miscellaneous purchases	-3,804.62	-1,000.00	-2,804.62	-3,804.62
Operator Contract Kneehill	-36,946.76	-20,000.00	-16,946.76	-85,291.56
Operator Contract Drumheller	-19,442.50	-21,000.00	1,557.50	-44,882.99
Insurance	-6,084.24	-5,000.00	-1,084.24	-6,084.24
WCB	-450.00	0.00	-450.00	-450.00
Operation supplies	-7,047.04	-10,000.00	2,952.96	-16,268.08
Repairs and maintenance	-75,268.61	-10,000.00	-65,268.61	-173,757.51
Water testing	0.00	0.00	0.00	0.00
Long term debt interest	-692,231.19	-706,905.00	14,673.81	-692,231.19
Utilities	-128,332.65	-125,000.00	-3,332.65	-296,255.79
Total direct expenses	-969,607.61	-906,405.00	-63,202.61	-1,319,025.99
CONTRIBUTION MARGIN (DEFICIT)	-204,048.52	-97,645.00	-106,403.52	377,921.49
LESS ADMINISTRATIVE EXPENSES:				
Legal fees	-10,723.42	-4,500.00	-6,223.42	-10,723.42
Land compensation payments	-2,600.00	0.00	-2,600.00	-2,600.00
Delivery	-314.21	-100.00	-214.21	-314.21
Director fees	-15,810.86	-10,000.00	-5,810.86	-15,810.86
Manager contract	-60,540.53	-90,000.00	29,459.47	-60,540.53
Secretary treasurer contract	-14,786.50	-15,000.00	213.50	-14,786.50
Accounting expense	-13,265.00	0.00	-13,265.00	-13,265.00
Courses & conventions	0.00	-1,000.00	1,000.00	0.00
Memberships	-657.00	-100.00	-557.00	-657.00
Promotional expenses	-699.53	0.00	-699.53	-699.53
Postage	-250.00	-250.00	0.00	-250.00
Interest and bank charges	-1,282.85	-1,000.00	-282.85	-1,282.85
Office supplies	-383.19	-500.00	116.81	-383.19
Property taxes	-2,202.17	-1,900.00	-302.17	-2,202.17
Office & tower rent	-6,447.08	-4,450.00	-1,997.08	-6,447.08
1st Call locates	-274.51	0.00	-274.51	-274.51
Telephone	-5,323.64	-7,000.00	1,676.36	-5,323.64
Office startup	0.00	0.00	0.00	0.00
Total administrative expenses	-135,560.49	-135,800.00	239.51	-135,560.49
NET REVENUE (EXPENDITURES) BEFORE OTHER	-339,609.01	-233,445.00	-106,164.01	242,361.00
OTHER REVENUE AND EXPENDITURES:				
Grant revenue	0.00	0.00	0.00	
Special grant - Rocky View	130,000.00	130,000.00	0.00	
Interest revenue	9,419.43	0.00	9,419.43	
Miscellaneous revenue	12,075.00	0.00	12,075.00	
NET REVENUE (EXPENDITURES) BEFORE AMORTIZATION	-188,114.58	-103,445.00	-84,669.58	
Amortization of deferred water capital contributions	59,808.00	0.00	59,808.00	
Amortization of deferred capital asset contributions	770,154.54	0.00	770,154.54	
Amortization of capital assets	-1,157,708.85	0.00	-1,157,708.85	
DEFICIENCY OF REVENUE OVER EXPENSES	-515,860.89	-103,445.00	-412,415.89	
NET REVENUE (EXPENDITURES) BEFORE PRINCIPAL PAYMENTS	-339,609.01	-233,445.00		242,361.00
LESS PRINCIPAL PAYMENTS ON DE BENTURES	-242,361.00	-228,831.00		-242,361.00
OPERATIONAL CASH FLOW IMPLICATIONS	-581,970.01	-462,276.00		0.00

KNEEHILL REGIONAL WATER SERVICES COMMISSION						
BUDGET VS ACTUAL TO OCTOBER 31ST, 2006						
AND 2007 BUDGET ESTIMATES						
	ACTUAL TO DATE	SUBTOTAL	2006 BUDGET	2007 BUDGET		
4110	Water Sales - Acme	\$ 122,186.45	\$	\$ 152,000.00	\$	\$ 152,000.00
4120	Water Sales - Beiseker	\$ 223,344.50	\$	\$ 230,000.00	\$	\$ 300,000.00
4130	Water Sales - Carbon	\$ 105,749.30	\$	\$ 125,000.00	\$	\$ 130,000.00
4140	Water Sales - Irricana	\$ 213,005.50	\$	\$ 240,000.00	\$	\$ 300,000.00
4150	Water Sales - Linden	\$ 158,969.30	\$	\$ 205,000.00	\$	\$ 205,000.00
4160	Water Sales - Kneehill County	\$ 12,203.50	\$	\$ 36,000.00	\$	\$ 36,000.00
4170	Water Sales - MD of Rocky View	\$ 135,760.00	\$	\$ 240,000.00	\$	\$ 135,760.00
	TOTAL REVENUE	\$ 971,218.55		\$ 1,228,000.00		\$ 1,258,760.00
5200	Delivery Expense	\$ 470.14				\$ 100.00
5220	Miscellaneous Purchases	\$ 112,201.06				\$ 1,000.00
5300	Manager Contract	\$ 35,289.43		\$ 40,000.00		\$ 40,000.00
5301	Project Management Fee (KH Ext.)					\$ 50,000.00
5310	Legal Expense	\$ 1,500.00		\$ 5,000.00		\$ 4,500.00
5411	Dir Jerry Wittstock	\$ 1,075.20				
5415	Dir Greg Boehlke	\$ 747.84				
5421	Dir Ray Courtman	\$ 1,682.64				
5430	Dir Annon Hovde	\$ 2,962.08				
5441	Dir Glen Rieger	\$ 1,757.04				
5460	Dir Guss Nash	\$ 1,620.00				
5473	Dir Dave Lord	\$ 1,209.60				
5480	Alternate Directors	\$ 346.20				
	Total Director Fees	\$ 11,400.60		\$ 10,000.00		\$ 10,000.00
5500	Secretary/Treasurer	\$ 12,464.10		\$ 15,000.00		\$ 15,000.00
5610	Accounting Expense	\$ 1,483.53		\$ 7,500.00		\$ 7,500.00
5611	Maintenance Fees	\$ -				
5612	Courses/Convention Expense	\$ -		\$ 1,000.00		\$ 1,000.00
5613	Memberships	\$ 90.00		\$ 95.00		\$ 100.00
5614	Operator Contract - Kneehill	\$ 14,449.40		\$ 24,000.00		\$ 20,000.00
5615	Water Purchases - Drumheller	\$ 243,566.89		\$ 400,000.00		\$ 320,000.00
5616	Operator Contract - Drumheller	\$ 16,132.78		\$ 24,000.00		\$ 21,000.00
5620	Advertising	\$ -				
5625	Promotional Expense	\$ -				
5630	Postage	\$ -		\$ 250.00		\$ 250.00
5640	Insurance	\$ 1,836.49		\$ 5,000.00		\$ 5,000.00
5645	WCB	\$ -		\$ 450.00		
5650	Interest/Bank Charges	\$ 382,866.83		\$ 200.00		\$ 1,000.00
5660	Office Supplies	\$ 195.77		\$ 500.00		\$ 500.00
5661	Operation Supplies	\$ 4,651.17		\$ 20,000.00		\$ 10,000.00

5662	Property Tax	\$	1,895.83		\$	1,900.00	\$	1,900.00
5670	Office Rent	\$	-		\$	1,200.00	\$	1,200.00
5671	Rent - Tower Space	\$	2,250.00		\$	-	\$	3,250.00
5680	Repairs and Maintenance	\$	50,298.75		\$	10,000.00	\$	10,000.00
5690	Telephone Expense	\$	5,616.93		\$	2,000.00	\$	7,000.00
5700	Long Term Debt Interest	\$	87,348.61		\$	706,905.00	\$	706,905.00
5701	Long Term Debt Principal	\$	446,816.16		\$	228,831.00	\$	228,831.00
5702	Short Term Debt Repayment	\$	50,000.00		\$	50,000.00	\$	-
5710	Utilities	\$	110,138.73		\$	75,000.00	\$	125,000.00
5800	Office Start Up Expense	\$	-		\$	3,500.00	\$	-
	TOTAL EXPENSES	\$	1,592,963.20		\$	1,632,331.00	\$	1,591,036.00

CONFIDENTIAL WORKING DOCUMENT

(amended August 30th, 2007)

KNEEHILL REGIONAL WATER SERVICES COMMISSION

ALTERNATIVES FOR WATER RATES

AUGUST, 2007

gud

INTRODUCTION

The result of the decision by the Town of Drumheller not to supply water for the Commission sales to the MD of Rocky View has required the review of the original water financial plan to balance the budget and cash flow.

In a recent letter from the Minister of Municipal Affairs there is a requirement to review the financial plan and submit a revised plan in accordance to the present and anticipated future.

This documents purpose is to review the following with the Board of Directors:

1. Present Situation
2. 2007 Budget
3. Scenario's for a Financial Plan to meet Commission Operations

It must be noted, THIS IS A WORKING DOCUMENT AND NOT FOR PUBLIC REVIEW. It is anticipated the selected scenarios will be expanded, on the priority determined by the Board of Directors.

PRESENT SITUATION

Ministerial Order

In 2006 the Commission received an Order from the Minister of Municipal Affairs outlining a 5 year plan to address the water rates and financial plan. The plan was designed to increase the flow of water through the line by increased sales to the MD of Rocky View (Appendix "A").

The proposal to increase sales to the MD of Rocky View was halted by the Town of Drumheller's refusal to address the issue of a boundary change and supply of water.

Water Use

The amount of water use projected for 2007 is approximately 450,000 cubic meters per year. This is below the anticipated levels when original projections were made in 2000. The communities have not increased use and rural use has been minimal. It was originally projected that sales would be in the area of 800,000 cubic meters per year.

Water Rates

The Commission as per the Ministerial Order has charged a rate of \$2.45 per cubic meter.

The revenue from water sales is projected at \$1,102,500.

Projected Deficit with adjustments is \$438,536

If the Commission utilized a break even point this projected rate is \$3.42 per cubic meter.

Budget

The 2007 Budget has been reviewed in the area of expenditures, but with minor changes there is not a great deal of expenditure to be cut. The area of concern is revenues. Revenues have to increase by either:

1. Increased Sale of Water
2. Increased Rates
3. Reduction of Debt Component

Scenarios

To address the Financial Situation a number of scenarios's have been provided for review and consideration. Some of the scenarios may be dismissed immediately, but they have to be addressed to ensure all avenues have been considered.

The Scenario's are as follows:

1. 5 Year Plan
2. 5 Year Plan with Kathryn Subdivision
3. 10 Year Plan
4. Private Entity
5. Pipeline Capacity Percentage utilization for Debt Cost
6. Do Nothing

General Assumptions

To develop the scenario's for future financial operations a number of general principles have to be identified:

1. Volume of Water and Growth
 - a) It is anticipated there is 50,000 cubic meters of growth per year which includes the Kneehill County and Member Communities growth.
 - b) The forecasts are conservative and represent minimal increases.

2007	2008	2009	2010	2011
450,000	500,000	550,000	600,000	650,000

2. Expenditures

2007	2008	2009	2010	2011
240,000	250,000	270,000	285,000	300,000

3. Debt

- a) Present Annual Debt Payments would continue at \$935,000 per year

Scenario # 1 – 5 year Plan

Description – This alternative to increase rates to meet the operational needs and meet the debt cost requirement over a 5 year period.

Financial

	2007	2008	2009	2010	2011
Water Use	450,000	500,000	550,000	600,000	650,000
Expenses	1,575,000	1,585,000	1,610,000	1,650,000	1,700,000
Rate	\$3.42	\$3.17	\$2.90	\$2.75	\$2.61

Average Rate: \$2.97

Comments

This method is the breakeven point of the operations will involve a rate shock in 2007-2008 at and lower rates in the future. The rates will have to remain at a \$3.20 rate to meet the operating deficit.

Issues

- What will the overall effect be, due to a rate increase?
- Average household - .95 cents per day

Scenario # 2 Increase of Water Volume – 5 year plan – Kathryn Development

Description – This alternative includes increase sales to Kathryn Development in 2009

Financial:

	2007	2008	2009	2010	2011
Water Use	450,000	500,000	650,000	965,000	1,050,000
Expenses	1,575,000	1,585,000	1,742,000	1,975,000	2,122,500
Water Rate	\$3.42	\$3.17	\$2.68	\$2.04	\$2.02

Average Cost = \$2.66

Comments: This scenario increases the water volume which results in a lower cost overall in a 5 year period.

Issues:

- a) Initial cost which has to be averaged to approximately \$2.85 to meet the deficit.
- b) The Town of Drumheller would have to override the boundaries to authorize the sale of water.

Scenario #3 – Utilize a 10 Year Plan

Description: This scenario involves a larger term to pay the deficit and stabilize water rates.

Water Use – Anticipate this models water use is an increase representing Kneehill County and Communities.

Financial – Table attached

Comments:

- a) This is more of a utility based method which charges out capital costs over and extended time.
- b) Rate would have to increase to \$2.80 to breakeven for operating deficit levels.



Scenario #3- Continued

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water Use	450,000	500,000	550,000	605,000	650,000	770,000	850,000	925,000	1,000,000	1,100,000
Expenses	1,575,000	1,585,000	1,610,000	1,650,000	1,700,000	1,750,000	1,820,000	1,875,000	1,940,000	2,100,000
Water Rate	\$3.42	\$3.17	\$2.90	\$2.75	\$2.61	\$2.43	\$2.14	\$2.02	\$1.94	\$1.90

Average = \$2.52

Scenario # 4 – Private Entity Operates System

Description

- a) This scenario involves contracting out the operation to a Private Entity such as EPCOR, ATCO Water, Enmax, etc
- b) The Private Entity would operate the system, charge out rates to cover expenses and debt payments. The Commission would be owners of the system and representing the Communities with the Private Entity.
- c) This scenario is being utilized by the Highway 14 system where rates are \$3.80 per cubic meter

Comment

- a) This type of operation takes out the operational issues of the Commission, but will result in higher costs due to profit margin of the Private Entity/and administration.
- b) The Private Entity will utilize costs over a 10 year period similar to Scenario # 3.

Issues

- a) Higher costs overall but lower initial costs (lower rate initially but more cost over term of contract. It is similar to a loan with the higher costs at the beginning if the contract but profit at the end of the contract
- b) Rates would be similar to Scenario # 3 with a profit margin of 15-20%.

Scenario # 5 – Pipeline Capacity – Cost out of Debenture on percentage of line capacity allocated to Communities

Description

- a) This alternative utilizes the following costing model:
 - i) Operation Cost of water is charged to direct purchasers of water. The cost of water would be the Town of Drumheller cost and the commission operational cost of providing water
 - ii) Debenture Cost - \$935,000 is broken down to capacity allocated to each community.

Example: Acme's cost of Water in 2007 would be:

- a) Cost of Water
Town of Drumheller Cost (64 cents) plus operating cost of (40 cents) = \$1.04
- b) Debenture – 9% of capacity = 84,150 or \$7791.00 monthly

Comments:

- a) Present system has the users of water paying for the cost of water and debenture. This does not correlate to the capacity allocated to communities systems capacity. At present the rural component has been allocated at 46% of the line capacity but there has been minimal payment to annual debenture payment.

JW

Breakdown 54% line capacity – Urban – 504,900 annually
 46% line capacity – Rural – 430,100 annually

- b) This alternative would address the issue of capacity payments and increase revenue without a major rate increase.

Issues

- a) Change of past philosophy and acceptance of new type of cost method of water rates.

Scenario #6 - Do Nothing

Description: This alternative involves no change and will result in the government taking over the commission operations and dictating the operations and cost of water operations and rates.

Water Rates - unknown

Comments

- a) This alternative takes out the decision and input away from the Commission and Communities.
 b) The Government will select the scenario and the rates.
 c) It is speculated that the rates would not be reduced and generally be increased due to bureaucratic method of ensuring no loss or possible loss.

Scenario #7 – Turn System over to Provincial Government

Description – This alternative involves turning the system over to the Provincial Government and abdicating all responsibility.

Water Rates – unknown

Comments

- a) this alternative takes away responsibility from Commission
 b) Government will select the scenario and rates
 c) It is speculated that rates would not be reduced but increased drastically protecting the bureaucratic method of ensuring no loss or possible loss

Scenario #8 – Government Authorization of Subsidized Interest and Principal Payments for 5 years

Description: The Government of Alberta has set precedent by granting the Municipality of Wood Buffalo a 5 year hold on principal payments. The Commission would request the same alternative.

Water Rates:

- a) The debenture would be reduced by \$242,361.34 per year for 5 years.
 b) The water rate would be \$2.90 per cubic meter.

JW

Comments:

- a) This alternative has been provided to Municipality of Wood Buffalo to address their debt issues.
- b) This alternative allows for the development of additional water sales.
- c) There will be a device after 5 years to ensure that the finances balance
- d) The system has been designed for 25 years, but in reality it can last for 40-50 years.

Timeline

The review, discussion and decision of the new financial plan will require a number of meetings with the Board of Directors and Member Communities.

August	-	Working Document
End of August	-	Scenario/s Selection
September	-	Detailed Financial Plan
	-	Discussion with Municipalities
October	-	Finalization of Plan
	-	Submission to Municipal Affairs
November	-	Implementation of Financial Plan



Kneehill Regional Water Services Commission Revenue & Expenses (Per Audited Financial Statements) January 1st to December 31st Appendix S	Years Volume 411,053	Budget 2008	Variance	Breakeven Volume 746,389
WATER SALES:				
Acme	149,665.50	144,320.00	5,345.50	
Belseker	245,806.05	242,320.00	3,486.05	
Carbon	121,987.95	122,320.00	-332.05	
Irricana	244,277.25	252,320.00	-8,042.75	
Linden	224,015.75	212,320.00	11,695.75	
Kneehill County	21,327.25	28,320.00	-6,992.75	
Rocky View	0.00	0.00	0.00	
TOTAL WATER SALES	1,007,079.75	1,001,920.00	5,159.75	1,828,652.49
LESS WATER PURCHASES	-266,202.12	-280,000.00	13,797.88	-483,369.04
GROSS PROFIT	740,877.63	721,920.00	18,957.63	1,345,283.45
ADD: SERVICE FEE REVENUE	54,400.00	53,760.00	640.00	54,400.00
REVENUE BEFORE DIRECT EXPENSES	795,277.63	775,680.00	19,597.63	1,399,683.45
LESS DIRECT EXPENSES:				
Maintenance fees (variable)	0.00	0.00	0.00	0.00
Miscellaneous purchases	-567.00	-2,000.00	1,433.00	-567.00
Operator Contract Kneehill (variable)	-17,138.16	-27,000.00	9,861.84	-31,119.42
Operator Contract Drumheller (variable)	-16,455.10	-17,000.00	544.90	-29,879.12
Insurance	-6,446.47	-6,500.00	53.53	-6,446.47
WCB	-900.00	-450.00	-450.00	-900.00
Operation supplies (variable)	-2,760.75	-7,500.00	4,739.25	-5,012.96
Repairs and maintenance (variable)	-32,851.09	-10,000.00	-22,851.09	-59,650.91
Water testing (variable)	-7,493.75	0.00	-7,493.75	-13,607.13
Long term debt interest	-677,559.72	-679,033.00	1,473.28	-677,559.72
Utilities (variable)	-120,332.41	-120,000.00	-332.41	-218,499.24
Total direct expenses	-882,504.45	-869,483.00	-13,021.45	-1,043,241.98
CONTRIBUTION MARGIN (DEFICIT)	-87,226.82	-93,803.00	6,576.18	356,441.47
LESS ADMINISTRATIVE EXPENSES:				
Legal fees	0.00	-5,000.00	5,000.00	0.00
Land compensation payments	-2,100.00	-2,600.00	500.00	-2,100.00
Delivery	-588.88	-200.00	-388.88	-588.88
Director fees	-7,925.60	-15,000.00	7,074.40	-7,925.60
Manager contract	-39,014.69	-40,000.00	985.31	-39,014.69
Secretary treasurer contract	-18,496.40	-18,500.00	3.60	-18,496.40
Accounting expense	-11,258.69	-8,000.00	-3,258.69	-11,258.69
Courses & conventions	0.00	-1,000.00	1,000.00	0.00
Memberships	-90.00	-700.00	610.00	-90.00
Promotional expenses	0.00	0.00	0.00	0.00
Postage	-500.00	-250.00	-250.00	-500.00
Interest and bank charges	-7,056.91	-1,000.00	-6,056.91	-7,056.91
Office supplies	-1,723.29	-1,000.00	-723.29	-1,723.29
Property taxes	-2,165.51	-2,300.00	134.49	-2,165.51
Office & tower rent	-4,400.00	-6,500.00	2,100.00	-4,400.00
1st Call locates	-724.00	0.00	-724.00	-724.00
Telephone	-3,694.50	0.00	-3,694.50	-3,694.50
Office startup	0.00	0.00	0.00	0.00
Total administrative expenses	-99,738.47	-102,050.00	2,311.53	-99,738.47
NET REVENUE (EXPENDITURES) BEFORE OTHER	-186,965.29	-195,853.00	8,887.71	256,703.00
OTHER REVENUE AND EXPENDITURES:				
Grant revenue	0.00	0.00	0.00	
Interest revenue	87.40	8,000.00	-7,912.60	
Miscellaneous revenue	178.20	20,500.00	-20,321.80	
NET REVENUE (EXPENDITURES) BEFORE AMORTIZATION	-186,699.69	-167,353.00	-19,346.69	
Amortization of deferred water capital contributions	59,808.00	0.00	59,808.00	
Amortization of deferred capital asset contributions	778,740.01	0.00	778,740.01	
Amortization of capital assets	-1,157,708.85	0.00	-1,157,708.85	
DEFICIENCY OF REVENUE OVER EXPENSES	-505,860.53	-167,353.00	-338,507.53	
NET REVENUE (EXPENDITURES) BEFORE AMORT & PRINCIPAL PAYMENTS	-186,699.69	-167,353.00		256,703.00
LESS PRINCIPAL PAYMENTS ON DE BENTURES	-256,703.00	-256,703.00		-256,703.00
OPERATIONAL CASH FLOW IMPLICATIONS	-443,402.69	-424,056.00		0.00

	2006 BUDGET	2006 ACTUAL	2007 BUDGET	2007 ACTUAL	2008 BUDGET
5670 Office Rent	\$ 1,200.00	\$ 1,200.00	\$ 1,200.00	\$ 1,200.00	\$ 1,200.00
5671 Rent - Tower Space	\$ -	\$ 3,000.00	\$ 3,250.00	\$ 5,247.08	\$ 5,300.00
5680 Repairs and Maintenance	\$ 10,000.00	\$ 24,887.69	\$ 10,000.00	\$ 77,168.61	\$ 10,000.00
1st Call Locates	\$ -	\$ -	\$ -	\$ 274.51	\$ -
5690 Telephone Expense	\$ 2,000.00	\$ 7,374.03	\$ 7,000.00	\$ 5,323.64	\$ 5,500.00
5700 Long Term Debt Interest	\$ 706,905.00	\$ 627,354.63	\$ 706,905.00	\$ 693,374.64	\$ 679,033.00
5701 Long Term Debt Principal	\$ 228,831.00	\$ 308,381.35	\$ 228,831.00	\$ 242,361.34	\$ 256,703.00
5702 Short Term Debt Repayment	\$ 50,000.00	\$ -	\$ -	\$ -	\$ -
5710 Utilities	\$ 75,000.00	\$ 149,439.14	\$ 125,000.00	\$ 114,982.65	\$ 120,000.00
5800 Office Start Up Expense	\$ 3,500.00	\$ 3,587.81	\$ -	\$ -	\$ -
TOTAL EXPENSES	\$ 1,632,331.00	\$ 1,576,691.65	\$ 1,541,036.00	\$ 1,598,324.50	\$ 1,513,736.00
DEFICIT	-\$ 404,331.00	-\$ 332,922.89	-\$ 282,276.00	-\$ 436,665.27	-\$ 429,556.00

KNEEHILL REGIONAL WATER SERVICES COMMISSION

2008 BUDGET ESTIMATES

	2006 BUDGET	2006 ACTUAL	2007 BUDGET	2007 ACTUAL	2008 BUDGET
REVENUE					
4110 Water Sales - Acme	\$ 152,000.00	\$ 156,870.30	\$ 152,000.00	\$ 148,493.75	\$ 152,000.00
4120 Water Sales - Beiseker	\$ 230,000.00	\$ 288,881.20	\$ 300,000.00	\$ 241,130.70	\$ 250,000.00
4130 Water Sales - Carbon	\$ 125,000.00	\$ 134,403.70	\$ 130,000.00	\$ 123,895.75	\$ 130,000.00
4140 Water Sales - Irricana	\$ 240,000.00	\$ 271,672.40	\$ 300,000.00	\$ 252,682.45	\$ 260,000.00
4150 Water Sales - Linden	\$ 205,000.00	\$ 206,661.65	\$ 205,000.00	\$ 215,515.95	\$ 220,000.00
4160 Water Sales - Kneehill County	\$ 36,000.00	\$ 16,676.40	\$ 36,000.00	\$ 23,423.60	\$ 36,000.00
4170 Water Sales - MD of Rocky View	\$ 240,000.00	\$ 137,680.00	\$ 135,760.00	\$ 137,680.00	\$ 7,680.00
4430 M/A Start up Grant		\$ 3,587.81			
4440 Interest Revenue		\$ 20,139.97		\$ 8,243.66	\$ 8,000.00
4460 Miscellaneous Revenue		\$ 7,195.33		\$ 380.63	\$ 500.00
4470 GST Rebate		\$ -		\$ 10,212.74	\$ 20,000.00
TOTAL REVENUE	\$ 1,228,000.00	\$ 1,243,768.76	\$ 1,258,760.00	\$ 1,161,659.23	\$ 1,084,180.00
EXPENSE					
5030 Land Compensation Payments	\$ -	\$ -	\$ -	\$ 2,600.00	\$ 2,600.00
5130 Contract - Reservoir to Acme	\$ -	\$ 2,556.00	\$ -	\$ 8,262.63	\$ -
5200 Delivery Expense	\$ -	\$ 533.26	\$ 100.00	\$ 314.21	\$ 200.00
5220 Miscellaneous Purchases	\$ -	\$ 12,946.88	\$ 1,000.00	\$ 3,804.62	\$ 2,000.00
5300 Manager Contract	\$ 40,000.00	\$ 39,869.61	\$ 40,000.00	\$ 60,540.53	\$ 40,000.00
5310 Legal Expense	\$ 5,000.00	\$ 1,500.00	\$ 4,500.00	\$ 10,723.42	\$ 5,000.00
5400 All Director Fees	\$ 10,000.00	\$ 13,036.62	\$ 10,000.00	\$ 16,716.26	\$ 15,000.00
5500 Secretary/Treasurer	\$ 15,000.00	\$ 14,829.30	\$ 15,000.00	\$ 14,786.50	\$ 18,500.00
5610 Accounting Expense	\$ 7,500.00	\$ 8,673.53	\$ 7,500.00	\$ 4,765.00	\$ 8,000.00
5612 Courses/Convention Expense	\$ 1,000.00	\$ -	\$ 1,000.00	\$ -	\$ 1,000.00
5613 Memberships	\$ 95.00	\$ 90.00	\$ 100.00	\$ 657.00	\$ 700.00
5614 Operator Contract - Kneehill	\$ 24,000.00	\$ 17,546.30	\$ 20,000.00	\$ 36,946.76	\$ 27,000.00
5615 Water Purchases - Drumheller	\$ 400,000.00	\$ 294,806.32	\$ 320,000.00	\$ 250,130.61	\$ 280,000.00
5616 Operator Contract - Drumheller	\$ 24,000.00	\$ 20,295.28	\$ 21,000.00	\$ 16,575.00	\$ 17,000.00
5620 Advertising	\$ -	\$ -	\$ -	\$ -	\$ -
5625 Promotional Expense	\$ -	\$ -	\$ -	\$ 699.53	\$ -
5630 Postage	\$ 250.00	\$ 250.00	\$ 250.00	\$ 250.00	\$ 250.00
5640 Insurance	\$ 5,000.00	\$ 5,132.49	\$ 5,000.00	\$ 6,084.24	\$ 6,500.00
5645 WCB	\$ 450.00	\$ 450.00	\$ -	\$ 450.00	\$ 450.00
5650 Interest/Bank Charges	\$ 200.00	\$ 6,894.70	\$ 1,000.00	\$ 1,103.32	\$ 1,000.00
5660 Office Supplies	\$ 500.00	\$ 695.77	\$ 500.00	\$ 13,733.19	\$ 1,000.00
5661 Operation Supplies	\$ 20,000.00	\$ 9,465.11	\$ 10,000.00	\$ 7,047.04	\$ 7,500.00
5662 Property Tax	\$ 1,900.00	\$ 1,895.83	\$ 1,900.00	\$ 2,202.17	\$ 2,300.00

Kneehill Regional Water Services Commission
Water Volume Analysis
(Per Audited Financial Statements)
January 1st to December 31st
Appendix T

	2008		2007		2006		(4 months) 2005
WATER SALES:							
Acme	61,088.00	15.18%	57,475.00	14.93%	60,894.00	14.63%	17,679.00
Beiseker	100,329.00	24.94%	95,286.00	24.75%	114,776.00	27.57%	27,254.00
Carbon	49,791.00	12.38%	47,435.00	12.32%	51,724.00	12.42%	14,367.00
Irricana	99,705.00	24.78%	100,001.00	25.97%	107,752.00	25.88%	28,232.00
Linden	91,435.00	22.73%	84,831.00	22.03%	81,217.00	19.51%	24,102.00
	<u>402,348.00</u>	100.01%	<u>385,028.00</u>	100.00%	<u>416,363.00</u>	100.01%	<u>111,634.00</u>
Kneehill County	8,705.00		6,426.00		3,672.00		1,449.00
Rocky View	0.00		0.00		0.00		0.00
TOTAL WATER SALES CU/M	<u>411,053.00</u>		<u>391,454.00</u>		<u>420,035.00</u>		<u>113,083.00</u>

**2005 Deficit to be Recovered
over 2006 - 2009 (4 years)**

Cash Flow Deficit Per Appendix L Divided by 4 \$ 306,829 / 4	<u>\$ 76,707.00</u>	<u>\$ 76,707.00</u>	<u>\$ 76,707.00</u>
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Effect on water price	<u>\$ 0.19</u>	<u>\$ 0.20</u>	<u>\$ 0.18</u>
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**2006 Deficit to be Recovered
over 2007 - 2009 (3 years)**

Cash Flow Deficit Per Appendix L Divided by 4 \$ 381,837 / 3	<u>\$ 127,279.00</u>	<u>\$ 127,279.00</u>
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Effect on water price	<u>\$ 0.31</u>	<u>\$ 0.33</u>
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**2007 Deficit to be Recovered
over 2008 - 2010 (3 years)**

Cash Flow Deficit Per Appendix L Divided by 4 \$ 581,970 / 3	<u>\$ 193,990.00</u>
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Effect on water price	<u>\$ 0.47</u>
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Price Charged for Water	<u>\$ 2.45</u>	<u>\$ 2.45</u>	<u>\$ 2.45</u>	<u>\$ 2.45</u>
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Adjusted Rate that Should Have Been Charged	<u><u>\$ 3.42</u></u>	<u><u>\$ 2.98</u></u>	<u><u>\$ 2.63</u></u>	<u><u>\$ 2.45</u></u>
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Kneehill Regional Water Services Commission
Operational Cash Flow Implications
(Per Audited Financial Statements)
January 1st to December 31st
Appendix U

	2008	2007	2006	(4 months) 2005
WATER SALES	1,007,079.75	959,062.20	1,029,085.65	277,053.35
LESS WATER PURCHASES	- 266,202.12	- 247,263.11	- 294,806.32	- 102,330.51
GROSS PROFIT	740,877.63	711,799.09	734,279.33	174,722.84
ADD: SERVICE FEE REVENUE	54,400.00	53,760.00	53,760.00	17,920.00
REVENUE BEFORE DIRECT EXPENSES	795,277.63	765,559.09	788,039.33	192,642.84
LESS DIRECT EXPENSES	- 882,504.45	- 969,607.61	- 945,981.59	- 361,578.68
CONTRIBUTION MARGIN (DEFICIT)	- 87,226.82	- 204,048.52	- 157,942.26	- 168,935.84
LESS ADMINISTRATIVE EXPENSES	- 99,738.47	- 135,560.49	- 105,986.46	- 50,206.23
ADD OTHER REVENUE	265.60	151,494.43	160,923.11	25,883.78
NET REVENUE (EXPENDITURES) BEFORE PRINCIPAL PAYMENTS	- 186,699.69	- 188,114.58	- 103,005.61	- 193,258.29
LESS PRINCIPAL PAYMENTS ON DEBENTURES	- 256,703.00	- 242,361.00	- 278,831.00	- 87,687.00
OPERATIONAL CASH FLOW IMPLICATIONS	- 443,402.69	- 430,475.58	- 381,836.61	- 280,945.29 - 1,536,660.17

OPTIONS TO ELIMINATE CASH FLOW DEFICIT IN OPERATIONS IN YEAR

TOTAL

OPTION #1

Current cubic meters of water sales	411,053	391,454	420,035	113,083	1,335,625
Additional water sales required to break even without change in price or fixed charges	335,336	512,217	444,709	1,374,663	627,208
Break-even volume based on no change in water price	746,389	903,671	864,744	1,487,746	1,962,833

This analysis is predicated on a straight line relationship of certain variable costs to volume and assuming no change in water price

OPTION #2

Price of water during year excluding fixed charge	\$ 2.45	\$ 2.45	\$ 2.45	\$ 2.45	\$ 2.45
Price required in year to eliminate deficit	\$ 1.08	\$ 1.10	\$ 0.91	\$ 2.48	\$ 1.15
Break-even price based on cashflow deficit	\$ 3.53	\$ 3.55	\$ 3.36	\$ 4.93	\$ 3.60

This analysis assumes that no reduction in volume would have occurred to achieve break-even with such a large increase in price which is highly probable would not be the case.

Kneehill Regional Water Services Commission
 Operational Cash Flow Implications
 (Per Audited Financial Statements)
 January 1st to December 31st
 Appendix U

	2008	2007	2006	(4 months) 2005
OPTION #3				
OPERATION CASH FLOW DEFICIT (as above)	443,402.69	430,475.58	381,836.61	1,255,714.88
DEBENTURE DEBT SERVICE COSTS	935,736.00	935,736.00	935,736.00	2,807,208.00
PERCENTAGE OF DEFICIT/DEBT SERVICING	47.39%	46.00%	40.81%	44.73%

Option #3a - Assuming no change in water pricing

Alberta government eliminates approximately 45% of the existing \$11,342,480 debt, being \$5,100,000 of debt reduction so the existing net cashflows are sufficient within the Commission to discharge the remaining debt as well as contribute \$1,145,000 to cover the December 31, 2008 working-capital deficit.

Option #3b - Assuming no change in water pricing

Each participating local government contributes to the Commission, on a rational and systematic basis, approximately 45% of the existing \$11,342,480 debt, being \$5,100,000 of debt reduction so the existing net cashflows are sufficient within the Commission to discharge the remaining debt as well contribute \$1,145,000 to cover the December 31, 2008 working-capital deficit. Rational and systematic basis may include but is not limited to:

1. Local government equalized assessment as percentage of combined equalized assessments.

	Assessment		Debt
Acme	38182092	0.32%	20,134.00
Beiseker	66759123	0.56%	35,209.00
Carbon	23748992	0.20%	12,527.00
Irricana	84818247	0.72%	44,733.00
Linden	42894129	0.36%	22,619.00
Kneehill County	1468672527	12.40%	774,549.00
Rocky View	10116521699	85.43%	5,335,235.00
Total Equalized Assessment	11841596809		6,245,006.00

The results of the above would highly likely not be acceptable to Kneehill County or the MD of Rocky View as would bear no relationship to the water system utilization.

2. Local government water allocation of commission as percentage of combined water allocation.

			Debt
Acme		5.68%	354,716.00
Beiseker		6.83%	426,534.00
Carbon		6.83%	426,534.00
Irricana		17.11%	1,068,520.00
Linden		8.56%	534,572.00
Kneehill County		36.23%	2,262,564.00
Rocky View		18.76%	1,171,562.00
Total Water Allocation			6,245,002.00

3. Local government on equal basis

			Debt
Acme	100	14.29%	892,142.00
Beiseker	100	14.29%	892,142.00
Carbon	100	14.29%	892,142.00
Irricana	100	14.29%	892,142.00
Linden	100	14.29%	892,142.00
Kneehill County	100	14.29%	892,142.00
Rocky View	100	14.29%	892,142.00
Total Water Allocation	700		6,244,994.00

Kneehill Regional Water Services Commission
Revenue & Expenses
(Per Audited Financial Statements)
January 1st to December 31st
Appendix V

	2008	2007	2006	(4 months) 2005
WATER SALES:				
Acme	149,665.50	140,813.75	149,190.30	43,313.55
Beiseker	245,806.05	233,450.70	281,201.20	66,772.30
Carbon	121,987.95	116,215.75	126,723.70	35,199.15
Irricana	244,277.25	245,002.45	263,992.40	69,168.40
Linden	224,015.75	207,835.95	198,981.65	59,049.90
Kneehill County	21,327.25	15,743.60	8,996.40	3,550.05
Rocky View	0.00	0.00	0.00	0.00
TOTAL WATER SALES	1,007,079.75	959,062.20	1,029,085.65	277,053.35
LESS WATER PURCHASES	-266,202.12	-247,263.11	-294,806.32	-102,330.51
GROSS PROFIT	740,877.63	711,799.09	734,279.33	174,722.84
ADD: SERVICE FEE REVENUE	54,400.00	53,760.00	53,760.00	17,920.00
REVENUE BEFORE DIRECT EXPENSES	795,277.63	765,559.09	788,039.33	192,642.84
LESS DIRECT EXPENSES:				
Maintenance fees	0.00	0.00	0.00	-14,250.00
Miscellaneous purchases	-567.00	-3,804.62	-12,946.88	-100.00
Operator Contract Kneehill	-17,138.16	-36,946.76	-17,546.30	-44,156.79
Operator Contract Drumheller	-16,455.10	-19,442.50	-20,295.28	0.00
Insurance	-6,446.47	-6,084.24	-5,132.49	-916.70
WCB	-900.00	-450.00	-450.00	-818.00
Operation supplies	-2,760.75	-7,047.04	-9,465.11	-17,654.01
Repairs and maintenance	-32,851.09	-75,268.61	-24,887.69	-21,772.93
Water testing	-7,493.75	0.00	0.00	0.00
Long term debt interest	-677,559.72	-692,231.19	-705,818.70	-210,261.61
Utilities	-120,332.41	-128,332.65	-149,439.14	-51,648.64
Total direct expenses	-882,504.45	-969,607.61	-945,981.59	-361,578.68
CONTRIBUTION MARGIN (DEFICIT)	-87,226.82	-204,048.52	-157,942.26	-168,935.84
LESS ADMINISTRATIVE EXPENSES:				
Legal fees	0.00	-10,723.42	-1,500.00	-755.60
Land compensation payments	-2,100.00	-2,600.00	-2,556.00	
Delivery	-588.88	-314.21	-533.26	0.00
Director fees	-7,925.60	-15,810.86	-13,036.62	-13,584.00
Manager contract	-39,014.69	-60,540.53	-39,869.61	0.00
Secretary treasurer contract	-18,496.40	-14,786.50	-14,829.30	-14,112.20
Accounting expense	-11,258.69	-13,265.00	-8,673.53	-6,570.00
Courses & conventions	0.00	0.00	0.00	-50.00
Memberships	-90.00	-657.00	-90.00	-80.00
Promotional expenses	0.00	-699.53		-6,044.07
Postage	-500.00	-250.00	-250.00	-250.00
Interest and bank charges	-7,056.91	-1,282.85	-6,894.70	-154.40
Office supplies	-1,723.29	-383.19	-695.77	-1,411.28
Property taxes	-2,165.51	-2,202.17	-1,895.83	-1,867.15
Office & tower rent	-4,400.00	-6,447.08	-4,200.00	-1,200.00
1st Call locates	-724.00	-274.51	0.00	0.00
Telephone	-3,694.50	-5,323.64	-7,374.03	-3,861.54
Office startup	0.00	0.00	-3,587.81	-265.99
Total administrative expenses	-99,738.47	-135,560.49	-105,986.46	-50,206.23
NET REVENUE (EXPENDITURES) BEFORE OTHER	-186,965.29	-339,609.01	-263,928.72	-219,142.07
OTHER REVENUE AND EXPENDITURES:				
Grant revenue	0.00	0.00	3,587.81	266.00
Interest revenue	87.40	9,419.43	20,139.97	21,245.27
Miscellaneous revenue	178.20	12,075.00	7,195.33	4,372.51
Rocky View grant	0.00	130,000.00	130,000.00	0.00
Income(loss) before amortization items	-186,699.69	-188,114.58	-103,005.61	-193,258.29
Amortization of deferred water capital contributions	59,808.00	59,808.00	59,808.00	14,952.00
Amortization of deferred capital asset contributions	778,740.01	770,154.54	761,090.07	196,203.81
Amortization of capital assets	-1,157,708.85	-1,157,708.85	-1,157,452.30	-294,683.43
DEFICIENCY OF REVENUE OVER EXPENSES	-505,860.53	-515,860.89	-439,559.84	-276,785.91

Kneehill Regional Water Services Commission
 Revenue & Expenses
 (Per Audited Financial Statements)
 January 1st to December 31st
 Appendix V

	2008	2007	2006	(4 months) 2005
Billing Amount Per Cubic Meter	\$ 2.45	\$ 2.45	\$ 2.45	\$ 2.45
Billed Water Consumption Cubic Meters	411,053	391,454	420,035	113,083
Estimated Cash Flow(deficit):				
Income(loss) before amortization items	-186,699.69	-188,114.58	-103,005.61	-193,258.29
Principal loan payments	-256,703.00	-242,361.00	-278,831.00	-87,687.00
	-443,402.69	-430,475.58	-381,836.61	-280,945.29

**Effect on Income Statement Deficiency if Rural Municipalities
 Contribute 55% of Debenture Payment as Grant:**

Debenture Payment	935,736.00	935,736.00	935,736.00
	55%	55%	55%
	514,655.00	514,655.00	514,655.00
DEFICIENCY OF REVENUE OVER EXPENDITURES	-505,860.53	-515,860.89	-439,559.84
Excess(Deficiency) of Revenue Over Expenditures	8,794.47	-1,205.89	75,095.16

**Effect on Cash Flow Deficiency if Rural Municipalities
 Contribute 55% of Debenture Payment as Grant:**

Debenture Payment	935,736.00	935,736.00	935,736.00
	55%	55%	55%
	514,655.00	514,655.00	514,655.00
Estimated Cash Flow(Deficit)	-443,402.69	-430,475.58	-381,836.61
Estimated Cash Flow	71,252.31	84,179.42	132,818.39

**EFFECT ON WATER RATE IF EXPECT CASH FLOW
 USED TO REDUCE WATER RATE**

Estimated Cash Flow (from above)	\$ 71,252.31	\$ 84,179.42	\$ 132,818.39
Water Consumption (from above)	411,053	391,454	420,035
	-\$ 0.17	-\$ 0.22	-\$ 0.32
Water Rate Before Effect of MD Payment	\$ 2.45	\$ 2.45	\$ 2.45
	\$ 2.28	\$ 2.23	\$ 2.13



KNEEHILL REGIONAL WATER SERVICES COMMISSION

BOX 592, ACME, AB T0M 0A0 PHONE 546-3888 FAX (403)546-3014
Email - krwsc1@gmail.com

January 14, 2010

emailed:
tim.ell@endeavorcas.com

Endeavour Chartered Accountants
Attention: Mr. Tim Ell
Box 2110
Hanna, AB T0J 1P0

Dear Mr. Ell:

Re: Kneehill Regional Water Commission

The board of directors for Kneehill Regional Water Services Commission met January 7th, 2010 to continue working towards a solution to the financial position of the water commission. On behalf of the Board of Directors of the Kneehill Regional Water Services Commission, I would like to present the following plan to deal with the financial affairs of the Water Commission.

Accumulated Deficit – we have determined that the accumulated deficit is estimated at \$1.2 million dollars since the incorporation of the commission. The accumulated deficit will be dealt with as follows upon approval of the Minister of Municipal Affairs.

Each municipality will pay a portion of the deficit annually based on the original allocation of water to each municipality. We will be asking the Minister of Municipal Affairs for approval to carry this over a 10 year period. The breakdown is as follows:

Village of Acme	.0567%	\$, 7,994.70
Village of Beiseker	.0682%	\$, 9,616.20
Village of Carbon	.0682%	\$, 9,616.20
Village of Linden	.0855%	\$,12,055.50
Town of Irricana	.1710%	\$,24,111.00
Kneehill County	.3623%	\$,51,084.00
Rocky View County	.1876%	<u>\$,26,451.60</u>
Total Annual Payment		<u>\$140,929.20</u>

Operation Costs

Water will be charged to each municipality at \$3.00 per cubic meter based on actual consumption.

Each municipality will continue to pay \$1667.00 per month as an administration fee. This equals revenue of \$140,028 per year that is not included in the water consumption rate.

Operating Deficit – for 2010 the operating deficit is estimated at approximately \$126,890.00 (based on the operating budget). The board recommends that the annual operating deficit also be covered by the municipalities based on allocation of water. The estimated breakdown is as follows:

Village of Acme	.0567%	\$ 7,194.66
Village of Beiseker	.0682%	\$ 8,653.89
Village of Carbon	.0682%	\$ 8,653.89
Village of Linden	.0855%	\$ 10,849.10
Town of Irricana	.1710%	\$ 21,698.18
Kneehill County	.3623%	\$ 45,972.25
Rocky View County	<u>.1876%</u>	<u>\$ 23,084.56</u>
Total Annual Payment		\$126,106.53

If you have any questions, please contact me at (403)312-6196.

Sincerely,
KRWSC



Jerry Wittstock
Chairman

cc: Member Municipalities