ARROW UTILITIES

2024 FINANCIAL REPORT

ARROWUTILITIES.CA

The accompanying financial statements of ARROW Utilities, a regional Commission have been prepared by its Administration, which is responsible for the integrity and objectivity of the information presented in this report. Administration believes that the consolidated financial statements present fairly the Commission's financial position as of December 31, 2024 and the results of its operations for the year then ended.

These financial statements have been prepared in compliance with legislation and in accordance with Canadian public sector accounting standards (PSAS) and include some amounts that are based on management's best estimates and judgment. Such amounts have been determined on a reasonable basis in order to ensure the consolidated financial statements are presented fairly in all material respects.

Administration is responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, and that reliable financial information is available on a timely basis. These internal controls are regularly reviewed and enhanced as necessary.

The financial statements have been audited by independent external auditors, who were appointed by the Board of Directors. The auditors have examined the financial statements in accordance with generally accepted auditing standards and provided an independent and unqualified opinion on the fairness of the financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee meets with management and the external auditors to review financial reporting, internal controls, and the audit process.

Signed,

Kate Polkovsky
Chief Executive Officer

Jaimie Spurgeon
Director, Finance and Corporate Services/
Chief Financial Officer

JDP Wasserman LLP
Chartered Professional Accountants

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INDEPENDENT AUDITORS' REPORT

To the Members of Arrow Utilities (formerly Alberta Capital Region Wastewater Commission)

Opinion

We have audited the financial statements of Arrow Utilities (formerly Alberta Capital Region Wastewater Commission, "Arrow"), which comprise the statement of financial position as at December 31, 2024, and the statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Arrow as at December 31, 2024, and the results of its operations and accumulated surplus, changes in net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Arrow in accordance with ethical requirements that are relevant to our audit of financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Arrow's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Arrow or to cease operations, or has no realistic alternative but to do so. Those charged with governance (the Board of Directors) are responsible for overseeing Arrow's financial reporting process.

(continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Arrow's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Arrow's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements, or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Arrow to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

JDP Wasserman LLP

Edmonton, Alberta
March 28, 2025

Chartered Professional Accountants

ARROW UTILITIES
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2024
(IN 000'S)

	2024 Budget	2024 Actual	2023 Actual
REVENUES			
Treatment charges (Note 13)	$ 66,714	$ 69,031	$ 54,541
Investment income	1,200*	961	1,289
Government transfers	-	38,616	-
Other revenue	73*	4	78
Total revenues	67,987	108,612	55,908
EXPENSES (Note 9)			
Operation and Maintenance	30,104	44,210	43,051
Information and Strategic Services	1,242	1,273	-
Finance and Corporate Services	1,743	2,158	2,925
Engineering	1,617	1,181	997
Regulatory Services	1,542	1,561	1,629
Board	229	250	257
Total expenses	36,477	50,633	48,859
Excess of revenues over expenses	31,510	57,979	7,049
Accumulated surplus at beginning of year	211,625	211,625	204,576
Accumulated surplus at end of period	$243,135	$269,604	$211,625

*Presented on the 2024 budget report, but not formally approved by the Board. This has been rectified for future budget approvals and process.

ARROW UTILITIES
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2024
(IN 000'S)

	2024	2023
FINANCIAL ASSETS		
Cash	$ 13,635	$ 35,132
Receivables from Commission members (Note 13)	5,525	3,907
Other receivables	4,325	1,484
Investments (Note 4)	68	10,120
	23,553	50,643
LIABILITIES		
Accounts payable and accrued liabilities (Note 13)	22,598	27,386
Debt (Notes 5, 12)	112,532	87,461
Deferred revenues	-	375
Other liabilities	531	469
	135,661	115,691
NET DEBT	(112,108)	(65,048)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 6)	380,144	275,262
Inventory held for consumption	1,308	1,172
Prepaid expenses	260	239
	381,712	276,673
ACCUMULATED SURPLUS (Note 8)	$269,604	$211,625

Contractual commitments and contingent liabilities (Note 10)

Approved on behalf of ARROW Utilities Board of Directors:

Ken MacKay
Ken MacKay (Apr 29, 2025 20:01 MDT)

Ken MacKay, Board Chair

Robert Parks (Apr 30, 2025 17:05 MDT)

Robert Parks, Board Vice Chair

ARROW UTILITIES
STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2024
(IN 000'S)

	2024 Budget	2024 Actual	2023 Actual
Excess of revenues over expenses	$ 31,510	$ 57,979	$ 7,049
Acquisition of tangible capital assets	(84,550)**	(113,247)	(49,207)
Amortization of tangible capital assets	10,000*	8,319	9,265
Loss on disposal of tangible capital assets	-	46	309
Change in inventory held for consumption	-	(136)	(240)
Change in prepaid expenses	-	(21)	(107)
Change in net debt	(43,040)	(47,060)	(32,931)
Net Debt at Beginning of Year	(65,048)	(65,048)	(32,117)
Net debt at end of period	$ (108,088)	$ (112,108)	$ (65,048)

**Approved as part of the 2024 Capital Budget.
*Presented in the 2024 Budget Report, but not formally approved by the Board. This has been rectified for future budget approval and process.

ARROW UTILITIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024
(IN 000'S)

	2024	2023
Cash flows from operating transactions		
Cash receipts from members, government transfers and other	$ 103,193	$ 54,091
Cash paid to employees	(7,750)	(7,293)
Cash paid to suppliers	(26,437)	(24,404)
Interest received	964	1,268
Deferred Revenue	(375)	-
Interest on debt	(3,723)	(1,623)
	65,872	22,039
Cash flows from capital transactions		
Acquisition of tangible capital assets	(122,486)	(38,213)
Cash flows from investing transactions		
Increase (Decrease) in investments	10,047	9,291
Cash flows from financing transactions		
Proceeds from debt	32,000	38,000
Repayment of debt	(6,930)	(5,055)
	25,070	32,945
Increase (decrease) in cash	(21,497)	26,062
Cash at beginning of year	35,132	9,070
Cash at end of period	$13,635	$35,132

1. NATURE OF THE ORGANIZATION

ARROW Utilities (the "Commission") is constituted under the Municipal Government Act. Alberta Regulation 129/85 established the Commission in May 1985 for the purposes of constructing, maintaining, controlling, and managing a regional wastewater treatment system.

The members of the Commission include City of Beaumont, City of Fort Saskatchewan, City of Leduc, City of Spruce Grove, City of St. Albert, Town of Bon Accord, Town of Gibbons, Town of Morinville, Town of Stony Plain, Leduc County, Parkland County, Strathcona County, and Sturgeon County.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared by management in accordance with Canadian public sector accounting standards and reflect the following policies:

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the period in which the transactions or events occur and are measurable. Expenses are recognized in the period goods and services are consumed, or a liability is incurred.

Investments

Investments consist of guaranteed investment certificates and deposits that are redeemable at the Commission's discretion. When there has been a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss.

Revenue Recognition

Government transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

Treatment charges, investment and other revenue are recognized as revenue when earned and collection is reasonably assured.

Non-financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Engineering Structures	5-75
Machinery & Equipment	10

Assets under construction are not amortized until the asset is available for productive use.

i. Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

ii. Interest capitalization

The Commission does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

iii. Leased tangible capital assets

Leases that transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

Inventory held for consumption

Inventory held for consumption consists of spare parts used in the maintenance of Commission facilities and is valued at the lower of cost or replacement costs. Inventory items issued out are expensed to materials, goods, supplies and utilities. The cost of inventory is assigned by using the first-in, first-out cost formula.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of tangible capital assets. Actual results could differ from those estimates.

Deferred Revenues

Deferred revenues represent amounts received for which the related activities have yet to be performed. These amounts will be recognized as revenues in the period that the activities are performed.

Asset Retirement Obligations

Asset Retirement Obligations (ARO) is a legal obligation associated with the retirement of a tangible capital asset (or a component thereof). The obligation arises from the need to retire or decommission the asset at the end of its useful life, and it is typically related to environmental remediation, dismantling, or restoration costs. It is required to recognize the future costs of retiring tangible capital assets when it is probable that the costs will be incurred, and the amount can be reasonably estimated. Estimates continue to be underway for 2024 and will be implemented by end of 2025.

3. FINANCIAL INSTRUMENTS

The Commission's financial instruments consist of cash, investments, receivables from Commission members, other receivables, accounts payable and accrued liabilities, debt and other liabilities. It is management's opinion that the Commission is not exposed to significant interest, currency, or credit risk arising from these financial instruments. Long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method. Unless otherwise noted, except for the long-term debt, the fair value of these financial instruments approximates their carrying value.

4. INVESTMENTS

Previous investments consisted of a notice demand account that bears interest at rates between 1.60% and 5.55% with a maturity date of no more than 90 days' notice. As at December 31, 2024, all investments have been withdrawn with exception of interest accrued on bank/operating account. Future considerations of investments opportunities will be reviewed upon viability of financial position.

(IN 000'S)

5. DEBT

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

	Principal	Interest	Total
2025	$ 7,178	$ 3,185	$ 10,363
2026	7,219	2,927	10,146
2027	7,013	2,671	9,684
2028	6,531	2,421	8,952
2029	6,078	2,181	8,259
Balance to maturity	46,512	9,212	55,724
Total	$ 80,531	$ 22,597	$ 103,128

In 2024, ARROW entered in a new debt-financing agreement with Toronto Dominion (TD) Bank of $32,000 for costs related to the Train 4 MBR Plant Upgrade. Additional funds (up to $107,000) may be withdrawn for the completion of construction. As such, repayment plans will be finalized when the total amount required for the project is known.

The Commission has a demand operating line of credit available for use, up to a maximum of $2,000 bearing interest at prime rate (2023 - prime rate) and unsecured. As at December 31, 2024, nil (2023 - nil) was drawn against the available operating line of credit.

Debenture debt is semi-annual instalments between $120 - $584 (bearing interest between 1.789% - 5.289%), with maturity ranging from 2026 to 2038)

In September 2024, ARROW entered into a construction facility loan agreement with Toronto Dominion (TD) Bank with a value of $103 million, for the Train 4 Plant Expansion Capital project, with an interest at CORRA + 0.900% annum and has ranged between 4.90% - 5.68% during the year. At the end of 2024, the Commission withdrew $32 million. Once the loan is fully withdrawn, the loan will be converted into a SWAP agreement, with similar terms.

(IN 000'S)

6. TANGIBLE CAPITAL ASSETS

	Land	Engineering Structures	Machinery & Equipment	2024	2023
Cost:					
Balance at beginning of year	$ 2,347	$ 435,201	$ 1,288	$ 438,836	$ 390,741
Additions	-	113,142	105	113,247	49,207
Disposals	-	(763)	-	(763)	(1,112)
Cost at end of year	2,347	547,580	1,393	551,320	438,836
Accumulated amortization:					
Balance at beginning of year	-	162,594	979	163,573	155,112
Amortization in the year	-	8,309	10	8,319	9,266
Accumulated amortization disposals	-	(716)	-	(716)	(804)
Accumulated amortization at end of year	-	170,187	989	171,176	163,574
Net book value	$ 2,347	$ 377,393	$ 404	$ 380,144	$ 275,262

The net book value of tangible capital assets includes $101,450 (2023 - $30,884) related to engineering structures in design or under construction that are not amortized in the year. Contributed tangible capital assets in 2024 were nil (2023 - nil).

7. EQUITY IN TANGIBLE CAPITAL ASSETS

	2024	2023
Tangible capital assets	$ 551,320	$ 438,836
Accumulated amortization	(171,176)	(163,574)
Long-term debt	(112,532)	(87,461)
Total	$ 267,612	$ 187,801

(IN 000'S)

8. ACCUMULATED SURPLUS

	2024	2023
Reserves		
Capital	$ -	$ 18,828
Operating	-	4,996
Net Revenue for the Period	1,992	-
	1,992	23,824
Equity in tangible capital assets (Note 7)	267,612	187,801
Total accumulated surplus	$ 269,604	$ 211,625

The capital reserve sets aside funds for the purpose of financing future capital acquisitions and development. This reserve is funded from annual surplus funds and disposals of capital assets. Surplus funds in excess of the required contribution to the operating reserve are contributed to the capital reserve. The capital reserve balance is now at $0, as funding was allocated to the Train 4 MBR Plant upgrade project and major line breaks that occurred in 2024.

The operating reserve was established to provide rate stability and to provide funds for years when unforeseen expenses or lost revenues accrue. Increases to the reserve are funded from the annual surplus.

9. EXPENSES BY OBJECT

	2024 Budget	2024 Actual	2023 Actual
Salaries and benefits	$ 7,454	$ 7,813	$ 7,337
Contracted and general services	22,478	21,585	24,034
Materials, goods, supplies and utilities	6,545	5,837	5,247
Purchased from other governments	-	3,103	725
Interest	-	3,930	1,941
Amortization	-	8,319	9,266
Loss on disposal of tangible capital assets	-	46	309
	$ 36,477	$ 50,633	$ 48,859

10. CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of operations, the Commission may be subject to various claims and legal actions. Based on the information available, management believes that the resolution of such matters will not have a material adverse effect on the Commission's financial position.

In 2008, the Commission entered into the Regional Wastewater Exchange Agreement with the City of Edmonton. This agreement expires in 2028. In 2019, the agreements were officially transferred to EPCOR Water Service Inc.

In 2021, the Commission entered into a biosolids management contract effective 2022 with EPCOR Water Service Inc. This agreement has a ten-year notice before it can expire.

In 2022, the Commission entered into a contract with Direct Energy Marketing Limited to supply natural gas. This agreement expires in 2026.

In 2023, the Commission entered into a contract with CP Energy Marketing L.P. to supply electricity. This agreement expires in 2028.

In 2023, the Commission entered into a contract with Prairie Waste Solutions to haul biosolids. This contract expires in 2026 with a potential additional one-year extension.

As of December 31, 2024, the Commission has contractual commitments for work still outstanding for the following major projects. All other projects have minor commitments related to final close out required for Final Acceptance Certificate (FAC) and not significant in nature.

- Train 4 MBR Plant Upgrade for $195,000 with $100,525 of work still outstanding. Completion in 2026
- Fort Saskatchewan Pump Station Generator & Electrical Upgrades for $4,851 with $260 of work still outstanding. Completion in 2025
- Biogas Piping & Chiller Upgrades for $3,317 with $1,310 of work still outstanding. Completion in 2025
- Parkland Pump Station HVAC Upgrades for $3,329 with $1,394 of work still outstanding. Completion in 2025
- Waste Gas Burner Facility Upgrades for $4,689 with $200 of work still outstanding. Completion in 2025
- 5kV Switchgear upgrade for $2,593 with $300 of work still outstanding. Completion in 2025

In 2021, a major blockage occurred that caused a bypass into the North Saskatchewan River. The incident has since been resolved with the contractor, however it continues to be investigated through Environment Canada and Federal Fisheries.

In 2024, a claim from the City of Edmonton was filed regarding leakage of contamination onto Bremner Lagoons, owned by Edmonton. Engineering studies have since refuted the claims and causations, however the lawsuit remains outstanding.

(IN 000'S)

11. LOCAL AUTHORITIES PENSION PLAN

All eligible employees of the Commission participate in the Local Authorities Pension Plan ("LAPP") under the Public Sector Pension Plans Act. Required contributions by the Commission to the LAPP are 8.45% (2023 – 8.45%) of pensionable earnings up to the year's pensionable earnings maximum under the Canada Pension Plan and 11.65% (2023 – 12.23%) on pensionable earnings above this amount. Employees are required to contribute 7.45% (2023 – 7.45%) of pensionable salary up to the year's maximum pensionable salary and 10.65% (2023 – 11.23%) on pensionable salary above this amount.

Contributions for current service are recorded as expenditures in the year in which they become due. Contributions made during the year by the Commission and its employees were $542 and $486, respectively (2023 - $572 by the Commission and $479 from its employees).

At December 31, 2023 the LAPP disclosed an actuarial surplus of $15.057 billion (2022 - 12.671 billion). Plan asset and actuarial surplus data as at December 31, 2024 is not yet available.

12. DEBT LIMITS

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

	2024	2023
Total debt limit	$ 139,992	$ 111,816
Total debt	112,532	87,461
Amount of total debt limit remaining	$ 27,460	$ 24,355
Debt servicing limit	24,499	19,568
Debt servicing	10,363	10,363
Amount of total debt servicing remaining	$ 14,136	$ 9,205

The debt limit is calculated at 2 times revenue of the Commission (as defined in Alberta Regulation No. 76/2000) and the debt servicing 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. On August 18, 2024, the Minister of Municipal Affairs authorized a temporary debt limit and debt servicing of $240,000 and $42,000 respectively. The Ministerial Order expires on December 31, 2028.

The Commission has a debt management policy with a self-imposed debt limit of 1.5 times revenue. The total debt limit calculated using 1.5 times revenue is $104,994, with $7,538 over the debt limit due to the new Train 4 MBR plant upgrade being constructed.

13. RELATED PARTY TRANSACTIONS

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

At year-end, receivables from Commission members include a total of $5,530 (2023 - $3,907) receivable from the various member municipalities, and accounts payable and accrued liabilities include $84 (2023 - $1,475) payable to various member municipalities.

Revenues generated include $59,948 (2023 - $47,812) paid by member municipalities.

Contracted and general services includes $3,098 (2023 - $670) mainly paid to Strathcona County for transmission maintenance services.

These transactions are in the normal course of operations and are measured at the exchange amounts as established and agreed to by the related parties.

14. APPROVAL OF FINANCIAL STATEMENTS

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