

HIGHWAY 41 WATER UTILITY

FINANCIAL STATEMENTS

For the fiscal year ended December 31, 2011

and Auditors' Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING


The management of Highway 41 Water Utility is responsible for management of the organization. The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include amounts which are based on informed judgment and management estimates. Financial data presented elsewhere in this annual report is consistent with that in the financial statements.

Ensuring the integrity and objectivity of financial information is an integral part of management's responsibility. Management maintains an appropriate system of internal accounting and administrative controls, policies and procedures to provide reasonable assurance that all transactions are authorized, financial records are complete and accurate, and assets are safeguarded against loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board has reviewed and approved these financial statements.

Davies & Drury Chartered Accountants, the organization's independent auditors, have examined the financial statements of the corporation. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the organization's financial position, results of operations and cash flows as shown in the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

On behalf of management,



Manager



Director

AUDITORS' REPORT

To the Directors of
Highway 41 Water Utility:

We have audited the accompanying financial statements of Highway 41 Water Utility, which comprise the statement of financial position as at December 31, 2011, and the statements of operations, of changes in net assets and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Managements' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Highway 41 Water Utility as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants


June 1, 2012

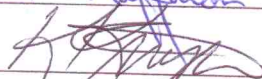
HIGHWAY 41 WATER UTILITY

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 1,314,760	\$ 1,077,022
Accounts receivable	26,465	83,451
Government grant receivable	618,934	507,017
GST receivable	117,080	-
	<u>2,077,239</u>	<u>1,667,490</u>
SUBSCRIBER LOANS RECEIVABLE - PHASE 1	<u>817,702</u>	<u>-</u>
PROPERTY AND EQUIPMENT (Note 4)	<u>11,556,520</u>	<u>9,234,304</u>
	<u>\$ 14,451,461</u>	<u>\$ 10,901,794</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 803,200	\$ 1,697,785
Connection deposits (Note 3)	1,000	1,000
Current portion of long-term debt	99,300	-
	<u>903,500</u>	<u>1,698,785</u>
LONG-TERM DEBT (Note 5)	<u>3,582,508</u>	<u>2,053,872</u>
NET ASSETS:		
Invested in property and equipment	9,829,549	7,507,333
Unrestricted surplus (deficit)	135,904	(358,196)
	<u>9,965,453</u>	<u>7,149,137</u>
	<u>\$ 14,451,461</u>	<u>\$ 10,901,794</u>

Approved on behalf of the Board:

 _____ Director

 _____ Director

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

HIGHWAY 41 WATER UTILITY

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
REVENUE:		
Water revenue	\$ 118,445	\$ 39,772
Meter installations	10,227	13,385
Contract work	-	74,500
Interest income	1,758	724
Miscellaneous income	-	522
Grant	880,726	3,873,710
	<u>1,011,156</u>	<u>4,002,613</u>
EXPENSES:		
Amortization	237,915	-
Bank charges and interest	1,129	487
Dues and memberships	100	100
Insurance	8,739	8,739
Interest on long-term debt	2,812	-
Meeting expenses	18,215	36,560
Miscellaneous	2,833	510
Office supplies	6,644	14,588
Professional fees	6,184	7,425
Repairs and maintenance	1,991	2,364
Restitution	11,018	3,080
Seminars and training	450	500
Telephone	4,624	1,728
Travel and conferences	9,127	383
Utilities	69,342	561
Wages and benefits	36,879	48,244
Water costs	98,304	52,564
	<u>516,306</u>	<u>177,833</u>
 SURPLUS FROM OPERATIONS FOR THE YEAR	 <u>494,850</u>	 <u>3,824,780</u>

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

HIGHWAY 41 WATER UTILITY

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Invested in Property and Equipment</u>	<u>Subscribers' Unexpended Contributions</u>	<u>Unrestricted Fund Deficit</u>	<u>2011 Total</u>	<u>2010 Total</u>
BALANCE AT BEGINNING OF THE YEAR	\$ 7,507,333	\$ -	\$ (358,196)	\$ 7,149,137	\$ 2,141,142
Surplus from operations for the year	-	-	494,850	494,850	3,824,780
Subscribers' contributions	-	2,321,466	-	2,321,466	1,183,215
Invested in property and equipment	3,202,192	(2,321,466)	(880,726)	-	-
Adjustments to property and equipment	(642,061)	-	642,061	-	-
Amortization	<u>(237,915)</u>	<u>-</u>	<u>237,915</u>	<u>-</u>	<u>-</u>
BALANCE AT END OF THE YEAR	<u>\$ 9,829,549</u>	<u>\$ -</u>	<u>\$ 135,904</u>	<u>\$ 9,965,453</u>	<u>\$ 7,149,137</u>

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

HIGHWAY 41 WATER UTILITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:		
Cash receipts from contributors	\$ 2,342,909	\$ 6,027,208
Cash paid to suppliers and employees	(275,579)	(177,833)
Interest paid	(2,812)	-
	<u>2,064,518</u>	<u>5,849,375</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(2,560,131)</u>	<u>(5,137,688)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments to short-term debt	(894,585)	(630,036)
Advances from bank loan	1,627,936	733,393
	<u>733,351</u>	<u>103,357</u>
INCREASE IN CASH DURING THE YEAR	237,738	815,044
CASH AT BEGINNING OF THE YEAR	<u>1,077,022</u>	<u>261,978</u>
CASH AT END OF THE YEAR	<u>\$ 1,314,760</u>	<u>\$ 1,077,022</u>

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

HIGHWAY 41 WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

1. NATURE OF BUSINESS:

Highway 41 Water Utility is incorporated in the Province of Saskatchewan under the *Non-Profit Corporations Act, 1995*.

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

Revenue recognition

Revenue is recognized on the accrual basis.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization will not be provided until the Utility is fully operational. Once the Utility is fully operational amortization will be provided on the straight-line basis over the estimated useful life of the assets at the following annual rates:

Utility infrastructure	50 years
Pipes	50 years
Office equipment	5 years
Building	10 years

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Assumptions underlying deferred cost valuations are limited by the availability of reliable comparable data and the uncertainty concerning future events.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should underlying assumptions change, the estimated net recoverable amount could change by a material amount.

HIGHWAY 41 WATER UTILITY**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2011**

2. SIGNIFICANT ACCOUNTING POLICIES - continued:

Financial instruments

Financial assets are classified as loans and receivables, held-to-maturity, held-for-trading or available-for-sale. Loans and receivables include all loans and receivables except debt securities and are accounted for at amortized cost. Held-to-maturity classification is restricted to fixed maturity instruments that the Utility intends and is able to hold to maturity and are accounted for at amortized cost. Held-for-trading instruments include all derivative financial instruments not included in a hedging relationship and any designated instruments and are recorded at fair value with realized and unrealized gains and losses reported in net income. The remaining financial assets are classified as available-for-sale. These are recorded at fair value with unrealized gains and losses reported directly to the surplus; and,

Financial liabilities are classified as either held-for-trading or other. Held-for-trading instruments are recorded at fair value with realized and unrealized gains and losses reported in net income. Other instruments are accounted for at amortized cost with gains and losses reported in net income in the period that the liability is derecognized.

The Utility's financial instruments are classified into the following:

Cash is classified as held-for-trading.

Accounts receivable are classified as loans and receivables.

Accounts payable and accrued liabilities, connection deposits and long-term debt are classified as other liabilities.

Contributed services

Volunteer services, if any, contributed to the Board in carrying out its operating activities are not recognized in these financial statements due to the difficulty in determining their value.

3. CONNECTION DEPOSITS:

The Utility has received deposits from potential subscribers to enable them to enter into a water connection and water supply agreement with the Utility in the event that the Utility shall proceed with construction of a water supply system. The \$500 initial deposit per connection is a deposit until the Utility confirms its ability to provide water to the potential subscriber, at which time the potential subscriber signs a water connection agreement and the deposit is then invested in property and equipment.

HIGHWAY 41 WATER UTILITY**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2011**

4. PROPERTY AND EQUIPMENT:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2011</u>	<u>2010</u>
Land	\$ 31,906	\$ -	\$ 31,906	\$ 7,908
Building	22,000	2,200	19,800	22,000
Pipe costs	2,283,013	45,660	2,237,353	2,268,877
Utility infrastructure	9,452,492	189,050	9,263,442	6,930,495
Office equipment	5,024	1,005	4,019	5,024
	<u>\$ 11,794,435</u>	<u>\$ 237,915</u>	<u>\$ 11,556,520</u>	<u>\$ 9,234,304</u>

5. LONG-TERM DEBT:

	<u>2011</u>	<u>2010</u>
Royal Bank construction loan, bank prime minus .5%, interest only payments until the development of the potable water distribution system is complete	\$ 2,870,254	\$ 2,053,872
Royal Bank subscriber financing loan #1, interest at 4.68%, payable monthly of \$5,244 blended principal and interest, due November, 2021	500,393	-
Royal Bank subscriber financing loan #2, interest at 3.37%, payable monthly of \$5,714 blended principal and interest, due November, 2016	311,161	-
	<u>3,681,808</u>	<u>2,053,872</u>
Less estimated principal repayments due within one year	99,300	-
	<u>\$ 3,582,508</u>	<u>\$ 2,053,872</u>

Estimated principal payments due in the next five years are as follows:

2012	\$ 99,300
2013	103,300
2014	107,400
2015	111,700
2016	111,500

HIGHWAY 41 WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

6. FINANCIAL INSTRUMENTS:

The Utility as part of its operations carries a number of financial instruments. It is management's opinion that the Utility is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Fair value

The carrying value of the Utility's cash, term deposits, accounts receivable and accounts payable and accrued liabilities, and connection deposits approximate their fair value due to their short-term nature.

The carrying value of the Utility's short-term debt approximates its fair value, because interest charges under the terms of the debt are similar to current market rates.

7. INCOME TAXES:

The Utility is exempt from income taxes under Section 149 of the *Income Tax Act* as it is a non-profit organization.