

HIGHWAY 41 WATER UTILITY

FINANCIAL STATEMENTS

For the fiscal year ended December 31, 2012

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 Accounting Standards for Not-for-Profit Organizations, 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, 2012, December 31, 2011 and January 1, 2011, and the statements of operations, of changes in net assets and of cash flows for the years ended December 31, 2012 and December 31, 2011, 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 Accounting Standards for Not-for-Profit Organizations (ASNFP) 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 statement of financial position of Highway 41 Water Utility as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of operations, of changes in net assets and of cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian ASNFP.



Chartered Accountants

June 12, 2013

HIGHWAY 41 WATER UTILITY

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2012

	December 31, <u>2012</u>	December 31, <u>2011</u>	January 31, <u>2011</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 1,009,431	\$ 1,314,760	\$ 1,077,022
Accounts receivable	35,243	26,465	83,451
Government grant receivable	-	618,934	507,017
GST receivable	6,070	117,080	-
	<u>1,050,744</u>	<u>2,077,239</u>	<u>1,667,490</u>
 SUBSCRIBER LOANS RECEIVABLE	 <u>1,608,328</u>	 <u>817,702</u>	 <u>-</u>
 PROPERTY AND EQUIPMENT (Note 4)	 <u>11,858,892</u>	 <u>11,556,520</u>	 <u>9,234,304</u>
	<u>\$ 14,517,964</u>	<u>\$ 14,451,461</u>	<u>\$ 10,901,794</u>
 <u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	\$ 178,212	\$ 803,200	\$ 1,697,785
Connection deposits	-	1,000	1,000
Current portion of long-term debt	233,980	99,300	-
	<u>412,192</u>	<u>903,500</u>	<u>1,698,785</u>
 LONG-TERM DEBT (Note 5)	 <u>1,423,029</u>	 <u>3,582,508</u>	 <u>2,053,872</u>
 NET ASSETS:			
Invested in property and equipment	13,122,012	10,471,549	7,507,333
Unrestricted deficit	(439,269)	(506,096)	(358,196)
	<u>12,682,743</u>	<u>9,965,453</u>	<u>7,149,137</u>
	<u>\$ 14,517,964</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, 2012

	<u>2012</u>	<u>2011</u>
REVENUE:		
Water revenue	\$ 304,459	\$ 118,445
Meter installations	13,476	10,227
Interest income	79,226	1,758
Grant	-	880,726
	<u>397,161</u>	<u>1,011,156</u>
EXPENSES:		
Amortization	250,891	237,915
Bank charges and interest	2,607	1,129
Dues and memberships	172	100
Insurance	2,467	8,739
Interest on long-term debt	58,303	2,812
Meeting expenses	82	18,215
Miscellaneous	650	2,833
Office supplies	13,599	6,644
Professional fees	7,691	6,184
Repairs and maintenance	9,174	1,991
Restitution	-	11,018
Seminars and training	660	450
Telephone	5,457	4,624
Travel and conferences	23,023	9,127
Utilities	10,248	69,342
Wages and benefits	45,926	36,879
Water costs	150,275	98,304
	<u>581,225</u>	<u>516,306</u>
(DEFICIT) SURPLUS FROM OPERATIONS FOR THE YEAR	<u>\$ (184,064)</u>	<u>\$ 494,850</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, 2012

	Invested in Property and Equipment	Subscribers' Unexpended Contributions	Unrestricted Fund Deficit	2012 Total	2011 Total
BALANCE AT BEGINNING OF THE YEAR	\$ 10,471,549	\$ -	\$ (506,096)	\$ 9,965,453	\$ 7,149,137
(Deficit) surplus from operations for the year	-	-	(184,064)	(184,064)	494,850
Subscribers' contributions	-	2,901,354	-	2,901,354	2,321,466
Invested in property and equipment	2,901,354	(2,901,354)	-	-	-
Adjustments to property and equipment	-	-	-	-	-
Amortization	(250,891)	-	250,891	-	-
BALANCE AT END OF THE YEAR	\$ 13,122,012	\$ -	\$ (439,269)	\$ 12,682,743	\$ 9,965,453

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, 2012

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:		
Cash receipts from contributors	\$ 3,228,057	\$ 2,342,909
Cash paid to suppliers and employees	(272,032)	(275,579)
Interest paid	(58,303)	(2,812)
	<u>2,897,722</u>	<u>2,064,518</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(553,264)</u>	<u>(2,560,131)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments to short-term debt	(624,988)	(894,585)
Advances from bank loan	(2,024,799)	1,627,936
	<u>(2,649,787)</u>	<u>733,351</u>
(DECREASE) INCREASE IN CASH DURING THE YEAR	(305,329)	237,738
CASH AT BEGINNING OF THE YEAR	<u>1,314,760</u>	<u>1,077,022</u>
CASH AT END OF THE YEAR	<u>\$ 1,009,431</u>	<u>\$ 1,314,760</u>

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

HIGHWAY 41 WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

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:

These financial statements were prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNFPPO) and include the following significant accounting policies:

Revenue Recognition

Revenue is recognized on the accrual basis.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is 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
Meter equipment	10 years
Building	10 years

Measurement Uncertainty

The preparation of financial statements in accordance with Canadian ASNFPPO 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 amounts of revenue and expenses during the 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.

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.

HIGHWAY 41 WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES - continued:

Financial instruments

Measurement of Financial Instruments

The Utility initially measures its financial assets and liabilities at fair value.

The Utility subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash, accounts receivable and subscriber loans receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and long-term debt.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in the statement of operations. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the statement of operations.

Risks and Concentrations

The Utility as part of its operations carries a number of financial instruments. It is managements' opinion that the Utility is not exposed to significant interest or credit risks arising from these financial instruments except as follows:

Credit Risk

The Utility is exposed to credit risk as it grants credit to its customers in the normal course of operations. To mitigate this risk the Utility regularly reviews its accounts receivable and subscribers' loan receivable lists, and based on knowledge of their customers, will stop granting credit to customers who have not made regular payments in the past.

Interest Rate Risk

The Utility is exposed to interest rate price risk as the long-term debt bears interest at a fixed interest rate.

HIGHWAY 41 WATER UTILITYNOTES TO THE FINANCIAL STATEMENTSDECEMBER 31, 20123. ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS:

Effective January 1, 2012, the Utility adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting, electing to adopt the new accounting framework: Canadian ASNFPO. These are the Utility's first financial statements prepared in accordance with Canadian ASNFPO which has been applied retrospectively. The accounting policies set out in the above significant accounting policies notes have been applied in preparing these financial statements for the year ended December 31, 2011 and in the preparation of an opening balance sheet at January 1, 2011 (the Utility's date of transition).

The Utility issued financial statements for the year ended December 31, 2011 using Canadian Generally Accepted Accounting Principles (GAAP) prescribed by the CICA Handbook. The adoption of Canadian ASNFPO had no impact on the previously reported assets, liabilities and net assets of the Utility; and accordingly, no adjustments have been recorded in the statement of financial position and the statements of operations and of cash flows. Certain disclosures of the Utility included in these financial statements reflect the new disclosure requirements of Canadian ASNFPO.

4. PROPERTY AND EQUIPMENT:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2012</u>	<u>2011</u>
Land	\$ 31,906	\$ -	\$ 31,906	\$ 31,906
Building	22,000	4,400	17,600	19,800
Pipe costs	2,283,013	91,320	2,191,693	2,237,353
Utility infrastructure	9,983,423	388,718	9,594,705	9,263,442
Meter equipment	21,095	2,110	18,985	-
Office equipment	6,262	2,259	4,003	4,019
	<u>\$ 12,347,699</u>	<u>\$ 488,807</u>	<u>\$ 11,858,892</u>	<u>\$ 11,556,520</u>

HIGHWAY 41 WATER UTILITYNOTES TO THE FINANCIAL STATEMENTSDECEMBER 31, 2012

5. LONG-TERM DEBT:

	<u>2012</u>	<u>2011</u>
Royal Bank subscriber financing loan #1, interest at 4.68%, payable monthly of \$5,244 blended principal and interest, due November, 2021	\$ 460,150	\$ 500,393
Royal Bank subscriber financing loan #2, interest at 3.37%, payable monthly of \$5,714 blended principal and interest, due November, 2016	252,226	311,161
Royal Bank subscriber financing loan #3, interest at 4.25%, payable monthly of \$6,326 blended principal and interest, due May, 2022	584,025	-
Royal Bank subscriber financing loan #4, interest at 3.40%, payable monthly of \$7,468 blended principal and interest, due May, 2017	360,608	-
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
	<u>1,657,009</u>	<u>3,681,808</u>
Less estimated principal repayments due within one year	233,980	99,300
	<u>\$ 1,423,029</u>	<u>\$ 3,582,508</u>

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

2013	\$ 233,980
2014	243,062
2015	252,504
2016	257,655
2018	142,378
Subsequent years	527,430
	<u>\$ 1,657,009</u>

6. INCOME TAXES:

The Utility is exempt from income taxes under Section 149 of the *Income Tax Act* as it is a not-for-profit organization.