

**HIGHWAY 41 WATER UTILITY**

FINANCIAL STATEMENTS

For the fiscal year ended December 31, 2013

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, 2013, 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 Accounting Standards for Not-for-Profit Organizations (ASNFPPO) 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, 2013, and the statements of operations, of changes in net assets and of cash flows for the year then ended in accordance with Canadian ASNFPPO.



Chartered Accountants

June 10, 2014

# HIGHWAY 41 WATER UTILITY

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2013

	<u>2013</u>	(restated) (Note 6) <u>2012</u>
<b><u>ASSETS</u></b>		
CURRENT ASSETS:		
Cash	\$ 1,089,257	\$ 1,009,431
Accounts receivable	47,104	35,243
GST receivable	5,429	6,070
	<u>1,141,790</u>	<u>1,050,744</u>
SUBSCRIBER LOANS RECEIVABLE	<u>1,313,102</u>	<u>1,608,328</u>
PROPERTY AND EQUIPMENT (Note 3)	<u>11,756,285</u>	<u>11,858,892</u>
	<u>\$ 14,211,177</u>	<u>\$ 14,517,964</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 115,660	\$ 178,212
Connection deposits	8,000	-
Current portion of long-term debt (Note 4)	252,220	233,980
	<u>375,880</u>	<u>412,192</u>
LONG-TERM DEBT (Note 4)	<u>953,629</u>	<u>1,423,029</u>
NET ASSETS:		
Invested in property and equipment	11,756,285	11,858,892
Unrestricted fund surplus	1,125,383	823,851
	<u>12,881,668</u>	<u>12,682,743</u>
	<u>\$ 14,211,177</u>	<u>\$ 14,517,964</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, 2013

	<u>2013</u>	<u>2012</u>
REVENUE:		
Water revenue	\$ 377,153	\$ 304,459
Meter installations	25,460	13,476
Interest income	88,548	79,226
	<u>491,161</u>	<u>397,161</u>
EXPENSES:		
Advertising and promotion	1,005	-
Amortization	255,927	250,891
Bad debts	2,669	-
Bank charges and interest	3,900	2,607
Dues and memberships	100	172
Insurance	11,372	2,467
Interest on long-term debt	58,708	58,303
Meeting expenses	717	82
Office supplies	14,285	14,249
Professional fees	8,858	7,691
Repairs and maintenance	14,605	9,174
Seminars and training	3,607	660
Telephone	5,718	5,457
Travel and conferences	18,354	23,023
Utilities	17,616	10,248
Wages and benefits	69,767	45,926
Water costs	204,199	150,275
	<u>691,407</u>	<u>581,225</u>
DEFICIT FROM OPERATIONS FOR THE YEAR	<u>\$ (200,246)</u>	<u>\$ (184,064)</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, 2013

	Invested in Property and Equipment	Subscribers' Unexpended Contributions	Unrestricted Fund Deficit	2013	(restated) (Note 6) 2012
Balance at beginning of the year	\$ 11,858,892	\$ -	\$ 823,851	\$ 12,682,743	\$ 9,965,453
Deficit from operations for the year	-	-	(200,246)	(200,246)	(184,064)
Subscribers' contributions	-	399,171	-	399,171	2,901,354
Invested in property and equipment	153,320	(399,171)	245,851	-	-
Amortization	(255,927)	-	255,927	-	-
Balance at end of the year	<u>\$ 11,756,285</u>	<u>\$ -</u>	<u>\$ 1,125,383</u>	<u>\$ 12,881,668</u>	<u>\$ 12,682,743</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, 2013**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM (TO) OPERATING ACTIVITIES:</b>		
Cash receipts from contributors	\$ 1,182,339	\$ 3,228,057
Cash paid to suppliers and employees	(439,324)	(272,032)
Interest paid	(58,708)	(58,303)
	<u>684,307</u>	<u>2,897,722</u>
<b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	<u>(153,320)</u>	<u>(553,264)</u>
<b>CASH FLOWS FROM (TO) FINANCING ACTIVITIES:</b>		
Repayment of short-term debt	-	(624,988)
Repayment of long-term debt	(451,161)	(2,024,799)
	<u>(451,161)</u>	<u>(2,649,787)</u>
<b>INCREASE (DECREASE) IN CASH DURING THE YEAR</b>	79,826	(305,329)
<b>CASH AT BEGINNING OF THE YEAR</b>	<u>1,009,431</u>	<u>1,314,760</u>
<b>CASH AT END OF THE YEAR</b>	<u>\$ 1,089,257</u>	<u>\$ 1,009,431</u>

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

# HIGHWAY 41 WATER UTILITY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

### 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 (ASNFP) 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:

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

#### Measurement Uncertainty

The preparation of financial statements in accordance with Canadian ASNFP 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, 2013**

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 UTILITY****NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2013**

## 3. PROPERTY AND EQUIPMENT:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2013</u>	<u>2012</u>
Land	\$ 31,906	\$ -	\$ 31,906	\$ 31,906
Building	22,000	6,600	15,400	17,600
Pipe costs	2,283,013	136,980	2,146,033	2,191,693
Utility infrastructure	10,112,134	590,961	9,521,173	9,594,705
Vehicles	24,608	2,461	22,147	
Meter equipment	21,095	4,220	16,875	18,985
Office equipment	6,263	3,512	2,751	4,003
	<u>\$ 12,501,019</u>	<u>\$ 744,734</u>	<u>\$ 11,756,285</u>	<u>\$ 11,858,892</u>

## 4. LONG-TERM DEBT:

	<u>2013</u>	<u>2012</u>
Royal Bank subscriber financing loan #1, interest at 4.68%, payable monthly of \$5,244 blended principal and interest, due November, 2021	\$ 334,120	\$ 460,150
Royal Bank subscriber financing loan #2, interest at 3.37%, payable monthly of \$5,714 blended principal and interest, due November, 2016	150,165	252,226
Royal Bank subscriber financing loan #3, interest at 4.25%, payable monthly of \$6,326 blended principal and interest, due May, 2022	473,715	584,025
Royal Bank subscriber financing loan #4, interest at 3.40%, payable monthly of \$7,468 blended principal and interest, due May, 2017	<u>247,849</u>	<u>360,608</u>
	1,205,849	1,657,009
Less estimated principal repayments due within one year	<u>252,220</u>	<u>233,980</u>
	<u>\$ 953,629</u>	<u>\$ 1,423,029</u>

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

2014	\$ 252,220
2015	261,995
2016	213,981
2017	120,188
2018	125,645
Subsequent years	<u>231,820</u>
	<u>\$ 1,205,849</u>

**HIGHWAY 41 WATER UTILITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

5. 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.

6. RESTATEMENT OF ERRORS:

It was determined that construction long-term debt was not included in the calculation of invested in property and equipment for the December 31, 2008 to December 31, 2012 fiscal periods.

In December 31, 2012, \$1,263,118 was transferred from invested in property and equipment to the unrestricted fund to retroactively account for the errors in prior years. This is the only effect on the financial statements and did not effect total net assets.

This restatement has no effect on net income.

As a result of the retroactive restatement, invested in property and equipment agrees to property and equipment of \$11,756,285 (2012 - \$11,858,892) less related construction debt of \$0 (2012 - \$0).