

HIGHWAY 41 WATER UTILITY
Financial Statements
Year Ended December 31, 2016

HIGHWAY 41 WATER UTILITY
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Year Ended December 31, 2016

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Highway 41 Water Utility have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

The integrity and reliability of Highway 41 Water Utility's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Executive Committee. The Executive Committee is appointed by the Board and meets periodically with management and the members' auditors to review significant accounting, reporting and internal control matters. Following its review of the financial statements and discussions with the auditors, the Executive Committee reports to the Board of Directors prior to its approval of the financial statements. The Committee also considers, for review by the Board and approval by the members, the engagement or re-appointment of the external auditors.

The financial statements have been audited on behalf of the members by Cogent Chartered Professional Accountants LLP, in accordance with Canadian accounting standards for not-for-profit organizations.



Kim Huffman, Chairperson



Janet Buhler, Administrator

Aberdeen, SK
April 10, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Members 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, 2016 and the statements of operations, changes in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's 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, 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.

Auditor's 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 auditor's 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.

Independent Auditor's Report to the Members of Highway 41 Water Utility *(continued)*


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, 2016 and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matter

The financial statements of the prior period were audited by another Chartered Professional Accountant. That accountant issued a unqualified opinion. The Auditor's Report was dated April 18, 2017.

Rosthern, SK
April 10, 2017



Chartered Professional Accountants


Cogent

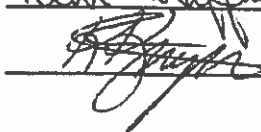
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ACCOUNTANTS LLP

HIGHWAY 41 WATER UTILITY
Statement of Financial Position
December 31, 2016

	2016	2015
ASSETS		
CURRENT		
Cash	\$ 549,606	\$ 817,581
Term deposits	511,958	-
Accounts receivable	68,306	54,425
Goods and services tax recoverable	4,943	16,902
	<u>1,134,813</u>	<u>888,908</u>
TANGIBLE CAPITAL ASSETS (Note 5)	11,114,109	11,383,862
LOANS AND NOTES RECEIVABLE	520,666	747,637
	<u>\$ 12,769,588</u>	<u>\$ 13,020,407</u>
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable	\$ 54,174	\$ 35,654
Deposits received	5,000	9,000
Current portion of callable debt	127,708	171,787
Employee deductions payable	(269)	-
	<u>186,613</u>	<u>216,441</u>
Callable debt due thereafter	182,022	337,875
	<u>368,635</u>	<u>554,316</u>
NET ASSETS		
Unrestricted net assets	1,286,844	1,082,228
Invested in tangible capital assets	11,114,109	11,383,863
	<u>12,400,953</u>	<u>12,466,091</u>
	<u>\$ 12,769,588</u>	<u>\$ 13,020,407</u>

ON BEHALF OF THE BOARD


 _____ Director


 _____ Director

See notes to financial statements

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HIGHWAY 41 WATER UTILITY
Statement of Operations
Year Ended December 31, 2016

	2016	2015
REVENUES		
Water sales	\$ 548,702	\$ 501,084
Connection payments (net)	249,871	145,992
Grants	50,000	50,000
Interest income	10,458	11,421
Meter installations	9,600	16,800
Sundry	8,000	-
	<u>876,631</u>	<u>725,297</u>
EXPENSES		
Amortization	271,124	271,857
Water purchases	234,941	218,351
Repairs and maintenance	193,898	154,657
Salaries and wages	121,257	127,381
Utilities	24,973	23,815
Professional fees	24,752	44,717
Interest on callable debt	23,277	29,270
Office	13,717	13,473
Insurance	13,032	19,199
Telephone	9,735	8,734
Travel	6,387	8,691
Interest and bank charges	3,618	4,160
Meetings and conventions	550	-
Memberships	508	1,358
	<u>941,769</u>	<u>925,663</u>
DEFICIENCY OF REVENUES OVER EXPENSES FROM OPERATIONS	(65,138)	(200,366)
OTHER INCOME		
Loss on disposal of tangible capital assets	-	(3,200)
DEFICIENCY OF REVENUES OVER EXPENSES	\$ (65,138)	\$ (203,566)

See notes to financial statements

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HIGHWAY 41 WATER UTILITY
Statement of Changes in Net Assets
Year Ended December 31, 2016

	Unrestricted Net Assets	Invested in Tangible Capital Assets	2016	2015
NET ASSETS - BEGINNING OF YEAR	\$ 1,082,228	\$ 11,383,863	\$ 12,466,091	\$ 12,669,657
Deficiency of revenues over expenses	205,986	(271,124)	(65,138)	(203,566)
Interfund transfers	(1,370)	1,370	-	-
NET ASSETS - END OF YEAR	\$ 1,286,844	\$ 11,114,109	\$ 12,400,953	\$ 12,466,091

See notes to financial statements

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HIGHWAY 41 WATER UTILITY
Statement of Cash Flow
Year Ended December 31, 2016

	2016	2015
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	\$ (65,138)	\$ (203,566)
Items not affecting cash:		
Amortization of tangible capital assets	271,124	271,857
Loss on disposal of tangible capital assets	-	3,200
	<u>205,986</u>	<u>71,491</u>
Changes in non-cash working capital:		
Accounts receivable	(13,881)	(9,009)
Accounts payable	18,521	(61,645)
Goods and services tax payable	11,959	(5,023)
Employee deductions payable	(269)	-
Deposits received	(4,000)	(900)
	<u>12,330</u>	<u>(76,577)</u>
Cash flow from (used by) operating activities	<u>218,316</u>	<u>(5,086)</u>
INVESTING ACTIVITIES		
Purchase of tangible capital assets	(1,371)	(6,563)
Proceeds on disposal of tangible capital assets	-	10,000
Loans and notes receivable	226,971	285,229
Term deposits	(511,958)	-
Cash flow from (used by) investing activities	<u>(286,358)</u>	<u>288,666</u>
FINANCING ACTIVITY		
Repayment of long term debt	(199,933)	(336,621)
DECREASE IN CASH FLOW	(267,975)	(53,041)
Cash - beginning of year	<u>817,581</u>	<u>870,622</u>
CASH - END OF YEAR	\$ 549,606	\$ 817,581
CASH CONSISTS OF:		
Royal Bank of Canada - Incidental	\$ 260,650	\$ 116,088
Royal Bank of Canada - Project	288,956	194,993
Royal Bank of Canada - Cash equivalents	-	506,500
	<u>\$ 549,606</u>	<u>\$ 817,581</u>

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2016

1. **PURPOSE OF THE UTILITY**

Highway 41 Water Utility (the "Utility") is a public utility board created under the authority of the Municipalities Act of the Province of Saskatchewan by bylaw of the Rural Municipality of Aberdeen No. 373. Municipalities participating in the Utility include the Rural Municipality of Aberdeen No. 373, the Rural Municipality of Corman Park No. 344, and the Rural Municipality of Grant No. 372. Management has determined that they are exempt from payment of income tax under Section 149(1) of the Income Tax Act.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Contributed services

The operations of the organization depend on both the contribution of time by volunteers and donated materials from various sources. The fair value of donated materials and services cannot be reasonably determined and are therefore not reflected in these financial statements.

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO).

Revenue recognition

The Utility recognizes revenues when they are earned, specifically when all the following conditions are met:

- services are provided or products are delivered to customers
- there is clear evidence that an arrangement exists
- amounts are fixed or can be determined
- the ability to collect is reasonably assured.

Cash and cash equivalents

Cash equivalents are debt securities purchased with maturity of three months or less to are classified as cash equivalents.

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HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2016

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Tangible capital assets

Tangible capital assets are stated at cost or deemed cost less accumulated amortization. Tangible capital assets are amortized over their estimated useful lives at the following rates and methods:

Land		non-amortizable
Office equipment	5 years	straight-line method
Buildings	10 years	straight-line method
Meter equipment	10 years	straight-line method
Vehicles	10 years	straight-line method
Pipes	50 years	straight-line method
Utility infrastructure	50 years	straight-line method

The Utility regularly reviews its tangible capital assets to eliminate obsolete items. Government grants are treated as a reduction of tangible capital assets cost.

Tangible capital assets acquired during the year but not placed into use are not amortized until they are placed into use.

Callable debt

The Utility's demand loans are classified as current liabilities because the lender has the right to demand repayment within one year.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

3. **FINANCIAL INSTRUMENTS**

The Utility is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Utility's risk exposure and concentration as of December 31, 2016.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Utility is exposed to credit risk from customers. In order to reduce its credit risk, the Utility reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Utility has a significant number of customers which minimizes concentration of credit risk.

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HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2016

3. FINANCIAL INSTRUMENTS *(continued)*

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Utility manages exposure through its normal operating and financing activities. The Utility is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

Unless otherwise noted, it is management's opinion that the Utility is not exposed to significant other price risks arising from these financial instruments.

4. ACCOUNTS RECEIVABLE

	2016	2015
Accounts receivable	\$ 70,629	\$ 56,748
Allowance for Uncollectible Receivables	(2,323)	(2,323)
	\$ 68,306	\$ 54,425

5. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Land	\$ 31,905	\$ -	\$ 31,905	\$ 31,905
Buildings	180,000	54,000	126,000	144,000
Vehicles	24,608	9,844	14,764	17,225
Computer software	1,371	-	1,371	-
Office equipment	21,095	10,548	10,547	12,656
Furniture and fixtures	6,262	6,262	-	246
Pipes	10,118,697	1,198,227	8,920,470	9,123,118
Utility infrastructure	2,283,013	273,961	2,009,052	2,054,712
	\$ 12,666,951	\$ 1,552,842	\$ 11,114,109	\$ 11,383,862

6. CALLABLE DEBT

	2016	2015
Royal Bank subscriber financing loan #3 loan bearing interest at 4.25% per annum, repayable in monthly blended payments of \$6,326. The loan matures on May 31, 2022 and is secured by a general security agreement.	\$ 181,433	\$ 272,829

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HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2016

6. CALLABLE DEBT *(continued)*

	2016	2015
Royal Bank subscriber financing loan #1 loan bearing interest at 4.68% per annum, repayable in monthly blended payments of \$5,244. The loan matures on November 30, 2021 and is secured by a general security agreement.	128,297	183,779
Royal Bank subscriber financing loan #4 loan bearing interest at 3.4% per annum, repayable in monthly blended payments of \$7,468. The loan matured on May 31, 2017 and was secured by a general security agreement.	-	45,058
Royal Bank subscriber financing loan #2 loan bearing interest at 3.37% per annum, repayable in monthly blended payments of \$5,714. The loan matured on November 30, 2016 and was secured by a general security agreement.	-	7,997
	-	-
Amounts payable within one year	-	-
	\$ 309,730	\$ 509,663

Principal repayment terms are approximately:

2017	\$ 127,708
2018	133,503
2019	48,519
	\$ 309,730

7. COMPARATIVE FIGURES

The prior year comparative figures were audited by another public accountant.