

HIGHWAY 41 WATER UTILITY
Financial Statements
Year Ended December 31, 2018

**HIGHWAY 41 WATER UTILITY
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Year Ended December 31, 2018**

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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.



Graham White, Chairperson



Dawn Bragg, Administrator

Aberdeen, SK
Date: April 9 / 19



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INDEPENDENT AUDITOR'S REPORT

To the Members of Highway 41 Water Utility:

Opinion

We have audited the financial statements of Highway 41 Water Utility (the Utility), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flow 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 the Utility as at December 31, 2018, 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.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Utility in accordance with the ethical requirements that are relevant to our audit of the 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 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.

In preparing the financial statements, management is responsible for assessing the Utility's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Utility or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Utility's financial reporting process.

Auditor's 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 auditor's 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 judgment and maintain professional skepticism throughout the audit. We also:

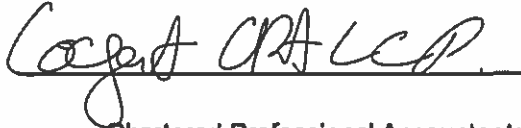
Cogent

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- 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 the Utility'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 the Utility's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Utility 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.

Rosthern, SK
April 9, 2019

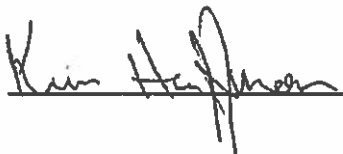

Chartered Professional Accountants

HIGHWAY 41 WATER UTILITY
Statement of Financial Position
December 31, 2018

| | 2018 | 2017 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT | | |
| Cash (Note 4) | \$ 710,923 | \$ 659,613 |
| Short term deposits | 266,058 | 258,717 |
| Utility fees receivable (Note 5) | 56,689 | 76,609 |
| Goods and services tax recoverable | 13,667 | 6,033 |
| | <u>1,047,337</u> | <u>1,000,972</u> |
| TANGIBLE CAPITAL ASSETS (Note 7) | 10,572,837 | 10,843,230 |
| SUBSCRIBER LOANS RECEIVABLE (Note 6) | 314,365 | 380,212 |
| LONG TERM DEPOSITS | <u>259,475</u> | <u>259,495</u> |
| | <u>\$ 12,194,014</u> | <u>\$ 12,483,909</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT | | |
| Accounts payable | \$ 42,516 | \$ 24,580 |
| Deposits received | 3,494 | 15,500 |
| Current portion of callable debt (Note 8) | 28,973 | 129,785 |
| Employee deductions payable | 2,442 | 2,425 |
| | <u>77,425</u> | <u>172,290</u> |
| Callable debt due thereafter (Note 8) | - | 39,355 |
| | <u>77,425</u> | <u>211,645</u> |
| NET ASSETS | | |
| Unrestricted net assets | 1,493,333 | 1,564,616 |
| Invested in tangible capital assets | 10,543,864 | 10,674,090 |
| Internally restricted net assets (Note 9) | 79,392 | 33,558 |
| | <u>12,116,589</u> | <u>12,272,264</u> |
| | <u>\$ 12,194,014</u> | <u>\$ 12,483,909</u> |

ON BEHALF OF THE BOARD


 _____ Director


 _____ Director

See notes to financial statements

HIGHWAY 41 WATER UTILITY
Statement of Operations
Year Ended December 31, 2018

| | 2018 | 2017 |
|---|---------------------|---------------------|
| REVENUES | | |
| Water sales | \$ 335,756 | \$ 301,343 |
| Maintenance and infrastructure | 161,470 | 160,960 |
| Connection payments | 133,913 | 93,234 |
| Truckfill sales | 90,419 | 80,381 |
| Local government expense recovery | 50,000 | 50,000 |
| Allocation increase | 34,320 | - |
| Loans receipts | 25,051 | 49,711 |
| Interest income | 13,362 | 10,778 |
| Sustainability | 11,513 | 11,324 |
| Meter installations | 6,000 | 6,000 |
| Other revenue | 1,407 | 1,744 |
| Other invoiced items | 1,087 | 1,340 |
| Custom work | - | 2,515 |
| | <u>864,298</u> | <u>769,330</u> |
| EXPENSES | | |
| Water purchases | 308,770 | 265,037 |
| Amortization | 271,000 | 270,879 |
| Repairs and maintenance | 200,928 | 147,752 |
| Salaries and wages | 126,873 | 120,877 |
| Utilities | 32,003 | 27,982 |
| Bad debts | 17,000 | 30,000 |
| Insurance | 14,036 | 13,351 |
| Professional fees | 12,149 | 9,032 |
| Telephone | 10,603 | 9,121 |
| Legal fees | 10,400 | 410 |
| Office | 7,860 | 6,443 |
| Travel | 4,827 | 5,685 |
| Interest on callable debt | 4,169 | 10,607 |
| Interest and bank charges | 3,361 | 2,772 |
| Memberships | 1,125 | 1,358 |
| Advertising and promotion | - | 21 |
| | <u>1,025,104</u> | <u>921,327</u> |
| DEFICIENCY OF REVENUES OVER EXPENSES FROM OPERATIONS | (160,806) | (151,997) |
| OTHER INCOME | | |
| Expense recoveries | 5,131 | 23,308 |
| DEFICIENCY OF REVENUES OVER EXPENSES | \$ (155,675) | \$ (128,689) |

See notes to financial statements

HIGHWAY 41 WATER UTILITY
Statement of Changes in Net Assets
Year Ended December 31, 2018

| | Unrestricted Net Assets | Invested in Tangible Capital Assets | Internally Restricted Net Assets | 2018 | 2017 |
|---|----------------------------|---|--|----------------------|----------------------|
| NET ASSETS - BEGINNING OF YEAR | \$ 1,564,616 | \$ 10,674,090 | \$ 33,558 | \$ 12,272,264 | \$ 12,400,953 |
| Deficiency of revenues over expenses | 74,318 | (275,827) | 45,834 | (155,675) | (128,689) |
| Interfund Transfer | (145,601) | 145,601 | - | - | - |
| NET ASSETS - END OF YEAR | <u>\$ 1,493,333</u> | <u>\$ 10,543,864</u> | <u>\$ 79,392</u> | <u>\$ 12,116,589</u> | <u>\$ 12,272,264</u> |

For details surrounding the Internally Restricted Funds, please see Note 9.

HIGHWAY 41 WATER UTILITY
Statement of Cash Flow
Year Ended December 31, 2018

| | 2018 | 2017 |
|---|-------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Deficiency of revenues over expenses | \$ (155,675) | \$ (128,689) |
| Item not affecting cash: | | |
| Amortization of tangible capital assets | 271,000 | 270,879 |
| | <u>115,325</u> | <u>142,190</u> |
| Changes in non-cash working capital: | | |
| Utility fees receivable | 19,920 | (8,303) |
| Accounts payable | 17,934 | (29,593) |
| Goods and services tax payable | (7,634) | (1,090) |
| Employee deductions payable | 17 | 2,694 |
| Deposits received | (12,006) | 10,500 |
| | <u>18,231</u> | <u>(25,792)</u> |
| Cash flow from operating activities | <u>133,556</u> | <u>116,398</u> |
| INVESTING ACTIVITIES | | |
| Purchase of tangible capital assets | (606) | - |
| Loans and notes receivable | 65,847 | 140,454 |
| Term deposits - current | (7,341) | 253,241 |
| Term deposits - long-term | 20 | (259,495) |
| | <u>57,920</u> | <u>134,200</u> |
| Cash flow from investing activities | <u>57,920</u> | <u>134,200</u> |
| FINANCING ACTIVITY | | |
| Repayment of callable debt | (140,166) | (140,590) |
| | <u>51,310</u> | <u>110,008</u> |
| INCREASE IN CASH FLOW | 51,310 | 110,008 |
| Cash - beginning of year | <u>659,613</u> | <u>549,606</u> |
| CASH - END OF YEAR (Note 4) | \$ 710,923 | \$ 659,614 |

See notes to financial statements

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2018

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, the Rural Municipality of Blucher No. 343 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**

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

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.

Revenue recognition

The Utility recognizes water sales based on consumption by subscribers in the billing period.

Connection payments are recognized as revenue when the utility has completed the connection of the subscriber to the utility's network.

Grants are recognized as revenue when received.

Term deposits

Term deposits, which consist primarily of commercial paper with original maturities at date of purchase beyond three months and less than twelve months, are carried at amortized cost and presented as current assets on the statement of financial position.

Term deposits, which consist primarily of commercial paper with original maturities at date of purchase beyond twelve months, are carried at amortized cost and presented as long-term assets on the statement of financial position.

(continues)

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2018

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

Tangible capital assets

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

| | | |
|------------------------|----------|----------------------|
| Land | | non-amortizable |
| Buildings | 10 years | straight-line method |
| Metering equipment | 10 years | straight-line method |
| Vehicles | 10 years | straight-line method |
| Office technology | 5 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.

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 monitors, evaluates and manages these risks. The following analysis provides information about the Utility's risk exposure and concentration as of December 31, 2018.

(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.

(continues)

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2018

3. FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Utility is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, long-term debt, obligations under capital leases, contributions to the pension plan, and accounts payable.

(c) 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. CASH

| | 2018 | 2017 |
|-----------------------------------|------------|------------|
| Royal Bank of Canada - Incidental | \$ 431,750 | \$ 375,620 |
| Royal Bank of Canada - Project | 279,173 | 283,993 |
| | \$ 710,923 | \$ 659,613 |

5. ACCOUNTS RECEIVABLE

| | 2018 | 2017 |
|---------------------------------|-----------|-----------|
| Utility fees receivable | \$ 57,045 | \$ 79,075 |
| Allowance for doubtful accounts | (356) | (2,466) |
| | \$ 56,689 | \$ 76,609 |

6. SUBSCRIBER LOANS RECEIVABLE

| | 2018 | 2017 |
|---------------------------------|------------|------------|
| Subscriber loans receivable | \$ 361,365 | \$ 410,212 |
| Allowance for doubtful accounts | (47,000) | (30,000) |
| | \$ 314,365 | \$ 380,212 |

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2018

7. TANGIBLE CAPITAL ASSETS

| | Cost | Accumulated amortization | 2018 Net book value | 2017 Net book value |
|------------------------|----------------------|-----------------------------|---------------------------|---------------------------|
| Land | \$ 31,905 | \$ - | \$ 31,905 | \$ 31,905 |
| Buildings | 180,000 | 90,000 | 90,000 | 108,000 |
| Vehicles | 24,608 | 14,766 | 9,842 | 12,303 |
| Office equipment | 21,095 | 14,767 | 6,328 | 8,437 |
| Furniture and fixtures | 8,239 | 7,206 | 1,033 | 823 |
| Pipes | 10,118,697 | 1,602,700 | 8,515,997 | 8,718,370 |
| Utility infrastructure | 2,283,013 | 365,281 | 1,917,732 | 1,963,392 |
| | \$ 12,667,557 | \$ 2,094,720 | \$ 10,572,837 | \$ 10,843,230 |

8. CALLABLE DEBT

| | 2018 | 2017 |
|---|-----------------|------------------|
| Royal Bank subscriber financing loan #8 bearing interest at 4.25% per annum, repayable in monthly blended payments of \$6,326. The loan matures on May 31, 2019 and is secured by a general security agreement which has a carrying value of \$380,212. Loan is callable on demand. | \$ 28,973 | \$ 111,889 |
| Royal Bank subscriber financing loan #5 bearing interest at 4.68% per annum, repayable in monthly blended payments of \$5,244. The loan matured on November 30, 2018 and was secured by a general security agreement. Loan was callable on demand. | - | 57,251 |
| | 28,973 | 169,140 |
| Principal due in one year | (28,973) | (129,785) |
| | \$ - | \$ 39,355 |

Principal repayment terms are approximately:

| | |
|------|------------------|
| 2019 | \$ 28,973 |
|------|------------------|

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2018

9. INTERNALLY RESTRICTED FUNDS

| | Restricted Fund Balance - Beginning of Year | Revenues | Interfund Transfers | Restricted Fund Balance - End of Year |
|-----------------------|--|------------------|------------------------|---|
| Sustainability Fund | \$ 25,558 | \$ 11,514 | \$ - | \$ 37,072 |
| Water Allocation Fund | 8,000 | 34,320 | - | 42,320 |
| | \$ 33,558 | \$ 45,834 | \$ - | \$ 79,392 |

10. COMPARATIVE FIGURES

Some of the comparative figures may have been reclassified to conform to the current year's presentation.

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2018

11. TERM DEPOSITS

| | Purchase Date | Maturity Date | Interest Rate | 2018 | 2017 |
|----------------------------------|---------------|---------------|---------------|-------------------|-------------------|
| Short term deposits | | | | | |
| Royal Bank of Canada - GIC 0005 | 02/21/2018 | 02/21/2019 | 1.50% | \$ 266,058 | \$ - |
| Royal Bank of Canada - GIC 0003 | 02/08/2017 | 02/08/2018 | 1.09% | - | 258,717 |
| Total Short term deposits | | | | 266,058 | 258,717 |
| Long term deposits | | | | | |
| Royal Bank of Canada - GIC 0004 | 02/08/2017 | 02/10/2020 | 1.43% | 259,475 | 259,495 |
| Total Term deposits | | | | \$ 525,533 | \$ 518,212 |