

HIGHWAY 41 WATER UTILITY
Financial Statements
Year Ended December 31, 2019

HIGHWAY 41 WATER UTILITY
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Year Ended December 31, 2019

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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 Public Sector Accounting Standards. 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 Grant Thornton LLP, in accordance with Canadian Public Sector Accounting Standards.



Graham White, Chairperson



Dawn Bragg, Administrator

Aberdeen, SK

Date: June 22, 2020

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, 2019, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows 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, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

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.

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2018 has been restated. The financial statements for the year ended December 31, 2018 (prior to the presentation and disclosure adjustments that were applied to restate certain comparative information explained in Note 2) were audited by Cogent CPA LLP who expressed an unmodified conclusion on those financial statements on April 9, 2019. Our opinion is not modified in respect of this matter. The partners and staff of Cogent Chartered Professional Accountants LLP joined Grant Thornton LLP on November 1, 2019.

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 Public Sector Accounting Standards, 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.

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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:

- 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.

Saskatoon, Canada
June 22, 2020

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script.

Chartered Professional Accountants

HIGHWAY 41 WATER UTILITY
Statement of Financial Position
December 31, 2019

	2019	2018
FINANCIAL ASSETS		
Cash (Note 4)	\$ 450,739	\$ 710,923
Short term deposits	630,764	266,058
Utility fees receivable (Note 5)	74,315	56,689
Goods and services tax recoverable	6,062	13,667
Subscriber loans receivable (Note 6)	170,252	314,365
Long term Investments	259,475	259,475
	<u>1,591,607</u>	<u>1,621,177</u>
LIABILITIES		
Accounts payable	54,131	42,515
Deposits received	3,494	3,494
Employee deductions payable	2,442	2,442
Long term debt (Note 7)	-	28,973
	<u>60,067</u>	<u>77,424</u>
NET FINANCIAL ASSETS	<u>1,531,540</u>	<u>1,543,753</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	<u>10,339,205</u>	<u>10,572,837</u>
ACCUMULATED SURPLUS	<u>\$ 11,870,744</u>	<u>\$ 12,116,590</u>

See notes to financial statements

HIGHWAY 41 WATER UTILITY
Statement of Operations and Accumulated Surplus
Year Ended December 31, 2019

	Budget (unaudited)	Total 2019	Total 2018
REVENUES			
Water sales	\$ -	\$ 376,369	\$ 335,756
Maintenance and infrastructure	-	162,015	161,470
Truckfill sales	-	99,584	90,419
Allocation increase	-	22,400	34,320
Interest income	-	20,334	13,362
Loans receipts	-	19,004	25,051
Expense recoveries	-	13,553	5,131
Sustainability	-	11,809	11,513
Gains on disposal of assets	-	11,000	-
Recovery of bad debts	-	7,000	-
Other invoiced items	-	6,158	1,087
Meter installations	-	6,000	6,000
Other revenue	-	915	1,407
Custom work	-	500	-
Local government expense recovery	-	-	50,000
Connection payments	-	-	133,913
	-	756,641	869,429
EXPENSES			
Administration (Schedule 1 & 2)	-	89,757	82,193
Operating (Schedule 1 & 2)	-	912,730	942,910
	-	1,002,487	1,025,103
ANNUAL DEFICIT	-	(245,846)	(155,674)
ACCUMULATED SURPLUS - BEGINNING OF YEAR	12,116,590	12,116,590	12,272,264
ACCUMULATED SURPLUS - END OF YEAR	\$ 12,116,590	\$ 11,870,744	\$ 12,116,590

See notes to financial statements

HIGHWAY 41 WATER UTILITY
Statement of Changes in Net Financial Assets
Year Ended December 31, 2019

	Budget 2019	2019	2018
ANNUAL DEFICIT	\$ -	\$ (245,846)	\$ (155,674)
Amortization of tangible capital assets	-	273,936	271,000
Purchase of tangible capital assets	-	(40,304)	(606)
Proceeds on disposal of tangible capital assets	-	11,000	-
(Gain) on disposal of assets	-	(11,000)	-
	-	233,632	270,394
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	-	(12,214)	114,720
NET FINANCIAL ASSETS - BEGINNING OF YEAR	1,543,753	1,543,753	1,429,033
NET FINANCIAL ASSETS - END OF YEAR <i>(Note 4)</i>	\$ 1,543,753	\$ 1,531,539	\$ 1,543,753

See notes to financial statements

HIGHWAY 41 WATER UTILITY
Statement of Cash Flows
Year Ended December 31, 2019

	2019	2018
OPERATING ACTIVITIES		
Annual Deficit	\$ (245,846)	\$ (155,674)
Items not affecting cash:		
Amortization of tangible capital assets	273,936	271,000
Gain on disposal of tangible capital assets	(11,000)	-
	<u>17,090</u>	<u>115,326</u>
Changes in non-cash working capital:		
Utility fees receivable	(17,626)	19,920
Accounts payable	11,616	17,933
Goods and services tax payable	7,605	(7,634)
Loans and notes receivable	144,113	65,847
Employee deductions payable	-	17
Deposits received	-	(12,006)
	<u>145,708</u>	<u>84,077</u>
Cash flow from operating activities	<u>162,798</u>	199,403
INVESTING ACTIVITIES		
Purchase of tangible capital assets	(40,304)	(606)
Proceeds on disposal of tangible capital assets	11,000	-
Short term deposits	(364,706)	(7,341)
Long term Investments	-	20
	<u>(394,010)</u>	<u>(7,927)</u>
Cash flow used by investing activities	<u>(394,010)</u>	(7,927)
FINANCING ACTIVITY		
Repayment of callable debt	(28,973)	(140,166)
	<u>(28,973)</u>	<u>(140,166)</u>
Cash flow used by financing activity	<u>(28,973)</u>	(140,166)
INCREASE (DECREASE) IN CASH FLOW	(260,185)	51,310
Cash - beginning of year	<u>710,923</u>	<u>659,613</u>
CASH - END OF YEAR (Note 4)	\$ 450,738	\$ 710,923

See notes to financial statements

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2019

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 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. RESTATED COMPARATIVE INFORMATION

These financial statements are the first financial statements for which the Utility has applied Canadian public sector accounting standards (PSAS). The financial statements for the year ended December 31, 2019, including comparative period figures presented for December 31, 2018, are prepared in accordance with PSAS.

In fiscal years preceding December 31, 2019, the Utility prepared its financial statements under Canadian accounting standards for not-for-profit organizations (ASNPO). During the year ended December 31, 2019, management determined that the Utility should be categorized as a public sector entity rather than a not-for-profit organization. Accordingly, the Utility is required to prepare its financial statements under PSAS rather than ASNPO.

There were no adjustments made to the December 31, 2018 comparative figures as a result of the above transition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the utility are prepared by management in accordance with the Canadian public sector accounting standards established by the Public Sector Accounting Board of the Accounting Standards Oversight Council. Significant aspects of the accounting policies are as follows:

Basis of accounting: The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods and services and the creation of a legal obligation to pay.

Revenue recognition

Revenues are accounted for in the period in which the transactions or events occur that give rise to the revenues.

The Utility derives a portion of its revenues from the sale of water to its subscribers. The revenue from the sale of this water is billed based on consumption and is recognized in the period in which the water is provided.

The Utility derives a portion of its revenues from installing water connections to new subscribers. The revenue from the new connections is recognized in the period in which the connection was completed.

Subscriber loan interest revenue is accrued monthly per the terms of the contract.

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HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2019

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

Measurement uncertainty

The preparation of financial statements in conformity with Canadian Public Sector Accounting Standards 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.

Term deposits

Term deposits, 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, 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.

Tangible capital assets

Tangible capital assets are stated at 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.

Net Financial Assets:

Net Financial Assets at the end of an accounting period are the net amount of financial assets less liabilities outstanding. Financial assets represent items such as cash and those other assets on hand which could provide resources to discharge existing liabilities or finance future operations. These include realizable assets which are convertible to cash and not intended for consumption in the normal course of operations.

Non-financial assets:

Tangible capital and other non-financial assets are accounted for as assets by the government because they can be used to provide government services in future periods. These assets do not normally provide resources to discharge the liabilities of the government unless they are sold.

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HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2019

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

Appropriated Reserves:

Reserves are established at the discretion of the board of directors to designate surplus for future operating and capital transactions. Amounts so designated are described on Schedule 3.

Basis of segmented disclosure

The Utility follows the Public Sector Accounting Board's recommendations requiring financial information to be provided on a segmented basis. The Utility's services have been segmented by grouping activities that have similar service objectives (by function).

The segments (functions) are as follows:

Administration: provides administrative support for operations

Operating: provides the deliver of water

All revenues are directly related to operating.

4. CASH

	2019	2018
Royal Bank of Canada - Incidental	\$ 388,398	\$ 431,750
Royal Bank of Canada - Project	62,341	279,173
	\$ 450,739	\$ 710,923

5. UTILITY FEES RECEIVABLE

	2019	2018
Utility fees receivable	\$ 74,671	\$ 57,045
Allowance for doubtful accounts	(356)	(356)
	\$ 74,315	\$ 56,689

6. SUBSCRIBER LOANS RECEIVABLE

	2019	2018
Subscriber Loans Receivable	\$ 210,252	\$ 361,365
Allowance for doubtful accounts	(40,000)	(47,000)
	\$ 170,252	\$ 314,365

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2019

7. LONG TERM DEBT

	2019	2018
Royal Bank subscriber financing loan #8 bearing interest at 4.25% per annum, repayable in monthly blended payments of \$6,326. The loan matured on May 21, 2019.	\$ -	\$ 28,973
Principal due in one year	-	(28,973)
	\$ -	\$ -

8. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land	\$ 31,905	\$ -	\$ 31,905	\$ 31,905
Buildings	180,000	108,000	72,000	90,000
Vehicles	53,912	9,157	44,755	9,842
Office equipment	21,095	16,876	4,219	6,328
Furniture and fixtures	8,239	7,601	638	1,033
Pipes	10,118,697	1,805,080	8,313,617	8,515,997
Utility infrastructure	2,283,013	410,942	1,872,071	1,917,732
	\$ 12,696,861	\$ 2,357,656	\$ 10,339,205	\$ 10,572,837

9. SUBSEQUENT EVENTS

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

It is unknown to what extent these factors will impact the Utility, however they could play a significant factor on the community in their ability to pay and service their utilities and loans. The Utility has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Utility for future periods.

10. SIGNIFICANT SUPPLIER

The Utility obtains all of its water for distribution from the Sask Water. The Utility has a contract with and is in compliance with the terms of that contract.

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2019

11. BUDGET INFORMATION

The budget figures, provided for comparison purposes only, are those approved by the Board. In accordance with the terms of the engagement, they have not been subjected to audit or review.

12. COMPARATIVE FIGURES

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

HIGHWAY 41 WATER UTILITY
Schedule of Segment Disclosure by Function (2019 Expenses)
Schedule One

Year Ended December 31, 2019

	Administration	Operating	2019
Expenses			
Water purchases	\$ -	\$ 346,561	\$ 346,561
Amortization	-	273,936	273,936
Repairs and maintenance	5,765	144,135	149,900
Salaries and wages	23,033	107,381	130,414
Utilities	-	34,332	34,332
Insurance	15,776	-	15,776
Telephone	12,080	-	12,080
Legal fees	11,443	-	11,443
Professional fees	4,028	5,898	9,926
Office	7,666	193	7,859
Travel	5,771	-	5,771
Interest and bank charges	2,609	-	2,609
Memberships	808	-	808
Meetings and conventions	778	-	778
Interest on callable debt	-	294	294
Expenses total	\$ 89,757	\$ 912,730	\$ 1,002,487

HIGHWAY 41 WATER UTILITY
Schedule of Segment Disclosure by Function (2018 Expenses)
Schedule Two

Year Ended December 31, 2018

	Highway 41 Water Utility	Administration	Operating	2018
Expenses				
Water purchases	\$ -	\$ -	\$ 308,770	\$ 308,770
Amortization	-	-	271,000	271,000
Repairs and maintenance	-	826	200,102	200,928
Salaries and wages	-	25,635	101,240	126,873
Utilities	-	-	32,003	32,003
Bad debts	-	-	17,000	17,000
Insurance	-	14,036	-	14,036
Professional fees	-	3,535	8,613	12,148
Telephone	-	10,603	-	10,603
Legal fees	-	10,400	-	10,400
Office	-	7,847	13	7,860
Travel	-	4,827	-	4,827
Interest on callable debt	-	-	4,169	4,169
Interest and bank charges	-	3,359	-	3,359
Memberships	-	1,125	-	1,125
Expenses total	\$ -	\$ 82,193	\$ 942,910	\$ 1,025,101

See notes to financial statements

HIGHWAY 41 WATER UTILITY
Schedule of Accumulated Surplus
Schedule Three

Year Ended December 31, 2019

	2018	Changes	2019
Unappropriated Surplus	\$ 1,178,969	\$ 68,717	\$ 1,247,686
Appropriated Reserves			
Sustainability Fund	37,072	11,809	48,881
Water Allocation Fund	42,320	22,400	64,720
Invested in Subscriber Loans	314,365	(144,113)	170,252
Appropriated Reserves total	393,757	(109,904)	283,853
Net Investment in Tangible Capital Assets			
Tangible Capital Assets	10,572,837	(233,632)	10,339,205
Less: Related Debt	(28,973)	28,973	-
Net Investment in Tangible Capital Assets total	10,543,864	(204,659)	10,339,205
Total Accumulated Surplus	\$ 12,116,590	\$ (245,846)	\$ 11,870,744