

HIGHWAY 41 WATER UTILITY
Financial Statements
Year Ended December 31, 2015

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Year Ended December 31, 2015

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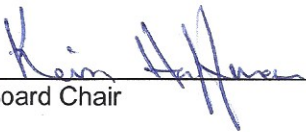
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles. This responsibility includes making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors of Highway 41 Water Utility is composed entirely of Directors who are neither management nor employees of the Utility. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, and is ultimately responsible for reviewing and approving the financial statements. The Board is also responsible for appointing the Utility's external auditor.

C.S. Skrupski CPA Professional Corporation, an independent Chartered Professional Accountant firm, has been appointed by the Board to audit the financial statements in accordance with Canadian auditing standards and report directly to them. The report of the auditing firm follows. The external auditor has full and free access to, and meets periodically with both the Board and management to discuss its audit findings.


Board Chair


Administrator

Aberdeen, Saskatchewan
April 18, 2016

C.S. Skrupski
CPA Professional Corporation

INDEPENDENT AUDITOR'S REPORT

To the Members of Highway 41 Water Utility:

I have audited the accompanying financial statements of Highway 41 Water Utility, which are comprised of the statement of financial position as at December 31, 2015 and the statements of operations, changes in net assets and cash flows 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Highway 41 Water Utility as at December 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Rosthern, Saskatchewan
April 18, 2016


CPA Professional Corporation

HIGHWAY 41 WATER UTILITY
Statement of Financial Position
As at December 31, 2015

	2015	2014
ASSETS		
CURRENT		
Cash	\$ 817,581	\$ 870,623
Accounts receivable	54,425	45,416
Goods and services tax recoverable	16,902	11,879
	<u>888,908</u>	<u>927,918</u>
CAPITAL ASSETS (Note 4)	11,383,862	11,662,356
SUBSCRIBER LOANS RECEIVABLE	747,637	1,032,866
	<u>\$ 13,020,407</u>	<u>\$ 13,623,140</u>
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable	\$ 35,652	\$ 97,298
Connection deposits	9,000	9,900
Current portion of long term debt (Note 5)	171,787	266,769
	<u>216,439</u>	<u>373,967</u>
LONG TERM DEBT (Note 5)	337,876	579,515
	<u>554,315</u>	<u>953,482</u>
NET ASSETS		
Unrestricted fund	1,082,230	1,007,302
Invested in capital assets	11,383,862	11,662,356
	<u>12,466,092</u>	<u>12,669,658</u>
	<u>\$ 13,020,407</u>	<u>\$ 13,623,140</u>

ON BEHALF OF THE BOARD


 _____ Director


 _____ Director

The accompanying notes are an integral part of these financial statements.
C.S. Skrupski CPA Professional Corporation

HIGHWAY 41 WATER UTILITY
Statement of Operations
Year Ended December 31, 2015

	2015	2014
REVENUE		
Water revenue	\$ 501,084	\$ 433,707
Meter installations	16,800	15,600
Connection payments (net)	145,992	49,920
Grant revenue	50,000	60,000
Interest income	11,421	79,564
	<u>725,297</u>	<u>638,791</u>
EXPENSES		
Amortization	271,857	273,927
Bank charges and interest	4,160	3,723
Dues and memberships	1,358	500
Insurance	19,199	2,055
Interest on long term debt	29,270	43,141
Office supplies	13,473	10,864
Professional fees	44,717	11,740
Repairs and maintenance	154,657	144,228
Seminars and training	-	450
Telephone	8,734	8,496
Travel and conferences	8,691	18,065
Utilities	23,815	20,420
Wages and benefits	127,381	107,106
Water costs	218,351	206,085
	<u>925,663</u>	<u>850,800</u>
DEFICIENCY OF REVENUE OVER EXPENSES FROM OPERATIONS	(200,366)	(212,009)
OTHER INCOME		
Loss on disposal of assets	(3,200)	-
DEFICIENCY OF REVENUE OVER EXPENSES	\$ (203,566)	\$ (212,009)

HIGHWAY 41 WATER UTILITY
Statement of Changes in Net Assets
Year Ended December 31, 2015

	Unrestricted Fund	Invested in Capital Assets	2015	2014
NET ASSETS - BEGINNING OF YEAR	\$ 1,007,302	\$ 11,662,356	\$ 12,669,658	\$ 12,881,667
Deficiency of revenue over expenses	(203,566)	-	(203,566)	(212,009)
Subscribers' contributions	-	-	-	-
Invested in capital assets	6,637	(6,637)	-	-
Amortization	271,857	(271,857)	-	-
NET ASSETS - END OF YEAR	\$ 1,082,230	\$ 11,383,862	\$ 12,466,092	\$ 12,669,658

HIGHWAY 41 WATER UTILITY
Statement of Cash Flows
Year Ended December 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Deficiency of revenue over expenses	\$ (203,566)	\$ (212,009)
Items not affecting cash:		
Amortization of capital assets	271,857	273,927
Loss on disposal of assets	3,200	-
	<u>71,491</u>	<u>61,918</u>
Changes in non-cash working capital:		
Accounts receivable	(9,009)	1,688
Accounts payable	(61,646)	(18,361)
Goods and services tax payable	(5,023)	(6,450)
Connection deposits	(900)	1,900
	<u>(76,578)</u>	<u>(21,223)</u>
Cash flow from (used by) operating activities	<u>(5,087)</u>	<u>40,695</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(6,563)	(180,000)
Proceeds on disposal of capital assets	10,000	-
Decrease (increase) in subscriber loans receivable	285,229	280,236
Cash flow from investing activities	<u>288,666</u>	<u>100,236</u>
FINANCING ACTIVITIES		
Subscriber contributions	-	-
Repayment of long term debt	(336,621)	(359,565)
Cash flow used by financing activities	<u>(336,621)</u>	<u>(359,565)</u>
DECREASE IN CASH FLOW	(53,042)	(218,634)
Cash - beginning of year	<u>870,623</u>	<u>1,089,257</u>
CASH - END OF YEAR	\$ 817,581	\$ 870,623
CASH CONSISTS OF:		
Cash	<u>\$ 817,581</u>	<u>\$ 870,623</u>

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2015

1. DESCRIPTION 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

Basis of presentation

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

Capital assets

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

Land		non-amortizable
Assets under construction		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 capital assets to eliminate obsolete items. Government grants are treated as a reduction of capital assets cost.

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

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.

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.

(continues)

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2015

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

Contributed services

Volunteer services, if any, contributed to the Utility in carrying out its operating activities are not recognized in these financial statements due to the difficulty in determining their value.

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

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, 2015.

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.

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.

4. CAPITAL ASSETS

	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Land	\$ 31,905	\$ -	\$ 31,905	\$ 31,905
Office equipment	6,262	6,016	246	1,498
Buildings	180,000	36,000	144,000	175,200
Meter equipment	21,095	8,439	12,656	14,766
Vehicles	24,608	7,383	17,225	19,685
Pipes	2,283,013	228,301	2,054,712	2,100,373
Utility infrastructure	10,118,697	995,579	9,123,118	9,318,929
	\$ 12,665,580	\$ 1,281,718	\$ 11,383,862	\$ 11,662,356

HIGHWAY 41 WATER UTILITY
Notes to Financial Statements
Year Ended December 31, 2015

5. LONG TERM DEBT

	2015	2014
Royal Bank subscriber financing loan #1 bearing interest at 4.68% per annum, repayable in monthly blended payments of \$5,244. The loan matures on November 30, 2021.	\$ 183,779	\$ 256,712
Royal Bank subscriber financing loan #2 bearing interest at 3.37% per annum, repayable in monthly blended payments of \$5,714. The loan matures on November 30, 2016.	7,997	76,533
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.	272,829	370,177
Royal Bank subscriber financing loan #4 loan bearing interest at 3.4% per annum, repayable in monthly blended payments of \$7,468. The loan matures on May 31, 2017.	45,058	142,862
	509,663	846,284
Amounts payable within one year	(171,787)	(266,769)
	\$ 337,876	\$ 579,515

Principal repayment terms are approximately:

2016	\$ 171,787
2017	124,072
2018	129,653
2019	84,151
	\$ 509,663