

HIGHWAY 41 WATER UTILITY

Auditor's Report

Financial Statements

December 31, 2023

MANAGEMENT'S RESPONSIBILITY

To the Subscribers of
Highway 41 Water Utility:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and 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 Utility is composed primarily of board of directors who are neither management nor employees of the Utility. The Utility is responsible for overseeing management in the performance of its financial reporting responsibilities. The Utility fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with external auditors.

Jensen Stromberg Chartered Professional Accountants, an independent firm of Chartered Professional Accountants, is appointed by the Utility to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.



Chair



Administrator

INDEPENDENT AUDITOR'S REPORT

To the Directors of **Highway 41 Water Utility**

Report on the Financial Statements

Opinion

We have audited the financial statements of **Highway 41 Water Utility**, which comprise the statement of financial position as at **December 31, 2023** and the statements of financial activities, changes in net financial assets, changes in financial position, and remeasurement gains and losses 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, 2023** and its financial performance and 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 these 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 these 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 related to going concern and the use of the going concern basis of accounting unless management either intends to liquidate the Utility or 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 Responsibility 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, Saskatchewan
June 13, 2024



Chartered Professional Accountants

HIGHWAY 41 WATER UTILITY

Statement 1

STATEMENT OF FINANCIAL POSITION

December 31, 2023
with comparative figures for 2022

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash and cash equivalents (Note 3)	\$ 229,285	388,016
Investments (Note 4)	751,568	566,096
Accounts receivable (Note 5)	97,376	81,816
Goods and services tax receivable	12,226	17,049
Long-term receivables (Note 4)	595,890	572,049
Subscriber loans receivable (Note 6)	<u>167,672</u>	<u>185,958</u>
Total financial assets	1,854,017	1,810,984
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities	61,075	51,277
Deferred revenue	<u>7,185</u>	<u>9,238</u>
Total liabilities	68,260	60,515
NET FINANCIAL ASSETS (DEBT)	1,785,757	1,750,469
Non-financial assets:		
Tangible capital assets (Note 7)	9,777,196	9,942,461
Inventory	8,305	-
Prepaid expenses	<u>3,007</u>	<u>4,915</u>
Total non-financial assets	<u>9,788,508</u>	<u>9,947,376</u>
Accumulated surplus (deficit)	<u>\$11,574,265</u>	<u>11,697,845</u>
Accumulated surplus (deficit) is comprised of:		
Accumulated surplus (deficit) excluding remeasurement gains (losses)	11,574,265	11,697,845
Accumulated remeasurement gains (losses) (Statement 5)	-	-

APPROVED ON BEHALF OF THE BOARD:

_____ Chair

_____ Director

See accompanying notes to the financial statements.

HIGHWAY 41 WATER UTILITY

Statement 2

STATEMENT OF FINANCIAL ACTIVITIES

Year ended December 31, 2023
with comparative figures for 2022

	Budget 2023	Actual 2023	Actual 2022
Revenues:			
Connection payments	\$ 77,400	83,048	199,729
Expense recoveries	35,000	-	1,256
Interest	38,200	74,165	36,997
Maintenance and infrastructure	194,200	194,259	180,733
Meter installations	3,600	4,000	5,351
Other revenue	1,000	1,942	6,620
Sustainability	14,000	18,481	13,858
Water sales	<u>641,000</u>	<u>695,481</u>	<u>594,736</u>
Total revenue	<u>1,004,400</u>	<u>1,071,376</u>	<u>1,039,280</u>
Cost of sales:			
Water purchases	<u>460,000</u>	<u>484,529</u>	<u>440,651</u>
Gross profit	544,400	586,847	598,629
Expenditures:			
Administration			
Bad debt	-	-	230
Insurance	27,000	24,391	23,133
Interest and bank charges	3,000	3,886	3,232
Legal fees	2,000	-	-
Memberships and licences	1,500	3,214	1,020
Office	18,650	12,850	10,206
Professional fees	8,500	8,480	8,575
Telephone	15,000	15,695	15,745
Travel	5,700	5,382	5,852
Wages and salaries	<u>41,600</u>	<u>41,944</u>	<u>40,660</u>
	<u>122,950</u>	<u>115,842</u>	<u>108,653</u>
Operating			
Amortization	-	292,634	290,421
Professional fees	5,000	-	4,555
Repairs and maintenance	168,500	106,847	96,678
Utilities	38,300	30,974	35,913
Wages and salaries	<u>166,700</u>	<u>164,130</u>	<u>155,416</u>
	<u>378,500</u>	<u>594,585</u>	<u>582,983</u>
Total expenditures	<u>501,450</u>	<u>710,427</u>	<u>691,636</u>
Surplus (deficiency) of revenues over expenditures	42,950	(123,580)	(93,007)
Accumulated surplus (deficit) excluding remeasurement gains (losses), beginning of year	<u>11,697,845</u>	<u>11,697,845</u>	<u>11,790,852</u>
Accumulated surplus (deficit) excluding remeasurement gains (losses), end of year	<u>\$ 11,740,795</u>	<u>11,574,265</u>	<u>11,697,845</u>

See accompanying notes to the financial statements.

HIGHWAY 41 WATER UTILITY

Statement 3

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

Year ended December 31, 2023
with comparative figures for 2022

	<u>2023</u> <u>Budget</u>	<u>2023</u> <u>Actual</u>	<u>2022</u> <u>Actual</u>
Surplus (deficit)	\$ 42,950	(123,580)	(93,007)
(Acquisition) of tangible capital assets	(25,000)	(127,369)	(208,739)
Amortization of tangible capital assets	-	292,634	290,421
Proceeds on disposal of tangible capital assets	-	-	-
Loss (gain) on disposal of tangible capital assets	-	-	-
Transfer of assets/liabilities in restructuring transactions	-	-	-
Surplus (deficit) of capital expenses over expenditures	<u>(25,000)</u>	<u>165,265</u>	<u>81,682</u>
(Acquisition) of supplies inventories	-	(8,305)	-
(Acquisition) of prepaid expenses	-	(3,007)	(4,915)
Consumption of supplies inventories	-	-	-
Use of prepaid expenses	-	4,915	11,352
Surplus (deficit) of expenses of other non-financial over expenditures	<u>-</u>	<u>(6,397)</u>	<u>6,437</u>
Increase (decrease) in Net Financial Assets	17,950	35,288	(4,888)
Net Financial Assets (Debt) - Beginning of the year	<u>1,750,469</u>	<u>1,750,469</u>	<u>1,755,357</u>
Net Financial Assets (Debt) - End of year	<u>\$ 1,768,419</u>	<u>1,785,757</u>	<u>1,750,469</u>

See accompanying notes to the financial statements.

HIGHWAY 41 WATER UTILITY

Statement 4

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 2023
with comparative figures for 2022

	<u>2023</u>	<u>2022</u>
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenditures	\$ (123,580)	(93,007)
Item not involving an outlay of cash:		
Amortization	<u>292,634</u>	<u>290,421</u>
	<u>169,054</u>	<u>197,414</u>
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	9,798	12,383
Accounts receivable	(15,561)	85,375
Deferred revenue	(2,053)	2,998
Goods and services tax receivable	(3,482)	(11,136)
Prepaid expenses	<u>1,909</u>	<u>6,436</u>
	<u>159,665</u>	<u>293,470</u>
Investing activities:		
Additions to capital assets	(127,369)	(208,739)
Short-term investments	(185,472)	265,024
Long-term investments	(23,841)	(290,616)
Subscriber loans issued	-	(119,227)
Subscriber loans repaid	<u>18,286</u>	<u>20,100</u>
	<u>(318,396)</u>	<u>(333,458)</u>
Net change in cash during the year	(158,731)	(39,988)
Cash position, beginning of year	<u>388,016</u>	<u>428,004</u>
Cash position, end of year	<u>\$ 229,285</u>	<u>388,016</u>

See accompanying notes to the financial statements.

HIGHWAY 41 WATER UTILITY

Statement 5

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

Year ended December 31, 2023
with comparative figures for 2022

	<u>2023</u> <u>Actual</u>	<u>2022</u> <u>Actual</u>
Accumulated remeasurement gains (losses), beginning of year	\$ -	-
Unrealized gains (losses)		
Derivatives	-	-
Equity investments measured at fair value	-	-
Foreign exchange	-	-
	-	-
Reclassified to the Statement of Financial Activities		
Derivatives	-	-
Equity investments measured at fair value	-	-
Foreign exchange	-	-
	-	-
Net remeasurement gains (losses)	-	-
Accumulated remeasurement gains (losses), end of year	\$ -	-

See accompanying notes to the financial statements.

HIGHWAY 41 WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

1. ESTABLISHMENT

Highway 41 Water Utility (the "Utility") is a public utility board created under the authority of the 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. 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. Significant aspects of the accounting policies are as follows.

(a) 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 amid measurable as a result of the receipt of goods and services and the creation of a legal obligation to pay.

(b) Revenue Recognition

The Utility derives a portion of its revenues from the sale of water to its subscribers. The revenue from the sale of water is billed based on consumption and is recognized in the period in which the water is provided. Any advance payment received at the end of the year are classified as deferred revenue.

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.

(c) Tangible Capital Assets

All tangible capital asset acquisitions or betterments made throughout the year are recorded at their acquisition cost. Amortization is calculated on a straight line basis at the following rates:

Buildings	10 years
Computer software	5 years
Furniture and fixtures	5 years
Metering equipment	10 years
Office technology	5 years
Vehicles	10 years
Water infrastructure	50 years

HIGHWAY 41 WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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.

(e) Non-Financial Assets

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

(f) Term Deposits

All term deposits are classified as held-to-maturity because the organization has the positive intent and ability to hold them until maturity. Held-to-maturity investments are recognized at amortized cost using the effective interest method and related income is recognized immediately in the statement of operations.

(g) Measurement Uncertainty

The preparation of the financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenue and expenditures during the period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

Amortization is based on the estimated residual value of capital assets.

These estimates and assumptions are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become known.

(h) Appropriated Reserves

Reserves are established at the discretion of the Utility to designate surplus for future operating and capital transactions.

(i) Investments

Investments with terms longer than one year have been classified as long-term investments concurrent with the nature of the investment.

HIGHWAY 41 WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of Long Lived Assets

The Utility tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent the carrying value exceeds its fair value.

(k) 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.

(l) Financial Instruments

Financial instruments are recorded 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. CASH AND CASH EQUIVALENTS

	<u>2023</u>	<u>2022</u>
Royal Bank of Canada - Incidental	\$ 222,317	294,240
Royal Bank of Canada - Project	<u>6,968</u>	<u>93,776</u>
	<u>\$ 229,285</u>	<u>388,016</u>

Cash and cash equivalents include balances with banks, less outstanding cheques and plus outstanding deposits, and short-term deposits with maturities of three months or less.

4. INVESTMENTS

Short-term investments consists of a mutual fund and Guaranteed Investment Certificates maturing between January to December 2024 with interest rates between 2.39% to 5.06%.

Long-term investments consist of Guaranteed Investment Certificates maturing after December 2024 with interest rates between 4.40% to 5.70%.

HIGHWAY 41 WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

5. ACCOUNTS RECEIVABLE

	<u>2023</u>	<u>2022</u>
Utilities	\$ 65,320	65,622
Utility - Tax roll	7,321	11,965
Trade	<u>24,735</u>	<u>5,046</u>
Less: allowance for uncollectibles	<u>-</u>	<u>(817)</u>
Net other accounts receivable	<u>\$ 97,376</u>	<u>81,816</u>

6. SUBSCRIBER LOANS RECEIVABLE

Subscriber loans receivable represents capital investment in new connections paid by the Utility charged back to new subscribers added to the pipeline. Loans are established through connections agreements with a 10-year fixed term at interest rates varying from 5.03 - 6.78%.

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 185,958	86,830
New amounts financed	-	119,228
Interest charged	9,510	5,559
Repayments	<u>(27,796)</u>	<u>(25,659)</u>
	<u>\$ 167,672</u>	<u>185,958</u>

7. TANGIBLE CAPITAL ASSETS

	<u>2023</u>	<u>2022</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Buildings	\$ 180,000	180,000	-	18,000
Computer software	1,371	1,371	-	-
Furniture and fixtures	6,262	6,262	-	-
Land	37,955	-	37,955	31,905
Metering equipment	87,877	38,368	49,509	43,138
Office technology	3,572	1,792	1,780	2,373
Vehicles	111,982	42,336	69,646	80,844
Water infrastructure	<u>12,914,221</u>	<u>3,295,915</u>	<u>9,618,306</u>	<u>9,766,201</u>
	<u>\$ 13,343,240</u>	<u>3,566,044</u>	<u>9,777,196</u>	<u>9,942,461</u>

HIGHWAY 41 WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

8. BUDGET

The budget approved by the board on February 21, 2023 was not prepared on a basis consistent with that used to report actual results. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis. The budget expensed capital purchases. As a result, the budget figures presented in the statements of operations and change in net financial assets include the following adjustments:

	<u>2023</u>
Budget net surplus	\$ 17,950
Add: Investment in tangible capital assets	<u>25,000</u>
Budget surplus per statement of operations	<u>\$ 42,950</u>

9. RISK MANAGEMENT

Through its financial assets and liabilities, the Utility is exposed to various risks.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge their responsibilities with respect to the financial instrument, and in doing so, cause a loss for the other party. The Utility is mainly exposed to credit risk with respect to its cash and taxes and other accounts receivable. It is management's opinion that the Utility is not exposed to significant credit risk as its cash is held by financial institutions with high credit ratings, and a significant portion of its taxes and other accounts receivable can be collected through tax enforcement procedures.

Liquidity Risk

Liquidity risk is the risk that the Utility will encounter difficulty in meeting financial obligations as they fall due. The Utility undertakes regular cash flow analyses to ensure that there are sufficient cash resources to meet all obligations. The Utility is mainly exposed to liquidity risk with respect to its accounts payable and accrued liabilities.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk, and other price risk.

- Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Utility is subject to interest rate risk on its investments.
- Currency risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in currency fluctuations. The Utility financial instruments is not subject to currency risk on its financial instruments.
- Other price risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in the fair value of equity investments. The Utility is not subject to other price risk on its financial instruments.

HIGHWAY 41 WATER UTILITY
SCHEDULE OF ACCUMULATED SURPLUS
Year ended December 31, 2023

	<u>2022</u>	<u>Changes</u>	<u>2023</u>
UNAPPROPRIATED SURPLUS	\$ <u>1,373,745</u>	<u>41,490</u>	<u>1,415,235</u>
APPROPRIATED RESERVES			
Invested in subscriber loans	185,958	(18,286)	167,672
Line repair fund	69,064	-	69,064
Sustainability fund	61,897	18,481	80,378
Water allocation fund	<u>64,720</u>	<u>-</u>	<u>64,720</u>
Total Appropriated	<u>381,639</u>	<u>195</u>	<u>381,834</u>
NET INVESTMENT IN TANGIBLE CAPITAL ASSETS			
Tangible capital assets	9,942,461	(165,265)	9,777,196
Less: Related debt	-	-	-
Less: Related deferred contributions	<u>-</u>	<u>-</u>	<u>-</u>
Net Investment in Tangible Capital Assets	<u>9,942,461</u>	<u>(165,265)</u>	<u>9,777,196</u>
Total Accumulated Surplus	\$ <u>11,697,845</u>	<u>(123,580)</u>	<u>11,574,265</u>

See accompanying notes to the financial statements.