Weyburn Utility Board
Financial Statements
December 31, 2017

Contents

Management's Responsibility

To the Board of Weyburn Utility Board:

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. 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 Board of Directors is composed primarily of Directors who are neither management nor employees of the Organization. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Organization's external auditors.

MNP LLP is appointed by the Board to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and may meet periodically and separately with, both the Board and management to discuss their audit findings.

March 6, 2018

Independent Auditors’ Report

To the Board of Weyburn Utility Board:

We have audited the accompanying financial statements of Weyburn Utility Board, which comprise the statement of financial position as at December 31, 2017, 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 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.

Auditors' 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 auditors’ 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.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Weyburn Utility Board as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Weyburn, Saskatchewan

March 6, 2018

MNP LLP

Chartered Professional Accountants

Weyburn Utility Board
Statement of Financial Position
As at December 31, 2017

	2017	2016
Assets		
Current		
Cash	**250,135**	147,314
Accounts receivable	**70,554**	73,777
Accrued interest	**2,750**	3,381
Goods and Services Tax receivable	**10,326**	10,022
Inventory *(Note 4)*	**15,374**	17,996
Prepaid expenses	**206**	105
Current portion of subscriber loans receivable *(Note 5)*	**18,867**	26,414
Current portion of long-term investments *(Note 6)*	**-**	304,534
	368,212	583,543
Subscriber loans receivable *(Note 5)*	**43,499**	64,740
Long-term investments *(Note 6)*	**469,871**	159,281
Capital assets *(Note 7)*	**4,923,241**	4,881,685
	5,804,823	5,689,249
Liabilities		
Current		
Accounts payable	**21,467**	19,466
Customer deposits *(Note 9)*	**50,500**	56,500
Customer prepaid water	**3,538**	2,027
	75,505	77,993
Net Assets		
Invested in capital assets	**4,923,241**	4,881,685
Reserve for future expenditures	**232,313**	224,613
Unrestricted	**573,764**	504,958
	5,729,318	5,611,256
	5,804,823	5,689,249

Approved on behalf of the Board:

Director **Director**

The accompanying notes are an integral part of these financial statements

Weyburn Utility Board
Statement of Operations
For the year ended December 31, 2017

	2017	2016
Revenue		
Water sales	**259,368**	235,203
Water installation fee	**140,000**	130,101
General levy	**81,060**	79,580
Service charge	**59,606**	58,710
Meter rent	**19,247**	18,999
Other	**11,301**	6,855
Interest	**7,043**	7,614
Subscriber loan interest	**4,335**	5,768
Penalties	**2,302**	3,049
	584,262	545,879
Expenses		
Water consumption	**173,840**	162,897
Contracts	**91,287**	90,762
Per meter service charge	**59,483**	58,710
Amortization	**39,491**	38,951
Repairs and maintenance	**32,147**	23,127
Water testing	**20,035**	19,607
Professional fees	**18,042**	14,480
Directors' expense	**11,404**	11,953
Pumphouse power	**10,657**	10,798
Postage	**2,705**	2,274
Insurance	**2,471**	2,235
Program education	**2,126**	2,225
Office supplies	**1,667**	536
Telephone	**639**	660
Advertising	**106**	101
Licences and fees	**100**	100
	466,200	439,416
Excess of revenue over expenses	**118,062**	106,463

Weyburn Utility Board
Statement of Changes in Net Assets
For the year ended December 31, 2017

	Invested in capital assets	*Reserve for future expenditures*	*Unrestricted*	***2017***	*2016*
Net assets, beginning of year	**4,881,685**	**224,613**	**504,958**	**5,611,256**	5,504,793
Excess of revenue over expenses	**-**	**-**	**118,062**	**118,062**	106,463
Capital asset purchases	**81,047**	**-**	**(81,047)**	**-**	-
Amortization	**(39,491)**	**-**	**39,491**	**-**	-
Transfer to reserve for future expenditures *(Note 11)*	**-**	**7,700**	**(7,700)**	**-**	-
Increase (decrease) in net assets	**41,556**	**7,700**	**(49,256)**	**-**	-
Net assets, end of year	**4,923,241**	**232,313**	**573,764**	**5,729,318**	5,611,256

The accompanying notes are an integral part of these financial statements

Weyburn Utility Board
Statement of Cash Flows
For the year ended December 31, 2017

	2017	*2016*
Cash provided by (used for) the following activities		
Operating		
Excess of revenue over expenses	**118,062**	106,463
Amortization	**39,491**	38,951
	157,553	145,414
Changes in working capital accounts		
Accounts receivable	**3,223**	3,211
Accrued interest	**631**	2,412
Goods and Services Tax receivable	**(304)**	1,791
Inventory	**2,622**	(2,692)
Prepaid expenses	**(101)**	2,185
Accounts payable	**2,001**	(3,089)
Customer deposits	**(6,000)**	(4,000)
Customer prepaid water	**1,511**	(577)
	161,136	144,655
Capital activities		
Purchases of tangible capital assets	**(81,047)**	(65,059)
Investing		
Repayments of subscriber loans receivable	**28,788**	33,681
Maturity of term deposit	**304,534**	153,393
Purchase of term deposit	**(310,590)**	(162,850)
	22,732	24,224
Increase in cash resources	**102,821**	103,820
Cash resources, beginning of year	**147,314**	43,494
Cash resources, end of year	**250,135**	147,314

The accompanying notes are an integral part of these financial statements

1. Incorporation and nature of the organization

Weyburn Utility Board (the "Organization") was created under the authority of the Saskatchewan Municipalities Act. The Organization's purpose is to provide water connection services to rural customers in five rural municipalities.

2. Significant accounting policies

These financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards and include the following significant accounting policies:

Cash and cash equivalents

Cash and cash equivalents include balances with the bank. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

Inventory

Inventory consists of various supplies needed by the Organization to perform pipeline and meter repairs when required. Inventory is valued at the lower of cost and replacement cost. Cost is determined by the first-in, first-out method. Replacement cost is the estimated amount required to replace the supplies.

Subscriber loans receivable

Loans are initially recorded at fair value and subsequently measured at their amortized cost less impairment. Amortized cost is calculated as the loans' principal amount plus unamortized loan administration fees, less any allowance for anticipated losses. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. No impairment has been recognized on subscriber loans during the year (2016 - $nil).

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution if fair value can be reasonably determined.

Capital assets are amortized annually using the straight-line method at rates intended to amortize the cost of assets less salvage value over their estimated useful lives:

	Method	***Years***
Buildings	straight-line	20 years
Office equipment	straight-line	5 years
Waterworks system	straight-line	75 years

Contributed materials and services

Contributions of materials and services are recognized both as contributions and expenses in the statement of operations when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the Organization's operations and would otherwise have been purchased.

Investments

Investments with prices quoted in an active market are measured at fair value while those that are not quoted in an active market are measured at amortized cost less impairment. Changes in fair value are recorded immediately in the statement of operations. The Organization's investments consist of term deposits, which are measured at amortized cost.

Long-lived assets

Long-lived assets consist of capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

When the Organization determines that a long-lived asset no longer has any long-term service potential to the Organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Write-downs are not reversed.

2. Significant accounting policies *(Continued from previous page)*

Revenue recognition

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Water sales, general levy, service charge and meter rental are recognized upon output or delivery, primarily on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the reporting period, and includes an estimate of services provided but not yet billed.

Water installation fees are recognized upon approval of contract for service.

Other income is recognized as the related services are performed or goods are provided.

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable and subscriber loans receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of capital assets.

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

Financial instruments

The Organization recognizes its financial instruments when the Organization becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value. The Organization's financial instruments consist of cash, accounts receivable, subscriber loans receivable, investments, accounts payable and customer deposits, which are all measured at amortized cost.

At initial recognition, the Organization may irrevocably elect to subsequently measure any financial instrument at fair value. The Organization has not made such an election during the year.

Transaction costs directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in the statement of operations. Conversely, transaction costs are added to the carrying amount for those financial instruments subsequently measured at amortized cost or cost.

All financial assets except derivatives are tested annually for impairment. Management considers recent collection experience for the loan, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Any impairment, which is not considered temporary, is recorded in the statement of operations. Write-downs of financial assets measured at cost and/or amortized cost to reflect losses in value are not reversed for subsequent increases in value. Reversals of any net remeasurements of financial assets measured at fair value are reported in the statement of remeasurement gains and losses. There was no impairment of financial assets recognized during the year.

2. Significant accounting policies *(Continued from previous page)*

Fair Value Measurements

The Organization classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Organization to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

3. Economic dependence

The Organization's primary source of revenue is derived from water sales. The Organization is dependent on the City of Weyburn for the supply of water.

4. Inventory

	2017	*2016*
Supplies	**15,374**	17,996

The cost of inventories recognized as an expense and included in repairs and maintenance amounted to $17,996 (2016 – $15,304).

5. Subscriber loans receivable

Subscribers pay the Weyburn Utility Board a subscriber fee for their portion of costs to construct a waterworks system on their property. Annual principal payments vary between subscribers from $800 to $1,500 (2016 - $800 to $1,500) plus interest. Individual loans mature over the next six years (2016 - one to seven years), and interest is set annually by the Board of Directors, sitting at 5% in the current year (2016 - 5%).

Subscriber loans receivable consist of the following:

	2017	*2016*
Subscriber loans receivable	**62,366**	91,154
Less: current portion of subscriber loans receivable	**(18,867)**	(26,414)
	43,499	64,740

The Company registers an interest against property to which loans relate. If a sale occurred, they would be notified and loan would be paid in full. If annual payment is not made, the invoice is forwarded to the appropriate RM and collected with the annual tax roll.

6. Long-term investments

	2017	2016
Measured at cost:		
WCU term deposit, bearing interest at 1.5% (2016 - 1.2%). Matures August 2, 2019.	**223,637**	220,995
WCU term deposit, bearing interest at 1.1% (2016 - 1.1%). Matures July 25, 2019.	**160,337**	158,589
WCU term deposit, bearing interest at 0.75% (2016 - 2%). Matures February 1, 2020.	**85,205**	83,538
Weyburn Credit Union equity	**692**	692
	469,871	463,814
Less: current portion	**-**	304,534
	469,871	159,280

Term deposits that matured in the current year were fully reinvested into new long-term agreements.

7. Capital assets

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Buildings	**58,091**	**24,092**	**33,999**	36,904
Office equipment	**2,641**	**2,295**	**346**	536
Waterworks system	**5,459,557**	**570,661**	**4,888,896**	4,844,245
	5,520,289	**597,048**	**4,923,241**	4,881,685

8. Bank indebtedness

At December 31, 2017, the Organization had a line of credit totaling $20,000, none of which was drawn (2016 - $nil). Bank indebtedness consists of a revolving line of credit from the Weyburn Credit Union bearing interest at 3.2% (2016 - 2.7%); unauthorized overdraft interest is 21% (2016 - 21%). The line of credit is secured by a general security agreement.

9. Customer deposits

Customer deposits consist of payments from subscribers for new water service connections that will be provided in the future. Recognition of these amounts as revenue is deferred to when land is developed and water lines are put into use. Changes in the customer deposits balance are as follows:

	2017	2016
Balance, beginning of year	**56,500**	60,500
Add: Amount received during the year	**4,000**	3,000
Less: Amount recognized as revenue during the year	**(10,000)**	(7,000)
Balance, end of year	**50,500**	56,500

10. Income taxes

The Organization is not subject to federal income tax or provincial income and capital taxes, as it was created under the Saskatchewan Municipalities Act.

11. Interfund transactions

During the year, the Organization transferred $7,700 (2016 - $6,505) from unrestricted equity to the Organization’s reserve for future expenditures and $41,556 (2016 - $26,108) from unrestricted equity to equity invested in capital assets.

12. Related party transactions

Included in water sales for the current year is $7,299 (2016 - $5,047) for transactions with the Board of Directors. Included in directors' expense for the current year is $11,404 (2016 - $11,953) for transactions with the Board of Directors. The transactions were conducted in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in accounts receivable is $834 (2016 - $645) due from Directors of the Organization.

13. Financial instruments

The Organization, as part of its operations, carries a number of financial instruments. It is management's opinion that the Organization is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Risk Management Policy

The Organization, as part of operations, has established risk management objectives to avoid undue concentrations of risk. In seeking to meet these objectives, the Organization follows a risk management policy approved by the Board of Directors.

Credit Risk

Credit risk is the risk of financial loss because a counter party to a financial instrument fails to discharge its contractual obligations.

The carrying amount of the Organization’s financial instruments best represents the maximum exposure to credit risk.

The Organization manages its credit risk by reviewing subscriber loans and accounts receivable regularly. If payments are not made in a timely fashion or as outlined by terms with the customer, the Organization will contact the customer's rural municipality and have balances owing added to the customer's tax roll.

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. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. In seeking to minimize the risks from interest rate fluctuations, the Organization manages exposure through review of market interest rate levels and comparing to rates they apply on outstanding loan receivables to ensure rates are appropriate.

The Organization is exposed to interest rate risk with respect to subscriber loans receivable with a fixed rate of 5% (2016 – 5%), maturing over the next six years (2016 – seven years). The Organization is not exposed to significant interest rate risk on it’s portfolio investments.

A 1% increase in interest rates relating to subscriber loans receivable could increase interest income by approximately $788. The interest rate sensitivity information was prepared based on management's assumption that interest rate will be 5.5% for the upcoming year.

Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting financial obligations as they fall due. This risk is managed by forecasting cash flows from operations and maintaining cash reserves that are sufficient to meet future obligations for water line construction.