

Draft - For Discussion Purposes Only

Weyburn Utility Board
Financial Statements
December 31, 2019

**Weyburn Utility Board
Contents**

For the year ended December 31, 2019

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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 for government not-for-profit organizations. 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 entirely 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.

February 25, 2020

Independent Auditor's Report

To the Board of Weyburn Utility Board:

We have audited the financial statements of Weyburn Utility Board (the "Organization"), which comprise the statement of financial position as at December 31, 2019, and the statements of operations, changes in net 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 Organization 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 for government not-for-profit organizations.

Responsibilities of Management 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 for government 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 Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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:

- 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 Organization'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 Organization'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 Organization 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.

Weyburn, Saskatchewan

February 25, 2020

Chartered Professional Accountants

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Weyburn Utility Board
Statement of Financial Position
As at December 31, 2019

	2019	2018
Assets		
Current		
Cash	231,731	215,047
Accounts receivable	97,619	74,029
Accrued interest	5,573	4,747
Government remittances receivable	7,329	8,506
Inventory (Note 4)	12,068	13,965
Prepaid expenses	268	133
Current portion of subscriber loans receivable (Note 5)	9,567	13,222
Current portion of long-term investments (Note 6)	189,144	389,101
	553,299	718,750
Subscriber loans receivable (Note 5)	18,363	27,930
Long-term investments (Note 6)	394,967	186,541
Capital assets (Note 7)	4,903,009	4,922,758
	5,869,638	5,855,979
Liabilities		
Current		
Accounts payable	18,526	18,980
Customer deposits (Note 9)	48,500	48,500
Customer prepaid water	4,160	4,629
	71,186	72,109
Net Assets		
Invested in capital assets	4,903,009	4,922,757
Reserve for future expenditures	239,114	236,714
Unrestricted	656,329	624,399
	5,798,452	5,783,870
	5,869,638	5,855,979

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, 2019

	2019	2018
Revenue		
Water sales	256,984	259,530
General levy	84,900	82,240
Water installation fee	40,000	80,000
Service charge	61,043	60,518
Meter rent	19,764	19,569
Interest	13,439	10,954
Other	23,485	7,757
Subscriber loan interest	2,433	3,300
Penalties	1,618	2,115
	503,666	525,983
Expenses		
Water consumption	165,186	169,191
Contracts	90,560	93,256
Per meter service charge	60,719	60,518
Amortization	39,697	39,911
Water testing	21,452	24,812
Professional fees	12,695	23,514
Repairs and maintenance	61,180	21,874
Directors' expense	13,873	14,038
Pumphouse power	12,565	12,299
Postage	3,063	2,763
Insurance	2,746	2,585
Program education	2,547	2,105
Bad debts	-	2,000
Office supplies	1,306	1,160
Telephone	1,040	953
Advertising	355	353
Licences and fees	100	100
	489,084	471,432
Excess of revenue over expenses	14,582	54,551

The accompanying notes are an integral part of these financial statements

Weyburn Utility Board
Statement of Changes in Net Assets
For the year ended December 31, 2019

	<i>Invested in capital assets</i>	<i>Reserve for future expenditures</i>	<i>Unrestricted</i>	2019	<i>2018</i>
Net assets, beginning of year	4,922,757	236,714	624,399	5,783,870	5,729,319
Excess of revenue over expenses	-	-	14,582	14,582	54,551
Capital asset purchases	19,949	-	(19,949)	-	-
Amortization	(39,697)	-	39,697	-	-
Transfer to reserve for future expenditures (Note 11)	-	2,400	(2,400)	-	-
Increase (decrease) in net assets	(19,748)	2,400	17,348	-	-
Net assets, end of year	4,903,009	239,114	656,329	5,798,452	5,783,870

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Weyburn Utility Board
Statement of Cash Flows
For the year ended December 31, 2019

	2019	2018
Cash provided by (used for) the following activities		
Operating		
Excess of revenue over expenses	14,582	54,551
Amortization	39,697	39,911
	54,279	94,462
Changes in working capital accounts		
Accounts receivable	(23,589)	(3,475)
Accrued interest	(826)	(1,997)
Government remittances receivable	1,177	1,820
Inventory	1,897	1,409
Prepaid expenses	(135)	73
Accounts payable	(454)	(2,487)
Customer deposits	-	(2,000)
Customer prepaid water	(469)	1,091
	31,880	88,896
Capital activities		
Purchases of capital assets	(19,949)	(39,428)
Investing		
Repayments of subscriber loans receivable	13,222	21,214
Increase in value of term deposit	(8,469)	(5,771)
Purchase of term deposit	-	(100,000)
	4,753	(84,557)
Increase (decrease) in cash resources	16,684	(35,089)
Cash resources, beginning of year	215,047	250,136
Cash resources, end of year	231,731	215,047

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 as a not-for-profit organization. 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 for government not-for-profit organizations 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 (2018 - \$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:

	<i>Method</i>	<i>Years</i>
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 for government not-for-profit organizations 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.

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.

Weyburn Utility Board
Notes to the Financial Statements
For the year ended December 31, 2019

4. Inventory

	2019	2018
Supplies	12,068	13,965

The cost of inventories recognized as an expense and included in repairs and maintenance amounted to \$13,965 (2018 – \$15,374).

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 \$933 to \$1,500 (2018 - \$933 to \$1,500) plus interest. Individual loans mature over the next three years (2018 - one to four years), and interest is set annually by the Board of Directors, sitting at 6% in the current year (2018 - 5.5%).

Subscriber loans receivable consist of the following:

	2019	2018
Subscriber loans receivable	27,930	41,152
Less: current portion of subscriber loans receivable	(9,567)	(13,222)
	18,363	27,930

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

	2019	2018
Measured at cost:		
WCU term deposit, bearing interest at 1.1% (2018 - 1.5%). Matures August 2, 2022 (2018 - matured 2019).	230,396	227,001
WCU term deposit, bearing interest at 1% (2018 - 1.1%). Matures July 25, 2021 (2018 - matured 2019).	163,879	162,100
WCU term deposit, bearing interest at 2% (2018 - 2%). Matures April 22, 2020.	102,000	100,000
WCU term deposit, bearing interest at 3.0% (2018 - 1.5%). Matures February 1, 2020.	87,144	85,849
Weyburn Credit Union equity	692	692
	584,111	575,642
Less: current portion	189,144	389,101
	394,967	186,541

Weyburn Utility Board
Notes to the Financial Statements
For the year ended December 31, 2019

7. Capital assets

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>2019 Net book value</i>	<i>2018 Net book value</i>
Buildings	58,091	29,901	28,190	31,095
Office equipment	2,641	2,641	-	-
Waterworks system	5,518,933	644,114	4,874,819	4,891,663
	5,579,665	676,656	4,903,009	4,922,758

8. Bank indebtedness

At December 31, 2019, the Organization had a line of credit totaling \$20,000, none of which was drawn (2018 - \$nil). Bank indebtedness consists of a revolving line of credit from the Weyburn Credit Union bearing interest at 3.95% (2018 - 3.95%); unauthorized overdraft interest is 21% (2018 - 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:

	<i>2019</i>	<i>2018</i>
Balance, beginning of year	48,500	50,500
Add: Amount received during the year	2,500	2,500
Less: Amount recognized as revenue during the year	(2,500)	(4,500)
Balance, end of year	48,500	48,500

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 \$2,400 (2018 - \$4,400) from unrestricted net assets to the Organization's reserve for future expenditures and \$19,748 (2018 - \$483) from net assets invested in capital to unrestricted net assets.

12. Related party transactions

Included in water sales for the current year is \$6,670 (2018 - \$6,837) for transactions with the Board of Directors of which \$987 (2018 - \$1,224) is included in accounts receivable. Included in directors' expense for the current year is \$13,873 (2018 - \$14,038) paid to 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.

The Organization receives chlorine testing services from three Board members in exchange for forgiveness of meter rent (\$60/year) and general levy (\$240/year) charges. No amount has been recorded in the Organization's financial statements reflecting this transaction as the amount is not significant.

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 comparison to rates they apply on outstanding loans receivable, adjusting as needed to maintain rate at or near standard bank prime plus 2%.

The Organization is exposed to interest rate risk with respect to subscriber loans receivable with a fixed rate of 6% (2018 - 5.5%), maturing over the next four years (2018 - five years). The Organization is not exposed to significant interest rate risk on its portfolio investments.

A 1% change in interest rates relating to subscriber loans receivable could increase interest income by approximately \$405. The interest rate sensitivity information was prepared based on management's assumption that interest rate will remain at 6% 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.