



# ***Saskatchewan Water Corporation***

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***First Quarter Report  
June 30, 2018***



## Corporate Profile

*SaskWater is committed to providing the highest level of service to its customers.*

*That promise is reflected in the corporation's Vision, Mission and Values.*

*Our Vision is to be the best at connecting water for life and growth, partnering for a better tomorrow.*

*Our Mission is to provide safe, reliable and sustainable water and wastewater services for Saskatchewan.*

SaskWater is Saskatchewan's commercial Crown water utility, helping communities, First Nations and industry gain access to reliable and professional water and wastewater services.

SaskWater provides professional water and wastewater services to 65 communities, nine rural municipalities, 81 rural pipeline groups, 17 industrial and 242 commercial and end user customers. SaskWater serves approximately 102,000 people in Saskatchewan.

The corporation owns nine water treatment plants, three wastewater facilities, 140 kilometres of canal and 964 kilometres of pipeline. SaskWater also owns or leases 40 booster and pump stations. SaskWater also maintains customer-owned systems and provides operator training to 29 Saskatchewan First Nations communities.

### **SaskWater's Values**

**Integrity** - We act ethically with respect, honesty, courtesy and fairness.

**Professionalism** - We provide quality, expertise and excellence in the delivery of our services, and we are accountable for our actions.

**Teamwork** - We promote cooperation and commitment to achieve our common goals.

**Safety** - We are committed to safety in all aspects of our operations.

**Innovation** - We pursue continuous improvement and innovative solutions.

**Environment** - We respect and support the environment and communities where we live and work.



## Financial and Operating Highlights

	Three Months Ended June 30	
	2018	2017
<b>FINANCIAL HIGHLIGHTS (\$ thousands):</b>		
Total revenue	\$ 14,749	\$ 13,786
Total expenses	12,275	11,123
Operating income	2,474	2,663
Net finance income (expense)	(497)	(530)
Net income	\$ 1,977	\$ 2,133
Other comprehensive income	37	101
Total comprehensive income	\$ 2,014	\$ 2,234
Dividends	\$ 388	\$ 364
Debt Ratio	45.80 %	45.50 %
<b>OPERATING HIGHLIGHTS (cubic meters):</b>		
Non-potable water distributed	9,205,440	8,736,775
Potable water distributed*	2,159,514	2,039,319

\*Note –The amount previously reported has been restated to conform with current period’s volume information.



# Management Discussion and Analysis

## Introduction

Management's Discussion and Analysis (MD&A) highlights the primary factors that affected the financial results and operations of SaskWater for the three months ended June 30, 2018.

The MD&A should be read in conjunction with the unaudited condensed financial statements which have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS).

The SaskWater Board of Directors

approved these interim financial statements at their meeting on August 22, 2018.

For additional information refer to SaskWater's 2017-18 Annual Report.

### New standards impacting the financial statements

Effective April 1, 2018, the corporation implemented IFRS 15 – Revenue from Contracts with Customers (IFRS 15). The corporation used the modified retrospective approach whereby the cumulative effect of any adjustments are recognized in the opening balance of retained earnings. In adopting IFRS 15, the

corporation elected to apply practical expedients that were available with the modified retrospective approach. The requirements of IFRS 15 had no impact on the corporation and therefore no adjustments to the opening balance of retained earnings or to the presentation of the condensed interim statements of financial position were required. Although no changes were made to the existing accounting policies additional disclosure has been provided. For a detailed discussion of the impacts of the new standard refer to Note 2(h) and Note 3 of the condensed interim financial statements for the period ended June 30, 2018.

SaskWater's four measurable strategic objectives to guide the corporation are: Customer Driven, Pursuing Excellence, Valuing Employees and Succeeding Financially.

SaskWater employs provincially certified operators supported by a team of highly qualified technicians, technologists and professional engineers. In addition to operating its own systems, the company also provides certified operation and maintenance for water and wastewater systems.

SaskWater owns nine water treatment plants, three serving regional customers and six as stand-alone systems. In addition, SaskWater also operates two regional systems supplied by potable water treated by the City of Saskatoon and the Buffalo Pound Water Treatment Plant.

Non-potable water is provided primarily to industrial

customers in the areas surrounding Saskatoon, Buffalo Pound Lake and along the Saskatoon South East Water Supply system.

SaskWater currently owns and operates regional wastewater treatment facilities in Nipawin and Fort Qu'Appelle and a municipal wastewater facility serving Pierceland. SaskWater can address new demands for water and wastewater services from municipal customers through further:

- Development of service clusters for cost-effective delivery of services to customers.
- Implementation of proven treatment plant technologies that exceed regulatory requirements and ensure quality control is maintained.
- By ensuring the company has the people and the training to meet anticipated demand for services.



## **Highlights**

### ***Non-potable Water***

Non-potable water is primarily distributed to large industrial customers, especially in the potash mining sector. The overall increase in volume of 5.4% is largely a result of one major customer continuing to ramp up their production and water requirements.

### ***Potable Water***

Potable water volumes have increased 5.9% in the three-month period ended June 30, 2018, compared to the same period in 2017. This increase is due to hot, dry weather conditions, along with normal population changes. Rate increases and volume growth have contributed to the increased revenues over the same period in 2016-17. Potable water is primarily supplied to municipal customers. Seasonal fluctuations are more often noted during the first and second quarters and are influenced by temperature and precipitation and the resulting impact on such uses as lawn and garden watering. Water volumes within municipalities tend to be more stable during the third and fourth quarters of the year.

### ***Services***

Service revenues include certified operation and maintenance where SaskWater provides operator expertise to run customer owned facilities; project management which is largely related to pre-construction engineering services while project proponents complete their feasibility analysis; operator training support to 29 First Nations and northern project management which relates to engineering services to northern Saskatchewan communities primarily in conjunction with the Ministry of Government Relations.

A large portion of the increase in certified operation and maintenance revenue came from a new customer that began utilizing SaskWater as their service provider in February this year. Project management and northern project management revenues are up significantly. Both

project management lines of business are based on customer need and can vary greatly year over year. The combined other service lines remained relatively flat year over year.

### ***Expenses***

Expenses have increased in the three-month period ended June 30, 2018, over the same period in 2017-18 across most operational categories. This includes the increased expenses associated with serving new customers and the increased activity in the project management lines. Bulk water costs associated with increased volumes and supplier costs have had an impact as well as an elevated level of repairs and maintenance year to date.

### ***Net Finance Income (Expense)***

Finance costs include debt servicing costs on funds borrowed to support investments and earnings on debt retirement funds that are set aside to retire capital market debts on their maturity. Debt servicing costs are down year over year due to market conditions as we replaced debt issues that were coming to term with new debt issues at lower rates.

### ***Other Comprehensive Income***

Other comprehensive income primarily consists of market value gains and losses on debt retirement funds and our outside of management's control.

# Saskatchewan Water Corporation

## Statement of Financial Position

(unaudited - thousands of dollars)

	as at June 30, 2018	as at March 31, 2018	Change
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ 2,805	\$ 6,758	\$ (3,953)
Trade and other receivables	11,083	9,761	1,322
Prepaid expenses and inventories	864	1,052	(188)
Current portion of deferred charges	4	4	-
	14,756	17,575	(2,819)
Deferred charges	36	37	(1)
Investment - debt retirement funds	12,859	12,387	472
Property, plant and equipment	324,606	321,851	2,755
	\$ 352,257	\$ 351,850	\$ 407
<b>Liabilities and Province of Saskatchewan's Equity</b>			
<b>Current liabilities</b>			
Trade and other payables	\$ 7,196	\$ 7,632	\$ (436)
Notes payable	5,016	5,000	16
Infrastructure deposits	-	-	-
Dividends payable	388	664	(276)
Current portion of deferred revenue	6,335	6,339	(4)
Current portion of long-term debt	-	-	-
	18,935	19,635	(700)
Deferred revenue	196,344	196,828	(484)
Provisions	773	808	(35)
Long-term debt	66,393	66,393	-
Employee benefits	524	524	-
	282,969	284,188	(1,219)
<b>Province of Saskatchewan's Equity</b>			
Equity advance	8,700	8,700	-
Accumulated other comprehensive income (loss)	(139)	(176)	37
Retained earnings	60,727	59,138	1,589
	69,288	67,662	1,626
	\$ 352,257	\$ 351,850	\$ 407

# Saskatchewan Water Corporation

## Statement of Operations and Comprehensive Income

(unaudited - thousands of dollars)

	Three months ended June 30		
	2018	2017	Variance
<b>Revenue (Note 4)</b>			
Water sales and treatment	\$ 11,823	\$ 11,183	\$ 640
Services	1,209	891	318
Other	1,717	1,712	5
	<u>14,749</u>	<u>13,786</u>	<u>963</u>
<b>Expenses</b>			
Salaries and benefits	3,310	3,222	(88)
Operations, maintenance, and administration	2,813	2,282	(531)
Amortization of property, plant and equipment	3,026	2,800	(226)
Bulk water purchases	2,879	2,579	(300)
Saskatchewan taxes	247	240	(7)
	<u>12,275</u>	<u>11,123</u>	<u>(1,152)</u>
<b>Operating income</b>	<u>2,474</u>	<u>2,663</u>	<u>(189)</u>
Finance income	81	76	5
Finance expense	(578)	(606)	28
<b>Net finance income (expense) (Note 5)</b>	<u>(497)</u>	<u>(530)</u>	<u>33</u>
<b>Net income (loss)</b>	<u>\$ 1,977</u>	<u>\$ 2,133</u>	<u>\$ (156)</u>
<b>Other comprehensive income (loss)</b>			
Debt retirement fund market value gains (losses)	37	101	(64)
Realized gains (losses) on debt retirement fund redemptions	-	(16)	
Re-classification of realized gains (losses) to net finance income (expense)	-	16	
Net actuarial gains (losses) on retiring allowance	-	-	-
<b>Total other comprehensive income (loss)</b>	<u>37</u>	<u>101</u>	<u>(64)</u>
<b>Total comprehensive income (loss)</b>	<u>\$ 2,014</u>	<u>\$ 2,234</u>	<u>\$ (220)</u>

# Saskatchewan Water Corporation

## Statement of Cash Flows

(unaudited - thousands of dollars)

	<b>Three months ended June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Net income	\$ 1,977	\$ 2,133
Items not affecting cash from operations:		
Amortization of property, plant and equipment	3,026	2,800
Amortization of deferred revenue	(1,584)	(1,541)
Amortization of provisions - onerous contracts	(48)	(60)
Net financing (income) expense	497	530
Loss (gain) on disposal of property, plant and equipment	6	(4)
Change in non-cash working capital items:		
Trade and other receivables	(1,322)	(476)
Prepaid expenses and inventories	188	244
Trade and other payables	(471)	(2,030)
Infrastructure deposits	-	(616)
Deferred revenue	1,095	74
Interest paid	(569)	(522)
Interest received	9	3
<b>Cash provided by operating activities</b>	<b>2,804</b>	<b>535</b>
<b>Investing activities</b>		
(Addition) amortization of deferred charges	1	1
Property, plant and equipment expenditures	(5,853)	(2,176)
Proceeds on disposal of property, plant and equipment	106	7
<b>Cash used in investing activities</b>	<b>(5,746)</b>	<b>(2,168)</b>
<b>Financing activities</b>		
Proceeds from long-term debt	-	5,400
Proceeds from (Repayments of) notes payable	16	(1,500)
Repayment of long-term debt	-	(2,600)
Debt retirement fund installments	(363)	(129)
Debt retirement fund Redemptions	-	2,206
Dividends paid	(664)	(440)
<b>Cash provided by financing activities</b>	<b>(1,011)</b>	<b>2,937</b>
<b>Change in Cash</b>	<b>(3,953)</b>	<b>1,304</b>
<b>Cash, Beginning of Period</b>	<b>6,758</b>	<b>4,147</b>
<b>Cash, End of Period</b>	<b>\$ 2,805</b>	<b>\$ 5,451</b>



# Saskatchewan Water Corporation

## Statement of Changes in Equity

(unaudited - thousands of dollars)

	Three months ended June 30, 2018			
	Equity Advances	Accumulated other comprehensive income (loss)	Retained earnings	Total Equity
<b>Balance, beginning of period</b>	\$ 8,700	\$ (176)	\$ 59,138	\$ 67,662
Net income	-	-	1,977	1,977
Other comprehensive income (loss)	-	37	-	37
Total comprehensive income (loss) for the period	-	37	1,977	2,014
Dividends declared	-	-	(388)	(388)
<b>Balance, end of period</b>	<b>\$ 8,700</b>	<b>\$ (139)</b>	<b>\$ 60,727</b>	<b>\$ 69,288</b>

	Three months ended June 30, 2017			
	Equity Advances	Accumulated other comprehensive income (loss)	Retained earnings	Total Equity
<b>Balance, beginning of period</b>				
As previously reported	\$ 8,700	\$ -	\$ 52,771	\$ 61,471
Impact of adoption of IFRS 9 - Sinking Funds	-	(304)	304	-
Impact of adoption of IFRS 9 - ECL	-	-	6	6
As restated	8,700	(304)	53,081	61,477
Net income	-	-	2,133	2,133
Other comprehensive income (loss)	-	101	-	101
Total comprehensive income (loss) for the period	-	101	2,133	2,234
Dividends declared	-	-	(364)	(364)
<b>Balance, end of period</b>	<b>\$ 8,700</b>	<b>\$ (203)</b>	<b>\$ 54,850</b>	<b>\$ 63,347</b>

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited

June 30, 2018

### 1. General Information

The Saskatchewan Water Corporation (the Corporation) is a corporation located in Canada. The address of the Corporation's registered office and principal place of business is 200-111 Fairford Street East, Moose Jaw, SK, S6H 1C8.

The Corporation was established on July 1, 1984 under the authority of The Water Corporation Act which remained in effect until December 31, 2002. On October 1, 2002 The Saskatchewan Water Corporation Act was proclaimed.

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

The principal activity of the Corporation is to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to *The Saskatchewan Water Corporation Act*.

### 2. Basis of Preparation

#### a) Statement of compliance

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The unaudited condensed interim financial statements (herein referred to as the interim financial statements) have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB). These interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Saskatchewan Water Corporation's March 31, 2018 audited financial statements.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB (IFRS). The accounting policies and methods of computation used in the preparation of these interim financial statements conform with those used in the Corporation's most recent annual financial statements and have been applied consistently to all periods presented in these interim financial statements except as discussed in the "Use of estimates and judgements" and the "New standards and amendments to standards" sections of this note.

The condensed interim financial statements were authorized for issue by the Board of Directors on August 22, 2018.

#### b) Basis of measurement

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These interim financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments that are accounted for at fair value through other comprehensive income.
- Provisions.
- Employee benefit obligations.

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited

June 30, 2018

### 2. Basis of Preparation (continued)

#### **c) Interim measurement**

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SaskWater's sales to municipal customers are seasonal, with the first and second quarters being the strongest periods, reflecting hotter weather and higher outdoor water usage.

#### **d) Functional and presentation currency**

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These financial statements are presented in Canadian Dollars, which is the Corporation's functional currency.

#### **e) Fair value measurement**

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Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at the measurement date under current market conditions (exit price). The Corporation's own credit risk and the credit risk of the counterparty have been taken into account in determining the fair value of financial assets and liabilities. The Corporation has classified the fair value of its financial instruments as level 1, 2, or 3 (Note 8) as defined below:

- Level 1 - Fair Values are determined using inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities to which the Corporation has immediate access.
- Level 2 - Fair Values are determined using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Debt retirement funds are valued at closing period-end unit prices received from the Saskatchewan Ministry of Finance. In all other circumstances, valuations are determined with reference to similar actively traded instruments. All long-term debt obligations are estimated using discounted cash flow analysis based on current market yields for similar arrangements.
- Level 3 - Fair values are determined based on inputs for the asset or liability that are not based on observable market data.

#### **f) Use of estimates and judgments**

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The preparation of these interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies are:

- Valuation of trade and other receivables
- Underlying estimates of useful lives and amortization of property, plant and equipment
- Underlying estimates of deferred revenue and infrastructure deposits
- Carrying amounts of provisions and underlying estimates of future cash flows
- Carrying amounts of employee benefits and underlying actuarial assumptions
- Underlying estimates for future commitments and contingencies

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited June 30, 2018

### 2. Basis of Preparation (continued)

#### **g) New standards and interpretations not yet adopted**

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A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2018, and have not been applied in preparing these financial statements. In particular, the Corporation is currently reviewing the following new standard to determine the potential impact, if any:

- IFRS 16, *Leases* effective January 1, 2019

#### **h) New standards and amendments to standards**

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The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2017, have been applied in preparing these interim financial statements:

##### **IFRS 15, *Revenue from Contracts with Customers***

Effective April 1, 2018, the Corporation has adopted *IFRS 15, Revenue from Contracts with Customers* which replaced *IAS 11, Construction Contracts* and *IAS 18, Revenue* and related interpretations, using the modified retrospective approach whereby the cumulative effect of any adjustments are recognized in the opening balance of retained earnings as of April 1, 2018. The comparative information has not been restated and continues to be reported under previous accounting standards. The requirements of IFRS 15 had no impact on the Corporation and therefore no adjustments to the opening balance of retained earnings or to the presentation of the condensed interim statements of financial position were required. Although no changes were made to existing accounting policies additional disclosure has been provided in Note 3.

In adopting IFRS 15, the Corporation elected to apply the following practical expedients:

- The Corporation will apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application,
- The Corporation will recognize revenue from contracts where the right to consideration from a customer corresponds directly with the value to the customer of the Corporation's performance completed to date in the amount to which the Corporation has the right to invoice,
- The Corporation will not disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) as of the end of the reporting period for contracts that have an original expected duration of one year or less and contracts where the right to consideration from a customer corresponds directly with the value to the customer of the Corporation's performance completed to date in the amount to which the Corporation has the right to invoice,
- The Corporation will not adjust the promised amount of consideration for the effects of a significant financing component if the Corporation expects, at the contract inception, that the period between when the Corporation transfers the good or service to the customer and when the customer pays for the service will be one year or less; and
- The Corporation may apply the standard to a portfolio of contracts. Specific contract types will be assessed to determine if the portfolio method is most appropriate.

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited

June 30, 2018

### 3. Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those disclosed in the Corporation's March 31, 2018 audited financial statements except for certain accounting policy disclosures which have been amended due to the adoption of IFRS 15.

The accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

#### a) Revenue recognition

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The Corporation recognizes revenue when it transfers control over a promised good or service, a performance obligation under the contract, to a customer and where the Corporation is entitled to consideration as a result of completion of the performance obligation. Depending on the terms of the contract with the customer, revenue recognition can occur at a point in time or over time. When a performance obligation is satisfied, revenue is measured at the transaction price that is allocated to that performance obligation. For contracts where non-cash consideration is received, revenue is recognized and measured at the fair value of the non-cash consideration.

Customer contracts may include the transfer of multiple goods and services. Where the Corporation determines that the multiple goods and services are not distinct performance obligations, they are treated as a single performance obligation. Revenue is classified as water sales and treatment, services and other revenue depending on the nature of each distinct performance obligation.

Contract costs for obtaining a customer contract are recognized as expenses as incurred unless they create an asset related to future contract activity that the Corporation expects to recover.

Significant judgement may be required to determine the number of distinct performance obligations within a contract and the allocation of transaction price to multiple performance obligations in a contract, and to determine whether the Corporation acts as a principal or agent for certain performance obligations. When multiple performance obligations are identified in a contract, the transaction price is allocated based on the stand-alone selling price of each performance obligation. If stand-alone selling price is not observable, the Corporation estimates the stand-alone selling price for each distinct performance obligation based on the related expected cost plus margin of each distinct performance obligation. The Corporation is acting as a principal when the Corporation controls the goods or services before transfer to the customer. The Corporation is acting as an agent when it is obliged to arrange for the provision of the goods and services by another party that are not controlled by the Corporation before transfer to the customer. When the Corporation acts as an agent, the revenue is recognized net of any related costs incurred.

Prior to April 1, 2018, revenue was measured at the fair value of the consideration received or receivable for the services provided, net of discounts and sales taxes. Revenue from the rendering of services was recognized in the period the services were provided and when there was clear proof that an arrangement exists, amounts were determinable and the ability to collect was reasonably assured.

The Corporation's principle sources of revenue and methods applied to the recognition of these revenues in these condensed interim financial statements are as follows:

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited

June 30, 2018

### 3. Significant Accounting Policies (continued)

#### a) Revenue recognition (continued)

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##### *Water sales and treatment revenues*

The contracts with customers for the supply of each of potable water, non-potable water and wastewater treatment primarily consist of perpetual contracts that are effective until terminated by the customer or the Corporation. The Corporation provides a series of distinct goods or services, which are simultaneously received and utilized by the customers. Each of the performance obligations is satisfied over time using the output method for recognition of revenue, i.e. the units of each good or service supplied to the customer.

Revenues are calculated based on the customer's usage of the goods during the period, at the applicable rates as per the terms of the respective contracts. Customers are generally billed on a monthly basis and payment is generally due within 30 days of billing the customer.

##### *Services revenues*

The contracts with customers for the supply of certified operations & maintenance and remote monitoring services primarily consist of perpetual contracts that are effective until terminated by the customer or the Corporation. The contracts with customers for the supply of each of project management, northern project management, operator training, and leak detection services primarily consist of short and medium term contracts that are effective until the end of the term, when the performance obligation is fulfilled or they are terminated by the customer or the Corporation. Certain service contracts include multiple services, each of which the Corporation has determined to typically constitute distinct performance obligations. Each of the performance obligations in these contracts relate to the provision of a series of distinct services, which are simultaneously received and utilized by the customers. Performance obligations under these contracts are satisfied over time using both input and output methods, depending on the nature of each distinct performance obligation.

Revenues are calculated based on the services provided to the customer during the period, at the applicable rates as per the terms of the respective contracts. These revenues include an estimate of the value of services provided to the customers in the reporting period and billed subsequent to the reporting period. Customers are generally billed within a month and payment is generally due within 30 days of billing the customer.

##### *Other revenues*

The contracts with customers that result in deferred revenues primarily consist of perpetual contracts that are effective until terminated by the customer or the Corporation. Recognition of the deferred revenue is described in Note 3 (b).

Revenues are calculated based on the goods or services provided to the customer during the period, at the applicable rates as per the terms of the respective contracts. Customers are generally billed within a month and payment is generally due within 30 days of billing the customer.

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited June 30, 2018

### 3. Significant Accounting Policies (continued)

#### **b) Deferred revenue**

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##### *Government grants*

Government grants are recognized initially as deferred revenue at fair value when there is reasonable assurance that they will be received and the Corporation will comply with the conditions associated with the grant. Grants that compensate the Corporation for expenses incurred are recognized in net income on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Corporation for the cost of an asset are recognized in net income on a systematic basis over the useful life of the asset. There is no change in policy for revenue recognition of government grants as a result of the implementation of IFRS 15.

##### *Customer contributions*

Customer contributions are received from customers, generally in the form of cash, to assist in the construction of assets to provide services to the contributing customers. Prior to the commencement of construction these amounts are recorded as infrastructure deposits. As construction occurs these amounts are transferred to deferred revenue.

When completion of the construction is determined to be a separately identifiable performance obligation, these amounts are recognized directly into net income. When completion of construction is not determined to be separate from the ongoing supply or services performance obligation, these amounts are transferred to deferred revenue and recognized in net income over the term of the contract with the customer. If the contract does not specify a period or automatically continues in effect after an initial term, the revenue shall be recognized over a period no longer than the useful life of the related assets used to provide the ongoing service. There is no change in policy for revenue recognition of customer contributions as a result of the implementation of IFRS 15.

#### **c) Contract assets and liabilities**

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The Corporation recognizes a contract asset or contract liability for the contracts where either party has performed. A contract liability is recorded when the Corporation receives consideration before the performance obligations have been satisfied. A contract asset is recorded when the Corporation has rights to consideration for the completion of a performance obligation when that right is conditional on something other than the passage of time. The Corporation recognizes unconditional rights to consideration separately as a receivable. Contract assets and receivables are evaluated at each reporting period to determine whether there is any objective evidence that they are impaired.

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited June 30, 2018

### 4. Revenue

	<b>Three months ended June 30</b>	
	<b>2018</b>	<b>2017</b>
	(Thousands)	
<b>Water sales and treatment</b>		
Potable water supply	\$ 6,425	\$ 5,676
Non-Potable water supply	5,239	5,345
Wastewater treatment	159	162
	<u>11,823</u>	<u>11,183</u>
<b>Services</b>		
Certified operations & maintenance	550	394
Project management	198	114
Northern project management	244	172
Operator training	204	200
Leak detection	4	7
ROAM	9	4
	<u>1,209</u>	<u>891</u>
<b>Other</b>		
Amortization of customer contributions	1,517	1,474
Amortization of government grants - capital related	67	67
Miscellaneous revenue	133	171
	<u>1,717</u>	<u>1,712</u>
	<u>\$ 14,749</u>	<u>\$ 13,786</u>

### 5. Finance income and expenses

	<b>Three months ended June 30</b>	
	<b>2018</b>	<b>2017</b>
	(Thousands)	
<b>Finance income</b>		
Debt retirement fund earnings	\$ 72	\$ 74
Other finance income	9	2
	<u>81</u>	<u>76</u>
<b>Finance expenses</b>		
Interest expense on short-term debt	16	10
Interest expense on long-term debt	547	568
Realized loss on redemption of debt retirement funds	-	16
Unwinding of discount on provisions	13	21
Other interest expense	-	(10)
Amortization of Discounts (Premiums) and Commissions	2	1
	<u>578</u>	<u>606</u>
Net finance expense	<u>\$ (497)</u>	<u>\$ (530)</u>



# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited

June 30, 2018

### 6. Equity Advance and Capital Disclosure

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long term obligations and ensuring financial health, while achieving the growth plans of the Corporation.

As a Crown corporation, SaskWater receives its long-term capital funding primarily from the Saskatchewan Ministry of Finance. SaskWater also has access to a \$30 million line of credit.

The Corporation's capital consists of notes payable, long-term debt and equity, less debt retirement funds.

The Corporation monitors capital on the basis of the debt ratio. The current long-term debt ratio target is 60%, which is consistent with the prior period. The debt ratio is calculated as net debt divided by end of period capitalization as follows:

	June 30, 2018	March 31, 2018
	(Thousands)	
Gross long-term debt	\$ 66,393	\$ 66,393
Notes payable	5,016	5,000
Debt retirement funds	(12,859)	(12,387)
Net debt	58,550	59,006
Total equity	69,288	67,662
Capitalization	\$ 127,838	\$ 126,668
Debt ratio	45.8%	46.6%

The Corporation has complied with all externally imposed restrictions on its debt for the period ended June 30, 2018.

### 7. Commitments and Contingencies

#### a) Contractual commitments (Thousands)

As of June 30, 2018, the Corporation has outstanding commitments of \$18,815 (March 31, 2018 - \$23,126) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.

The Corporation has provided, in its accounts, for any known claims from lawsuits or other legal proceedings for which there is material risk of liability to the Corporation in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise between amounts provided and amounts expended in the period in which the claims are resolved.

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited June 30, 2018

### 8. Financial instruments

#### a) Fair values

Fair values are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following summarizes the classification, carrying amounts and fair values of the Corporation's financial instruments:

	Classification <sup>1</sup>	Level <sup>2</sup>	June 30, 2018 Asset (Liability)		March 31, 2018 Asset (Liability)		
			Carrying Amount	Fair Value	Carrying Amount	Fair Value	
			(Thousands)		(Thousands)		
<b>Financial assets</b>							
Cash	FVTPL	1	\$ 2,805	\$ 2,805	\$ 6,758	\$ 6,758	
Trade and other receivables	AC	N/A	11,083	11,083	9,761	9,761	
Debt retirement funds	FVOCI	2	12,859	12,859	12,387	12,387	
<b>Financial liabilities</b>							
Trade and other payables	OL	N/A	(7,196)	(7,196)	(7,632)	(7,632)	
Notes payable	OL	N/A	(5,016)	(5,016)	(5,000)	(5,000)	
Dividends payable	OL	N/A	(388)	(388)	(664)	(664)	
Infrastructure deposits	OL	N/A	-	-	-	-	
Long-term debt	OL	2	(66,393)	(69,946)	(66,393)	(61,357)	

<sup>1</sup>Classification details are as follows:

FVTPL - Fair value through profit and loss

AC - Amortized cost

FVOCI - Fair value through other comprehensive income (loss)

OL - Other liabilities

<sup>2</sup>Level details are as follows:

Level 1 – Where quoted prices are readily available from an active market.

Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

Level 3 – Valuation for the asset or liability that are not based on observable market data.

Not applicable (N/A) – Financial instruments that are carried at values which approximate fair value.