

CARTIER REGIONAL WATER CO-OP INC.

HEADINGLEY, MANITOBA

DECEMBER 31, 2018



REID & ASSOCIATES
Chartered Professional Accountants Inc.

Independent Auditors' Report

To the Members of;
Cartier Regional Water Co-op Inc.

Opinion

We have audited the accompanying financial statements of Cartier Regional Water Co-op Inc., which comprise the balance sheet as at December 31, 2018, and the statements of revenue and expenditure, 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 Cartier Regional Water Co-op Inc. as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not for profit organizations.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the organization 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 the financial statements in accordance with Canadian accounting standards for not for profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.



Auditors' 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 auditors' 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 Cartier Regional Water Co-op Inc.'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 Cartier Regional Water Co-op Inc.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause Cartier Regional Water Co-op Inc. 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.

May 10, 2019
Winnipeg, Manitoba

Reid & Associates
Chartered Professional Accountants Inc.

CARTIER REGIONAL WATER CO-OP INC.

BALANCE SHEET

AS AT DECEMBER 31

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	42,321	42,488
Accounts receivable	750,532	551,287
Grants receivable (note 3)	-	738,566
Inventory (note 2)	81,795	-
Prepaid expenses	161,846	144,400
	<u>1,036,494</u>	<u>1,476,741</u>
TANGIBLE CAPITAL ASSETS (note 4)	<u>58,709,149</u>	<u>57,864,554</u>
	<u>59,745,643</u>	<u>59,341,295</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	207,535	122,443
Wages payable	22,914	-
Unexpended capital contribution	84,724	157,982
	<u>315,173</u>	<u>280,425</u>
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (note 5)	46,824,517	46,580,661
DUE TO MANITOBA WATER SERVICES BOARD (note 6)	<u>14,182,080</u>	<u>14,028,026</u>
	<u>61,321,770</u>	<u>60,889,112</u>
NET ASSETS		
NET ASSETS	(2,083,807)	(2,025,497)
CONTINGENCY RESERVE	<u>507,680</u>	<u>477,680</u>
	<u>(1,576,127)</u>	<u>(1,547,817)</u>
	<u>59,745,643</u>	<u>59,341,295</u>

Approved on Behalf of the Board

_____ Director

_____ Director

The accompanying notes are an integral part of these financial statements

CARTIER REGIONAL WATER CO-OP INC.**STATEMENT OF REVENUE AND EXPENDITURE****FOR THE YEAR ENDED DECEMBER 31**

	2018	2018	2017
	Budget		
REVENUE			
Province of Manitoba - MWSB Grants			
Contingency allocation	30,000	30,000	30,000
Water sales	2,445,000	2,814,403	2,564,936
Rebates and discounts	-	98,044	59,251
Truck fill sales	177,000	291,201	179,960
	<u>2,652,000</u>	<u>3,233,648</u>	<u>2,834,147</u>
EXPENDITURE			
Audit	8,000	5,600	9,736
Capitalization fees	540,000	540,000	540,000
Interest on MWSB advances	-	17,553	19,231
Operating and maintenance costs	2,251,000	2,255,184	2,492,817
Water expenses	215,000	294,446	255,955
	<u>3,016,000</u>	<u>3,112,783</u>	<u>3,317,739</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURE BEFORE AMORTIZATION	(364,000)	120,865	(483,592)
AMORTIZATION			
Current	-	760,202	811,311
Amortization of deferred contributions	-	(611,027)	(611,027)
	<u>-</u>	<u>149,175</u>	<u>200,284</u>
EXCESS OF EXPENDITURE OVER REVENUE	<u>(364,000)</u>	<u>(28,310)</u>	<u>(683,876)</u>

The accompanying notes are an integral part of these financial statements

CARTIER REGIONAL WATER CO-OP INC.**STATEMENT OF CHANGES IN NET ASSETS**

	Year Ended December 31			
	Contingency reserve	Net assets	2018 Total	2017 Total
NET ASSETS				
Balance, beginning of year	477,680	(2,025,497)	(1,547,817)	(863,941)
Excess of expenditure over revenue	-	(28,310)	(28,310)	(683,876)
Transfer to contingency reserve	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>507,680</u>	<u>(2,083,807)</u>	<u>(1,576,127)</u>	<u>(1,547,817)</u>

The accompanying notes are an integral part of these financial statements

CARTIER REGIONAL WATER CO-OP INC.**STATEMENT OF CASH FLOWS**

	Year Ended December 31	
	2018	2017
CASH PROVIDED BY (USED FOR) THE FOLLOWING ACTIVITIES		
OPERATING		
Excess of expenditure over revenue for the year	(28,310)	(683,876)
Items not affecting cash:		
Amortization	760,202	811,311
Amortization of deferred contributions related to capital assets	<u>(611,027)</u>	<u>(611,027)</u>
	120,865	(483,592)
Net changes in non-cash working capital affecting operations (<i>note 13</i>)	<u>474,828</u>	<u>1,101,860</u>
	<u>595,693</u>	<u>618,268</u>
FINANCING		
Proceeds from deferred contributions related to capital assets	854,883	611,027
Repayment of deferred contributions related to capital assets	-	(92,858)
Advance from Manitoba Water Service Board	<u>154,054</u>	<u>438,409</u>
	1,008,937	956,578
INVESTING		
Purchase of tangible capital assets	<u>(1,604,797)</u>	<u>(1,649,601)</u>
DECREASE IN CASH RESOURCES	(167)	(74,755)
CASH RESOURCES, BEGINNING OF YEAR	<u>42,488</u>	<u>117,243</u>
CASH RESOURCES, END OF YEAR	<u><u>42,321</u></u>	<u><u>42,488</u></u>

The accompanying notes are an integral part of these financial statements

CARTIER REGIONAL WATER CO-OP INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

1. NATURE OF ACTIVITIES

The Cartier Regional Water Co-op Inc. (CRWCI) is incorporated under The Cooperatives Act and is engaged in providing treated water to the residents of its members. The financial accounting of CRWCI is the joint responsibility of the managements of CRWCI and the Manitoba Water Services Board (MWSB).

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the organization have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. Outlined below are those policies considered particularly significant for the organization.

a) TANGIBLE CAPITAL ASSETS

Tangible capital assets are stated at cost. Amortization based on the estimated useful life of the asset is calculated as follows:

	<u>Method</u>	<u>Rate</u>
Fences & landscaping	straight line	10 % per annum
Laboratory equipment	straight line	10 % per annum
Pipelines & earthworks	straight line	5 % per annum
Reservoirs	straight line	5 % per annum
Water treatment plant	straight line	2.5 % per annum

CARTIER REGIONAL WATER CO-OP INC.

NOTES TO THE FINANCIAL STATEMENTS

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b) FINANCIAL INSTRUMENTS

Measurement of financial instruments

The organization initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statements of operations in the period incurred. Financial assets measured at amortized cost include cash, amounts receivable and fixed income investments.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities. Financial assets measured at fair value include equity instruments that are quoted in an active market.

The fair values of investments quoted in an active market are determined by reference to the latest closing transactional net asset value of each respective investment.

Impairment

At the end of each reporting period, the organization assesses whether there are any indications that a financial asset measured at amortized cost may be impaired. Objective evidence of impairment includes observable data that comes to the attention of the organization, including but not limited to the following events: significant financial difficulty of the issuer; a breach of contract, such as a default or delinquency in interest or principal payments; or bankruptcy or other financial reorganization proceedings.

When there is an indication of impairment, the organization determines whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset.

When the organization identifies a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it reduces the carrying amount of the asset to the highest of the following:

- i) the present value of the cash flows expected to be generated by holding the asset discounted using a current market rate of interest appropriate to the asset;
- ii) the amount that could be realized by selling the asset at the statement of financial position date; and
- iii) the amount the organization expects to realize by exercising its rights to any collateral held to secure repayment of the asset net of all costs necessary to exercise those rights.

The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the reduction is recognized as an impairment loss in the statements of operations.

When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent of the improvement, directly or by adjusting the allowance account.

The amount of the reversal is recognized in the statements of operations in the period the reversal occurs.

Transaction costs

CARTIER REGIONAL WATER CO-OP INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

Transaction costs are recognized in the statements of operations in the period incurred, except for financial instruments that will be subsequently measured at amortized cost. Transaction costs associated with the acquisition and disposal of fixed income investments are capitalized and are included in the acquisition costs or reduce proceeds on disposal. Investment management fees associated with the index pooled funds are expensed as incurred.

c) MEASUREMENT UNCERTAINTY

Estimates are used to accrue revenues and expenses in circumstances where the actual accrued amounts are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable possible amount, as there is whenever estimates are used. Estimates were used when accounting for certain items, such as the useful lives of capital assets and impairment of long-lived assets.

d) REVENUE RECOGNITION

Water sales and user fee contributions are recognized as revenue when received or receivable if the amount received can be reasonably estimated and collection is reasonably assured.

The organization recognizes revenue from grants when they are fixed or determinable and collection is reasonably assured.

3. GRANTS RECEIVABLE

	2018	2017
	\$	\$
New Building Canada Fund (PTIC-NRP)	-	323,566
Rural Municipality of West St. Paul	-	415,000
	<u>-</u>	<u>738,566</u>

4. TANGIBLE CAPITAL ASSETS

	2018			2017		
	Cost	Accumulated Amortization	Balance	Cost	Accumulated Amortization	Balance
Fences & landscaping	12,546	12,546	-	12,546	12,546	-
Laboratory equipment	118,474	46,566	71,908	118,474	33,339	85,135
Pipelines & earthworks	12,553,842	3,012,146	9,541,696	12,480,062	2,819,242	9,660,820
Reservoirs	27,237,270	2,477,420	24,759,850	25,947,381	2,052,783	23,894,598
Water treatment plant	26,471,596	2,135,901	24,335,695	26,230,469	2,006,468	24,224,001
	<u>66,393,728</u>	<u>7,684,579</u>	<u>58,709,149</u>	<u>64,788,932</u>	<u>6,924,378</u>	<u>57,864,554</u>

CARTIER REGIONAL WATER CO-OP INC.
NOTES TO THE FINANCIAL STATEMENTS

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5. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Changes in deferred contributions are as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Deferred contributions, beginning	46,580,661	46,673,519
Contributions received during year	854,883	518,169
Less: amounts recognized in income	<u>(611,027)</u>	<u>(611,027)</u>
Deferred contributions, end of year	<u><u>46,824,517</u></u>	<u><u>46,580,661</u></u>

6. DUE TO MANITOBA WATER SERVICES BOARD

The amount due to the Manitoba Water Services Board (MWSB) has no fixed term of repayment.

CARTIER REGIONAL WATER CO-OP INC.

NOTES TO THE FINANCIAL STATEMENTS

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7. RETIREMENT BENEFITS

The majority of the employees of the Organization are members of the Municipal Employees' Pension Plan (MEPP), which is a multi-employer defined benefit pension plan. MEPP members will receive benefits based on 1.5% of their final average yearly Canada Pension Plan (CPP) earnings times years of service, plus 2% of their final average yearly non-CPP earnings times years of service. The costs of the retirement plan are not allocated to the individual entities within the related group. As a result, individual entities within the related group are not able to identify their share of the underlying assets and liabilities. Therefore, the plan is accounted for as a defined contribution plan in accordance with the requirements of the Chartered Professional Accountants of Canada Handbook section 3064.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by MEPP by placing plan assets in trust and through MEPP investment policy. The pension expense is based on the contribution rate. The MEPP required that employees contribute 8.3% of basic annual earnings up to the CPP ceiling plus 9.5% of basic annual earnings in excess of the CPP ceiling, plus an additional 0.1% of earnings below and in excess of the CPP ceiling from employees that are not members of the Municipal Disability Income Plan. The employers are required to match the employee contributions to the MEPP. Actual contributions to MEPP made during the year by the Organization on behalf of its employees amounted to \$40,223 (2017 - \$40,815) and are included in the statement of operations.

Subject to the following paragraph, any unfunded liabilities are to be funded by the participating employers. The most recent actuarial valuation as of December 31, 2017 indicated the plan was 100.8% funded on a going concern basis and had an unfunded solvency liability of \$246.8 million. The solvency position of the plan is determined by comparing the plan assets to the actuarial present value of the benefits accrued in respect of credited service up to the valuation date, calculated as if the plan were wound up on December 31, 2017.

In 2010, the Government of Manitoba enacted a regulation which permits sponsors of public sector pension plans, including MEPP, to elect permanent exemption from solvency funding requirements subject to certain conditions stated in the regulation. MEPP has elected permanent exemption from solvency funding requirements. As a result, solvency funding is no longer required by MEPP.

8. FINANCIAL INSTRUMENTS

The organization as part of its operations carries a number of financial instruments. It is management's opinion the Organization is not exposed to significant interest, currency or credit risk arising from these financial instruments, except as otherwise disclosed. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

9. CONTINGENCY RESERVE

In accordance with the Operating Agreement, the CRWCI will establish a contingency fund with an annual appropriation of \$30,000. This special reserve will be for the exclusive benefit of the facility to ensure funding of capital improvements.

CARTIER REGIONAL WATER CO-OP INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

10. COMMITMENTS

The Operating Agreement signed on May 19, 1998 is an agreement between the CRWCI, MWSB and CWP Limited Partnership and provides for the operation and maintenance of the facility over 20 years from commission date.

The CRWCI will pay specific fees in advance and on a quarterly basis with first payment due on commission date.

The MWSB, in a memorandum of understanding dated May 19, 1998, has agreed to maintain the guarantee, as stated in the Operating Agreement.

The Ground Lease and Transfer Agreement signed on May 19, 1998 is an agreement between the CRWCI and CWP provides for the lease of the land owned by the rural municipalities to CWP for \$1.00 per annum, and the transfer of the facility to the CRWCI at the end of the lease term which is 20 years after commission date.

11. ECONOMIC DEPENDENCE

The CRWCI is economically dependent upon funding from the MWSB for debt servicing and guaranteeing of deficits.

12. BUDGET

The budget numbers are unaudited and, accordingly, I express no assurance in respect to the budget.

13. CASH FLOW STATEMENT

	<u>2018</u>	<u>2017</u>
Net changes in non-cash working capital affecting operations		
Accounts receivable	(199,245)	(58,429)
Grants receivable	738,566	1,726,434
Prepaid expenses	(17,446)	(4,712)
Inventory	(81,795)	-
Accounts payable and accrued liabilities	85,092	16,350
Deferred revenue	-	(7,870)
Unexpended capital contribution	(73,258)	(547,484)
Wages payable	22,914	(22,429)
	<u>474,828</u>	<u>1,101,860</u>

