

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.

Financial Statements

Year Ended December 31, 2020

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.

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Year Ended December 31, 2020

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements are the responsibility of the management of the South Central District Water Co-operative Inc. and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of the Chartered Professional Accountants Canada.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly accounted for and safeguarded, and that financial information produced is relevant and reliable.

The Board met with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

Exchange Chartered Professional Accountants LLP, as the appointed external auditors, have audited the financial statements. The Auditors' report is addressed to the Board and appears on the following page. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position and results of the Co-op in accordance with Canadian public sector accounting standards.

Board Member

INDEPENDENT AUDITORS' REPORT

To the Members of South Central District Water Co-operative Inc.

Opinion

We have audited the financial statements of South Central District Water Co-operative Inc. (the Co-op), which comprise the statement of financial position as at December 31, 2020, and the statements of operations, changes in net financial debt, changes in accumulated surplus 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 Co-op as at December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Co-op 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 those 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 public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Co-op's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Co-op or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Co-op'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:

(continues)

Independent Auditors' Report to the Members of South Central District Water Co-operative Inc. *(continued)*

- 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 Co-op'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 Co-op'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 the Co-op 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.

Exchange

Chartered Professional Accountants LLP
Winnipeg, Manitoba
May 6, 2021

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.

Statement of Financial Position

December 31, 2020

	<u>2020</u>	<u>2019</u>
FINANCIAL ASSETS		
Accounts receivable (<i>Note 7</i>)	\$ 107,103	\$ 81,713
LIABILITIES		
Accounts payable (<i>Note 7</i>)	134,480	123,905
Due to Manitoba Water Services Board (<i>Note 5</i>)	<u>1,774,527</u>	<u>1,825,635</u>
	<u>1,909,007</u>	<u>1,949,540</u>
NET FINANCIAL DEBT	<u>(1,801,904)</u>	<u>(1,867,827)</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	2,286	1,644
Tangible capital assets (<i>Notes 2, 4</i>)	<u>8,795,245</u>	<u>8,790,909</u>
	<u>8,797,531</u>	<u>8,792,553</u>
ACCUMULATED SURPLUS	<u>\$ 6,995,627</u>	<u>\$ 6,924,726</u>

ON BEHALF OF COUNCIL

_____ *Councillor*

_____ *Councillor*

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.**Statement of Operations**
Year Ended December 31, 2020

	2020	2019
REVENUE		
Water sales (<i>Note 7</i>)	\$ 341,405	\$ 322,737
Water surcharges	82,746	80,215
Water sales - rural customers	32,693	28,541
Interest (<i>Note 7</i>)	16,690	5,990
Rural customer connections	481	225,014
Grants		
Province of MB	89,127	122,115
Grant - Municipality of Pembina (<i>Note 7</i>)	9,500	57,013
Province of MB - rural customer project (<i>Note 7</i>)	481	235,014
	573,123	1,076,639
EXPENSES		
Amortization	203,784	200,395
Chemicals	22,763	16,873
Insurance	18,580	17,024
Interest and bank charges	1,268	10,652
Miscellaneous	1,489	1,727
Office	362	199
Professional fees	25,767	10,918
Repairs and maintenance	37,021	49,164
Rural customer waterline project	835	466,101
Salaries and benefits	148,938	173,508
Telephone	3,485	3,534
Training	-	2,638
Travel	4,558	9,999
Utilities	33,372	30,538
	502,222	993,270
ANNUAL SURPLUS	\$ 70,901	\$ 83,369

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.
Statement of Changes in Accumulated Surplus
Year Ended December 31, 2020

	2020	2019
ACCUMULATED SURPLUS - BEGINNING OF YEAR	\$ 6,924,726	\$ 6,831,357
ANNUAL SURPLUS	<u>70,901</u>	<u>83,369</u>
	6,995,627	6,914,726
RURAL CUSTOMER INVESTMENTS	<u>-</u>	<u>10,000</u>
ACCUMULATED SURPLUS - END OF YEAR	<u>\$ 6,995,627</u>	<u>\$ 6,924,726</u>

See notes to financial statements

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.**Statement of Changes in Net Financial Debt****Year Ended December 31, 2020**

	2020	2019
ANNUAL SURPLUS	\$ 70,901	\$ 83,369
Amortization of tangible capital assets	203,784	200,395
Purchase of tangible capital assets	(208,120)	(237,507)
Decrease (increase) in prepaid expenses	(642)	-
Increase in rural customer investments	-	10,000
	(4,978)	(27,112)
INCREASE IN NET FINANCIAL ASSETS	65,923	56,257
NET FINANCIAL DEBT - BEGINNING OF YEAR	(1,867,827)	(1,924,084)
NET FINANCIAL DEBT - END OF YEAR	\$ (1,801,904)	\$ (1,867,827)

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.**Statement of Cash Flows**
Year Ended December 31, 2020

	2020	2019
OPERATING ACTIVITIES		
Cash receipts from customers and grants	\$ 547,733	\$ 1,098,656
Cash paid to suppliers and employees	(338,344)	(850,496)
Interest paid	(1,269)	(10,653)
Cash flow from operating activities	208,120	237,507
INVESTING ACTIVITY		
Purchase of tangible capital assets	(208,120)	(237,507)
Cash flow used by investing activity	(208,120)	(237,507)
INCREASE IN CASH	-	-
CASH - BEGINNING OF YEAR	-	-
CASH - END OF YEAR	\$ -	\$ -

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.

Notes to Financial Statements Year Ended December 31, 2020

1. DESCRIPTION OF OPERATIONS

The South Central District Water Co-op Inc. was incorporated as a Cooperative in Southwestern Manitoba in 2014. The Co-op's mandate is to provide high quality water to ratepayers of the member Municipalities, the Municipality of Louise and the Municipality of Pembina.

The Co-op is exempt from income taxes under section 149(1)(C) of the Income Tax Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian public sector accounting standards. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within the reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Tangible Capital Assets

Tangible capital assets are stated at cost less accumulated amortization. Tangible capital assets are amortized over their estimated useful lives at the following rates and methods:

Buildings	40 years	straight-line method
Vehicles	5 years	straight-line method
Waterlines	50 years	straight-line method

The Co-op regularly reviews its capital assets to eliminate obsolete items. Tangible capital assets that are not available for use at year end are not amortized until they become available for use.

Revenue recognition

The Co-op 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.

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.

Notes to Financial Statements Year Ended December 31, 2020

3. FINANCIAL INSTRUMENTS

The Co-op is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Co-op's risk exposure and concentration as of December 31, 2020.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Co-op is exposed to credit risk from customers. Accounts receivable balances are primarily due from Government entities and few rural customers, which reduces credit risk.

Unless otherwise noted, it is management's opinion that the Co-op is not exposed to significant other price risks arising from these financial instruments.

4. TANGIBLE CAPITAL ASSETS

	2020		2019	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	\$ 10,851	\$ -	\$ 10,851	\$ -
Buildings	3,108,290	231,310	2,970,090	155,330
Equipment	31,008	1,550	-	-
Vehicles	32,033	27,228	32,033	20,821
Waterlines	6,197,560	429,533	5,991,174	309,686
Assets under construction	105,124	-	272,598	-
	\$ 9,484,866	\$ 689,621	\$ 9,276,746	\$ 485,837
Net book value	\$ 8,795,245		\$ 8,790,909	

5. DUE TO MANITOBA WATER SERVICES BOARD

The amount due to the Manitoba Water Services Board is non-interest bearing and has no fixed term of repayment. These balances arose because the Co-op uses the Manitoba Water Services Board bank account to fund their operations.

6. PUBLIC SECTOR COMPENSATION DISCLOSURE

It is a requirement of the Public Sector Compensation Disclosure Act that annual public disclosure be made of aggregate compensation paid to members of the Board, and of individual compensation in an amount exceeding \$75,000 annually to any member of the Board, officer or employee of the Co-op. For the year ended December 31, 2020:

- a) Compensation paid to board members amounted to \$0.
- b) There were no members of the board receiving compensation in excess of \$75,000 individually.
- c) No employees received compensation in excess of \$75,000 individually.

SOUTH CENTRAL DISTRICT WATER CO-OPERATIVE INC.

Notes to Financial Statements Year Ended December 31, 2020

7. RELATED PARTY TRANSACTIONS

The following is a summary of the Co-op's related party transactions:

	2020	2019
Municipality of Louise (Member of the Cooperative)		
Water sales	\$ 178,489	\$ 157,979
Water surcharges	43,253	39,230
	\$ 221,742	\$ 197,209
Municipality of Pembina (Member of the Cooperative)		
Water sales	\$ 162,917	\$ 164,758
Grant	9,500	57,013
Water surcharges	39,493	40,985
	\$ 211,910	\$ 262,756

These transactions are 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 \$16,723 (2019 - \$17,519) from the Municipality of Pembina and \$57,999 (2019 - \$16,284) from the Municipality of Louise. Included in accounts payable is \$6,881 (2019 - \$7,991) owing to the Municipality of Pembina and \$28,641 (2019 - \$13,211) owing to the Municipality of Louise.

8. COVID-19

Reactions and restrictions to Coronavirus (COVID-19) continue to evolve and change regularly. Management of the Co-op continues to maintain operations where possible, while looking out for the needs and safety of their clients and employees.

Operations in the historical financial statements, as presented, do not give rise to potential going-concern issues. However, given the uncertainties on the economy, management cannot predict the effect that this will have on their future operations or cash flows.