



Auditor General MANITOBA

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba
To the Board of Directors of the Manitoba Water Services Board

Opinion

We have audited the financial statements of the Manitoba Water Services Board ("the Board"), which comprise the statement of financial position as at March 31, 2020, and the statement of operations, the statement of changes in net debt and the statement of 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 Board as at March 31, 2020, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards (PSAS).

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Board 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 PSAS, 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 Board'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 an intention exists to liquidate the Board or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board'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 Board'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 Board'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 Board 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.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba

August 18, 2020

THE MANITOBA WATER SERVICES BOARD

Statement of Financial Position

As at March 31, 2020

	2020	2019
Financial assets		
Cash	\$ 2,500,394	\$ 2,959,177
Accounts Receivable	14,511,955	19,027,570
Accrued Interest	16,593	75,298
Unbilled construction costs to Municipalities (note 4)	11,062,873	18,118,779
	28,091,815	40,180,824
Liabilities		
Accounts payable and accrued charges	16,166,199	16,376,663
Advances from The Province of Manitoba payable on demand (note 12)	27,161,000	32,781,000
	43,327,199	49,157,663
Net Debt	(15,235,384)	(8,976,839)
Non-financial assets		
Tangible capital assets (note 5)	-	10,310
Prepaid supplies	62,120	67,396
	62,120	77,706
Accumulated surplus (deficit) (note 6)	\$ (15,173,264)	\$ (8,899,133)

Commitments (note 8)

Contingencies (note 9)

The accompanying notes are an integral part of these financial statements.

On behalf of Board:

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Chair

THE MANITOBA WATER SERVICES BOARD

Statement of Operations

For the year ended March 31, 2020

	Budget (note 13)	2020	2019
Revenues:			
Sale of Water	\$ 6,400,000	\$ 6,013,744	\$ 5,956,425
Administrative expenses paid by the Province of Manitoba (note 7)	2,711,000	2,579,814	2,442,974
Strategic Municipal Investment Fund	15,824,000	14,646,311	13,754,128
Interest	15,000	7,384	43,758
	24,950,000	23,247,253	22,197,285
Expenses:			
Direct expenses for water supply plants:			
Interest expense	1,100,000	1,220,151	1,410,384
Interest allocated to new construction	(1,400,000)	(1,300,899)	(1,383,970)
	(300,000)	(80,748)	26,414
Chemicals	670,000	778,774	638,616
Heat, telephone, light and power	1,700,000	1,627,277	1,635,442
Professional services	400,000	520,834	799,632
Salaries and benefits	1,800,000	1,838,445	1,724,206
Repairs and maintenance	1,400,000	1,200,433	1,324,095
Administrative (note 7)	2,711,000	2,579,814	2,442,974
	8,381,000	8,464,829	8,591,379
Grants to Municipalities	15,824,000	14,646,311	13,754,128
Annual surplus (deficit)	745,000	136,113	(148,222)
Accumulated deficit, beginning of year	(8,899,133)	(8,899,133)	(8,048,863)
Net disbursements to municipalities (note 6)	(5,730,000)	(6,410,244)	(702,048)
Accumulated deficit, end of year	\$ (13,884,133)	\$ (15,173,264)	\$ (8,899,133)

The accompanying notes are an integral part of these financial statements.

THE MANITOBA WATER SERVICES BOARD

Statement of Change in Net Debt

For the year ended March 31, 2020

	Budget (note 13)	2020	2019
Annual surplus (deficit)	\$ 745,000	\$ 136,113	\$ (148,222)
New construction costs	(90,000,000)	(88,023,604)	(100,586,905)
Funds recovered from:			
Strategic Municipal Investment Fund	15,823,600	14,646,311	13,754,128
Municipalities	73,176,400	80,433,199	88,361,711
Change in unbilled construction costs	1,000,000	(7,055,906)	(1,528,934)
	-	-	-
Decrease (increase) in prepaid supplies	500	5,276	(3,442)
Tangible capital assets	-	10,310	-
Net disbursements to municipalities	(5,730,000)	(6,410,244)	(702,048)
Increase in net debt	(4,984,500)	(6,258,545)	(853,712)
Net debt, beginning of year	(8,976,839)	(8,976,839)	(8,123,127)
Net debt, end of year	\$ (13,961,339)	\$ (15,235,384)	\$ (8,976,839)

The accompanying notes are an integral part of these financial statements.

THE MANITOBA WATER SERVICES BOARD

Statement of Cash Flows

For the year ended March 31, 2020

	2020	2019
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ 136,113	\$ (148,222)
Change in non-cash operating working capital:		
Accounts receivable	4,515,615	5,188,513
Due from Province of Manitoba	-	1,087,144
Prepaid supplies	5,276	(3,442)
Accounts payable and accrued charges	(210,464)	2,225,035
Accrued Interest	58,705	(43,660)
Cash provided by (used in) operating activities	<u>4,505,245</u>	<u>8,305,368</u>
Financing activities:		
Advances received	17,200,000	28,561,000
Advances repaid	(22,820,000)	(37,900,000)
Cash provided by (used in) financing activities	<u>(5,620,000)</u>	<u>(9,339,000)</u>
Capital activities:		
New construction costs	(88,023,604)	(100,586,905)
Funding recovered from:		
Province of Manitoba	14,646,311	13,754,128
Municipalities	80,433,199	88,361,711
Increase (decrease) in unbilled construction costs	7,055,906	1,528,934
Tangible capital assets	10,310	-
Net disbursements to municipalities	(6,410,244)	(702,048)
Cash used in capital activities	<u>655,972</u>	<u>826,886</u>
Increase (decrease) in cash	<u>(458,783)</u>	<u>(206,746)</u>
Cash, beginning of year	<u>2,959,177</u>	<u>3,165,923</u>
Cash, end of year	<u>\$ 2,500,394</u>	<u>\$ 2,959,177</u>

The accompanying notes are an integral part of these financial statements.

Supplementary Financial Information

- Interest paid \$1,220,151 (2019 - \$1,410,384)
- Interest received \$1,300,899 (2019 - \$1,383,970)

THE MANITOBA WATER SERVICES BOARD

Notes to Financial Statements

For the year ended March 31, 2020

1. Nature of operations:

The Manitoba Water Services Board (the Board) was established in July 1972 under The Manitoba Water Services Board Act to assist in the provision of water and sewage facilities to the residents of rural Manitoba. The Board assists municipalities with the development of sustainable water and wastewater works, including; water supply, treatment, storage and distribution; collection and treatment of sewage; the disposal of treated effluent and waste sludge in an environmentally sustainable manner and the provision of drought resistant, safe water supplies to rural residents for domestic and livestock needs.

2. Significant accounting policies:

(a) Basis of accounting:

The financial statements have been prepared using Canadian public sector accounting standards established by the Public Sector Accounting Board.

(b) Classification and measurement of financial instruments:

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Board records its financial assets at cost or amortized cost, which include cash and cash equivalents, accounts receivable and accrued interest. The Board also records its financial liabilities at cost or amortized cost, which include accounts payable and accrued charges and advances from the Province of Manitoba.

Amortized cost is determined using the effective interest method.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as remeasurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative remeasurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

The Board did not incur any remeasurement gains and losses during the year (2019 - nil).

THE MANITOBA WATER SERVICES BOARD

Notes to Financial Statements

For the year ended March 31, 2020

2. Significant accounting policies (continued):

(c) Tangible capital assets and construction in progress:

Tangible capital assets are recorded at cost and amortization is calculated on a straight-line basis over the following terms:

Asset	Term
Plants constructed prior to January 1, 1972:	
Equipment	18 years
Buildings	35 years
Plants constructed after January 1, 1972:	
Equipment	20 years
Buildings	20 years

Unbilled construction costs represent costs incurred to date, net of recoveries, for capital projects managed by the board on behalf of municipalities. Financing costs are included in the unbilled construction costs amounts.

(d) Revenue recognition:

Revenue from the sale of water is recognized in the period when consumed by the town or municipality.

Revenue for the administrative reimbursements is recognized in the period when the expenses are recognized.

Revenue for the grants is recognized in the period when the corresponding amount is paid to the municipalities.

Unrestricted revenue is recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(e) Administrative expenses paid by the Province of Manitoba:

Administrative expenses are paid by the Province of Manitoba on behalf of the Board and recorded at the exchange amount agreed to by the related parties in the financial statements.

THE MANITOBA WATER SERVICES BOARD

Notes to Financial Statements

For the year ended March 31, 2020

2. Significant accounting policies (continued):

(f) Pension costs and obligations:

The Board's employees are eligible for membership in the provincially-operated Civil Service Superannuation Plan. The pension liability for Board employees is included in the Province of Manitoba's liability for the Civil Service Superannuation Fund. Accordingly, no provision is recorded in the financial statements related to the effects of participation in the pension plan by the Board and its employees.

(g) Use of estimates:

The preparation of the financial statements 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 revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of accounts receivable and tangible capital assets. Actual results could differ from those estimates.

3. Financial instruments and financial risk management:

Financial risk management - overview:

The Board has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk, and
- Interest rate risk

The Board manages its exposure to risks associated with financial instruments that have the potential to affect its operating performance. The Board's Directors have the overall responsibility for the establishment and oversight of the Board's objectives, policies and procedures for measuring, monitoring and managing these risks.

The Board has exposure to the following risks associated with its financial instruments:

Credit risk:

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Board to credit risk consist principally of accounts receivable and accrued interest.

THE MANITOBA WATER SERVICES BOARD

Notes to Financial Statements

For the year ended March 31, 2020

3. Financial instruments and financial risk management (continued):

The maximum exposure of the Board's credit risk is as follows:

	2020	2019
Accounts Receivable	\$ 14,511,955	\$ 19,027,570
Accrued Interest	16,593	75,298
	\$ 14,528,548	\$ 19,102,868

Accounts receivable: The Board is not exposed to significant credit risk as the receivables are with Municipal and other government entities and payment in full is typically collected when it is due. Credit evaluations are done for each Rural Municipality.

The aging of accounts receivable are as follows:

	2020	2019
Current	\$ 8,467,814	\$ 9,087,525
30-60 days past billing date	4,503,840	4,746,696
60-90 days past billing date	1,535,772	5,193,249
90-120 days past billing date	4,529	100
	\$ 14,511,955	\$ 19,027,570

Accrued Interest: The Board is not exposed to significant credit risk as the accrued interest relates to receivables with municipalities for ongoing construction and payment is anticipated at the completion of the work.

THE MANITOBA WATER SERVICES BOARD

Notes to Financial Statements

For the year ended March 31, 2020

3. Financial instruments and financial risk management (continued):

Liquidity risk:

Liquidity risk is the risk that the Board will not be able to meet its financial obligations as they come due. The Board manages liquidity risk by maintaining adequate cash balances and by appropriately utilizing working capital advances as required. The Board prepares and monitors detailed forecasts of cash flows from operations and anticipated investing and financing activities. Identified capital supply requirements are reviewed and approved by the Minister of Finance to ensure adequate funding will be available to meet the Board's obligations utilizing bridge financing through The Loan Act. The Board continuously monitors and reviews both actual and forecasted cash flows through periodic financial reporting.

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to accounts receivable, accrued interest, accounts payable and accrued charges, and advances from the Province of Manitoba.

The interest rate risk on the above exposures is considered to be low because of their short-term nature.

4. Unbilled construction costs to Municipalities:

	2020	2019
Balance, beginning of year	\$ 18,118,779	\$ 19,647,713
New construction costs	88,023,604	100,586,905
	106,142,383	120,234,618
Funding recovered from:		
Municipalities	80,433,199	88,361,711
Province of Manitoba	14,646,311	13,754,128
	95,079,510	102,115,839
Unbilled construction costs to Municipalities	\$ 11,062,873	\$ 18,118,779

THE MANITOBA WATER SERVICES BOARD

Notes to Financial Statements

For the year ended March 31, 2020

5. Tangible capital assets:

2020	Cost	Accumulated Amortization	Net book value
Land and easements	\$ -	\$ -	\$ -

2019	Cost	Accumulated Amortization	Net book value
Land and easements	\$ 10,310	\$ -	\$ 10,310

6. Accumulated Surplus/(Deficit):

Accumulated surplus/(deficit) consists of accumulated excess revenues over expenses pertaining to the water supply plants operated by the Board for the benefit of municipalities and pertaining to plants operated by the Board under agreements with municipalities. Separate equity accounts are maintained for each plant operated by the Board. Municipalities are responsible for any deficit balances and are given credit for surplus balances whenever plant operating responsibilities are transferred to the municipalities.

	No.	2020	No.	2019
Plants with deficit	7	\$ (15,680,015)	7	\$ (9,729,283)
Plants with surplus	3	406,751	3	730,150
Total funds retained (deficit), water supply plants	10	(15,273,264)	10	(8,999,133)
Interest and adjustment fund Account (note 6)		100,000		100,000
		\$ (15,173,264)		\$ (8,899,133)

The Board is responsible for all ongoing capital repairs and improvements necessary for the water plants it operates. Costs relating to this during 2019/2020 include capital works approved by the Board for regional systems operated by the Board including, Cartier Regional (\$6,300,359), South Central (\$90,385), Southwest Regional \$162,898, Whitehead-Elton (\$17,765) and Yellowhead (\$164,633). There were no water plants transferred in 2019/2020, therefore the net disbursement to municipalities totaled (\$6,410,244) ((-\$702,048) - 2019).

Interest and adjustment fund account:

THE MANITOBA WATER SERVICES BOARD

Notes to Financial Statements

For the year ended March 31, 2020

6. Accumulated Surplus/(Deficit) continued:

The Board allocates interest costs to construction projects and to the operations of water supply plants at a rate comparable to the Board's cost of borrowing. The interest allocated and the actual net interest costs incurred by the Board are recorded in the Interest Adjustment Fund Account. Board policy is to maintain a balance of \$100,000 in the Interest Adjustment Fund Account to absorb any shortfall in the allocation of actual net interest costs for the year. Interest costs were fully allocated for both the current and the preceding year.

7. Administrative expenses paid by the Province of Manitoba:

Administrative expenses paid by the Province of Manitoba and included in expenses are as follows:

	2020	2019
Professional services	\$ 19,133	\$ 17,322
Salaries and benefits	2,441,553	2,308,923
Telephone and utilities	20,747	19,735
Travel	684	513
Other administrative	97,697	96,481
	<hr/> \$ 2,579,814	<hr/> \$ 2,442,974

8. Commitments:

	2020	2019
Signed agreements and offers for construction of sewer and water systems for municipalities and cooperatives	\$ 103,493,157	\$ 145,171,614

These commitments are expected to be funded as follows:

Subsidization of construction costs –		
Province of Manitoba	\$ 26,256,400	\$ 29,116,500
Recovery of construction costs --		
Municipalities and cooperatives	77,236,757	116,055,114
	<hr/> \$ 103,493,157	<hr/> \$ 145,171,614

THE MANITOBA WATER SERVICES BOARD

Notes to Financial Statements

For the year ended March 31, 2020

9. Contingencies:

The Board is involved in legal proceedings arising in the normal course of business, the outcome of which cannot be predicted at this time. In the opinion of management, the disposition of these cases will not materially affect the financial position of the Board. Any settlement will be recognized in the year the settlement occurs.

10. Related party transactions:

The Board is related in terms of common ownership to all Province of Manitoba created Departments, Agencies and Crown Corporations. The Board enters into transactions with these entities in the normal course of operations and they are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

11. Economic dependency:

The Board is economically dependent on the Province of Manitoba.

12. Advances from The Province of Manitoba payable on demand:

The Board finances construction in progress by borrowing advances from the Province through The *Loan Act*. The Board pays interest on these unfixed advances. Interest payable is set at Prime less 0.75 percent. During 2019/2020 the rate of interest charged fluctuated and decreased from 3.20 percent to 1.70 percent on a quarterly basis. These advances are repaid once funding is received from the municipalities and cooperatives for their share of the eligible project costs.

As at March 31, 2020, the Province had unused authority of \$75,360,000 under The *Loan Act* - 2019 to provide future financing to the Board for construction of municipal sewer and water facilities on behalf of municipalities and cooperatives.

13. Budgeted figures:

The budgeted figures presented in these financial statements have been derived from the estimates approved by the Board.

THE MANITOBA WATER SERVICES BOARD

Notes to Financial Statements

For the year ended March 31, 2020

14. Subsequent event:

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian federal, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Board as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.