



**Union Water Supply Systems Inc.  
Finance & Audit Committee Meeting  
Thursday, September 5, 2024  
Kingsville Arena, 1741 Jasperson**

## **AGENDA**

- A. Call to Order by Committee Chair
- B. Welcoming Remarks
- C. Previous Meeting Minutes Approval
- D. Financial Reports
  - a. Review of Financial Reporting Package
  - b. Review of Board Executive Summary
- E. Financial Policies
  - a. Review of current Investment Policy
  - b. Reserve Policy discussion
- F. Internal Controls Discussion
- G. Review of Proposed Upcoming Meetings
- H. Other Business
- I. Adjournment



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UNION WATER SUPPLY SYSTEM INC.  
COMPARATIVE INTERNAL BALANCE SHEET  
AS OF JULY 31, 2024



	July 2024	June 2024	Variance	Variance (%)	Monthly Commentary
<b>ASSETS</b>					
Cash and short-term investments	\$ 21,190,562	\$ 20,563,511	\$ 627,051	3%	Includes general and reserve funds; once segregated reserve funds will be reclassified and presented as other current asset
Accounts Receivable	-	696,511	(696,511)	0%	
Government Remittances Receivable	97,747	-	97,747	100%	Represents HST recoverable
Prepaid Expenses	44,472	49,164	(4,692)	(11%)	Includes annual fees or software licenses amortized over the year such as PSD CityWide, Canadian Water Network Consortium, Cimsoft Corp.
<b>Total Current Assets</b>	<b>21,332,781</b>	<b>21,309,186</b>	<b>23,595</b>	<b>0%</b>	
<b>Property, Plant, &amp; Equipment</b>	<b>56,269,090</b>	<b>55,573,289</b>	<b>695,801</b>	<b>1%</b>	
<b>TOTAL ASSETS</b>	<b>\$ 77,601,871</b>	<b>\$ 76,882,475</b>	<b>\$ 719,396</b>	<b>1%</b>	
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts Payable	\$ 949,842	\$ 653,549	\$ 296,293	31%	
Accrued Payroll Liabilities	6,873	30,667	(23,794)	(346%)	
Government remittances payable	-	47,451	(47,451)	0%	Represents HST payable
<b>Total Current Liabilities</b>	<b>956,715</b>	<b>731,667</b>	<b>225,048</b>	<b>24%</b>	
<b>Long-term liabilities</b>					
Asset Retirement Obligation	548,284	548,284	-	0%	
<b>Total Liabilities</b>	<b>1,504,999</b>	<b>1,279,951</b>	<b>225,048</b>	<b>15%</b>	
<b>SHAREHOLDERS' EQUITY</b>					
Class A Shares	100	100	-	0%	
Opening Retained Earnings	71,798,346	71,798,346	-	0%	
Current Year Earnings	4,298,426	3,804,078	494,348	12%	
<b>Total Shareholders' Equity</b>	<b>76,096,872</b>	<b>75,602,524</b>	<b>494,348</b>	<b>1%</b>	
<b>Total LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 77,601,871</b>	<b>\$ 76,882,475</b>	<b>\$ 719,396</b>	<b>1%</b>	

**PRELIMINARY RESULTS**



	Actual	Budget	Variance to Budget (\$)	Variance to Budget (%)	Actual to Budget Commentary
<b>REVENUES</b>					
Treatment & Transmission - Leamington	\$ 4,364,784	\$ 4,364,784	-	0%	
Treatment & Transmission - Lakeshore	284,763	284,763	-	0%	
Treatment & Transmission - Essex	380,317	380,317	-	0%	
Treatment & Transmission - Kingsville	2,959,369	2,959,369	-	0%	
Treatment & Transmission - Highbury Canco	491,480	491,480	-	0%	
Investment income	814,770	470,750	344,020	73%	Higher than budgeted interest from WFCU on reserve funds @ 5.45% interest
Other income	35,312	31,025	4,287	14%	Includes one-time recovery of costs for Cottam Booster upgrade from OCWA
<b>Total revenues</b>	<b>\$ 9,330,795</b>	<b>\$ 8,982,488</b>	<b>\$ 348,307</b>	<b>4%</b>	
<b>COST OF GOODS SOLD</b>					
OCWA Operating Contract	2,303,969	2,303,969	-	0%	
Carbon Dioxide	129,193	64,167	65,026	101%	Actuals includes one-time fee for \$59.4k for early contract termination at Union acres (1529 Union), and CO2 tank removal, not budgeted
Water Quality/Corrosion Monitoring Prgm	12,921	29,167	(16,246)	(56%)	
Residuals Ponds Maintenance	119,875	116,667	3,208	3%	
Utilities	769,143	938,188	(169,045)	(18%)	
Watermain Repairs	-	116,667	(116,667)	(100%)	
<b>Total cost of goods sold</b>	<b>3,335,101</b>	<b>3,568,825</b>	<b>(233,723)</b>	<b>(7%)</b>	
<b>GROSS MARGIN</b>	<b>\$ 5,995,694</b>	<b>\$ 5,413,663</b>	<b>\$ 582,030</b>	<b>11%</b>	

**PRELIMINARY RESULTS**



	Actual	Budget	Variance to Budget (\$)	Variance to Budget (%)	Actual to Budget Commentary
<b>OPERATING EXPENSES</b>					
Operational Programs & Studies	196,866	271,250	(74,384)	(27%)	
Property Tax	5,900	3,305	2,595	79%	Timing of actual to budget allocation
Land Transfer Tax	154,537	147,255	7,282	5%	
Advertising & Promotion	3,077	7,000	(3,923)	(56%)	
Insurance	37,308	36,458	850	2%	
Hardware Support & Maintenance	37,877	46,667	(8,790)	(19%)	
Software Support & Maintenance	34,616	29,167	5,449	19%	Timing of actual to budget allocation
Telecommunication Expense	8,753	72,552	(63,799)	(88%)	
Shipping, Freight, and Delivery	1,142	-	1,142		
Professional Services	161,557	153,125	8,432	6%	Higher than budget due to legal on SunLife debt settlement, and higher than anticipated corporate restructuring costs
Non Re-occurring Project Costs	39,192	-	39,192		Includes high lift pump upgrades project that was discontinued
Repairs & Maintenance	37,298	18,663	18,635	100%	
<b>Total operating expenses</b>	<b>718,123</b>	<b>785,442</b>	<b>(67,319)</b>	<b>(9%)</b>	
<b>GENERAL AND ADMIN EXPENSES</b>					
Salaried Wages	138,812	205,886	(67,074)	(33%)	Budget includes spend for additional personnel, not yet realized
Benefits	35,868	58,013	(22,145)	(38%)	Budget includes spend for additional personnel, not yet realized
Debenture Interest	758,539	402,289	356,250	89%	
Board expenses	30,876	43,750	(12,874)	(29%)	
Dues, Memberships and Subscriptions	2,238	4,375	(2,137)	(49%)	
Office Expenses	1,848	1,458	390	27%	
Travel & Mileage	2,963	2,917	46	2%	
Training	3,447	14,583	(11,136)	(76%)	
Conferences	3,231	20,417	(17,186)	(84%)	
Meeting Expenses	522	2,917	(2,395)	(82%)	
Bank charges	801	-	801		
<b>Total general and admin expenses</b>	<b>979,145</b>	<b>756,605</b>	<b>222,540</b>	<b>29%</b>	
<b>Net Income</b>	<b>\$ 4,298,426</b>	<b>\$ 3,871,616</b>	<b>\$ 426,809</b>	<b>11%</b>	

**PRELIMINARY RESULTS**



Union Water Supply Systems Inc.  
Executive Summary  
Seven (7) months ended July 31, 2024

Financial Highlights - Income Statement

	July 2024 YTD Actual	July 2024 YTD Budget	Variance to Budget (\$)
<b>Income Statement</b>			
<b>Revenue</b>			
<i>Treatment &amp; Transmission - Leamington</i>	\$ 9,330,795	\$ 8,982,488	\$ 348,307
<i>Treatment &amp; Transmission - Lakeshore</i>	4,364,784	4,364,784	-
<i>Treatment &amp; Transmission - Essex</i>	284,763	284,763	-
<i>Treatment &amp; Transmission - Kingsville</i>	380,317	380,317	-
<i>Treatment &amp; Transmission - Highbury Canco</i>	2,959,369	2,959,369	-
<i>Investment Income</i>	491,480	491,480	-
<i>Other income</i>	814,770	470,750	344,020
<b>Cost of goods sold</b>	\$ 3,335,101	\$ 3,568,825	\$ (233,723)
<b>Gross margin</b>	\$ 5,995,694	\$ 5,413,663	\$ 582,030
<b>Operating expenses</b>	\$ 718,123	\$ 785,442	\$ (67,319)
<b>General and admin expenses</b>	\$ 979,145	\$ 756,605	\$ 222,540
<b>Net income</b>	\$ 4,298,426	\$ 3,871,616	\$ 426,809

Income Statement

For the seven months ended July 31, 2024, Union Water Supply Systems Inc. (the "Company") continue to report revenue based on budgeted flows. We expect to complete an interim true-up to actuals in the August reporting period based on available information provided from the municipalities. Overall, the Company is exceeding budget primarily driven by:

- Higher interest income on reserve fund than budgeted; the Company is earning 5.45% on its reserve funds;
- Cost of goods sold lower than budget to due budgeted watermain repairs not realized in actuals, and lower actual utilities costs to budget, partially offset by higher carbon dioxide costs associated with one-time contract termination fee for Union Acres (1529 Union Ave);
- Operating expenses are lower than budget due to timing of spending on operational programs and studies; and
- General and admin expenses are higher than budget primarily due to additional interest costs on the early repayment of the SunLife debt in May 2024.



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## Financial Highlights - Balance Sheet / Cash Flow

	July 2024	June 2024	Monthly Variance (\$)
<b>Balance Sheet</b>			
<b>Cash and short-term investments</b>	\$ 21,190,562	\$ 20,563,511	\$ 627,051
<b>Total current assets</b>	\$ 21,332,781	\$ 21,309,186	\$ 23,595
<b>Total net tangible assets</b>	\$ 56,269,090	\$ 55,573,289	\$ 695,801
<b>Total current liabilities</b>	\$ 956,715	\$ 225,048	\$ 731,667
<b>Total liabilities</b>	\$ 1,504,999	\$ 1,279,951	\$ 225,048
<b>Total shareholders' equity</b>	\$ 76,096,872	\$ 75,602,524	\$ 494,348

### Balance Sheet / Cash Flow

At July 31, 2024, cash and short-term investments includes general and reserve funds. We are currently in the process of developing a reserve funds policy, to determine those reserve fund balances that will be segregating into a separate bank account and investment strategy.

In May 2024, the Company repaid the balance of its long-term debt with SunLife Assurance, in the amount of \$6.3 million, which represented \$5.8 million of principal \$0.5 million interest.

In August 2024, the Company signed a \$60 million commitment letter with Windsor Family Credit Union ("WFCU") to fund its capital projects. Financing is expected to close by end of September 2024.

### Capital Expenditures

2024 Capital Budget	YTD 2024		
	2024 Budget	Spend	Balance
Treatment Plant Upgrades & Renewals	\$ 5,665,000		
Low Lift Upgrades	\$ 400,000		
Cottam Booster Upgrades	\$ 60,000		
SCADA / Communication/ Security System Upgrades	\$ 100,000		
Storage and Transmission Facilities	\$ 1,400,000		
General/ Various Facilities	\$ 1,150,000		
<b>Total</b>	<b>\$ 8,775,000</b>	<b>\$ 1,560,191</b>	<b>\$ 7,214,809</b>

Capital spend to budget is currently under review and we will provide a more detailed update in the coming months by project class.



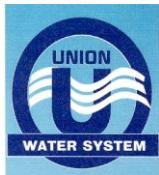
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## The Union Water Supply System Joint Board of Management

### Finance Policy 01-2006: Cash Management and Investments

**POLICY STATEMENT:** The Union Water Supply System Board of Management strives for the optimum utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet on-going financial requirements.

**PURPOSE:** This policy will ensure the prudent management of the Board's surplus funds and investment portfolio.

**SCOPE:** The policy as outlined applies to all future investment of the Revenue Fund, Capital Deposit, Reserves and Reserve Funds of the Board.

**OBJECTIVES:** The primary objectives of the Investment Program, in priority order, shall be:

**1. Adherence to Statutory Requirements:**

The Municipal Act as amended from time to time shall govern all investment activities. Investments, unless limited further by The Board, will be those deemed eligible under the provisions of the Municipal Act or as authorized by subsequent provincial regulations.

**2. Preservation of Capital:**

Safety of principal is an important objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

**3. Maintaining Liquidity:**

The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements and limit temporary borrowing requirements. This shall be done where possible by structuring the portfolio such that securities mature concurrent with anticipated cash demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio may be placed in local government investment pools, which offer liquidity for short-term funds.

**4. Competitive Rate of Return:**

Without compromising other objectives, the Board shall maximize the rate of return earned on its portfolio by implementing a dynamic investment strategy as part of its investment program. Trends in macro-economic variables will be monitored including interest rates, inflation, and foreign exchange rates, as affected through the political arena and international developments and perceptions. Diversification, as well as ensuring safety of principal by limiting exposure to credit, sector or term risks, also provides opportunities to enhance the investment returns of the Board's portfolio by means of prudent and timely adjustments to asset mix.

**STANDARD OF CARE:**

**Prudence:**

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for



## The Union Water Supply System Joint Board of Management

### Finance Policy 01-2006: Cash Management and Investments

investment, considering the probable safety of their capital as well as the probable income to be derived.

Investment advice shall be sought from independent financial/legal professionals as deemed necessary by the Committee of Treasurers.

Investment officers acting in accordance with written procedure and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of this policy.

#### **Ethics and Conflicts of Interest:**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Board.

#### **RISK:**

Investment officers shall endeavor to mitigate credit risk (the risk to an investor that an issuer will default in the payment of interest and/or principal of a security) and interest rate risk (the risk associated with the decline or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value) as follows:

#### **Credit Risk:**

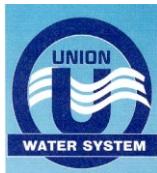
- Limiting investments to safer types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Board does business subject to Committee of Treasurers's approval; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

#### **Interest Rate Risk:**

- Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity;
- Investing operating funds primarily in shorter-term securities or approved investment pools; and
- Diversifying longer-term holdings to match term exposures to requirements of underlying reserve funds and to mitigate effects of interest rate volatility.

#### **Foreign Exchange Risk:**

In order to remove any risk to the Board from foreign exchange fluctuation, the Board is not permitted to invest in any security that is expressed or



# The Union Water Supply System Joint Board of Management

## Finance Policy 01-2006: Cash Management and Investments

payable in any currency other than Canadian dollars, unless attempting to mitigate the foreign exchange risk associated with the purchase of significant capital assets. In these isolated cases, the investment denominated in the foreign currency shall be recommended by the Committee of Treasurers to the General Manager and The Board for approval.

### PERFORMANCE STANDARDS

The Committee of Treasurers shall design the investment portfolio with the objective of obtaining a rate of return equal to the one (1) year Canada Treasury Bill rate. The policy also recognizes that the rate of return will be influenced by external factors such as budgetary & economic cycles and cash flow requirement of the Board. Further, the achievement of the targeted rate of return shall not supersede the stated objectives identified in this policy.

### AUTHORIZED INVESTMENTS:

The following are authorized investments instruments:

- Bonds, debentures, or other evidences of indebtedness of or guaranteed by the Government of Canada, the Province of Ontario, or another province of Canada;
- Bonds, debentures, term deposits, deposit receipts, deposit notes, certificates of instruments issued, accepted, guaranteed or endorsed by any bank in Schedule I or II to the *Bank Act* (Canada), and any Credit Union;
- Bonds, debentures or promissory notes of a metropolitan, regional, county or district municipality, a school board, or a local board as defined in the *Municipal Affairs Act* or a conservation authority established under the *Conservation Authorities Act*,
- Negotiable promissory notes or commercial paper maturing not more than one year from date of issue issued by a Canadian corporation.
- Debentures issued by one of owner municipalities.

### CREDIT RATING:

All authorized investments, except debentures issued by the owners, must meet or exceed the minimum credit rating of "R1 Low", for commercial paper and short term debt or "A" for bond and long term debt.

### TERMS AND PARAMETERS:

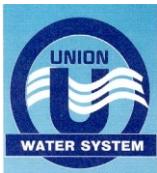
#### Definition:

For the purposes of determining the terms and parameters under this policy, investments shall be deemed to include any investment instrument with a "term" and shall not include any funds held in any current accounts.

#### Diversification:

The investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or sector (excluding Federal and Provincial securities);



## The Union Water Supply System Joint Board of Management

### Finance Policy 01-2006: Cash Management and Investments

- Limiting investment in securities to those that have higher credit ratings;
- Investing in securities with varying maturities; and
- Investing in mainly liquid, marketable securities that have an active secondary market, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

In order to promote diversification in the Board's portfolio holdings, percentage weightings for class and type of securities shall be established and maintained.

Appendix A sets out the maximum allowable exposure for each classification of security as a percentage of the total portfolio as well as the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio.

Furthermore, to the extent possible, the Board shall match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Board will not directly invest in securities maturing more than ten (10) years from the date of purchase. Any deviation from the policy must be recommended by the Committee of Treasurers to the General Manager and the Board for approval. Appendix A also sets out the maximum term limit for each investment class and issuer.

The Board shall also hold sufficient funds in short-term investment instruments in order to maintain adequate liquidity. Appendix A sets out minimum and maximum term exposures in order to ensure liquidity requirements are maintained.

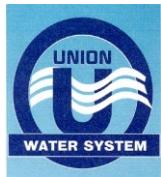
#### **Timing:**

It is the intention of this policy to ensure that all requirements and obligations as set out are adhered to. However the policy does recognize that on occasion, as the result of large fluctuation in cash balances because of "capital" obligations and/or levy payments to other agencies, the terms and parameters as set out may not be followed for a short period of time (less than 30 days) in order to allow the Committee of Treasurers to remedy the situation and bring the portfolio into adherence with the policy.

If the period extends past the 30 day grace period, the Committee of Treasurers shall submit a written report to the General Manager and the Board informing them of the deviation from policy and recommending actions to be taken to bring the investments into adherence.

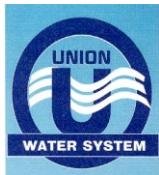
#### **Cash Management:**

It is recognized that the purpose of this policy is to govern the manner in which investments are made and that cash flow management is a vital part of the investment decision. It is also recognized that the Board requires cash on hand to deal with normal Board operations and emergency purposes. As a result, given the inherent liquidity of cash on hand, any funds held in cash will be considered to be invested for a term of less than 90 days and will be reported separately from the remaining term investments.



## The Union Water Supply System Joint Board of Management

### Finance Policy 01-2006: Cash Management and Investments



## The Union Water Supply System Joint Board of Management

### Finance Policy 01-2006: Cash Management and Investments

#### **REPORTING REQUIREMENTS:**

The Committee of Treasurers shall submit an investment report for the General Manager at least quarterly and for the Board at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year.

The report will include the following:

- Listing of individual securities held at the end of the reporting period;
- Listing of investment by maturity date;
- Percentage of the total portfolio which each type of investment represents;
- A statement about the performance of the investment portfolio during the period covered by the report;
- A statement by the Committee of Treasurers as to whether or not, in their opinion, all investments were made in accordance with the investment policies and goals adopted by the Board;
- Such other information that the Board may require or that, in the opinion of the Committee of Treasurers, should be included.

In addition, as part of the year end audit of the financial statements, the external auditor of the Board will review the year end investment position and determine whether it is in compliance with the Board's investment policy.

#### **SAFEKEEPING AND CUSTODY:**

All securities shall be held for safekeeping by a financial institution approved by the Board. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the Board.

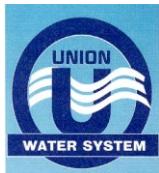
The depository shall issue a safekeeping receipt to the Board listing the specific instrument, rate, maturity and other pertinent information. The depository will also provide reports that list all securities held for the Board, the book value of holdings and the market value as of month-end.

#### **RESPONSIBILITIES AND AUTHORITY:**

The Committee of Treasurers has overall responsibility for the prudent investment of the Board's portfolio. The Committee shall appoint a Chairperson who shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and shall exercise control over that staff.

The Committee Chairperson has the authority to:

- Enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities
- Execute and sign documents on behalf of the corporation and performs all other related acts in the day-to-day operation of the investment and cash management program



## The Union Water Supply System Joint Board of Management

### Finance Policy 01-2006: Cash Management and Investments

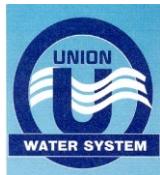
- Develop and maintain all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Board's investments are properly managed and adequately protected
- Obtain adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Board's financial assets

#### **POLICY REVIEW**

The policy will be adopted by a resolution of the Board and will be reviewed at a minimum every three (3) years. In the event that special circumstances arise, identified by either the Board or the Committee of Treasurers, the policy will be reviewed at that time.

#### **CONTACT INFORMATION:**

Committee of Treasurers Chairperson  
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## The Union Water Supply System Joint Board of Management

### Finance Policy 01-2006: Cash Management and Investments

#### APPENDIX A TERMS, PARAMETERS AND LIMITATIONS

Sector	Class	Maximum Sector Limit of the Portfolio	Maximum Class Limit of the Portfolio	Maximum Individual Limit of the Portfolio	Maximum Term Limitation
Federal		100%			
	Canada		100%	100%	10 years
	Federal Guarantees		50%	25%	10 years
Provincial		100%			
	Province		100%	100%	10 years
	Provincial Guarantees		50%	25%	10 years
Municipal		40%			
	Municipalities, Regions & Counties		25%	25%	10 years
	School Boards		15%	10%	5 years
	Other Agencies & Authorities		15%	10%	5 years
	One: Public Sector Group of Funds		20%	20%	5 years
Financial Institutions		80%			
	Schedule I Banks		80%	40%	5 years
	Schedule II Banks & Credit Unions		20%	15%	2 years
Commercial Paper		20%	20%	10%	1 year

#### PORTFOLIO TERM LIMITATIONS

Term Limitation	Minimum Percentage	Maximum Percentage
Less than 90 days	10%	100%
Less than 1 year	25%	100%
From 1 year up to 2 years	---	75%
From 2 years up to 5 years	---	25%
From 5 years up to 10 years	---	20%

# Union Water Supply System Inc.

## Board of Directors Guidance: Reserve Accounts

This document is provided as Board of Directors (“**Board**”) guidance to the management of Union Water Supply System Inc. (“**UWSS**”) in establishing and managing reserve accounts in accordance with Article 19 of the By-Laws of UWSS.

### 1. General

- a. UWSS may establish reserve accounts in addition to those described below, if approved by the Board by ordinary resolution.
- b. For the purposes of this guidance, the working capital of UWSS (otherwise defined in applicable accounting standards) shall exclude the value of defined reserve accounts. Working capital thus defined shall not be considered a reserve account.
- c. No reserve account may have a negative balance at any time.

### 2. Operating and General Reserve

UWSS will establish and maintain an Operating and General Reserve (“**OGR**”).

#### a. Purpose

The OGR’s purpose is to ensure that UWSS has sufficient liquidity to meet its financial and operational obligations in the event of decreased cash receipts or increased requirement for cash expenditures, not foreseen in the applicable annual budgeting documents.

#### b. Target Value

The OGR shall have a target value which is the greater of:

- i. The value required in applicable lending documents; and
- ii. **[Thirteen percent (13%)]** of the approved revenue requirement according to the prevailing UWSS operating budget.

#### c. Additions to the OGR

UWSS may increase the balance of the OGR by:

- i. Transfer of applicable predecessor balances upon the establishment of UWSS;
- ii. Inclusion of an increase to the OGR in determining UWSS’s revenue requirement for the succeeding year in the course of UWSS’s annual operating budgeting process;
- iii. Borrowing for the purpose of increasing the OGR balance as approved by ordinary resolution of the Board;
- iv. Transfers of other working capital amounts to the OGR;
- v. In accordance with a plan to restore the balance of the OGR, as contemplated in Section 2(e) below, approved by ordinary resolution of the Board; and/or
- vi. Otherwise upon Board direction, as approved by ordinary resolution of the Board.

#### d. Releases from the OGR

- i. UWSS may, without requirement for formal Board approval, release OGR funds to working capital in accordance with the purpose of the OGR as stated in Section 2(a).

- ii. In addition to Section 2(d)(i), UWSS may, without requirement for formal Board approval, release OGR funds to working capital for any purpose where OGR balances are in excess of the target value set out in Section 2(b) provided that after such release the OGR balance does not fall below the targeted amount.
- e. Restoration of OGR Balance
  - i. If the balance of the OGR is below the target value as at the time of UWSS's annual operating budgeting process, UWSS will establish a plan to restore the balance of the OGR to the target value by the end of the immediately ensuing calendar year.
  - ii. UWSS will provide the plan for such restoration to the Board for approval and direction, which will require approval of the Board by ordinary resolution. Once approved by the Board if required by applicable lending agreements a copy of the plan will be provided to UWSS lenders for information purposes.

### 3. Rate Stabilization Account

UWSS will establish and maintain a Rate Stabilization Account reserve ("RSA").

#### a. Purpose

The purpose of the RSA is to enable UWSS to moderate year-over-year increases or decreases in end user rates.

#### b. Target Value

The Board, by ordinary resolution, may establish a target value for the RSA from time to time at its sole discretion.

#### c. Additions to the RSA

Additions to the RSA balance may be made by:

- i. Transfer of applicable predecessor balances upon the establishment of UWSS; and
- ii. Inclusion of an increase to the RSA in determining UWSS's revenue requirement for the succeeding year in the course of UWSS's annual operating budgeting process.

#### d. Releases from the RSA

UWSS may release RSA funds to working capital via inclusion of such a release in the annual determination of UWSS's revenue requirement. Cash releases may be made as a lump sum or over the course of the subsequent calendar year.

### 4. Capital Reserve

UWSS will establish and maintain a Capital Reserve ("CR").

#### a. Purpose

The purposes of the CR are to hold UWSS funds intended to fund Board-approved capital expenditures.

#### b. Target Value

The Board may establish a target value for the CR from time to time at its sole discretion.

c. Additions to the CR

The balance of the CR may be increased by:

- i. Transfer of applicable predecessor balances upon the establishment of UWSS;
- ii. Transfers of working capital; and/or
- iii. Proceeds of debt financing as approved by the Board by ordinary resolution.

d. Releases from the CR

UWSS may, without requirement for formal Board approval, release CR funds to defray Board-approved capital expenditures.