



JOINT BOARD OF MANAGEMENT

Wednesday, June 19th, 2024

9:00 AM

Kingsville Arena,
1741 Jasperson Avenue,

AGENDA

A. Call to Order:

B. Disclosures of Pecuniary Interest:

C. Approval of Minutes:

Minutes of the meeting of the Union Water Supply System Joint Board of Management Meeting held Wednesday, December 20th, 2023
Pages 2 - 7

D. Business Arising Out of the Minutes

E. Items for Consideration:

1. UW/01/24 dated May 6, 2024 re: 2023 Audited Financial Statements
Pages 8 - 10

F. New Business:

G. Adjournment:

/kmj

Carried**Business Arising out of Minutes:**

There was none

Report UW/23/23 dated December 15, 2023 re: Status Update of UWSS Operations & Maintenance Activities and Capital Works from November 22, 2023 to December 15th, 2023

The Manager reviews his report with members of the Board. He indicates that warranty work on the DAF #1 was initiated and completed by project consultant. The warranty work has been substantially completed and the DAF #1 should be returned to service shortly.

He notes that Clarifier #4 had been taken offline for annual maintenance and will remain so until there is an increase in flows. Also taken out of service was the south residuals pond as it is approaching capacity. The pond will now sit to dewater until later in January 2024 when it can be excavated.

The operations staff shut down the sodium hypochlorite system due to the colder temperatures of the raw water. Some flushing and maintenance will take place to ensure it is ready for the warmer temperatures of the Spring. The Manager then explains that filters 1 & 3 have been returned to service after their annual maintenance checkups.

The Manager provides an update on the SCADA system. He notes that the engineers were on site to complete regular maintenance and then onsite to install the new filter control consoles for Filters 1 & 3 (paired) and 2 & 4 (paired). Testing of the new filter control panel was completed on December 15th, 2023.

The Manager informs the board members that the interconnects between Colchester and UWSS were opened briefly so that Colchester could make some necessary repairs. The interconnects have since been closed.

Maintenance staff initiated the cleaning of the Low Lift wells. This is part of regular annual maintenance, no issues were reported.

The Manager informs the members that Associated Engineering (AE) issued draft indicative Design Report for the Reservoir Expansion and UV Disinfection Project and the RFP for a Construction Manager Advisor and Construction Manager at Risk. The Manager attended a workshop. AE will now complete a refinement of proposals from feedback received from the workshop. The Manager will provide an update when possible.

The Manager informs the board that the request for proposals for the new High Lift pump at the WTP was unsuccessful. There will be a review to determine a different approach.

The EAS study to provide peaking capacity is moving along nicely. He notes that an open house was held on November 22, 2023 at Unico Hall. He confirms that a second open house will be held in late February or early March to solicit further public comment.

Minutes of the Meeting of Union Water Supply System Joint Board of Management

Date: December 20, 2023

Page 3

The Manager notes that UWSS is still providing water to the Wheatley area due to their fire. He will update the board once Wheatley is able to stand on its own.

Finally, he notes the flows are still up over last year and over the four (4) year average.

No. UW-50-23

Moved by: Councillor Tiessen

Seconded by: Deputy Mayor Verbeke

That report UW/23/23 dated December 15th, 2023 re: Status Update of UWSS Operations & Maintenance Activities and Capital Works from November 22nd to December 15th, 2023 is received.

Carried

Report UW/24/23 dated December 14th, 2023 re: Operating Agreement between UWSS Joint Board of Management and UWSS Inc.

The Manager explains that the best case scenario was to have everything in place for the transfer of UWSS JBM over to UWSS Inc., by December 31, 2023. However, it has become apparent that all of the necessary transfers will not be completed by the deadline. The delay is not of concern and is administrative in nature. To prevent any risks associated with the delay he suggests that UWSS JBM have an agreement in place with UWSS Inc. to allow for the Manager to continue the day to day operations by allowing the transfer of management authority from the Joint Board of Management over the UWSS Inc. through an operating agreement.

The Manager explains that this is possible through sections 4 & 5 of the original Transfer Order.

No. UW-51-23

Moved by: Mayor Rogers

Seconded by: Councillor Abraham

That the Union Water Supply System Joint Board of Management (UWSS JBM) approves the Operating Agreement between the UWSS JBM and UWSS Inc. to take effect on January 1, 2024.

Carried

Dates for Union Water Supply System Joint Board of Management.

The recording secretary notes that these are for information purposes and a calendar invite should be sent out some time in the next month or so.

New Business:

The Chair wishes everyone a very Merry Christmas.

OCWA team hands out Christmas gifts to the board members.

Adjournment:

No. UW-52-23

Moved by: Deputy Mayor DeYong

Seconded by: Mayor Bondy

Time: 9:26 am

Date of Next Meeting: TBD

/kmj

UW/01/24

Report

To: Chair and Members of the Union Water Supply System Joint Board of Management

From: Laura Rauch, Director of Finance and Business Services, Municipality of Leamington

Date: May 6, 2024

Re: 2023 Audited Financial Statements



Aim:

To present the draft audited 2023 Audited Financial Statements for the Union Water Supply System (UWSS) to the Joint Board of Management for review and approval.

Background:

The UWSS Audited Financial Statements are prepared annually to comply with accounting and reporting requirements for government entities. The Financial Statements enables the four municipal owners to report their share of UWSS on their municipal financial statements.

The financial statements in the report have been prepared in accordance with Public Sector Accounting Board standards (PSAB), including PSAB 3150 for tangible capital assets (TCAs). In 2023, UWSS adopted PSAB 3280 for asset retirement obligations (AROs) which requires the recognition of future costs related to the retirement of its TCAs. Asset retirement costs may include, but are not limited to, activities related to decommissioning, dismantling, remediation of a tangible capital asset, and monitoring. ARO Liabilities exist for the removal and disposal of asbestos within buildings owned by the UWSS, the decommissioning of a water tower on leased lands at the end of the agreement, and removal of underground fuel and septic tanks. The timing of the future settlement is unknown however to comply with the PSAB standard these estimates must be recognized on the financial statements. As this is a required accounting change, the 2022 Financial Statements have been restated.

Discussion:

The Draft 2023 Financial Statements have been prepared by the Municipality of Leamington on behalf of the Joint Board of Management (Board) and audited by the external firm of Hicks, MacPherson, Iatonna and Driedger LLP. The Draft 2023 Financial Statements are attached to this report and will become final upon approval by the Board.

May 6, 2024 - UW/01/24
Re: 2023 Audited Financial Statements

Highlights of the 2023 Financial Statements in relation to prior year results and the approved 2023 Budget are as follows:

Statement of Financial Position

1. Financial Assets have increased by \$4.4M primarily due to an increase in cash as well as an increase in accounts receivable to a related party. This overall increase in financial assets is a result of timing of payments received, interest earned on the bank account, decreased operating expenses compared to budget as well as the completion of capital projects within the year.
2. Financial Liabilities have decreased by \$2.7M due to the long-term debt annual repayments and a reduction of the amounts owing for related party transactions due to the timing of transfers. This is offset by the slight increase in the ARO, as previously noted given the inflationary adjustment to the liability. Throughout the year there was no new debt issuance.
3. Non-Financial Assets have decreased by \$541k. This amount includes 2023 capital additions less disposals and depreciation. Depreciation exceeded the capital asset acquisitions within 2023, therefore reducing the non-financial assets. The change in inventories (work in progress) relates to the capital projects that were not completed by the end of the year and will be completed in a future period.
4. Capital asset purchases in 2023 include the following:
 - a. Reservoir #3 expansion - \$331k (in progress)
 - b. Watermain Replacement - section within Essex - \$324k
 - c. Major Upgrade on Pump, Valve and Electrical System - \$135k
 - d. Pump #4 (Cottam Station) - \$118k
 - e. Distribution System Monitoring Hardware - \$117k
 - f. PLC Filters - Control Panels - \$117k
 - g. Pick Up Truck - \$62k
5. The 2023 ending balance of the accumulated surplus is \$71.8M under PSAB and has increased by \$6.5M over prior years restated values.

Statement of Financial Activities

1. Wholesale billings were less than budget expectations by approximately \$392k (2.5%) due to decreased consumption over estimate.
2. Investment income is favourable to budget by \$816k (194%) due to conservative estimates, a consistently strong cash position throughout the year as well as higher than anticipated interest rates. Timing of expenditures directly impacts the interest earned throughout the year.
3. Wages and benefits is less than budget by \$47k (13%) as the 2023 budget including additional staffing resources that were not hired within the year.
4. Rents and services is unfavourable to budget by \$157k (38%) due to consulting services incurred related to the restructuring of the new corporation as well as work completed for the peaking capacity municipal class environmental assessment (budgeted in operational programs and studies) and UWSS' asset management plan.

May 6, 2024 - UW/01/24
Re: 2023 Audited Financial Statements

5. Electricity and gas were unfavourable to budget by \$43k (2.6%) due to increased commodity costs.
6. Carbon dioxide costs are \$62k (56.6%) less than budget due to usage.
7. Repairs and maintenance expense is \$339k (88.2%) favourable to budget. These costs are for unplanned watermain repairs as well as pond maintenance expenses that were not incurred within the year.
8. Operational programs and studies were less than budget by \$592k (67.2%). This underspending is due to certain studies that were not completed in 2023. These projects include the new Ruthven WTP reservoir #3 study/reservoir optimization; preliminary engineering for the Cottam 12-inch water main replacement, leak detection study as well as the back up power generation/energy study. As previously noted, the peaking capacity municipal class environmental assessment was budgeted for within operational programs and studies however expensed in professional services.
9. OCWA operating contract costs are higher than budget by \$146k (3.8%) due to increased salary and benefit costs as well as the chemical expenses.

Recommendation:

That the 2023 Financial Statements for the Union Water Supply System Joint Board of Management be approved.

Respectfully submitted,



Laura Rauch, CPA, CMA
Director of Finance and Business Services and Treasurer
Municipality of Leamington

Encls.

INDEPENDENT AUDITOR'S REPORT

**To the Owners of
Union Water Supply System**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Union Water Supply System, which comprise:

- the statement of financial position as at December 31, 2023
- the statement of financial activities for the year then ended
- the statement of cash flow for the year then ended
- the statement of change in net assets
- and notes to the financial statements including summary of accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of Union Water Supply System as at December 31, 2023, and the results of its financial activities and cash flow 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Union Water Supply System in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Union Water Supply System'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 Union Water Supply System or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Union Water Supply System'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 Union Water Supply System'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 Union Water Supply System'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 Union Water Supply System 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Union Water Supply System to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of Union Water Supply System's audit. We remain solely responsible for our audit opinion.

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.

**HICKS, MacPHERSON, IATONNA
& DRIEDGER LLP**

Leamington, Ontario
June 19, 2024

Chartered Professional Accountants
Licensed Public Accountants

Union Water Supply System
Statement of Financial Position
as at December 31

	2023	2022 (Restated - Note 15)
Assets		
Financial		
Cash and short-term investments (note 3)	\$ 24,337,083	\$ 20,551,288
Accounts receivable (note 4)	1,809,235	1,206,332
Prepaid expenses	15,958	47,216
	26,162,276	21,804,836
Liabilities		
Accounts payable and accrued liabilities (notes 4 and 10)	2,297,671	3,394,260
Long-term debt (note 5)	6,259,451	7,908,944
Asset retirement obligation (notes 2 and 14)	1,203,726	1,175,514
	9,760,848	12,478,718
Net Assets	16,401,428	9,326,118
Non Financial Assets		
Inventories (note 6)	554,509	89,165
Tangible capital assets (notes 2 and 6)	54,186,968	55,174,494
Asset retirement obligation assets (notes 2 and 14)	655,442	673,914
	55,396,919	55,937,573
Accumulated Surplus (note 9)	\$ 71,798,347	\$ 65,263,691

See accompanying notes to financial statements

Approved by the Board:

Chair _____

Vice Chair _____

Union Water Supply System
Statement of Financial Activities
for the years ended December 31

	2023 Budget (note 11)	2023 Actual	2022 Actual (Restated - Note 15)
Revenues			
Wholesale billings (notes 4 and 7)	\$ 15,495,059	\$ 15,103,260	\$ 14,626,790
Investment income (note 8)	421,577	1,237,118	649,458
Rental income	79,860	77,459	160,359
Other income	152,871	68,355	760
	<u>16,149,367</u>	<u>16,486,192</u>	<u>15,437,367</u>
Expenses			
Wages and benefits (note 10)	350,000	303,148	287,049
Rents and services	416,000	573,185	384,520
Administration fee (note 4)	50,000	50,000	50,000
Property taxes	162,690	161,202	157,560
Electricity and gas	1,650,000	1,692,726	1,352,369
Carbon dioxide	110,000	47,763	95,625
Repairs and maintenance	385,000	45,530	317,471
Operational programs and studies	880,000	288,430	243,472
Sundry	5,000	1,809	-
Amortization (Schedule 1)	1,986,202	1,986,202	1,801,706
Accretion/amortization of AROs	46,684	46,684	46,023
OCWA operating contract	3,831,155	3,977,496	3,671,612
Long-term interest expense	759,442	759,442	922,766
Loss on sale of tangible capital assets	-	17,919	1,126
	<u>10,632,173</u>	<u>9,951,536</u>	<u>9,331,299</u>
Annual Surplus	5,517,194	6,534,656	6,106,068
Accumulated Surplus, Beginning of Year	65,263,691	65,263,691	59,157,623
Accumulated Surplus, End of Year	<u>\$ 70,780,885</u>	<u>\$ 71,798,347</u>	<u>\$ 65,263,691</u>

See accompanying notes to financial statements

Union Water Supply System

Statement of Cash Flow for the years ended December 31

	2023	2022 (Restated - Note 15)
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Cash flow from operating activities		
Annual surplus	\$ 6,534,656	\$ 6,106,068
Items not involving cash:		
Amortization of tangible capital assets	1,986,202	1,801,706
Accretion and amortization of asset retirement obligations	46,684	46,023
Gain on Sale of TCAs	17,919	1,126
Decrease (Increase) in accounts receivable	(602,903)	556,115
Decreases (Increase) in prepaid expenses	31,257	(34,227)
Decrease in accounts payable	(1,096,589)	(502,639)
	6,917,226	7,974,172
Cash flow from investing activities		
Cash used to acquire tangible capital assets	(1,481,939)	(7,977,150)
Decrease in long-term investment	-	11,060,436
	(1,481,939)	3,083,286
Cash flow from financing activities		
Debt repayment (principal only)	(1,649,492)	(1,466,829)
Net Change in Cash for Year	3,785,795	9,590,629
Cash, Beginning of Year	20,551,288	10,960,659
Cash, End of Year	\$ 24,337,083	\$ 20,551,288

See accompanying notes to financial statements

Union Water Supply System
Statement of Change in Net Assets
for the years ended December 31

	2023 Budget (note 11)	2023 Actual	2022 Actual (Restated - Note 15)
Annual Surplus	\$ 5,517,194	\$ 6,534,656	\$ 6,106,068
Amortization of tangible capital assets	1,986,202	1,986,202	1,801,706
Amortization of ARO Assets	18,472	18,472	18,472
Acquisition of tangible capital assets	(6,767,255)	(1,481,939)	(7,977,150)
Gain on Sale of TCAs	-	17,919	1,125
Change in Net Assets	754,613	7,075,310	(49,779)
Net Assets, Beginning of Year	9,326,118	9,326,118	9,375,897
Net Assets, End of Year	\$ 10,080,731	\$ 16,401,428	\$ 9,326,118

See accompanying notes to financial statements

Union Water Supply System
Notes to the Financial Statements
for the years ended December 31

1. Description of Reporting Entity

The Union Water Supply System (UWSS) was created, effective January 8, 2001, by Order of the Minister of the Environment pursuant to the Municipal Water and Sewage Transfer Act, 1997. The Order transferred all assets, liabilities, rights and obligations of the Ontario Clean Water Agency in the municipal drinking water treatment and distribution system located in Ruthven to the municipalities of Leamington, Kingsville, Essex and Lakeshore ("member municipalities"). The Order provided for the establishment of a Joint Board of Management to govern the operation and management of the "System". Each owner's representation on the Board is based on its share of the total flows of the system with no municipality receiving more than fifty percent of the total number of members.

The interests of the Municipalities in the System shall be as tenants-in-common, each as to the undivided interest according to their proportional consumption of the total flows of the system. The ownership interests were reset on January 1, 2021 as Leamington - 53.00% (2017 - 50.55%), Kingsville - 38.72% (2017 - 40.33%), Essex - 4.92% (2017 - 5.97%) and Lakeshore - 3.36% (2017 - 3.15%). The ownership interest is to be updated every four years.

2. Summary of Accounting Policies

The financial statements of the Union Water Supply System are the representation of the Joint Board of Management prepared in accordance with Canadian public sector accounting standards for local governments, as recommended by the Public Sector Accounting Board of CPA Canada.

Basis of Accounting

Sources of financing and expenditures are reported on the accrual basis of accounting, with the exception of interest charges on long-term liabilities, which are charged against operations in the periods in which they are paid. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized, as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

Liabilities on the statement of financial position represent the outstanding principal portion of long-term liabilities, liabilities not yet due and other future expenses not yet raised by rates on the users.

Use of Estimates

The preparation of financial statements requires management to make estimates that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Significant items subject to such estimates and assumptions include the valuation of accounts receivable, carrying value of tangible capital assets, accounts payable and accrued liabilities, including the valuation of post-employment benefits. Actual results could differ from those estimates.

Union Water Supply System
Notes to the Financial Statements
for the years ended December 31

2. Summary of Accounting Policies (Cont'd)

Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributed to acquisition, construction, development or betterment of the asset. The costs, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful life as follows:

Land	Infinite
Land Improvements	15 years to infinite
Buildings	20 to 50 years
Machinery and Equipment	3 to 50 years
Linear Assets	10 to 90 years

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Contributions of Tangible Capital Assets

Tangible capital assets received as contributions are recorded at their fair value using the half year rule as though they have been received July 1.

Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

Inventories

Inventories consist of work-in-progress measured at cost.

Long-Term Investment

Investment is recorded at fair market value.

Union Water Supply System
Notes to the Financial Statements
for the years ended December 31

2. Summary of Accounting Policies (Cont'd)

Asset Retirement Obligations

A liability is recognized when, as at the financial reporting date:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

Liabilities are recognized for statutory, contractual or legal obligations associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The liability includes costs for the removal of asbestos in buildings owned by the Union Water Supply System, the decommissioning of a water tower on leased lands at the end of the agreement, and removal of underground fuel and septic tanks. The estimate of the asset retirement obligation includes costs directly attributable to the asset retirement activities. The resulting costs have been capitalized and are being amortized on the same basis as the related tangible capital asset. The carrying value of the liability is reviewed annually with changes to the timing or amount of the original estimate of cash flows recorded as an adjustment to the liability and related tangible capital asset.

Future Accounting Changes

Effective for fiscal periods beginning on or after April 1, 2023, all governments will be required to adopt PSAB Section 3400 Revenue. This standard provides guidance on how to account for and present new categories of revenue.

Management is currently in the process of evaluating the potential impact of adopting this standard.

3. Cash

This balance represents a consolidation from the operating fund and the reserve fund as follows:

	2023	2022
Cash		
Operating Fund	\$ 10,730,664	\$ 7,695,754
Reserve Fund	13,606,420	12,855,534
	\$ 24,337,084	\$ 20,551,288

Union Water Supply System
Notes to the Financial Statements
for the years ended December 31

4. Related Party Transactions

The related party balances on account of trade in the Statement of Financial Position are listed below:

	2023	2022
Accounts receivable	\$ 1,738,052	\$ 1,192,755
Accounts payable and accrued liabilities	1,753,789	2,064,953

\$1,238,052 of the accounts receivable amount is the receivables from the four member municipalities for 2023 water flows that have not been received by year end. The remaining \$500,000 is an advance paid to Union Water Supply System Inc. to pay for operating costs. The accounts payable and accrued liabilities amount is the Due to Leamington balance that arises from Union Water Supply System 2023 purchases that have not been paid by year end.

The related party transactions on the Statement of Financial Activities are listed below:

	2023	2022
Wholesale billings revenue (note 7)	\$ 15,103,260	\$ 14,626,790
Administration fee expense	50,000	50,000

Wholesale billings revenue balance is 2023 sales of water flows to the four member municipalities and is detailed in Note 7. Administration fee expense is the fee paid to the Municipality of Leamington for annual bookkeeping services. These transactions are measured at exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

Union Water Supply System
Notes to the Financial Statements
for the years ended December 31

5. Long-Term Debt

As beneficial owners, Leamington, Kingsville, Essex and Lakeshore (collectively "the Municipalities") had become indebted to OCWA for work performed by OCWA in developing the System. The Municipal Water and Sewage Transfer Act provided that the Municipalities to whom the System was transferred were liable for such indebtedness.

In anticipation of the pending transfer order, the Municipalities jointly refinanced the indebtedness to OCWA. A financing agreement for \$18,492,167, dated March 8, 1999, with Sun Life Assurance ("Sun Life"), requires a monthly repayment based on projected flows of the facility for a term ending on December 31, 2026. The effective interest rate is 10.55% per annum.

The Union Water Supply System Joint Board of Management has assumed the responsibility for all payments pertaining to the obligation detailed above.

The balance of long-term debt reported on the Statement of Financial Position is:

	2023	2022
<i>Outstanding principal at the end of the year for:</i>		
Net long-term debt, end of year	\$ 6,259,451	\$ 7,908,944
The estimated future principal payments required in the next three years are as follows:		
2024		\$ 1,852,503
2025		2,078,116
2026		2,328,832
		\$ 6,259,451

Union Water Supply System
Notes to the Financial Statements
for the years ended December 31

6. Tangible Capital Assets/Inventories

	Net Book Value	
	2023	2022
Land	\$ 487,382	\$ 487,382
Buildings	20,013,065	20,698,522
Machinery and equipment	17,020,979	17,335,625
Linear assets	16,473,097	16,452,917
Land improvements	192,446	200,048
Total tangible capital assets	54,186,969	55,174,494
Inventories	554,509	89,165
	<u>\$ 54,741,478</u>	<u>\$ 55,263,659</u>

For additional information, see the Consolidated Schedule of Tangible Capital Assets (Schedule 1).

7. Wholesale Billings Revenue

The member municipalities are invoiced on a monthly basis for their recorded flows.

	Revenues		Flows	
	2023	2022	2023	2022
	\$	\$	m ³	m ³
Municipality of Leamington	\$ 8,649,000	\$ 8,196,486	12,138,523	11,734,409
Town of Kingsville	5,269,737	5,269,946	7,395,858	7,544,661
Town of Essex	676,911	656,525	950,006	939,908
Town of Lakeshore	507,612	503,833	712,403	721,308
	<u>\$ 15,103,260</u>	<u>\$ 14,626,790</u>	<u>21,196,790</u>	<u>20,940,286</u>

8. Investment Income

Investment income includes bank and GIC interest income as follows:

	2023	2022
Bank interest	\$ 1,237,118	\$ 562,914
Interest on long-term investment - GIC	-	86,544
	<u>\$ 1,237,118</u>	<u>\$ 649,458</u>

Union Water Supply System
Notes to the Financial Statements
for the years ended December 31

9. Accumulated Surplus

	2023	2022 (Restated - Note 15)
Opening Fund Balance		
Funds:		
Operating fund	\$ 5,933,519	\$ 7,641,249
Capital financing reserve fund	12,477,058	12,258,384
Total Fund Balance	18,410,577	19,899,633
Long-term debt obligations	(7,908,944)	(9,375,773)
Asset retirement obligations	(501,599)	(455,577)
Tangible capital assets (including inventory)	55,263,658	49,089,340
Accumulated Surplus, beginning of year	65,263,692	59,157,623
Contributions to operating fund	4,703,143	(1,707,731)
Contributions to reserve fund	750,886	218,674
Tangible capital assets purchased	1,481,939	7,977,150
Loss on sale of tangible capital assets	(17,919)	(1,126)
Accretion/Amortization of AROs	(46,684)	(46,022)
Amortization of tangible capital assets	(1,986,202)	(1,801,706)
Debt repayment	1,649,492	1,466,829
Accumulated Surplus, end of year	\$ 71,798,347	\$ 65,263,691

10. Post Employment Benefits

Post employment benefits are future obligations of UWSS to its employees and retirees for benefits earned but not yet taken. Retiring full time employees hired prior to August 1, 2011 continue to receive paid health and dental benefits and life insurance coverage. All coverage continues for the lifetime of the retiree and spouse. In accordance with public sector accounting standards, the projected unit credit actuarial cost method has been used to determine the future cost of these benefits at the end of the year. The most recent actuarial valuation is dated April 2, 2024 and is effective December 31, 2023. Assumptions used are as follows:

- (a) a discount factor of 4.30% was used;
- (b) an increase of 6.61% for health in 2023 (2022 - 6.3%), linearly increased to an ultimate rate of 4.5% in 2023 (2022 - 4%), and an annual increase of 7.13% (2022 - 4%) for dental benefits was used;
- (c) an employee will retire when they meet the criteria for an unreduced pension from OMERS, but not later than 65; and
- (d) all employees will remain employed by UWSS until retirement.

The liability, based on the above assumptions, at year-end is \$282,400 (2022 - \$239,700) and is included in accounts payable and accrued liabilities. An additional expense of \$42,700 (2022 - \$34,300) is reported in the Statement of Financial Activities and is reflected in wages and benefits.

Union Water Supply System
Notes to the Financial Statements
for the years ended December 31

11. Budget Figures

The 2023 Budget approved by the UWSS Board on January 17, 2023 was prepared on a modified cash basis. The budget has been restated and is reported on a full accrual basis, in accordance with PSAB reporting requirements, in relation to the actual results in these financial statements.

The following summary outlines adjustments made to the approved budget (modified cash basis) to derive the restated based budget (full accrual basis) as presented in the financial statements:

	2023
Financial Plan (Budget) deficit for the year	\$ (866,667)
Add:	
Accumulated surplus, beginning of the year	65,263,691
Principal payments on long term debt	1,649,492
Capital expenditures reallocated to tangible capital assets	6,767,255
Less:	
Amortization expense on tangible capital assets	(1,986,202)
Amortization/accretion expense on AROs	(46,684)
Budget Surplus per Statement of Financial Operations	\$ 70,780,885

12. Contingency - Liability Valuation

The Sun Life long-term debt obligation requires a monthly repayment based on projected flows of the facility over the term of the agreement ending on December 31, 2026. The annual valuation of the remaining obligation has been based on the present value of the remaining payment stream according to the cancellation provisions of the financing agreement.

In order to reflect the obligation in a manner similar to a traditional serial debt instrument, an amortization schedule allocating the required monthly payment stream between principal and interest has been created utilizing an effective monthly interest rate, as adopted in fiscal 2005 for the reporting of the remaining obligation.

13. Subsequent Events

The Union Water Supply System Inc. (UWSS Inc.) was created on February 24, 2023 as a Municipal Services Corporation under Ontario Regulation 599/06 of the Municipal Act, 2001. UWSS Inc. has four (4) shareholders which include the Corporation of the Municipality of Leamington (“Leamington”), the Corporation of the Town of Kingsville (“Kingsville”), the Corporation of the Town of Essex (“Essex”), and the Municipality of Lakeshore (“Lakeshore”). On January 1, 2024, Leamington, Kingsville, Essex and Lakeshore entered into a Water Service Agreement with UWSS Inc. Effective January 1, 2024, all UWSS employees are now UWSS Inc. staff and are no longer eligible for retiree benefits in transferring from Leamington’s group benefit plan to a separate UWSS Inc group plan. The assets of the Corporation were transferred on April 22, 2024.

Union Water Supply System
Notes to the Financial Statements
for the years ended December 31

14. Asset Retirement Obligation

Liabilities exist for the removal and disposal of asbestos within buildings owned by the Union Water Supply System, the decommissioning of a water tower on leased lands at the end of the agreement, and removal of underground fuel and septic tanks. The timing of future settlement is unknown.

	2023	2022 (Restated, note 15)
Asset Retirement Obligation, beginning of year	\$ 1,175,514	\$ 1,147,963
Settlements during the year	-	-
Accretion expense	28,212	27,551
Asset Retirement Obligation, end of year	\$ 1,203,726	\$ 1,175,514

15. Prior Period Adjustment – Change in Accounting Policy

On January 1, 2023 the Union Water Supply System adopted Canadian public sector account standard PS 3280 Asset Retirement Obligations. This new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with the retirement of certain tangible capital assets such as asbestos removal and disposal within buildings, assets on leased lands, and underground tanks, that will undergo renovation, replacement, or decommissioning in the future (see note 14). This standard was adopted using the modified retroactive approach.

The impact of the prior period adjustment on the December 31, 2022 comparative amounts is as follows:

	Increase (Decrease)
ARO Asset – Cost	\$ 868,348
ARO Asset – Accumulated Amortization	(175,962)
<u>Asset Retirement Obligation (liability)</u>	<u>(1,147,963)</u>
Accumulated Surplus, January 1, 2022	(455,577)
<u>Amortization/Accretion Expense</u>	<u>(46,022)</u>
Annual Surplus for the year ending December 31, 2022	(46,022)
<u>Accumulated Surplus, December 31, 2022</u>	<u>\$ (501,599)</u>

16. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Union Water Supply System
Schedule of Tangible Capital Assets - Schedule 1
as at December 31

	Infrastructure						Totals	
	Land	Land Improvements	Buildings	Machinery & Equipment	Linear Assets	Inventories	2023	2022
Cost								
Balance, beginning of year	\$ 487,382	\$ 239,114	\$ 33,562,807	\$ 23,509,965	\$ 27,015,969	\$ 89,165	\$ 84,904,402	\$ 76,930,065
Add: New acquisitions during the year	-	-	29,785	523,011	22,691	134,288	709,775	8,875,544
Add: Additions during the year	-	-	-	14,344	426,765	331,056	772,165	8,878,224
Less: Disposals during the year	-	-	-	(27,923)	(9,712)	-	(37,635)	(9,779,431)
Balance, end of year	487,382	239,114	33,592,592	24,019,397	27,455,713	554,509	86,348,707	84,904,402
Accumulated Amortization								
Balance, beginning of year	-	39,066	12,864,285	6,174,340	10,563,052	-	29,640,743	27,840,725
Add: Amortization	-	7,602	715,242	835,247	428,110	-	1,986,201	1,801,706
Less: Accumulated amortization on disposals	-	-	-	(11,169)	(8,546)	-	(19,715)	(1,688)
Balance, end of year	-	46,668	13,579,527	6,998,418	10,982,616	-	31,607,229	29,640,743
Net Book Value of Tangible Capital Assets Including Inventories	\$ 487,382	\$ 192,446	\$ 20,013,065	\$ 17,020,979	\$ 16,473,097	\$ 554,509	\$ 54,741,478	\$ 55,263,659

See accompanying notes to financial statements