

AGENDA
SPECIAL MEETING OF THE
UNION WATER SUPPLY SYSTEM
JOINT BOARD OF MANAGEMENT
TO BE HELD AT 10:00 a.m. ON TUESDAY,
APRIL 4, 2017
IN THE COMMUNITY ROOM OF THE KINGSVILLE ARENA

(A) Call to Order:

(B) Disclosures of Pecuniary Interest:

(C) Items for Consideration:

1. UW/11/17 dated March 21, 2017 UWSS 2016 Financial Report
Pages 2 - 20

(D) New Business:

(E) Adjournment:

(D) Date of Next Meeting: Wednesday, April 19, 2017, 9:00 am, Kingsville
Community Room, Kingsville Arena

/kmj

UW/11/17

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: March 21, 2017

Re: UWSS 2016 Financial Report



Aim:

To present the draft audited 2016 Financial Report for the Union Water Supply System (UWSS) to the Joint Board of Management for review and approval.

Background:

A UWSS Financial Report is prepared every year to comply with accounting and reporting requirements for government entities. The Financial Report enables the four municipal owners to report their share of the UWSS on their municipal financial statements and returns.

The financial statements in the report have been prepared in accordance with Public Sector Accounting Board standards, including PSAB section 3150 for tangible capital assets (TCAs).

Discussion:

The Draft 2016 Financial Report has been prepared by the Municipality of Leamington on behalf of the Board and audited by the external audit firm of Hicks, MacPherson, latonna and Driedger LLP. The Draft 2016 Financial Report is attached to this report and will become final upon approval by the Board, at which point the 2016 Statement of Financial Position will be submitted as final for signature by the Board Chair and Vice-Chair.

Highlights of the 2016 Financial Report in relation to the 2016 Budget and 2015 results are as follows:

1. Financial Assets have increased by \$0.2 million (0.1%) primarily due to an increase in cash at year end. This is a result of timing of payments received compared to prior years.
2. Financial Liabilities have decreased by \$2.3 million (13.3%). \$1.7 million of this decrease results from the balance due to related parties at year end. As of December 31, 2016, the amount due to related parties was \$0.5M compared to

\$2.0M. The remaining decrease is attributed to the long-term debt annual repayments and no new debt issuance.

3. Wholesale billings were higher than budget expectations by about \$0.59 million (7.5%) and 2016 flows were approximately 235 million gallons more than budget and 226 million gallons over prior years. This is mainly due to a warmer, dryer summer period which provides a general increase to water demand in addition to the 2016 greenhouse development and expansion.
4. Investment income has increased by \$267k (172%) over budget due to improved market conditions and interest rates.
5. Wages and benefits exceed budget by approximately \$20k (10%) for the retirees' post-employment benefits expense, based on the actuarial report that were not budgeted. This is a non cash entry to accurately reflect UWSS' post retirement obligation.
6. Rents and Services were less than budget by \$34k (38%) due to limited required use of contracted services.
7. Gas and electricity exceed budget by about \$161k (16%) due to increased commodity pricing and to a lesser degree production costs resulting from increased volumes.
8. Repairs and maintenance expense exceed budget by \$186k (1242%) for work completed that is not capital. In 2016, this was work performed for the treatment pond clean up as well as drain and watermain maintenance.
9. Operational Programs and Studies were less than budget by \$79k (29%) as fewer studies were completed in 2016 than originally planned.
10. Ontario Clean Water Agency (OCWA) operating contract costs were also under budget by \$63k (2.3%) as actual contract costs were less than anticipated.
11. Capital asset purchases in 2016 included the following:
 - Replace/upgrade billing meters, pumps, filters and clarifiers - \$183k
 - Water treatment plant roof and windows replacements, driveway and parking lot projects, and machinery purchases - \$161k
 - Portable diesel generator - \$132k
 - Low lift station pump #3 and chlorine line projects - \$118k

The UWSS's auditors have provided their opinion that the Draft 2016 Financial Report is a fair representation of the UWSS's financial position as at December 31, 2016. That opinion is on page 1 of the draft report.

Recommendation:

That the 2016 Financial Report for the Union Water Supply System Joint Board of Management be approved.

Respectfully submitted,

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

Encls.

**The Union Water Supply System
Joint Board of Management**

2016 Financial Report

Index

Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Financial Activities	3
Statement of Cash Flow	4
Statement of Change in Net Asset (Debt)	5
Notes to the Financial Statements	6
Schedule of Tangible Capital Assets	Schedule 1

INDEPENDENT AUDITOR'S REPORT

To the Owners of Union Water Supply System

We have audited the accompanying financial statements of the Union Water Supply System, which comprise the statement of financial position, as at December 31, 2016, and the statements of financial activities, cash flow, and change in net debt for the year then ended, and a summary of accounting policies and other explanatory information.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Union Water Supply System as at December 31, 2016, and the statements of financial activities, cash flow, and change in net debt for the year then ended in accordance with Canadian public sector accounting standards.

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

Leamington, Ontario
April 4, 2017

Chartered Professional Accountants
Licensed Public Accountants

**The Union Water Supply System
Statement of Financial Position**

<u>as at December 31</u>	<u>2016</u>	<u>2015</u>
	\$	\$
Assets		
Financial		
Cash and Short-term Investments (Note 3)	16,272,820	15,976,900
Accounts Receivable (Note 4)	777,581	913,280
	<u>17,050,401</u>	<u>16,890,180</u>
Liabilities		
Accounts Payable and Accrued Liabilities (Note 4)	580,378	2,197,923
Long-term Debt (Note 5)	14,550,960	15,248,619
	<u>15,131,338</u>	<u>17,446,542</u>
Net Asset (Debt)	<u>1,919,063</u>	<u>(556,362)</u>
Non Financial Assets		
Inventories (Note 6)	-	39,765
Tangible Capital Assets (Note 6)	40,922,342	41,457,972
Net Non Financial Assets	<u>40,922,342</u>	<u>41,497,737</u>
Accumulated Surplus (Note 9)	<u>42,841,405</u>	<u>40,941,375</u>
Approved by the Board:		
Chair	_____	
Vice Chair	_____	

The Union Water Supply System Statement of Financial Activities

For the Year Ended December 31	2016 Budget \$ (Note 11)	2016 Actual \$	2015 Actual \$
Revenues			
Wholesale Billings (Note 4, 7)	8,268,600	8,855,085	8,105,599
Investment Income (Note 8)	155,000	421,951	39,096
Other Income	18,000	22,147	13,350
	<u>8,441,600</u>	<u>9,299,183</u>	<u>8,158,045</u>
Expenses			
Wages and Benefits (Note 10)	202,878	223,255	273,636
Rents and Services	91,000	56,575	85,245
Administration Fee (Note 4)	20,000	30,000	20,000
Property Taxes	140,000	138,889	136,110
Electricity and Gas	1,000,000	1,161,020	1,058,841
Repairs and Maintenance	15,000	201,265	65,597
Operational Programs and Studies	270,000	191,206	72,889
Sundry	250	873	667
Amortization (Schedule 1)	1,169,116	1,169,116	1,074,626
OCWA Operating Contract	2,712,000	2,648,533	2,527,180
Long-term Interest Expense	1,578,421	1,578,421	1,664,016
	<u>7,198,665</u>	<u>7,399,153</u>	<u>6,978,807</u>
Annual Surplus	1,242,935	1,900,030	1,179,238
Accumulated Surplus, Beginning of the Year	<u>40,941,375</u>	<u>40,941,375</u>	<u>39,762,137</u>
Accumulated Surplus, End of the Year	<u><u>42,184,310</u></u>	<u><u>42,841,405</u></u>	<u><u>40,941,375</u></u>

**The Union Water Supply System
Statement of Cash Flow**

For the Year Ended December 31	2016	2015
	\$	\$
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Operating		
Annual Surplus	1,900,030	1,179,238
Decrease (Increase) in Accounts Receivable	135,699	(370,376)
Increase (Decrease) in Accounts Payable	(1,617,545)	813,379
Cash provided by operating transactions	<u>418,184</u>	<u>1,622,241</u>
Capital		
Amortization of tangible capital assets	1,169,116	1,074,626
Cash used to acquire tangible capital assets	(593,721)	(1,668,543)
Cash provided (applied) to capital transactions	<u>575,395</u>	<u>(593,917)</u>
Financing		
Debt repayment (principal only)	(697,659)	(1,358,503)
Payment due to related parties (principal only)	-	(337,301)
Cash applied to Financing Transactions	<u>(697,659)</u>	<u>(1,695,804)</u>
Increase (Decrease) in Cash and Short-term Investments	295,920	(667,480)
Cash and Short-term Investments, Beginning of the Year	15,976,900	16,644,380
Cash and Short-term Investments, End of the Year	<u>16,272,820</u>	<u>15,976,900</u>

**The Union Water Supply System
Statement of Change in Net Asset (Debt)**

For the Year Ended December 31	2016 Budget \$ (Note 11)	2016 Actual \$	2015 Actual \$
Annual Surplus	1,242,935	1,900,030	1,179,238
Amortization of tangible capital assets	1,169,116	1,169,116	1,074,626
Acquisition of tangible capital assets	(1,040,000)	(593,721)	(1,668,543)
Change in Net Asset (Debt)	1,372,051	2,475,425	585,321
Net Asset (Debt), Beginning of the Year	(556,362)	(556,362)	(1,141,683)
Net Asset (Debt), End of the Year	815,689	1,919,063	(556,362)

1. Description of Reporting Entity

The Union Water Supply System (UWSS) was created, effective January 8, 2001, by Order of the Ontario 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 last set January 1, 2013 as Leamington - 56.11%, Kingsville - 34.83%, Essex - 6.04% and Lakeshore - 3.02%. The ownership interest is to be updated every four years.

2. Summary of Accounting Policies

The financial statements of the UWSS 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 the CPA Canada.

i) 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 expenditures not yet raised by user rates.

2. Summary of Accounting Policies (continued)

ii) Use of Estimates

The preparation of financial statements requires management to make estimates that affect the reported amounts 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, the carrying value of tangible capital assets, accounts payable and accrued liabilities including the valuation of post employment benefits. Actual results could differ as additional information becomes available in the future.

iii) 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 & Equipment	3 to 25 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.

iv) 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.

v) 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.

vi) Inventories

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

2. Summary of Accounting Policies (continued)

vii) Future Accounting Changes

Effective for fiscal periods beginning on or after April 1, 2017, all governments will be required to adopt PSAB Section 2200 Related Party Disclosure, Section 3210 Assets, Section 3320 Contingent Assets, Section 3380 Contractual Rights and Section 3420 Inter-entity Transactions.

Effective for fiscal periods beginning on or after April 1, 2019, all governments will be required to adopt PSAB Section 3450 Financial Instruments, Section 2601 Foreign Currency Translation, Section 3041 Portfolio Investments and Section 1201 Financial Statement Presentation. These standards provide guidance on how to account for and present financial instruments and foreign currency translation.

Management is currently in the process of evaluating the potential impact of adopting these standards.

3. Cash and Short-Term Investments

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

	2016	2015
Operating Fund	\$	\$
Cash	1,762,929	1,116,368
One Fund investments	-	2,128,408
	<u>1,762,929</u>	<u>3,244,776</u>
Reserve Funds		
Cash	251,482	-
One Fund investments	14,258,409	12,732,124
	<u>14,509,891</u>	<u>12,732,124</u>
	<u>16,272,820</u>	<u>15,976,900</u>

Investments are recorded at the lower of cost and market value. The Association of Municipalities of Ontario operates the One Fund investment pool. Investments include: money market, bond, universe corporate bond, and equity. Investments are short-term and liquid in nature.

4. Related Party Transactions

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

	2016	2015
	\$	\$
Accounts Receivable	770,070	775,360
Accounts Payable and Accrued Liabilities	457,070	1,979,940

The Accounts Receivable amount is the receivables from the four member municipalities for 2016 water flows that have not been received by year end. The Accounts Payable and Accrued Liabilities amount is the Due to Leamington balance that arises from Union Water Supply System 2016 purchases and debt payments that have not been paid by year end.

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

	2016	2015
	\$	\$
Wholesale Billings Revenue (Note 7)	8,855,085	8,105,599
Administration Fee	30,000	20,000

Wholesale Billings Revenue balance is 2016 sales of water flows to the four member municipalities and is detailed in Note 7. Administration Fee 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.

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 18, 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:

	2016	2015
	\$	\$
Outstanding principal at the end of the year for:		
Net long-term debt, ending balance	14,550,960	15,248,619

The estimated future principal payments required in the next 5 years and thereafter are as follows:

2017	\$794,416
2018	902,009
2019	1,021,638
2020	1,154,638
2021	1,302,487
Thereafter	<u>9,375,773</u>
	<u>\$14,550,960</u>

6. Tangible Capital Assets/Inventories

	Net Book Value	
	2016	2015
	\$	\$
Land	133,634	133,634
Buildings	16,768,956	17,145,436
Machinery & Equipment	6,347,177	6,228,792
Linear Assets	17,562,184	17,858,152
Land Improvements	110,391	91,958
	40,922,342	41,457,972
Inventories	-	39,765
	40,922,342	41,497,737

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	
	2016	2015	2016	2015
	\$	\$	Gals (000)	Gals (000)
Municipality of Leamington	4,276,556	3,980,570	1,654,434	1,568,824
Town of Kingsville	3,789,918	3,374,033	1,423,838	1,292,028
Town of Essex	497,937	484,637	187,266	185,790
Town of Lakeshore	290,674	266,359	109,274	102,071
	8,855,085	8,105,599	3,374,812	3,148,713

8. Investment Income

Investment income includes bank and One Fund interest income, and unrealized gain (loss) from the change in market value of the One Fund Investments as follows:

	2016	2015
	\$	\$
Interest income	282,749	242,406
Unrealized gain (loss)	139,202	(203,310)
	421,951	39,096

9. Accumulated Surplus

Accumulated Surplus is made up of:

	2016 \$	2015 \$
Opening Reserve Balances		
Reserves: Operating Fund	1,960,131	1,960,131
Wholesale Rates Reserve Fund	2,187,430	3,320,913
Capital Financing Reserve Fund	<u>10,544,696</u>	<u>10,521,696</u>
Total Reserve Balance	14,692,257	15,802,740
Less: Long Term Debt Obligations Due to related Party	<u>(15,248,619)</u>	<u>(16,607,122)</u>
	-	(337,301)
	<u>(15,248,619)</u>	<u>(16,944,423)</u>
Add: TCA beginning of the year (incl. inventory)	<u>41,497,737</u>	<u>40,903,820</u>
Accumulated Surplus, beginning of year	40,941,375	39,762,137
Add: Contributions to (from) Reserve & Interest	<u>1,777,766</u>	<u>(1,110,483)</u>
Total Change in Reserves	1,777,766	(1,110,483)
Add: Changes in TCA During the Year		
Capital Assets Purchased (net of disposal)	593,721	1,668,543
Amortization of Capital Assets	<u>(1,169,116)</u>	<u>(1,074,626)</u>
Total Changes in TCA	(575,395)	593,917
Less: Changes in Debt Position		
Due to Related Party Payment	-	337,301
Debt Repayment	<u>697,659</u>	<u>1,358,503</u>
Total Changes in Debt	697,659	1,695,804
Accumulated Surplus, ending balance	<u><u>42,841,405</u></u>	<u><u>40,941,375</u></u>

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 was dated June 1, 2015 and was effective December 31, 2014. Assumptions used are as follows:

- a) a discount factor of 3.65% was used;
- b) an increase of 8.30% for health in 2016, linearly decreased to an ultimate rate of 4.5% in 2035 and an annual increase of 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 age 65; and
- d) all employees will remain employed by UWSS until retirement.

The liability, based on the above assumptions, at year-end is \$88,200 (2015 - \$71,600) and is included in accounts payable and accrued liabilities. An additional expense of \$16,600 (2015 - \$71,600) is reported in the Statement of Financial Activities and is reflected in wages and benefits.

11. Budget Figures

The 2016 Budget approved by the UWSS Board on December 16, 2015 was prepared on a modified cash basis. This budget was revised on July 20, 2016. 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:

	2016
	\$
Financial Plan (Budget) Surplus for the Year	674,392
Add:	
Accumulated surplus, beginning of the year	40,941,375
Principal payments on debt and due to related party	697,659
Capital expenditures reallocated to tangible capital assets	1,040,000
Less:	
Amortization expense on tangible capital assets	<u>(1,169,116)</u>
Budget Surplus per Statement of Financial Operations	<u><u>42,184,310</u></u>

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.

DRAFT

The Union Water Supply System
Consolidated Schedule of Tangible Capital Assets - Schedule 1

As at December 31

	Infrastructure					Totals		
	Land	Land Improvements	Buildings	Machinery & Equipment	Linear Assets	Inventories	2016	2015
Cost	\$	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of year	133,634	98,852	25,989,258	9,993,045	25,746,770	39,766	62,001,325	60,341,362
Add: New acquisitions during the year	-	21,170	21,696	367,807	73,543	-	484,216	461,876
Add: Additions during the year	-	-	99,825	51,682	838	17,016	169,361	1,507,414
Less: Disposals during the year	-	-	-	(46,421)	-	(56,782)	(103,203)	(302,822)
Writedowns	-	-	-	-	-	-	-	(6,508)
Balance, end of year	133,634	120,022	26,110,779	10,366,114	25,821,151	-	62,551,700	62,001,322
Accumulated amortization								
Balance, beginning of year	-	6,895	8,843,822	3,764,253	7,888,615	-	20,503,585	19,437,542
Add: Amortization	-	2,736	498,001	298,027	370,352	-	1,169,116	1,074,626
Less: Accumulated amortization on disposals	-	-	-	(43,343)	-	-	(43,343)	(8,583)
Balance, end of year	-	9,631	9,341,823	4,018,937	8,258,967	-	21,629,358	20,503,585
Net Book Value of Tangible Capital Assets Including Inventories	133,634	110,391	16,768,956	6,347,177	17,562,184	-	40,922,342	41,497,737