

Union Water Supply System

**Financial Statements
December 31, 2015**

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

2015 Financial Report

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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, 2015, 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, 2015, 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.

Leamington, Ontario
March 16, 2016

**HICKS, MacPHERSON, IATONNA
& DRIEDGER LLP**
*Hicks, MacPherson, Iatonna
& Driedger LLP*
Chartered Professional Accountants
Licensed Public Accountants

The Union Water Supply System

Statement of Financial Position

as at December 31	2015	2014
	\$	\$
Assets		
Financial		
Cash and Short-term Investments (Note 3)	15,976,900	16,644,380
Accounts Receivable (Note 4)	913,280	542,904
	<u>16,890,180</u>	<u>17,187,284</u>
Liabilities		
Accounts Payable and Accrued Liabilities (Note 4)	2,197,923	1,384,544
Due to Related Party Loan (Note 5)	-	337,301
Long-term Debt (Note 6)	15,248,619	16,607,122
	<u>17,446,542</u>	<u>18,328,967</u>
Net Debt	<u>(556,362)</u>	<u>(1,141,683)</u>
Non Financial Assets		
Inventories (Note 7)	39,765	167,739
Tangible Capital Assets (Note 7)	41,457,972	40,736,081
Net Non Financial Assets	<u>41,497,737</u>	<u>40,903,820</u>
Accumulated Surplus (Note 10)	<u>40,941,375</u>	<u>39,762,137</u>

Approved by the Board:

Chair

Hilda MacDonald

Vice Chair

[Signature]

The Union Water Supply System

Statement of Financial Activities

For the Year Ended December 31	Unaudited		
	2015 Budget \$ (Note 12)	2015 Actual \$	2014 Actual \$
Revenues			
Wholesale Billings (Note 8)	7,836,500	8,105,599	8,180,366
Investment Income (Note 9)	155,000	39,096	140,271
Other Income	18,000	13,350	19,560
	<u>8,009,500</u>	<u>8,158,045</u>	<u>8,340,197</u>
Expenses			
Wages and Benefits (Note 11)	198,900	273,636	197,917
Rents and Services	92,500	85,245	114,633
Administration Fee	20,000	20,000	20,000
Property Taxes	100,000	136,110	154,428
Electricity and Gas	875,000	1,058,841	875,193
Repairs and Maintenance	20,000	65,597	130,476
Operational Programs and Studies	100,000	72,889	68,150
Sundry	250	667	5,358
Amortization	1,074,626	1,074,626	1,080,404
OCWA Operating Contract	2,583,504	2,527,180	2,418,628
Long-term Interest Expense	1,646,919	1,664,016	1,771,297
	<u>6,711,699</u>	<u>6,978,807</u>	<u>6,836,484</u>
Annual Surplus	1,297,801	1,179,238	1,503,713
Accumulated Surplus, Beginning of the Year	<u>39,762,137</u>	<u>39,762,137</u>	<u>38,258,424</u>
Accumulated Surplus, End of the Year	<u><u>41,059,938</u></u>	<u><u>40,941,375</u></u>	<u><u>39,762,137</u></u>

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

For the Year Ended December 31	2015	2014
	\$	\$
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Operating		
Annual Surplus	1,179,238	1,503,713
Decrease (Increase) in Accounts Receivable	(370,376)	26,075
Increase in Accounts Payable	813,379	821,554
Cash provided by operating transactions	<u>1,622,241</u>	<u>2,351,342</u>
Capital		
Amortization of tangible capital assets	1,074,626	1,080,404
Cash used to acquire tangible capital assets	<u>(1,668,543)</u>	<u>(545,685)</u>
Cash provided (applied) to capital transactions	<u>(593,917)</u>	<u>534,719</u>
Financing		
Debt repayment (principal only)	(1,358,503)	(1,610,540)
Payment due to related parties (principal only)	<u>(337,301)</u>	<u>(322,007)</u>
Cash applied to Financing Transactions	<u>(1,695,804)</u>	<u>(1,932,547)</u>
Increase/(Decrease) in Cash and Short-term Investments	(667,480)	953,514
Cash and Short-term Investments, Beginning of the Year	<u>16,644,380</u>	<u>15,690,866</u>
Cash and Short-term Investments, End of the Year	<u><u>15,976,900</u></u>	<u><u>16,644,380</u></u>

The Union Water Supply System Statement of Change in Net Debt

For the Year Ended December 31	Unaudited 2015 Budget \$ (Note 10)	2015 Actual \$	2014 Actual \$
Annual Surplus	1,297,801	1,179,238	1,503,713
Amortization of tangible capital assets	1,074,626	1,074,626	1,080,404
Acquisition of tangible capital assets	<u>(1,668,543)</u>	<u>(1,668,543)</u>	<u>(545,685)</u>
Decrease in Net Debt	703,884	585,321	2,038,432
Net Debt, Beginning of the Year	<u>(1,141,683)</u>	<u>(1,141,683)</u>	<u>(3,180,115)</u>
Net Debt, End of the Year	<u><u>(437,799)</u></u>	<u><u>(556,362)</u></u>	<u><u>(1,141,683)</u></u>

The Union Water Supply System
Notes to the Financial Statements
December 31, 2015

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.

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.

The Union Water Supply System
Notes to the Financial Statements
December 31, 2015

2. Summary of Accounting Policies (continued)

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 property, plant and equipment, accruals, and valuation of post employment benefits. Actual results could differ as additional information becomes available in the future.

i) 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 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.

ii) 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.

iii) 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.

iv) Inventories

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

The Union Water Supply System
Notes to the Financial Statements
December 31, 2015

2. Summary of Accounting Policies (continued)

v) Future Accounting Changes

Effective for fiscal periods beginning on or after April 1, 2015, all governments will be required to adopt PSAB Section 3450, Financial Instruments, Section 2601, Foreign Currency Translation, 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:

	2015	2014
Operating Fund	\$	\$
Cash	1,116,368	1,816,903
One Fund investments	<u>2,128,408</u>	<u>984,869</u>
	<u>3,244,776</u>	<u>2,801,772</u>
Reserve Funds		
One Fund investments	<u>12,732,124</u>	<u>13,842,608</u>
	<u>15,976,900</u>	<u>16,644,380</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.

4. Related Party Transactions

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

	2015	2014
	\$	\$
Accounts Receivable	775,360	487,063
Accounts Payable and Accrued Liabilities	1,979,940	1,353,034
Due to Related Party Loan (Note 5)	-	337,301

The Union Water Supply System
Notes to the Financial Statements
December 31, 2015

4. Related Party Transactions (continued)

The Accounts Receivable amount is the receivables from the four member municipalities for 2015 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 2015 purchases and debt payments that have not been paid by year end. The Due to Related Party Loan was paid in full in 2015.

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

	2015	2014
	\$	\$
Wholesale Billings Revenue (Note 9)	8,105,599	8,180,366
Administration Fee	20,000	20,000

Wholesale Billings Revenue balance is 2015 sales of water flows to the four member municipalities and is detailed in Note 9. 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. Due to Related Party Loan

In 2007 as part of the agreement to amalgamate water Rates 2 and 4, the Union Water Supply System Joint Board of Management approved assumption of the Leamington Trunk Watermain from Albuna Townline (County Road 31) to the former Penn Central Railway Corridor as a common asset. The loan was fully paid off in 2015.

	2015	2014
	\$	\$
Due to related party, opening balance	337,301	659,308
Change in amounts due to related party:		
Payment to related party	<u>(337,301)</u>	<u>(322,007)</u>
Due to related party, ending balance	<u>-</u>	<u>337,301</u>

The Union Water Supply System
Notes to the Financial Statements
December 31, 2015

6. 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 Libro Credit Union bank loan was paid in full in 2015. The Ontario Strategic Infrastructure Financing Authority (OSIFA) loan was paid in full in 2015.

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

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

	2015	2014
Outstanding principal at the end of the year for:	\$	\$
Sun Life Debt Obligation	15,248,619	15,859,278
Libro Bank Loan	-	372,492
OSIFA Serial Debenture	-	375,352
Net long-term debt, ending balance	<u>15,248,619</u>	<u>16,607,122</u>

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

2016	\$697,659
2017	794,416
2018	902,009
2019	1,021,638
2020	1,154,638
Thereafter	<u>10,678,259</u>
	<u>\$15,248,619</u>

The Union Water Supply System
Notes to the Financial Statements
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7. Tangible Capital Assets/Inventories

	<u>NET BOOK VALUE</u>	
	2015	2014
	\$	\$
Land	133,634	133,634
Buildings	17,145,436	16,450,856
Machinery & Equipment	6,228,792	6,017,827
Linear Assets	17,858,152	18,039,335
Land Improvements	91,958	94,429
	<u>41,457,972</u>	<u>40,736,081</u>
Inventories	39,765	167,739
	<u>41,497,737</u>	<u>40,903,820</u>

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

Inventory for 2015 consists of work-in-progress for carbon system upgrade, security camera system, and billing meter upgrades.

8. Wholesale Billings Revenue

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

	Revenues		Flows	
	2015	2014	2015	2014
	\$	\$	Gals (000)	Gals (000)
Municipality of Leamington	3,980,570	3,963,857	1,568,824	1,596,477
Town of Kingsville	3,374,033	3,279,496	1,292,028	1,276,068
Town of Essex	484,637	673,538	185,790	262,077
Town of Lakeshore	266,359	263,475	102,071	102,520
	<u>8,105,599</u>	<u>8,180,366</u>	<u>3,148,713</u>	<u>3,237,142</u>

9. Investment Income

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

	2015	2014
	\$	\$
Interest income	242,406	141,922
Unrealized loss	<u>(203,310)</u>	<u>(1,651)</u>
	<u>39,096</u>	<u>140,272</u>

The Union Water Supply System
Notes to the Financial Statements
December 31, 2015

10. Accumulated Surplus

Accumulated Surplus is made up of:

	2015	2014
	\$	\$
Opening Reserve Balances		
Reserves: Operating Fund	1,960,131	1,960,131
Wholesale Rates Reserve Fund	3,320,913	3,305,029
Capital Financing Reserve Fund	10,521,696	10,431,696
Total Reserve Balance	<u>15,802,740</u>	<u>15,696,856</u>
Less: Long Term Debt Obligations Due to related Party	(16,607,122)	(18,217,662)
	<u>(337,301)</u>	<u>(659,308)</u>
	(16,944,423)	(18,876,970)
Add: TCA beginning of the year (incl. inventory)	<u>40,903,820</u>	<u>41,438,539</u>
Accumulated Surplus, beginning of year	39,762,137	38,258,425
Add: Contributions to (from) Reserve & Interest	<u>(1,110,483)</u>	<u>105,884</u>
Total Change in Reserves	(1,110,483)	105,884
Add: Changes in TCA During the Year		
Capital Assets Purchased (net of disposal)	1,668,543	545,685
Amortization of Capital Assets	<u>(1,074,626)</u>	<u>(1,080,404)</u>
Total Changes in TCA	593,917	(534,719)
Less: Changes in Debt Position		
Due to Related Party Payment	337,301	322,007
Debt Repayment	<u>1,358,503</u>	<u>1,610,540</u>
Total Changes in Debt	<u>1,695,804</u>	<u>1,932,547</u>
Accumulated Surplus, ending balance	<u><u>40,941,375</u></u>	<u><u>39,762,137</u></u>

The Union Water Supply System
Notes to the Financial Statements
December 31, 2015

11. 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 8.50% for health in 2015, linearly decreased to an ultimate rate of 4.5% in 2027 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 \$71,600 and is included in accounts payable and accrued liabilities.

12. Budget Figures (unaudited)

The 2015 Budget approved by the UWSS Board on February 11, 2015 was prepared on a modified cash basis. That 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:

	2015 \$
Financial Plan (Budget) Deficit for the Year	(712,227)
Add:	
Accumulated surplus, beginning of the year	39,762,137
Principal payments on debt and due to related party	1,527,154
Capital expenditures reallocated to tangible capital assets	1,557,500
Less:	
Amortization expense on tangible capital assets	<u>(1,074,626)</u>
Budget Surplus per Statement of Financial Operations	<u>41,059,938</u>

The Union Water Supply System
Notes to the Financial Statements
December 31, 2015

13. 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.

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		2015
Cost	\$	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of year	133,634	98,852	24,578,014	9,792,140	25,570,983	167,739	60,341,362	59,795,677
Add: New acquisitions during the year	-	-	254,576	152,911	14,622	39,767	461,876	1,025,383
Add: Additions during the year	-	-	1,163,176	47,994	176,133	120,111	1,507,414	334,763
Less: Disposals during the year	-	-	-	-	(14,970)	(287,852)	(302,822)	(814,461)
Writedowns	-	-	(6,508)	-	-	-	(6,508)	-
Balance, end of year	133,634	98,852	25,989,258	9,993,045	25,746,768	39,765	62,001,322	60,341,362
Accumulated amortization								
Balance, beginning of year	-	4,423	8,364,919	3,536,552	7,531,648	-	19,437,542	18,357,138
Add: Amortization	-	2,471	478,903	227,701	365,551	-	1,074,626	1,080,404
Less: Accumulated amortization on disposals	-	-	-	-	(8,583)	-	(8,583)	-
Balance, end of year	-	6,894	8,843,822	3,764,253	7,888,616	-	20,503,585	19,437,542
Capital Assets Including	133,634	91,958	17,145,436	6,228,792	17,858,152	39,765	41,497,737	40,903,820

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