

Union Water Supply System

**Financial Statements
December 31, 2017**

INDEPENDENT AUDITOR'S REPORT

To the Owners of Union Water Supply System

We have audited the accompanying financial statements of Union Water Supply System, which comprise the statement of financial position as at December 31, 2017, and the statements of financial activities, cash flow, and change in net assets 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, 2017, and the statements of financial activities, cash flow, and change in net assets for the year then ended in accordance with Canadian public sector accounting standards.

HICKS MacPHERSON, IATONNA
& DRIEDGER LLP

*Hicks, MacPherson, Iatonna
& Driedger LLP*

Chartered Professional Accountants
Licensed Public Accountants

Leamington, Ontario
April 4, 2018

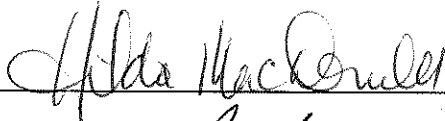
Union Water Supply System
Statement of Financial Position
as at December 31

	2017	2016
Assets		
Financial		
Cash and Short-Term Investments (note 3)	\$ 8,384,546	\$ 16,272,820
Long-Term Investment (note 4)	10,000,000	-
Accounts Receivable (note 5)	927,338	777,581
	19,311,884	17,050,401
Liabilities		
Accounts Payable and Accrued Liabilities (notes 5 and 11)	1,139,030	580,378
Long-Term Debt (note 6)	13,756,545	14,550,960
	14,895,575	15,131,338
Net Assets	4,416,309	1,919,063
Non Financial Assets		
Inventories (note 7)	66,581	-
Tangible Capital Assets (notes 2 and 7)	40,097,187	40,922,342
	40,163,768	40,922,342
Accumulated Surplus (note 10)	\$ 44,580,077	\$ 42,841,405

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

	2017 Budget (note 12)	2017 Actual	2016 Actual
Revenues			
Wholesale Billings (notes 5 and 8)	\$ 8,585,200	\$ 8,959,542	\$ 8,855,085
Investment Income (note 9)	232,000	422,241	421,951
Other Income	24,000	66,985	22,147
	<u>8,841,200</u>	<u>9,448,768</u>	<u>9,299,183</u>
Expenses			
Wages and Benefits (note 11)	214,197	236,096	223,255
Rents and Services	241,750	156,768	56,575
Administration Fee (note 5)	30,000	30,000	30,000
Property Taxes	145,000	143,276	138,889
Electricity and Gas	1,250,000	1,163,827	1,161,020
Repairs and Maintenance	215,000	293,422	201,265
Operational Programs and Studies	235,000	280,647	191,206
Sundry	1,000	-	873
Amortization (Schedule 1)	1,193,447	1,193,447	1,169,116
OCWA Operating Contract	2,766,240	2,712,328	2,648,533
Long-term Interest Expense	1,500,285	1,500,285	1,578,421
	<u>7,791,919</u>	<u>7,710,096</u>	<u>7,399,153</u>
Annual Surplus	1,049,281	1,738,672	1,900,030
Accumulated Surplus, Beginning of Year	42,841,405	42,841,405	40,941,375
Accumulated Surplus, End of Year	<u>\$ 43,890,686</u>	<u>\$ 44,580,077</u>	<u>\$ 42,841,405</u>

See accompanying notes to financial statements

Union Water Supply System

Statement of Cash Flow for the years ended December 31

	2017	2016
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Operating		
Annual surplus	\$ 1,738,672	\$ 1,900,030
Decrease (Increase) in accounts receivable	(149,757)	135,699
Increase (Decrease) in accounts payable	558,652	(1,617,545)
Increase in long-term investment	(10,000,000)	-
Cash provided by (applied to) operating transactions	(7,852,433)	418,184
Capital		
Amortization of tangible capital assets	1,193,447	1,169,116
Cash used to acquire tangible capital assets	(434,873)	(593,721)
Cash provided by capital transactions	758,574	575,395
Financing		
Debt repayment (principal only)	(794,415)	(697,659)
Increase (Decrease) in Cash and Short-Term Investments	(7,888,274)	295,920
Cash and Short-Term Investments, Beginning of Year	16,272,820	15,976,900
Cash and Short-Term Investments, End of Year	\$ 8,384,546	\$ 16,272,820

See accompanying notes to financial statements

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

	2017 Budget (note 12)	2017 Actual	2016 Actual
Annual Surplus	\$ 1,049,281	\$ 1,738,672	\$ 1,900,030
Amortization of tangible capital assets	1,193,447	1,193,447	1,169,116
Acquisition of tangible capital assets	(2,820,000)	(434,873)	(593,721)
Change in Net Assets	(577,272)	2,497,246	2,475,425
Net Assets (Debt), Beginning of Year	1,919,063	1,919,063	(556,362)
Net Assets, End of Year	\$ 1,341,791	\$ 4,416,309	\$ 1,919,063

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, 2017 as Leamington - 50.55% (2013 - 56.11%), Kingsville - 40.33% (2013 - 34.83%), Essex - 5.97% (2013 - 6.04%) and Lakeshore - 3.15% (2013 - 3.02%). 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 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.

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.

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.

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

2. Summary of Accounting Policies (Cont'd)

Future Accounting Changes (Cont'd)

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 fund as follows:

	2017	2016
Operating Fund		
Cash	\$ 2,171,824	\$ 1,762,929
Reserve Funds		
Cash	6,212,722	251,482
One Fund investments	-	14,258,409
	6,212,722	14,509,891
	\$ 8,384,546	\$ 16,272,820

4. Long-Term Investment

Funds are invested in a guaranteed investment certificate (GIC) with an annual interest rate of 2.55%. The GIC has a five year term (matures April 2022).

5. Related Party Transactions

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

	2017	2016
Accounts receivable	\$ 706,215	\$ 770,070
Accounts payable and accrued liabilities	987,209	457,070

The accounts receivable amount is the receivables from the four member municipalities for 2017 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 2017 purchases and debt payments that have not been paid by year end.

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

5. Related Party Transactions (Cont'd)

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

	2017	2016
Wholesale billings revenue (note 8)	\$ 8,959,542	\$ 8,855,085
Administration fee	30,000	30,000

Wholesale billings revenue balance is 2017 sales of water flows to the four member municipalities and is detailed in Note 8. 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.

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 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:

	2017	2016
<i>Outstanding principal at the end of the year for:</i>		
Net long-term debt, end of year	\$ 13,756,545	\$ 14,550,960

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

2018	\$ 902,009
2019	1,021,638
2020	1,154,638
2021	1,302,487
2022	1,466,829
Thereafter	7,908,944
	\$ 13,756,545

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

7. Tangible Capital Assets/Inventories

	Net Book Value	
	2017	2016
Land	\$ 133,634	\$ 133,634
Buildings	16,313,342	16,768,956
Machinery and equipment	6,314,239	6,347,177
Linear assets	17,228,582	17,562,184
Land improvements	107,390	110,391
Total tangible capital assets	40,097,187	40,922,342
Inventories	66,581	-
	<u>\$ 40,163,768</u>	<u>\$ 40,922,342</u>

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

8. Wholesale Billings Revenue

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

	Revenues		Flows	
	2017	2016	2017	2016
	\$	\$	Gals (000)	Gals (000)
Municipality of Leamington	\$ 4,256,356	\$ 4,276,556	1,623,152	1,654,434
Town of Kingsville	3,922,396	3,789,918	1,446,853	1,423,838
Town of Essex	482,916	497,937	178,275	187,266
Town of Lakeshore	297,874	290,674	109,915	109,274
	<u>\$ 8,959,542</u>	<u>\$ 8,855,085</u>	<u>3,358,195</u>	<u>3,374,812</u>

9. Investment Income

Investment income includes bank and GIC interest income as follows:

	2017	2016
Interest income	\$ 422,241	\$ 282,749
Unrealized gain	-	139,202
	<u>\$ 422,241</u>	<u>\$ 421,951</u>

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

10. Accumulated Surplus

	2017	2016
Opening Reserve Balances		
Reserves:		
Operating fund	\$ 1,960,131	\$ 1,960,131
Wholesale rates reserve fund	3,685,763	2,187,430
Capital financing reserve fund	10,824,129	10,544,696
Total Reserve Balance	16,470,023	14,692,257
Long-term debt obligations	(14,550,960)	(15,248,619)
Tangible capital assets beginning of year (inc. inventory)	40,922,342	41,497,737
Accumulated Surplus, beginning of year	42,841,405	40,941,375
Contributions to reserve and interest	1,702,831	1,777,766
Tangible capital assets purchased (net of disposal)	434,873	593,721
Amortization of tangible capital assets	(1,193,447)	(1,169,116)
Debt repayment	794,415	697,659
Accumulated Surplus, end of year	\$ 44,580,077	\$ 42,841,405

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 is effective December 31, 2014. Assumptions used are as follows:

- (a) a discount factor of 3.65% was used;
- (b) an increase of 8.10% for health in 2017, 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 65; and
- (d) all employees will remain employed by UWSS until retirement.

The liability, based on the above assumptions, at year-end is \$106,000 (2016 - \$88,200) and is included in accounts payable and accrued liabilities. An additional expense of \$17,800 (2016 - \$16,600) 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

12. Budget Figures

The 2017 Budget approved by the UWSS Board on December 21, 2016 was prepared on a modified cash basis. This budget was revised on June 21, 2017. 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:

	2017
Financial Plan (Budget) surplus for the year	\$ (1,371,687)
Add:	
Accumulated surplus, beginning of the year	42,841,405
Principal payments on debt and due to related party	794,415
Capital expenditures reallocated to tangible capital assets	2,820,000
Less:	
Amortization expense on tangible capital assets	(1,193,447)
Budget Surplus per Statement of Financial Operations	\$ 43,890,686

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.

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	2017	2016
Cost								
Balance, beginning of year	\$ 133,634	\$ 120,022	\$ 26,110,779	\$ 10,366,114	\$ 25,821,151	\$ -	\$ 62,551,700	\$ 62,001,325
Add: New acquisitions during the year	-	-	21,499	231,733	30,338	66,581	350,151	484,216
Add: Additions during the year	-	-	22,844	52,512	9,366	-	84,722	169,361
Less: Disposals during the year	-	-	-	(20,516)	-	-	(20,516)	(103,202)
Balance, end of year	133,634	120,022	26,155,122	10,629,843	25,860,855	66,581	62,966,057	62,551,700
Accumulated Amortization								
Balance, beginning of year	-	9,631	9,341,823	4,018,937	8,258,967	-	21,629,358	20,503,585
Add: Amortization	-	3,001	499,957	317,183	373,306	-	1,193,447	1,169,116
Less: Accumulated amortization on disposals	-	-	-	(20,516)	-	-	(20,516)	(43,343)
Balance, end of year	-	12,632	9,841,780	4,315,604	8,632,273	-	22,802,289	21,629,358
Net Book Value of Tangible Capital Assets Including Inventories	\$ 133,634	\$ 107,390	\$ 16,313,342	\$ 6,314,239	\$ 17,228,582	\$ 66,581	\$ 40,163,768	\$ 40,922,342

See accompanying notes to financial statements