

LAMBTON AREA WATER SUPPLY SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

AUDITORS

BDO Canada LLP

LAMBTON AREA WATER SUPPLY SYSTEM

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Independent Auditor's Report

To the Members of the Lambton Area Water Supply System

We have audited the accompanying financial statements of the Lambton Area Water Supply System, which comprise the statement of financial position as at December 31, 2015, and the statements of operations, change in net financial debt and cash flow for the year then ended, and a summary of significant 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, the auditor considers internal control relevant to the entity's preparation 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 the Lambton Area Water Supply System as at December 31, 2015 and the results of its operations and cash flow for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Sarnia, Ontario

May 26, 2016

LAMBTON AREA WATER SUPPLY SYSTEM

**Statement of Financial Position
as at December 31, 2015**

	2015	2014
FINANCIAL ASSETS		
Cash (Note 3)	\$ 3,883,742	\$ 3,198,597
Accounts receivable	<u>334,773</u>	<u>350,600</u>
Total financial assets	<u>4,218,515</u>	<u>3,549,197</u>
LIABILITIES		
Accounts payable	905,869	108,802
Long term debt (Note 4)	<u>6,274,000</u>	<u>9,070,000</u>
Total liabilities	<u>7,179,869</u>	<u>9,178,802</u>
NET FINANCIAL DEBT	<u>(2,961,354)</u>	<u>(5,629,605)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets - net (Schedule 1)	<u>88,314,614</u>	<u>89,153,218</u>
Accumulated Surplus (Schedule 3)	<u>\$ 85,353,260</u>	<u>\$ 83,523,613</u>

The accompanying notes are an integral part of this financial statement

LAMBTON AREA WATER SUPPLY SYSTEM

**Statement of Operations
For the year ended December 31, 2015**

	2015 Budget	2015	2014
REVENUE			
Municipality recovery	\$ 6,465,232	\$ 6,471,962	\$ 6,276,822
Municipality recovery - debt	3,406,854	3,406,854	3,416,071
Interest	40,600	45,404	42,115
Other revenue	<u>269,400</u>	<u>444,949</u>	<u>189,810</u>
Total revenue	<u>10,182,086</u>	<u>10,369,169</u>	<u>9,924,818</u>
EXPENSES			
West Lambton operating	4,076,077	4,169,789	3,900,483
Tax allowance	213,250	184,551	173,671
Maintenance			
Engineering study	434,000	221,506	144,456
Major maintenance	1,243,785	988,519	192,138
Distribution repairs	200,000	207,349	502,236
Administration			
Wages and benefits	201,600	151,958	149,460
Legal fees and easements	4,000	3,573	51,711
Audit fee	12,000	10,430	13,381
Insurance	15,000	15,574	15,261
Meals and travel	4,700	4,912	6,098
Membership	2,000	1,715	2,374
Miscellaneous	800	17,689	98
Office supplies	500	466	1,188
Postage	550	213	174
Telephone and internet	4,600	3,997	4,141
Education and conference	3,000	2,623	3,000
Computer software	3,000	5,434	4,043
Amortization	1,938,370	1,938,370	1,862,545
Interest on long term debt	610,854	610,854	823,071
Loss on disposal	<u>-</u>	<u>-</u>	<u>83,664</u>
Total expenses	<u>\$ 8,968,086</u>	<u>8,539,522</u>	<u>7,933,193</u>
ANNUAL SURPLUS	1,214,000	1,829,647	1,991,625
ACCUMULATED SURPLUS, beginning of year	<u>83,523,613</u>	<u>83,523,613</u>	<u>81,531,988</u>
ACCUMULATED SURPLUS, end of year	<u>\$ 84,737,613</u>	<u>\$ 85,353,260</u>	<u>\$ 83,523,613</u>

The accompanying notes are an integral part of this financial statement

LAMBTON AREA WATER SUPPLY SYSTEM

**Statement of Change in Net Financial Debt
For the year ended December 31, 2015**

	2015 Budget	2015 Actual	2014 Actual
ANNUAL SURPLUS	\$ 1,214,000	\$ 1,829,647	\$ 1,991,625
Amortization of tangible capital assets	1,938,370	1,938,370	1,862,545
Acquisition of tangible capital assets	(2,038,426)	(1,099,766)	(1,493,378)
Loss on disposal of tangible capital assets	<u>-</u>	<u>-</u>	<u>83,664</u>
DECREASE IN NET FINANCIAL DEBT	<u>1,113,944</u>	<u>2,668,251</u>	<u>2,444,456</u>
NET FINANCIAL DEBT, beginning of year	<u>(5,629,605)</u>	<u>(5,629,605)</u>	<u>(8,074,061)</u>
NET FINANCIAL DEBT, end of year	<u>\$ (4,515,661)</u>	<u>\$ (2,961,354)</u>	<u>\$ (5,629,605)</u>

The accompanying notes are an integral part of this financial statement

LAMBTON AREA WATER SUPPLY SYSTEM

Statement of Cash Flow For the year ended December 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Annual surplus	\$ 1,829,647	\$ 1,991,625
Uses(Sources) of cash:		
Accounts receivable	15,827	(167,402)
Accounts payable	<u>797,067</u>	<u>(101,760)</u>
	812,894	(269,162)
Non-cash charges to operations		
Amortization	1,938,370	1,862,545
Loss on disposal	<u>-</u>	<u>83,664</u>
	1,938,370	1,946,209
Cash provided by operations	4,580,911	3,668,672
CAPITAL ACTIVITIES		
Cash used to acquire tangible capital assets	(1,099,766)	(1,493,378)
FINANCING ACTIVITIES		
Debenture principal repayments	<u>(2,796,000)</u>	<u>(2,593,000)</u>
NET CHANGE IN CASH	685,145	(417,706)
CASH, beginning of year	<u>3,198,597</u>	<u>3,616,303</u>
CASH, end of year	<u>\$ 3,883,742</u>	<u>\$ 3,198,597</u>

The accompanying notes are an integral part of this financial statement

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are the representation of management and have been prepared in accordance with generally accepted accounting policies for municipal governments, as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgements.

On January 1, 2009, the Board adopted revised Public Sector Accounting Standards: Section 1000-Financial Statement Concepts, Section 1100-Financial Statement Objectives, Section 1200-Financial Statement Presentation and Section 3150-Tangible Capital Assets. The standards require the recognition of all non-financial assets including tangible capital assets, prepaid expenses and inventories of supplies as assets in the financial statements. In addition, amortization on tangible capital assets is recorded in the Statement of Operations.

Basis of Accounting (accrual)

(i) Sources of financing and expenditures are reported on the accrual basis of accounting.

(ii) 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 receipt of goods or services and the creation of a legal obligation to pay.

(iii) Non-Financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with excess of revenues over expenses, provides the Change in Net Financial Assets for the year.

(a) Tangible Capital Assets

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

Land Improvements 15 to 25 years
Equipment 10 years
Facilities 15 to 100 years
Environmental Infrastructure 75 to 115 years

Amortization is charged commencing the year after acquisition. Assets under construction are not amortized until the asset is available for productive use, at which time they are capitalized.

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(iv) Revenue Recognition

Municipality recovery revenue is recognized in the year that the service relates to. Municipality recoveries for water use are based on annual budgeted amounts as determined with reference to anticipated operating and capital costs. Interest is recorded as revenue when earned.

(v) Change in Accounting Policy

The Organization adopted Public Sector Accounting Board Standard PS 3260 Liability for Contaminated Sites effective January 1, 2015. Under PS 3260, contaminated sites are defined as the result of contamination being introduced in the air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The Standard relates to sites that are not in productive use and sites in productive use where an unexpected event resulted in contamination. The Organization adopted this standard on a retroactive basis and there were no adjustments as a result of the adoption of this standard.

2. NATURE OF REPORTING ENTITY

In 1998, the participating municipalities received a draft Notice of Transfer for the Lambton Area Water Supply System pursuant to Section 5 of the Municipal Water and Sewage Transfer Act, 1997.

Under the transfer order the works, properties and all assets, liabilities, rights and obligations of the system have been conveyed, assigned and transferred jointly to the following participating municipalities: The Corporation of the City of Sarnia, The Corporation of the Municipality of Lambton Shores (formally The Corporation of the Town of Bosanquet and The Corporation of the Town of Forest), The Corporation of the Township of St. Clair (formally The Corporation of the Township of Moore and The Corporation of the Township of Sombra), the Corporation of the Town of Plympton-Wyoming (formally the Corporation of the Township of Plympton and The Corporation of the Village of Wyoming), The Corporation of the Village of Point Edward, and The Corporation of the Township of Warwick. As long as a participating municipality is serviced by the works, each will have an undivided beneficial ownership interest in the works as tenant in common with all other municipalities jointly. The proportion that each municipality's interest bears to the total of the municipalities' interest shall be in the same ratio that the quantity of water supplied from the works to the municipality at any time and from time to time bears to the total quantity of water supplied to all the municipalities at such time.

A joint board of management was established to govern the management of the water supply system. The joint board of management is comprised of one representative from each of the participating municipalities. The representative for The Corporation of the City of Sarnia has 5 votes, The Corporation of the Township of St. Clair has 2 votes, and all other representatives have one vote each.

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2015

3. CASH

The Board's cash is held at one Canadian chartered bank and earns interest based on the 30 day average bankers' acceptance (BA) rate. An operating line of credit was available by way of bank overdraft in the amount of \$50,000 as at December 31, 2015. NIL has been drawn on this line of credit as of December 31, 2015.

4. LONG TERM DEBT

	2015	2014
a) The balance of the long term debt reported on the Statement of Financial Position is comprised of long term debt incurred by The Corporation of the County of Lambton on behalf of Lambton Area Water Supply System and the participating municipalities, with interest at increasing rates from 7.95 to 8.0%, maturing May 2017, and outstanding at the end of the year:	\$ <u>6,274,000</u>	\$ <u>9,070,000</u>

b) Of the long term debt reported in (a) of this note, \$6,274,000 in principal payments are payable from 2016 to 2017.

5. RESERVES

The reserve has been established for future capital repairs and replacement.

6. PENSION AGREEMENTS

The Organization makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 1 member of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan.

The Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the plan assets and administration of the benefits. OMERS provides pension services to more than 461,000 active and retired members and approximately 1,000 employers. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2015. The results of this valuation disclosed total actuarial liabilities of \$81,924 million in respect of benefits accrued for services with actuarial assets at that date of \$74,947 million indicating an actuarial deficit of \$6,977 million.

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2015

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Organization does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2015 was \$13,432 (2014 - \$12,776) for current service and is included as an expenditure on the Consolidated Statement of Financial Activities. The OMERS Board rate was 9.0% to 14.6% depending on income level for 2015 (2014 - 9.0% to 14.6% depending on income level).

The Organization made no contribution under the past services provisions of the OMERS Agreement.

7. EXPENDITURE BY OBJECT

Total expenditures for the year reported on the Statement of Operations are as follows:

	2015	2014
Wages and employee benefits	\$ 151,958	\$ 149,460
Materials	52,623	36,377
Contracted services	5,785,717	4,978,076
Amortization	1,938,370	1,862,545
Loss of disposal	-	83,664
Interest on long term debt	<u>610,854</u>	<u>823,071</u>
Total	<u>\$ 8,539,522</u>	<u>\$ 7,933,193</u>

8. COMMITMENTS

The Lambton Area Water Supply System has committed to the completion of the SCADA upgrades for the Residual Management System (RMS) and area controlled by PLC4. To date \$71,015 has been spent and the upgrades for the RMS system are complete. An additional \$10,000 (approximate) will be spent to complete the installation of the upgrade for the PLC4 area.

The Lambton Area Water Supply System has committed to replace the HVAC system for the administrative area. At the end of 2015 \$289,522 has been spent and an additional \$50,000 (approximate) will be spent in 2016 to complete project.

The Lambton Area Water Supply system has committed to upgrade the existing polymer delivery system at the Water Treatment Plant. At the end of 2015 \$317,841 has been spent and an additional \$193,159 will be spent to complete the project.

The Lambton Area Water Supply system has committed to replace the main plant HVAC system by the end of 2016. The engineering design and tender document has been completed (\$47,669 has been spent) and it is estimated that \$609,000 will be spent in 2016.

The Lambton Area Water Supply system has committed to install a variable frequency drive at the Water Treatment Plant. In 2015, \$48,221 was spent on the engineering design and \$635,000 (approximate) will be spent in 2016.

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2015

9. CONTINGENT LIABILITY

The Organization is a co-defendant in legal action. The ultimate outcome is indeterminable at December 31, 2015 as litigation is still in progress. The Organization's management is of the opinion that the Organization has adequate insurance coverage to offset the amount of any claims and related costs, if any. Consequently, no provision for potential loss, if any, is reflected in these financial statements.

LAMBTON AREA WATER SUPPLY SYSTEM

**Schedule of Tangible Capital Assets (Schedule 1)
For the year ended December 31, 2015**

2015

	Land	Land Improvements	Equipment	Facilities	Environmental Infrastructure	Work in Progress	2015 Actual	2014 Actual
Cost								
Balance, beginning of the year	\$ 1,272,202	\$ 675,133	\$ 37,246	\$42,469,501	\$ 83,757,376	\$ 757,499	\$128,968,957	\$127,684,738
Add: additions during the year	-	-	-	474,311	-	678,378	1,152,689	1,697,446
Less: disposals during the year	-	-	-	-	-	(52,923)	(52,923)	(413,227)
Balance, end of the year	1,272,202	675,133	37,246	42,943,812	83,757,376	1,382,954	130,068,723	128,968,957
Accumulated Amortization								
Balance, beginning of the year	-	581,325	29,597	17,463,753	21,741,064	-	39,815,739	38,078,689
Add: amortization during the year	-	14,103	2,417	1,086,930	834,920	-	1,938,370	1,862,545
Less: accumulated amortization on disposals	-	-	-	-	-	-	-	(125,495)
Balance, end of the year	-	595,428	32,014	18,550,683	22,575,984	-	41,754,109	39,815,739
Net book value of tangible capital assets	\$ 1,272,202	\$ 79,705	\$ 5,232	\$24,393,129	\$ 61,181,392	\$1,382,954	\$ 88,314,614	\$ 89,153,218

LAMBTON AREA WATER SUPPLY SYSTEM

**Schedule of Tangible Capital Assets (Schedule 2)
For the year ended December 31, 2015**

2014

	Land	Land Improvements	Equipment	Facilities	Environmental Infrastructure	Work in Progress	2014 Actual	2013 Actual
Cost								
Balance, beginning of the year	\$ 1,272,202	\$ 675,133	\$ 37,246	\$41,547,440	\$ 83,525,626	\$ 627,091	\$127,684,738	\$126,980,594
Add: additions during the year	-	-	-	1,131,220	231,750	334,476	1,697,446	856,527
Less: disposals during the year	-	-	-	(209,159)	-	(204,068)	(413,227)	(152,383)
Balance, end of the year	1,272,202	675,133	37,246	42,469,501	83,757,376	757,499	128,968,957	127,684,738
Accumulated Amortization								
Balance, beginning of the year	-	567,222	27,525	16,575,481	20,908,461	-	38,078,689	36,217,968
Add: amortization during the year	-	14,103	2,072	1,013,767	832,603	-	1,862,545	1,884,231
Less: accumulated amortization on disposals	-	-	-	(125,495)	-	-	(125,495)	(23,510)
Balance, end of the year	-	581,325	29,597	17,463,753	21,741,064	-	39,815,739	38,078,689
Net book value of tangible capital assets	\$ 1,272,202	\$ 93,808	\$ 7,649	\$25,005,748	\$ 62,016,312	\$ 757,499	\$ 89,153,218	\$ 89,606,049

LAMBTON AREA WATER SUPPLY SYSTEM

**Schedule of Accumulated Surplus (Schedule 3)
For the year ended December 31, 2015**

	2015	2014
RESERVES (Schedule 4)	\$ <u>3,312,646</u>	\$ <u>3,440,395</u>
SURPLUSES		
Invested in tangible capital assets	88,314,614	89,153,218
Unfunded - long term debt	<u>(6,274,000)</u>	<u>(9,070,000)</u>
 Total - Surpluses	 <u>82,040,614</u>	 <u>80,083,218</u>
 ACCUMULATED SURPLUS	 \$ <u>85,353,260</u>	 \$ <u>83,523,613</u>

LAMBTON AREA WATER SUPPLY SYSTEM

**Schedule of Continuity of Reserves (Schedule 4)
For the year ended December 31, 2015**

	2015	2014
BALANCE, beginning of the year	\$ 3,440,395	\$ 3,588,939
REVENUE CONTRIBUTIONS (WITHDRAWALS)		
To operations	<u>(127,749)</u>	<u>(148,544)</u>
BALANCE, end of the year	<u>\$ 3,312,646</u>	<u>\$ 3,440,395</u>

**RECONCILIATION OF CONTRIBUTIONS
(WITHDRAWALS)**

	2015	2014
Annual surplus	\$ 1,829,647	\$ 1,991,625
Debt recovery	(3,406,854)	(3,416,071)
Amortization	1,938,370	1,862,545
Interest on long term debt	610,854	823,071
Capital assets purchased	(1,099,766)	(1,493,378)
Loss on disposal	<u>-</u>	<u>83,664</u>
ENDING CONTRIBUTIONS (WITHDRAWALS)	<u>\$ (127,749)</u>	<u>\$ (148,544)</u>