

LAMBTON AREA WATER SUPPLY SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017, and the statements of operations, change in net financial assets (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 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 the Lambton Area Water Supply System as at December 31, 2017 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 31, 2018

LAMBTON AREA WATER SUPPLY SYSTEM

**Statement of Financial Position
as at December 31, 2017**

	2017	2016
FINANCIAL ASSETS		
Cash (Note 3)	\$ 3,808,086	\$ 4,142,918
Accounts receivable	<u>639,942</u>	<u>159,680</u>
Total financial assets	<u>4,448,028</u>	<u>4,302,598</u>
LIABILITIES		
Accounts payable	1,287,755	1,219,800
Long term debt (Note 4)	<u>-</u>	<u>3,257,000</u>
Total liabilities	<u>1,287,755</u>	<u>4,476,800</u>
NET FINANCIAL ASSETS (DEBT)	<u>3,160,273</u>	<u>(174,202)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets - net (Schedule 1)	<u>88,183,862</u>	<u>88,399,594</u>
Accumulated Surplus (Schedule 3)	<u>\$ 91,344,135</u>	<u>\$ 88,225,392</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, 2017

	2017 Budget	2017	2016
REVENUE			
Municipality recovery	\$ 6,959,613	\$ 6,959,613	\$ 6,652,174
Municipality recovery - debt	3,387,280	3,387,280	3,397,486
Interest	44,200	53,121	48,016
Other revenue	<u>462,800</u>	<u>236,685</u>	<u>178,622</u>
Total revenue	<u>10,853,893</u>	<u>10,636,699</u>	<u>10,276,298</u>
EXPENSES			
West Lambton operating	4,369,809	4,285,325	4,370,575
Tax allowance	206,000	176,819	195,013
Maintenance			
Engineering study	100,000	84,698	58,556
Major maintenance	699,327	513,753	167,508
Distribution repairs	200,000	109,763	156,778
Administration			
Wages and benefits	251,600	218,007	154,696
Legal fees and easements	8,000	11,469	-
Audit fee	12,000	11,865	15,276
Insurance	16,000	17,217	16,103
Meals and travel	6,200	9,950	4,123
Membership	2,000	2,270	1,787
Miscellaneous	600	7,813	3,201
Office supplies	9,000	5,049	2,449
Postage	500	211	190
Advertising and promotions	200	1,040	-
Telephone and internet	4,900	5,074	3,304
Education and conference	3,000	6,216	1,295
Computer software	5,000	4,938	4,952
Amortization	1,916,199	1,916,199	1,865,614
Interest on long -term debt	130,280	130,280	380,486
Loss on disposal	<u>-</u>	<u>-</u>	<u>2,260</u>
Total expenses	<u>\$ 7,940,615</u>	<u>7,517,956</u>	<u>7,404,166</u>
ANNUAL SURPLUS	2,913,278	3,118,743	2,872,132
ACCUMULATED SURPLUS, beginning of year	<u>88,225,392</u>	<u>88,225,392</u>	<u>85,353,260</u>
ACCUMULATED SURPLUS, end of year	<u>\$ 91,138,670</u>	<u>\$ 91,344,135</u>	<u>\$ 88,225,392</u>

The accompanying notes are an integral part of this financial statement

LAMBTON AREA WATER SUPPLY SYSTEM

**Statement of Change in Net Financial Assets (Debt)
For the year ended December 31, 2017**

	2017 Budget	2017 Actual	2016 Actual
ANNUAL SURPLUS	\$ 2,913,278	\$ 3,118,743	\$ 2,872,132
Amortization of tangible capital assets	1,916,199	1,916,199	1,865,614
Acquisition of tangible capital assets	(2,602,675)	(1,700,467)	(1,952,854)
Loss on disposal of tangible capital assets	<u>-</u>	<u>-</u>	<u>2,260</u>
CHANGE IN NET FINANCIAL ASSETS (DEBT)	<u>2,226,802</u>	<u>3,334,475</u>	<u>2,787,152</u>
NET FINANCIAL DEBT, beginning of year	<u>(174,202)</u>	<u>(174,202)</u>	<u>(2,961,354)</u>
NET FINANCIAL ASSETS (DEBT), end of year	<u>\$ 2,052,600</u>	<u>\$ 3,160,273</u>	<u>\$ (174,202)</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, 2017

	2017	2016
OPERATING ACTIVITIES		
Annual surplus	\$ 3,118,743	\$ 2,872,132
Uses(Sources) of cash:		
Accounts receivable	(480,262)	175,093
Accounts payable	<u>67,955</u>	<u>313,931</u>
	(412,307)	489,024
Non-cash charges to operations		
Amortization	1,916,199	1,865,614
Loss on disposal	<u>-</u>	<u>2,260</u>
	1,916,199	1,867,874
Cash provided by operations	4,622,635	5,229,029
CAPITAL ACTIVITIES		
Cash used to acquire tangible capital assets	(1,700,467)	(1,952,854)
FINANCING ACTIVITIES		
Debenture principal repayments	<u>(3,257,000)</u>	<u>(3,017,000)</u>
NET CHANGE IN CASH	(334,832)	259,176
CASH, beginning of year	<u>4,142,918</u>	<u>3,883,742</u>
CASH, end of year	<u>\$ 3,808,086</u>	<u>\$ 4,142,918</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, 2017

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.

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.

(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.

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(v) Liability for Contaminated Sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for the remediation of contaminated sites is recognized when the organization is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operation, maintenance and monitoring. The liability is recorded net of any expected recoveries. At December 31, 2017, the Board has not identified any instances that meet the criteria for a liability for contaminated sites.

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.

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, 2017. NIL has been drawn on this line of credit as of December 31, 2017.

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2017

4. LONG TERM DEBT

	2017	2016
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 rate at 8.0%, maturing May 2017.	\$ <u> -</u>	\$ <u> 3,257,000</u>

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 470,000 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, 2017. The results of this valuation disclosed total actuarial liabilities of \$93,614 million in respect of benefits accrued for services with actuarial assets at that date of \$88,211 million indicating an actuarial deficit of \$5,403 million.

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 2017 was \$17,815 (2016 - \$13,384) 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 2017 (2016 - 9.0% to 14.6% depending on income level).

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

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2017

7. EXPENDITURE BY OBJECT

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

	2017	2016
Wages and employee benefits	\$ 218,007	\$ 154,696
Materials	59,778	37,404
Contracted services	5,193,692	4,963,706
Amortization	1,916,199	1,865,614
Loss of disposal	-	2,260
Interest on long-term debt	<u>130,280</u>	<u>380,486</u>
Total	<u>\$ 7,517,956</u>	<u>\$ 7,404,166</u>

8. COMMITMENTS

In 2016, \$129,439 was spent on LAWSS radio and SCADA PLC upgrade project including pre-purchase of radio and PLC components. An additional \$66,513 was spent in 2017 on engineering fees in the development of the project. It is expected that an additional \$225,000 will be spent in 2018 to install the radio and PLC components.

The Lambton Area Water Supply System is committed to replacing the main plant emergency backup generator system by the end of 2019. An RFP is currently being developed for this project estimated at \$4,250,000 including engineering.

The Lambton Area Water Supply System is committed to rebuilding the 32" ross valve at West Lambton Pumping Station by the end of 2018. An RFQ for is being developed with an estimated at \$70,000.

9. CONTINGENT LIABILITY

The Organization is a co-defendant in legal action. The ultimate outcome is indeterminable at December 31, 2017 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 claim 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, 2017

2017

	Land	Land Improvements	Equipment	Facilities	Environmental Infrastructure	Work in Progress	2017 Actual	2016 Actual
Cost								
Balance, beginning of the year	\$ 1,272,202	\$ 675,133	\$ 37,246	\$ 44,056,466	\$ 84,514,029	\$ 1,457,907	\$ 132,012,983	\$ 130,068,723
Add: additions during the year	-	-	43,531	726,529	-	1,516,993	2,287,053	2,647,170
Less: disposals during the year	-	-	-	-	(51,377)	(586,586)	(637,963)	(702,910)
Balance, end of the year	1,272,202	675,133	80,777	44,782,995	84,462,652	2,388,314	133,662,073	132,012,983
Accumulated Amortization								
Balance, beginning of the year	-	609,531	34,086	19,565,232	23,404,540	-	43,613,389	41,754,109
Add: amortization during the year	-	14,103	2,072	1,057,482	842,542	-	1,916,199	1,865,614
Less: accumulated amortization on disposals	-	-	-	-	(51,377)	-	(51,377)	(6,334)
Balance, end of the year	-	623,634	36,158	20,622,714	24,195,705	-	45,478,211	43,613,389
Net book value of tangible capital assets	\$ 1,272,202	\$ 51,499	\$ 44,619	\$ 24,160,281	\$ 60,266,947	\$ 2,388,314	\$ 88,183,862	\$ 88,399,594

LAMBTON AREA WATER SUPPLY SYSTEM

**Schedule of Tangible Capital Assets (Schedule 2)
For the year ended December 31, 2017**

2016

Cost	Land			Facilities	Environmental Infrastructure	Work in Progress	2016	2015
	Land	Improvements	Equipment				Actual	Actual
Balance, beginning 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
Add: additions during the year	-	-	-	1,112,654	765,247	769,269	2,647,170	1,152,689
Less: disposals during the year	-	-	-	-	(8,594)	(694,316)	(702,910)	(52,923)
Balance, end of the year	1,272,202	675,133	37,246	44,056,466	84,514,029	1,457,907	132,012,983	130,068,723
Accumulated Amortization								
Balance, beginning of the year	-	595,428	32,014	18,550,683	22,575,984	-	41,754,109	39,815,739
Add: amortization during the year	-	14,103	2,072	1,014,549	834,890	-	1,865,614	1,938,370
Less: accumulated amortization on disposals	-	-	-	-	(6,334)	-	(6,334)	-
Balance, end of the year	-	609,531	34,086	19,565,232	23,404,540	-	43,613,389	41,754,109
Net book value of tangible capital assets	\$ 1,272,202	\$ 65,602	\$ 3,160	\$ 24,491,234	\$ 61,109,489	\$ 1,457,907	\$ 88,399,594	\$ 88,314,614

LAMBTON AREA WATER SUPPLY SYSTEM

**Schedule of Accumulated Surplus (Schedule 3)
For the year ended December 31, 2017**

	2017	2016
RESERVES (Schedule 4)	\$ <u>3,160,273</u>	\$ <u>3,082,798</u>
SURPLUSES		
Invested in tangible capital assets	88,183,862	88,399,594
Unfunded long-term debt	<u>-</u>	<u>(3,257,000)</u>
 Total Surpluses	 <u>88,183,862</u>	 <u>85,142,594</u>
 ACCUMULATED SURPLUS	 <u>\$ 91,344,135</u>	 <u>\$ 88,225,392</u>

LAMBTON AREA WATER SUPPLY SYSTEM

**Schedule of Continuity of Reserves (Schedule 4)
For the year ended December 31, 2017**

	2017	2016
BALANCE, beginning of the year	\$ 3,082,798	\$ 3,312,646
REVENUE CONTRIBUTIONS (WITHDRAWALS)	<u>77,475</u>	<u>(229,848)</u>
BALANCE, end of the year	<u>\$ 3,160,273</u>	<u>\$ 3,082,798</u>

**RECONCILIATION OF CONTRIBUTIONS
(WITHDRAWALS)**

	2017	2016
Annual surplus	3,118,743	2,872,132
Debt recovery	(3,387,280)	(3,397,486)
Amortization	1,916,199	1,865,614
Interest on long-term debt	130,280	380,486
Capital assets purchased	(1,700,467)	(1,952,854)
Loss on disposal	<u>-</u>	<u>2,260</u>
ENDING CONTRIBUTIONS	<u>\$ 77,475</u>	<u>\$ (229,848)</u>