

**LAMBTON AREA WATER SUPPLY SYSTEM**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**AUDITORS**

BDO Canada LLP

# LAMBTON AREA WATER SUPPLY SYSTEM

## Index to Financial Statements

For the year ended December 31, 2013

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Tel: 519 336 9900  
Fax: 519 332 4828  
www.bdo.ca

BDO Canada LLP  
Kenwick Place, 250 Christina Street N  
PO Box 730  
Sarnia ON N7T 7J7 Canada

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## Independent Auditor's Report

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### 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, 2013, 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, 2013 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 Accountants, Licensed Public Accountants

Sarnia, Ontario

May 7, 2014

# LAMBTON AREA WATER SUPPLY SYSTEM

## Statement of Financial Position as at December 31, 2013

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	<b>2013 Actual</b>	<b>2012 Actual</b>
<b>FINANCIAL ASSETS</b>		
Cash (Note 3)	\$ 3,616,303	\$ 3,282,760
Accounts receivable	<u>183,198</u>	<u>484,375</u>
Total financial assets	<u>3,799,501</u>	<u>3,767,135</u>
<b>LIABILITIES</b>		
Accounts payable	210,562	210,925
Long term debt (Note 4)	<u>11,663,000</u>	<u>14,069,000</u>
Total liabilities	<u>11,873,562</u>	<u>14,279,925</u>
<b>NET FINANCIAL DEBT</b>	<u>(8,074,061)</u>	<u>(10,512,790)</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible Capital Assets - net (Schedule 1)	<u>89,606,049</u>	<u>90,762,625</u>
<b>Accumulated Surplus (Schedule 3)</b>	<u>\$ 81,531,988</u>	<u>\$ 80,249,835</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, 2013

	2013 Budget	2013	2012
<b>REVENUE</b>			
Municipality recovery	\$ 6,066,343	\$ 6,076,343	\$ 5,891,056
Municipality recovery - debt	3,424,680	3,424,680	3,432,043
Interest	25,000	43,206	38,326
Other revenue	<u>163,900</u>	<u>129,068</u>	<u>364,101</u>
Total revenue	<u>9,679,923</u>	<u>9,673,297</u>	<u>9,725,526</u>
<b>EXPENSES</b>			
West Lambton operating	3,800,010	3,973,661	3,912,660
Tax allowance	191,250	176,127	173,631
Flow repayment	-	-	89,597
Maintenance			
Engineering study	169,000	67,742	70,773
OCWA LAWSS contract renewal	-	-	36,388
Shoreline restoration - shoreplan	-	-	7,030
Mechanical and electrical condition assessment	-	-	18,791
Major maintenance	840,078	563,935	83,192
Distribution repairs	200,000	411,036	153,010
Administration			
Wages and benefits	201,500	188,057	158,790
Accounting and legal fee	50,000	38,200	2,870
Audit fee	12,000	12,510	10,787
Insurance	15,000	12,629	14,201
Meals and travel	4,200	4,628	5,228
Membership	2,500	2,303	1,897
Miscellaneous	600	785	374
Office supplies	2,750	1,589	3,467
Postage	500	401	674
Telephone and internet	6,100	6,718	4,369
Education and conference	3,000	2,577	3,231
Advertising and promotions	100	-	406
Computer software	2,500	3,633	5,770
Amortization	1,884,231	1,884,231	1,817,698
Interest on long term debt	1,018,680	1,018,680	1,199,043
Loss on disposal	<u>21,702</u>	<u>21,702</u>	<u>117,389</u>
Total expenses	<u>\$ 8,425,701</u>	<u>8,391,144</u>	<u>7,891,266</u>
<b>ANNUAL SURPLUS</b>	1,254,222	1,282,153	1,834,260
<b>ACCUMULATED SURPLUS, beginning of year</b>	<u>80,249,835</u>	<u>80,249,835</u>	<u>78,415,575</u>
<b>ACCUMULATED SURPLUS, end of year</b>	<u>\$ 81,504,057</u>	<u>\$ 81,531,988</u>	<u>\$ 80,249,835</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, 2013**

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	<b>2013 Budget</b>	<b>2013 Actual</b>	<b>2012 Actual</b>
<b>ANNUAL SURPLUS</b>	\$ 1,254,222	\$ 1,282,153	\$ 1,834,260
Amortization of tangible capital assets	1,884,231	1,884,231	1,817,698
Acquisition of tangible capital assets	-	(749,357)	(1,127,243)
Loss on disposal of tangible capital assets	<u>21,702</u>	<u>21,702</u>	<u>117,389</u>
<b>DECREASE IN NET FINANCIAL DEBT</b>	<u>3,160,155</u>	<u>2,438,729</u>	<u>2,642,104</u>
<b>NET FINANCIAL DEBT, beginning of year</b>	<u>(10,512,790)</u>	<u>(10,512,790)</u>	<u>(13,154,894)</u>
<b>NET FINANCIAL DEBT, end of year</b>	\$ <u>(7,352,635)</u>	\$ <u>(8,074,061)</u>	\$ <u>(10,512,790)</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, 2013**

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	<b>2013</b>	<b>2012</b>
<b>OPERATING ACTIVITIES</b>		
Annual surplus	\$ 1,282,153	\$ 1,834,260
Uses(Sources) of cash:		
Accounts receivable	301,177	(192,741)
Accounts payable	<u>(363)</u>	<u>(59,789)</u>
	300,814	(252,530)
Non-cash charges to operations		
Amortization	1,884,231	1,817,698
Loss on disposal	<u>21,702</u>	<u>117,389</u>
	1,905,933	1,935,087
Cash provided by operations	3,488,900	3,516,817
<b>CAPITAL ACTIVITIES</b>		
Cash used to acquire tangible capital assets	(749,357)	(1,127,243)
<b>FINANCING ACTIVITIES</b>		
Debenture principal repayments	<u>(2,406,000)</u>	<u>(2,233,000)</u>
<b>NET CHANGE IN CASH</b>	333,543	156,574
<b>CASH, beginning of year</b>	<u>3,282,760</u>	<u>3,126,186</u>
<b>CASH, end of year</b>	<u>\$ 3,616,303</u>	<u>\$ 3,282,760</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, 2013

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### 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 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, 2013

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### 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.

### 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, 2013. NIL has been drawn on this line of credit as of December 31, 2013.

# LAMBTON AREA WATER SUPPLY SYSTEM

## Notes to the Financial Statements

As at December 31, 2013

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### 4. LONG TERM DEBT

	2013	2012
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 7.80 to 8.0%, maturing May 2017, and outstanding at the end of the year:	<u>\$ 11,663,000</u>	<u>\$ 14,069,000</u>
b) Of the long term debt reported in (a) of this note, \$8,406,000 in principal payments are payable from 2014 to 2016 and \$3,257,000 in 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 439,500 active and retired members and approximately 982 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, 2013. The results of this valuation disclosed total actuarial liabilities of \$73,004 million in respect of benefits accrued for services with actuarial assets at that date of \$64,363 million indicating an actuarial deficit of \$8,641 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 2013 was \$12,801 (2012 - \$11,399) for current service and is included as an expenditure on the Consolidated Statement of Financial Activities. The OMERS Board rate was 9.0% to 15.9% depending on income level for 2013 (2012 - 8.3% to 13.9% 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, 2013

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### 7. EXPENDITURE BY OBJECT

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

	2013	2012
Wages and employee benefits	\$ 188,057	\$ 158,790
Materials	35,263	129,214
Contracted services	5,243,211	4,469,132
Amortization	1,884,231	1,817,698
Loss of disposal	21,702	117,389
Interest on long-term debt	<u>1,018,680</u>	<u>1,199,043</u>
Total	<u>\$ 8,391,144</u>	<u>\$ 7,891,266</u>

### 8. COMMITMENTS

The Lambton Area Water Supply System has committed to the purchase and installation of a new Sodium Hypochlorite Pump. The estimated cost of the project is \$120,000 and is expected to be completed in 2014. To December 31, 2013, \$80,269 has been spent and recorded in work in progress.

The Lambton Area Water Supply System has committed to the replacement of the HVAC system in the administration area. The estimated cost of the project is \$180,000 of which \$50,000 is expected to be received as a rebate from OPA. The project is expected to be completed in 2014. To December 31, 2013, \$12,668.94 has been spent and recorded in work in progress.

The Lambton Area Water Supply System has committed to a VFD replacement. The estimated cost of the project is \$200,000 and is expected to be completed in 2014. To December 31, 2013, \$51,490.29 has been spent and recorded in work in progress.

The Lambton Area Water Supply System has committed to a Polymer System replacement. The estimated cost of the project is \$150,000 and is expected to be completed in 2014. To December 31, 2013, \$19,873.33 has been spent and recorded in work in progress.

The Lambton Area Water Supply System has committed to the purchase and installation of new Mag Meters in Point Edward. The estimated cost of the project is \$250,000 and is expected to be completed in 2014. To December 31, 2013, \$14,465.18 has been spent and recorded in work in progress.

The Lambton Area Water Supply System has committed to the replacement of a SCADA PLC Controller. The estimated cost of the project is \$250,000 and is expected to be completed in 2014. To December 31, 2013, \$2,149.34 has been spent and recorded in work in progress.

The Lambton Area Water Supply System has committed to the purchase and installation of a new Flouride System. The estimated cost of the project is \$300,000 and is expected to be completed in 2014. To December 31, 2013, \$31,224.75 has been spent and recorded in work in progress.

**LAMBTON AREA WATER SUPPLY SYSTEM**  
**Schedule of Tangible Capital Assets (Schedule 1)**  
**For the year ended December 31, 2013**

2013

	Land	Land Improvements		Equipment	Facilities	Environmental Infrastructure	Work in Progress	2013		2012	
		Actual	Actual					Actual	Actual		
<b>Cost</b>											
Balance, beginning of the year	\$ 1,272,202	\$ 675,133	\$ 37,246	\$ 41,278,287	\$ 83,525,626	\$ 192,100	\$ 126,980,594	\$ 126,086,348			
Add: additions during the year	-	-	-	314,364	-	542,163	856,527	1,394,593			
Less: disposals during the year	-	-	-	(45,211)	-	(107,172)	(152,383)	(500,347)			
Other	-	-	-	-	-	-	-	-			
<b>Balance, end of the year</b>	<b>1,272,202</b>	<b>675,133</b>	<b>37,246</b>	<b>41,547,440</b>	<b>83,525,626</b>	<b>627,091</b>	<b>127,684,738</b>	<b>126,980,594</b>			
<b>Accumulated Amortization</b>											
Balance, beginning of the year	-	546,649	25,109	15,570,352	20,075,858	-	36,217,968	34,515,879			
Add: amortization during the year	-	20,573	2,416	1,028,639	832,603	-	1,884,231	1,817,698			
Less: accumulated amortization on disposals	-	-	-	(23,510)	-	-	(23,510)	(115,608)			
Other	-	-	-	-	-	-	-	-			
<b>Balance, end of the year</b>	<b>-</b>	<b>567,222</b>	<b>27,525</b>	<b>16,575,481</b>	<b>20,908,461</b>	<b>-</b>	<b>38,078,689</b>	<b>36,217,969</b>			
<b>Net book value of tangible capital assets</b>	<b>\$ 1,272,202</b>	<b>\$ 107,911</b>	<b>\$ 9,721</b>	<b>\$ 24,971,959</b>	<b>\$ 62,617,165</b>	<b>\$ 627,091</b>	<b>\$ 89,606,049</b>	<b>\$ 90,762,625</b>			

**LAMBTON AREA WATER SUPPLY SYSTEM**  
**Schedule of Tangible Capital Assets (Schedule 2)**  
**For the year ended December 31, 2013**

2012

	Land	Land Improvements	Equipment	Facilities	Environmental Infrastructure	Work in Progress	2012 Actual	2011 Actual
<b>Cost</b>								
Balance, beginning of the year	\$ 1,272,202	\$ 675,133	\$ 37,246	\$ 40,308,791	\$ 83,525,626	\$ 267,350	\$ 126,086,348	\$ 125,682,160
Add: additions during the year	-	-	-	1,202,493	-	192,100	1,394,593	404,188
Less: disposals during the year	-	-	-	(232,997)	-	(267,350)	(500,347)	-
Other	-	-	-	-	-	-	-	-
<b>Balance, end of the year</b>	<b>1,272,202</b>	<b>675,133</b>	<b>37,246</b>	<b>41,278,287</b>	<b>83,525,626</b>	<b>192,100</b>	<b>126,980,594</b>	<b>126,086,348</b>
<b>Accumulated Amortization</b>								
Balance, beginning of the year	-	526,077	22,693	14,723,854	19,243,255	-	34,515,879	32,663,648
Add: amortization during the year	-	20,573	2,416	962,106	832,603	-	1,817,698	1,852,231
Less: accumulated amortization on disposals	-	-	-	(115,608)	-	-	(115,608)	-
Other	-	-	-	-	-	-	-	-
<b>Balance, end of the year</b>	<b>-</b>	<b>546,650</b>	<b>25,109</b>	<b>15,570,352</b>	<b>20,075,858</b>	<b>-</b>	<b>36,217,969</b>	<b>34,515,879</b>
<b>Net book value of tangible capital assets</b>	<b>\$ 1,272,202</b>	<b>\$ 128,483</b>	<b>\$ 12,137</b>	<b>\$ 25,707,935</b>	<b>\$ 63,449,768</b>	<b>\$ 192,100</b>	<b>\$ 90,762,625</b>	<b>\$ 91,570,469</b>

**LAMBTON AREA WATER SUPPLY SYSTEM**

**Schedule of Accumulated Surplus ( Schedule 3)  
For the year ended December 31, 2013**

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	<b>2013</b>	<b>2012</b>
<b>RESERVES</b> (Schedule 4)	\$ <u>3,588,939</u>	\$ <u>3,556,210</u>
<b>SURPLUSES</b>		
Invested in Tangible Capital Assets	89,606,049	90,762,625
Unfunded - Long Term Debt	<u>(11,663,000)</u>	<u>(14,069,000)</u>
 Total - Surpluses	 <u>77,943,049</u>	 <u>76,693,625</u>
 <b>ACCUMULATED SURPLUS</b>	 \$ <u>81,531,988</u>	 \$ <u>80,249,835</u>

**LAMBTON AREA WATER SUPPLY SYSTEM**

**Schedule of Continuity of Reserves ( Schedule 4)  
For the year ended December 31, 2013**

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	<b>2013</b>	<b>2012</b>
<b>BALANCE, beginning of the year</b>	\$ 3,556,210	\$ 3,147,106
<b>REVENUE CONTRIBUTIONS</b>		
From operations	32,729	409,104
<b>TRANSFERS</b>	-	-
<b>BALANCE, end of the year</b>	<u>\$ 3,588,939</u>	<u>\$ 3,556,210</u>

<b>RECONCILIATION OF CONTRIBUTIONS</b>	<b>2013</b>	<b>2012</b>
Annual surplus	\$ 1,282,153	\$ 1,834,260
Debt recovery	(3,424,680)	(3,432,043)
Amortization	1,884,231	1,817,698
Interest on long-term debt	1,018,680	1,199,043
Capital assets purchased	(749,357)	(1,127,243)
Loss on disposal	<u>21,702</u>	<u>117,389</u>
<b>ENDING CONTRIBUTIONS</b>	<u>\$ 32,729</u>	<u>\$ 409,104</u>