

LAMBTON AREA WATER SUPPLY SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

AUDITORS

BDO Canada LLP

LAMBTON AREA WATER SUPPLY SYSTEM

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For the year ended December 31, 2014

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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, 2014, 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, 2014 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 20, 2015

LAMBTON AREA WATER SUPPLY SYSTEM

Statement of Financial Position as at December 31, 2014

	2014 Actual	2013 Actual
FINANCIAL ASSETS		
Cash (Note 3)	\$ 3,198,597	\$ 3,616,303
Accounts receivable	<u>350,600</u>	<u>183,198</u>
Total financial assets	<u>3,549,197</u>	<u>3,799,501</u>
LIABILITIES		
Accounts payable	108,802	210,562
Long term debt (Note 4)	<u>9,070,000</u>	<u>11,663,000</u>
Total liabilities	<u>9,178,802</u>	<u>11,873,562</u>
NET FINANCIAL DEBT	<u>(5,629,605)</u>	<u>(8,074,061)</u>
NON-FINANCIAL ASSETS		
Tangible Capital Assets - net (Schedule 1)	<u>89,153,218</u>	<u>89,606,049</u>
Accumulated Surplus (Schedule 3)	<u>\$ 83,523,613</u>	<u>\$ 81,531,988</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, 2014

	2014 Budget	2014	2013
REVENUE			
Municipality recovery	\$ 6,266,823	\$ 6,276,822	\$ 6,076,343
Municipality recovery - debt	3,416,071	3,416,071	3,424,680
Interest	25,000	42,115	43,206
Other revenue	<u>113,000</u>	<u>189,810</u>	<u>129,068</u>
Total revenue	<u>9,820,894</u>	<u>9,924,818</u>	<u>9,673,297</u>
EXPENSES			
West Lambton operating	3,994,196	3,900,483	3,973,661
Tax allowance	201,500	173,671	176,127
Maintenance			
Engineering study	267,130	144,456	67,742
Major maintenance	1,212,158	192,138	563,935
Distribution repairs	200,000	502,236	411,036
Administration			
Wages and benefits	201,600	149,460	188,057
Legal fees and easements	62,400	51,711	38,200
Audit fee	12,000	13,381	12,510
Insurance	15,000	15,261	12,629
Meals and travel	4,700	6,098	4,628
Membership	2,750	2,374	2,303
Miscellaneous	600	98	785
Office supplies	3,500	1,188	1,589
Postage	550	174	401
Telephone and internet	6,100	4,141	6,718
Education and conference	5,500	3,000	2,577
Advertising and promotions	200	-	-
Computer software	3,000	4,043	3,633
Amortization	1,862,545	1,862,545	1,884,231
Interest on long term debt	823,071	823,071	1,018,680
Loss on disposal	<u>83,664</u>	<u>83,664</u>	<u>21,702</u>
Total expenses	<u>\$ 8,962,164</u>	<u>7,933,193</u>	<u>8,391,144</u>
ANNUAL SURPLUS	858,730	1,991,625	1,282,153
ACCUMULATED SURPLUS, beginning of year	<u>81,531,988</u>	<u>81,531,988</u>	<u>80,249,835</u>
ACCUMULATED SURPLUS, end of year	<u>\$ 82,390,718</u>	<u>\$ 83,523,613</u>	<u>\$ 81,531,988</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, 2014**

	2014 Budget	2014 Actual	2013 Actual
ANNUAL SURPLUS	\$ 858,730	\$ 1,991,625	\$ 1,282,153
Amortization of tangible capital assets	1,862,545	1,862,545	1,884,231
Acquisition of tangible capital assets	-	(1,493,378)	(749,357)
Loss on disposal of tangible capital assets	<u>83,664</u>	<u>83,664</u>	<u>21,702</u>
DECREASE IN NET FINANCIAL DEBT	<u>2,804,939</u>	<u>2,444,456</u>	<u>2,438,729</u>
NET FINANCIAL DEBT, beginning of year	<u>(8,074,061)</u>	<u>(8,074,061)</u>	<u>(10,512,790)</u>
NET FINANCIAL DEBT, end of year	\$ <u>(5,269,122)</u>	\$ <u>(5,629,605)</u>	\$ <u>(8,074,061)</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, 2014**

	2014	2013
OPERATING ACTIVITIES		
Annual surplus	\$ 1,991,625	\$ 1,282,153
Uses(Sources) of cash:		
Accounts receivable	(167,402)	301,177
Accounts payable	<u>(101,760)</u>	<u>(363)</u>
	(269,162)	300,814
Non-cash charges to operations		
Amortization	1,862,545	1,884,231
Loss on disposal	<u>83,664</u>	<u>21,702</u>
	1,946,209	1,905,933
Cash provided by operations	3,668,672	3,488,900
CAPITAL ACTIVITIES		
Cash used to acquire tangible capital assets	(1,493,378)	(749,357)
FINANCING ACTIVITIES		
Debenture principal repayments	<u>(2,593,000)</u>	<u>(2,406,000)</u>
NET CHANGE IN CASH	(417,706)	333,543
CASH, beginning of year	<u>3,616,303</u>	<u>3,282,760</u>
CASH, end of year	<u>\$ 3,198,597</u>	<u>\$ 3,616,303</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, 2014

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, 2014

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, 2014. NIL has been drawn on this line of credit as of December 31, 2014.

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2014

4. LONG TERM DEBT

	2014	2013
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 7.90 to 8.0%, maturing May 2017, and outstanding at the end of the year:	\$ <u>9,070,000</u>	\$ <u>11,663,000</u>
b) Of the long term debt reported in (a) of this note, \$5,813,000 in principal payments are payable from 2015 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 451,115 active and retired members and approximately 974 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, 2014. The results of this valuation disclosed total actuarial liabilities of \$76,924 million in respect of benefits accrued for services with actuarial assets at that date of \$69,846 million indicating an actuarial deficit of \$7,078 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 deficit. The amount contributed to OMERS for 2014 was \$12,776 (2013 - \$12,801) 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 2014 (2013 - 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, 2014

7. EXPENDITURE BY OBJECT

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

	2014	2013
Wages and employee benefits	\$ 149,460	\$ 188,057
Materials	36,377	35,263
Contracted services	4,978,076	5,243,211
Amortization	1,862,545	1,884,231
Loss of disposal	83,664	21,702
Interest on long-term debt	<u>823,071</u>	<u>1,018,680</u>
Total	<u>\$ 7,933,193</u>	<u>\$ 8,391,144</u>

8. COMMITMENTS

The Lambton Area Water Supply System has committed to the installation of mag meters in Point Edward by the end of 2015. The estimated cost of the project is \$454,923 and \$52,923 has been spent to date on engineering studies and engineering design.

The Lambton Area Water Supply System has committed to replace and upgrade the existing Polymer system by the end of 2015. The estimated cost of the project is \$511,000 and \$74,283 has been spent to date on the engineering design.

The Lambton Area Water Supply system has committed to replace the administrative HVAC system by the end of 2015. The estimated cost of the project is \$286,057 and \$17,697 has been spent to date on engineering design.

The Lambton Area Water Supply system has committed to replace the main plant HVAC system by the end of 2015. The estimated cost of the project is \$700,000 and \$28,862 has been spent to date on engineering design.

The Lambton Area Water Supply system has committed to upgrade redundant SCADA equipment at LAWSS (PLC 90-70 Migration Project), upgrade SCADA computer network, install energy monitoring equipment, and replace the existing radio system by the end of 2015. The estimated cost of the project is \$208,000 and \$50,558 has been spent to date on engineering design, upgrading the SCADA computer network, and installing engineering monitoring equipment.

The Lambton Area Water Supply System has committed to complete the Twinning Engineering Work. The total cost of the project is \$621,783 and \$606,598 has been spent to date. The project will be completed by the end of 2015.

LAMBTON AREA WATER SUPPLY SYSTEM

Notes to the Financial Statements

As at December 31, 2014

9. CONTINGENT LIABILITY

The Organization is a co-defendant in legal action. The ultimate outcome is indeterminable at December 31, 2014 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, 2014**

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)
Other	-	-	-	-	-	-	-	-
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)
Other	-	-	-	-	-	-	-	-
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 Tangible Capital Assets (Schedule 2)

For the year ended December 31, 2014

2013

	Land	Land Improvements	Equipment	Facilities	Environmental Infrastructure	Work in Progress	2013 Actual	2012 Actual
Cost								
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	-	-	-	-	-	-	-	-
Balance, end of the year	1,272,202	675,133	37,246	41,547,440	83,525,626	627,091	127,684,738	126,980,594
Accumulated Amortization								
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	-	-	-	-	-	-	-	-
Balance, end of the year	-	567,222	27,525	16,575,481	20,908,461	-	38,078,689	36,217,969
Net book value of tangible capital assets	\$ 1,272,202	\$ 107,911	\$ 9,721	\$24,971,959	\$ 62,617,165	\$ 627,091	\$ 89,606,049	\$ 90,762,625

LAMBTON AREA WATER SUPPLY SYSTEM

Schedule of Accumulated Surplus (Schedule 3)

For the year ended December 31, 2014

	2014	2013
RESERVES (Schedule #4)	\$ <u>3,440,395</u>	\$ <u>3,588,939</u>
SURPLUSES		
Invested in Tangible Capital Assets	89,153,218	89,606,049
Unfunded - Long Term Debt	<u>(9,070,000)</u>	<u>(11,663,000)</u>
 Total - Surpluses	 <u>80,083,218</u>	 <u>77,943,049</u>
 ACCUMULATED SURPLUS	 \$ <u>83,523,613</u>	 \$ <u>81,531,988</u>

LAMBTON AREA WATER SUPPLY SYSTEM

Schedule of Continuity of Reserves (Schedule 4)

For the year ended December 31, 2014

	2014	2013
BALANCE, beginning of the year	\$ 3,588,939	\$ 3,556,210
REVENUE CONTRIBUTIONS		
From (to) operations	(148,544)	32,729
TRANSFERS		
BALANCE, end of the year	<u>\$ 3,440,395</u>	<u>\$ 3,588,939</u>

RECONCILIATION OF CONTRIBUTIONS	2014	2013
Annual surplus	1,991,625	1,282,153
Debt recovery	(3,416,071)	(3,424,680)
Amortization	1,862,545	1,884,231
Interest on long-term debt	823,071	1,018,680
Capital assets purchased	(1,493,378)	(749,357)
Loss on disposal	<u>83,664</u>	<u>21,702</u>
ENDING CONTRIBUTIONS	<u>\$ (148,544)</u>	<u>\$ 32,729</u>