

INDEPENDENT AUDITOR'S REPORT

**To the Owners of
Union Water Supply System**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Union Water Supply System, which comprise:

- the statement of financial position as at December 31, 2019
- the statement of financial activities for the year then ended
- the statement of cash flow for the year then ended
- the statement of change in net assets
- and notes to the financial statements including summary of accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of Union Water Supply System as at December 31, 2019, and the results of its financial activities and cash flow for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Union Water Supply System in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing Union Water Supply System's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Union Water Supply System or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Union Water Supply System's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Union Water Supply System's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Union Water Supply System's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Union Water Supply System to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Union Water Supply System to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of Union Water Supply System's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**HICKS MacPHERSON, IATONNA
& DRIEDGER LLP**

*Hicks, MacPherson, Iatonna
& Driedger LLP*

Chartered Professional Accountants
Licensed Public Accountants

Leamington, Ontario
April 15, 2020


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

	2019	2018
Assets		
Financial		
Cash (note 3)	\$ 10,060,725	\$ 8,537,613
Long-term investment (note 4)	10,516,503	10,255,000
Accounts receivable (note 5)	1,181,861	1,269,254
	21,759,089	20,061,867
Liabilities		
Accounts payable and accrued liabilities (notes 5 and 11)	2,685,143	445,649
Long-term debt (note 6)	11,832,898	12,854,536
	14,518,041	13,300,185
Net Assets	7,241,048	6,761,682
Non Financial Assets		
Inventories (note 7)	4,038,375	369,958
Tangible capital assets (notes 2 and 7)	39,354,529	40,275,465
	43,392,904	40,645,423
Accumulated Surplus (note 10)	\$ 50,633,952	\$ 47,407,105

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

	2019 Budget (note 12)	2019 Actual	2018 Actual
Revenues			
Wholesale billings (notes 5 and 8)	\$ 9,672,600	\$ 10,397,971	\$ 9,622,832
Investment income (note 9)	450,000	563,193	503,173
Other income	21,000	19,976	46,257
	10,143,600	10,981,140	10,172,262
Expenses			
Wages and benefits (note 11)	243,250	243,225	235,246
Rents and services	153,500	151,406	148,909
Administration fee (note 5)	30,000	30,000	30,000
Property taxes	147,500	148,569	146,283
Electricity and gas	1,250,000	1,215,129	1,104,324
Carbon dioxide	175,000	-	-
Repairs and maintenance	287,500	138,994	102,791
Operational programs and studies	180,000	143,600	167,981
Sundry expenses	250	-	-
Amortization (Schedule 1)	1,269,951	1,269,951	1,241,259
OCWA operating contract	3,265,000	3,072,099	2,757,009
Long-term interest expense	1,310,741	1,310,662	1,411,432
Loss on sale of tangible capital assets	-	30,658	-
	8,312,692	7,754,293	7,345,234
Annual Surplus	1,830,908	3,226,847	2,827,028
Accumulated Surplus, Beginning of Year	47,407,105	47,407,105	44,580,077
Accumulated Surplus, End of Year	\$ 49,238,013	\$ 50,633,952	\$ 47,407,105

See accompanying notes to financial statements

Union Water Supply System

Statement of Cash Flow for the years ended December 31

	2019	2018
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Cash flow from operating activities		
Annual surplus	\$ 3,226,847	\$ 2,827,028
(Increase) Decrease in accounts receivable	87,393	(341,916)
Increase (Decrease) in accounts payable	2,239,494	(693,381)
	<u>5,553,734</u>	<u>1,791,731</u>
Cash flow from investing activities		
Items not involving cash:		
Amortization of tangible capital assets	1,269,951	1,241,259
Cash used to acquire tangible capital assets	(4,048,090)	(1,722,914)
Increase in long-term investment	(261,503)	(255,000)
Loss on sale of tangible capital assets	30,658	-
	<u>(3,008,984)</u>	<u>(736,655)</u>
Cash flow from financing activities		
Debt repayment (principal only)	(1,021,638)	(902,009)
	<u>1,523,112</u>	<u>153,067</u>
Net Change in Cash for Year	1,523,112	153,067
Cash, Beginning of Year	8,537,613	8,384,546
	<u>\$ 10,060,725</u>	<u>\$ 8,537,613</u>

See accompanying notes to financial statements

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

	2019 Budget (note 12)	2019 Actual	2018 Actual
Annual Surplus	\$ 1,830,908	\$ 3,226,847	\$ 2,827,028
Amortization of tangible capital assets	1,269,951	1,269,951	1,241,259
Acquisition of tangible capital assets	(5,735,000)	(4,048,090)	(1,722,914)
Loss on sale of tangible capital assets	-	30,658	-
Change in Net Assets	(2,634,141)	479,366	2,345,373
Net Assets, Beginning of Year	6,761,682	6,761,682	4,416,309
Net Assets, End of Year	\$ 4,127,541	\$ 7,241,048	\$ 6,761,682

See accompanying notes to financial statements

Union Water Supply System
Notes to the Financial Statements
for the year ended December 31, 2019

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 year ended December 31, 2019

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 30 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.

Union Water Supply System
Notes to the Financial Statements
for the year ended December 31, 2019

2. Summary of Accounting Policies (Cont'd)

Future Accounting Changes

Effective for fiscal periods beginning on or after April 1, 2021, all governments will be required to adopt PSAB Section 3450 Financial Instruments, Section 2601 Foreign Currency Translation, Section 3041 Portfolio Investments, Section 1201 Financial Statement Presentation, and Section 3280 Asset Retirement Obligations. These standards provide guidance on how to account for and present financial instruments, asset retirement obligations and foreign currency translation.

Effective for fiscal periods beginning on or after April 1, 2022, all governments will be required to adopt PSAB Section 3400 Revenue. This standard provides guidance on how to account for and present new categories of revenue.

Management is currently in the process of evaluating the potential impact of adopting these standards.

3. Cash

This balance represents a consolidation from the operating fund and the reserve fund as follows:

	2019	2018
Cash		
Operating Fund	\$ 8,923,511	\$ 7,437,411
Reserve Fund	1,137,214	1,100,202
	<u>\$ 10,060,725</u>	<u>\$ 8,537,613</u>

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:

	2019	2018
Accounts receivable	\$ 864,964	\$ 1,012,278
Accounts payable and accrued liabilities	2,102,171	257,614

The accounts receivable amount is the receivables from the four member municipalities for 2019 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 2019 purchases that have not been paid by year end.

Union Water Supply System
Notes to the Financial Statements
for the year ended December 31, 2019

5. Related Party Transactions (Cont'd)

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

	2019	2018
Wholesale billings revenue (note 8)	\$ 10,397,971	\$ 9,622,832
Administration fee	30,000	30,000

Wholesale billings revenue balance is 2019 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:

	2019	2018
<i>Outstanding principal at the end of the year for:</i>		
Net long-term debt, end of year	\$ 11,832,898	\$ 12,854,536

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

		\$ 1,154,638
2020		1,302,487
2021		1,466,829
2022		1,649,492
2023		1,852,503
2024		4,406,949
Thereafter		
		\$ 11,832,898

Union Water Supply System
Notes to the Financial Statements
for the year ended December 31, 2019

7. Tangible Capital Assets/Inventories

	Net Book Value	
	2019	2018
Land	\$ 133,634	\$ 133,634
Buildings	16,529,422	17,032,794
Machinery and equipment	6,080,533	6,144,679
Linear assets	16,509,551	16,859,968
Land improvements	101,389	104,390
Total tangible capital assets	39,354,529	40,275,465
Inventories	4,038,375	369,958
	<u>\$ 43,392,904</u>	<u>\$ 40,645,423</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	
	2019	2018	2019	2018
	\$	\$	Gals (000)	Gals (000)
Municipality of Leamington	\$ 5,710,748	\$ 5,080,832	2,032,078	1,906,998
Town of Kingsville	3,840,309	3,763,883	1,365,534	1,363,284
Town of Essex	503,487	485,452	179,248	175,952
Town of Lakeshore	343,426	292,666	122,240	106,077
	<u>\$ 10,397,970</u>	<u>\$ 9,622,833</u>	<u>3,699,100</u>	<u>3,552,311</u>

9. Investment Income

Investment income includes bank and GIC interest income as follows:

	2019	2018
Bank interest	\$ 297,560	\$ 243,648
Interest on long-term investment - GIC	265,633	259,525
	<u>\$ 563,193</u>	<u>\$ 503,173</u>

Union Water Supply System
Notes to the Financial Statements
for the year ended December 31, 2019

10. Accumulated Surplus

	2019	2018
Opening Fund Balance		
Funds:		
Operating fund	\$ 8,256,491	\$ 7,098,688
Capital financing reserve fund	11,359,727	11,074,166
Total Fund Balance	19,616,218	18,172,854
Long-term debt obligations	(12,854,536)	(13,756,545)
Tangible capital assets (including inventory)	40,645,423	40,163,768
Accumulated Surplus, beginning of year	47,407,105	44,580,077
Contributions to operating fund	(844,917)	1,157,803
Contributions to reserve fund	302,645	285,561
Tangible capital assets purchased	4,048,090	1,722,914
Loss on sale of tangible capital assets	(30,658)	-
Amortization of tangible capital assets	(1,269,951)	(1,241,259)
Debt repayment	1,021,638	902,009
Accumulated Surplus, end of year	\$ 50,633,952	\$ 47,407,105

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 is dated March 23, 2018 and is effective December 31, 2017. Assumptions used are as follows:

- (a) a discount factor of 3.40% was used;
- (b) an increase of 5.9% for health in 2019 (2018 - 6.0%), linearly decreased to an ultimate rate of 4% in 2038, 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 \$149,800 (2018 - \$127,500) and is included in accounts payable and accrued liabilities. An additional expense of \$22,300 (2018 - \$21,500) 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 year ended December 31, 2019

12. Budget Figures

The 2019 Budget approved by the UWSS Board on January 16, 2019 was prepared on a modified cash basis. This budget was revised on September 18, 2019. 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:

	2019
Financial Plan (Budget) surplus for the year	\$ (3,655,841)
Add:	
Accumulated surplus, beginning of the year	47,407,105
Principal payments on long term debt	1,021,700
Capital expenditures reallocated to tangible capital assets	5,735,000
Less:	
Amortization expense on tangible capital assets	(1,269,951)
Budget Surplus per Statement of Financial Operations	\$ 49,238,013

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	2019	2018
Cost								
Balance, beginning of year	\$ 133,634	\$ 120,022	\$ 27,407,054	\$ 10,791,625	\$ 25,866,678	\$ 369,958	\$ 64,688,971	\$ 62,966,057
Add: New acquisitions during the year	-	60,717	271,998	10,764	17,463	-	360,942	161,922
Add: Additions during the year	-	17,555	4,127	14,512	3,714,612	-	3,750,806	2,829,826
Less: Disposals during the year	-	(39,676)	-	(161,512)	-	(63,658)	(264,846)	(1,268,834)
Balance, end of year	133,634	120,022	27,445,650	10,906,238	25,891,954	4,038,375	68,535,873	64,688,971
Accumulated Amortization								
Balance, beginning of year	-	15,632	10,374,260	4,646,946	9,006,710	-	24,043,548	22,802,289
Add: Amortization	-	3,001	558,632	332,625	375,693	-	1,269,951	1,241,259
Less: Accumulated amortization on disposals	-	-	(16,664)	(153,866)	-	-	(170,530)	-
Balance, end of year	-	18,633	10,916,228	4,825,705	9,382,403	-	25,142,969	24,043,548
Net Book Value of Tangible Capital Assets Including Inventories	\$ 133,634	\$ 101,389	\$ 16,529,422	\$ 6,080,533	\$ 16,509,551	\$ 4,038,375	\$ 43,392,904	\$ 40,645,423

See accompanying notes to financial statements