
LAMBTON AREA WATER SUPPLY SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

Draft for board approval

**LAMBTON AREA WATER SUPPLY SYSTEM
INDEX TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Operations	4
Statement of Change in Net Financial Assets	5
Statement of Cash Flow	6
Notes to the Financial Statements	7-10
SCHEDULES	
Schedules of Tangible Capital Assets	11-12
Schedule of Accumulated Surplus	13
Schedule of Continuity of Reserves	14

Independent Auditor's Report

To the Members of the Lambton Area Water Supply System

Opinion

We have audited the financial statements of the Lambton Area Water Supply System (the Organization), which comprise the statement of financial position as at December 31, 2019, and the statements of operations, change in net financial assets and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Lambton Area Water Supply System as at December 31, 2019, and its results of operations, its change in net financial assets, and its cash flows 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 the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other 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.

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 the Organization'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 the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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.

Auditor's Responsibilities for the Audit of the Financial Statements - continued

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 the Organization'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 the Organization'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 the Organization 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.

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.

Chartered Professional Accountants, Licensed Public Accountants

Sarnia, Ontario
May XX, 2020

**LAMBTON AREA WATER SUPPLY SYSTEM
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019 ACTUAL \$	2018 ACTUAL \$
FINANCIAL ASSETS		
Cash (Note 3)	10,214,734	7,182,355
Accounts Receivable	630,119	559,843
Total Financial Assets	10,844,853	7,742,198
LIABILITIES		
Accounts Payable and Accruals	252,841	58,214
NET FINANCIAL ASSETS	10,592,012	7,683,984
NON-FINANCIAL ASSETS		
Tangible Capital Assets - Net (Schedule 1 and 2)	86,748,811	86,596,640
Accumulated Surplus (Schedule 3)	97,340,823	94,280,624

The accompanying notes and schedules are an integral part of this financial statement.

**LAMBTON AREA WATER SUPPLY SYSTEM
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019 BUDGET \$	2019 ACTUAL \$	2018 ACTUAL \$
REVENUE			
Municipality Recovery	9,580,197	9,580,197	9,581,155
Interest	72,000	228,220	104,859
Other Revenue	339,000	197,186	253,511
Total Revenue	9,991,197	10,005,603	9,939,525
EXPENSES			
Plant Operating	4,569,143	4,085,452	4,019,749
Tax Allowance	190,000	200,143	184,482
Maintenance			
Engineering Study	385,000	141,746	74,554
Major Maintenance	240,000	166,864	114,258
Distribution Repairs	200,000	75,781	211,821
Facility Maintenance	-	10,934	-
Administration			
Wages and Benefits	251,500	145,117	306,132
Legal Fees and Easements	20,000	18,094	53,349
Audit Fee	14,000	14,265	13,834
Insurance	21,000	21,773	20,848
Meals and Travel	4,000	5,496	4,063
Membership	2,000	908	1,332
Miscellaneous	2,100	1,428	1,891
Office Supplies	3,000	5,137	2,495
Postage	500	180	92
Advertising and Promotions	200	1,060	-
Telephone and Internet	4,500	5,432	5,320
Education and Conference	4,000	3,962	4,955
Computer Software	16,000	32,693	21,275
GIS/IT Consulting	4,700	4,744	8,460
Vehicle Costs	12,500	-	2,028
St.Clair Conservation Consulting	30,000	28,160	-
Amortization	1,976,035	1,976,035	1,952,098
Total Expenses	7,950,178	6,945,404	7,003,036
ANNUAL SURPLUS	2,041,019	3,060,199	2,936,489
ACCUMULATED SURPLUS, beginning of the year	94,280,624	94,280,624	91,344,135
ACCUMULATED SURPLUS, end of the year (Schedule 3)	96,321,643	97,340,823	94,280,624

The accompanying notes and schedules are an integral part of this financial statement.

**LAMBTON AREA WATER SUPPLY SYSTEM
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019 BUDGET \$	2019 ACTUAL \$	2018 ACTUAL \$
ANNUAL SURPLUS	2,041,019	3,060,199	2,936,489
Amortization of Tangible Capital Assets	1,976,036	1,976,035	1,952,098
Acquisition of Tangible Capital Assets	(5,225,000)	(2,128,206)	(364,876)
Change in Net Financial Assets	(1,207,945)	2,908,028	4,523,711
NET FINANCIAL ASSETS , beginning of the year	7,683,984	7,683,984	3,160,273
NET FINANCIAL ASSETS, end of the year	6,476,039	10,592,012	7,683,984

The accompanying notes and schedules are an integral part of this financial statement.

**LAMBTON AREA WATER SUPPLY SYSTEM
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019 ACTUAL \$	2018 ACTUAL \$
OPERATING ACTIVITIES		
Annual Surplus	3,060,199	2,936,489
Uses(Sources) of Cash:		
Accounts Receivable	(70,276)	80,099
Accounts Payable	194,627	(1,229,541)
	124,351	(1,149,442)
Non-Cash Charges to Operations:		
Amortization	1,976,035	1,952,098
Cash Provided by Operations	5,160,585	3,739,145
CAPITAL ACTIVITIES		
Cash Used to Acquire Tangible Capital Assets	(2,128,206)	(364,876)
NET CHANGE IN CASH	3,032,379	3,374,269
CASH, beginning of the year	7,182,355	3,808,086
CASH, end of the year	10,214,734	7,182,355

The accompanying notes and schedules are an integral part of this financial statement.

**LAMBTON AREA WATER SUPPLY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2019**

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 is 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.

(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, 2019**

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, 2019, 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 monthly average prime rate less 1.65%. An operating line of credit was available by way of bank overdraft in the amount of \$50,000 as at December 31, 2019. NIL has been drawn on this line of credit as of December 31, 2019.

**LAMBTON AREA WATER SUPPLY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2019**

4. RESERVES

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

5. 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 over 500,000 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, 2019. The results of this valuation disclosed total actuarial liabilities of \$106,400 million in respect of benefits accrued for services with actuarial assets at that date of \$103,000 million indicating an actuarial deficit of \$3,400 million. Ongoing adequacy of the current contribution rates will need to be monitored as fluctuations in the financial markets may lead to increased future funding requirements.

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 2019 was \$11,935 (2018 - \$25,285) for current service and is included as an expenditure on the Statement of Operations. The OMERS Board rate was 9.0% to 14.6% depending on income level for 2019 (2018 - 9.0% to 14.6% depending on income level).

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

6. EXPENDITURE BY OBJECT

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

	<u>2019</u>	<u>2018</u>
Wages and employee benefits	\$ 145,117	\$ 306,132
Materials	82,813	72,759
Contracted services	4,741,439	4,672,047
Amortization	<u>1,976,035</u>	<u>1,952,098</u>
Total	<u>\$ 6,945,404</u>	<u>\$ 7,003,036</u>

**LAMBTON AREA WATER SUPPLY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2019**

7. COMMITMENTS

In 2018 and prior, \$359,479 was spent on LAWSS radio and SCADA PLC upgrade project including pre-purchase of radio and PLC components. An additional \$377,380 was spent in 2019 on engineering fees and construction. It is expected that an additional \$46,500 will be spent in 2020 to install the radio and PLC components.

The Lambton Area Water Supply System is committed to replacing the main plant emergency backup generator system and main plant 5kV switchgear by the end of 2020. An Engineering firm has been hired to develop a RFP for the installation portion. To date funds spent total \$1,486,887 with the remaining \$4,279,113 to be spent in 2020 to complete the project and the project's total budget is \$5,766,000.

The Lambton Area Water Supply System is committed to rebuilding the 36" Ross valve at West Lambton Pumping Station by the end of 2020. The project has been contracted to OCWA to do all project management for Ross Valve. This valve was previously mislabeled as 32".

The Lambton Area Water Supply System is committed to developing an overall plan to update the control systems at LAWSS in 2020. The SCADA Upgrade Master Plan, indicated as PLC Upgrade Project on the 2020 Budget, is estimated at \$150,000.

The Lambton Area Water Supply system is committed to upgrading the Water Treatment Plant's PLC Conversion system. The project is estimated at \$150,000 including engineering.

The Lambton Area Water Supply system is committed to get engineering designs for 5kV Motor Control Groups A & B, Water Treatment Plant Main Plant HVAC Repair, West Lambton Pumping Station reservoir rehabilitation and Indian Road Water Tower rehabilitation. The project is estimated at \$351,000.

The Lambton Area Water Supply system is committed to upgrading Distribution for Field Gate to 4G Network. The project is estimated at \$75,000.

The Lambton Area Water Supply system is committed to six Engineering studies in 2020. The studies are for the following: LAWSS Master Plan rebuild, Conditional Assessments for Port Lambton standpipe & Watford standpipe, Jacob's Loop, Corrosion control study with impact to municipalities, Watermain condition assessment and Environmental assessment on Twinning and Grid Reinforcement. The various engineering studies are estimated at \$833,000.

9. SUBSEQUENT EVENTS

Subsequent to year-end, the impact of COVID-19 in Canada and on the global economy increased significantly. In response, the Organization implemented protective measures in compliance with the Public Health Agency of Canada (PHAC) to safeguard the health and wellbeing of the Organization as well as its customers and suppliers. Additionally, major capital projects have been delayed due to the restrictions imposed by PHAC to cease all non-essential work. At this time, the full potential impact of COVID-19 on the entity is not known.

Tangible Capital Assets (Schedule 1)
Lambton Area Water Supply System
2019

	Land	Land Improvements	Equipment	Facilities	Environmental Infrastructure	Work In Progress	2019 Actual	2018 Actual
Cost								
BALANCE, beginning of the year	\$ 1,272,202	\$ 675,133	\$ 80,777	\$ 46,475,402	\$ 84,462,652	\$ 1,060,783	\$ 134,026,949	\$ 133,662,073
Add:								
Additions during the year	-	-	-	353,274	-	1,822,753	2,176,027	1,834,584
Less:								
Transfers during the year	-	-	-	-	-	(47,821)	(47,821)	(1,469,708)
BALANCE, end of the year	1,272,202	675,133	80,777	46,828,676	84,462,652	2,835,715	136,155,155	134,026,949
ACCUMULATED AMORTIZATION								
BALANCE, beginning of the year	-	637,737	41,599	21,712,726	25,038,247	-	47,430,309	45,478,211
Add:								
Amortization during the year	-	14,103	4,353	1,115,037	842,542	-	1,976,035	1,952,098
Less:								
Accumulated amortization on disposals	-	-	-	-	-	-	-	-
Adjustment Prior Year	-	-	-	-	-	-	-	-
BALANCE, end of the year	-	651,840	45,952	22,827,763	25,880,789	-	49,406,344	47,430,309
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 1,272,202	\$ 23,293	\$ 34,825	\$ 24,000,913	\$ 58,581,863	\$ 2,835,715	\$ 86,748,811	\$ 86,596,640

Tangible Capital Assets (Schedule 2)
Lambton Area Water Supply System
2018

	Land	Land Improvements	Equipment	Facilities	Environmental Infrastructure	Work In Progress	2018 Actual	2017 Actual
Cost								
BALANCE, beginning 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
Add:								
Additions during the year	-	-	-	1,692,407	-	142,177	1,834,584	2,287,053
Less:								
Transfers during the year	-	-	-	-	-	(1,469,708)	(1,469,708)	(637,963)
BALANCE, end of the year	1,272,202	675,133	80,777	46,475,402	84,462,652	1,060,783	134,026,949	133,662,073
ACCUMULATED AMORTIZATION								
BALANCE, beginning of the year	-	623,634	36,158	20,622,714	24,195,705	-	45,478,211	43,613,389
Add:								
Amortization during the year	-	14,103	5,442	1,090,011	842,542	-	1,952,098	1,916,199
Less:								
Accumulated amortization on disposals	-	-	-	-	-	-	-	(51,377)
Adjustment Prior Year	-	-	-	-	-	-	-	-
BALANCE, end of the year	-	637,737	41,599	21,712,726	25,038,247	-	47,430,309	45,478,211
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 1,272,202	\$ 37,396	\$ 39,178	\$ 24,762,676	\$ 59,424,405	\$ 1,060,783	\$ 86,596,640	\$ 88,183,862

**LAMBTON AREA WATER SUPPLY SYSTEM
SCHEDULE OF ACCUMULATED SURPLUS(SCHEDULE 3)
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019 ACTUAL \$	2018 ACTUAL \$
RESERVES (Schedule 4)	10,592,012	7,683,984
SURPLUSES		
Invested in Tangible Capital Assets	86,748,811	86,596,640
ACCUMULATED SURPLUS	97,340,823	94,280,624

**LAMBTON AREA WATER SUPPLY SYSTEM
SCHEDULE OF CONTINUITY OF RESERVES(SCHEDULE 4)
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019 ACTUAL \$	2018 ACTUAL \$
BALANCE, beginning of the year	7,683,984	3,160,273
REVENUE CONTRIBUTIONS	2,908,028	4,523,711
BALANCE, end of the year	10,592,012	7,683,984
RECONCILIATION OF CONTRIBUTIONS(WITHDRAWALS)		
Annual Surplus	3,060,199	2,936,489
Amortization	1,976,035	1,952,098
Capital Assets Purchased	(2,128,206)	(364,876)
ENDING CONTRIBUTIONS	2,908,028	4,523,711