

A G E N D A

THE THIRD MEETING OF THE SECONDARY WATER BOARD OF THE CITY OF ST. THOMAS - 2020

MEETING ROOM

Via ZOOM video conferencing

5:00 P.M.

THURSDAY

October 22, 2020

DISCLOSURE OF INTEREST

MINUTES

Confirmation of the minutes of the meeting held on September 10, 2020.

REPORTS

St. Thomas Area Secondary Water Supply System – 2021 Water Rates

Report SWB05-20 of the Compliance Coordinator - APPENDIX A (pgs. 2-3)

UNFINISHED BUSINESS

EMPS Joint Occupancy and Use Agreement:

No update at this time

Lake Huron/Elgin Area Water System Workshop Update:

No update at this time

NEW BUSINESS

Christene Scrimgeour, Auditor, has provided the 2019 St. Thomas & Area Secondary Water Supply System DRAFT Financial Statements for the Board's review and approval - APPENDIX B (pgs. 4-14)

Next Meeting

To be determined.

ADJOURNMENT

Directed to: Councillor Jeff Kohler and Members of the Board of Management of the St. Thomas Area Secondary Water Supply System

Date Authored:
October 1, 2020
Meeting Date:
October 22, 2020

Department: Environmental Services

Attachment

Prepared By: Karel Kamerman, B.Sc.
Compliance Coordinator

Subject: St. Thomas Area Secondary Water Supply System – 2021 Water Rate

Recommendation:

THAT: Report SWB 05-20, St. Thomas Area Secondary Water Supply System – 2021 Water Rate, be received for information; and further,

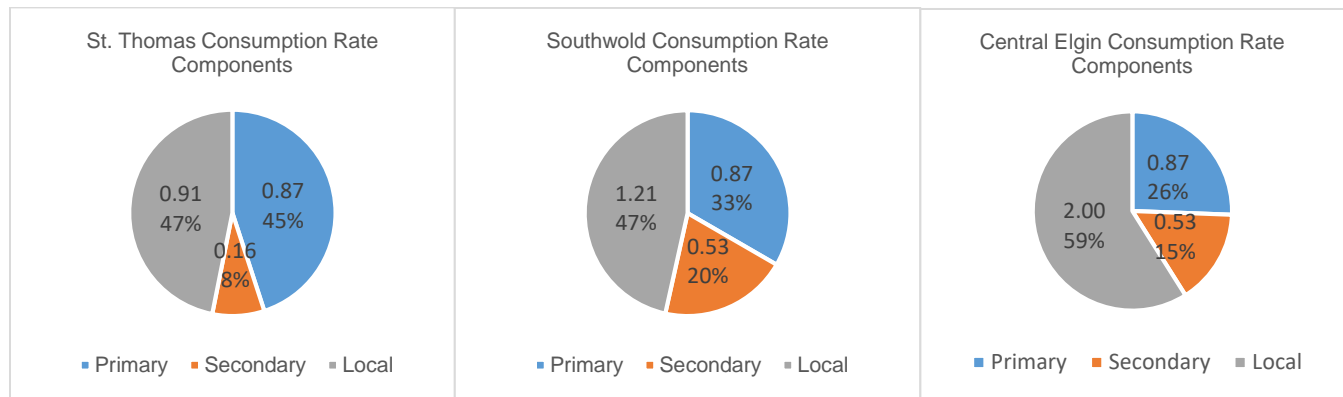
THAT: The Secondary Rate for the St. Thomas Area Secondary Water Supply System of \$0.5597/m³, effective January 1, 2021, be approved.

Origin:

The St. Thomas Area Secondary Water Supply System (STASWSS), which obtains water from the Elgin Area Primary Water Supply System (EAPWSS), provides drinking water to the City of St. Thomas, the Municipality of Central Elgin and the Township of Southwold.

In order to recover the costs related to the maintenance and operations of the infrastructure, as well as meet the requirements of provincial water legislation and build an adequate reserve balance to help fund future rehabilitation and renewal projects for the St. Thomas Area Secondary Water Supply System infrastructure, each benefitting municipality must establish water rates that include cost recovery for the use of the EAPWSS and STASWSS infrastructure.

In 2020, each of the benefitting municipalities charged their users a consumption rate, consisting of different components, in order to recover expenses arising from the use of the Primary System, Secondary System and Local distribution systems, as follows:



It should be noted that the City of St. Thomas obtains 70% of their water demands directly from the Primary System, and as such, their rate structure reflects a lower contribution percentage to the Secondary.

In 2020, The City of St. Thomas completed a Water Rate Study to forecast the full costs (including infrastructure renewal and rehabilitation) of supplying water through the STASWSS to the year 2031. The Study recommends the *Secondary Rates* that are required in order for the system to be financially self-sustaining, based on anticipated flows to the various benefitting municipalities. The full version of the 2020 Secondary Rate Study is available on the City of St. Thomas website.

Analysis and Financial Considerations:

The EAPWSS Joint Board of Management approved the 2020 Primary Rate at their October 8, 2020 meeting. Effective January 1, 2021, the *Primary Rate* will be increased by 4%, and is scheduled to be changed from \$0.8704/m³ to \$0.9052/m³.

In order to meet the requirements of provincial water legislation and build an adequate reserve balance to help fund future rehabilitation and renewal projects, the *Secondary Rate* is recommended to increase from \$0.5255/m³ to \$0.5597/m³, a 6.5% increase. The *Secondary Rate* increase being recommended is aligned with the STASWSS

Water Rate Study completed in 2020.

The proposed rate increase will result in a total bill increase for the average user (167m3/year) of 0.32%, 0.88% and 0.72% for the users located in St. Thomas, Southwold, and Central Elgin, respectively.



Respectfully,



Karel Kamerman, B.Sc.
Compliance Coordinator



Nathan Bokma, P. Eng.
Manager of Development and Compliance

Reviewed By:   _____

ES Treasury HR City Clerk City Manager

APPENDIX - B

**ST. THOMAS AREA SECONDARY WATER SUPPLY SYSTEM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

**ST. THOMAS AREA SECONDARY WATER SUPPLY SYSTEM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

- 1- Independent Auditor's Report
- 3- Statement of Financial Position
- 4- Statement of Operations and Accumulated Surplus
- 5- Statement of Cash Flows
- 6- Statement of Change in Net Financial Assets
- 7- to -8- Notes to the Financial Statements
- 9- Schedule 1 - Schedule of Tangible Capital Assets

INDEPENDENT AUDITOR'S REPORT

To the Members of Board, Ratepayers and Inhabitants of the St. Thomas Area Secondary Water Supply System

Opinion

We have audited the accompanying financial statements of St. Thomas Area Secondary Water Supply System (the "Joint Board"), which comprise the Statement of Financial Position as at December 31, 2019, and Statements of Operations and Accumulated Surplus, Cash Flows and Change in Net Financial Assets 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 St. Thomas Area Secondary Water Supply System as at December 31, 2019 and its financial performance and its changes in cash flows and net financial assets for the year then ended, in accordance with Canadian public sector accounting standards.

Basis of 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 Joint Board 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 Joint Board's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Joint Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Joint Board'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 the Joint Board'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 Joint Board'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 Joint Board 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.

October 22, 2020
London, Canada

LICENSED PUBLIC ACCOUNTANT

**ST. THOMAS AREA SECONDARY WATER SUPPLY SYSTEM
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019**

	2019	2018
FINANCIAL ASSETS		
Due from City of St. Thomas (note 2)	\$ 1,955,639	\$ 1,857,577
NET FINANCIAL ASSETS	1,955,639	1,857,577
NON FINANCIAL ASSETS		
Tangible capital assets (note 1.c) (Schedule 1)	1,463,170	1,037,791
	1,463,170	1,037,791
ACCUMULATED SURPLUS (note 3)	\$ 3,418,809	\$ 2,895,368

The accompanying notes are an integral part of these financial statements.

**ST. THOMAS AREA SECONDARY WATER SUPPLY SYSTEM
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget 2019	Actual 2019	Actual 2018
REVENUE			
Current interest	\$ -	\$ 36,177	\$ 18,993
Water billings	2,607,000	3,340,334	3,391,796
	2,607,000	3,376,511	3,410,789
EXPENDITURES			
Amortization	-	67,623	60,427
OCWA contract and callouts	197,170	195,876	159,941
Operating and maintenance	1,585,600	2,501,357	2,486,648
Wages	93,600	88,214	81,202
	1,876,370	2,853,070	2,788,218
REVENUE OVER EXPENDITURES	730,630	523,441	622,571
ACCUMULATED SURPLUS, BEGINNING OF YEAR	2,895,368	2,895,368	2,272,797
ACCUMULATED SURPLUS, END OF YEAR	\$ 3,625,998	\$ 3,418,809	\$ 2,895,368

The accompanying notes are an integral part of these financial statements.

**ST. THOMAS AREA SECONDARY WATER SUPPLY SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019	2018
OPERATING ACTIVITIES		
Revenue over expenditures (page 4)	\$ 523,441	\$ 622,571
Non-cash expenditures - amortization	67,623	60,427
Net change in non-cash working capital balances related to operations (A)	(98,062)	(682,998)
	493,002	-
INVESTING ACTIVITIES		
Tangible capital asset additions	(493,002)	-
Change in cash during the year	-	-
CASH, BEGINNING OF YEAR	-	-
CASH, END OF YEAR	\$ -	\$ -

(A) Consists of changes in and due from the City of St. Thomas.

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

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

	2019	2018
Excess of revenue over expenditures (page 4)	\$ 523,441	\$ 622,571
Amortization of tangible capital assets	67,623	60,427
Acquisition of tangible capital assets	(493,002)	-
Increase in net financial assets	98,062	682,998
NET FINANCIAL ASSETS, BEGINNING OF YEAR	1,857,577	1,174,579
NET FINANCIAL ASSETS, END OF YEAR	\$ 1,955,639	\$ 1,857,577

The accompanying notes are an integral part of these financial statements.

**ST. THOMAS AREA SECONDARY WATER SUPPLY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Effective November 13, 1998, the Ministry of Environment issued a Transfer Order to transfer ownership and associated properties of the St. Thomas Area Secondary Water Supply System from the Ontario Clean Water Agency ("OCWA") to area municipalities. As part of the Transfer Order, a Joint Board of Management ("the Joint Board") was established to govern the management of the System. The Joint Board consists of one representative of the Councils of the Municipality of Central Elgin, the Township of Southwold, and two representatives of the Council of the City of St. Thomas. The City of St. Thomas is the administering municipality on behalf of the Municipalities and the Joint Board. The Joint Board has authority to manage the system on behalf of the Municipalities for the purpose of constructing, operating, repairing and improving the System.

1. Significant accounting policies

The financial statements of the Joint Board are prepared by management in accordance with Canadian public sector accounting standards.

a. Basis of accounting

Revenue and expenditures are reported on the accrual basis of accounting which recognizes revenue 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.

Government grants and transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

b. Uses of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the period. Actual results could differ from these estimates.

c. 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. The costs, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Equipment	15 to 80 years
Reservoir	100 years
Waterlines	75 years

**ST. THOMAS AREA SECONDARY WATER SUPPLY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

1. Significant accounting policies continued

d. Budget

The Joint Board set a budget based on the accounting policies adopted previous to PSAB Handbook policy for tangible capital assets.

e. Deferred revenue

Revenue received for specific purposes which are externally restricted by legislation, regulation or agreement and are not available for general municipal purposes are accounted for as deferred revenue on the Statement of Financial Position. The revenue is recognized in the Statement of Operations and Accumulated Surplus in the year in which it is used for the specified purpose.

2. Continuing operations

All banking activities are administered by the City of St. Thomas, on behalf of the Joint Board's activities. The amount due from the City of St. Thomas represents assets of the reserve fund held by the City of St. Thomas.

3. Accumulated surplus

The accumulated surplus is comprised of the following:

	2019	2018
Reserve fund for future operations	\$ 1,955,639	\$ 1,857,577
Invested in tangible capital assets	1,463,170	1,037,791
	\$ 3,418,809	\$ 2,895,368

4. Commitment

The Joint Board has contracted with OCWA to operate and maintain the System for a five year term ending June 30, 2022. The Joint Board is responsible for 28.5% of the overall contracted amount with annual costs for 2019 of \$57,651 (2018 - \$56,410).

5. Subsequent event

In March 2020, the Province of Ontario declared a state of emergency due to the COVID-19 virus. It is unclear the total financial impact the COVID-19 virus will have on the operations of the Joint Board. The Joint Board and management continue to monitor the situation.

**ST. THOMAS AREA SECONDARY WATER SUPPLY SYSTEM
SCHEDULE OF TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Equipment	Reservoir	Waterlines	Total
COST				
Balance, beginning of year	\$ 766,040	\$ 76,621	\$ 1,433,922	\$ 2,276,583
Add:				
Additions during the year	493,002	-	-	493,002
Less:				
Disposals during the year	-	-	-	-
Balance, end of year	1,259,042	76,621	1,433,922	2,769,585
ACCUMULATED AMORTIZATION				
Balance, beginning of year	463,242	39,077	736,473	1,238,792
Add:				
Amortization during the year	36,556	766	30,301	67,623
Less:				
Disposals during the year	-	-	-	-
Balance, end of year	499,798	39,843	766,774	1,306,415
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 759,244	\$ 36,778	\$ 667,148	\$ 1,463,170

This schedule is provided for information purposes only.