

**WATERWORKS OF THE
TOWN OF COBOURG
FINANCIAL STATEMENTS
AT DECEMBER 31, 2022**

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INDEPENDENT AUDITOR'S REPORT

TO THE COUNCIL OF THE TOWN OF COBOURG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Waterworks of the Town of Cobourg, which comprise the statement of financial position as at December 31, 2022, and the statements of operations and accumulated surplus, cash flows and changes 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 the organization as at December 31, 2022, and its financial performance 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 the 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. 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 company'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 company'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 company 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.

Baker Tilly KDN LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
May 1, 2023

WATERWORKS OF THE TOWN OF COBOURG

STATEMENT OF FINANCIAL POSITION

At December 31, 2022

	2022 \$	2021 \$
ASSETS		
FINANCIAL ASSETS		
Cash	6,336,067	3,836,317
Accounts receivable	1,351,422	911,352
Unbilled revenue on customer accounts	578,182	498,276
	8,265,671	5,245,945
LIABILITIES		
Accounts payable and accrued charges	2,148,368	1,728,912
Due to Town of Cobourg (note 3)	2,112,363	448,005
Long term debt (note 4)	1,113,374	1,301,176
Employee future benefits (note 5)	254,524	267,747
	5,628,629	3,745,840
NET FINANCIAL ASSETS	2,637,042	1,500,105
NON-FINANCIAL ASSETS		
Prepaid expenses	11,789	176,218
Inventories	101,824	117,199
Tangible capital assets (note 6)	30,204,432	29,148,147
	30,318,045	29,441,564
ACCUMULATED SURPLUS (note 7)	32,955,087	30,941,669

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

WATERWORKS OF THE TOWN OF COBOURG

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For The Year Ended December 31, 2022

	Budget 2022 \$ (Unaudited)	Actual 2022 \$	Actual 2021 \$
REVENUES			
Sale of water	5,974,768	6,044,382	5,709,323
Other revenue	160,623	228,157	154,811
Development charges	30,000	188,124	55,726
Interest income	22,740	48,356	8,321
	6,188,131	6,509,019	5,928,181
EXPENSES			
Amortization	1,490,622	1,380,378	1,337,734
Interest on long term debt	36,329	33,635	21,648
Water distribution	1,008,391	907,571	858,347
Administration	1,377,968	1,448,514	1,564,767
Water treatment plant	696,312	725,503	698,627
	4,609,622	4,495,601	4,481,123
GAIN ON SALE OF TANGIBLE CAPITAL ASSETS	-	-	16,500
ANNUAL SURPLUS	1,578,509	2,013,418	1,463,558
OPENING ACCUMULATED SURPLUS	30,941,669	30,941,669	29,478,111
CLOSING ACCUMULATED SURPLUS	32,520,178	32,955,087	30,941,669

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

WATERWORKS OF THE TOWN OF COBOURG

STATEMENT OF CASH FLOWS For The Year Ended December 31, 2022

	2022 \$	2021 \$
CASH PROVIDED BY (USED IN):		
OPERATIONS		
Annual surplus	2,013,418	1,463,558
Add: items not requiring cash		
Amortization	1,380,378	1,337,734
Change in employee future benefits	(13,223)	17,072
Gain on disposal of tangible capital assets	-	(16,500)
Contributed capital	67,983	207,967
	3,448,556	3,009,831
Change in non-cash working capital items (note 8)	1,743,642	682,775
	5,192,198	3,692,606
INVESTING ACTIVITY		
Purchase of tangible capital assets	(2,504,646)	(2,637,063)
Proceeds from long term debt	-	1,406,694
Repayment of long term debt	(187,802)	(105,518)
Proceeds from disposals of tangible capital assets	-	16,500
	(2,692,448)	(1,319,387)
NET CHANGE IN CASH DURING THE YEAR	2,499,750	2,373,219
CASH POSITION - BEGINNING OF YEAR	3,836,317	1,463,098
CASH POSITION - END OF YEAR	6,336,067	3,836,317

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

WATERWORKS OF THE TOWN OF COBOURG

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

For The Year Ended December 31, 2022

	Budget 2022 \$ (Unaudited)	Actual 2022 \$	Actual 2021 \$
Annual Surplus	1,578,509	2,013,418	1,463,558
Acquisition Of Tangible Capital Assets	(2,314,000)	(2,504,646)	(2,637,063)
Contributed Capital	-	67,983	207,967
Amortization Of Tangible Capital Assets	1,490,622	1,380,378	1,337,734
Change In Prepaid Expenses	-	164,429	(136,255)
Change In Inventories	-	15,375	(3,201)
Change In Net Financial Assets	755,131	1,136,937	232,740
Net Financial Assets, beginning of year	1,500,105	1,500,105	1,267,365
Net Financial Assets, end of year	2,255,236	2,637,042	1,500,105

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

WATERWORKS OF THE TOWN OF COBOURG

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2022

1. NATURE OF ORGANIZATION

Waterworks of the Town of Cobourg is engaged in the distribution of water and associated activities. The organization is a municipal authority and is exempt from tax under the Income Tax Act. The accumulation of assets other than tangible capital assets occurs to fund the replacement of tangible capital assets.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with standards in the Chartered Professional Accountants of Canada Public Sector Accounting (PSA) Handbook. Significant aspects of the accounting policies are as follows:

(a) Recognition of Revenue and Expenses

Sale of water revenue is recognized on the accrual basis when the water is supplied to users, whether billed or unbilled, and when collection is reasonably assured. Investment and other income is recorded when earned.

Development charges are recognized as revenue when funds are expended on growth related projects.

Expenses are recognized in the period the goods or services are acquired and a legal liability is incurred or transfers are due.

(b) Management Estimates

The preparation of financial statements in accordance with generally accepted accounting principles 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 revenues and expenses during the year.

Key areas where management has made complex or subjective judgments (often as a result of matters that are inherently uncertain) include, among others, useful lives of tangible capital assets, impairment of assets, inventory provisions, amortization, employee future benefits and allowance for doubtful accounts. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

(c) Inventories

Inventories are recorded at the lower of cost and net realizable value, where cost is generally determined using the average cost basis.

(d) Tangible Capital Assets

Tangible capital assets are stated at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The organization provides for amortization using the straight-line method at rates designed to amortize the cost of the tangible capital assets over their estimated useful lives:

Buildings	40 years
Other equipment	5 to 40 years
Transmission and distribution system	5 to 40 years

Capital contributions in aid of construction toward the cost of constructing distribution assets are recorded with capital assets as a contra account. Contributions are amortized based on the useful life of the asset.

Work in process is not amortized until the asset is put into use.

WATERWORKS OF THE TOWN OF COBOURG

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(e) Pension Plan

The organization accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined benefit plan. Both participating employers and employees are required to make plan contributions based on participating employees' contributory earnings. The organization recognizes the expense related to this plan as contributions are made.

(f) Post-Employment Benefits

The organization pays certain medical and life insurance benefits on behalf of its retired employees. The organization recognizes these post-retirement costs in the period in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health care costs.

The excess of the net actuarial gains (losses) over 10% of the accrued benefit obligation are amortized on a straight-line basis over the average remaining service life of the active employees. Details related to the post-employment benefits are detailed in Note 5.

(g) Non-Financial Assets

Tangible capital and other non-financial assets are accounted for as assets by the organization because they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of the organization unless they are sold.

(h) Inter-Entity Transactions

The organization has an agreement with the Town of Cobourg, which results in transactions between the two entities.

Allocated costs between the Town of Cobourg and the organization, are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Unallocated costs are measured at the carrying amount, which is the amount recorded in the records of the Town of Cobourg.

WATERWORKS OF THE TOWN OF COBOURG

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2022

3. INTER-ENTITY TRANSACTIONS

	2022	2021
	\$	\$
Due to Town of Cobourg	2,112,363	448,005

The balance is due on demand, is unsecured and non-interest bearing.

Included in accounts receivable is a balance due from the Town of Cobourg in the amount of \$45,183 (2021 - \$29,763) and a balance due from Lakefront Utilities Inc. in the amount of \$nil (2021 - \$6,244).

Included in accounts payable is a balance due to the Town of Cobourg in the amount of \$16,280 (2021 - \$,5,518) and a balance due to Lakefront Utility Services Inc. in the amount of \$581 (2021 - \$19,938).

In the ordinary course of business, the organization enters into transactions with the Corporation of the Town of Cobourg and other related corporations. These transactions, which include the sale of water and the purchase and sale of other goods and services, take place at fair market value. The affiliated corporations of the organization are:

Town of Cobourg Holdings Inc. and its subsidiaries:
Lakefront Utility Services Inc.
Lakefront Utilities Inc.

During the year, the organization collected revenues of \$30,000 (2021 - \$30,000) for billing services from the Town of Cobourg and paid expenses of \$73,262 (2021 - \$71,090)

WATERWORKS OF THE TOWN OF COBOURG

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2022

4. LONG TERM DEBT

	2022 \$	2021 \$
TD Loan Draw #1 2.73% fixed rate, payable in blended monthly payments of \$12,516 Due May 3, 2028	755,402	883,075
TD Loan Draw #2 2.92% fixed rate, payable in blended monthly payments of \$3,932 Due May 3, 2028	236,705	276,346
TD Loan Draw #3 2.70% fixed rate, payable in blended monthly payments of \$2,005 Due May 14, 2028	121,267	141,755
	1,113,374	1,301,176
Less current portion	193,065	187,802
	920,309	1,113,374

The Company has a \$2,300,000 (2021 - \$2,300,000) credit facility consisting of a \$2,300,000 (2021 - \$2,300,000) committed reducing term facility.

The committed reducing term facility bears interest at a fixed rate, as determined by the bank upon each draw. At year end, the Company had drawn \$1,113,375 from this line (2021 - \$1,301,176).

Estimated principal repayments are as follows:

	\$
2023	193,065
2024	198,475
2025	204,037
2026	209,755
2027	215,633
Subsequent years	92,407
	1,113,374

WATERWORKS OF THE TOWN OF COBOURG

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2022

5. EMPLOYEE FUTURE BENEFITS

The organization provides certain health, dental and life insurance benefits for retired employees pursuant to the organization's policy. The accrued benefit obligation and net periodic expense for the year were determined by actuarial valuation. The most recent valuation was performed for the year ended December 31, 2020, with an update for the year ended December 31, 2022 for changes in the discount rate.

Significant actuarial assumptions employed for the valuations are as follows: discount rate of 5.05% (2021 – 2.70%), salary and wage level increases at 2% per annum. A 5.10% annual rate of increase in the per capita cost of covered dental costs was assumed for 2022 (2021 - 4.70%) and increasing 0.20% per annum to 2025. A 5.10% annual rate of increase for health costs was assumed for 2022 (2021 – 4.40%), increasing by 0.30% per annum until 2025.

Information about the organization's defined benefit plan is as follows:

	2022	2021
	\$	\$
Accrued benefit obligation, beginning of period	267,747	250,675
Current service cost	15,304	15,010
Interest on accrued benefit obligation	9,187	9,308
Benefits paid	(44,329)	(13,861)
Actuarial loss	6,615	6,615
	254,524	267,747

6. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated	Net Book Value	
	\$	Amortization	2022	2021
	\$	\$	\$	\$
Land	4,546	-	4,546	4,546
Buildings	1,905,681	1,269,192	636,489	698,849
Other equipment	9,004,594	5,451,701	3,552,893	3,801,594
Work in process	1,923,115	-	1,923,115	1,464,542
Transmission and distribution system	49,124,368	22,138,587	26,985,781	26,105,800
Contributions in aid of construction	(3,886,267)	(987,875)	(2,898,392)	(2,927,184)
	58,076,037	27,871,605	30,204,432	29,148,147

WATERWORKS OF THE TOWN OF COBOURG

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2022

7. ACCUMULATED SURPLUS

	2022	2021
	\$	\$
Operating surplus	3,864,029	3,094,698
Equity in tangible capital assets		
Net book value of tangible capital assets	30,204,432	29,148,147
Long term debt	(1,113,374)	(1,301,176)
	32,955,087	30,941,669

8. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2022	2021
	\$	\$
Accounts receivable	(440,070)	(40,174)
Inventories	15,375	(3,201)
Prepaid expenses	164,429	(136,255)
Unbilled revenue on customer accounts	(79,906)	(61,760)
Accounts payable and accrued liabilities	419,456	867,904
Due to Town of Cobourg	1,664,358	56,261
	1,743,642	682,775

WATERWORKS OF THE TOWN OF COBOURG

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2022

9. PENSION AGREEMENT

Certain employees of the organization are eligible members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer pension plan.

The Actuarial Opinion contained in the 2022 Annual Report disclosed actuarial liabilities of \$130,306 million in respect of benefits accrued for service with actuarial assets of \$123,628 million indicating an actuarial deficit of \$6,678 million. Because OMERS is a multi-employer 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 organizations required contributions to OMERS for the year ended was \$129,639 (2021 - \$135,404).

10. BUDGET FIGURES

The budget, approved by the organization, for 2022 is reflected on the Statement of Operations and Accumulated Surplus and the Statement of Changes in Net Assets. The budgets established for capital investment in tangible capital assets are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore may not be comparable with current year's actual amounts. Budget figures have been reclassified for the purposes of these financial statements to comply with Public Sector Accounting Board reporting requirements. Budget figures are not subject to audit.