

SEVERN SOUND ENVIRONMENTAL ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2022

DRAFT FOR DISCUSSION PURPOSES ONLY

SEVERN SOUND ENVIRONMENTAL ASSOCIATION
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INDEPENDENT AUDITOR'S REPORT

To the Board Members of Severn Sound Environmental Association:

Opinion

We have audited the financial statements of Severn Sound Environmental Association, which comprise the statement of financial position as at December 31, 2022, and the statements of operations, the change in its net financial assets (debt) and its cash flows 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 Severn Sound Environmental Association as at December 31, 2022, and the results of its operations 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 Association 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 those 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 Association'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 Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's Responsibility 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 Association'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 Association'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 Association 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.

Huntsville, Ontario

Pahapill and Associates Professional Corporation
Chartered Professional Accountants
Authorized to practise public accounting by
The Chartered Professional Accountants of Ontario

SEVERN SOUND ENVIRONMENTAL ASSOCIATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022

	2022	2021
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 2	\$ 2
Accounts receivable, no allowance	102,043	67,461
Due from related parties (Note 2)	832,278	631,059
	934,323	698,522
LIABILITIES		
Accounts payable and accrued liabilities	118,787	57,206
Deferred revenue (Note 3)	94,905	50,638
Employee future benefits (Note 4)	67,500	99,800
Long-term debt (Note 5)	-	9,334
	281,192	216,978
NET FINANCIAL ASSETS (DEBT)	653,131	481,544
NON-FINANCIAL ASSETS		
Tangible capital assets - net (Note 6)	213,332	228,367
Prepaid expenses	3,636	3,166
	216,968	231,533
ACCUMULATED SURPLUS (NOTE 7)	\$ 870,099	\$ 713,077

Approved by: _____
 Director

 Director

The accompanying notes are an integral part of these financial statements

SEVERN SOUND ENVIRONMENTAL ASSOCIATION
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Budget 2022 (Note 10)	Actual 2022	Actual 2021
REVENUE			
Municipal contributions	\$ 1,036,739	\$ 1,021,085	\$ 1,026,975
Lake Simcoe Region Conservation Authority	-	89,164	64,031
Province of Ontario grants	14,526	13,900	36,682
Projects and recoveries	80,109	50,389	52,981
Community and private donations	54,770	119,907	87,303
Tree distribution, net	16,307	6,767	24,320
Federal grants	-	7,197	20,125
Interest earned	-	11,355	8,846
TOTAL REVENUE	1,202,451	1,319,764	1,321,263
EXPENSES			
Salaries and benefits	797,759	756,904	680,118
Benefits	200,733	139,875	174,774
Materials and office	93,814	92,584	62,350
Contracted services	49,665	61,751	39,708
Rent and financial	105,347	92,976	65,754
Amortization	18,652	18,652	16,761
TOTAL EXPENSES	1,265,970	1,162,742	1,039,465
ANNUAL SURPLUS (DEFICIT)	(63,519)	157,022	281,798
ACCUMULATED SURPLUS, BEGINNING OF YEAR	713,077	713,077	431,279
ACCUMULATED SURPLUS, END OF YEAR	\$ 649,558	\$ 870,099	\$ 713,077

The accompanying notes are an integral part of these financial statements

SEVERN SOUND ENVIRONMENTAL ASSOCIATION
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (DEBT)
FOR THE YEAR ENDED DECEMBER 31, 2022

	Budget 2022 (Note 10)	Actual 2022	Actual 2021
Annual surplus (deficit)	\$ (63,519)	\$ 157,022	\$ 281,798
Acquisition of tangible capital assets	(3,618)	(3,618)	(16,008)
Amortization of tangible capital assets	18,652	18,652	16,761
Use of prepaid expenses	-	(469)	(600)
Increase (decrease) in net financial assets	(48,485)	171,587	281,951
Net financial assets (debt), beginning of year	481,544	481,544	199,593
Net financial assets (debt), end of year	\$ 433,059	\$ 653,131	\$ 481,544

The accompanying notes are an integral part of these financial statements

SEVERN SOUND ENVIRONMENTAL ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
Operating transactions		
Annual surplus (deficit)	\$ 157,022	\$ 281,798
Non-cash charges to operations:		
Amortization	18,652	16,761
Employee future benefits	(32,300)	8,800
	143,374	307,359
Changes in non-cash assets and liabilities:		
Accounts receivable	(34,583)	(28,348)
Accounts payable and accrued liabilities	61,582	(27,439)
Deferred revenue	44,267	25,433
Due to/from related parties	(201,219)	(251,062)
Prepaid expenses	(469)	(600)
	(130,422)	(282,016)
Cash provided by operating transactions	12,952	25,343
Capital transactions		
Acquisition of tangible capital assets	(3,618)	(16,008)
Cash applied to capital transactions	(3,618)	(16,008)
Increase (decrease) in long-term debt	(9,334)	(9,333)
Cash applied to financing transactions	(9,334)	(9,333)
Net change in cash and cash equivalents	-	2
Cash and cash equivalents, beginning of year	2	-
Cash and cash equivalents, end of year	\$ 2	\$ 2

The accompanying notes are an integral part of these financial statements

SEVERN SOUND ENVIRONMENTAL ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2022

Severn Sound Environmental Association (the "Association") is a water management agency established in 2009 by a letter agreement among local Municipalities, Environment Canada and the Ontario Ministry of the Environment.

The local Municipalities are the Town of Midland, Town of Penetanguishene, Township of Tay, Township of Tiny, Township of Oro-Medonte, Township of Severn, Township of Georgian Bay, and the Township of Springwater.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Association are prepared by management in accordance with public sector accounting standards for local governments as recommended in the Public Sector Accounting Board "PSAB" of the Chartered Professional Accountants Canada. Significant aspects of the accounting policies adopted by the Association are as follows:

Basis of Accounting

- (i) **Accrual basis of accounting**
Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which the transactions or events occurred that give rise to the revenue; expenses are recognized in the period the goods or services are acquired and a legal liability is incurred or transfers are due.
- (ii) **Non-financial assets**
Non-financial assets are not available to discharge existing liabilities but 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.
 - (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. Tangible capital assets received as donations are recorded at their fair value at the date of receipt. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:
 - Equipment - 4 to 10 years
 - Wells - 35 years
 - Vehicles - 10 yearsAnnual amortization is not charged in the year of acquisition.

SEVERN SOUND ENVIRONMENTAL ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS Year Ended December 31, 2022

(b) Pension agreements:

The Association is an employer member of the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer, defined benefit pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The Association has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. As such, the Association's contributions due during the year are expensed as incurred.

(c) Employee future benefits:

Vacation entitlements are accrued for as entitlements are earned. Sick leave benefits are accrued when they are vested and subject to pay out when an employee leaves the Association. Non-vesting sick leave benefits are accrued and subject to pay out if employees chose to top up their salary under the short-term sick leave plans.

(iii) Revenue recognition

Conditional grant revenue is recognized to the extent the conditions imposed on it have been fulfilled. Unconditional grant revenue is recognized when funding is receivable.

All revenue other than government transfers and interest revenue, is recognized when received.

Interest revenue is recorded when earned.

(iv) Government Transfers

Government transfers, which include entitlements and legislative grants, are recognized as revenue in the financial statements when the transfers is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled. Government transfers consist of grants and subsidies for various operating and capital programs.

(v) Deferred Revenue

Deferred revenue represents funds which have been applied for and collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

(vi) Use 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 revenues and expenses during the reporting period. The principal estimates used in the preparation of these financial statements are the useful lives of tangible capital assets and the allowance for doubtful accounts. Actual results could differ from management's best estimates as additional information becomes available in the future.

In addition, the Association's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimate of historical cost and useful lives of tangible capital assets.

SEVERN SOUND ENVIRONMENTAL ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS Year Ended December 31, 2022

- (vii) **Collections**
Collections, including works of art and historical treasures, are not capitalized in the statement of financial position. Purchases of collection items are expensed in the year in which the items are acquired. Contributions of collection items are reported as revenue and expense at their fair value. When fair value cannot be determined, the contribution is recognized at nominal value.

2. DUE FROM RELATED PARTIES

The Association received \$1,021,085 (2021 \$1,026,975) in Municipal contributions from related parties.

The Treasurer Municipality (Township of Tay, effective Jan 1, 2018) collects receivables and remits payments to vendors on behalf of the SSEA throughout the calendar year. As such, the balance due from related parties as at December 31, 2022 of \$832,278 from the Township of Tay (2021 \$631,059) represents the remaining operating funds held by the Treasurer municipality once all financial assets and liabilities are settled.

Amounts due to/from related parties consists of \$46,006 due from participating municipalities which is included in accounts receivable, and \$24,320 due to participating municipalities, which is included in accounts payable at December 31, 2022.

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product or service.

3. DEFERRED REVENUE

The 2022 continuity of transactions within general deferred revenue are described below:

	Balance beginning of year	Contributions received	Amounts taken into revenue	Balance end of year
Grants	\$ 8,318	\$ 25,000	\$ (8,318)	\$ 25,000
Tree distribution	5,638	22,814	(5,638)	22,814
Honey Harbour survey	10,953	6,323	(10,953)	6,323
Inland Lakes	5,908	3,706	(5,908)	3,706
RMO project	11,228	10,776	(11,228)	10,776
Other projects	8,593	26,286	(8,593)	26,286
	\$ 50,638	\$ 94,905	\$ (50,638)	\$ 94,905

SEVERN SOUND ENVIRONMENTAL ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2022

4. EMPLOYEE FUTURE BENEFITS

An actuarial estimate of future liabilities has been completed using the most recent actuarial valuation in October 2023 and forms the basis for the estimated liability reported in these financial statements.

The following table sets out the continuity of the accrued benefit obligation.

	2022	2021
Accumulated sick leave entitlements	\$ -	\$ 40,300
Accrued health and dental benefit liability	67,500	59,500
	\$ 67,500	\$ 99,800

Information about the accumulated sick leave entitlements and accrued health and dental benefit liabilities are as follows:

	2022	2021
Accumulated benefit obligation, beginning of year	\$ 99,800	\$ 91,000
Add: Benefit/service cost	11,000	8,300
Add: Interest	5,100	4,200
Less: Amortization of actuarial gains	8,100	4,000
Less: Benefit contributions	(8,800)	(7,700)
Less: Plan amendment	(47,700)	-
	\$ 67,500	\$ 99,800

The significant actuarial assumptions adopted in measuring the Association's accrued benefit obligations are as follows:

	2022	2021
Discount rate	4.60 %	3.00 %
Salary escalation	3.00 %	2.00 %
Dental premium rates	6.15% for 2022 reducing by 0.15% in each year to an ultimate rate of 4.50%	
Health premium care rates	7.23% for 2022 reducing by 0.13% in each year to an ultimate rate of 4.50%	

SEVERN SOUND ENVIRONMENTAL ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS Year Ended December 31, 2022

5. LONG-TERM DEBT

(a) The balance of the long-term debt reported on the Statement of Financial Position consists of

	2022	2021
Township of Tiny, due July 2022, repayable in annual payments of \$9,333 interest free and is unsecured.	\$ -	\$ 9,334
	\$ -	\$ 9,334

(b) Total charges for the year for long-term debt which are reported in the financial statements are as follows:

	2022	2021
Principal payments	\$ 9,334	\$ 9,333
	\$ 9,334	\$ 9,333

6. TANGIBLE CAPITAL ASSETS

The following table provides information on the tangible capital assets of the Association by major asset class.

	Machinery Equipment and Furniture	Wells	Vehicles	TOTAL 2022	TOTAL 2021
COST					
Balance, beginning of year	\$ 158,702	\$ 169,123	\$ 25,409	\$ 353,234	\$ 337,226
Additions and betterments	3,618	-	-	3,618	16,008
BALANCE, END OF YEAR	162,320	169,123	25,409	356,852	353,234
ACCUMULATED AMORTIZATION					
Balance, beginning of year	111,492	10,835	2,541	124,868	108,106
Annual amortization	10,694	5,417	2,541	18,652	16,761
BALANCE, END OF YEAR	122,186	16,252	5,082	143,520	124,867
TANGIBLE CAPITAL ASSETS-NET	\$ 40,134	\$ 152,871	\$ 20,327	\$ 213,332	\$ 228,367

7. ACCUMULATED SURPLUS

The Association's accumulated surplus balance is comprised of the following:

	2022	2021
Invested in tangible capital assets (Note 6)	\$ 213,332	\$ 228,367
Reserves and reserve funds	409,487	375,906
Unrestricted surplus (deficit)	314,780	217,938
Amounts to be recovered in future years	(67,500)	(109,134)
	\$ 870,099	\$ 713,077

SEVERN SOUND ENVIRONMENTAL ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS Year Ended December 31, 2022

8. PENSION AGREEMENTS

The Association makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer pension plan, on behalf of full time members of staff. The plan is a contributory 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. 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, 2022. The results of this valuation disclosed total actuarial liabilities of \$128,789 million with respect to benefits accrued for service with actuarial assets at that date of \$122,111 million indicating an actuarial deficit of \$6,678 million. Because OMERS is a multi employer plan, any Plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Association does not recognize any share of the Plan surplus or deficit.

The amount contributed to OMERS for the current year was \$49,474 (2021 \$49,170) for current service and is included as an expense on the Consolidated Statement of Operations.

9. GOVERNMENT TRANSFERS

Government transfers include monetary transfers based on cost-sharing agreements between the levels of government. Specific funds are also transferred when the Association provides evidence that the qualifying expenditures have been incurred. The Association also receives government transfers once certain criteria have been met or with the stipulation that the funds are used for specific projects or expenses (entitlements with stipulations). Any transfers received where the transfer stipulations have not been met by year-end are recorded as deferred revenue.

The amount of funding provided to the Association for each project is subject to final review and approval by these government organizations. As at the date of these financial statements, funding for the ongoing projects have not been subject to this review process. Any future adjustments required as a result of this review will be accounted for at that time.

10. BUDGET FIGURES

The unaudited budget adopted for the current year was prepared on a fund basis, and has been amended to conform with the accounting and reporting standards adopted for the current year actual results.