

Municipality of South Huron

Water Ontario Regulation 453/07 Financial Plan

Financial Plan # 054-301

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 Planning for growth

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List of Acronyms

O.Reg.	Ontario Regulation
P.S.A.B.	Public Sector Accounting Board
S.D.W.A.	Safe Drinking Water Act
S.W.S.S.A.	Sustainable Water and Sewage Systems Act

1. Introduction

1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by the Municipality of South Huron (the Municipality) to prepare a water financial plan as part of the five submission requirements for the purposes of obtaining a municipal drinking water license as per the Safe Drinking Water Act, 2002. In general, a financial plan requires an analysis of capital and operating needs, a review of current and future demand versus supply, and consideration of available funding sources. This detailed financial planning and forecasting in regards to the Municipality's water systems has already been completed by Municipal staff through the 2015 Budget, and supplemented with forecasts developed by staff with assistance from Watson (2015 Forecast). The objective of the report provided herein is to convert the findings of the 2015 Forecast into the prescribed reporting requirements for a financial plan as defined by Ontario Regulation 453/07 (O.Reg. 453/07).

1.2 Background

The Safe Drinking Water Act (S.D.W.A.) was passed in December, 2002 in order to address some of the recommendations made by the Walkerton Inquiry Part II report. One of the main requirements of the Act is the mandatory licensing of municipal water providers. Section 31 (1) specifically states,

“No person shall,

- a) establish a new municipal drinking water system or replace or carry out an alteration to a municipal drinking water system except under the authority of and in accordance with an approval under this Part or a drinking water works permit; or
- b) use or operate a municipal drinking water system that was established before or after this section comes into force except under the authority of and in accordance with an approval under this Part or municipal drinking water licence.”

In order to become licensed, a municipality must satisfy five key requirements as per Section 44 (1):

1. Obtain a drinking water works permit;
2. Acceptance of the operational plan for the system based on the Drinking Water Quality Management Standard;
3. Accreditation of the Operating Authority;

4. Prepare and provide a financial plan; and
5. Obtain permit to take water.

The preparation of a financial plan is a key requirement for licensing and as such, must be undertaken by all water providers.

1.2.1 Financial Plan Defined

Section 30 (1) of the S.D.W.A. provides the following definition of financial plans:

“financial plans’ means,

- a) financial plans that satisfy the requirements of subsection (2), but only if,
 - (i) Bill 175 (Sustainable Water and Sewage Systems Act, 2002, introduced on September 23, 2002) receives Royal Assent, and
 - (ii) sections 3 and 9 of Bill 175 (Sustainable Water and Sewage Systems Act, 2002) are in force, or
- b) financial plans that satisfy the requirements prescribed by the Minister, in any other case. 2002, c. 32, s. 30 (1).”

As of time of writing, the Sustainable Water and Sewage Systems Act, 2002 cited above has been repealed (see Section 2.2 of this report); however, the standards that it directs underpin the specific requirements of s.30 (1) part b as they are outlined in O.Reg. 453/07 and which will be examined in detail below.

1.2.2 Financial Plan Requirements – New System

O.Reg. 453/07 provides the following parameters with regard to s.30 (1) part b of the S.D.W.A. for new water systems:

- Financial plans must be approved by Council resolution (or governing body) indicating that the drinking water system is financially viable;
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six-year period (commencing when the system first serves the public);
- Financial plans must include detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and accumulated surplus/deficit (i.e. the components of a “Statement of Operations” as per the Public Sector Accounting Board (P.S.A.B.) for each year in which the financial plans apply;

- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system;
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and
- Financial plans are to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.3 Financial Plan Requirements – Existing System

O.Reg. 453/07 also provides details with regard to s.30 (1) part b of the S.D.W.A. for existing water systems. The requirements for existing systems are summarized as follows:

- Financial plans must be approved by Council resolution (or governing body);
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six-year period (commencing in the year of licence expiry);
- Financial plans must include detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and accumulated surplus/deficit (i.e. the components of a “Statement of Operations” as per the P.S.A.B.) for each year in which the financial plans apply;
- Financial plans must present financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets (i.e. the components of a “Statement of Financial Position” as per the P.S.A.B.) for each year in which the financial plans apply;
- Gross cash receipts/payments itemized by operating transactions, capital transactions, investing transactions and financial transactions (i.e. the components of a “Statement of Cash Flow” as per the P.S.A.B.) for each year in which the financial plans apply;
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system;
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and

- Financial plans are to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.4 Financial Plan Requirements - General

Given that the legislation falls under the S.D.W.A., a financial plan is mandatory for water systems and encouraged for wastewater systems. The financial plans shall be for a forecast period of at least six years but longer planning horizons are encouraged. The financial plan is to be completed, approved and submitted at the time of licence renewal (i.e. six months prior to licence expiry). Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary.

The financial plans must contain, on the front page, the appropriate financial plan number as set out in Schedule A of the Municipal Drinking Water Licence document.

1.2.5 Public Sector Accounting Board (P.S.A.B.) Requirements

The components of the financial plans indicated by the regulation are consistent with the requirements for financial statement presentation as set out in section PS1200 of the Chartered Professional Accountants Canada (previously Canadian Institute of Chartered Accountants) Public Sector Accounting Handbook:

“Financial statements should include a Statement of Financial Position, a Statement of Operations, a Statement of Change in Net Debt, and a Statement of Cash Flow.”

Both the Statement of Financial Position and the Statement of Operations were required for financial reporting purposes in pre-2009 reporting years; however, the format changed in 2009 to conform to the requirements of PS1200 and PS3150 (see Figures 1-1 and 1-2). Financial statements are now reported on a full accrual accounting basis, which will continue in future years. The accrual accounting method recognizes revenues and expenses in the same period as the activities that give rise to them regardless of when they are actually paid for. Since an exchange of cash is not necessary to report a financial transaction, the accrual method is meant to provide a more accurate picture of financial position. Before 2009, financial results were reported on a modified cash basis of accounting, whereby revenues and expenses are recognized when cash is paid or received and only certain accrual-type items such as payables and receivables are recognized at year-end. The difference between the methods is in the timing of when transactions are reported. This timing difference has impacted the presentation of the statements in that various accounts have been added or deleted in order to properly report the transactions.

Moreover, since the 2009 fiscal year, additional information relating to the accounting treatment of tangible capital assets is included in annual reporting, as indicated by the requirements under section PS3150. Pre-2009, the costs to acquire, develop and/or construct capital assets were expensed in the year in which they occur. Going forward, tangible capital assets are capitalized so as to create an inventory of the assets owned and to account for their ability to provide future benefits. The reporting of tangible capital assets required further changes to the format of existing financial statements. From a financial planning perspective, this change is significant for water assets as they can represent a significant portion of the Municipality's total assets.

The Statement of Cash Flow and the Statement of Change in Net Financial Assets/Debt (which is a new statement as of 2009) are required statements going forward. The Statement of Change in Net Financial Assets/Debt reports on whether enough revenue was generated in a period to cover the expenses in the period and whether sufficient resources have been generated to support current and future activities (see Figure 1-3). The Statement of Cash Flow reports on how activities were financed for a given period providing a measure of the changes in cash for that period (see Figure 1-4).

It should be noted that the Statement of Reserves and Reserve Funds and the Statement of Capital, as used by the public sector pre-2009, have been eliminated by the new reporting format. The balances and transactions that make up these two statements have been transferred to either the Statement of Operations or the Statement of Financial Position depending on the nature of the account.

Figure 1-1
Statement of Financial Position

OLD FORMAT (PRE-2009)**2009 AND FUTURE**

<u>Assets</u>
Financial Assets
Cash
Accounts Receivable
Investments
Inventory for resale
Other Assets
Total Financial Assets
<u>Non-Financial Assets</u>
Inventory of Supplies
Prepaid Expenses
Total Non-Financial Assets
<u>Liabilities</u>
Accounts Payable & Accrued Liabilities
Debt (Principal only)
Other (DC Reserves-Deferred Revenue)
Total Liabilities
NET ASSETS
<u>Municipal Position</u>
Fund Balances
Current Fund
Capital Fund
Reserves and Reserve Funds
Amounts to be Recovered
From Future Revenues
From Reserves & Reserve Funds
TOTAL MUNICIPAL POSITION

<u>Financial Assets</u>
Cash
Accounts Receivable
Investments
Inventory for resale
Other Assets
Total Financial Assets
<u>Liabilities</u>
Accounts Payable & Accrued Liabilities
Debt (Principal only)
Other (DC Reserves-Deferred Revenue)
Total Liabilities
NET FINANCIAL ASSETS/(DEBT)
<u>Non-Financial Assets</u>
Tangible Capital Assets
Inventory of Supplies
Prepaid Expenses
Total Non-Financial Assets
ACCUMULATED SURPLUS/(DEFICIT)

Figure 1-2
Statement of Operations

OLD FORMAT (PRE-2009)

<u>Revenues</u>
Base Charge Revenue
Rate Based Revenue
Transfers from Reserves
Other Revenue
Total Revenues
<u>Expenditures</u>
Operating Expenses
Capital
Total Expenditures
Net Revenues for the year
Increase (decrease) in amounts to be recovered
Change in fund balances

2009 AND FUTURE

<u>Revenue</u>
Base Charge Revenue
Rate Based Revenue
Earned DC Revenue
Other Revenue
Total Revenue
<u>Expenses</u>
Operating Expenses
Interest on Debt
Amortization
Other
Total Expenses
Annual Surplus/(Deficit)
Accum. Surplus/(Deficit), beg. of year
Accum. Surplus/(Deficit), end of year

Figure 1-3
Statement of Change in Net Financial Assets/Debt

2009 AND FUTURE

Annual Surplus/(Deficit)
Less: Acquisition of tangible capital assets
Add: Amortization of tangible capital assets
(Gain)/Loss on disposal of tangible capital assets
Add: Proceeds on sale of tangible capital assets
Add: Write-downs of tangible capital assets
Sub-total
Less: Acquisition of supplies inventory
Less: Acquisition of prepaid expenses
Add: Consumption of supplies inventory
Add: Use of prepaid expenses
Sub-total
(Increase)/Decrease in net financial assets/net debt
Net financial assets/(net debt), beginning of year
Net financial assets/(net debt), end of year

Figure 1-4
Statement of Cash Flow¹

DIRECT METHOD	INDIRECT METHOD
<p><u>Operating Transactions</u> Cash received from: Water Operations Less: Cash paid for: Operating expenses Finance charges</p>	<p><u>Operating Transactions</u> Annual Surplus/(Deficit) Add: Amortization of Tangible Capital Assets Loss/(Gain) on sale of Tangible Capital Assets Decrease/(Increase) in Accounts Receivable Increase/(Decrease) in Accounts Payable Decrease/(Increase) in Inventories for sale Other items</p>
Cash provided by operating transactions	Cash provided by operating transactions
<p><u>Capital Transactions</u> Proceeds on sale of tangible capital assets Less: Cash used to acquire tangible capital assets</p>	<p><u>Capital Transactions</u> Proceeds on sale of tangible capital assets Less: Cash used to acquire tangible capital assets</p>
Cash applied to capital transactions	Cash applied to capital transactions
<p><u>Investing Transactions</u> Proceeds from investments Less: Cash used to acquire investments</p>	<p><u>Investing Transactions</u> Proceeds from investments Less: Cash used to acquire investments</p>
Cash provided by (applied to) investing transactions	Cash provided by (applied to) investing transactions
<p><u>Financing Transactions</u> Proceeds from debt issue Less: Debt repayment (Principal only)</p>	<p><u>Financing Transactions</u> Proceeds from debt issue Less: Debt repayment (Principal only)</p>
Cash applied to financing transactions	Cash applied to financing transactions
Increase in cash and cash equivalents	Increase in cash and cash equivalents
Cash and cash equivalents, beginning of year	Cash and cash equivalents, beginning of year
Cash and cash equivalents, end of year	Cash and cash equivalents, end of year

¹ The statement of cash flow can be prepared using either the direct or indirect methods. The indirect method derives cash flow by making adjustments to the net surplus/deficit reported on the statement of operations. The direct method calculates cash flow identifying the direct sources and uses of cash.

2. Sustainable Financial Planning

2.1 Introduction

In general, sustainability refers to the ability to maintain a certain position over time. While the S.D.W.A. requires a declaration of the financial plan's sustainability, it does not give a clear definition of what would be considered sustainable. Instead, the Ministry of the Environment released a guideline ("Towards Financially Sustainable Drinking-Water and Wastewater Systems") that provides possible approaches to achieving sustainability. The Province's Principles of Financially Sustainable Water and Wastewater Services are provided below:

- Principle #1: Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.
- Principle #2: An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.
- Principle #3: Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.
- Principle #4: Lifecycle planning with mid-course corrections is preferable to planning over the short term, or not planning at all.
- Principle #5: An asset management plan is a key input to the development of a financial plan.
- Principle #6: A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.
- Principle #7: Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.
- Principle #8: Financial plans are "living" documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.
- Principle #9: Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff and municipal Council.

2.2 Sustainable Water and Sewage Systems Act

The Sustainable Water and Sewage Systems Act (S.W.S.S.A.) was passed on December 13, 2002. The intent of the Act was to introduce the requirement for municipalities to undertake an assessment of the “full cost” of providing their water and the wastewater services. In total, there were 40 areas within the Act to which the Minister could have made regulations. It is noted that, the regulations, which accompany the Act, were not issued and the Act was repealed on December 31, 2012.

2.3 Water Opportunities Act, 2010 (Bill 72)

Since the passage of the Safe Drinking Water Act, changes and refinements to the legislation have been introduced, including Bill 72. Bill 72 was introduced into legislation on May 18, 2010 and received Royal Assent on November 29, 2010 as the Water Opportunities Act.

The purposes of the Water Opportunities Act are to foster innovative water, wastewater and storm water technologies, services and practices; to create opportunities for economic development and clean-technology jobs; and to conserve and sustain water resources. To achieve this, Bill 72 provides for the creation of performance targets (financial, operational and maintenance related) which will vary by service type and location, and the required submission of conservation and sustainability plans for water, wastewater and storm water.

The sustainability plan in Bill 72 expands on interim legislation for financial plans included in O.Reg 453/07, to include the following:

- an asset management plan for the physical infrastructure;
- financial plan;
- water conservation plan (for water service only);
- a risk assessment;
- a strategy for maintaining and improving the services; and
- additional information considered advisable.

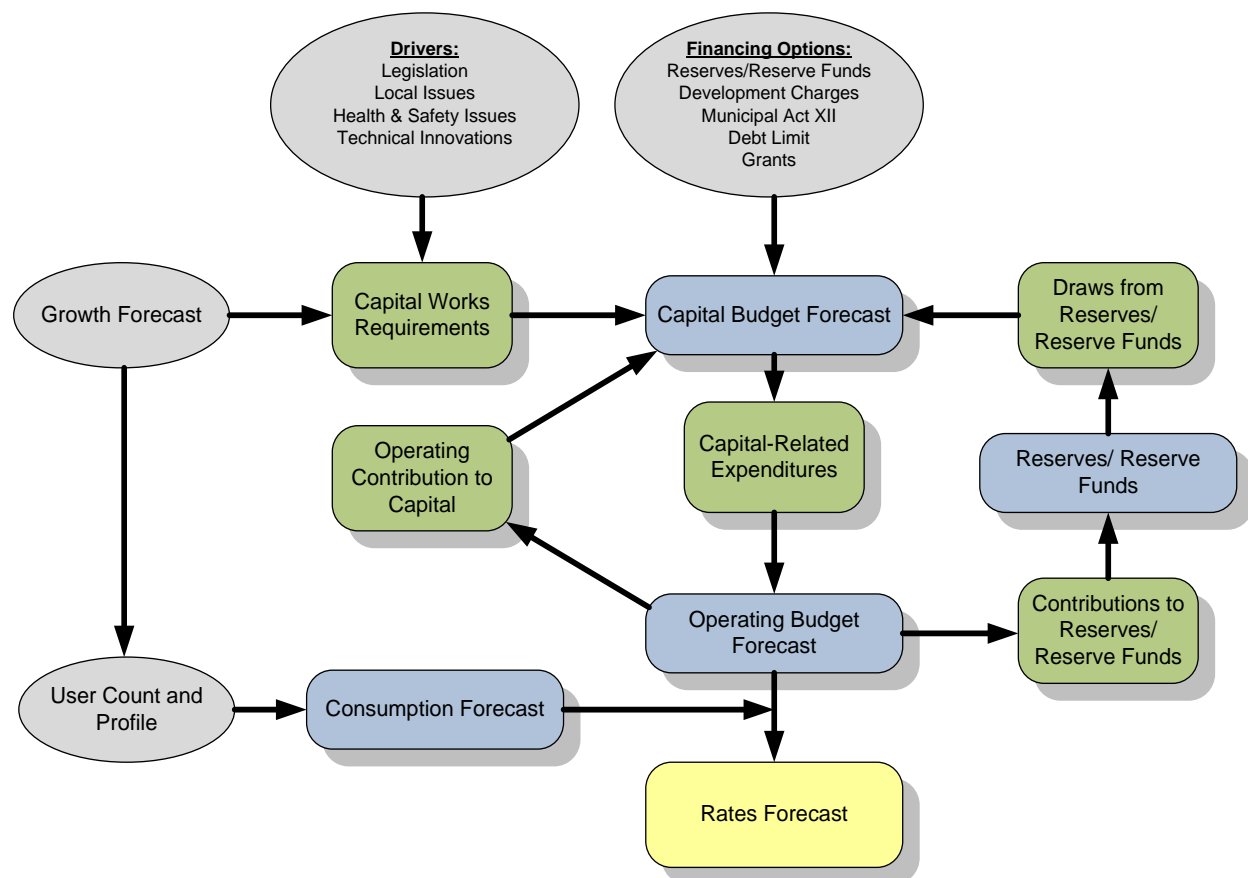
Where a Board has jurisdiction over a service, the plan (and any plan amendments) must be approved by the municipality in which the municipal service is provided, before submission to the Minister. The Minister may also direct preparation of joint or partially joint plans.

Regulations (still forthcoming) will prescribe details with regard to any time periods or time limits, contents of the plans, identifying which portions of the plan will require certification, the public consultation process (if required), limitations updates and refinements.

2.4 2015 Forecast

As noted above, Watson has assisted Municipal staff in completing a 6-year water forecast. However, this forecast does not represent a Rate Study. The Rate Study process is designed to address “full cost” principles and reflect the guiding principles toward sustainable financial planning. Figure 2-1 below summarizes the process.

**Figure 2-1
Water and Wastewater Rate Calculation Process**



As a result of employing this process, a Rate Study provides a sound financial plan for a Municipality’s water and wastewater systems by providing:

- A detailed assessment of current and future capital needs including an analysis of potential funding sources;
- An analysis of fixed and variable operating costs in order to determine how they will be impacted by evolving infrastructure needs and system growth;
- A review and recommendation on rate structures that ensure revenues are equitable and sufficient to meet system needs; and
- A public process that involves ongoing consultation with the main stakeholders including the Municipality staff, Council, the general public (specifically the users of the system) and others, with the aim of gaining input and collaboration on the sustainability of the financial plan.

It is recommended that the Municipality complete a Water & Wastewater Rate Study Update in the near future to address the principles discussed above. Municipal staff have advised that an update of the Water & Wastewater Rate Study is planned for 2017.

Given this water financial plan was based on the staff prepared 2015 Forecast, the details of the financial plan arising from the 2015 Forecast are contained in Appendix A.

3. Approach

3.1 Overview

The 2015 Forecast has been prepared on a modified cash basis; therefore, a conversion was required in order to present a full accrual financial plan for the purposes of this report. The conversion process used will help to establish the structure of the financial plan along with the opening balances that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the financial plan.

3.2 Conversion Process

The conversion from the existing modified cash basis financial plan to the full accrual reporting format required under O.Reg. 453/07 can be summarized in the following steps:

1. Calculate Tangible Capital Asset Balances;
2. Convert Statement of Operations;
3. Convert Statement of Financial Position;
4. Convert Statement of Cash Flow and Net Assets/Debt; and
5. Verification and Note Preparation.

3.2.1 Calculate Tangible Capital Asset Balances

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water assets, an inventory has already been compiled and summarized within the 2015 Forecast as well as part of the Municipality's annual P.S.A.B. 3150 compliance processes. Given the prospective nature of the 2015 Forecast, replacement cost is provided for each asset; however, historical cost (which is the original cost to purchase, develop or construct each asset) is required for financial reporting purposes. Once historical cost is established, the following calculations are made to determine net book value:

- Accumulated amortization up to the year prior to the first forecast year;
- Amortization expense on existing assets for each year of the forecast period;
- Acquisition of new assets for each year of the forecast period; and
- Disposals and related gains or losses for each year of the forecast period.

Future water capital needs have also been determined and summarized within the 2015 Forecast. These estimates, however, only represent future assets that the Municipality anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no cost or partial cost to the Municipality). These contributed assets could form a significant part of the infrastructure going forward in terms of the sustainability of the system as a whole and despite their non-monetary nature; the financial plan may need to be adjusted in order to properly account for these transactions. Once the sequence and total asset acquisition has been determined for the forecast period, annual amortization of these assets for each year is calculated in a similar manner as that used for existing assets.

Once the historical cost, accumulated amortization and amortization expenses are calculated as described above, the total net book value of the tangible capital assets can be determined and recorded on the Statement of Financial Position.

3.2.2 Convert Statement of Operations

As per subsection 1.2.5 above, the new Statement of Operations eliminates and/or adds certain transactions that have been reported differently by municipalities since 2009 (see Figure 3-1). A wide range of adjustments will be considered and will depend on the size and complexity of the system. For example, the revenues and expenses associated with the now obsolete Statement of Capital and Statement of Reserves and Reserve Funds (see subsection 1.2.5) will need to be adjusted for and included within the Statement of Operations. This includes all non-tangible capital asset costs previously included in the capital statement (i.e. expenses related to various studies) while at the same time eliminating all expenditures incurred to acquire tangible capital assets which will now form part of the tangible capital asset balance discussed in subsection 3.2.1. Transfers to and from reserves are no longer explicitly reported on the Statement of Operations. Instead, these transactions are represented by changes in cash and accumulated surplus. Also, debt repayment costs relating to the principal payment portion only need to be removed, as they no longer qualify as an expense for reporting purposes. Principal payments will now be reported as a decrease in debt liability on the Statement of Financial Position. Finally, expenses relating to tangible capital assets, such as amortization, write-offs and (gain)/loss on disposal of assets, will be reported on the Statement of Operations in order to capture the allocation of the cost of these assets to operating activities over their useful lives.

Figure 3-1
Conversion Adjustments
Statement of Operations (Water)

Modified Cash Basis	Budget 2015	Adjustments		Full Accrual Budget 2015	Accrual Basis
		DR	CR		
Revenues					Revenues
Base Charge Revenue	1,939,076			1,939,076	Base Charge Revenue
Rate Based Revenue	1,668,638			1,668,638	Rate Based Revenue
Transfers from Reserves	510,573	510,573			
Other Revenue	232,828		181,544	181,544	Earned Development Charges Revenue
Total Revenues	4,351,115			4,022,086	Total Revenues
Expenditures					Expenses
Operating	1,493,043			1,493,043	Operating Expenses
Capital					
Transfers to Reserves	800,000		800,000		
Transfers to Capital	1,078,978		1,078,978		
Debt Repayment (Principal & Interest)	979,094		381,184	597,910	Interest on Debt
		622,858		622,858	Amortization
Total Expenditures	4,351,115			2,713,811	Total Expenses
Net Expenditures	-			1,308,275	Annual Surplus/(Deficit)
Increase (decrease) in amounts to be recovered	-			22,506,475	Accumulated Surplus/(Deficit), beginning of year
Change in Fund Balances	-	1,308,275		23,814,750	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		2,441,706	2,441,706		

Note: The combined adjustments above should be balanced and net to \$0 (i.e. Total DR = Total CR)

3.2.3 Convert Statement of Financial Position

Once the Statement of Operations has been converted and the net book value of tangible capital assets has been recorded, balances for the remaining items on the Statement of Financial Position are determined and recorded (see Figure 3-2). As noted earlier, the applicable balances from the Statement of Capital and the Statement of Reserve and Reserve Funds will need to be transferred to this statement. The opening/actual balances for the remaining accounts, such as accounts receivable, inventory, accounts payable and outstanding debt (principal only), are recorded and classified according to the structure of the Statement of Financial Position as outlined in PS1200.

It is acknowledged that some of the balances required on the Statement of Financial Position will be consolidated across the Municipality and, as such, will be difficult to isolate the information that is relevant to water. An example of this is accounts receivable which may be administered centrally by the Finance Department. Ontario Regulation 453/07 allows for the exclusion of these numbers if they are not known at the time of preparing the financial plan. Please refer to the Financial Plan Notes in Chapter 4 for more details.

3.2.4 Convert Statement of Cash Flow and Net Financial Assets/Debt

The Statement of Cash Flow summarizes how the Municipality financed its activities or, in other words, how the costs of providing services were recovered. The statement is derived using comparative Statement of Financial Position, the current Statement of Operations and other available transaction data.

The Statement of Change in Net Financial Assets/Debt is a new statement which reconciles the difference between the surplus or deficit from current operations and the change in net financial assets/debt for the year. This is significant, as net debt provides an indication of future revenue requirements. In order to complete the Statement of Net Financial Assets/Debt, additional information regarding any gains/losses on disposals of assets, asset write-downs, acquisition/use of supplies inventory and the acquisition use of prepaid expenses, is necessary (if applicable). Although the Statement of Change in Net Financial Assets/Debt is not required under O.Reg. 453/07, it has been included in this report as a further indicator of financial viability.

Figure 3-2
Conversion Adjustments
Statements of Financial Position (Water)

Modified Cash Basis	Budget 2015	Adjustments		Full Accrual Budget 2015	Accrual Basis
		DR	CR		
ASSETS					ASSETS
Financial Assets					Financial Assets
Cash	6,473,317			6,473,317	Cash
Accounts Receivable	936,859			936,859	Accounts Receivable
<i>Total Financial Assets</i>	<i>7,410,176</i>			<i>7,410,176</i>	<i>Total Financial Assets</i>
LIABILITIES					Liabilities
Accounts Payable & Accrued Liabilities	135,925			135,925	Accounts Payable & Accrued Liabilities
Gross Long-term Liabilities	11,810,337			11,810,337	Debt (Principal only)
Deferred Revenue	6,541			6,541	Deferred Revenue
<i>Total Liabilities</i>	<i>11,952,803</i>			<i>11,952,803</i>	<i>Total Liabilities</i>
Net Assets/(Debt)	(4,542,627)			(4,542,627)	Net Financial Assets/(Debt)
		28,357,377		28,357,377	Non-Financial Assets
				28,357,377	Tangible Capital Assets
					Total Non-Financial Assets
Municipal Position					
Water Reserves	7,267,709	7,267,709			
Development Charge Reserve Fund	6,541	6,541			
Amounts to be Recovered	(11,816,877)		11,816,877		
Total Municipal Position	(4,542,627)		23,814,750	23,814,750	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		35,631,627	35,631,627		

Note: The combined adjustments above should be balanced and net to \$0 (i.e. Total DR = Total CR)

3.2.5 Verification and Note Preparation

The final step in the conversion process is to ensure that all of the statements created by the previous steps are in balance. The Statement of Financial Position summarizes the resources and obligations of the Municipality at a set point in time. The Statement of Operations summarizes how these resources and obligations changed over the reporting period. To this end, the accumulated surplus/deficit reported on the Statement of Financial Position should equal the accumulated surplus/deficit reported on the Statement of Operations.

The Statement of Change in Net Financial Assets/Debt and the Statement of Financial Position are also linked in terms of reporting on net financial assets/debt. On the Statement of Financial Position, net financial assets/debt is equal to the difference between financial assets and liabilities and should equal net financial assets/debt as calculated on the Statement of Net Financial Assets/Debt.

While not part of the financial plan, the accompanying notes are important to summarize the assumptions and estimates made in preparing the financial plan. Some of the significant assumptions that need to be addressed within the financial plan are as follows:

- a) Opening cash balances – Opening cash balances are necessary to complete the Statement of Cash Flows and balance the Statement of Financial Position. Preferably, opening cash balances should be derived from actual information contained within the Municipality’s ledgers. It may not be possible, however, to extract this information from the ledgers for water alone; therefore, a reasonable proxy will be needed. One approach is to assume that opening cash balances equal ending reserve and reserve fund balances from the previous year adjusted for accrual-based transactions reflected by accounts receivable/payable balances. The following equation outlines this approach:

$$\begin{array}{l}
 \text{Ending Reserve/Reserve Fund Balance} \\
 \text{Plus: Ending Accounts Payable Balance} \\
 \text{Less: Ending Accounts Receivable Balance} \\
 \text{Equals: Approximate Ending Cash Balance}
 \end{array}$$

- b) Amortization Expense – The method and timing of amortization should be based on the Municipality’s amortization policy. Otherwise, an assumption will need to be made and applied consistently throughout the financial plan.

- c) Accumulated Amortization – Will be based on the culmination of accumulated amortization expenses throughout the life of each asset however derived, along with information on construction/acquisition date and useful life obtained from the 2015 Forecast.
- d) Contributed Assets – As noted earlier, contributed assets could represent a significant part of the Municipality’s infrastructure acquisitions. As such, a reasonable estimate of value and timing of acquisition/donation may be required in order to adequately capture these assets. In the case where contributed assets are deemed to be insignificant or unknown, an assumption of “no contributed assets within the forecast period” will be made.
- e) Accumulated Surplus – The magnitude of the surplus in this area may precipitate the need for additional explanation especially in the first year of reporting. This Accumulated Surplus captures the historical infrastructure investment which has not been reported in the past but has accumulated to significant levels. It also includes all water reserve and reserve fund balances.
- f) Other Revenues – Will represent the recognition of revenues previously deferred (i.e. development charge revenues) and/or accrued revenues (developer contributions) and/or other minor miscellaneous revenues.

4. Financial Plan

4.1 Introduction

The following tables provide the complete financial plan for the Municipality's water systems. A brief description and analysis of each table is provided below. It is important to note that the financial plan that follows is a forward look at the financial position of the Municipality's water systems. It is not an audited document¹ and contains various estimates as detailed in the "Notes to the Financial Plan" section below.

4.2 Water Financial Plan

4.2.1 Statement of Financial Position (Table 4-1)

The Statement of Financial Position provides information that describes the assets, liabilities, and accumulated surplus of the Municipality's water systems. The first important indicator is net financial assets/(debt), which is defined as the difference between financial assets and liabilities. This indicator provides an estimation of the system's "future revenue requirement." A net financial asset position is where financial assets are greater than liabilities and implies that the system has the resources to finance future operations. Conversely, a net debt position implies that the future revenues generated by the system will be needed to finance past transactions as well as future operations. Table 4-1 indicates that at the end of 2015, the Municipality's water systems will be in a net debt position of approximately \$4.5 million. After 2015, net debt improves annually, ultimately reaching a net debt position of approximately 1.3 million by 2021.

Another important indicator on the Statement of Financial Position is the tangible capital asset balance. As noted earlier, providing this information is a requirement for municipalities as part of PS3150 compliance and is significant from a financial planning perspective for the following reasons:

- Tangible capital assets such as water mains are imperative to water service delivery;

¹ O.Reg. 453/07 does not require an audited financial plan.

- These assets represent significant economic resources in terms of their historical and replacement costs; therefore, ongoing capital asset management is essential to managing significant replacements and repairs; and
- The annual maintenance required by these assets has an enduring impact on water operational budgets.

In general terms, an increase in the tangible capital asset balance indicates that assets may have been acquired either through purchase by the Municipality or donation/contribution by a third party. A decrease in the tangible capital asset balance can indicate a disposal, write down, or use of assets. A use of assets is usually represented by an increase in accumulated amortization due to annual amortization expenses arising as a result of allocating the cost of the asset to operations over the asset's useful life. Table 4-1 shows tangible capital assets are expected to increase by approximately \$3.3 million over the forecast period. This indicates that the Municipality has plans to invest in tangible capital assets in excess of the anticipated use of existing assets over the forecast period.

4.2.2 Statement of Operations (Table 4-2)

The Statement of Operations summarizes the revenues and expenses generated by the water systems for a given period. The annual surplus/deficit measures whether the revenues generated were sufficient to cover the expenses incurred and, in turn, whether net financial assets have been maintained or depleted. Table 4-2 illustrates the ratio of expenses to revenues, remaining relatively stable over the projection period, increasing from 67% in 2015, to 76% by 2021. As a result, following an anticipated annual surplus of just over \$1.3 million in 2015, the financial plan forecasts annual surpluses for each remaining year of the forecast period, from 2016 to 2021. In 2021, an annual surplus of just under \$940,000 is projected. It is important to note that an annual surplus is beneficial to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments.

Another important indicator on this statement is accumulated surplus/deficit. An accumulated surplus indicates that the available net resources are sufficient to provide future water services. An accumulated deficit indicates that resources are insufficient to provide future services and that borrowing or rate increases are required to finance annual deficits. From Table 4-2, the financial plan proposes to add approximately \$7.4 million to a 2014 accumulated surplus of approximately \$22.5 million over the forecast period. This accumulated surplus, as indicated in Table 4-2, is predominantly made up of reserve and reserve fund balances as well as historical investments in tangible capital assets.

4.2.3 Statement of Change in Net Financial Assets/Debt (Table 4-3)

The Statement of Change in Net Financial Assets/Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (i.e. inventory supplies, prepaid expenses, tangible capital assets, etc.) and in so doing, explains the difference between the annual surplus/deficit and the change in net financial assets/debt for the period. Table 4-3 indicates that in each year of the forecast period (i.e. 2015 to 2021), forecasted annual surplus exceeds forecasted tangible capital asset acquisitions (net of amortization for the year) resulting in annual improvements in net debt. This allows for a long-term plan of funding capital through accumulated surplus (i.e. reserves). This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions ranging from 1.33 to 1.79 over the forecast period.¹

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how water systems are expected to generate and use cash resources during the forecast period. The transactions that provide/use cash are classified as operating, capital, investing and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash and accrual based reporting. Table 4-4 indicates that cash from operations will be used to fund capital transactions (i.e. tangible capital asset acquisitions), make debt principal payments and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the Municipality's water systems, while fluctuating slightly, to increase from approximately \$6.5 million at the end of 2015 to over \$7.2 million by the end of 2021. For further discussions on projected cash balances, please refer to the Notes to the Financial Plan.

¹ A desirable ratio is 1:1 or better.

Table 4-1
Statement of Financial Position: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

	Notes	Forecast						
		2015	2016	2017	2018	2019	2020	2021
Financial Assets								
Cash	1	6,473,317	6,141,160	6,647,450	6,848,406	6,983,736	7,127,694	7,226,301
Accounts Receivable	1	936,859	936,859	936,859	936,859	936,859	936,859	936,859
Total Financial Assets		7,410,176	7,078,019	7,584,309	7,785,265	7,920,595	8,064,553	8,163,160
Liabilities								
Accounts Payable & Accrued Liabilities	1	135,925	140,104	143,465	146,908	150,448	154,068	157,779
Debt (Principal only)	2	11,810,337	11,409,346	10,987,499	10,598,555	10,195,322	9,772,013	9,327,620
Deferred Revenue	3	6,541	14,767	15,058	15,362	15,667	15,974	16,296
Total Liabilities		11,952,803	11,564,217	11,146,022	10,760,825	10,361,437	9,942,055	9,501,695
Net Financial Assets/(Debt)		(4,542,627)	(4,486,198)	(3,561,713)	(2,975,560)	(2,440,842)	(1,877,502)	(1,338,535)
Non-Financial Assets								
Tangible Capital Assets	4	28,357,377	29,380,915	29,509,300	29,954,786	30,415,405	30,824,596	31,225,070
Total Non-Financial Assets		28,357,377	29,380,915	29,509,300	29,954,786	30,415,405	30,824,596	31,225,070
Accumulated Surplus/(Deficit)	5	23,814,750	24,894,717	25,947,587	26,979,226	27,974,563	28,947,094	29,886,535
Financial Indicators								
	Total Change	2015	2016	2017	2018	2019	2020	2021
1) Increase/(Decrease) in Net Financial Assets	4,056,247	852,155	56,429	924,485	586,153	534,718	563,340	538,967
2) Increase/(Decrease) in Tangible Capital Assets	3,323,813	456,120	1,023,538	128,385	445,486	460,619	409,191	400,474
3) Increase/(Decrease) in Accumulated Surplus	7,380,060	1,308,275	1,079,967	1,052,870	1,031,639	995,337	972,531	939,441

Table 4-2
Statement of Operations: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

	Notes	Forecast						
		2015	2016	2017	2018	2019	2020	2021
Water Revenue								
Base Charge Revenue		1,939,076	1,939,076	1,939,076	1,939,076	1,939,076	1,939,076	1,939,076
Rate Based Revenue		1,668,638	1,668,638	1,668,638	1,668,638	1,668,638	1,668,638	1,668,638
Earned Development Charges Revenue	3	181,544	6,541	14,766	15,057	15,361	15,666	15,973
Other Revenue	6	232,828	232,827	232,829	232,829	232,829	232,829	232,830
Total Revenues		4,022,086	3,847,082	3,855,309	3,855,600	3,855,904	3,856,209	3,856,517
Water Expenses								
Operating Expenses	Sch. 4-1	1,493,043	1,538,952	1,575,865	1,613,686	1,652,569	1,692,329	1,733,093
Interest on Debt	2	597,910	578,105	557,249	536,761	517,617	497,540	476,457
Amortization	4	622,858	650,058	669,325	673,514	690,381	693,809	707,526
Total Expenses		2,713,811	2,767,115	2,802,439	2,823,961	2,860,567	2,883,678	2,917,076
Annual Surplus/(Deficit)		1,308,275	1,079,967	1,052,870	1,031,639	995,337	972,531	939,441
Accumulated Surplus/(Deficit), beginning of year	5	22,506,475	23,814,750	24,894,717	25,947,587	26,979,226	27,974,563	28,947,094
Accumulated Surplus/(Deficit), end of year		23,814,750	24,894,717	25,947,587	26,979,226	27,974,563	28,947,094	29,886,535

Note 5:

Accumulated Surplus/(Deficit) Reconciliation:		2015	2016	2017	2018	2019	2020	2021
Reserve Balances								
Reserves: Development Charges		6,541	14,767	15,058	15,362	15,667	15,974	16,296
Reserves: Capital/Other		7,267,709	6,923,148	7,425,786	7,622,995	7,754,480	7,894,511	7,989,085
Total Reserves Balance		7,274,250	6,937,915	7,440,844	7,638,357	7,770,147	7,910,485	8,005,381
Less: Debt Obligations and Deferred Revenue		(11,816,877)	(11,424,113)	(11,002,557)	(10,613,917)	(10,210,989)	(9,787,987)	(9,343,916)
Add: Tangible Capital Assets	4	28,357,377	29,380,915	29,509,300	29,954,786	30,415,405	30,824,596	31,225,070
Total Ending Balance		23,814,750	24,894,717	25,947,587	26,979,226	27,974,563	28,947,094	29,886,535

Financial Indicators	Total Change	2015	2016	2017	2018	2019	2020	2021
1) Expense to Revenue Ratio		67%	72%	73%	73%	74%	75%	76%
2) Increase/(Decrease) in Accumulated Surplus	7,380,060	1,308,275	1,079,967	1,052,870	1,031,639	995,337	972,531	939,441

Schedule 4-1
Statement of Operating Expenses: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

	Notes	Forecast						
		2015	2016	2017	2018	2019	2020	2021
Operating Expenses								
Contracted Services		100,000	102,000	104,040	106,120	108,240	110,400	112,610
Repair and Maintenance		164,440	167,730	171,080	174,500	177,990	181,550	185,180
Purchase of Water		586,807	614,602	633,035	652,006	671,649	691,799	712,553
Vehicle Repairs & Maintenance		22,279	22,720	23,170	23,630	24,100	24,580	25,070
Utilities		60,000	61,200	62,420	63,670	64,940	66,240	67,560
Insurance		18,570	18,940	19,320	19,710	20,100	20,500	20,910
Supplies and Service		66,306	67,630	68,980	70,360	71,770	73,210	74,670
Safety Clothing/Equipment/Uniforms		4,500	4,590	4,680	4,770	4,870	4,970	5,070
Lab Testing/Sampling		14,500	14,790	15,090	15,390	15,700	16,010	16,330
Training/Conferences/Memberships		12,500	12,750	13,010	13,270	13,540	13,810	14,090
Wages and Benefits		443,141	452,000	461,040	470,260	479,670	489,260	499,050
Non TCA - Expenses from Capital Budget	7	-	-	-	-	-	-	-
TOTAL OPERATING EXPENSES		1,493,043	1,538,952	1,575,865	1,613,686	1,652,569	1,692,329	1,733,093

Table 4-3
Statement of Changes in Net Financial Assets/Debt: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

	Notes	Forecast						
		2015	2016	2017	2018	2019	2020	2021
Annual Surplus/(Deficit)		1,308,275	1,079,967	1,052,870	1,031,639	995,337	972,531	939,441
Less: Acquisition of Tangible Capital Assets	4	(1,078,978)	(1,673,596)	(797,710)	(1,119,000)	(1,151,000)	(1,103,000)	(1,108,000)
Add: Amortization of Tangible Capital Assets	4	622,858	650,058	669,325	673,514	690,381	693,809	707,526
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-
		(456,120)	(1,023,538)	(128,385)	(445,486)	(460,619)	(409,191)	(400,474)
Increase/(Decrease) in Net Financial Assets/(Net Debt)		852,155	56,429	924,485	586,153	534,718	563,340	538,967
Net Financial Assets/(Net Debt), beginning of year		(5,394,782)	(4,542,627)	(4,486,198)	(3,561,713)	(2,975,560)	(2,440,842)	(1,877,502)
Net Financial Assets/(Net Debt), end of year		(4,542,627)	(4,486,198)	(3,561,713)	(2,975,560)	(2,440,842)	(1,877,502)	(1,338,535)

Financial Indicators	2015	2016	2017	2018	2019	2020	2021
1) Acquisition of Tangible Capital Assets (Cumulative)	1,078,978	2,752,574	3,550,284	4,669,284	5,820,284	6,923,284	8,031,284
2) Annual Surplus/Deficit before Amortization (Cumulative)	1,931,133	3,661,158	5,383,353	7,088,506	8,774,224	10,440,564	12,087,531
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)	1.79	1.33	1.52	1.52	1.51	1.51	1.51

Table 4-4
Statement of Cash Flow – Indirect Method: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

	Notes	Forecast						
		2015	2016	2017	2018	2019	2020	2021
Operating Transactions								
Annual Surplus/Deficit		1,308,275	1,079,967	1,052,870	1,031,639	995,337	972,531	939,441
Add: Amortization of TCA's	4	622,858	650,058	669,325	673,514	690,381	693,809	707,526
Less: Earned Deferred Revenue	3	(181,544)	(6,541)	(14,766)	(15,057)	(15,361)	(15,666)	(15,973)
Add: Deferred Revenue Proceeds		6,541	14,766	15,057	15,361	15,666	15,973	16,295
Change in A/R (Increase)/Decrease		(23,832)	-	-	-	-	-	-
Change in A/P Increase/(Decrease)		4,235	4,180	3,361	3,443	3,540	3,620	3,711
Cash Provided by Operating Transactions		1,736,533	1,742,430	1,725,847	1,708,900	1,689,563	1,670,267	1,651,000
Capital Transactions								
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(1,078,978)	(1,673,596)	(797,710)	(1,119,000)	(1,151,000)	(1,103,000)	(1,108,000)
Cash Applied to Capital Transactions		(1,078,978)	(1,673,596)	(797,710)	(1,119,000)	(1,151,000)	(1,103,000)	(1,108,000)
Financing Transactions								
Proceeds from Debt Issue	2	-	-	-	-	-	-	-
Less: Debt Repayment (Principal only)	2	(381,184)	(400,991)	(421,847)	(388,944)	(403,233)	(423,309)	(444,393)
Cash Applied to Financing Transactions		(381,184)	(400,991)	(421,847)	(388,944)	(403,233)	(423,309)	(444,393)
Increase in Cash and Cash Equivalents		276,371	(332,157)	506,290	200,956	135,330	143,958	98,607
Cash and Cash Equivalents, beginning of year	1	6,196,946	6,473,317	6,141,160	6,647,450	6,848,406	6,983,736	7,127,694
Cash and Cash Equivalents, end of year	1	6,473,317	6,141,160	6,647,450	6,848,406	6,983,736	7,127,694	7,226,301

Water Notes to Financial Plan

The financial plan format, as outlined in Chapter 4, closely approximates the full accrual format used by municipalities (2009 onward) on their audited financial statements. The financial plan, however, is not an audited document and contains various estimates. In this regard, Section 3 (2) of O.Reg. 453/07 states the following:

“Each of the following sub-subparagraphs applies only if the information referred to in the sub-subparagraph is known to the owner at the time the financial plans are prepared:

1. Sub-subparagraphs 4 i A, B and C of subsection (1)
2. Sub-subparagraphs 4 iii A, C, E and F of subsection (1).”

The information referred to in sub-subparagraphs 4 i A, B and C of subsection (1) includes:

- A. Total financial assets (i.e. cash and receivables);
- B. Total liabilities (i.e. payables, debt and deferred revenue); and
- C. Net debt (i.e. the difference between A and B above).

The information referred to in sub-subparagraphs 4 iii A, C, E and F of subsection (1) includes:

- A. Operating transactions that are cash received from revenues, cash paid for operating expenses and finance charges;
- B. Investing transactions that are acquisitions and disposal of investments;
- C. Change in cash and cash equivalents during the year; and
- D. Cash and cash equivalents at the beginning and end of the year.

In order to show a balanced financial plan in a full accrual format for the Municipality of South Huron, some of the items listed above have been estimated given that the Municipality does not maintain all financial asset and liability data separately for water. Usually, this type of data is combined with the financial assets and liabilities of other departments and services given that there is not a current obligation to disclose this data separately (as there is with revenue and expenses). The assumptions used have been documented below:

1. Cash, Receivables and Payables

It is assumed that the opening cash balances required to complete the financial plan are equal to:

Ending Reserve/Reserve Fund Balance
 Plus: Ending Accounts Payable Balance
Less: Ending Accounts Receivable Balance
 Equals: Approximate Ending Cash Balance

Receivable and payable balances were estimated for each year of the forecast based on the following factors:

- a) Receivables: Based on historical levels of water receivables and accrued receivables as a percentage of annual revenues, applied to projected water revenues (source: Municipality staff);
- b) Payables: Based on historical levels of water payables as a percentage of annual expenses incurred, applied to projected water expenses (source: Municipal staff).

2. Debt

Outstanding water related debt at the end of 2014 was \$12,191,512 with no additional debt proceeds anticipated throughout the forecast period. Principal repayments over the forecast period are estimated as follows:

Year	Principal Payments
2015	381,184
2016	400,991
2017	421,847
2018	388,944
2019	403,233
2020	423,309
2021	444,393
Total	\$ 2,863,901

For financial reporting purposes, debt principal payments represent a decrease in debt liability and the interest payments represent a current year operating expense.

3. Deferred Revenue

Deferred revenue is made up of water development charge reserve fund balances which are considered to be a liability for financial reporting purposes until the funds are used to emplace the works for which they have been collected.

4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water-related assets in the following categories:
 - i. Infrastructure;
 - ii. Vehicles;
 - iii. Water Meters;
 - iv. Equipment; and
 - v. Land.
- 2015 opening balances for tangible capital assets are reported in accordance with Schedule 51 of the 2014 Financial Information Return.
- Construction-in-Progress as of the end of 2014 is assumed to be brought into service in 2015.
- Amortization is calculated based on the straight-line approach.
- Given the planned asset replacement forecast in the 2015 Forecast, useful life on acquisitions is assumed to be equal to typical values assigned by the Municipality for each asset category.
- Write-offs are assumed to equal \$0 for each year in the forecast period.
- Tangible capital assets are shown on a net basis. It is assumed that disposals occur when the asset is being replaced, unless the asset is documented as a new asset. The value of each asset disposal is calculated by estimating the original purchase/construction date and deflating current replacement cost values to those estimated dates in order to calculate original historical cost.
- Gains/losses on disposals are assumed to be \$0 (it is assumed that historical cost is equal to accumulated amortization for all disposals).
- Residual value is assumed to be \$0 for all assets contained within the forecast period.
- Contributed Assets, as described in subsection 3.2.1, are shown as Developer Contributions, a revenue, on the Statement of Operations in the year of contribution, if applicable.

- The Municipality is unaware of any specific lead service piping in the Municipality's water systems.

The balance of tangible capital assets is summarized as follows:

Asset Historical Cost	2015	2016	2017	2018	2019	2020	2021
Opening Tangible Capital Asset Balance	39,449,281	40,426,616	41,986,875	42,664,832	43,695,549	44,729,349	45,737,674
Acquisitions	1,078,978	1,673,596	797,710	1,119,000	1,151,000	1,103,000	1,108,000
Disposals	101,643	113,337	119,753	88,283	117,200	94,675	97,945
Closing Tangible Capital Asset Balance	40,426,616	41,986,875	42,664,832	43,695,549	44,729,349	45,737,674	46,747,729
Opening Accumulated Amortization	11,548,024	12,069,239	12,605,960	13,155,532	13,740,763	14,313,944	14,913,078
Amortization Expense	622,858	650,058	669,325	673,514	690,381	693,809	707,526
Amortization on Disposal	101,643	113,337	119,753	88,283	117,200	94,675	97,945
Ending Accumulated Amortization	12,069,239	12,605,960	13,155,532	13,740,763	14,313,944	14,913,078	15,522,659
Net Book Value	28,357,377	29,380,915	29,509,300	29,954,786	30,415,405	30,824,596	31,225,070

5. Accumulated Surplus

Opening accumulated surplus for the forecast period is reconciled as follows:

Water	2015 Opening Accumulated Surplus
Reserve Balances	
Reserves: Development Charges	181,544
Reserves: Capital/Other	6,796,739
Total Reserves Balance	6,978,283
Less: Debt Obligations and Deferred Revenue	(12,373,065)
Add: Tangible Capital Assets	27,901,257
Total Opening Balance	22,506,475

The accumulated surplus reconciliation for all years within the forecast period is contained in Table 4-2.

6. Other Revenue

Other revenue includes rebill/miscellaneous charges, Huron Park taxation revenue, as well as other non-operating general revenues.

7. Operating Expenses

Capital expenditures for items not meeting the definition of tangible capital assets have been reclassified as operating expenses and have been expensed in the year in which they occur.

5. Process for Financial Plan Approval and Submission to the Province

As mentioned in Section 1.2, the requirement to prepare the financial plan is provided in Section 32 (5) 2 ii of the S.D.W.A. Proof of the preparation of a financial plan is one of the submission requirements for municipal drinking water licensing and, upon completion, must be submitted to the Ministry of the Environment. As part of O.Reg. 453/07, the process established for plan approval, public circulation and filing is set out as follows:

1. The financial plan must be approved by resolution of the municipality who owns the drinking water systems or the governing body of the owner. (O.Reg. 453/07, Section 3 (1) 1)
2. The owner of the drinking water systems must provide notice advertising the availability of the financial plan. The plans will be made available to the public upon request and without charge. The plans must also be made available to the public on the municipality's website. (O.Reg. 453/07, Section 3 (1) 5)
3. The owner of the drinking water systems must provide a copy of the financial plan to the Director of Policy Branch, Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3 (1) 6)
4. The owner of the drinking water systems must provide proof satisfactory to the Ministry of the Environment that the financial plans for the system satisfy the requirements under the Safe Drinking Water Act. (S.D.W.A. Section 32 (5) 2 ii)

6. Recommendations

This report presents the water financial plan for the Municipality of South Huron in accordance with the mandatory reporting formats for water systems as detailed in O.Reg. 453/07. It is important to note that, while mandatory, the financial plan is provided for Council's interest and approval; however, for decision making purposes, it may be more informative to rely on the information contained within the 2015 Forecast. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Municipality of South Huron Water Financial Plan prepared by Watson & Associates Economists Ltd. dated December 14, 2015 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan and the Council Resolution approving the Financial Plan be submitted to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3 (1) 6).
4. The Financial Plan and the Council Resolution approving the Financial Plan be submitted to the Ministry of the Environment, satisfying the requirements under the Safe Drinking Water Act. (S.D.W.A. Section 32 (5) 2 ii)).

Appendix A – 2015 Forecast – Water Summary Tables

Table A-1
Municipality of South Huron
Water Service
Capital Budget Forecast
 Inflated \$

Description	Total	2015	2016	2017	2018	2019	2020	2021
Capital Expenditures								
Exeter Water:								
Huron Street (Main St to Marlborough St)	18,202	18,202	-	-	-	-	-	-
Carling St from Anne St to Huron St reconstruction (120m)	2,380	2,380	-	-	-	-	-	-
Meter Replacement Program	399,000	54,000	55,000	56,000	57,000	58,000	59,000	60,000
Acheson St Reconstruction from Huron to Mill St	36,217	36,217	-	-	-	-	-	-
Orchard St Reconstruction (Thames Rd to Riverside Dr)	340,958	285,958	55,000	-	-	-	-	-
George St (Orchard to Devon Dr) - watermain only project	83,921	79,721	4,200	-	-	-	-	-
New 5D Utility Tractor (Shared cost with Sewers)	32,500	32,500	-	-	-	-	-	-
New Utility Dump Trailer	7,500	7,500	-	-	-	-	-	-
James St (Andrew St to Edward St)	202,500	17,500	185,000	-	-	-	-	-
Senior St (Sanders St E to Gidley) - watermain only project	240,000	20,000	220,000	-	-	-	-	-
McNaughton Park Dam Repairs	110,000	110,000	-	-	-	-	-	-
George St (Main St to Orchard) - watermain only project	115,000	-	15,000	100,000	-	-	-	-
Simcoe St (Andrew St to Main St)	125,000	-	15,000	110,000	-	-	-	-
William St from Anne to Huron St (Watermain only, no sewer on this block)	125,000	-	15,000	110,000	-	-	-	-
John St Reconstruction (Main St to Albert St)	193,106	-	182,396	10,710	-	-	-	-
Replace #095 - 2006 Ford F150 XL pickup truck	35,000	-	35,000	-	-	-	-	-
Replace #101 - 2007 GMC 4x4 Silverado pickup truck	35,000	-	-	35,000	-	-	-	-
Huron Street from Edward St to East town limit (680m)	670,000	-	70,000	-	600,000	-	-	-
Victoria St E - Main to Arena - reconstruction (235m)	240,000	-	-	20,000	-	220,000	-	-
William St from Neslon St to Church St - reconstruction (270m)	285,000	-	-	25,000	-	260,000	-	-
William St from Anne St to Sanders St - reconstruction (300m)	280,000	-	-	-	-	280,000	-	-
Church St from William to Main St (120m)	120,000	-	10,000	-	110,000	-	-	-
Thomas St from Marlborough to Carling St (210m)	220,000	-	-	-	20,000	-	200,000	-
Provision for 2020 and 2021	1,223,000						510,000	713,000
Total Exeter Water	5,139,284	663,978	861,596	466,710	787,000	818,000	769,000	773,000
Stephen Water:								
Meter Replacement Program (metric)	399,000	54,000	55,000	56,000	57,000	58,000	59,000	60,000
Dashwood Fire Protection Upgrades	336,000	336,000	-	-	-	-	-	-
Shipka Line (South Road to north of Mount Carmel Drive)	300,000	25,000	275,000	-	-	-	-	-
Installation 250mm watermain Bline-POG	482,000	-	482,000	-	-	-	-	-
Engineering for 100mm watermain replacements	125,000	-	-	25,000	25,000	25,000	25,000	25,000
Replace 100mm WM	1,250,000	-	-	250,000	250,000	250,000	250,000	250,000
Total Stephen Water	2,892,000	415,000	812,000	331,000	332,000	333,000	334,000	335,000
Total Capital Expenditures	8,031,284	1,078,978	1,673,596	797,710	1,119,000	1,151,000	1,103,000	1,108,000
Capital Financing								
Provincial/Federal Grants	-	-	-	-	-	-	-	-
Development Charges Reserve Fund	-	-	-	-	-	-	-	-
Non-Growth Related Debenture Requirements	-	-	-	-	-	-	-	-
Growth Related Debenture Requirements	-	-	-	-	-	-	-	-
Operating Contributions	1,078,978	1,078,978	-	-	-	-	-	-
Water Reserve	6,952,306	-	1,673,596	797,710	1,119,000	1,151,000	1,103,000	1,108,000
Total Capital Financing	8,031,284	1,078,978	1,673,596	797,710	1,119,000	1,151,000	1,103,000	1,108,000

Table A-2
Municipality of South Huron
Water Service
Schedule of Non-Growth Related Debenture Repayments
 Inflated \$

Debenture Year	Principal (Inflated)	2015	2016	2017	2018	2019	2020	2021
		2015	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	
2017	-	-	-	-	-	-	-	
2018	-	-	-	-	-	-	-	
2019	-	-	-	-	-	-	-	
2020	-	-	-	-	-	-	-	
Total Annual Debt Charges	-	-	-	-	-	-	-	

Table A-3
Municipality of South Huron
Water Service
Schedule of Growth Related Debenture Repayments
 Inflated \$

Debenture Year	Principal (Inflated)	2015	2016	2017	2018	2019	2020	2021
		2015	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	
2017	-	-	-	-	-	-	-	
2018	-	-	-	-	-	-	-	
2019	-	-	-	-	-	-	-	
2020	-	-	-	-	-	-	-	
Total Annual Debt Charges	-	-	-	-	-	-	-	

Table A-4
Municipality of South Huron
Water Service
Water Capital Replacement Reserve Continuity
 Inflated \$

Description	2015	2016	2017	2018	2019	2020	2021
Opening Balance	2,895,167	3,695,167	3,350,606	3,853,243	4,050,452	4,181,938	4,321,968
Transfer from Operating	800,000	1,329,035	1,300,348	1,316,209	1,282,485	1,243,031	1,202,574
Transfer to Capital	-	1,673,596	797,710	1,119,000	1,151,000	1,103,000	1,108,000
Transfer to Operating	-	-	-	-	-	-	-
Closing Balance	3,695,167	3,350,606	3,853,243	4,050,452	4,181,938	4,321,968	4,416,542
Interest	-	-	-	-	-	-	-

Table A-5
Municipality of South Huron
Water Service
Water Rate Stabilization Reserve Continuity
 Inflated \$

Description	2015	2016	2017	2018	2019	2020	2021
Opening Balance	3,791,479	3,462,449	3,462,449	3,462,449	3,462,449	3,462,449	3,462,449
Transfer from Operating	-	-	-	-	-	-	-
Transfer to Capital	-	-	-	-	-	-	-
Transfer to Operating	329,030	-	-	-	-	-	-
Closing Balance	3,462,449	3,462,449	3,462,449	3,462,449	3,462,449	3,462,449	3,462,449
Interest	-	-	-	-	-	-	-

Table A-6
Municipality of South Huron
Water Service
Stephen Water Reserve
 Inflated \$

Description	2015	2016	2017	2018	2019	2020	2021
Opening Balance	110,093	110,093	110,093	110,093	110,093	110,093	110,093
Transfer from Operating	-	-	-	-	-	-	-
Transfer to Capital	-	-	-	-	-	-	-
Transfer to Operating	-	-	-	-	-	-	-
Closing Balance	110,093	110,093	110,093	110,093	110,093	110,093	110,093
Interest	-	-	-	-	-	-	-

Table A-7
Municipality of South Huron
Water Service
Water Development Charges Reserve Fund Continuity
 Inflated \$

Description	2015	2016	2017	2018	2019	2020	2021
Opening Balance	181,544	6,541	14,766	15,057	15,361	15,666	15,973
Development Charge Proceeds	6,350	14,336	14,618	14,914	15,210	15,508	15,820
Transfer to Capital							
Transfer to Operating	181,544	6,541	14,766	15,057	15,361	15,666	15,973
Closing Balance	6,350	14,336	14,618	14,914	15,210	15,508	15,820
Interest	191	430	439	447	456	465	475
Required from Development Charges	-	-	-	-	-	-	-

Table A-8
Municipality of South Huron
Water Services
Operating Budget Forecast
 Inflated \$

Description	2015	2016	2017	2018	2019	2020	2021
Operating Expenses							
Contracted Services	100,000	102,000	104,040	106,120	108,240	110,400	112,610
Repair and Maintenance	164,440	167,730	171,080	174,500	177,990	181,550	185,180
Purchase of Water	586,807	614,602	633,035	652,006	671,649	691,799	712,553
Vehicle Repairs & Maintenance	22,279	22,720	23,170	23,630	24,100	24,580	25,070
Utilities	60,000	61,200	62,420	63,670	64,940	66,240	67,560
Insurance	18,570	18,940	19,320	19,710	20,100	20,500	20,910
Supplies and Service	66,306	67,630	68,980	70,360	71,770	73,210	74,670
Safety Clothing/Equipment/Uniforms	4,500	4,590	4,680	4,770	4,870	4,970	5,070
Lab Testing/Sampling	14,500	14,790	15,090	15,390	15,700	16,010	16,330
Training/Conferences/Memberships	12,500	12,750	13,010	13,270	13,540	13,810	14,090
Wages and Benefits	443,141	452,000	461,040	470,260	479,670	489,260	499,050
Sub Total Operating	1,493,043	1,538,952	1,575,865	1,613,686	1,652,569	1,692,329	1,733,093
Capital-Related							
Existing Debt (Principal) - Exeter Water	49,115	52,415	55,937	4,829	-	-	-
Existing Debt (Interest) - Exeter Water	9,131	5,831	2,310	26	-	-	-
Existing Debt (Principal) - Huron Park Water	29,203	30,643	32,153	33,738	35,401	37,146	38,977
Existing Debt (Interest) - Huron Park Water	105,342	103,903	102,393	100,808	99,145	97,400	95,569
Existing Debt (Principal) - Exeter Water	14,626	15,043	15,471	15,912	16,366	16,832	17,312
Existing Debt (Interest) - Exeter Water	4,341	3,924	3,496	3,055	2,601	2,135	1,655
Existing Debt (Principal) - Exeter-Hensall Pipeline	288,239	302,890	318,286	334,465	351,465	369,330	388,104
Existing Debt (Interest) - Exeter-Hensall Pipeline	479,096	464,446	449,050	432,872	415,871	398,006	379,233
Transfer to Capital	1,078,978	-	-	-	-	-	-
Transfer to Capital Replacement Reserve	800,000	1,329,035	1,300,348	1,316,209	1,282,485	1,243,031	1,202,574
Sub Total Capital Related	2,858,072	2,308,131	2,279,444	2,241,913	2,203,335	2,163,880	2,123,423
Total Expenditures	4,351,115	3,847,083	3,855,308	3,855,599	3,855,904	3,856,209	3,856,516
Revenues							
Base Charge - Exeter	605,256	605,256	605,256	605,256	605,256	605,256	605,256
Base Charge - Stephen	494,578	494,578	494,578	494,578	494,578	494,578	494,578
Exeter Hensal Pipeline Charge - Exeter	800,143	800,143	800,143	800,143	800,143	800,143	800,143
Exeter Hensal Pipeline Charge - Stephen	39,099	39,099	39,099	39,099	39,099	39,099	39,099
Utility Penalty Revenue	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Rebill/Misc Charges Revenue	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Huron Park Taxation Revenue	134,828	134,828	134,828	134,828	134,828	134,828	134,828
Contributions from Development Charges Reserve Fund	181,544	6,541	14,766	15,057	15,361	15,666	15,973
Contributions from Reserves / Reserve Funds	329,030	-	-	-	-	-	-
Total Operating Revenue	2,682,477	2,178,445	2,186,670	2,186,961	2,187,265	2,187,570	2,187,877
Total Consumption Revenue	1,668,638	1,668,638	1,668,638	1,668,638	1,668,638	1,668,638	1,668,638
Total Revenues	4,351,115	3,847,083	3,855,308	3,855,599	3,855,904	3,856,209	3,856,516