



Water Ontario Regulation 453/07

Financial Plan

Municipality of South Huron

Financial Plan #054-301

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Watson & Associates Economists Ltd.
905-272-3600
info@watsonecon.ca

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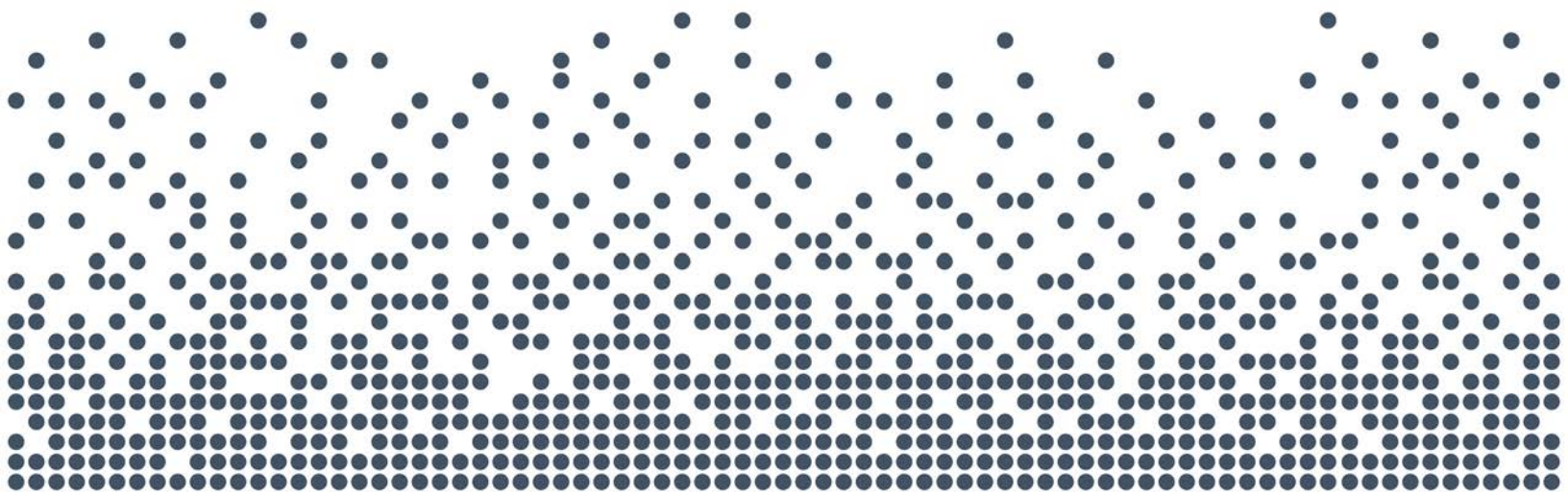
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List of Acronyms and Abbreviations

Acronym	Full Description of Acronym
D.C.	Development Charges
MECP	Ministry of the Environment, Conservation and Parks
MMAH	Ministry of Municipal Affairs and Housing
O.Reg.	Ontario Regulation
PSAB	Public Sector Accounting Board
S.D.W.A.	Safe Drinking Water Act
T.C.A.	Tangible Capital Assets



Report



Chapter 1

Introduction



1. Introduction

1.1 Study Purpose

The Municipality of South Huron (the Municipality) retained Watson & Associates Economists Ltd. (Watson) 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 in-depth analysis of capital and operating needs, a review of current and future demand versus supply, and consideration of available funding sources. The detailed financial planning and forecasting in regards to the Municipality's water systems has already been completed and documented by Watson within the "Municipality of South Huron 2019 Water and Wastewater Rate Study", dated April 8, 2019 (2019 Rate Study). The objective of the report provided herein is to convert the findings of the 2019 Rate Study 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.), "the Act", was passed in December, 2002 in order to address the recommendations made by the Walkerton Inquiry Part II report. Note that S.D.W.A. has been amended several times since 2002. 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.
5. Obtain permit to take water.

For licence renewals, the application must be accompanied by proof that the financial plan meets the prescribed requirements as per the Act s. 32(5)2.ii.

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

1.2.1 Financial Plan Defined

Subsection 30 of the Act provides the following definition of financial plans:

"financial plans" means financial plans that satisfy the requirements prescribed by the Minister. 2017, c. 2, Sched. 11, s. 6 (3).

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

1.2.2 Financial Plan Requirements – Existing System

The O.Reg. 453/07 provides details with regards to the financial plans for existing water systems. The requirements for existing systems are summarized as follows:

- Financial plans must be approved by resolution of Council (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 PSAB) 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 PSAB) 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 PSAB) 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 plan is to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.3 Financial Plan Requirements - General

Given that the requirements for a financial plan is legislated under the Act, a financial plan is mandatory for water systems. The financial plans shall be for a forecast period of at least six years but longer planning horizons are encouraged. The 14-year forecast goes above and beyond the minimum requirement. The financial plan is to be completed and approved by resolution of Council or the governing body in accordance with subsection 3(1)1. of O. Reg. 453/07. Confirmation of approval of the financial plan must be submitted at the time of municipal drinking water license renewal (i.e. six months prior to license expiry). Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary.



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

1.2.4 Public Sector Accounting Board (PSAB) 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 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.”

The format required is to conform to the requirements of PS1200 and PS3150. The financial statements are to be reported on a full accrual accounting basis. 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.

The accounting treatment of tangible capital assets is prescribed under section PS3150. Tangible capital assets are to be capitalized to ensure an inventory of the assets owned are recorded and to account for their ability to provide future benefits.

The Statement of Cash Flow and the Statement of Change in Net Financial Assets/Debt are required statements. 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. 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.



Chapter 2

Sustainable Financial Planning



2. Sustainable Financial Planning

2.1 Introduction

In general, sustainability refers to the ability to maintain a certain position over time. While the Act requires a declaration of the financial plan's sustainability, it does not give a clear definition of what would be considered sustainable. Instead, MECP 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: Life-cycle 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; create opportunities for economic development and clean-technology jobs; and 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 stormwater.

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 in 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 Infrastructure for Jobs and Prosperity Act (I.J.P.A.), 2015

On June 4, 2015, the Province passed the Infrastructure for Jobs and Prosperity Act (I.J.P.A.) which, over time, will require municipalities to undertake and implement asset management plans for all infrastructure they own. On December 27, 2017, the Province of Ontario released Ontario Regulation 588/17 under I.J.P.A. which has 3 phases that municipalities must meet.

Every municipality in Ontario will have to prepare a strategic asset management policy by July 1, 2019. Municipalities will be required to review their strategic asset management policies at least every five years and make updates as necessary. The subsequent phases are as follows:

- Phase 1 – Asset Management Plan (by July 1, 2021):
 - For core assets – Municipalities must have the following:
 - Inventory of assets;
 - Current levels of service measured by standard metrics; and
 - Costs to maintain levels of service.
- Phase 2 – Asset Management Plan (by July 1, 2023):
 - Same steps as Phase 1 but for all assets.



- Phase 3 – Asset Management Plan (by July 1, 2024):
 - Builds on Phase 1 and 2 by adding:
 - Proposed levels of service; and
 - Lifecycle management and Financial strategy.

In relation to water (which is considered a core asset), municipalities will need to have an asset management plan that addresses the related infrastructure by July 1, 2021 (Phase 1). O.Reg. 588/17 specifies that the municipality's asset management plan must include the following for each asset category:

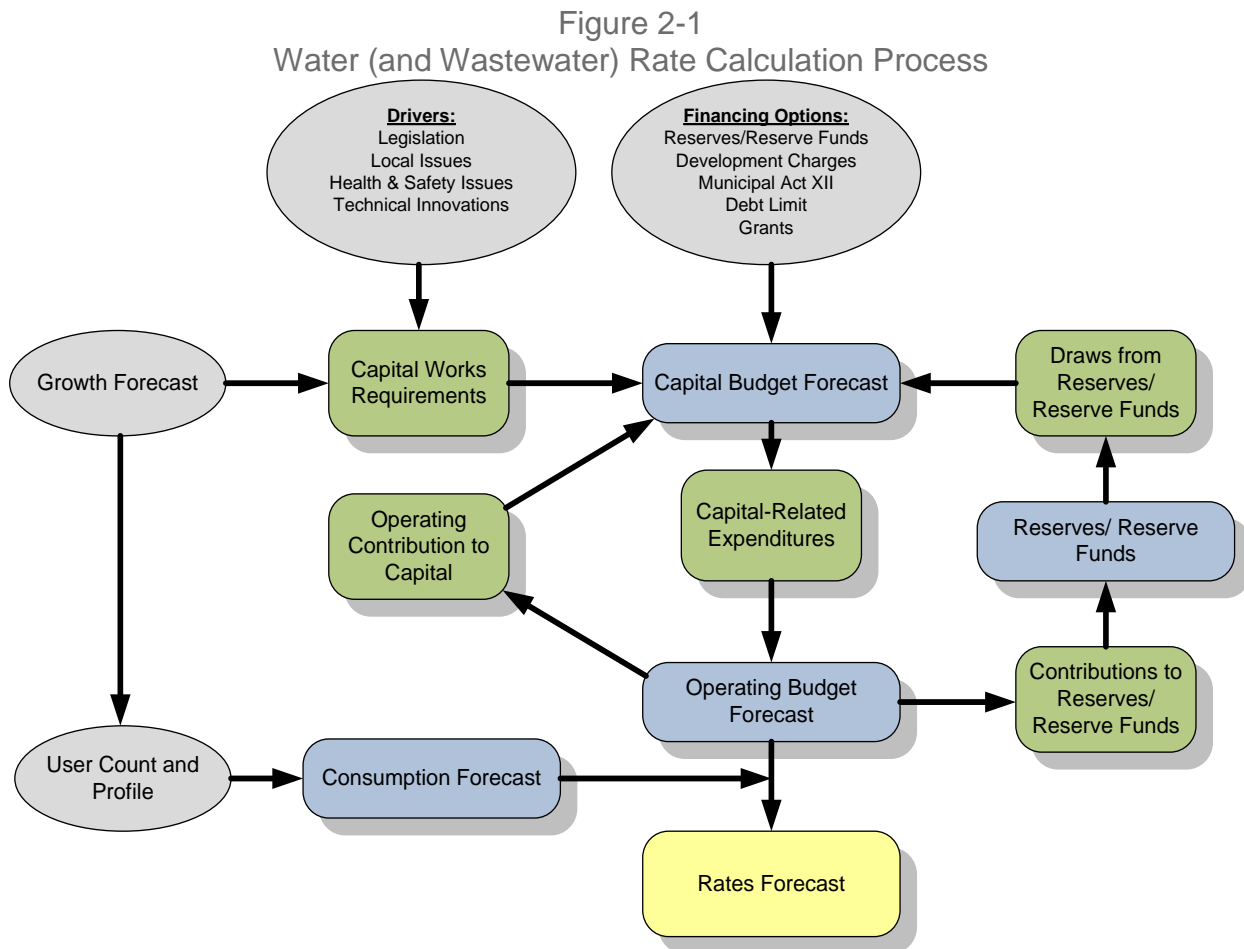
- the current levels of service being provided;
 - determined in accordance with the following qualitative descriptions and technical metrics and based on data from at most the two calendar years prior to the year in which all information required under this section is included in the asset management plan.
- the current performance of each asset category;
- a summary of the assets in the category;
- the replacement cost of the assets in the category;
- the average age of the assets in the category, determined by assessing the average age of the components of the assets;
- the information available on the condition of the assets in the category;
- a description of the municipality's approach to assessing the condition of the assets in the category, based on recognized and generally accepted good engineering practices where appropriate; and
- the lifecycle activities that would need to be undertaken to maintain the current levels of service.

Upon completion of the asset management plan for water, the Municipality will need to consider the impacts during the annual Water Budget and Business Plan process.



2.5 2019 Water and Wastewater Rate Study

As noted above, Watson has already completed extensive financial planning as documented in the 2019 Rate Study conducted on behalf of the Municipality. The study process was designed to address “full cost” principles and reflect the guiding principles toward sustainable financial planning. Figure 2-1 below summarizes the process.



As a result of employing this process, the 2019 Rate Study provides a sound financial plan for the Municipality’s water 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 City 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.
- The details of the financial plan arising from the 2019 Rate Study are contained in Appendix A.



Chapter 3

Approach



3. Approach

3.1 Overview

The 2019 Rate Study 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
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 by the Municipality for the purposes of their annual PSAB 3150 compliance process. Given the prospective nature of the 2019 Rate Study, 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.
- Disposals and related gains or losses for each year of forecast period.

Future water capital needs have also been determined and summarized within the 2019 Rate Study. However, these estimates only represent future assets that the Municipality anticipates purchasing or constructing without consideration for future assets that are contributed by developers and other parties (at no or partial cost to the Municipality). These contributed assets will form part of the infrastructure going forward in terms of the sustainability of the system and despite their non-monetary nature; future financial plans 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

A wide range of adjustments will be considered, dependent on the size and complexity of the system, in order to convert from the cash to full accrual basis. For example, debt repayment costs relating to the principal payment portion only needs to be removed under the accrual basis, as they no longer qualify as an expense for reporting purposes. Principal payments are reported as a decrease in debt liability on the Statement of Financial Position. Transfers to and from reserves are removed as these transactions are represented by changes in cash and accumulated surplus. Finally, expenses relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets are 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 and therefore are added in under the accrual basis.



**Table 3-1
Conversion Adjustments
Statement of Operations**

Modified Cash Basis	Budget 2019	Adjustments		Full Accrual Budget 2019	Accrual Basis
		DR	CR		
Revenues					Revenues
Base Charge Revenue	1,255,143			1,255,143	Base Charge Revenue
Rate Based Revenue	1,786,602			1,786,602	Rate Based Revenue
Transfers from Reserves	-	-			
			21,086	21,086	Earned Development Charges and Gas Tax Revenue
			-	-	Developer Contributions
Other Revenue	967,803		79,107	1,046,910	Other Revenue
Total Revenues	4,009,548			4,109,741	Total Revenues
Expenditures					Expenses
Operating	1,685,956	-		1,685,956	Operating Expenses
Capital					
Transfers to Reserves	1,423,829		1,423,829		
Transfers to Capital	-		-		
Debt Repayment (Principal & Interest)	920,849		403,233	517,617	Interest on Debt
		650,214		650,214	Amortization
		-		-	Loss on Disposal of Tangible Capital Assets
Total Expenditures	4,030,634			2,853,787	Total Expenses
Net Expenditures	(21,086)			1,255,954	Annual Surplus/(Deficit)
Increase (decrease) in amounts to be recovered	-			24,248,448	Accumulated Surplus/(Deficit), beginning of year
Change in Fund Balances	-	1,255,954	-	25,504,402	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		1,906,168	1,927,255		



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). The opening/actual balances for the remaining accounts such as accounts receivable, inventory, accounts payable, 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 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, 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.



**Table 3-2
Conversion Adjustments
Statement of Financial Position**

Modified Cash Basis	Budget 2019	Adjustments		Full Accrual Budget 2019	Accrual Basis
		DR	CR		
ASSETS					ASSETS
Financial Assets					Financial Assets
Cash	7,506,795			7,506,795	Cash
Accounts Receivable	776,196			776,196	Accounts Receivable
				-	Investments
				-	Inventory for resale
Total Financial Assets	8,282,991			8,282,991	Total Financial Assets
Non-Financial Assets					
Inventory of Supplies	-		-		
Prepaid Expenses	-		-		
Total Non-Financial Assets	-				
LIABILITIES					Liabilities
Accounts Payable & Accrued Liabilities	293,223			293,223	Accounts Payable & Accrued Liabilities
Gross Long-term Liabilities	10,066,775			10,066,775	Debt (Principal only)
Deferred Revenue	-			-	Deferred Revenue
Other	-			-	Other
Total Liabilities	10,359,998			10,359,998	Total Liabilities
Net Assets/(Debt)	(2,077,007)			(2,077,007)	Net Financial Assets/(Debt)
		27,581,409	-	27,581,409	Non-Financial Assets
		-		-	Tangible Capital Assets
		-		-	Inventory of Supplies
				-	Prepaid Expenses
				27,581,409	Total Non-Financial Assets
Municipal Position					
Water Reserves	7,989,768	7,989,768	-		
Gas Tax Reserve Fund	-	-	-		
Development Charge Reserve Fund	-	-	-		
Amounts to be Recovered	(10,066,775)	-	10,066,775		
Total Municipal Position	(2,077,007)		25,504,402	25,504,402	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		35,571,177	35,571,177		



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. However, it may not be possible 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:

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



- b) Amortization Expense – The method and timing of amortization should be based on the Municipality’s amortization policy.
- 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 2019 Rate Study.
- 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.



Chapter 4

Financial Plan



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 it 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 indication 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 in 2019, the Municipality's water system will be in a net financial debt position of approximately \$2.1 million. For the balance of the forecast, 20120-2032, the financial plan forecasts a continuing net deb position.

Another important indicator on the Statement of Financial Position is the tangible capital asset balance under section PS3150. 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 watermains and treatment facilities 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.
- 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 \$25.0 million over the 14-year 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 system 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, although fluctuating to some extent, generally decreasing from 69% to 62% over the forecast period to 2027. As a result, annual surpluses increase from \$1.3 million to \$2.1 million. 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 capital 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 \$25.6 million to a 2018 accumulated surplus of \$24.2 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 the years 2021 to 2031, forecasted tangible capital asset acquisitions (net of amortization for the year) exceed forecasted annual surplus, resulting in decreases in net financial assets during these years. This is due to the significant capital assets anticipated to be constructed during these years and internal borrowing from the water reserves by the wastewater system. In each of the other years (i.e. 2019, 2020, and 2032) the forecasted annual surplus exceeds the forecasted tangible capital asset acquisitions (net of amortization for the year), resulting in an increase to net financial assets each year. This allows for a long-term plan of funding capital through accumulated surplus (i.e. reserve funds). This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions remaining relatively constant over the projection period, with an initial value of 1.32 in 2019, and ultimately achieving a value of 1.00 by 2032.¹

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). The financial plan projects the cash position of the Municipality's water system to decrease over the forecast period from a balance of approximately \$7.9

¹ A desirable ratio is 1:1 or better.



million at the beginning of 2019, to \$260,000 by the end of 2032. For further discussions, on projected cash balances please refer to the Notes to the Financial Plan.



Table 4-1
Statement of Financial Position: Water Services
UNAUDITED: For Financial Planning Purposes Only
2019-2032

	Notes	Forecast													
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Financial Assets															
Cash	1	7,506,795	6,832,904	5,496,631	5,010,946	4,768,751	4,947,330	4,787,154	2,875,507	2,438,986	741,377	739,225	658,501	499,490	260,788
Accounts Receivable	1	776,196	774,076	805,573	837,310	872,330	911,006	953,717	998,772	1,004,571	1,010,450	1,015,005	1,016,709	1,018,415	1,020,121
Total Financial Assets		8,282,991	7,606,980	6,302,204	5,848,256	5,641,081	5,858,336	5,740,871	3,874,279	3,443,557	1,751,827	1,754,230	1,675,210	1,517,905	1,280,909
Liabilities															
Bank Indebtedness		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	1	293,223	296,044	303,956	311,087	318,407	325,880	333,539	341,400	349,410	357,637	364,687	369,062	373,561	378,166
Debt (Principal only)	2	10,066,775	9,643,466	9,199,073	8,760,538	8,750,809	8,979,453	8,415,948	7,824,340	7,203,220	6,551,113	5,869,381	5,154,396	4,404,530	3,618,078
Deferred Revenue	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities		10,359,998	9,939,510	9,503,029	9,071,625	9,069,216	9,305,333	8,749,487	8,165,740	7,552,630	6,908,750	6,234,068	5,523,458	4,778,091	3,996,244
Net Financial Assets/(Debt)		(2,077,007)	(2,332,530)	(3,200,825)	(3,223,369)	(3,428,135)	(3,446,997)	(3,008,616)	(4,291,461)	(4,109,073)	(5,156,923)	(4,479,838)	(3,848,248)	(3,260,186)	(2,715,335)
Non-Financial Assets															
Tangible Capital Assets	4	27,581,409	29,216,978	31,620,053	33,300,232	35,220,020	37,199,561	38,879,302	42,244,368	44,094,094	47,143,259	48,406,900	49,692,017	51,012,903	52,538,189
Total Non-Financial Assets		27,581,409	29,216,978	31,620,053	33,300,232	35,220,020	37,199,561	38,879,302	42,244,368	44,094,094	47,143,259	48,406,900	49,692,017	51,012,903	52,538,189
Accumulated Surplus/(Deficit)	5	25,504,402	26,884,448	28,419,228	30,076,863	31,791,885	33,752,564	35,870,686	37,952,907	39,985,021	41,986,336	43,927,062	45,843,769	47,752,717	49,822,854
Financial Indicators															
	Total Change	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1) Increase/(Decrease) in Net Financial Assets	(110,160)	528,168	(255,523)	(868,295)	(22,544)	(204,766)	(18,862)	438,381	(1,282,845)	182,388	(1,047,850)	677,085	631,590	588,062	544,851
2) Increase/(Decrease) in Tangible Capital Assets	25,684,566	727,786	1,635,569	2,403,075	1,680,179	1,919,788	1,979,541	1,679,741	3,365,066	1,849,726	3,049,165	1,263,641	1,285,117	1,320,886	1,525,286
3) Increase/(Decrease) in Accumulated Surplus	25,574,406	1,255,954	1,380,046	1,534,780	1,657,635	1,715,022	1,960,679	2,118,122	2,082,221	2,032,114	2,001,315	1,940,726	1,916,707	1,908,948	2,070,137



**Table 4-2
Statement of Operations: Water Services
UNAUDITED: For Financial Planning Purposes Only
2019-2032**

	Notes	Forecast													
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Water Revenue															
Base Charge Revenue		1,255,143	1,396,383	1,553,478	1,728,203	1,922,533	2,138,664	2,379,034	2,390,621	2,402,208	2,413,794	2,425,381	2,436,968	2,448,554	2,460,141
Rate Based Revenue		1,786,602	1,813,335	1,825,544	1,838,228	1,851,380	1,864,992	1,879,059	1,893,571	1,908,524	1,916,076	1,907,900	1,899,730	1,891,566	1,883,408
Earned Development Charges Revenue	3	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086
Other Revenue	6	1,046,910	1,058,225	1,072,679	1,090,567	1,093,286	1,102,844	1,094,511	1,069,697	1,059,731	1,039,516	1,033,334	1,033,789	1,038,182	1,041,882
Total Revenues		4,109,741	4,289,029	4,472,787	4,678,084	4,888,285	5,127,586	5,373,690	5,374,975	5,391,549	5,390,472	5,387,701	5,391,573	5,399,388	5,406,517
Water Expenses															
Operating Expenses	Sch. 4-1	1,685,996	1,731,012	1,771,625	1,813,313	1,940,870	1,899,486	1,944,255	1,989,870	2,036,722	2,076,871	2,101,789	2,127,410	2,153,633	2,180,559
Interest on Debt	2	517,617	497,540	476,457	454,315	432,181	426,962	431,054	402,950	373,439	342,451	312,827	279,573	244,693	208,107
Amortization	4	650,214	680,431	689,925	752,821	800,212	840,459	880,259	899,934	949,274	969,835	1,032,359	1,067,883	1,092,114	947,714
Loss on Disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses		2,853,787	2,908,983	2,938,007	3,020,449	3,173,263	3,166,907	3,255,568	3,292,754	3,359,435	3,389,157	3,446,975	3,474,866	3,490,440	3,336,380
Annual Surplus/(Deficit)		1,255,954	1,380,046	1,534,780	1,657,635	1,715,022	1,960,679	2,118,122	2,082,221	2,032,114	2,001,315	1,940,726	1,916,707	1,908,948	2,070,137
Accumulated Surplus/(Deficit), beginning of year	5	24,248,448	25,504,402	26,884,448	28,419,228	30,076,863	31,791,885	33,752,564	35,870,686	37,952,907	39,985,021	41,986,336	43,927,062	45,843,769	47,752,717
Accumulated Surplus/(Deficit), end of year		25,504,402	26,884,448	28,419,228	30,076,863	31,791,885	33,752,564	35,870,686	37,952,907	39,985,021	41,986,336	43,927,062	45,843,769	47,752,717	49,822,854
Note 5:															
Accumulated Surplus/(Deficit) Reconciliation:															
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Reserve Balances															
Reserves: Capital/Other		7,989,768	7,310,936	5,998,248	5,537,169	5,322,674	5,532,456	5,407,332	3,532,879	3,094,147	1,394,190	1,389,543	1,306,148	1,144,344	902,743
Total Reserves Balance		7,989,768	7,310,936	5,998,248	5,537,169	5,322,674	5,532,456	5,407,332	3,532,879	3,094,147	1,394,190	1,389,543	1,306,148	1,144,344	902,743
Less: Debt Obligations and Deferred Revenue		(10,066,775)	(9,643,466)	(9,199,073)	(8,760,538)	(8,750,809)	(8,979,453)	(8,415,948)	(7,824,340)	(7,203,220)	(6,551,113)	(5,869,381)	(5,154,396)	(4,404,530)	(3,618,078)
Add: Tangible Capital Assets	4	27,581,409	29,216,978	31,620,053	33,300,232	35,220,020	37,199,561	38,879,302	42,244,368	44,094,094	47,143,259	48,406,900	49,692,017	51,012,903	52,538,189
Total Ending Balance		25,504,402	26,884,448	28,419,228	30,076,863	31,791,885	33,752,564	35,870,686	37,952,907	39,985,021	41,986,336	43,927,062	45,843,769	47,752,717	49,822,854
Financial Indicators															
	Total Change	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1) Expense to Revenue Ratio		69%	68%	66%	65%	65%	62%	61%	61%	62%	63%	64%	64%	65%	62%
2) Increase/(Decrease) in Accumulated Surplus	25,574,406	1,255,954	1,380,046	1,534,780	1,657,635	1,715,022	1,960,679	2,118,122	2,082,221	2,032,114	2,001,315	1,940,726	1,916,707	1,908,948	2,070,137



Schedule 4-1
Statement of Operating Expenses: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2027

	Notes	Forecast													
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Operating Expenses															
Contracted Services		138,500	141,300	144,100	147,000	150,000	153,000	156,100	159,200	162,400	165,700	169,000	172,400	175,900	179,400
Insurance		19,918	20,700	21,500	22,400	23,300	24,200	25,200	26,200	27,200	28,300	29,400	30,600	31,800	33,100
Lab Testing		10,000	10,200	10,400	10,600	10,800	11,000	11,200	11,400	11,600	11,800	12,000	12,200	12,400	12,600
Repairs & Mntce		174,454	179,700	185,100	190,700	196,400	202,300	208,400	214,700	221,100	227,700	234,500	241,500	248,700	256,200
Safety Clothing & Equipment		5,500	5,600	5,700	5,800	5,900	6,000	6,100	6,200	6,300	6,400	6,500	6,600	6,700	6,800
Salaries/wages		424,478	433,000	441,700	450,500	459,500	468,700	478,100	487,700	497,500	507,500	517,700	528,100	538,700	549,500
S-Benefits		103,786	105,900	108,000	110,200	112,400	114,600	116,900	119,200	121,600	124,000	126,500	129,000	131,600	134,200
Supplies/Services		54,075	55,200	56,300	57,400	58,500	59,700	60,900	62,100	63,300	64,600	65,900	67,200	68,500	69,900
Training/Conferences		15,500	15,800	16,100	16,400	16,700	17,000	17,300	17,600	18,000	18,400	18,800	19,200	19,600	20,000
Utilities		76,500	78,000	79,600	81,200	82,800	84,500	86,200	87,900	89,700	91,500	93,300	95,200	97,100	99,000
Vehicle Repairs & Mntce		24,345	24,800	25,300	25,800	26,300	26,800	27,300	27,800	28,400	29,000	29,600	30,200	30,800	31,400
Water Purchased		638,900	660,812	677,825	695,313	713,270	731,686	750,555	769,870	789,622	801,971	798,589	795,210	791,833	788,459
Non TCA - Expenses from Capital Budget	7	-	-	-	-	85,000	-	-	-	-	-	-	-	-	-
TOTAL OPERATING EXPENSES		1,685,956	1,731,012	1,771,625	1,813,313	1,940,870	1,899,486	1,944,255	1,989,870	2,036,722	2,076,871	2,101,789	2,127,410	2,153,633	2,180,559



Table 4-3
Statement of Changes in Net Financial Assets/Debt: Water Services
UNAUDITED: For Financial Planning Purposes Only
2019-2032

	Notes	Forecast													
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Annual Surplus/(Deficit)		1,255,954	1,380,046	1,534,780	1,657,635	1,715,022	1,960,679	2,118,122	2,082,221	2,032,114	2,001,315	1,940,726	1,916,707	1,908,948	2,070,137
Less: Acquisition of Tangible Capital Assets	4	(1,378,000)	(2,316,000)	(3,093,000)	(2,433,000)	(2,720,000)	(2,820,000)	(2,560,000)	(4,265,000)	(2,799,000)	(4,019,000)	(2,296,000)	(2,353,000)	(2,413,000)	(2,473,000)
Add: Amortization of Tangible Capital Assets	4	650,214	680,431	689,925	752,821	800,212	840,459	880,259	899,934	949,274	969,835	1,032,359	1,067,883	1,092,114	947,714
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
		(727,786)	(1,635,569)	(2,403,075)	(1,680,179)	(1,919,788)	(1,979,541)	(1,679,741)	(3,365,066)	(1,849,726)	(3,049,165)	(1,263,641)	(1,285,117)	(1,320,886)	(1,525,286)
Less: Acquisition of Supplies Inventory		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: Acquisition of Prepaid Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Add: Consumption of Supplies Inventory		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Add: Use of Prepaid Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase/(Decrease) in Net Financial Assets/(Net Debt)		528,168	(255,523)	(868,295)	(22,544)	(204,766)	(18,862)	438,381	(1,262,845)	182,388	(1,047,850)	677,085	631,590	588,062	544,851
Net Financial Assets/(Net Debt), beginning of year		(2,605,175)	(2,077,007)	(2,332,530)	(3,200,825)	(3,223,369)	(3,428,135)	(3,446,997)	(3,008,616)	(4,291,461)	(4,109,073)	(5,156,923)	(4,479,838)	(3,848,248)	(3,260,186)
Net Financial Assets/(Net Debt), end of year		(2,077,007)	(2,332,530)	(3,200,825)	(3,223,369)	(3,428,135)	(3,446,997)	(3,008,616)	(4,291,461)	(4,109,073)	(5,156,923)	(4,479,838)	(3,848,248)	(3,260,186)	(2,715,335)
Financial Indicators		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1) Acquisition of Tangible Capital Assets (Cumulative)		1,378,000	3,694,000	6,787,000	9,220,000	11,940,000	14,760,000	17,320,000	21,585,000	24,384,000	28,403,000	30,699,000	33,052,000	35,465,000	37,938,000
2) Annual Surplus/Deficit before Amortization (Cumulative)		1,906,168	3,966,645	6,191,350	8,601,806	11,117,040	13,918,178	16,916,559	19,898,714	22,880,102	25,851,252	28,824,337	31,808,927	34,809,989	37,827,840
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		1.38	1.07	0.91	0.93	0.93	0.94	0.98	0.92	0.94	0.91	0.94	0.96	0.98	1.00



Table 4-4
Statement of Cash Flow – Indirect Method: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2027

	Notes	Forecast													
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Operating Transactions															
Annual Surplus/Deficit		1,255,954	1,380,046	1,534,780	1,657,635	1,715,022	1,960,679	2,118,122	2,082,221	2,032,114	2,001,315	1,940,726	1,916,707	1,908,948	2,070,137
Add: Amortization of TCA's	4	650,214	680,431	689,925	752,821	800,212	840,459	880,259	899,934	949,274	969,835	1,032,359	1,067,883	1,092,114	947,714
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: Earned Deferred Revenue	3	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)	(21,086)
Less: Developer Contributions		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Add: Deferred Revenue Proceeds		21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086	21,086
Change in A/R (Increase)/Decrease		(776,195)	2,120	(31,497)	(31,737)	(35,020)	(38,675)	(42,712)	(45,054)	(5,799)	(5,879)	(4,555)	(1,703)	(1,706)	(1,706)
Change in A/P Increase/(Decrease)		293,223	2,821	7,912	7,131	7,320	7,473	7,659	7,861	8,010	8,227	7,050	4,375	4,499	4,605
Less: Interest Proceeds		(79,107)	(84,631)	(93,291)	(105,387)	(102,213)	(105,881)	(103,414)	(72,706)	(56,849)	(30,642)	(18,467)	(12,932)	(11,330)	(8,938)
Cash Provided by Operating Transactions		1,344,089	1,980,787	2,107,829	2,280,463	2,385,321	2,664,055	2,859,914	2,872,256	2,926,750	2,942,856	2,957,113	2,974,330	2,992,525	3,011,812
Capital Transactions															
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(1,378,000)	(2,316,000)	(3,093,000)	(2,433,000)	(2,720,000)	(2,820,000)	(2,560,000)	(4,265,000)	(2,799,000)	(4,019,000)	(2,296,000)	(2,353,000)	(2,413,000)	(2,473,000)
Cash Applied to Capital Transactions		(1,378,000)	(2,316,000)	(3,093,000)	(2,433,000)	(2,720,000)	(2,820,000)	(2,560,000)	(4,265,000)	(2,799,000)	(4,019,000)	(2,296,000)	(2,353,000)	(2,413,000)	(2,473,000)
Investing Transactions															
Proceeds from Investments		79,107	84,631	93,291	105,387	102,213	105,881	103,414	72,706	56,849	30,642	18,467	12,932	11,330	8,938
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		79,107	84,631	93,291	105,387	102,213	105,881	103,414	72,706	56,849	30,642	18,467	12,932	11,330	8,938
Financing Transactions															
Proceeds from Debt Issue	2	-	-	-	28,000	481,000	750,500	-	-	-	-	-	-	-	-
Less: Debt Repayment (Principal only)	2	(403,233)	(423,309)	(444,393)	(466,535)	(490,729)	(521,857)	(563,504)	(591,609)	(621,120)	(652,107)	(681,732)	(714,986)	(749,866)	(786,452)
Cash Applied to Financing Transactions		(403,233)	(423,309)	(444,393)	(466,535)	(490,729)	(521,857)	(563,504)	(591,609)	(621,120)	(652,107)	(681,732)	(714,986)	(749,866)	(786,452)
Increase in Cash and Cash Equivalents		(358,037)	(673,891)	(1,336,273)	(485,685)	(242,195)	178,579	(160,176)	(1,911,647)	(436,521)	(1,697,609)	(2,152)	(80,724)	(159,011)	(238,702)
Cash and Cash Equivalents, beginning of year	1	7,864,832	7,506,795	6,832,904	5,496,631	5,010,946	4,768,751	4,947,330	4,787,154	2,875,507	2,438,986	741,377	739,225	658,501	499,490
Cash and Cash Equivalents, end of year	1	7,506,795	6,832,904	5,496,631	5,010,946	4,768,751	4,947,330	4,787,154	2,875,507	2,438,986	741,377	739,225	658,501	499,490	260,788



Notes to Financial Plan

The financial plan format as outlined in Chapter 4 closely approximates the full accrual format used by municipalities on their audited financial statements. However, the financial plan 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);
- 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
- 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, 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

For the Municipality, receivable and payable balances were estimated for each year of the forecast based on the following factors:

- a) Receivables: Based on the historical levels of Municipality-wide receivables as a percentage of annual Municipality-wide revenue earned; and
- b) Payables: Based on historical levels of Municipality-wide payables as a percentage of annual Municipality-wide expenses.

Therefore, the opening cash balance was estimated based on the above calculations.

2. Debt

Outstanding water related debt at the end of 2018 was \$10,470,007. It is anticipated that additional growth-related interim funding will be required over the forecast period. Principal repayments over the forecast period are scheduled as follows



Year	Principal Payments
2019	403,233
2020	423,309
2021	444,393
2022	466,535
2023	490,729
2024	521,857
2025	563,504
2026	591,609
2027	621,120
2028	652,107
2029	681,732
2030	714,986
2031	749,866
2032	786,452
Total	\$ 8,111,432

For financial reporting purposes, debt principal payments represent a decrease in debt liability and the interest payments represent a current year operating expense. Investment income on the sinking fund debt is assumed to assist in decreasing the debt liability.

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. In years when the water development charge reserve fund balance is negative, it is shown as an asset (accounts receivable – other) for financial reporting purposes, representing future amounts to be collected from developers.

4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water related assets in the following categories:
 - i. Linear Infrastructure;
 - ii. Facilities; and



iii. Vehicles

- Amortization is calculated based on the straight-line approach.
- For the purposes of calculating amortization.
- 2019 opening balances are reported in accordance with information found the Municipality's Tangible Capital Asset Inventory.
- Given the planned asset replacement forecast in the 2019 Rate Study, 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 municipal water system.

The balance of tangible capital assets is summarized as follows:



Asset Historical Cost	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Opening Tangible Capital Asset Balance	42,682,387	43,864,568	45,994,551	48,833,833	50,979,313	53,518,026	56,161,456	58,511,815	62,569,714	65,099,079	68,741,987	70,785,298	72,880,581	75,019,151
Acquisitions	1,378,000	2,316,000	3,093,000	2,433,000	2,720,000	2,820,000	2,560,000	4,265,000	2,799,000	4,019,000	2,296,000	2,353,000	2,413,000	2,473,000
Disposals	195,819	186,017	253,718	287,520	181,287	176,570	209,641	207,101	269,635	376,092	252,689	257,717	274,430	376,092
Closing Tangible Capital Asset Balance	43,864,568	45,994,551	48,833,833	50,979,313	53,518,026	56,161,456	58,511,815	62,569,714	65,099,079	68,741,987	70,785,298	72,880,581	75,019,151	77,116,059
Opening Accumulated Amortization	15,828,764	16,283,159	16,777,573	17,213,780	17,679,081	18,298,006	18,961,895	19,632,513	20,325,346	21,004,985	21,598,728	22,378,398	23,188,564	24,006,248
Amortization Expense	650,214	680,431	689,925	752,821	800,212	840,459	880,259	899,934	949,274	969,835	1,032,359	1,067,883	1,092,114	947,714
Amortization on Disposal	195,819	186,017	253,718	287,520	181,287	176,570	209,641	207,101	269,635	376,092	252,689	257,717	274,430	376,092
Ending Accumulated Amortization	16,283,159	16,777,573	17,213,780	17,679,081	18,298,006	18,961,895	19,632,513	20,325,346	21,004,985	21,598,728	22,378,398	23,188,564	24,006,248	24,577,870
Net Book Value	27,581,409	29,216,978	31,620,053	33,300,232	35,220,020	37,199,561	38,879,302	42,244,368	44,094,094	47,143,259	48,406,900	49,692,017	51,012,903	52,538,189



5. Accumulated Surplus

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

Wastewater	2019 Opening Accumulated Surplus
Reserve Balances	
Reserves: Development Charges	-
Reserves: Capital/Other	7,864,832
Total Reserves Balance	7,864,832
Less: Debt Obligations and Deferred Revenue	(10,470,007)
Less: Unfinanced Capital	-
Add: Tangible Capital Assets	26,853,623
Total Opening Balance	24,248,448

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

6. Other Revenue

Other revenue includes interest, program revenue, compliance fees, application fees and 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.



Chapter 5

Process for Financial Plan Approval and Submission to the Province



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

As mentioned in section 1.2, preparation of and approval of a financial plan for water assets that meets the requirements of the Act is mandatory for municipal water providers. Proof of the plan preparation and approval is a key submission requirement 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 Council of the municipality who owns the drinking water system or the governing body of the owner. (O.Reg. 453/07, Section 3(1)1.)
2. The owner of the drinking water system 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 system 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 system must provide proof satisfactory to the Director 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.)



Chapter 6

Recommendations



6. Recommendations

This report presents the water financial plan for the Municipality 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 2019 Rate Study. 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 April 25, 2019 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan dated February 13, 2019 be submitted to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3(1)6).
4. The resolution of Council approving the Financial Plan be submitted to the Ministry of Environment, satisfying the requirements under the Safe Drinking Water Act. (S.D.W.A. Section 32(5)2.ii.).



Appendix A

2019 Rate Study – Water Summary Tables