



Water Ontario Regulation 453/07 Financial Plan

Municipality of Central Elgin

Financial Plan #046-101 & 046-102

March 28, 2019

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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
W.O.A.	Water Opportunities Act



Report



Chapter 1

Introduction



1. Introduction

1.1 Study Purpose

The Municipality of Central Elgin (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 regarding the Municipality's water systems has already been completed and documented within the 2018 Water and Wastewater Rate Study date May 24, 2018, completed by Watson. The objective of the report provided herein is to convert the findings of the 2018 Water and Wastewater 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 ten-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).



A copy of the financial plan will be submitted to the Ministry of Municipal Affairs and Housing (MMAH) and not the MECP however, MECP may request it in the course of review of the licence renewal. 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.



1.2.5 The Municipality's Financial Plan

The Municipality is currently in the process of renewing the drinking water licenses and the previous version of the financial plan no longer meets the requirements as it must apply to a period of a least six years beginning in the year that the licenses would otherwise expire. Although the Act requires at least six years to be included, this financial plan provides for a ten-year forecast period 2019-2028 (and includes the 2018 budget for demonstration purposes).



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

Since the passage of the *Safe Drinking Water Act*, changes and refinements to the legislation have been introduced, including the *Water Opportunities Act* (W.O.A). W.O.A. 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 W.O.A. 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 W.O.A. 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:

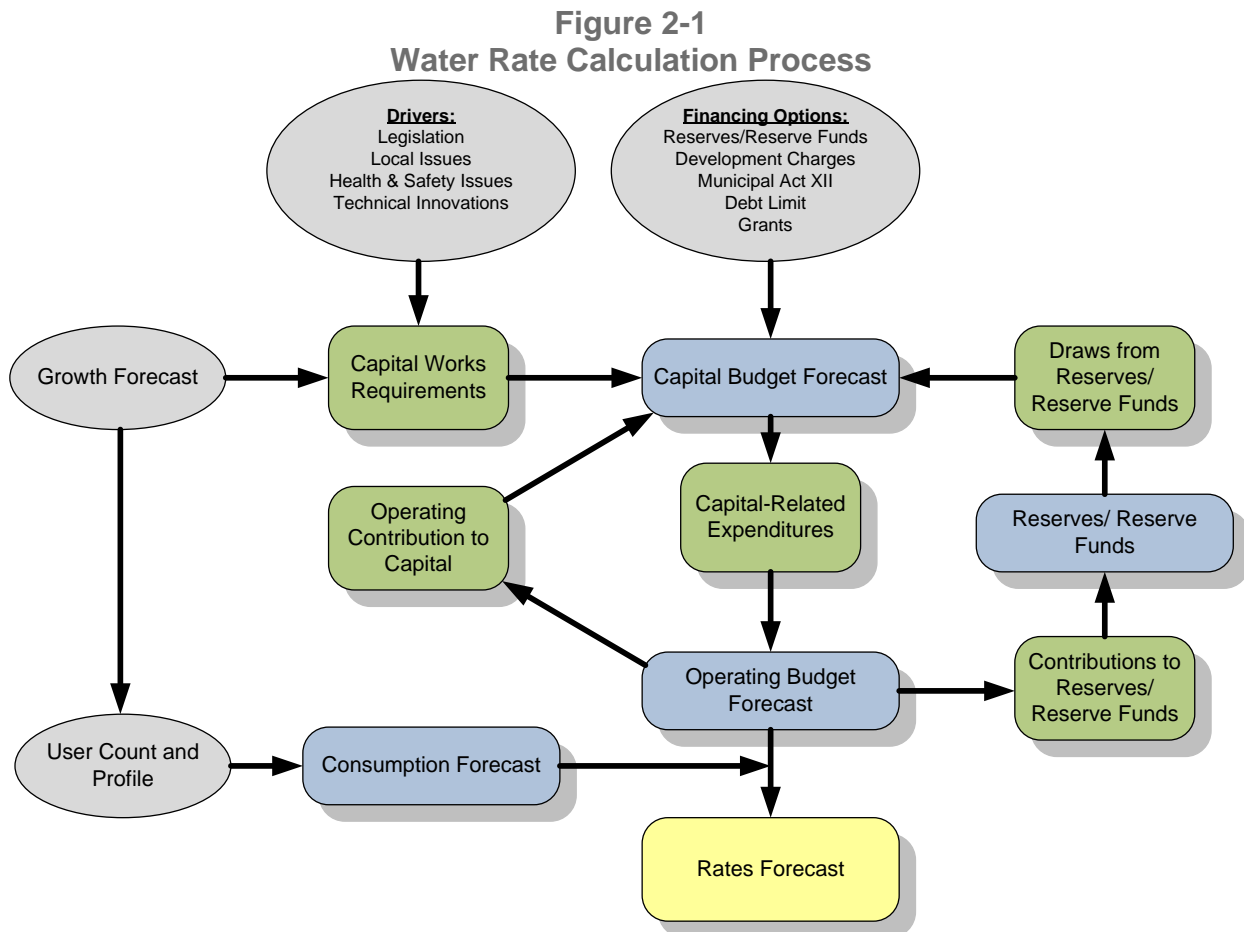
- the current levels of service being provided;
 - determined in accordance with the following qualitative descriptions and technical metrics and based on data from at most the two calendar years prior to the year in which all information required under this section is included in the asset management 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 budget and forecast process.



2.5 Water and Wastewater Rate Study

The Municipality has already completed extensive financial planning as documented in the 2018 Water and Wastewater Rate Study. The budget process is 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 2018 Water and Wastewater Rate Study provides a sound financial plan for the Municipality’s water system by providing:

- A detailed assessment of current and future capital needs including an analysis of potential funding sources;
- An analysis of 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's 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.



Chapter 3

Approach



3. Approach

3.1 Overview

The 2018 Water and Wastewater Rate Study (along with additional detailed information provided by Municipal Staff) has been used as a starting point to prepare the water financial plan. The Water and Wastewater Rate Study is 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 water and wastewater rate study 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. As required, for PSAB 3150 reporting purposes, the asset inventory listing included historical cost (which is the original cost to purchase, develop, or construct each asset) along with an estimated



useful life for each asset and any anticipated salvage value is recorded. 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 2018 Water and Wastewater 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 2018	Adjustments		Full Accrual Budget 2018	Accrual Basis
		DR	CR		
Revenues					Revenues
Base Charge Revenue	616,735			616,735	Base Charge Revenue
Rate Based Revenue	1,638,896			1,638,896	Rate Based Revenue
Transfers from Reserves	239,593	239,593			
Other Revenue	116,240		37,719	37,719	Earned Development Charges Revenue
			(12,119)	104,121	Other Revenue
Total Revenues	2,611,464			2,397,471	Total Revenues
Expenditures					Expenses
Operating	1,234,061	15,000		1,249,061	Operating Expenses
Capital					
Transfers to Reserves	-		-		
Transfers to Capital	-		-		
Debt Repayment (Principal & Interest)	1,377,403		974,233	403,170	Interest on Debt
		336,258		336,258	Amortization
		-		-	Loss on Disposal of Tangible Capital Assets
Total Expenditures	2,611,464			1,988,489	Total Expenses
Net Expenditures	-			408,982	Annual Surplus/(Deficit)
Increase (decrease) in amounts to be recovered	-			10,643,023	Accumulated Surplus/(Deficit), beginning of year
Change in Fund Balances	-	408,982	-	11,052,005	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		999,833	999,833		

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). 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	Adjustments		Full Accrual Budget 2018	Accrual Basis
	2018	DR	CR		
ASSETS					ASSETS
Financial Assets					Financial Assets
Cash	(1,460,807)	1,460,807		-	Cash
Accounts Receivable	1,276,639			1,276,639	Accounts Receivable
Total Financial Assets	(184,168)			1,276,639	Total Financial Assets
Non-Financial Assets					
Inventory of Supplies	-		-		
Prepaid Expenses	-		-		
Total Non-Financial Assets	-				
LIABILITIES					Liabilities
Accounts Payable & Accrued Liabilities	449,315			449,315	Accounts Payable & Accrued Liabilities
Bank Indebtedness			1,460,807	1,460,807	Bank Indebtedness
Gross Long-term Liabilities	11,339,281			11,339,281	Debt (Principal only)
Deferred Revenue	(15,436)			(15,436)	Deferred Revenue
Other	-			-	Other
Total Liabilities	11,773,160			13,233,967	Total Liabilities
Net Assets/(Debt)	(11,957,328)			(11,957,328)	Net Financial Assets/(Debt)
		23,024,333	15,000	23,009,333	Non-Financial Assets
		-		-	Tangible Capital Assets
		-		-	Inventory of Supplies
				-	Prepaid Expenses
				23,009,333	Total Non-Financial Assets
Municipal Position					
Water Reserves	(618,047)	-	618,047		
Gas Tax Reserve Fund	-	-	-		
Development Charge Reserve Fund	(15,436)	-	15,436		
Amounts to be Recovered	(11,323,845)	-	11,323,845		
Total Municipal Position	(11,957,328)		11,052,005	11,052,005	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		24,485,140	24,485,140		

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. 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 capital asset listing provided.
- 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 2018, due to exiting water debt principal balances, the Municipality's water system was in a net financial debt position of approximately \$12 million. The financial plan forecasts an increase resulting in a net financial asset position over the forecast period to \$1.4 million by 2027.

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 decrease slightly to under \$22.7 million over the forecast period. This indicates that the Municipality is not planning 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 decreasing from 83% to 50% over the forecast period and as a result, annual surplus improves from approximately \$409,000 in 2018 to a surplus of just over \$2.1 million by 2027. 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 \$13.5 million to a 2018 accumulated surplus of \$10.6 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 the forecasted annual surplus/(deficit) does not exceed the forecasted tangible capital asset acquisitions (net of amortization for the year), resulting in an increase in the net debt position to a net asset position by 2027. Improving the net debt position to a net financial asset position will allow for a long-term plan of funding capital through accumulated surplus (i.e. reserves and reserve funds). This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions improving from 1.16 to 4.75 over the forecast period¹.

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) and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the Municipality's water system to improve from a deficit balance of approximately \$1.224 million at the beginning of 2018, to just under \$3.13 million by the end of 2027. 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
2018-2027

	Notes	Forecast									
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Financial Assets											
Cash	1	-	-	-	-	-	-	81,304	25,594	1,509,025	3,127,590
Accounts Receivable	1	1,276,639	1,329,350	1,395,921	1,521,171	1,651,156	1,745,408	1,863,549	1,913,967	1,946,643	2,001,540
Total Financial Assets		1,276,639	1,329,350	1,395,921	1,521,171	1,651,156	1,745,408	1,944,853	1,939,561	3,455,668	5,129,130
Liabilities											
Bank Indebtedness		1,460,807	1,670,367	1,684,703	1,597,578	1,273,422	667,577	-	-	-	-
Accounts Payable & Accrued Liabilities	1	449,315	460,679	471,487	483,992	498,155	516,651	527,392	542,939	559,177	576,180
Debt (Principal only)	2	11,339,281	10,609,740	10,089,450	8,905,433	7,785,212	6,905,306	5,673,055	4,400,728	3,584,113	3,479,705
Deferred Revenue	3	(15,436)	(78,065)	(103,827)	(129,824)	(156,061)	(182,956)	(246,163)	(310,327)	(336,992)	(364,913)
Total Liabilities		13,233,967	12,662,721	12,141,813	10,857,179	9,400,728	7,906,578	5,954,284	4,633,340	3,806,298	3,690,972
Net Financial Assets/(Debt)		(11,957,328)	(11,333,371)	(10,745,892)	(9,336,008)	(7,749,572)	(6,161,170)	(4,009,431)	(2,693,779)	(350,630)	1,438,158
Non-Financial Assets											
Tangible Capital Assets	4	23,009,333	23,016,904	23,231,252	22,856,349	22,592,898	22,520,271	22,162,400	22,743,229	22,379,305	22,696,581
Total Non-Financial Assets		23,009,333	23,016,904	23,231,252	22,856,349	22,592,898	22,520,271	22,162,400	22,743,229	22,379,305	22,696,581
Accumulated Surplus/(Deficit)	5	11,052,005	11,683,533	12,485,360	13,520,341	14,843,326	16,359,101	18,152,969	20,049,450	22,028,675	24,134,739
Financial Indicators											
	Total Change	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1) Increase/(Decrease) in Net Financial Assets	13,500,226	104,740	623,957	587,479	1,409,884	1,586,436	1,588,402	2,151,739	1,315,652	2,343,149	1,788,788
2) Increase/(Decrease) in Tangible Capital Assets	(8,510)	304,242	7,571	214,348	(374,903)	(263,451)	(72,627)	(357,871)	580,829	(363,924)	317,276
3) Increase/(Decrease) in Accumulated Surplus	13,491,716	408,982	631,528	801,827	1,034,981	1,322,985	1,515,775	1,793,868	1,896,481	1,979,225	2,106,064



Table 4-2
Statement of Operations: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2027

	Notes	Forecast									
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Water Revenue											
Base Charge Revenue		616,735	654,232	693,704	735,732	757,936	780,734	803,881	827,906	852,301	877,616
Rate Based Revenue		1,638,896	1,817,596	2,014,540	2,231,101	2,472,652	2,640,473	2,820,960	2,898,246	2,975,634	3,060,264
Earned Development Charges Revenue	3	37,719	74,419	37,719	37,719	37,719	37,719	73,523	73,075	35,804	35,804
Other Revenue	6	104,121	104,157	96,630	98,676	109,959	126,031	146,288	149,411	181,671	217,048
Total Revenues		2,397,471	2,650,404	2,842,593	3,103,228	3,378,266	3,584,957	3,844,652	3,948,638	4,045,410	4,190,732
Water Expenses											
Operating Expenses	Sch. 4-1	1,249,061	1,265,271	1,294,956	1,329,300	1,368,200	1,435,600	1,448,500	1,491,200	1,535,800	1,582,500
Interest on Debt	2	403,170	398,076	376,858	364,044	324,930	270,555	244,413	203,086	166,461	138,244
Amortization	4	336,258	355,529	368,952	374,903	362,151	363,027	357,871	357,871	363,924	363,924
Loss on Disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Total Expenses		1,988,489	2,018,876	2,040,766	2,068,247	2,055,281	2,069,182	2,050,784	2,052,157	2,066,185	2,084,668
Annual Surplus/(Deficit)		408,982	631,528	801,827	1,034,981	1,322,985	1,515,775	1,793,868	1,896,481	1,979,225	2,106,064
Accumulated Surplus/(Deficit), beginning of year	5	10,643,023	11,052,005	11,683,533	12,485,360	13,520,341	14,843,326	16,359,101	18,152,969	20,049,450	22,028,675
Accumulated Surplus/(Deficit), end of year		11,052,005	11,683,533	12,485,360	13,520,341	14,843,326	16,359,101	18,152,969	20,049,450	22,028,675	24,134,739
Note 5:											
Accumulated Surplus/(Deficit) Reconciliation:											
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Reserve Balances											
Reserves: Development Charges		(15,436)	(78,065)	(103,827)	(129,824)	(156,061)	(182,956)	(246,163)	(310,327)	(336,992)	(364,913)
Reserves: Capital/Other		(618,047)	(723,631)	(656,442)	(430,575)	35,640	744,136	1,663,624	1,706,949	3,233,483	4,917,863
Total Reserves Balance		(633,483)	(801,696)	(760,269)	(560,399)	(120,421)	561,180	1,417,461	1,396,622	2,896,491	4,552,950
Less: Debt Obligations and Deferred Revenue		(11,323,845)	(10,531,675)	(9,985,623)	(8,775,609)	(7,629,151)	(6,722,350)	(5,426,892)	(4,090,401)	(3,247,121)	(3,114,792)
Add: Tangible Capital Assets	4	23,009,333	23,016,904	23,231,252	22,856,349	22,592,898	22,520,271	22,162,400	22,743,229	22,379,305	22,696,581
Total Ending Balance		11,052,005	11,683,533	12,485,360	13,520,341	14,843,326	16,359,101	18,152,969	20,049,450	22,028,675	24,134,739
Financial Indicators											
	Total Change	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1) Expense to Revenue Ratio		83%	76%	72%	67%	61%	58%	53%	52%	51%	50%
2) Increase/(Decrease) in Accumulated Surplus	13,491,716	408,982	631,528	801,827	1,034,981	1,322,985	1,515,775	1,793,868	1,896,481	1,979,225	2,106,064



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

	Notes	Forecast									
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Operating Expenses											
Supervision		138,845	141,622	144,454	147,300	150,200	153,200	156,300	159,400	162,600	165,900
Union (including Overtime)		56,898	58,036	59,197	60,400	61,600	62,800	64,100	65,400	66,700	68,000
Casual (including Overtime)		411	420	428	400	400	400	400	400	400	400
CPP		6,885	7,023	7,164	7,300	7,400	7,500	7,700	7,900	8,100	8,300
EI		3,412	3,480	3,550	3,600	3,700	3,800	3,900	4,000	4,100	4,200
WSIB		6,041	6,162	6,285	6,400	6,500	6,600	6,700	6,800	6,900	7,000
OMERS		18,506	18,876	19,253	19,600	20,000	20,400	20,800	21,200	21,600	22,000
EHT		3,825	3,902	3,980	4,100	4,200	4,300	4,400	4,500	4,600	4,700
LTD/ADD/LIFE		19,173	19,556	19,947	20,300	20,700	21,100	21,500	21,900	22,300	22,700
Employee Assistance		191	195	198	200	200	200	200	200	200	200
Travel and Conventions		3,000	3,060	3,121	3,200	3,300	3,400	3,500	3,600	3,700	3,800
Clothing Allowance		3,600	3,672	3,745	3,800	3,900	4,000	4,100	4,200	4,300	4,400
Dues/Memberships		959	978	997	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Employee Recognition		449	458	467	500	500	500	500	500	500	500
Meetings		33	33	34	-	-	-	-	-	-	-
Flowers/Memorials		17	17	17	-	-	-	-	-	-	-
Employee Recruitment		253	258	263	300	300	300	300	300	300	300
Advertising		134	137	139	100	100	100	100	100	100	100
Insurance		23,323	23,789	24,265	24,800	25,300	25,800	26,300	26,800	27,300	27,800
Radio Licensing		1,500	1,530	1,561	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Licenses/Permits		2,271	2,316	2,363	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Office Supplies		651	664	677	700	700	700	700	700	700	700
Office Equipment		694	708	722	700	700	700	700	700	700	700
Equipment Charges		15,271	15,576	15,887	16,200	16,500	16,800	17,100	17,400	17,700	18,100
Small Tools/Equipment		8,000	8,160	8,323	8,500	8,700	8,900	9,100	9,300	9,500	9,700
Parts & Supplies		6,325	6,452	6,581	6,700	6,800	6,900	7,000	7,100	7,200	7,300
Telephone		4,401	4,489	4,579	4,700	4,800	4,900	5,000	5,100	5,200	5,300
IT Supplies		85	86	88	100	100	100	100	100	100	100
IT Equipment		381	389	396	400	400	400	400	400	400	400
Answering Service		610	622	634	600	600	600	600	600	600	600
IT Service		20,920	21,338	21,765	22,200	22,600	23,100	23,600	24,100	24,600	25,100
Contracted Services		585	597	609	600	600	600	600	600	600	600
SCADA Service		23,000	23,460	23,929	24,400	24,900	25,400	25,900	26,400	26,900	27,400
Rate Study Consulting		3,000	3,060	3,121	-	-	11,600	-	-	-	-
Payments in Lieu		11,107	11,329	11,556	11,800	12,000	12,200	12,400	12,600	12,900	13,200
Copier Lease		900	918	936	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Training		13,342	13,609	13,881	14,200	14,500	14,800	15,100	15,400	15,700	16,000
Health & Safety											
Training		1,612	1,644	1,677	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Health and Safety Supplies		4,000	4,080	4,162	4,200	4,300	4,400	4,500	4,600	4,700	4,800
Health and Safety Services		342	349	356	400	400	400	400	400	400	400
DWQMS											
Audit Services		3,268	3,334	3,401	3,500	3,600	3,700	3,800	3,900	4,000	4,100



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

	Notes	Forecast									
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Billing and Collection											
Supervision		10,399	10,607	10,819	11,000	11,200	11,400	11,600	11,800	12,000	12,200
Union (including Overtime)		18,357	18,724	19,099	19,500	19,900	20,300	20,700	21,100	21,500	21,900
Casual (including Overtime)		6,991	7,131	7,274	7,400	7,500	7,700	7,900	8,100	8,300	8,500
CPP		1,354	1,381	1,408	1,400	1,400	1,400	1,400	1,400	1,400	1,400
EI		695	709	723	700	700	700	700	700	700	700
WSIB		1,126	1,149	1,172	1,200	1,200	1,200	1,200	1,200	1,200	1,200
OMERS		2,667	2,720	2,775	2,800	2,900	3,000	3,100	3,200	3,300	3,400
EHT		697	711	725	700	700	700	700	700	700	700
LTD/ADD/LIFE		3,101	3,163	3,226	3,300	3,400	3,500	3,600	3,700	3,800	3,900
Billing and Collection Services		1,684	1,718	1,752	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Equipment Charges		3,864	3,941	4,020	4,100	4,200	4,300	4,400	4,500	4,600	4,700
Small Tools and Equipment		500	510	520	500	500	500	500	500	500	500
Purchase of Water											
Elgin Primary Area Water Supply System		234,842	246,068	255,369	264,900	274,800	283,700	292,900	302,400	312,200	322,300
Malahide Secondary Water Supply System		22,246	22,691	23,145	24,300	25,600	26,900	28,300	29,800	31,300	32,900
Alymer Secondary Water Supply System		36,710	37,444	38,193	40,000	41,900	43,900	46,000	48,200	50,500	52,900
St. Thomas Secondary Water Supply System		62,224	63,469	64,738	71,600	79,200	87,600	96,800	107,000	118,300	130,800
Belmont Pumphouse		84,597	86,289	88,015	89,800	91,600	93,400	95,300	97,200	99,100	101,100
Port Stanley Rechlorination		8,583	8,754	8,929	9,100	9,300	9,500	9,700	9,900	10,100	10,300
Water Distribution & Transmission											
Belmont Water Tower		29,949	30,548	31,159	31,800	32,400	33,000	33,700	34,400	35,100	35,800
Port Stanley Water Tower		12,403	12,651	12,904	13,200	13,500	13,800	14,100	14,400	14,700	15,000
Bulk Water Fill Station		270	275	280	300	300	300	300	300	300	300
Fruit Ridge Booster		13,436	13,705	13,979	14,300	14,600	14,900	15,200	15,500	15,800	16,100
Water Chambers		3,932	4,010	4,091	4,200	4,300	4,400	4,500	4,600	4,700	4,800
Water Mains		112,224	114,469	116,758	119,100	121,500	123,900	126,400	128,900	131,500	134,100
Water Mains - Sampling		20,226	20,631	21,043	21,500	21,900	22,300	22,700	23,200	23,700	24,200
Water Mains - Locates		14,000	14,280	14,566	14,900	15,200	15,500	15,800	16,100	16,400	16,700
Water Services		82,083	83,725	85,399	87,100	88,800	90,600	92,400	94,200	96,100	98,000
Fire Hydrants		36,683	37,417	38,165	38,900	39,700	40,500	41,300	42,100	42,900	43,800
Non TCA - Expenses from Capital Budget	7	15,000	-	-	-	-	16,600	-	-	-	-
TOTAL OPERATING EXPENSES		1,249,061	1,265,271	1,294,956	1,329,300	1,368,200	1,435,600	1,448,500	1,491,200	1,535,800	1,582,500



Table 4-3
Statement of Changes in Net Financial Assets/Debt: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2027

	Notes	Forecast									
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Annual Surplus/(Deficit)		408,982	631,528	801,827	1,034,981	1,322,985	1,515,775	1,793,868	1,896,481	1,979,225	2,106,064
Less: Acquisition of Tangible Capital Assets	4	(640,500)	(363,100)	(583,300)	-	(98,700)	(290,400)	-	(938,700)	-	(681,200)
Add: Amortization of Tangible Capital Assets	4	336,258	355,529	368,952	374,903	362,151	363,027	357,871	357,871	363,924	363,924
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
		(304,242)	(7,571)	(214,348)	374,903	263,451	72,627	357,871	(580,829)	363,924	(317,276)
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)		104,740	623,957	587,479	1,409,884	1,586,436	1,588,402	2,151,739	1,315,652	2,343,149	1,788,788
Net Financial Assets/(Net Debt), beginning of year		(12,062,068)	(11,957,328)	(11,333,371)	(10,745,892)	(9,336,008)	(7,749,572)	(6,161,170)	(4,009,431)	(2,693,779)	(350,630)
Net Financial Assets/(Net Debt), end of year		(11,957,328)	(11,333,371)	(10,745,892)	(9,336,008)	(7,749,572)	(6,161,170)	(4,009,431)	(2,693,779)	(350,630)	1,438,158
Financial Indicators		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1) Acquisition of Tangible Capital Assets (Cumulative)		640,500	1,003,600	1,586,900	1,586,900	1,685,600	1,976,000	1,976,000	2,914,700	2,914,700	3,595,900
2) Annual Surplus/Deficit before Amortization (Cumulative)		745,240	1,732,297	2,903,076	4,312,960	5,998,096	7,876,898	10,028,637	12,282,989	14,626,138	17,096,126
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		1.16	1.73	1.83	2.72	3.56	3.99	5.08	4.21	5.02	4.75



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

	Notes	Forecast									
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Operating Transactions											
Annual Surplus/Deficit		408,982	631,528	801,827	1,034,981	1,322,985	1,515,775	1,793,868	1,896,481	1,979,225	2,106,064
Add: Amortization of TCA's	4	336,258	355,529	368,952	374,903	362,151	363,027	357,871	357,871	363,924	363,924
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Less: Earned Deferred Revenue	3	(37,719)	(74,419)	(37,719)	(37,719)	(37,719)	(37,719)	(73,523)	(73,075)	(35,804)	(35,804)
Less: Developer Contributions		-	-	-	-	-	-	-	-	-	-
Add: Deferred Revenue Proceeds		13,147	11,790	11,957	11,721	11,482	10,825	10,316	8,911	9,138	7,882
Change in A/R (Increase)/Decrease		-	(52,711)	(66,571)	(125,250)	(129,985)	(94,253)	(118,141)	(50,418)	(32,676)	(54,897)
Change in A/P Increase/(Decrease)		-	11,364	10,808	12,505	14,163	18,496	10,741	15,547	16,238	17,003
Less: Interest Proceeds		12,119	14,189	12,871	8,443	(699)	(14,591)	(32,620)	(33,470)	(63,402)	(96,429)
Cash Provided by Operating Transactions		732,787	897,270	1,102,125	1,279,585	1,542,378	1,761,560	1,948,512	2,121,847	2,236,644	2,307,744
Capital Transactions											
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(640,500)	(363,100)	(583,300)	-	(98,700)	(290,400)	-	(938,700)	-	(681,200)
Cash Applied to Capital Transactions		(640,500)	(363,100)	(583,300)	-	(98,700)	(290,400)	-	(938,700)	-	(681,200)
Investing Transactions											
Proceeds from Investments		(12,119)	(14,189)	(12,871)	(8,443)	699	14,591	32,620	33,470	63,402	96,429
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		(12,119)	(14,189)	(12,871)	(8,443)	699	14,591	32,620	33,470	63,402	96,429
Financing Transactions											
Proceeds from Debt Issue	2	655,500	326,400	583,300	-	98,700	290,400	-	-	-	526,819
Less: Debt Repayment (Principal only)	2	(974,233)	(1,055,941)	(1,103,590)	(1,184,017)	(1,218,921)	(1,170,306)	(1,232,251)	(1,272,327)	(816,615)	(631,227)
Cash Applied to Financing Transactions		(318,733)	(729,541)	(520,290)	(1,184,017)	(1,120,221)	(879,906)	(1,232,251)	(1,272,327)	(816,615)	(104,408)
Increase in Cash and Cash Equivalents		(238,565)	(209,560)	(14,336)	87,125	324,156	605,845	748,881	(55,710)	1,483,431	1,618,565
Cash and Cash Equivalents, beginning of year	1	(1,222,242)	(1,460,807)	(1,670,367)	(1,684,703)	(1,597,578)	(1,273,422)	(667,577)	81,304	25,594	1,509,025
Cash and Cash Equivalents, end of year	1	(1,460,807)	(1,670,367)	(1,684,703)	(1,597,578)	(1,273,422)	(667,577)	81,304	25,594	1,509,025	3,127,590



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 receivables as a percentage of annual revenue earned (source: 2015 – 2017 Financial Information Returns); and
- b) Payables: Based on historical levels of payables as a percentage of annual expenses incurred (source: 2015 – 2017 Financial Information Returns).

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

2. Debt

Outstanding water related debt at the end of 2017 was \$11,658,014 with additional debt proceeds anticipated throughout the forecast period. Principal repayments for forecasted debt over the forecast period are anticipated as follows:



Year	Principal Payments
2018	974,233
2019	1,055,941
2020	1,103,590
2021	1,184,017
2022	1,218,921
2023	1,170,306
2024	1,232,251
2025	1,272,327
2026	816,615
2027	631,227
Total	10,659,428

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 the water development charge reserve fund which is 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. Note that the 2018 Water and Wastewater Rate Study anticipates the development charge reserve fund will be in a slight negative position for several years over the forecast and therefore, will be require short-term financing through the water reserve in years that the development charges reserve fund is in a deficit.

4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water related assets in the following categories:
 - i. Linear Infrastructure (Watermains, Chambers, Non-Spatial Equipment);
 - ii. Water Towers and related non-spatial equipment;
 - iii. Water Meters;
 - iv. Pump Stations;
 - v. SCADA; and
 - vi. Land



- Amortization is calculated based on using the straight-line approach with no amortization in the year of acquisition or construction.
- Given the planned asset replacement forecast provided by the Municipality, useful life on acquisitions is assumed to be equal to the weighted average useful life for all assets on hand in each respective 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. To calculate the value of each asset disposal, the replacement value (of each new asset that has been identified as a “replacement”) has been deflated (by weighted average useful life for all assets on hand in the respective asset category) to an estimated historical cost. This figure was used to calculate disposals only. Future assets are disposed of when fully amortized.
- Gains/losses on disposal 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 Section 3.2.1, are deemed to be insignificant/unknown during the forecast period and are therefore assumed to be \$0.
- The Municipality has no lead pipes in their water system.



- The balance of tangible capital assets is summarized as follows:

Asset Historical Cost	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Opening Tangible Capital Asset Balance	27,814,984	28,314,698	28,532,038	29,085,704	29,085,704	29,181,578	29,471,978	29,471,978	30,384,102	30,384,102
Acquisitions	640,500	363,100	583,300	-	98,700	290,400	-	938,700	-	681,200
Disposals	140,786	145,760	29,634	-	2,826	-	-	26,576	-	13,275
Closing Tangible Capital Asset Balance	28,314,698	28,532,038	29,085,704	29,085,704	29,181,578	29,471,978	29,471,978	30,384,102	30,384,102	31,052,027
Opening Accumulated Amortization	5,109,893	5,305,365	5,515,134	5,854,452	6,229,355	6,588,680	6,951,707	7,309,578	7,640,873	8,004,797
Amortization Expense	336,258	355,529	368,952	374,903	362,151	363,027	357,871	357,871	363,924	363,924
Amortization on Disposal	140,786	145,760	29,634	-	2,826	-	-	26,576	-	13,275
Ending Accumulated Amortization	5,305,365	5,515,134	5,854,452	6,229,355	6,588,680	6,951,707	7,309,578	7,640,873	8,004,797	8,355,446
Net Book Value	23,009,333	23,016,904	23,231,252	22,856,349	22,592,898	22,520,271	22,162,400	22,743,229	22,379,305	22,696,581



5. Accumulated Surplus

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

Wastewater	2018 Opening Accumulated Surplus
Reserve Balances	
Reserves: Development Charges	9,136
Reserves: Capital/Other	(404,054)
Total Reserves Balance	(394,918)
Less: Debt Obligations and Deferred Revenue	(11,667,150)
Add: Tangible Capital Assets	22,705,091
Total Opening Balance	10,643,023

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

6. Other Revenue

Other revenue includes hydrant maintenance revenue, sale of water meters, water rent revenue, new service connections revenue, hook-up service revenue, revenue from bulk water fill stations, reconnection charges, penalties & interest, 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 MECP. The process established for plan approval, public circulation and filing is set out in O.Reg. 453/07 and can be summarized 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 2018 Water and Wastewater Rate Study, dated May 20, 2018. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Municipality of Central Elgin Water Financial Plan prepared by Watson & Associates Economists Ltd. dated March 28, 2019 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan dated March 28, 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 MECP, satisfying the requirements under the Safe Drinking Water Act. (S.D.W.A. Section 32(5)2.ii.).