



Water Ontario Regulation 453/07

Financial Plan

Town of Kingsville

Financial Plan #030-101

March 21, 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 Town of Kingsville (the Town) 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 Town's water systems has already been completed and documented within the 2019 Water and Wastewater Rate Study date March 20, 2019, completed by Watson. The objective of the report provided herein is to convert the findings of the 2019 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 Town's Financial Plan

The Town 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 Town will need to consider the impacts during the annual budget and forecast process.



2.5 Water and Wastewater Rate Study

The Town has already completed extensive financial planning as documented in the 2019 Water and Wastewater Rate Study. The budget process is designed to address “full cost” principles and reflect the guiding principles toward sustainable financial planning.

As a result of employing this process, the 2019 Water and Wastewater Rate Study provides a sound financial plan for the Town’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 Town’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 2019 Water and Wastewater Rate Study (along with additional detailed information provided by Town 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 Town 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 2019 Water and Wastewater Rate Study. However, these estimates only represent future assets that the Town anticipates purchasing or constructing without consideration for future assets that are contributed by developers and other parties (at no or partial cost to the Town). 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	617,360			617,360	Base Charge Revenue
Rate Based Revenue	5,323,284			5,323,284	Rate Based Revenue
Transfers from Reserves	-	-			
			-	-	Earned Development Charges and Gas Tax Revenue
			-	-	Developer Contributions
Other Revenue	116,500		-	116,500	Other Revenue
Total Revenues	6,057,144			6,057,144	Total Revenues
Expenditures					Expenses
Operating	5,239,934	273,000		5,512,934	Operating Expenses
Capital					
Transfers to Reserves	782,210		782,210		
Transfers to Capital	35,000		35,000		
Debt Repayment (Principal & Interest)	-		-	-	Interest on Debt
		618,838		618,838	Amortization
		-		-	Loss on Disposal of Tangible Capital Assets
Total Expenditures	6,057,144			6,131,772	Total Expenses
Net Expenditures	0			(74,628)	Annual Surplus/(Deficit)
Increase (decrease) in amounts to be recovered	-			16,669,993	Accumulated Surplus/(Deficit), beginning of year
Change in Fund Balances	-	-	74,628	16,595,365	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		891,838	891,838		

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 Town 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 Town 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 2018	Adjustments		Full Accrual Budget 2018	Accrual Basis
		DR	CR		
ASSETS					ASSETS
Financial Assets					Financial Assets
Cash	3,448,933		35,000	3,483,933	Cash
Accounts Receivable	865,394			865,394	Accounts Receivable
Total Financial Assets	4,314,327			4,349,327	Total Financial Assets
Non-Financial Assets					
Inventory of Supplies	-		-		
Prepaid Expenses	-		-		
Total Non-Financial Assets	-				
LIABILITIES					Liabilities
Accounts Payable & Accrued Liabilities	1,333,642			1,333,642	Accounts Payable & Accrued Liabilities
Gross Long-term Liabilities	-			-	Debt (Principal only)
Deferred Revenue	310,673			310,673	Deferred Revenue
Other	-			-	Other
Total Liabilities	1,644,315			1,644,315	Total Liabilities
Net Assets/(Debt)	2,670,012			2,705,012	Net Financial Assets/(Debt)
		14,163,353	273,000	13,890,353	Non-Financial Assets
		-		-	Tangible Capital Assets
		-		-	Inventory of Supplies
					Prepaid Expenses
				13,890,353	Total Non-Financial Assets
Municipal Position					
Water Reserves	2,705,012	2,705,012	-		
Gas Tax Reserve Fund	-	-	-		
Development Charge Reserve Fund	310,673	310,673	-		
Amounts to be Recovered	(310,673)	-	310,673		
Total Municipal Position	2,705,012		16,560,365	16,595,365	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		17,179,038	17,179,038		

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 Town 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 Town’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:

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



- b) Amortization Expense – The method and timing of amortization should be based on the Town’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 Town’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 Town'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 Town'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 Town'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, the Town's water system was in a net financial asset position of approximately \$2.7 million. The financial plan forecasts a decrease in net financial asset position over the forecast period to \$3.4 million by 2028.

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 water mains 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 grow over \$15.81 million over the forecast period. This indicates that the Town 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 increasing from 101% to 81% over the forecast period to 2028. As a result, annual surplus increases from a deficit of \$0.074 million to \$1.95 million. This is due to fluctuating earned development charge revenue annually as well as a general increasing trend in amortization expense (from planned asset acquisitions). 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 \$9.62 million to a 2018 accumulated surplus of \$16.67 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 a decrease to net financial assets over the forecast period. This is a result of more significant capital asset acquisitions forecasted between 2018 and 2028 allows 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 decreasing from 1.77 to 0.75 over the forecast period.¹

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how water systems are expected to generate and use cash resources during the forecast period. The transactions that provide/use cash are classified as operating, capital, investing, and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash- and accrual-based reporting. Table 4-4 indicates that cash from operations will be used to fund capital transactions (i.e. tangible capital asset acquisitions) and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the Town's water system to improve from a balance of approximately \$2.94 million at the beginning of 2018, to just over \$4.93 million by the end of 2028. 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	2028
Financial Assets												
Cash	1	3,483,933	4,059,117	2,744,737	3,131,185	4,209,363	5,186,249	6,320,216	7,088,890	6,537,478	5,939,928	4,934,973
Accounts Receivable	1	865,394	893,560	928,227	1,005,692	1,052,173	1,088,704	1,126,097	1,164,391	1,203,645	1,283,706	1,364,883
Total Financial Assets		4,349,327	4,952,677	3,672,964	4,136,877	5,261,536	6,274,953	7,446,313	8,253,281	7,741,123	7,223,634	6,299,856
Liabilities												
Bank Indebtedness		-	-	-	-	-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	1	1,333,642	1,350,787	1,401,334	1,454,044	1,508,765	1,565,114	1,623,678	1,684,456	1,747,958	1,813,877	1,882,342
Debt (Principal only)	2	-	-	4,000,000	4,865,673	4,692,391	4,512,178	4,324,756	4,129,838	6,927,123	9,615,554	11,190,777
Deferred Revenue	3	310,673	157,892	(405,393)	(571,743)	(570,358)	(561,136)	(543,809)	(788,071)	(1,357,184)	(1,996,913)	(3,364,665)
Total Liabilities		1,644,315	1,508,679	4,995,941	5,747,974	5,630,798	5,516,156	5,404,625	5,026,223	7,317,897	9,432,518	9,708,454
Net Financial Assets/(Debt)		2,705,012	3,443,998	(1,322,977)	(1,611,097)	(369,262)	758,797	2,041,688	3,227,058	423,226	(2,208,884)	(3,408,598)
Non-Financial Assets												
Tangible Capital Assets	4	13,890,353	13,891,055	19,887,315	20,856,855	20,099,193	19,507,095	18,800,614	18,499,689	22,594,251	26,550,855	29,700,929
Total Non-Financial Assets		13,890,353	13,891,055	19,887,315	20,856,855	20,099,193	19,507,095	18,800,614	18,499,689	22,594,251	26,550,855	29,700,929
Accumulated Surplus/(Deficit)	5	16,595,365	17,335,053	18,564,338	19,245,758	19,729,931	20,265,892	20,842,302	21,726,747	23,017,477	24,341,971	26,292,331
Financial Indicators	Total Change	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
1) Increase/(Decrease) in Net Financial Assets	(5,877,400)	236,210	738,986	(4,766,975)	(288,120)	1,241,835	1,128,059	1,282,891	1,185,370	(2,803,832)	(2,632,110)	(1,199,714)
2) Increase/(Decrease) in Tangible Capital Assets	12,349,664	(310,838)	702	5,996,260	969,540	(757,662)	(592,098)	(706,481)	(300,925)	4,094,562	3,956,604	-
3) Increase/(Decrease) in Accumulated Surplus	10,822,052	(74,628)	739,688	1,229,285	681,420	484,173	535,961	576,410	884,445	1,290,730	1,324,494	3,150,074



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	2028
Water Revenue												
Base Charge Revenue		617,360	664,588	715,765	770,884	830,246	894,175	963,027	1,037,179	1,117,042	1,203,054	1,295,723
Rate Based Revenue		5,323,284	5,470,898	5,660,060	5,850,419	6,040,306	6,229,570	6,419,843	6,611,123	6,803,411	7,054,317	7,306,386
Earned Development Charges Revenue	3	-	435,000	884,000	546,077	367,909	367,909	367,909	632,659	954,409	1,012,404	1,726,899
Other Revenue	6	116,500	118,800	121,100	123,500	126,001	128,501	131,099	133,699	136,300	139,000	141,700
Total Revenues		6,057,144	6,689,286	7,380,925	7,290,880	7,364,462	7,620,155	7,881,878	8,414,660	9,011,162	9,408,775	10,470,708
Water Expenses												
Operating Expenses	Sch. 4-1	5,512,934	5,307,300	5,505,900	5,713,000	5,928,000	6,149,400	6,379,500	6,618,300	6,867,800	7,126,800	7,395,800
Interest on Debt	2	-	-	-	160,000	194,627	187,696	180,487	172,990	165,194	277,085	384,622
Amortization	4	618,838	642,298	645,740	736,460	757,662	747,098	745,481	738,925	687,438	680,396	739,926
Loss on Disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-
Total Expenses		6,131,772	5,949,598	6,151,640	6,609,460	6,880,289	7,084,194	7,305,468	7,530,215	7,720,432	8,084,281	8,520,348
Annual Surplus/(Deficit)		(74,628)	739,688	1,229,285	681,420	484,173	535,961	576,410	884,445	1,290,730	1,324,494	1,950,360
Accumulated Surplus/(Deficit), beginning of year	5	16,669,993	16,595,365	17,335,053	18,564,338	19,245,758	19,729,931	20,265,892	20,842,302	21,726,747	23,017,477	24,341,971
Accumulated Surplus/(Deficit), end of year		16,595,365	17,335,053	18,564,338	19,245,758	19,729,931	20,265,892	20,842,302	21,726,747	23,017,477	24,341,971	26,292,331
Note 5:												
Accumulated Surplus/(Deficit) Reconciliation:		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Reserve Balances												
Reserves: Development Charges		310,673	157,892	(405,393)	(571,743)	(570,358)	(561,136)	(543,809)	(788,071)	(1,357,184)	(1,996,913)	(3,364,665)
Reserves: Gas Tax		-	-	-	-	-	-	-	-	-	-	-
Reserves: Capital/Other		2,705,012	3,443,998	2,677,023	3,254,576	4,323,129	5,270,975	6,366,444	7,356,896	7,350,349	7,406,670	7,782,179
Total Reserves Balance		3,015,685	3,601,890	2,271,630	2,682,833	3,752,771	4,709,839	5,822,635	6,568,825	5,993,165	5,409,757	4,417,514
Less: Debt Obligations and Deferred Revenue		(310,673)	(157,892)	(3,594,607)	(4,293,930)	(4,122,033)	(3,951,042)	(3,780,947)	(3,341,767)	(5,569,939)	(7,618,641)	(7,826,112)
Add: Tangible Capital Assets	4	13,890,353	13,891,055	19,887,315	20,856,855	20,099,193	19,507,095	18,800,614	18,499,689	22,594,251	26,550,855	29,700,929
Total Ending Balance		16,595,365	17,335,053	18,564,338	19,245,758	19,729,931	20,265,892	20,842,302	21,726,747	23,017,477	24,341,971	26,292,331
Financial Indicators	Total Change	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
1) Expense to Revenue Ratio		101%	89%	83%	91%	93%	93%	93%	89%	86%	86%	81%
2) Increase/(Decrease) in Accumulated Surplus	9,622,338	(74,628)	739,688	1,229,285	681,420	484,173	535,961	576,410	884,445	1,290,730	1,324,494	1,950,360



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	2028
Operating Expenses												
Salaries - Full Time		535,477	546,200	557,100	568,200	579,600	591,200	603,000	615,100	627,400	639,900	652,700
Salaries - Overtime		14,215	14,500	14,800	15,100	15,400	15,700	16,000	16,300	16,600	16,900	17,200
Salaries - Student		10,274	10,500	10,700	10,900	11,100	11,300	11,500	11,700	11,900	12,100	12,300
Committee Honorarium		12,034	12,300	12,500	12,800	13,100	13,400	13,700	14,000	14,300	14,600	14,900
Vehicle Expense		-	-	-	-	-	-	-	-	-	-	-
Benefits - EI		9,504	9,700	9,900	10,100	10,300	10,500	10,700	10,900	11,100	11,300	11,500
Benefits - CPP		21,106	21,500	21,900	22,300	22,700	23,200	23,700	24,200	24,700	25,200	25,700
Benefits - EHT		11,162	11,400	11,600	11,800	12,000	12,200	12,400	12,600	12,900	13,200	13,500
Benefits - OMERS		54,253	55,300	56,400	57,500	58,700	59,900	61,100	62,300	63,500	64,800	66,100
Benefits - Health Coverage		69,183	70,600	72,000	73,400	74,900	76,400	77,900	79,500	81,100	82,700	84,400
Benefits - WSIB		11,527	11,800	12,000	12,200	12,400	12,600	12,900	13,200	13,500	13,800	14,100
Benefits - Uniforms		5,500	5,600	5,700	5,800	5,900	6,000	6,100	6,200	6,300	6,400	6,500
Benefits - Meal Allowance		1,001	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Benefits - Eyeglasses		3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,100	4,200
Benefits - Ortho		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Training & Development		15,000	15,300	15,600	15,900	16,200	16,500	16,800	17,100	17,400	17,700	18,100
Office Supplies		2,500	2,600	2,700	2,800	2,900	3,000	3,100	3,200	3,300	3,400	3,500
Computer Supplies		500	500	500	500	500	500	500	500	500	500	500
Postage Supplies		30,000	30,600	31,200	31,800	32,400	33,000	33,700	34,400	35,100	35,800	36,500
Courier & Express		500	500	500	500	500	500	500	500	500	500	500
Advertising		1,250	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Computer Maintenance		500	500	500	500	500	500	500	500	500	500	500
Computer Consultants		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
General Insurance		23,268	23,700	24,200	24,700	25,200	25,700	26,200	26,700	27,200	27,700	28,300
Utilities		-	-	-	-	-	-	-	-	-	-	-
Facility Maintenance		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Equipment Repair		17,000	17,300	17,600	18,000	18,400	18,800	19,200	19,600	20,000	20,400	20,800
Miscellaneous		500	500	500	500	500	500	500	500	500	500	500
Equipment Rental		500	500	500	500	500	500	500	500	500	500	500
Professional Svc (Legal Audits)		3,500	3,600	3,700	3,800	3,900	4,000	4,100	4,200	4,300	4,400	4,500
Membership & Subscription		2,500	2,600	2,700	2,800	2,900	3,000	3,100	3,200	3,300	3,400	3,500
Write offs		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Professional Fees (Engineering)		5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000
Communication		5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000
Shop Supplies		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Fuel & Oil		22,000	23,100	24,300	25,500	26,800	28,100	29,500	31,000	32,600	34,200	35,900
Licences & Permits		5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000	6,100	6,200
Safety Supplies		3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000
Small Tools		3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000
Mileage		500	500	500	500	500	500	500	500	500	500	500
Curb Stop Repairs		9,500	9,700	9,900	10,100	10,300	10,500	10,700	10,900	11,100	11,300	11,500
Back Flow Program		25,000	25,500	26,000	26,500	27,000	27,500	28,100	28,700	29,300	29,900	30,500
Road Repair / Restoration		17,500	17,900	18,300	18,700	19,100	19,500	19,900	20,300	20,700	21,100	21,500
Meter Reading Expense		2,500	2,600	2,700	2,800	2,900	3,000	3,100	3,200	3,300	3,400	3,500
Water Purchases - Estimated		3,863,000	3,902,000	4,072,000	4,250,000	4,435,000	4,626,000	4,825,000	5,032,000	5,249,000	5,475,000	5,710,000
Water Meters		55,000	56,100	57,200	58,300	59,500	60,700	61,900	63,100	64,400	65,700	67,000
Water Meter Maintenance		15,000	15,300	15,600	15,900	16,200	16,500	16,800	17,100	17,400	17,700	18,100
Water Locates		7,500	7,700	7,900	8,100	8,300	8,500	8,700	8,900	9,100	9,300	9,500
Water Service Connections		60,000	61,200	62,400	63,600	64,900	66,200	67,500	68,900	70,300	71,700	73,100
Watermain Line Breaks		45,000	45,900	46,800	47,700	48,700	49,700	50,700	51,700	52,700	53,800	54,900
Water Line Maintenance		15,000	15,300	15,600	15,900	16,200	16,500	16,800	17,100	17,400	17,700	18,100
Hydrant Maintenance		20,000	20,400	20,800	21,200	21,600	22,000	22,400	22,800	23,300	23,800	24,300
Property Taxes		1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900
Program Support Costs		194,880	198,800	202,800	206,900	211,000	215,200	219,500	223,900	228,400	233,000	237,700
Non TCA - Expenses from Capital Budget	7	273,000	-	-	-	-	-	-	-	-	-	-
TOTAL OPERATING EXPENSES		5,512,934	5,307,300	5,505,900	5,713,000	5,928,000	6,149,400	6,379,500	6,618,300	6,867,800	7,126,800	7,395,800



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	2028
Annual Surplus/(Deficit)		(74,628)	739,688	1,229,285	681,420	484,173	535,961	576,410	884,445	1,290,730	1,324,494	1,950,360
Less: Acquisition of Tangible Capital Assets	4	(308,000)	(643,000)	(6,642,000)	(1,706,000)	-	(155,000)	(39,000)	(438,000)	(4,782,000)	(4,637,000)	(3,890,000)
Add: Amortization of Tangible Capital Assets	4	618,838	642,298	645,740	736,460	757,662	747,098	745,481	738,925	687,438	680,396	739,926
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-
		310,838	(702)	(5,996,260)	(969,540)	757,662	592,098	706,481	300,925	(4,094,562)	(3,956,604)	(3,150,074)
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)		236,210	738,986	(4,766,975)	(288,120)	1,241,835	1,128,059	1,282,891	1,185,370	(2,803,832)	(2,632,110)	(1,199,714)
Net Financial Assets/(Net Debt), beginning of year		2,468,802	2,705,012	3,443,998	(1,322,977)	(1,611,097)	(369,262)	758,797	2,041,688	3,227,058	423,226	(2,208,884)
Net Financial Assets/(Net Debt), end of year		2,705,012	3,443,998	(1,322,977)	(1,611,097)	(369,262)	758,797	2,041,688	3,227,058	423,226	(2,208,884)	(3,408,598)
Financial Indicators		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
1) Acquisition of Tangible Capital Assets (Cumulative)		308,000	951,000	7,593,000	9,299,000	9,299,000	9,454,000	9,493,000	9,931,000	14,713,000	19,350,000	23,240,000
2) Annual Surplus/Deficit before Amortization (Cumulative)		544,210	1,926,196	3,801,221	5,219,101	6,460,936	7,743,995	9,065,886	10,689,256	12,667,424	14,672,314	17,362,600
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		1.77	2.03	0.50	0.56	0.69	0.82	0.96	1.08	0.86	0.76	0.75



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	2028
Operating Transactions												
Annual Surplus/Deficit		(74,628)	739,688	1,229,285	681,420	484,173	535,961	576,410	884,445	1,290,730	1,324,494	1,950,360
Add: Amortization of TCA's	4	618,838	642,298	645,740	736,460	757,662	747,098	745,481	738,925	687,438	680,396	739,926
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-
Less: Earned Deferred Revenue	3	-	(435,000)	(884,000)	(546,077)	(367,909)	(367,909)	(367,909)	(632,659)	(954,409)	(1,012,404)	(1,726,899)
Less: Developer Contributions		-	-	-	-	-	-	-	-	-	-	-
Add: Deferred Revenue Proceeds		310,673	282,219	320,715	379,727	369,294	377,131	385,236	388,396	385,296	372,675	359,147
Change in A/R (Increase)/Decrease		-	(28,166)	(34,667)	(77,465)	(46,481)	(36,531)	(37,393)	(38,294)	(39,254)	(80,061)	(81,177)
Change in A/P Increase/(Decrease)		-	17,145	50,547	52,710	54,721	56,349	58,564	60,778	63,502	65,919	68,465
Less: Interest Proceeds		-	-	-	-	-	-	-	-	-	-	-
Cash Provided by Operating Transactions		854,883	1,218,184	1,327,620	1,226,775	1,251,460	1,312,099	1,360,389	1,401,592	1,433,303	1,351,019	1,309,822
Capital Transactions												
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(308,000)	(643,000)	(6,642,000)	(1,706,000)	-	(155,000)	(39,000)	(438,000)	(4,782,000)	(4,637,000)	(3,890,000)
Cash Applied to Capital Transactions		(308,000)	(643,000)	(6,642,000)	(1,706,000)	-	(155,000)	(39,000)	(438,000)	(4,782,000)	(4,637,000)	(3,890,000)
Investing Transactions												
Proceeds from Investments		-	-	-	-	-	-	-	-	-	-	-
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		-	-	-	-	-	-	-	-	-	-	-
Financing Transactions												
Proceeds from Debt Issue	2	-	-	4,000,000	1,000,000	-	-	-	-	3,000,000	3,000,000	2,000,000
Less: Debt Repayment (Principal only)	2	-	-	-	(134,327)	(173,282)	(180,213)	(187,422)	(194,918)	(202,715)	(311,569)	(424,777)
Cash Applied to Financing Transactions		-	-	4,000,000	865,673	(173,282)	(180,213)	(187,422)	(194,918)	2,797,285	2,688,431	1,575,223
Increase in Cash and Cash Equivalents		546,883	575,184	(1,314,380)	386,448	1,078,178	976,886	1,133,967	768,674	(551,412)	(597,550)	(1,004,955)
Cash and Cash Equivalents, beginning of year	1	2,937,050	3,483,933	4,059,117	2,744,737	3,131,185	4,209,363	5,186,249	6,320,216	7,088,890	6,537,478	5,939,928
Cash and Cash Equivalents, end of year	1	3,483,933	4,059,117	2,744,737	3,131,185	4,209,363	5,186,249	6,320,216	7,088,890	6,537,478	5,939,928	4,934,973



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 Town, some of the items listed above have been estimated given that the Town 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 Town, 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 water receivables as a percentage of annual water revenue earned; and
- b) Payables: Based on historical levels of Town-wide payables as a percentage of annual Town-wide expenses.

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

2. Debt

Currently there is no outstanding water related debt at the end of 2018 however, debenture financing is projected to take place over the forecast period to assist in funding tangible capital asset acquisitions. Principal repayments for forecasted debt over the forecast period are anticipated as follows:



Year	Principal Payments
2018	-
2019	-
2020	-
2021	134,327
2022	173,282
2023	180,213
2024	187,422
2025	194,918
2026	202,715
2027	311,569
2028	424,777
Total	\$ 1,809,223

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 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 2019 Water and Wastewater Rate Study anticipates interim financing from the waterline maintenance 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, Service Connections, Valves, and Hydrants)
 - ii. Vehicles, Machinery & Equipment
 - iii. Land and Land Improvements



- Amortization is calculated based on using the straight-line approach with one-half ($\frac{1}{2}$) year amortization in the year of acquisition or construction.
- Given the planned asset replacement forecast provided by the Town, 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. 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 Town is unaware of any specific lead service piping in the municipal water system. However, when older portions of the watermain system is replaced as part of the ongoing replacement program, any lead service pipes will be replaced if and when found.



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

Asset Historical Cost	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Opening Tangible Capital Asset Balance	26,924,725	27,163,493	27,749,870	34,271,644	35,942,807	35,942,807	35,949,142	35,949,997	36,387,997	41,169,997	45,806,997
Acquisitions	308,000	643,000	6,642,000	1,706,000	-	155,000	39,000	438,000	4,782,000	4,637,000	3,890,000
Disposals	69,232	56,623	120,226	34,837	-	148,665	38,145	-	-	-	-
Closing Tangible Capital Asset Balance	27,163,493	27,749,870	34,271,644	35,942,807	35,942,807	35,949,142	35,949,997	36,387,997	41,169,997	45,806,997	49,696,997
Opening Accumulated Amortization	12,723,534	13,273,140	13,858,815	14,384,329	15,085,952	15,843,614	16,442,047	17,149,383	17,888,308	18,575,746	19,256,142
Amortization Expense	618,838	642,298	645,740	736,460	757,662	747,098	745,481	738,925	687,438	680,396	739,926
Amortization on Disposal	69,232	56,623	120,226	34,837	-	148,665	38,145	-	-	-	-
Ending Accumulated Amortization	13,273,140	13,858,815	14,384,329	15,085,952	15,843,614	16,442,047	17,149,383	17,888,308	18,575,746	19,256,142	19,996,068
Net Book Value	13,890,353	13,891,055	19,887,315	20,856,855	20,099,193	19,507,095	18,800,614	18,499,689	22,594,251	26,550,855	29,700,929



5. Accumulated Surplus

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

Water	2018 Opening Accumulated Surplus
Reserve Balances	
Reserves: Development Charges	-
Reserves: Gas Tax	-
Reserves: Capital/Other	2,468,802
Total Reserves Balance	2,468,802
Less: Debt Obligations and Deferred Revenue	-
Less: Unfinanced Capital	-
Add: Long-term Accounts Receivable	-
Add: Tangible Capital Assets	14,201,191
Total Opening Balance	16,669,993

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

6. Other Revenue

Other revenue includes service connection installation, meter installation/maintenance, recovered wages, account set-up fees, water meter sales, 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 Town 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 Water and Wastewater Rate Study, dated March 20, 2019. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Town of Kingsville Water Financial Plan prepared by Watson & Associates Economists Ltd. dated March 21, 2019 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan dated March 21, 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.).