



Water Ontario Regulation 453/07 Financial Plan

Union Water Supply System

Financial Plan #041-301

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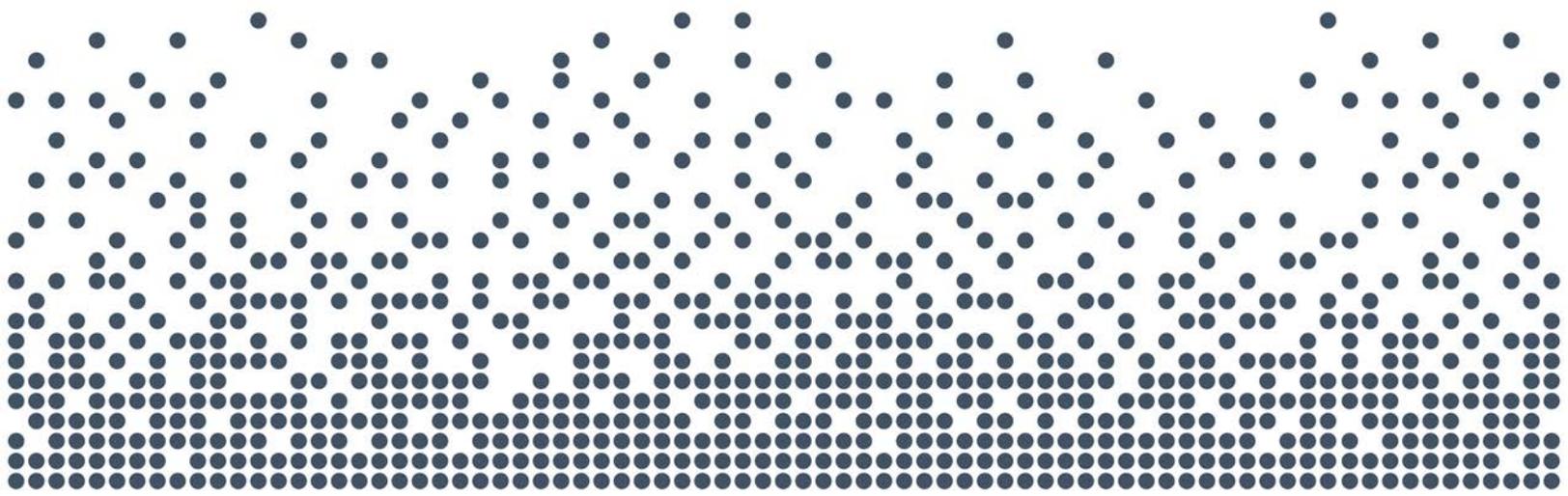
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List of Acronyms and Abbreviations

Acronym	Full Description of Acronym
D.C.	Development Charges
I.J.P.A.	Infrastructure for Jobs and Prosperity Act
MECP	Ministry of the Environment, Conservation and Parks
MMAH	Ministry of Municipal Affairs and Housing
O.Reg.	Ontario Regulation
P.S.A.B.	Public Sector Accounting Board
S.D.W.A.	Safe Drinking Water Act
S.W.S.S.A.	Sustainable Water and Sewage Systems Act
T.C.A.	Tangible Capital Assets
U.W.S.S.	Union Water Supply System



Report



Chapter 1

Introduction



1. Introduction

1.1 Study Purpose

Union Water Supply System (U.W.S.S.) 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 U.W.S.S.'s water system has already been completed and documented by Watson within the Union Water Supply System 2018/2019 Water Rate Study, dated December 19, 2018 (the "Rate Study"). The objective of the report provided herein is to convert the findings of the 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 system. 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 P.S.A.B.) for each year in which the financial plans apply;
- Financial plans must present financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets (i.e. the components of a “Statement of Financial Position” as per P.S.A.B.) for each year in which the financial plans apply;
- Gross cash receipts/payments itemized by operating transactions, capital transactions, investing transactions and financial transactions (i.e. the components of a “Statement of Cash Flow” as per P.S.A.B.) for each year in which the financial plans apply;
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system;
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and
- Financial 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 chosen 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 (P.S.A.B.) Requirements

The components of the financial plans indicated by the regulation are consistent with the requirements for financial statement presentation as set out in section PS1200 of the 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 included in annual reporting, as indicated by the requirements 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 U.W.S.S.'s Financial Plan

U.W.S.S. 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. This financial plan provides for the 2018 budget and a six-year forecast period from 2019 to 2024.



Chapter 2

Sustainable Financial Planning



2. Sustainable Financial Planning

2.1 Introduction

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

Principle #1: Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.

Principle #2: An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.

Principle #3: Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.

Principle #4: Life-cycle planning with mid-course corrections is preferable to planning over the short-term, or not planning at all.

Principle #5: An asset management plan is a key input to the development of a financial plan.

Principle #6: A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.

Principle #7: Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.

Principle #8: Financial plans are "living" documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.



Principle #9: Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal Council.

2.2 Sustainable Water and Sewage Systems Act

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

2.3 Water Opportunities Act, 2010 (Bill 72)

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

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

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

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



- additional information considered advisable.

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

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

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

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

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

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



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

In relation to water (which is considered a core asset), municipalities, and their boards, 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, U.W.S.S. will need to consider the impacts during the annual budget and forecast process.



2.5 Water Budget and Business Plan

U.W.S.S. has already completed extensive financial planning as documented in the 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 Rate Study provides a sound financial plan for the 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 U.W.S.S.’s staff, Board, participating Municipal Councils, 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 Rate Study (along with additional detailed information provided by U.W.S.S. Staff) has been used as a starting point to prepare the water financial plan. The 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 budget and business plan to the full accrual reporting format required under O.Reg. 453/07 can be summarized in the following steps:

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

3.2.1 Calculate Tangible Capital Asset Balances

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water assets, an inventory has already been compiled and summarized within the Rate Study as well as part of U.W.S.S.'s P.S.A.B. 3150 compliance process. As required, for P.S.A.B. 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 Rate Study. However, these estimates only represent future assets that U.W.S.S. anticipates purchasing or constructing without consideration for future assets that are contributed by developers and other parties (at no or partial cost to U.W.S.S.). 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 transactional 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
Rate Based Revenue	9,741,354			9,741,354	Rate Based Revenue
Transfers from Reserves	6,212,722	6,212,722			
Contributions from Ratepayers	-	-		-	Earned Development Charges and Gas Tax Revenue
Other Revenue	20,750		503,173	523,923	Developer Contributions
Total Revenues	15,974,826			10,265,277	Total Revenues
Expenditures					Expenses
Operating	4,853,288	175,500		5,028,788	Operating Expenses
Capital					
Transfers to Reserves	8,808,097		8,808,097		
Transfers to Capital	-		-		
Debt Repayment (Principal & Interest)	2,313,441		902,009	1,411,432	Interest on Debt
		1,174,038		1,174,038	Amortization
		-		-	Loss on Disposal of Tangible Capital Assets
Total Expenditures	15,974,826			7,614,258	Total Expenses
Net Expenditures	-			2,651,019	Annual Surplus/(Deficit)
Increase (decrease) in amounts to be recovered	-			46,586,678	Accumulated Surplus/(Deficit), beginning of year
Change in Fund Balances	-	2,651,019	-	49,237,697	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		10,213,279	10,213,279		



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.

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

The Statement of Cash Flow summarizes how U.W.S.S. 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	Accrual Basis
	2018	DR	CR		
ASSETS					ASSETS
Financial Assets					Financial Assets
Cash	18,946,420		-	18,946,420	Cash
Accounts Receivable	1,451,808			1,451,808	Accounts Receivable
Long-term Accounts Receivable	-			-	Long-term Accounts Receivable
				-	Investments
				-	Inventory for resale
<i>Total Financial Assets</i>	<i>20,398,228</i>			<i>20,398,228</i>	<i>Total Financial Assets</i>
Non-Financial Assets					
Inventory of Supplies	-		-		
Prepaid Expenses	-		-		
<i>Total Non-Financial Assets</i>	<i>-</i>				
LIABILITIES					Liabilities
Accounts Payable & Accrued Liabilities	548,836			548,836	Accounts Payable & Accrued Liabilities
Gross Long-term Liabilities	12,854,536			12,854,536	Debt (Principal only)
Deferred Revenue	-			-	Deferred Revenue
Other	-			-	Other
<i>Total Liabilities</i>	<i>13,403,372</i>			<i>13,403,372</i>	<i>Total Liabilities</i>
Net Assets/(Debt)	6,994,856			6,994,856	Net Financial Assets/(Debt)
		42,418,341	175,500	42,242,841	Non-Financial Assets
		-		-	Tangible Capital Assets
		-		-	Inventory of Supplies
				-	Prepaid Expenses
				42,242,841	Total Non-Financial Assets
Municipal Position					
Water Reserves	19,849,392	19,849,392	-		
Amounts to be Recovered	(12,854,536)	-	12,854,536		
Total Municipal Position	6,994,856		49,237,697	49,237,697	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		62,267,733	62,267,733		



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 U.W.S.S. 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 U.W.S.S.'s ledgers.
- b) Amortization Expense – The method and timing of amortization should be based on U.W.S.S.'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 U.W.S.S.'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 U.W.S.S.'s water system. 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 U.W.S.S.'s water system. 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 U.W.S.S.'s water system. 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 U.W.S.S.'s water system will be in a net financial asset position of approximately \$6.99 million. The financial plan forecasts a decrease in net financial asset position over the forecast period to \$1.97 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 grow over \$22.4 million over the forecast period. This indicates that U.W.S.S. has plans to invest in tangible capital assets in excess of the anticipated use of existing assets over the forecast period.

4.2.2 Statement of Operations (Table 4-2)

The Statement of Operations summarizes the revenues and expenses generated by the water system for a given period. The annual surplus/deficit measures whether the revenues generated were sufficient to cover the expenses incurred and in turn, whether net financial assets have been maintained or depleted. Table 4-2 illustrates the ratio of expenses to revenues, although fluctuating to some extent, generally decreasing from 74% to 68% over the forecast period to 2024. As a result, annual surplus increases from \$2.7 million in 2018 to \$4.1 million by 2024. It is important to note that an annual surplus is beneficial to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments.

Another important indicator on this statement is accumulated surplus/deficit. An accumulated surplus indicates that the available net resources are sufficient to provide future water services. An accumulated deficit indicates that resources are insufficient to provide future services and that borrowing or rate increases are required to finance annual deficits. From Table 4-2, the financial plan proposes to add approximately \$20.1 million to a 2018 accumulated surplus of \$46.6 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) exceeds the forecasted tangible capital asset acquisitions (net of amortization for the year), resulting in an increase to net financial assets over the forecast period. This 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 ranging between 0.79 and 2.25 over the forecast period.¹

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how water system 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 U.W.S.S.'s water system to decrease from a balance of approximately \$18.6 million at the beginning of 2018, to just over \$5.92 million by the end of 2024. 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
2018-2024

	Notes	Forecast						
		2018	2019	2020	2021	2022	2023	2024
Financial Assets								
Cash	1	18,946,420	15,944,404	13,558,292	13,678,200	9,270,305	6,153,723	5,919,288
Accounts Receivable	1	1,451,808	923,342	959,681	1,002,473	1,419,449	1,117,969	1,166,732
Total Financial Assets		20,398,228	16,867,746	14,517,973	14,680,673	10,689,754	7,271,692	7,086,020
Liabilities								
Bank Indebtedness		-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	1	548,836	638,593	670,822	672,779	683,488	697,318	711,465
Debt (Principal only)	2	12,854,536	11,832,898	10,878,260	13,059,115	7,908,944	6,259,452	4,406,948
Deferred Revenue	3	-	-	-	-	-	-	-
Total Liabilities		13,403,372	12,471,491	11,549,082	13,731,894	8,592,432	6,956,770	5,118,413
Net Financial Assets/(Debt)		6,994,856	4,396,255	2,968,891	948,779	2,097,322	314,922	1,967,607
Non-Financial Assets								
Tangible Capital Assets	4	42,242,841	46,988,896	50,409,215	55,002,187	56,885,442	62,267,498	64,711,570
Total Non-Financial Assets		42,242,841	46,988,896	50,409,215	55,002,187	56,885,442	62,267,498	64,711,570
Accumulated Surplus/(Deficit)	5	49,237,697	51,385,151	53,378,106	55,950,966	58,982,764	62,582,420	66,679,177
Financial Indicators								
	Total Change	2018	2019	2020	2021	2022	2023	2024
1) Increase/(Decrease) in Net Financial Assets	(2,904,121)	2,123,128	(2,598,601)	(1,427,364)	(2,020,112)	1,148,543	(1,782,400)	1,652,685
2) Increase/(Decrease) in Tangible Capital Assets	22,996,620	527,891	4,746,055	3,420,319	4,592,972	1,883,255	5,382,056	2,444,072
3) Increase/(Decrease) in Accumulated Surplus	20,092,499	2,651,019	2,147,454	1,992,955	2,572,860	3,031,798	3,599,656	4,096,757



Table 4-2
Statement of Operations: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2024

	Notes	Forecast						
		2018	2019	2020	2021	2022	2023	2024
Water Revenue								
Rate Based Revenue		9,741,354	10,031,588	10,482,317	10,952,777	11,710,550	12,222,832	12,758,883
Other Revenue	6	523,923	398,473	346,960	345,302	218,400	151,510	148,091
Total Revenues		10,265,277	10,430,061	10,829,277	11,298,079	11,928,950	12,374,342	12,906,974
Water Expenses								
Operating Expenses	Sch. 4-1	5,028,788	5,790,000	6,254,000	6,172,300	6,244,000	6,371,300	6,499,400
Interest on Debt	2	1,411,432	1,310,662	1,196,641	1,075,891	1,069,407	759,442	575,889
Amortization	4	1,174,038	1,181,945	1,385,681	1,477,028	1,583,745	1,643,944	1,734,928
Loss on Disposal of Tangible Capital Assets		-	-	-	-	-	-	-
Total Expenses		7,614,258	8,282,607	8,836,322	8,725,219	8,897,152	8,774,686	8,810,217
Annual Surplus/(Deficit)		2,651,019	2,147,454	1,992,955	2,572,860	3,031,798	3,599,656	4,096,757
Accumulated Surplus/(Deficit), beginning of year	5	46,586,678	49,237,697	51,385,151	53,378,106	55,950,966	58,982,764	62,582,420
Accumulated Surplus/(Deficit), end of year		49,237,697	51,385,151	53,378,106	55,950,966	58,982,764	62,582,420	66,679,177
Note 5:								
Accumulated Surplus/(Deficit) Reconciliation:		2018	2019	2020	2021	2022	2023	2024
Reserve Balances								
Reserves: Capital/Other		19,849,392	16,229,153	13,847,151	14,007,894	10,006,266	6,574,374	6,374,555
Total Reserves Balance		19,849,392	16,229,153	13,847,151	14,007,894	10,006,266	6,574,374	6,374,555
Less: Debt Obligations and Deferred Revenue		(12,854,536)	(11,832,898)	(10,878,260)	(13,059,115)	(7,908,944)	(6,259,452)	(4,406,948)
Add: Tangible Capital Assets	4	42,242,841	46,988,896	50,409,215	55,002,187	56,885,442	62,267,498	64,711,570
Total Ending Balance		49,237,697	51,385,151	53,378,106	55,950,966	58,982,764	62,582,420	66,679,177
Financial Indicators	Total Change	2018	2019	2020	2021	2022	2023	2024
1) Expense to Revenue Ratio		74%	79%	82%	77%	75%	71%	68%
2) Increase/(Decrease) in Accumulated Surplus	20,092,499	2,651,019	2,147,454	1,992,955	2,572,860	3,031,798	3,599,656	4,096,757



Schedule 4-1
Statement of Operating Expenses: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2024

	Notes	Forecast						
		2018	2019	2020	2021	2022	2023	2024
Operating Expenses								
Wages and Benefits		-	-	-	-	-	-	-
Salaried		175,000	180,000	187,200	194,700	202,500	210,600	219,000
Part time		-	-	-	-	-	-	-
Benefits - Full time		62,000	63,250	65,800	68,400	71,100	73,900	76,900
Benefits - Part time		-	-	-	-	-	-	-
Office Overhead, Rents and Services		-	-	-	-	-	-	-
Office supplies		1,600	2,000	2,000	2,000	2,000	2,000	2,000
Board expenses		-	-	-	-	-	-	-
Dues, Memberships, Subsc		4,100	5,000	5,100	5,200	5,300	5,400	5,500
Travel & Mileage		2,806	2,500	2,600	2,700	2,800	2,900	3,000
Training		1,500	6,000	6,100	6,200	6,300	6,400	6,500
Conferences		4,619	6,000	6,100	6,200	6,300	6,400	6,500
Meeting Expenses		850	2,000	2,000	2,000	2,000	2,000	2,000
Uniforms/Clothing		-	500	500	500	500	500	500
Legal/Professional fees		72,000	45,000	45,900	46,800	47,700	48,700	49,700
Audit Fees		5,877	6,500	6,600	6,700	6,800	6,900	7,000
Property Taxes		146,283	147,500	150,500	153,500	156,600	159,700	162,900
Operational Purchases/Maint.		17,500	17,500	17,900	18,300	18,700	19,100	19,500
Sundry		-	250	300	300	300	300	300
Leamington Assistance		30,000	30,000	30,600	31,200	31,800	32,400	33,000
Communications		950	1,500	1,500	1,500	1,500	1,500	1,500
Postage & Courier		98	500	500	500	500	500	500
Advertising & Promotion		4,000	7,000	7,100	7,200	7,300	7,400	7,500
Insurance		13,805	15,000	15,300	15,600	15,900	16,200	16,500
Donations & Grants		3,000	4,000	4,100	4,200	4,300	4,400	4,500
Office equipment Purchases/Maint.		2,300	5,000	5,100	5,200	5,300	5,400	5,500
OCWA Operating & Maintenance Contract		2,800,000	3,265,000	3,330,300	3,396,900	3,464,800	3,534,100	3,604,800
Electricity and Natural Gas		1,175,000	1,250,000	1,275,000	1,300,500	1,326,500	1,353,000	1,380,100
CO2 Gas Bulk Purchase		-	175,000	178,500	182,100	185,700	189,400	193,200
Operational Programs & Studies		175,500	140,000	310,000	210,000	185,000	185,000	185,000
Residuals Ponds Maintenance		75,000	150,000	153,000	156,100	159,200	162,400	165,600
Watermain Repairs		48,000	100,000	102,000	104,000	106,100	108,200	110,400
Municipal DW License Renewal		12,500	-	-	-	-	-	-
Facility Enhancements - General		19,000	20,000	20,400	20,800	21,200	21,600	22,000
Non TCA - Expenses from Capital Budget	7	175,500	143,000	322,000	223,000	200,000	205,000	208,000
TOTAL OPERATING EXPENSES		5,028,788	5,790,000	6,254,000	6,172,300	6,244,000	6,371,300	6,499,400



Table 4-3
Statement of Changes in Net Financial Assets/Debt: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2024

	Notes	Forecast						
		2018	2019	2020	2021	2022	2023	2024
Annual Surplus/(Deficit)		2,651,019	2,147,454	1,992,955	2,572,860	3,031,798	3,599,656	4,096,757
Less: Acquisition of Tangible Capital Assets	4	(1,701,929)	(5,928,000)	(4,806,000)	(6,070,000)	(3,467,000)	(7,026,000)	(4,179,000)
Add: Amortization of Tangible Capital Assets	4	1,174,038	1,181,945	1,385,681	1,477,028	1,583,745	1,643,944	1,734,928
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-
		(527,891)	(4,746,055)	(3,420,319)	(4,592,972)	(1,883,255)	(5,382,056)	(2,444,072)
Increase/(Decrease) in Net Financial Assets/(Net Debt)		2,123,128	(2,598,601)	(1,427,364)	(2,020,112)	1,148,543	(1,782,400)	1,652,685
Net Financial Assets/(Net Debt), beginning of year		4,871,728	6,994,856	4,396,255	2,968,891	948,779	2,097,322	314,922
Net Financial Assets/(Net Debt), end of year		6,994,856	4,396,255	2,968,891	948,779	2,097,322	314,922	1,967,607
Financial Indicators		2018	2019	2020	2021	2022	2023	2024
1) Acquisition of Tangible Capital Assets (Cumulative)		1,701,929	7,629,929	12,435,929	18,505,929	21,972,929	28,998,929	33,177,929
2) Annual Surplus/Deficit before Amortization (Cumulative)		3,825,057	7,154,456	10,533,092	14,582,980	19,198,523	24,442,123	30,273,808
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		2.25	0.94	0.85	0.79	0.87	0.84	0.91



Table 4-4
Statement of Cash Flow – Indirect Method: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2024

	Notes	Forecast						
		2018	2019	2020	2021	2022	2023	2024
Operating Transactions								
Annual Surplus/Deficit		2,651,019	2,147,454	1,992,955	2,572,860	3,031,798	3,599,656	4,096,757
Add: Amortization of TCA's	4	1,174,038	1,181,945	1,385,681	1,477,028	1,583,745	1,643,944	1,734,928
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-
Change in A/R (Increase)/Decrease		(593,094)	528,466	(36,339)	(42,792)	(416,976)	301,480	(48,764)
Change in A/P Increase/(Decrease)		(323,063)	89,757	32,229	1,957	10,709	13,830	14,147
Less: Interest Proceeds		(503,173)	(377,473)	(325,559)	(323,502)	(196,201)	(128,909)	(124,991)
Cash Provided by Operating Transactions		2,405,727	3,570,149	3,048,967	3,685,551	4,013,075	5,430,001	5,672,077
Capital Transactions								
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(1,701,929)	(5,928,000)	(4,806,000)	(6,070,000)	(3,467,000)	(7,026,000)	(4,179,000)
Cash Applied to Capital Transactions		(1,701,929)	(5,928,000)	(4,806,000)	(6,070,000)	(3,467,000)	(7,026,000)	(4,179,000)
Investing Transactions								
Proceeds from Investments		503,173	377,473	325,559	323,502	196,201	128,909	124,991
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		503,173	377,473	325,559	323,502	196,201	128,909	124,991
Financing Transactions								
Proceeds from Debt Issue	2	-	-	200,000	3,500,000	-	-	-
Less: Debt Repayment (Principal only)	2	(902,009)	(1,021,638)	(1,154,638)	(1,319,145)	(5,150,171)	(1,649,492)	(1,852,503)
Cash Applied to Financing Transactions		(902,009)	(1,021,638)	(954,638)	2,180,855	(5,150,171)	(1,649,492)	(1,852,503)
Increase in Cash and Cash Equivalents		304,962	(3,002,016)	(2,386,112)	119,908	(4,407,895)	(3,116,582)	(234,435)
Cash and Cash Equivalents, beginning of year	1	18,641,458	18,946,420	15,944,404	13,558,292	13,678,200	9,270,305	6,153,723
Cash and Cash Equivalents, end of year	1	18,946,420	15,944,404	13,558,292	13,678,200	9,270,305	6,153,723	5,919,288



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

The assumptions used have been documented below:



1. Cash, Receivables and Payables

Cash balances were estimated over the forecast period by taking the system's existing cash balance and forecasting cash inflows and outflows for each year, based on the forecasts provided in the Rate Study.

Receivable and payable balances throughout the forecast period were estimated based on comparing more recent receivable and payable balances to revenue and expense totals respectively. This relationship of receivables to revenues and payables to expenses were used to forecast future receivables and payables using the forecasted revenues and expenses in each year.

2. Debt

Outstanding water related debt at the end of 2017 was \$13.76 million. Principal repayments, for existing debt as well as future debt required over the forecast period are scheduled as follows:

Year	Principal Payments
2018	902,009
2019	1,021,638
2020	1,154,638
2021	1,319,145
2022	5,150,171
2023	1,649,492
2024	1,852,503
Total	\$ 13,049,596

Additional short-term debt proceeds of \$3.7 million are anticipated over the forecast period based on U.W.S.S.'s projected debt financing requirements from 2018 to 2024.

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



Water Supply System does not collect water development charges, therefore deferred revenue is assumed to be zero over the forecast period.

4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water related assets in the following categories:
 - i. Linear Infrastructure
 - ii. Facilities
 - iii. Machinery and Equipment
 - iv. Land Improvements
 - v. Land

- Amortization is calculated based on the straight-line approach with one half (1/2) amortization in the year of acquisition or construction.
- Given the planned asset replacement forecast provided by U.W.S.S., 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.
- 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.
- U.W.S.S. is unaware of any specific lead service piping in the water system.



The balance of tangible capital assets is summarized as follows:

Asset Historical Cost	2018	2019	2020	2021	2022	2023	2024
Opening Tangible Capital Asset Balance	66,176,581	67,617,189	72,179,241	76,732,555	82,677,757	85,925,696	92,861,424
Acquisitions	1,701,929	5,928,000	4,806,000	6,070,000	3,467,000	7,026,000	4,179,000
Disposals	261,321	1,365,948	252,686	124,798	219,061	90,272	409,690
Closing Tangible Capital Asset Balance	67,617,189	72,179,241	76,732,555	82,677,757	85,925,696	92,861,424	96,630,734
Opening Accumulated Amortization	24,461,631	25,374,348	25,190,345	26,323,340	27,675,570	29,040,254	30,593,926
Amortization Expense	1,174,038	1,181,945	1,385,681	1,477,028	1,583,745	1,643,944	1,734,928
Amortization on Disposal	261,321	1,365,948	252,686	124,798	219,061	90,272	409,690
Ending Accumulated Amortization	25,374,348	25,190,345	26,323,340	27,675,570	29,040,254	30,593,926	31,919,164
Net Book Value	42,242,841	46,988,896	50,409,215	55,002,187	56,885,442	62,267,498	64,711,570



5. Accumulated Surplus

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

Wastewater	2018 Opening Accumulated Surplus
Reserve Balances	
Reserves: Capital/Other	18,628,273
Total Reserves Balance	18,628,273
Less: Debt Obligations and Deferred Revenue	(13,756,545)
Add: Tangible Capital Assets	41,714,950
Total Opening Balance	46,586,678

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

6. Other Revenue

Other revenue includes investment income and sundry revenue.

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 Union Water Supply System in accordance with the mandatory reporting formats for water system as detailed in O.Reg. 453/07. It is important to note that while mandatory, the financial plan is provided for the Board's interest and approval however, for decision making purposes, it may be more informative to rely on the information contained within the 2018/2019 Water Rate Study, dated December 19, 2018. Nevertheless, the Board is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Union Water Supply System's Water Financial Plan prepared by Watson & Associates Economists Ltd. dated January 17, 2019 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan dated January 17, 2019 be submitted to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3(1)6).
4. The Financial Plan and the Board Resolution approving the Financial Plan be submitted to the Ministry of the Environment, Conservation and Parks, satisfying the requirements under the Safe Drinking Water Act. (S.D.W.A. Section 32(5)2.ii.).