



 **Watson
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ECONOMISTS LTD.

Water Ontario Regulation 453/07 Financial Plan

Town of Lakeshore

Financial Plan #031-301A

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List of Acronyms and Abbreviations

Acronym	Full Description of Acronym
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 Lakeshore (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 been completed based on the Town's 2019 Water and Wastewater Rate Study, dated January 29, 2019 (2019 Rate Study). The objective of the report provided herein is to convert the findings of the 2019 Rate Study into the prescribed reporting requirements for a financial plan as defined by Ontario Regulation 453/07 (O. Reg. 453/07).

1.2 Background

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

"No person shall,

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

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



1. Obtain a drinking water works permit.
2. Acceptance of the operational plan for the system based on the Drinking Water Quality Management Standard.
3. Accreditation of the Operating Authority.
4. Prepare and provide a financial plan.
5. Obtain permit to take water.

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

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

1.2.1 Financial Plan Defined

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

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

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

1.2.2 Financial Plan Requirements – Existing System

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

- Financial plans must be approved by resolution of Council (or governing body);
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six-year period (commencing in the year of licence expiry);
- Financial plans must include detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and



accumulated surplus/deficit (i.e. the components of a “Statement of Operations” as per the PSAB) for each year in which the financial plans apply;

- Financial plans must present financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets (i.e. the components of a “Statement of Financial Position” as per PSAB) for each year in which the financial plans apply;
- Gross cash receipts/payments itemized by operating transactions, capital transactions, investing transactions and financial transactions (i.e. the components of a “Statement of Cash Flow” as per PSAB) for each year in which the financial plans apply;
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system;
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public;
- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing; and
- The resolution of Council approving the Financial Plan be submitted to the Ministry of the Environment, Conservation and Parks (MECP).

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 license 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 nine-year forecast period 2020 to 2028. Lakeshore's residents and businesses are serviced with drinking water from five separate sources, including the:

1. Lakeshore Water System
2. Stoney Point Water System
3. Tecumseh Water System
4. Union Water Supply System
5. Chatham-Kent Public Utilities Commission

The Lakeshore and Stoney Point water systems include both water treatment and distribution, which the Town of Lakeshore owns and operates. For the Tecumseh and Union Water Supply systems, the Town only owns and operates the distribution systems, as they derive their water from the Windsor water treatment plant and the Union Water Supply water treatment plant, respectively. The Chatham-Kent Public Utilities Commission (P.U.C.) includes private water systems that are supplied from Chatham-Kent P.U.C., where all operations are performed by the P.U.C. or by the private system owners. Therefore, the Town has no role in this system beyond granting permission for the P.U.C. to provide the supply of drinking water in Lakeshore, as such, this system is not considered under this Financial Plan. This Financial Plan #031-301A is a combined financial plan for the first four water systems.



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 Forecast

As noted earlier, the Town has already completed and approved a 2019 Rate Study in early 2019. The 2019 Rate Study 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 2020 to 2028 water forecast, included in the 2019 Rate Study, provides the basis for a sound financial plan for the Town's water system by assessing:

- 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;
- A review and recommendation on rates that ensure revenues are equitable and sufficient to meet system needs; and
- A public process that involved 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 water systems.



Chapter 3

Approach



3. Approach

3.1 Overview

The 2019 Rate Study (along with additional detailed information provided by Municipal Staff) has been used as a starting point to prepare the water financial plan. The Water forecast is prepared on a modified cash basis; therefore, a conversion is 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 water financial plan.

3.2 Conversion Process

The conversion from the existing modified cash basis found in the 2019 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 Rate Study. These estimates, however, 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 systems, in order to convert from the cash to full accrual basis (see Figure 3-1). For example, debt repayment costs relating to the principal payment portion only needs to be removed under the accrual basis, as they no longer qualify as an expense for reporting purposes. Principal payments are reported as a decrease in debt liability on the Statement of Financial Position. Transfers to and from reserves are removed as these transactions are represented by changes in cash and accumulated surplus. Finally, expenses relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets are reported on the Statement of Operations in order to capture the allocation of the cost of these assets to operating activities over their useful lives and therefore are added in under the accrual basis.



Table 3-1
Conversion Adjustments
Statement of Operations

Modified Cash Basis	Budget 2019	Adjustments		Full Accrual Budget 2019	Accrual Basis
		DR	CR		
Revenues					Revenues
Base Charge Revenue	3,529,787			3,529,787	Base Charge Revenue
Rate Based Revenue	5,435,628			5,435,628	Rate Based Revenue
Transfers from Reserves	1,233,604	1,233,604			
			1,233,604	1,233,604	Earned Development Charges Revenue
Other Revenue	322,800		231,121	553,922	Other Revenue
Total Revenues	10,521,819			10,752,941	Total Revenues
Expenditures					Expenses
Operating	4,842,100	-		4,842,100	Operating Expenses
Capital					
Transfers to Reserves	4,306,733		4,306,733		
Transfers to Capital	-		-		
Debt Repayment (Principal & Interest)	1,372,987		1,042,697	330,290	Interest on Debt
		1,575,936		1,575,936	Amortization
Total Expenditures	10,521,820			6,748,326	Total Expenses
Net Expenditures	-			4,004,615	Annual Surplus/(Deficit)
Increase (decrease) in amounts to be recovered	-			104,157,259	Accumulated Surplus/(Deficit), beginning of year
Change in Fund Balances	-	4,004,615	-	108,161,874	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		6,814,155	6,814,155		

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 2019	Adjustments		Full Accrual Budget 2019	Accrual Basis
		DR	CR		
ASSETS					ASSETS
Financial Assets					Financial Assets
Cash	14,281,130			14,281,130	Cash
Accounts Receivable	1,047,410			1,047,410	Accounts Receivable
Total Financial Assets	15,328,540			15,328,540	Total Financial Assets
Non-Financial Assets					
Inventory of Supplies	-		-		
Prepaid Expenses	-		-		
Total Non-Financial Assets	-				
LIABILITIES					Liabilities
Accounts Payable & Accrued Liabilities	-			-	Accounts Payable & Accrued Liabilities
Gross Long-term Liabilities	8,934,250			8,934,250	Debt (Principal only)
Deferred Revenue	623,647			623,647	Deferred Revenue
Bank Indebtedness	-			-	Bank Indebtedness
Other	-			-	Other
Total Liabilities	9,557,897			9,557,897	Total Liabilities
Net Assets/(Debt)	5,770,643			5,770,643	Net Financial Assets/(Debt)
		102,391,231	-	102,391,231	Non-Financial Assets
		-		-	Tangible Capital Assets
		-		-	Inventory of Supplies
					Prepaid Expenses
				102,391,231	Total Non-Financial Assets
Municipal Position					
Water Reserves	14,704,893	14,704,893	-		
Gas Tax Reserve Fund	-	-	-		
Development Charge Reserve Fund	623,647	623,647	-		
Amounts to be Recovered	(9,557,897)	-	9,557,897		
Total Municipal Position	5,770,643		108,161,874	108,161,874	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		117,719,771	117,719,771		

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 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. It may not be possible, however, to extract this information from the ledgers for water alone; therefore, a reasonable proxy will be needed. One approach is to assume that opening cash balances equal ending reserve and reserve fund balances from the previous year adjusted for accrual-based transactions reflected by accounts receivable/payable balances. The following equation outlines this approach:

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



- 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 2020, the Town's water system was in a net financial asset position of \$5.77 million. The financial plan forecasts a net financial asset position for each year of the forecast period, increasing to a net financial asset position of \$22.29 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 watermain 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 net book value is expected to increase over the forecast period of approximately \$28.33. This indicates that the Town continues to acquire new 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, fluctuating over the forecast period with a decrease from 63% in 2020 to 61% by 2028. As a result, annual surplus increases from a surplus of \$4.0 million to a surplus of \$5.53 million by 2028. This is due to a general increasing trend in amortization expense. 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 and reserve/reserve fund transfers.

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 increase by approximately \$48.85 million from a 2020 accumulated surplus of \$104.18 million to \$153.01 million in 2028. The 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 by the Town.

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, forecasted annual surplus exceeds forecasted tangible capital asset acquisitions (net of amortization for the year), resulting in increases in the net financial asset balance. Therefore, an overall increase to net financial assets is anticipated over the forecast period to 2028. This is a result of more significant capital asset acquisitions forecasted between 2020 and 2028 allowing 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 1.85 to 1.41 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-based 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 systems to improve from a balance of \$13.92 million at the beginning of 2020, to just over \$21.5 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
2020-2028

	Notes	Forecast								
		2020	2021	2022	2023	2024	2025	2026	2027	2028
Financial Assets										
Cash	1	14,281,130	15,623,807	16,907,139	17,120,361	15,243,277	16,014,188	20,116,341	21,217,388	21,504,545
Accounts Receivable	1	1,047,410	1,068,887	1,090,787	1,110,580	1,132,983	1,155,639	1,178,593	1,334,858	1,358,473
Long-term Accounts Receivable	2	-	-	383,764	1,141,829	6,940,125	7,686,718	7,822,655	9,297,340	10,775,204
Total Financial Assets		15,328,540	16,692,694	18,381,690	19,372,770	23,316,385	24,856,545	29,117,589	31,849,586	33,638,222
Liabilities										
Bank Indebtedness		-	-	-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	1	-	-	-	-	-	-	-	-	-
Debt (Principal only)	2	8,934,250	7,860,435	6,754,232	5,614,744	4,464,848	3,280,157	15,533,054	13,480,650	11,353,194
Deferred Revenue	3	623,647	533,143	-	-	-	-	-	-	-
Total Liabilities		9,557,897	8,393,578	6,754,232	5,614,744	4,464,848	3,280,157	15,533,054	13,480,650	11,353,194
Net Financial Assets/(Debt)		5,770,643	8,299,116	11,627,458	13,758,026	18,851,537	21,576,388	13,584,535	18,368,936	22,285,028
Non-Financial Assets										
Tangible Capital Assets	4	102,391,231	103,980,778	105,734,525	108,612,400	113,571,916	115,912,032	128,522,854	129,113,622	130,722,714
Total Non-Financial Assets		102,391,231	103,980,778	105,734,525	108,612,400	113,571,916	115,912,032	128,522,854	129,113,622	130,722,714
Accumulated Surplus/(Deficit)	5	108,161,874	112,279,894	117,361,983	122,370,426	132,423,453	137,488,420	142,107,389	147,482,558	153,007,742
Financial Indicators	Total Change	2020	2021	2022	2023	2024	2025	2026	2027	2028
1) Increase/(Decrease) in Net Financial Assets	19,071,936	2,557,551	2,528,473	3,328,342	2,130,568	5,093,511	2,724,851	(7,991,853)	4,784,401	3,916,092
2) Increase/(Decrease) in Tangible Capital Assets	29,778,547	1,447,064	1,589,547	1,753,747	2,877,875	4,959,516	2,340,116	12,610,822	590,768	1,609,092
3) Increase/(Decrease) in Accumulated Surplus	48,850,483	4,004,615	4,118,020	5,082,089	5,008,443	10,053,027	5,064,967	4,618,969	5,375,169	5,525,184



Table 4-2
Statement of Operations: Water Services
UNAUDITED: For Financial Planning Purposes Only
2020-2028

	Notes	Forecast								
		2020	2021	2022	2023	2024	2025	2026	2027	2028
Water Revenue										
Base Charge Revenue		3,529,787	3,616,313	3,705,627	3,795,999	3,887,430	3,979,919	4,073,466	4,169,978	4,267,598
Rate Based Revenue		5,435,628	5,563,744	5,693,331	5,824,387	5,956,914	6,090,910	6,226,376	6,363,313	6,501,719
Earned Development Charges Revenue	3	1,233,604	1,233,604	2,064,774	1,914,314	6,864,604	1,822,525	1,233,978	2,569,094	2,569,094
Other Revenue	6	553,922	581,583	624,294	619,166	695,631	724,969	807,760	860,565	894,879
Total Revenues		10,752,941	10,995,244	12,088,026	12,153,866	17,404,579	12,618,323	12,341,580	13,962,950	14,233,290
Water Expenses										
Operating Expenses	Sch. 4-1	4,842,100	4,957,600	5,077,900	5,202,800	5,332,700	5,467,900	5,608,900	5,756,200	5,909,900
Interest on Debt	2	330,290	299,171	266,784	233,498	199,368	164,572	128,533	632,349	557,298
Amortization	4	1,575,936	1,620,453	1,661,253	1,709,125	1,819,484	1,920,884	1,985,178	2,199,232	2,240,908
Loss on Disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Total Expenses		6,748,326	6,877,224	7,005,937	7,145,423	7,351,552	7,553,356	7,722,611	8,587,781	8,708,106
Annual Surplus/(Deficit)		4,004,615	4,118,020	5,082,089	5,008,443	10,053,027	5,064,967	4,618,969	5,375,169	5,525,184
Accumulated Surplus/(Deficit), beginning of year	5	104,157,259	108,161,874	112,279,894	117,361,983	122,370,426	132,423,453	137,488,420	142,107,389	147,482,558
Accumulated Surplus/(Deficit), end of year		108,161,874	112,279,894	117,361,983	122,370,426	132,423,453	137,488,420	142,107,389	147,482,558	153,007,742
Note 5:										
Accumulated Surplus/(Deficit) Reconciliation:		2020	2021	2022	2023	2024	2025	2026	2027	2028
Reserve Balances										
Reserves: Development Charges		623,647	533,143	(383,764)	(1,141,829)	(6,940,125)	(7,686,718)	(7,822,655)	(9,297,340)	(10,775,204)
Reserves: Gas Tax		-	-	-	-	-	-	-	-	-
Reserves: Capital/Other		14,704,893	16,159,551	18,381,690	19,372,770	23,316,385	24,856,545	29,117,589	31,849,586	33,638,222
Total Reserves Balance		15,328,540	16,692,694	17,997,926	18,230,941	16,376,260	17,169,827	21,294,934	22,552,246	22,863,018
Less: Debt Obligations and Deferred Revenue		(9,557,897)	(8,393,578)	(6,754,232)	(5,614,744)	(4,464,848)	(3,280,157)	(15,533,054)	(13,480,650)	(11,353,194)
Add: Long-term Accounts Receivable		-	-	383,764	1,141,829	6,940,125	7,686,718	7,822,655	9,297,340	10,775,204
Add: Tangible Capital Assets	4	102,391,231	103,980,778	105,734,525	108,612,400	113,571,916	115,912,032	128,522,854	129,113,622	130,722,714
Total Ending Balance		108,161,874	112,279,894	117,361,983	122,370,426	132,423,453	137,488,420	142,107,389	147,482,558	153,007,742
Financial Indicators	Total Change	2020	2021	2022	2023	2024	2025	2026	2027	2028
1) Expense to Revenue Ratio		63%	63%	58%	59%	42%	60%	63%	62%	61%
2) Increase/(Decrease) in Accumulated Surplus	48,850,483	4,004,615	4,118,020	5,082,089	5,008,443	10,053,027	5,064,967	4,618,969	5,375,169	5,525,184



Schedule 4-1
Statement of Operating Expenses: Water Services
UNAUDITED: For Financial Planning Purposes Only
2020-2028

	Notes	Forecast								
		2020	2021	2022	2023	2024	2025	2026	2027	2028
Operating Expenses										
Wages and benefits		2,332,500	2,369,800	2,407,700	2,446,200	2,485,300	2,525,100	2,565,500	2,606,500	2,648,200
Office supplies		5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000
Materials and supplies		129,000	131,100	133,200	135,300	137,500	139,700	141,900	144,200	146,500
Water sample testing		54,700	55,600	56,500	57,400	58,300	59,200	60,100	61,100	62,100
Clothing allowance		10,900	11,100	11,300	11,500	11,700	11,900	12,100	12,300	12,500
Advertising		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Water meter repairs and maintenance		10,300	10,500	10,700	10,900	11,100	11,300	11,500	11,700	11,900
Postage		77,400	78,600	79,900	81,200	82,500	83,800	85,100	86,500	87,900
Janitorial supplies		6,100	6,200	6,300	6,400	6,500	6,600	6,700	6,800	6,900
Purification		212,200	218,600	225,200	232,000	239,000	246,200	253,600	261,200	269,000
Computer		25,100	25,500	25,900	26,300	26,700	27,100	27,500	27,900	28,300
Internet		1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Security services		3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,100
Telephone		49,800	50,600	51,400	52,200	53,000	53,800	54,700	55,600	56,500
Utilities		478,200	516,500	557,800	602,400	650,600	702,600	758,800	819,500	885,100
Services		54,100	55,000	55,900	56,800	57,700	58,600	59,500	60,500	61,500
Meeting Expense		500	500	500	500	500	500	500	500	500
Property taxes		46,500	47,200	48,000	48,800	49,600	50,400	51,200	52,000	52,800
Water purchased - Union Water		323,600	333,300	343,300	353,600	364,200	375,100	386,400	398,000	409,900
Water purchased - Tecumseh		27,600	28,400	29,300	30,200	31,100	32,000	33,000	34,000	35,000
Administration		289,000	293,600	298,300	303,100	307,900	312,800	317,800	322,900	328,100
Billing and collecting		15,200	15,400	15,600	15,800	16,100	16,400	16,700	17,000	17,300
Legal		2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Consulting		77,400	78,600	79,900	81,200	82,500	83,800	85,100	86,500	87,900
Water station expense		4,100	4,200	4,300	4,400	4,500	4,600	4,700	4,800	4,900
Insurance		88,300	89,700	91,100	92,600	94,100	95,600	97,100	98,700	100,300
Water service installations		38,700	39,300	39,900	40,500	41,100	41,800	42,500	43,200	43,900
Meter reading contract		35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000
Janitorial Services		9,500	9,700	9,900	10,100	10,300	10,500	10,700	10,900	11,100
Fuel		63,000	64,000	65,000	66,000	67,100	68,200	69,300	70,400	71,500
Watermain breaks/services/materials		67,100	68,200	69,300	70,400	71,500	72,600	73,800	75,000	76,200
Vehicle maintenance		36,600	37,200	37,800	38,400	39,000	39,600	40,200	40,800	41,500
Building maintenance		23,700	24,100	24,500	24,900	25,300	25,700	26,100	26,500	26,900
Grass cutting/snow removal		27,900	28,300	28,800	29,300	29,800	30,300	30,800	31,300	31,800
Tower maintenance and minor repair		5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000
Equipment repairs and maintenance		378,800	384,900	391,100	397,400	403,800	410,300	416,900	423,600	430,400
Health and Safety Supplies		13,400	13,600	13,800	14,000	14,200	14,400	14,600	14,800	15,000
Mileage non-conference		600	600	600	600	600	600	600	600	600
Training & conferences		36,100	36,700	37,300	37,900	38,500	39,100	39,700	40,300	40,900
Memberships and subscriptions		7,800	7,900	8,000	8,100	8,200	8,300	8,400	8,500	8,600
Bad debts		500	500	500	500	500	500	500	500	500
Refunds-leaks		10,300	10,500	10,700	10,900	11,100	11,300	11,500	11,700	11,900
Bank service charge		3,600	3,700	3,800	3,900	4,000	4,100	4,200	4,300	4,400
Expense recoveries		(241,500)	(245,400)	(249,300)	(253,300)	(257,400)	(261,500)	(265,700)	(270,000)	(274,300)
TOTAL OPERATING EXPENSES		4,842,100	4,957,600	5,077,900	5,202,800	5,332,700	5,467,900	5,608,900	5,756,200	5,909,900



Table 4-3
Statement of Changes in Net Financial Assets/Debt: Water Services
UNAUDITED: For Financial Planning Purposes Only
2020-2028

	Notes	Forecast								
		2020	2021	2022	2023	2024	2025	2026	2027	2028
Annual Surplus/(Deficit)		4,004,615	4,118,020	5,082,089	5,008,443	10,053,027	5,064,967	4,618,969	5,375,169	5,525,184
Less: Acquisition of Tangible Capital Assets	4	(3,023,000)	(3,210,000)	(3,415,000)	(4,587,000)	(6,779,000)	(4,261,000)	(14,596,000)	(2,790,000)	(3,850,000)
Add: Amortization of Tangible Capital Assets	4	1,575,936	1,620,453	1,661,253	1,709,125	1,819,484	1,920,884	1,985,178	2,199,232	2,240,908
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
		(1,447,064)	(1,589,547)	(1,753,747)	(2,877,875)	(4,959,516)	(2,340,116)	(12,610,822)	(590,768)	(1,609,092)
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)		2,557,551	2,528,473	3,328,342	2,130,568	5,093,511	2,724,851	(7,991,853)	4,784,401	3,916,092
Net Financial Assets/(Net Debt), beginning of year		3,213,092	5,770,643	8,299,116	11,627,458	13,758,026	18,851,537	21,576,388	13,584,535	18,368,936
Net Financial Assets/(Net Debt), end of year		5,770,643	8,299,116	11,627,458	13,758,026	18,851,537	21,576,388	13,584,535	18,368,936	22,285,028
Financial Indicators		2020	2021	2022	2023	2024	2025	2026	2027	2028
1) Acquisition of Tangible Capital Assets (Cumulative)		3,023,000	6,233,000	9,648,000	14,235,000	21,014,000	25,275,000	39,871,000	42,661,000	46,511,000
2) Annual Surplus/Deficit before Amortization (Cumulative)		5,580,551	11,319,024	18,062,366	24,779,934	36,652,445	43,638,296	50,242,443	57,816,844	65,582,936
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		1.85	1.82	1.87	1.74	1.74	1.73	1.26	1.36	1.41



Table 4-4
Statement of Cash Flow – Indirect Method: Water Services
UNAUDITED: For Financial Planning Purposes Only
2020-2028

	Notes	Forecast								
		2020	2021	2022	2023	2024	2025	2026	2027	2028
Operating Transactions										
Annual Surplus/Deficit		4,004,615	4,118,020	5,082,089	5,008,443	10,053,027	5,064,967	4,618,969	5,375,169	5,525,184
Add: Amortization of TCA's	4	1,575,936	1,620,453	1,661,253	1,709,125	1,819,484	1,920,884	1,985,178	2,199,232	2,240,908
Less: Earned Deferred Revenue	3	(1,233,604)	(1,233,604)	(2,064,774)	(1,914,314)	(6,864,604)	(1,822,525)	(1,233,978)	(2,569,094)	(2,569,094)
Add: Deferred Revenue Proceeds		1,122,427	1,143,100	1,147,866	1,156,250	1,066,308	1,075,932	1,098,040	1,094,410	1,091,230
Change in A/R (Increase)/Decrease		(1,047,410)	(21,477)	(21,900)	(19,793)	(22,404)	(22,656)	(22,954)	(156,266)	(23,615)
Less: Interest Proceeds		(231,121)	(257,683)	(299,294)	(316,766)	(392,131)	(420,369)	(501,959)	(553,566)	(586,677)
Cash Provided by Operating Transactions		4,190,843	5,368,809	5,505,240	5,622,945	5,659,680	5,796,233	5,943,297	5,389,885	5,677,936
Capital Transactions										
Less: Cash Used to acquire Tangible Capital Assets	4	(3,023,000)	(3,210,000)	(3,415,000)	(4,587,000)	(6,779,000)	(4,261,000)	(14,596,000)	(2,790,000)	(3,850,000)
Cash Applied to Capital Transactions		(3,023,000)	(3,210,000)	(3,415,000)	(4,587,000)	(6,779,000)	(4,261,000)	(14,596,000)	(2,790,000)	(3,850,000)
Investing Transactions										
Proceeds from Investments		231,121	257,683	299,294	316,766	392,131	420,369	501,959	553,566	586,677
Cash Provided by (applied to) Investing Transactions		231,121	257,683	299,294	316,766	392,131	420,369	501,959	553,566	586,677
Financing Transactions										
Proceeds from Debt Issue	2	-	-	-	-	-	-	13,474,000	-	-
Add: Long-term Accounts Receivable Proceeds (recovery of debt)	2	-	-	-	-	-	-	-	-	-
Less: Debt Repayment (Principal only)	2	(1,042,697)	(1,073,815)	(1,106,202)	(1,139,489)	(1,149,895)	(1,184,691)	(1,221,103)	(2,052,404)	(2,127,456)
Cash Applied to Financing Transactions		(1,042,697)	(1,073,815)	(1,106,202)	(1,139,489)	(1,149,895)	(1,184,691)	12,252,897	(2,052,404)	(2,127,456)
Increase in Cash and Cash Equivalents		356,267	1,342,677	1,283,332	213,222	(1,877,084)	770,911	4,102,153	1,101,047	287,157
Cash and Cash Equivalents, beginning of year	1	13,924,863	14,281,130	15,623,807	16,907,139	17,120,361	15,243,277	16,014,188	20,116,341	21,217,388
Cash and Cash Equivalents, end of year	1	14,281,130	15,623,807	16,907,139	17,120,361	15,243,277	16,014,188	20,116,341	21,217,388	21,504,545



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 water payables as a percentage of annual water expenses.

2. Debt

Outstanding water related debt at the end of 2019 was just over \$9.97 million. In addition, the Town anticipates issuing debentures of \$13.474 million over the forecast period to 2028. The principal repayments, for existing and projected debt required over the forecast period are scheduled as follows.

Year	Principal Payments
2020	1,042,697
2021	1,073,815
2022	1,106,202
2023	1,139,489
2024	1,149,895
2025	1,184,691
2026	1,221,103
2027	2,052,404
2028	2,127,456
Total	\$ 12,097,752



3. Deferred Revenue

Deferred revenue is typically made up of water development charge reserve balances which are considered to be a liability for financial reporting purposes until the funds are used to emplace the works for which they have been collected. Where future years provide for a negative balance in the water development charge reserve fund balance it is shown as an asset (“long-term accounts receivable”) for financial reporting purposes, representing future amounts to be collected from developers. Currently, the forecast does anticipate a negative balance in the water development charges reserve fund for the years 2022 through 2028.

4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water related assets in the following categories:
 - i. Water treatment facilities, Pumping stations and storage;
 - ii. Linear Infrastructure;
 - iii. Land;
 - iv. Land Improvements; and
 - v. Vehicles and Equipment.
- Amortization is calculated based on using the straight-line approach with a half year of amortization in the year of acquisition or construction.
- Given the planned asset replacement forecast in the 2019 Rate Study, 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 lead service piping in the municipal water systems.



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

Asset Historical Cost	2020	2021	2022	2023	2024	2025	2026	2027	2028
Opening Tangible Capital Asset Balance	128,058,580	130,691,582	133,571,266	136,652,801	139,994,892	146,424,222	150,101,491	164,245,789	166,614,183
Acquisitions	3,023,000	3,210,000	3,415,000	4,587,000	6,779,000	4,261,000	14,596,000	2,790,000	3,850,000
Disposals	389,998	330,316	333,465	1,244,909	349,670	583,731	451,702	421,606	1,775,056
Closing Tangible Capital Asset Balance	130,691,582	133,571,266	136,652,801	139,994,892	146,424,222	150,101,491	164,245,789	166,614,183	168,689,127
Opening Accumulated Amortization	27,114,413	28,300,351	29,590,488	30,918,276	31,382,492	32,852,306	34,189,459	35,722,935	37,500,561
Amortization Expense	1,575,936	1,620,453	1,661,253	1,709,125	1,819,484	1,920,884	1,985,178	2,199,232	2,240,908
Amortization on Disposal	389,998	330,316	333,465	1,244,909	349,670	583,731	451,702	421,606	1,775,056
Ending Accumulated Amortization	28,300,351	29,590,488	30,918,276	31,382,492	32,852,306	34,189,459	35,722,935	37,500,561	37,966,413
Net Book Value	102,391,231	103,980,778	105,734,525	108,612,400	113,571,916	115,912,032	128,522,854	129,113,622	130,722,714



5. Accumulated Surplus

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

Water	2020 Opening Accumulated Surplus
Reserve Balances	
Reserves: Development Charges	734,824
Reserves: Capital/Other	13,190,039
Total Reserves Balance	13,924,863
Less: Debt Obligations and Deferred Revenue	(10,711,771)
Add: Tangible Capital Assets	100,944,167
Total Opening Balance	104,157,259

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

6. Other Revenue

Other revenues include minor revenues from water meter sales, buy-in fees, investment income, penalty & interest, etc., these revenues have been held constant over the forecast period. Water station revenues have been inflated annually by 1.6% over the forecast period based on CPI averages.



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 January 29, 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 Lakeshore's Water Financial Plan prepared by Watson & Associates Economists Ltd. dated June 30, 2020 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan dated June 30, 2020 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.).