



 **Watson
& Associates**
ECONOMISTS LTD.

Water Ontario Regulation 453/07 Financial Plan

Municipality of Port Hope

Financial Plan # 146-301

June 8, 2021

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

Table of Contents

	Page
1. Introduction.....	1-1
1.1 Study Purpose	1-1
1.2 Background.....	1-1
1.2.1 Financial Plan Defined	1-2
1.2.2 Financial Plan Requirements – Existing System.....	1-2
1.2.3 Financial Plan Requirements – General	1-3
1.2.4 Public Sector Accounting Board (P.S.A.B.) Requirements	1-4
2. Sustainable Financial Planning.....	2-1
2.1 Introduction	2-1
2.2 Sustainable Water and Sewage Systems Act.....	2-2
2.3 Water Opportunities Act, 2010.....	2-2
2.4 Infrastructure for Jobs and Prosperity Act (I.J.P.A.), 2015	2-3
2.5 Water Forecast	2-4
3. Approach.....	3-1
3.1 Overview.....	3-1
3.2 Conversion Process.....	3-1
3.2.1 Calculate Tangible Capital Asset Balances	3-1
3.2.2 Convert Statement of Operations.....	3-2
3.2.3 Convert Statement of Financial Position	3-5
3.2.4 Convert Statement of Cash Flow and Net Financial Assets/Debt.....	3-5
3.2.5 Verification and Note Preparation	3-7
4. Financial Plan	4-1
4.1 Introduction	4-1
4.2 Water Financial Plan.....	4-1
4.2.1 Statement of Financial Position (Table 4-1)	4-1
4.2.2 Statement of Operations (Table 4-2).....	4-2



Table of Contents (Cont'd)

	Page
4.2.3 Statement of Change in Net Financial Assets/Debt (Table 4-3)	4-3
4.2.4 Statement of Cash Flow (Table 4-4)	4-3
5. Process for Financial Plan Approval and Submission to the Province	5-1
6. Recommendations	6-1
Appendix A Water Budget and Forecast Summary Tables	A-1



List of Acronyms and Abbreviations

Acronym	Full Description of Acronym
D.C.	Development Charges
MECP	Ministry of the Environment, Conservation and Parks
MMAH	Ministry of Municipal Affairs and Housing
OCIF	Ontario Community Infrastructure Fund
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

Watson & Associates Economists Ltd. (Watson) was retained by the Municipality of Port Hope (Municipality) 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. This detailed financial planning and forecasting in regard to the Municipality's water system has already been completed and documented by Watson within the "Municipality of Port Hope Water and Wastewater Rate Study, November 26, 2020" (2020 Rate Study). The objective of the report provided herein is to convert the findings of the 2020 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.) was passed in December, 2002 in order to address some of the recommendations made by the Walkerton Inquiry Part II report. 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.

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

O.Reg. 453/07 also provides details with regards to s.30 (1) part b of the S.D.W.A. for existing water systems. The requirements for existing systems are summarized as follows:

- Financial plans must be approved by Council resolution (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 nine-year forecast included in this financial plan 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 must be submitted to the Ministry of Municipal Affairs and Housing (MMAH). The financial plan does not need to be submitted to the Ministry of the Environment, Conservation, and Parks (MECP); however, the 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 prescribed under section PS3150. Tangible capital assets are to be capitalized to ensure an inventory of the assets owned is recorded and to account for their ability to provide future benefits.

The Statement of Cash Flow and the Statement of Change in Net Financial Assets/Debt are required statements. The Statement of Change in Net Financial Assets/Debt reports on whether enough revenue was generated in a period to cover the expenses in the period and whether sufficient resources have been generated to support current and future activities. The Statement of Cash Flow reports on how activities were financed for a given period providing a measure of the changes in cash for that period.

1.2.5 The Municipality's Financial Plan

The Municipality completed the process of renewing its drinking water license in 2020, and as part of that process submitted an Interim Financial Plan, dated March 17, 2020. Since that time, the Municipality completed the 2020 Rate Study which was received by Council and included the water and wastewater net expenditure forecasts and corresponding funding sources to achieve full cost recovery from rate payers. This updated financial plan has been prepared to reflect the final approved 2020 Rate Study, and it will be submitted to the Ministry of Environment to replace the Interim Financial Plan.



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 S.D.W.A. requires a declaration of the financial plan's sustainability, it does not give a clear definition of what would be considered sustainable. Instead, the 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 Services are provided below:

Principle #1: Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system 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 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 W.O.A.

The purposes of the W.O.A. 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, the 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 the 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 three phases that municipalities must meet. The timelines associated with the three phases were later extended by Ontario Regulation 193/21 which was filed on March 15, 2021.

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, 2022):
 - 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, 2024):
 - Same steps as Phase 1 but for all assets.
- Phase 3 – Asset Management Plan (by July 1, 2025):
 - 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, 2022 (Phase 1). O.Reg. 588/17 specifies that the Municipality's asset management plan must include the following for each asset category:

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

Upon completion of the asset management plan for water, the Municipality will need to consider the impacts during the annual budget and forecast process.

2.5 Water Forecast

The Municipality has already completed financial planning through the 2020 Rate Study. The rate study was designed to address “full cost” principles and reflect the guiding principles toward sustainable financial planning.

As a result of employing this process, the 2020 Rate Study provides the basis for a financial plan for the Municipality's water system by including:

- 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;
- An analysis of required water rates that ensure revenues are equitable and sufficient to meet system needs; and
- A public process that involves consultation with the main stakeholders including the Municipality's staff, Council, the general public (specifically the users of the system) and others, with the aim of gaining input and collaboration on the sustainability of the water financial plan.

The details of the financial plan arising from the 2020 Rate Study are contained in Appendix A.



Chapter 3

Approach



3. Approach

3.1 Overview

The 2020 Rate Study 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 financial plan.

3.2 Conversion Process

The conversion from the existing modified cash basis financial plan to the full accrual reporting format required under O.Reg. 453/07 can be summarized in the following steps:

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

3.2.1 Calculate Tangible Capital Asset Balances

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water assets, an inventory has already been compiled and summarized within the 2020 Rate Study as well as part of the Municipality's annual P.S.A.B. 3150 compliance processes. Given the prospective nature of the 2020 Rate Study, replacement cost is provided for each asset. However, historical cost (which is the original cost to purchase, develop, or



construct each asset) is required for financial reporting purposes. Once historical cost is established, the following calculations are made to determine net book value:

- Accumulated amortization up to the year prior to the first forecast year.
- Amortization expense on existing assets for each year of the forecast period.
- Acquisition of new assets for each year of the forecast period.
- Disposals and related gains or losses for each year of forecast period.

Future water capital needs have also been determined and summarized within the 2020 Rate Study. However, these estimates only represent future assets that the Municipality anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to the Municipality). These contributed assets could form a significant part of the infrastructure going forward in terms of the sustainability of the system as a whole and despite their non-monetary nature; the financial plan may need to be adjusted in order to properly account for these transactions. Once the sequence and total asset acquisition has been determined for the forecast period, annual amortization of these assets for each year is calculated in a similar manner as that used for existing assets.

Once the historical cost, accumulated amortization, and amortization expenses are calculated as described above, the total net book value of the tangible capital assets can be determined and recorded on the Statement of Financial Position.

3.2.2 Convert Statement of Operations

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



allocation of the cost of these assets to operating activities over their useful lives and therefore are added in under the accrual basis.



Table 3-1
Conversion Adjustments
Statement of Operations (Water)

Modified Cash Basis	Budget 2021	Adjustments		Full Accrual Budget 2021	Accrual Basis
		DR	CR		
Revenues					Revenues
Base Charge Revenue	872,448			872,448	Base Charge Revenue
Rate Based Revenue	3,087,320			3,087,320	Rate Based Revenue
Transfers from Reserves	273,353	273,353			
Other Revenue	159,399		289,939	289,939	Earned Development Charges Revenue
			(35,236)	124,163	Other Revenue
Total Revenues	4,392,520			4,373,870	Total Revenues
Expenditures					Expenses
Operating	3,068,381	37,000		3,105,381	Operating Expenses
Capital					
Transfers to Reserves	526,365		526,365		
Debt Repayment (Principal & Interest)	797,774		788,751	9,023	Interest on Debt
		1,466,679		1,466,679	Amortization
Total Expenditures	4,392,520			4,581,083	Total Expenses
Net Expenditures	-			(207,213)	Annual Surplus/(Deficit)
Increase (decrease) in amounts to be recovered	-			36,501,061	Accumulated Surplus/(Deficit), beginning of year
Change in Fund Balances	-	-	207,213	36,293,848	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		1,777,032	1,777,032		

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). As noted earlier, the applicable balances from the Statement of Capital and the Statement of Reserve and Reserve Funds will need to be transferred to this statement. The opening/actual balances for the remaining accounts such as accounts receivable, inventory, accounts payable, outstanding debt (principal only), are recorded and classified according to the structure of the Statement of Financial Position as outlined in PS1200.

It is acknowledged that some of the balances required on the Statement of Financial Position will be consolidated across the Municipality and as such, it may be difficult to isolate the information that is relevant to water. An example of this is accounts receivable, which may be administered centrally by the Finance Department. Ontario Regulation 453/07 allows for the exclusion of these numbers if they are not known at the time of preparing the financial plan. Please refer to the Financial Plan Notes in Chapter 4 for more details.

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

The Statement of Cash Flow summarizes how the Municipality financed its activities or in other words, how the costs of providing services were recovered. The statement is derived using comparative Statement of Financial Position, the current Statement of Operations and other available transaction data.

The Statement of Change in Net Financial Assets/Debt is a new 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, additional 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
Statements of Financial Position (Water)

Modified Cash Basis	Budget 2021	Adjustments		Full Accrual Budget 2021	Accrual Basis
		DR	CR		
ASSETS					ASSETS
Financial Assets					Financial Assets
Cash	-			-	Cash
Accounts Receivable	617,875			617,875	Accounts Receivable
Accounts Receivable - Other	4,677,652			4,677,652	Accounts Receivable - Other
Total Financial Assets	5,295,527			5,295,527	Total Financial Assets
LIABILITIES					Liabilities
Bank Indebtedness	6,724,348			6,724,348	Bank Indebtedness
Accounts Payable & Accrued Liabilities	368,206			368,206	Accounts Payable & Accrued Liabilities
Total Liabilities	7,092,554			7,092,554	Total Liabilities
Net Assets/(Debt)	(1,797,027)			(1,797,027)	Net Financial Assets/(Debt)
		38,127,875	37,000	38,090,875	Non-Financial Assets
				38,090,875	Tangible Capital Assets
				38,090,875	Total Non-Financial Assets
Municipal Position					
Water Reserves	(1,797,027)	-	1,797,027		
Development Charge Reserve Fund	(4,677,652)	-	4,677,652		
Amounts to be Recovered	4,677,652	4,677,652	-		
Total Municipal Position	(1,797,027)		36,293,848	36,293,848	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		42,805,527	42,805,527		

Note: The combined adjustments above should be balanced and net to \$0 (i.e. Total DR = Total CR)



3.2.5 Verification and Note Preparation

The final step in the conversion process is to ensure that all of the statements created by the previous steps are in balance. The Statement of Financial Position summarizes the resources and obligations of the Municipality at a set point in time. The Statement of Operations summarizes how these resources and obligations changed over the reporting period. To this end, the accumulated surplus/deficit reported on the Statement of Financial Position should equal the accumulated surplus/deficit reported on the Statement of Operations.

The Statement of Change in Net Financial Assets/Debt and the Statement of Financial Position are also linked in terms of reporting on net financial assets/debt. On the Statement of Financial Position, net financial assets/debt is equal to the difference between financial assets and liabilities and should equal net financial assets/debt as calculated on the Statement of Net Financial Assets/Debt.

While not part of the financial plan, the accompanying notes are important to summarize the assumptions and estimates made in preparing the financial plan. Some of the significant assumptions that need to be addressed within the financial plan are as follows:

- a) Opening cash balances – Opening cash balances are necessary to complete the Statement of Cash Flows and balance the Statement of Financial Position. Preferably, opening cash balances should be derived from actual information contained within the Municipality’s ledgers. However, it may not be possible to extract this information from the ledgers for water alone; therefore, a reasonable proxy will be needed. One approach is to assume that opening cash balances equal ending reserve and reserve fund balances from the previous year adjusted for accrual-based transactions reflected by accounts receivable/payable balances. The following equation outlines this approach:

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 Municipality’s amortization policy. Otherwise, an assumption will need to be made and applied consistently throughout the financial plan.
- 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 2020 Rate Study.
- d) Contributed Assets – As noted earlier, contributed assets could represent a significant part of the Municipality’s infrastructure acquisitions. As such, a reasonable estimate of value and timing of acquisition/donation may be required in order to adequately capture these assets. In the case where contributed assets are deemed to be insignificant or unknown, an assumption of “no contributed assets within the forecast period” will be made.
- e) Accumulated Surplus – The magnitude of the surplus in this area may precipitate the need for additional explanation especially in the first year of reporting. This Accumulated Surplus captures the historical infrastructure investment which has not been reported in the past but has accumulated to significant levels. It also includes all water reserve and reserve fund balances.
- f) Other Revenues – Will represent the recognition of revenues previously deferred (i.e. development charge revenues) and/or accrued revenues (developer contributions), and/or other minor miscellaneous revenues.



Chapter 4

Financial Plan



4. Financial Plan

4.1 Introduction

The following tables provide the complete financial plan for the Municipality's water 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 Municipality's water system. It is not an audited document¹ and contains various estimates as detailed in the "Notes to the Financial Plan" section below.

4.2 Water Financial Plan

4.2.1 *Statement of Financial Position (Table 4-1)*

The Statement of Financial Position provides information that describes the assets, liabilities, and accumulated surplus of the Municipality's water 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 for 2021, the Municipality's water system will be in a net financial debt position of approximately \$1.80 million. The Municipality's net financial debt position is projected to increase to \$4.50 million by the end of the forecast.

Another important indicator on the Statement of Financial Position is the tangible capital asset balance. 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:

¹ O.Reg. 453/07 does not require an audited financial plan.



- Tangible capital assets such as water mains and treatment plants are imperative to water service delivery.
- 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 by approximately \$10.74 million over the 9-year forecast period. This indicates that the Municipality has plans to invest in tangible capital assets in excess of the anticipated use of existing assets over the forecast period.

4.2.2 Statement of Operations (Table 4-2)

The Statement of Operations summarizes the revenues and expenses generated by the water system for a given period. The annual surplus/deficit measures whether the revenues generated were sufficient to cover the expenses incurred and in turn, whether net financial assets have been maintained or depleted. Table 4-2 illustrates the ratio of expenses to revenues decreasing from 105% to 67% over the forecast period and as a result, an annual deficit position of approximately \$207,200 in 2021 changes over to an annual surplus of \$2.38 million by the end of the forecast period. It is important to note that an annual surplus is beneficial to ensure funding is available for 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 \$7.83 million to a 2021 accumulated surplus of \$36.5 million over the forecast period. This accumulated surplus, as indicated in Table 4-2, is predominantly made up of 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 for the all the years except 2021, 2026, and 2028, forecasted tangible capital asset acquisitions (net of amortization for the year) exceed forecasted annual surplus, resulting in an increase in the net debt balance. In 2021, 2026, and 2028 the forecasted annual surplus exceeds forecasted tangible capital asset acquisitions (net of amortization for the year), resulting in a decrease to the net debt balance. This is a result of more significant capital asset acquisitions forecasted allowing for a long-term plan of funding capital through accumulated surplus (i.e., reserves and reserve funds) and debenture issuance. The ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions is 3.05 in 2021, decreasing to 0.79 by 2025, and increasing to 0.91 over the remainder of the forecast period (note: a desirable ratio is 1:1 or better).

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how water systems are expected to generate and use cash resources during the forecast period. The transactions that provide/use cash are classified as operating, capital, investing, and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash- and accrual-based reporting. Table 4-4 indicates that cash from operations will be used to fund capital transactions (i.e., tangible capital asset acquisitions) and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the Municipality's water system to improve from a deficit balance of approximately \$6.77 million at the beginning of 2021,



to a positive balance of approximately \$513,600 by the end of 2029. For further discussion on projected cash balances please refer to the Notes to the Financial Plan.



Table 4-1
Statement of Financial Position: Water Services
UNAUDITED: For Financial Planning Purposes Only
2021-2029

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
Financial Assets										
Cash	1	-	-	-	-	-	-	-	-	513,605
Accounts Receivable	1	617,875	657,423	700,480	747,035	797,993	853,482	914,321	981,156	1,055,024
Accounts Receivable - Other	3	4,677,652	4,440,214	4,305,369	4,108,399	3,875,334	3,600,436	2,968,506	2,272,425	1,420,450
Total Financial Assets		5,295,527	5,097,637	5,005,849	4,855,434	4,673,327	4,453,918	3,882,827	3,253,581	2,989,079
Liabilities										
Bank Indebtedness		6,724,348	6,072,437	5,649,972	4,102,857	4,172,754	4,106,843	2,646,288	1,598,772	-
Accounts Payable & Accrued Liabilities	1	368,206	365,838	383,346	379,626	385,027	391,663	402,787	419,947	421,063
Debt (Principal only)	2	-	466,467	1,096,849	4,577,910	4,887,959	4,621,297	5,715,799	5,358,866	7,067,832
Deferred Revenue	3	-	-	-	-	-	-	-	-	-
Total Liabilities		7,092,554	6,904,742	7,130,167	9,060,393	9,445,740	9,119,803	8,764,874	7,377,585	7,488,895
Net Financial Assets/(Debt)		(1,797,027)	(1,807,105)	(2,124,318)	(4,204,959)	(4,772,413)	(4,665,885)	(4,882,047)	(4,124,004)	(4,499,816)
Non-Financial Assets										
Tangible Capital Assets	4	38,090,875	37,943,451	38,211,095	40,729,727	41,903,323	43,058,745	44,934,395	46,071,406	48,831,488
Total Non-Financial Assets		38,090,875	37,943,451	38,211,095	40,729,727	41,903,323	43,058,745	44,934,395	46,071,406	48,831,488
Accumulated Surplus/(Deficit)	5	36,293,848	36,136,346	36,086,777	36,524,768	37,130,910	38,392,860	40,052,348	41,947,402	44,331,672
Financial Indicators										
	Total Change	2021	2022	2023	2024	2025	2026	2027	2028	2029
1) Increase/(Decrease) in Net Financial Assets	(1,856,878)	845,911	(10,078)	(317,213)	(2,080,641)	(567,454)	106,528	(216,162)	758,043	(375,812)
2) Increase/(Decrease) in Tangible Capital Assets	9,687,489	(1,053,124)	(147,424)	267,644	2,518,632	1,173,596	1,155,422	1,875,650	1,137,011	2,760,082
3) Increase/(Decrease) in Accumulated Surplus	7,830,611	(207,213)	(157,502)	(49,569)	437,991	606,142	1,261,950	1,659,488	1,895,054	2,384,270



Table 4-2
Statement of Operations: Water Services
UNAUDITED: For Financial Planning Purposes Only
2021-2029

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
Water Revenue										
Base Charge Revenue		872,448	981,401	1,104,909	1,244,762	1,403,972	1,584,764	1,791,128	2,026,477	2,296,248
Rate Based Revenue		3,087,320	3,238,818	3,399,155	3,566,370	3,743,478	3,929,116	4,124,847	4,331,560	4,550,447
Earned Development Charges Revenue	3	289,939	123,773	225,791	219,247	252,836	293,149	93,949	93,949	93,949
Other Revenue	6	124,163	136,312	145,654	176,414	174,765	175,126	195,848	207,214	237,153
Total Revenues		4,373,870	4,480,304	4,875,509	5,206,793	5,575,051	5,982,155	6,205,772	6,659,200	7,177,797
Water Expenses										
Operating Expenses	Sch. 4-1	3,105,381	3,156,650	3,406,550	3,163,550	3,208,560	3,263,860	3,356,560	3,499,560	3,508,860
Interest on Debt	2	9,023	9,329	23,139	48,170	183,116	195,518	184,852	228,632	214,355
Amortization	4	1,466,679	1,471,827	1,495,389	1,557,082	1,577,233	1,260,827	1,004,872	1,035,954	1,070,312
Total Expenses		4,581,083	4,637,806	4,925,078	4,768,802	4,968,909	4,720,205	4,546,284	4,764,146	4,793,527
Annual Surplus/(Deficit)		(207,213)	(157,502)	(49,569)	437,991	606,142	1,261,950	1,659,488	1,895,054	2,384,270
Accumulated Surplus/(Deficit), beginning of year	5	36,501,061	36,293,848	36,136,346	36,086,777	36,524,768	37,130,910	38,392,860	40,052,348	41,947,402
Accumulated Surplus/(Deficit), end of year		36,293,848	36,136,346	36,086,777	36,524,768	37,130,910	38,392,860	40,052,348	41,947,402	44,331,672
Note 5:										
Accumulated Surplus/(Deficit) Reconciliation:		2021	2022	2023	2024	2025	2026	2027	2028	2029
Reserve Balances										
Reserves: Development Charges		(4,677,652)	(4,440,214)	(4,305,369)	(4,108,399)	(3,875,334)	(3,600,436)	(2,968,506)	(2,272,425)	(1,420,450)
Reserves: Capital/Other		(1,797,027)	(1,340,638)	(1,027,469)	372,951	115,546	(44,588)	833,752	1,234,862	2,568,016
Total Reserves Balance		(6,474,679)	(5,780,852)	(5,332,838)	(3,735,448)	(3,759,788)	(3,645,024)	(2,134,754)	(1,037,563)	1,147,566
Less: Debt Obligations and Deferred Revenue		4,677,652	3,973,747	3,208,520	(469,511)	(1,012,625)	(1,020,861)	(2,747,293)	(3,086,441)	(5,647,382)
Add: Tangible Capital Assets	4	38,090,875	37,943,451	38,211,095	40,729,727	41,903,323	43,058,745	44,934,395	46,071,406	48,831,488
Total Ending Balance		36,293,848	36,136,346	36,086,777	36,524,768	37,130,910	38,392,860	40,052,348	41,947,402	44,331,672
Financial Indicators	Total Change	2021	2022	2023	2024	2025	2026	2027	2028	2029
1) Expense to Revenue Ratio		105%	104%	101%	92%	89%	79%	73%	72%	67%
2) Increase/(Decrease) in Accumulated Surplus	7,830,611	(207,213)	(157,502)	(49,569)	437,991	606,142	1,261,950	1,659,488	1,895,054	2,384,270



Schedule 4-1
Statement of Operating Expenses: Water Services
UNAUDITED: For Financial Planning Purposes Only
2021-2029

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
Operating Expenses										
Water Operating Expenses		3,068,381	3,048,650	3,194,550	3,163,550	3,208,560	3,263,860	3,356,560	3,499,560	3,508,860
Non TCA - Expenses from Capital Budget	7	37,000	108,000	212,000	-	-	-	-	-	-
TOTAL OPERATING EXPENSES		3,105,381	3,156,650	3,406,550	3,163,550	3,208,560	3,263,860	3,356,560	3,499,560	3,508,860



Table 4-3
Statement of Changes in Net Financial Assets/Debt: Water Services
UNAUDITED: For Financial Planning Purposes Only
2021-2029

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
Annual Surplus/(Deficit)		(207,213)	(157,502)	(49,569)	437,991	606,142	1,261,950	1,659,488	1,895,054	2,384,270
Less: Acquisition of Tangible Capital Assets	4	(413,555)	(1,324,403)	(1,763,033)	(4,075,714)	(2,750,829)	(2,416,249)	(2,880,522)	(2,172,965)	(3,830,394)
Add: Amortization of Tangible Capital Assets	4	1,466,679	1,471,827	1,495,389	1,557,082	1,577,233	1,260,827	1,004,872	1,035,954	1,070,312
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
		1,053,124	147,424	(267,644)	(2,518,632)	(1,173,596)	(1,155,422)	(1,875,650)	(1,137,011)	(2,760,082)
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)		845,911	(10,078)	(317,213)	(2,080,641)	(567,454)	106,528	(216,162)	758,043	(375,812)
Net Financial Assets/(Net Debt), beginning of year		(2,642,938)	(1,797,027)	(1,807,105)	(2,124,318)	(4,204,959)	(4,772,413)	(4,665,885)	(4,882,047)	(4,124,004)
Net Financial Assets/(Net Debt), end of year		(1,797,027)	(1,807,105)	(2,124,318)	(4,204,959)	(4,772,413)	(4,665,885)	(4,882,047)	(4,124,004)	(4,499,816)

Financial Indicators	2021	2022	2023	2024	2025	2026	2027	2028	2029
1) Acquisition of Tangible Capital Assets (Cumulative)	413,555	1,737,958	3,500,991	7,576,705	10,327,534	12,743,783	15,624,305	17,797,270	21,627,664
2) Annual Surplus/Deficit before Amortization (Cumulative)	1,259,466	2,573,791	4,019,611	6,014,684	8,198,059	10,720,836	13,385,196	16,316,204	19,770,786
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)	3.05	1.48	1.15	0.79	0.79	0.84	0.86	0.92	0.91



Table 4-4
Statement of Cash Flow – Indirect Method: Water Services
UNAUDITED: For Financial Planning Purposes Only
2021-2029

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
Operating Transactions										
Annual Surplus/Deficit		(207,213)	(157,502)	(49,569)	437,991	606,142	1,261,950	1,659,488	1,895,054	2,384,270
Add: Amortization of TCA's	4	1,466,679	1,471,827	1,495,389	1,557,082	1,577,233	1,260,827	1,004,872	1,035,954	1,070,312
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Less: Earned Deferred Revenue	3	(289,939)	(123,773)	(225,791)	(219,247)	(252,836)	(293,149)	(93,949)	(93,949)	(93,949)
Less: Developer Contributions		-	-	-	-	-	-	-	-	-
Add: Deferred Revenue Proceeds		268,976	361,211	360,636	416,217	485,901	568,047	725,879	790,030	945,924
Change in A/R (Increase)/Decrease		(14,021)	(39,548)	(43,057)	(46,555)	(50,958)	(55,489)	(60,839)	(66,835)	(73,868)
Change in A/P Increase/(Decrease)		28,173	(2,368)	17,508	(3,720)	5,401	6,636	11,124	17,160	1,116
Less: Interest Proceeds		35,236	26,287	20,146	(7,313)	(2,266)	874	(16,348)	(24,213)	(50,353)
Cash Provided by Operating Transactions		1,287,891	1,536,134	1,575,262	2,134,455	2,368,617	2,749,696	3,230,227	3,553,201	4,183,452
Capital Transactions										
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(413,555)	(1,324,403)	(1,763,033)	(4,075,714)	(2,750,829)	(2,416,249)	(2,880,522)	(2,172,965)	(3,830,394)
Cash Applied to Capital Transactions		(413,555)	(1,324,403)	(1,763,033)	(4,075,714)	(2,750,829)	(2,416,249)	(2,880,522)	(2,172,965)	(3,830,394)
Investing Transactions										
Proceeds from Investments		(35,236)	(26,287)	(20,146)	7,313	2,266	(874)	16,348	24,213	50,353
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		(35,236)	(26,287)	(20,146)	7,313	2,266	(874)	16,348	24,213	50,353
Financing Transactions										
Proceeds from Debt Issue	2	-	466,467	630,382	3,501,355	540,500	-	1,371,831	-	2,080,176
Less: Debt Repayment (Principal only)	2	(788,751)	-	-	(20,294)	(230,451)	(266,662)	(277,329)	(356,933)	(371,210)
Cash Applied to Financing Transactions		(788,751)	466,467	630,382	3,481,061	310,049	(266,662)	1,094,502	(356,933)	1,708,966
Increase in Cash and Cash Equivalents		50,349	651,911	422,465	1,547,115	(69,897)	65,911	1,460,555	1,047,516	2,112,377
Cash and Cash Equivalents, beginning of year	1	(6,774,697)	(6,724,348)	(6,072,437)	(5,649,972)	(4,102,857)	(4,172,754)	(4,106,843)	(2,646,288)	(1,598,772)
Cash and Cash Equivalents, end of year	1	(6,724,348)	(6,072,437)	(5,649,972)	(4,102,857)	(4,172,754)	(4,106,843)	(2,646,288)	(1,598,772)	513,605



Water

Notes to Financial Plan

The financial plan format as outlined in Chapter 4 closely approximates the full accrual format used by municipalities (2009 onward) 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 a 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 if A, B and C of subsection (1) includes:

- A. Total financial assets (i.e. cash and receivables);
- B. Total liabilities (i.e. payables, debt and deferred revenue);
- C. Net debt (i.e. the difference between A and B above).

The information referred to in sub-subparagraphs 4 iii A, C, E and F of subsection (1) includes:

- A. Operating transactions that are cash received from revenues, cash paid for operating expenses and finance charges
- B. Investing transactions that are acquisitions and disposal of investments
- C. Change in cash and cash equivalents during the year
- D. Cash and cash equivalents at the beginning and end of the year

In order to show a balanced financial plan in a full accrual format for the Municipality, some of the items listed above have been estimated given that the Municipality does not maintain all financial asset and liability data separately for water. Usually, this type of data is combined with the financial assets and liabilities of other departments and services given that there is not a current obligation to disclose this data separately (as there is with revenue and expenses).



The assumptions used have been documented below:

1. Cash, Receivables and Payables

It is assumed that the opening cash balances required to complete the financial plan are equal to:

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

Receivable and payable balances were estimated for each year of the forecast based on the following factors:

- a) Receivables: Based on typical ratios of revenues; and
- b) Payables: Based on typical ratios of expenditures.

2. Debt

Outstanding water related debt at the end of 2020 was approximately \$788,800. It is anticipated that additional debentures will be required over the forecast period. Principal repayments over the forecast period are scheduled as follows:

Year	Principal Payments
2021	788,751
2022	-
2023	-
2024	20,294
2025	230,451
2026	266,662
2027	277,329
2028	356,933
2029	371,210
Total	2,311,630

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 balances which are considered to be a liability for financial reporting purposes until the funds are used to emplace the works for which they have been collected. In years when the water development charge reserve fund balance is negative, it is shown as an asset (accounts receivable – other) for financial reporting purposes, representing future amounts to be collected from developers.

4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water related assets in the following categories:
 - i. Buildings;
 - ii. Land;
 - iii. Land Improvements;
 - iv. Machinery and Equipment;
 - v. Technology and Communication;
 - vi. Vehicles; and
 - vii. Water Network.
- Amortization is calculated based on the straight-line approach with half-year amortization applied in the year of acquisition or construction and in the last year of the asset's useful life.
- Given the planned asset replacement forecast in the 2020 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, unless the asset is documented as a new asset. The value of each asset disposal is calculated by estimating the original purchase/construction date and deflating current replacement cost values to those estimated dates in order to calculate original historical cost.
- Gains/losses on disposal are assumed to be \$0 (it is assumed that historical cost is equal to accumulated amortization for all disposals).



- Residual value is assumed to be \$0 for all assets contained within the forecast period.
- Contributed Assets, as described in Section 3.2.1, are deemed to be insignificant/ unknown during the forecast period and are therefore assumed to be \$0.
- The Municipality is unaware of any specific lead service piping in the municipal water system.

The balance of tangible capital assets is summarized as follows:



Asset Historical Cost	2021	2022	2023	2024	2025	2026	2027	2028	2029
Opening Tangible Capital Asset Balance	56,744,211	57,072,200	58,317,996	59,863,767	63,339,178	65,927,121	68,057,097	70,683,105	72,601,144
Acquisitions	413,555	1,324,403	1,763,033	4,075,714	2,750,829	2,416,249	2,880,522	2,172,965	3,830,394
Disposals	85,566	78,607	217,262	600,303	162,886	286,273	254,514	254,926	552,521
Closing Tangible Capital Asset Balance	57,072,200	58,317,996	59,863,767	63,339,178	65,927,121	68,057,097	70,683,105	72,601,144	75,879,017
Opening Accumulated Amortization	17,600,212	18,981,325	20,374,545	21,652,672	22,609,451	24,023,798	24,998,352	25,748,710	26,529,738
Amortization Expense	1,466,679	1,471,827	1,495,389	1,557,082	1,577,233	1,260,827	1,004,872	1,035,954	1,070,312
Amortization on Disposal	85,566	78,607	217,262	600,303	162,886	286,273	254,514	254,926	552,521
Ending Accumulated Amortization	18,981,325	20,374,545	21,652,672	22,609,451	24,023,798	24,998,352	25,748,710	26,529,738	27,047,529
Net Book Value	38,090,875	37,943,451	38,211,095	40,729,727	41,903,323	43,058,745	44,934,395	46,071,406	48,831,488



5. Accumulated Surplus

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

Wastewater	2021 Opening Accumulated Surplus
Reserve Balances	
Reserves: Development Charges	(4,656,689)
Reserves: Capital/Other	(1,854,187)
Total Reserves Balance	(6,510,876)
Less: Debt Obligations and Deferred Revenue	3,867,938
Add: Tangible Capital Assets	39,143,999
Total Opening Balance	36,501,061

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

6. Other Revenue

Other revenue includes interest and other non-operating general revenues (including certificates, service fees, water meter fees, rental revenue, and bulk water sales) and proceeds from capital grants.

7. Operating Expenses

Capital expenditures for items not meeting the definition of tangible capital assets have been reclassified as operating expenses and have been expensed in the year in which they occur.



Chapter 5

Process for Financial Plan Approval and Submission to the Province



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

As mentioned in section 1.2, preparation of and approval of a financial plan for water assets that meets the requirements of the Act is mandatory for municipal water providers. Proof of the plan preparation and approval is a key submission requirement for municipal drinking water licensing and, upon completion, must be submitted to the MECP. The process established for plan approval, public circulation and filing is set out in O. Reg. 453/07 and can be summarized as follows:

1. The financial plan must be approved by resolution of Council of the municipality who owns the drinking water system or the governing body of the owner. (O. Reg. 453/07, section 3 (1) 1).
2. The owner of the drinking water system must provide notice advertising the availability of the financial plan. The plans will be made available to the public upon request and without charge. The plans must also be made available to the public on the municipality's website. (O. Reg. 453/07, section 3 (1) 5).
3. The owner of the drinking water system must provide a copy of the financial plan to the Director of Policy Branch, Ministry of Municipal Affairs and Housing. (O. Reg. 453/07, section 3 (1) 6).
4. The owner of the drinking water system must provide proof satisfactory to the Director that the financial plans for the system satisfy the requirements under the *Safe Drinking Water Act*. (S.D.W.A. section 32 (5) 2. ii.).



Chapter 6

Recommendations



6. Recommendations

This report presents the water financial plan for the Municipality of Port Hope 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 2020 Rate Study. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Municipality of Port Hope Water Financial Plan prepared by Watson & Associates Economists Ltd. dated June 08, 2021 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan, the Council Resolution approving the Financial Plan, and the Water Rate Study underpinning the Financial Plan be submitted to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3 (1) 6)
4. The Council 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))¹

¹ Note: The Ministry of the Environment, Conservation, and Parks does not require the Council Resolution for the initial financial plan submission. We encourage the Municipality to contact the Ministry of the Environment, Conservation, and Parks to verify all requirements have been met.



Appendices



Appendix A

Water Budget and Forecast Summary Tables



Appendix A-1
Water Service Capital Forecast
2021-2029

Description	Total	Forecast										
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
Capital Expenditures												
Linear Program	10,002,111	712,447	15,555	624,403	224,033	339,714	1,408,829	1,337,249	2,345,522	1,416,965	1,577,394	
Water Master Planning & System-Wide Projects	291,000	-	16,000	108,000	167,000	-	-	-	-	-	-	
Water Facility Projects	6,436,000	-	73,000	291,000	47,000	3,469,000	60,000	94,000	322,000	-	2,080,000	
Water Treatment Plant Projects	3,833,000	640,000	253,000	113,000	511,000	209,000	534,000	624,000	149,000	689,000	111,000	
Water Vehicles	455,000	60,000	52,000	-	156,000	58,000	-	-	-	67,000	62,000	
Water Trailers	176,000	-	-	-	-	-	-	112,000	64,000	-	-	
Growth Related	2,254,635	50,635	41,000	296,000	870,000	-	748,000	249,000	-	-	-	
Total Capital Expenditures	23,447,746	1,463,082	450,555	1,432,403	1,975,033	4,075,714	2,750,829	2,416,249	2,880,522	2,172,965	3,830,394	
Capital Financing												
Provincial/Federal Grants & Other Contributions	112,032	112,032	-	-	-	-	-	-	-	-	-	
Development Charges Reserve Fund	1,006,185	50,635	16,586	123,773	225,791	182,700	207,500	199,200	-	-	-	
Non-Growth Related Debenture Requirements	7,546,148	-	-	466,467	224,033	3,403,641	-	-	1,371,831	-	2,080,176	
Growth Related Debenture Requirements	1,044,564	-	-	-	406,349	97,715	540,500	-	-	-	-	
Operating Contributions	-	-	-	-	-	-	-	-	-	-	-	
Water Reserve	13,738,818	1,300,415	433,969	842,163	1,118,860	391,659	2,002,829	2,217,049	1,508,691	2,172,965	1,750,218	
Total Capital Financing	23,447,746	1,463,082	450,555	1,432,403	1,975,033	4,075,714	2,750,829	2,416,249	2,880,522	2,172,965	3,830,394	



Appendix A-2
Schedule of Non-Growth-Related Debenture Repayments
2021-2029

Debenture Year	Principal (Inflated)	Forecast									
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2020	-		-	-	-	-	-	-	-	-	-
2021	-			-	-	-	-	-	-	-	-
2022	-				-	-	-	-	-	-	-
2023	-					-	-	-	-	-	-
2024	4,094,141						368,232	368,232	368,232	368,232	368,232
2025	-							-	-	-	-
2026	-								-	-	-
2027	1,371,831									123,384	123,384
2028	-										-
2029	2,080,176										
Total Annual Debt Charges	7,546,148	-	-	-	-	-	368,232	368,232	368,232	491,616	491,616

Appendix A-3
Schedule of Non-Growth-Related Construction Loan Repayments (Interest Only)
2021-2029

Debenture Year	Principal (Inflated)	Forecast									
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2020	-	-	-	-	-	-	-	-	-	-	-
2021	-		-	-	-	-	-	-	-	-	-
2022	466,467			9,329	18,659	18,659	-	-	-	-	-
2023	224,033				4,481	8,961	-	-	-	-	-
2024	214,821					4,296	-	-	-	-	-
2025	-						-	-	-	-	-
2026	-							-	-	-	-
2027											
2028											
2029											
Total Annual Debt Charges	905,321	-	-	9,329	23,139	31,916	-	-	-	-	-



Appendix A-4
Schedule of Growth-Related Debenture Repayments
2021-2029

Debenture Year	Principal (Inflated)	Forecast									
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2020	-	-	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-	-	-
2023	406,349	-	-	-	-	36,547	36,547	36,547	36,547	36,547	36,547
2024	97,715	-	-	-	-	-	8,789	8,789	8,789	8,789	8,789
2025	540,500	-	-	-	-	-	-	48,613	48,613	48,613	48,613
2026	-	-	-	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-	-	-	-	-
Total Annual Debt Charges	1,044,564	-	-	-	-	36,547	45,336	93,949	93,949	93,949	93,949

Appendix A-5
Water Reserve Fund Continuity
2021-2029

Description	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Opening Balance	(1,184,980)	(1,854,187)	(1,797,027)	(1,340,638)	(1,027,469)	372,951	115,546	(44,589)	833,752	1,234,862
Transfer from Operating	667,565	526,365	1,324,839	1,452,175	1,784,766	1,743,158	2,057,789	2,370,683	2,549,862	3,033,019
Transfer to Capital	1,300,415	433,969	842,163	1,118,860	391,659	2,002,829	2,217,049	1,508,691	2,172,965	1,750,218
Transfer to Operating	-	-	-	-	-	-	-	-	-	-
Closing Balance	(1,817,830)	(1,761,791)	(1,314,351)	(1,007,323)	365,638	113,280	(43,715)	817,404	1,210,649	2,517,663
Interest	(36,357)	(35,236)	(26,287)	(20,146)	7,313	2,266	(874)	16,348	24,213	50,353



Appendix A-6
Water Development Charges Reserve Fund Continuity
2021-2029

Description	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Opening Balance	(1,864,288)	(1,811,372)	(1,677,868)	(1,605,672)	(1,637,786)	(1,637,134)	(1,637,045)	(1,638,395)	(1,361,349)	(1,052,677)
Development Charge Proceeds	139,068	182,990	227,452	225,791	252,000	285,024	323,925	397,688	423,262	493,894
Transfer to Capital	50,635	16,586	123,773	225,791	182,700	207,500	199,200	-	-	-
Transfer to Operating	-	-	-	-	36,547	45,336	93,949	93,949	93,949	93,949
Closing Balance	(1,775,855)	(1,644,968)	(1,574,188)	(1,605,672)	(1,605,033)	(1,604,946)	(1,606,269)	(1,334,655)	(1,032,036)	(652,732)
Interest	(35,517)	(32,899)	(31,484)	(32,113)	(32,101)	(32,099)	(32,125)	(26,693)	(20,641)	(13,055)
Required from Development Charges	50,635	16,586	123,773	632,140	280,415	748,000	199,200	-	-	-



Appendix A-7 Water Operating Forecast 2021-2029

Description	Forecast									
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
EXPENDITURES										
Operating Costs										
Office Supplies	5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,900	6,000
Postage	9,800	10,000	10,200	10,400	10,600	10,800	11,000	11,300	11,500	11,700
Uniforms	4,000	4,100	4,200	4,300	4,400	4,500	4,600	4,700	4,800	4,900
Office Equipment	11,600	7,800	7,900	8,100	8,200	8,400	8,600	8,700	8,900	9,100
Bank Fees & Interest Chrgs	50	50	50	50	50	60	60	60	60	60
IT Software Licenses	5,300	5,400	5,500	5,600	5,700	5,900	6,000	6,100	6,200	6,300
Tools/Equip	8,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900
Chemicals	98,000	74,500	76,000	77,500	79,100	80,700	82,300	83,900	85,600	87,300
Pumps	15,000	15,300	15,600	15,900	16,200	16,600	16,900	17,200	17,600	17,900
Meters	10,000	10,200	40,000	40,800	41,600	42,400	43,200	44,100	45,000	45,900
Linear Material	138,000	142,300	144,200	266,000	150,700	160,000	157,000	169,000	279,300	179,600
Road Repair Materials	20,000	20,400	20,800	21,200	21,600	22,100	22,500	23,000	23,400	23,900
Fleet Fuel	25,000	25,500	26,000	26,500	27,100	27,600	28,200	28,700	29,300	29,900
Insurance Premium	97,056	101,900	107,000	112,400	118,000	123,900	130,100	136,600	143,400	150,600
Insurance Claims	5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900
Contracted Services	80,000	69,600	83,200	58,400	86,600	71,700	61,900	63,200	64,400	95,600
Legal Fees	5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900
Sampling Program	17,000	17,300	17,600	18,000	18,400	18,800	19,200	19,600	20,000	20,400
Lab Equipment / Testing	4,000	4,100	4,200	4,300	4,400	4,500	4,600	4,700	4,800	4,900
Professional Dues	4,500	4,600	4,700	4,800	4,900	5,000	5,100	5,200	5,300	5,400
Travel	2,000	2,000	2,100	2,100	2,100	2,200	2,200	2,200	2,300	2,300
Training	20,000	30,000	35,000	30,800	27,100	27,600	28,200	33,300	29,300	29,900
R & M- Vehicle	10,000	10,200	10,400	10,600	10,800	11,000	11,300	11,500	11,700	12,000
R & M- Equipment	250,400	249,900	244,500	259,900	254,500	270,500	230,900	281,400	275,400	292,800
R & M- Buildings & Grounds	80,400	167,900	49,900	35,000	46,500	25,400	76,600	43,600	26,900	27,500
Equipment Rentals	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Rentals-Property	4,000	4,100	4,200	4,300	4,400	4,500	4,600	4,700	4,800	4,900
Natural Gas	22,000	22,400	22,800	23,300	23,800	24,300	24,800	25,300	25,800	26,300
Hydro	280,000	285,600	291,300	297,100	303,000	309,100	315,300	321,600	328,000	334,600
Water & Sewer	57,200	64,500	68,200	69,200	70,100	70,900	71,500	72,000	72,200	72,200
Property Tax	225,000	229,500	234,100	238,800	243,600	248,500	253,500	258,600	263,800	269,100
Telephone	5,500	5,600	5,700	5,800	5,900	6,000	6,100	6,200	6,300	6,400
Cell Phone	8,000	8,200	8,300	8,500	8,700	8,800	9,000	9,200	9,400	9,600



Appendix A-7 (continued)
Water Operating Forecast
2021-2029

Description	Forecast									
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
EXPENDITURES										
Operating Costs										
Radios	2,000	2,000	2,100	2,100	2,100	2,200	2,200	2,200	2,300	2,300
Internet	14,000	14,300	14,600	14,900	15,200	15,500	15,800	16,100	16,400	16,700
W/O	10,000	10,200	10,400	10,600	10,800	11,000	11,200	11,400	11,600	11,800
Transfer from Other Dept	323,809	330,300	336,900	343,600	350,500	357,500	364,700	372,000	379,400	387,000
Full-Time	624,972	726,716	741,300	756,100	771,200	786,600	802,300	818,300	834,700	851,400
Part-Time	-	9,800	10,000	10,200	10,400	10,600	10,800	11,000	11,200	11,400
Overtime	49,500	50,500	51,500	52,500	53,600	54,700	55,800	56,900	58,000	59,200
Standby	55,000	56,100	57,200	58,300	59,500	60,700	61,900	63,100	64,400	65,700
Shift Premium	6,000	6,100	6,200	6,300	6,400	6,500	6,600	6,700	6,800	6,900
Clothing Allowance	3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900
Health and Safety	10,000	10,200	10,400	10,600	10,800	11,000	11,200	11,400	11,600	11,800
Benefits	177,024	203,615	207,700	211,900	216,100	220,400	224,800	229,300	233,900	238,600
Retiree Benefits	30,500	31,100	31,700	32,300	32,900	33,600	34,300	35,000	35,700	36,400
Sub-Total Operating Costs	2,833,611	3,068,381	3,048,650	3,194,550	3,163,550	3,208,560	3,263,860	3,356,560	3,499,560	3,508,860
Capital-Related										
Existing Debt (Principal) - Growth Related	263,629	270,261	-	-	-	-	-	-	-	-
Existing Debt (Interest) - Growth Related	9,772	3,092	-	-	-	-	-	-	-	-
New Growth Related Debt (Principal)	-	-	-	-	20,294	25,985	54,018	56,179	58,426	60,763
New Growth Related Debt (Interest)	-	-	-	-	16,254	19,351	39,931	37,771	35,524	33,187
Existing Debt (Principal) - Non-Growth Related	505,767	518,490	-	-	-	-	-	-	-	-
Existing Debt (Interest) - Non-Growth Related	18,748	5,931	-	-	-	-	-	-	-	-
New Non-Growth Related Debt (Principal)	-	-	-	-	-	204,466	212,645	221,150	298,507	310,447
New Non-Growth Related Debt (Interest)	-	-	9,329	23,139	31,916	163,766	155,587	147,081	193,108	181,168
Transfer to Capital	-	-	-	-	-	-	-	-	-	-
Transfer to Capital Reserve	667,565	526,365	1,324,839	1,452,175	1,784,766	1,743,158	2,057,789	2,370,683	2,549,862	3,033,019
Sub-Total Capital Related	1,465,481	1,324,139	1,334,168	1,475,315	1,853,230	2,156,726	2,519,970	2,832,864	3,135,427	3,618,584
Total Expenditures	4,299,092	4,392,520	4,382,818	4,669,865	5,016,780	5,365,286	5,783,830	6,189,424	6,634,987	7,127,444



Appendix A-7 (continued)
Water Operating Forecast
2021-2029

Description	Forecast									
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
REVENUES										
Operating Revenues										
Interest on Accounts	8,500	8,700	8,900	9,100	9,300	9,500	9,700	9,900	10,100	10,300
Certificates	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Service Fees	11,000	11,200	11,400	11,600	11,800	12,000	12,200	12,400	12,600	12,900
Water Meter Fee	16,500	16,800	17,100	17,400	17,700	18,100	18,500	18,900	19,300	19,700
Rental Revenue	84,000	85,700	87,400	89,100	90,900	92,700	94,600	96,500	98,400	100,400
Bulk Water Sales	32,000	32,600	33,300	34,000	34,700	35,400	36,100	36,800	37,500	38,300
Misc Revenue	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,100	4,200
Contributions from Development Charges Reserve Fund	273,402	273,353	-	-	36,547	45,336	93,949	93,949	93,949	93,949
Contributions from Reserves / Reserve Funds	-	-	-	-	-	-	-	-	-	-
Sub-Total Operating Revenues	429,702	432,753	162,600	165,800	205,647	217,836	269,949	273,449	276,949	280,749
Water Billing Recovery										
Base Charge	776,411	872,448	981,401	1,104,909	1,244,762	1,403,972	1,584,764	1,791,128	2,026,477	2,296,248
Consumptive Charge	3,092,980	3,087,320	3,238,818	3,399,155	3,566,370	3,743,478	3,929,116	4,124,847	4,331,560	4,550,447
Sub-Total Water Billing Recovery	3,869,391	3,959,768	4,220,218	4,504,065	4,811,132	5,147,450	5,513,880	5,915,975	6,358,037	6,846,695
Total Revenues	4,299,092	4,392,520	4,382,818	4,669,865	5,016,780	5,365,286	5,783,830	6,189,424	6,634,987	7,127,444