

VILLAGE OF POINT EDWARD

**WATER
ONTARIO REGULATION 453/07
FINANCIAL PLAN**

FINANCIAL PLAN # 036-301

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Plaza Three
101-2000 Argentia Rd.
Mississauga, Ontario
Canada L5N 1V9

Phone: (905) 272-3600

Fax: (905) 272-3602

e-mail: info@watson-econ.ca

www.watson-econ.ca

 **Planning for growth**

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1. INTRODUCTION

1. INTRODUCTION

1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by the Village of Point Edward (the Village) 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 regards to the Village's water system has been compiled and documented by Watson, with the assistance of Village staff, into a twelve year water capital and operating forecast (2014 Water Forecast). The objective of the report provided herein is to convert the findings of the 2014 Water Forecast 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 (SDWA) 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

Section 30 (1) of the SDWA provides the following definition of financial plans:

"financial plans" means,

- (a) financial plans that satisfy the requirements of subsection (2), but only if,
 - (i) Bill 175 (Sustainable Water and Sewage Systems Act, 2002, introduced on September 23, 2002) receives Royal Assent, and
 - (ii) sections 3 and 9 of Bill 175 (Sustainable Water and Sewage Systems Act, 2002) are in force, or
- (b) financial plans that satisfy the requirements prescribed by the Minister, in any other case. 2002, c. 32, s. 30 (1).

The Sustainable Water and Sewage Systems Act, 2002 (SWSSA) cited above has been repealed (see Section 2.2 of this report) however, the standards that it directs underpin the specific requirements of s.30 (1) part b as they are outlined in O.Reg. 453/07 and which will be examined in detail below.

1.2.2 Financial Plan Requirements – New System

O.Reg. 453/07 provides the following parameters with regards to s.30 (1) part b of the SDWA for new water systems:

- Financial plans must be approved by Council resolution (or governing body) indicating that the drinking water system is financially viable;
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six year period (commencing when the system first serves the public);
- 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 Public Sector Accounting Board (PSAB) for each year in which the financial plans apply;
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system.
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and

- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.3 Financial Plan Requirements – Existing System

O.Reg. 453/07 also provides details with regards to s.30 (1) part b of the SDWA 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 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; and
- Gross cash receipts/payments itemized by operating transactions, capital transactions, investing transactions and financial transactions (i.e. the components of a “Statement of Cash Flow” as per PSAB) for each year in which the financial plans apply.
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system.
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and
- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.4 Financial Plan Requirements - General

Given that the legislation falls under the SDWA, a financial plan is mandatory for water systems and encouraged for wastewater systems. The financial plans shall be for a forecast period of at least six years but longer planning horizons are encouraged. The financial plan is to be completed, approved and submitted at the time of licence renewal (i.e. six months prior to licence expiry). 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 document.

1.2.5 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 (CICA) 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.”

Both the Statement of Financial Position and the Statement of Operations were required for financial reporting purposes in pre-2009 reporting years. However, the format changed in 2009 to conform to the requirements of PS1200 and PS3150 (see Figures 1-1 and 1-2). Financial statements are now reported on a full accrual accounting basis, which will continue in future years. 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. Before 2009, financial results were reported on a modified cash basis of accounting whereby revenues and expenses are recognized when cash is paid or received and only certain accrual-type items such as payables and receivables are recognized at year-end. The difference between the methods is in the timing of when transactions are reported. This timing difference has impacted the presentation of the statements in that various accounts have been added or deleted in order to properly report the transactions.

Moreover since the 2009 fiscal year, additional information relating to the accounting treatment of tangible capital assets is included in annual reporting, as indicated by the requirements under section PS3150. Pre-2009, the costs to acquire, develop and/or construct capital assets were expensed in the year in which they occur. Going forward, tangible capital assets will be capitalized so as to create an inventory of the assets owned and to account for their ability to provide future benefits. The reporting of tangible capital assets requires further changes to the format of existing financial statements. From a financial planning perspective, this change is significant for water assets as they can represent a significant portion of the Village's total assets.

The Statement of Cash Flow and the Statement of Change in Net Financial Assets/Debt (which is a new statement as of 2009) are required statements going forward. 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 (see Figure 1-3). 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 (see Figure 1-4).

It should be noted that the Statement of Reserves and Reserve Funds and the Statement of Capital, as used by the public sector pre-2009, have now been eliminated by the new reporting format. The balances and transactions that make up these two statements have been transferred to either the Statement of Operations or the Statement of Financial Position depending on the nature of the account.

FIGURE 1-1 STATEMENT OF FINANCIAL POSITION

OLD FORMAT (PRE-2009)

2009 AND FUTURE

<u>Assets</u>
Financial Assets
Cash
Accounts Receivable
Investments
Inventory for resale
Other Assets
Total Financial Assets
<u>Non-Financial Assets</u>
Inventory of Supplies
Prepaid Expenses
Total Non-Financial Assets
<u>Liabilities</u>
Accounts Payable & Accrued Liabilities
Debt (Principal only)
Other (DC Reserves-Deferred Revenue)
Total Liabilities
NET ASSETS
<u>Municipal Position</u>
Fund Balances
Current Fund
Capital Fund
Reserves and Reserve Funds
Amounts to be Recovered
From Future Revenues
From Reserves & Reserve Funds
TOTAL MUNICIPAL POSITION

<u>Financial Assets</u>
Cash
Accounts Receivable
Investments
Inventory for resale
Other Assets
Total Financial Assets
<u>Liabilities</u>
Accounts Payable & Accrued Liabilities
Debt (Principal only)
Other (DC Reserves-Deferred Revenue)
Total Liabilities
NET FINANCIAL ASSETS/(DEBT)
<u>Non-Financial Assets</u>
Tangible Capital Assets
Inventory of Supplies
Prepaid Expenses
Total Non-Financial Assets
ACCUMULATED SURPLUS/(DEFICIT)

FIGURE 1-2 STATEMENT OF OPERATIONS

OLD FORMAT (PRE-2009)

Revenues
Base Charge Revenue
Rate Based Revenue
Transfers from Reserves
Other Revenue
Total Revenues
Expenditures
Operating Expenses
Capital
Total Expenditures
Net Revenues for the year
Increase (decrease) in amounts to be recovered
Change in fund balances

2009 AND FUTURE

Revenue
Base Charge Revenue
Rate Based Revenue
Earned DC Revenue
Other Revenue
Total Revenue
Expenses
Operating Expenses
Interest on Debt
Amortization
Other
Total Expenses
Annual Surplus/(Deficit)
Accum. Surplus/(Deficit), beg. of year
Accum. Surplus/(Deficit), end of year

FIGURE 1-3
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS/DEBT

2009 AND FUTURE

Annual Surplus/(Deficit)
Less: Acquisition of tangible capital assets
Add: Amortization of tangible capital assets
(Gain)/Loss on disposal of tangible capital assets
Add: Proceeds on sale of tangible capital assets
Add: Write-downs of tangible capital assets
Sub-total
Less: Acquisition of supplies inventory
Less: Acquisition of prepaid expenses
Add: Consumption of supplies inventory
Add: Use of prepaid expenses
Sub-total
(Increase)/Decrease in net financial assets/net debt
Net financial assets/(net debt), beginning of year
Net financial assets/(net debt), end of year

FIGURE 1-4 STATEMENT OF CASH FLOW¹

DIRECT METHOD	INDIRECT METHOD
<p><u>Operating Transactions</u> Cash received from: Water Operations Less: Cash paid for: Operating expenses Finance charges</p>	<p><u>Operating Transactions</u> Annual Surplus/(Deficit) Add: Amortization of Tangible Capital Assets Loss/(Gain) on sale of Tangible Capital Assets Decrease/(Increase) in Accounts Receivable Increase/(Decrease) in Accounts Payable Decrease/(Increase) in Inventories for sale Other items</p>
Cash provided by operating transactions	Cash provided by operating transactions
<p><u>Capital Transactions</u> Proceeds on sale of tangible capital assets Less: Cash used to acquire tangible capital assets</p>	<p><u>Capital Transactions</u> Proceeds on sale of tangible capital assets Less: Cash used to acquire tangible capital assets</p>
Cash applied to capital transactions	Cash applied to capital transactions
<p><u>Investing Transactions</u> Proceeds from investments Less: Cash used to acquire investments</p>	<p><u>Investing Transactions</u> Proceeds from investments Less: Cash used to acquire investments</p>
Cash provided by (applied to) investing transactions	Cash provided by (applied to) investing transactions
<p><u>Financing Transactions</u> Proceeds from debt issue Less: Debt repayment (principal only)</p>	<p><u>Financing Transactions</u> Proceeds from debt issue Less: Debt repayment (principal only)</p>
Cash applied to financing transactions	Cash applied to financing transactions
Increase in cash and cash equivalents	Increase in cash and cash equivalents
Cash and cash equivalents, beginning of year	Cash and cash equivalents, beginning of year
Cash and cash equivalents, end of year	Cash and cash equivalents, end of year

¹ The statement of cash flow can be prepared using either the direct or indirect methods. The indirect method derives cash flow by making adjustments to the net surplus/deficit reported on the statement of operations. The direct method calculates cash flow identifying the direct sources and uses of cash.

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 SDWA requires a declaration of the financial plan's sustainability, it does not give a clear definition of what would be considered sustainable. Instead, the Ministry of the Environment 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* (SWSSA) was passed on December 13, 2002. The intent of the Act was to introduce the requirement for municipalities to undertake an assessment of the "full cost" of providing their water and the wastewater services. In total, there were 40 areas within the Act to which the Minister could have made Regulations. It is noted

that, the regulations, which accompany the Act, were not issued and the Act was repealed on December 31, 2012.

2.3 Water Opportunities Act, 2010 (Bill 72)

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

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

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

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

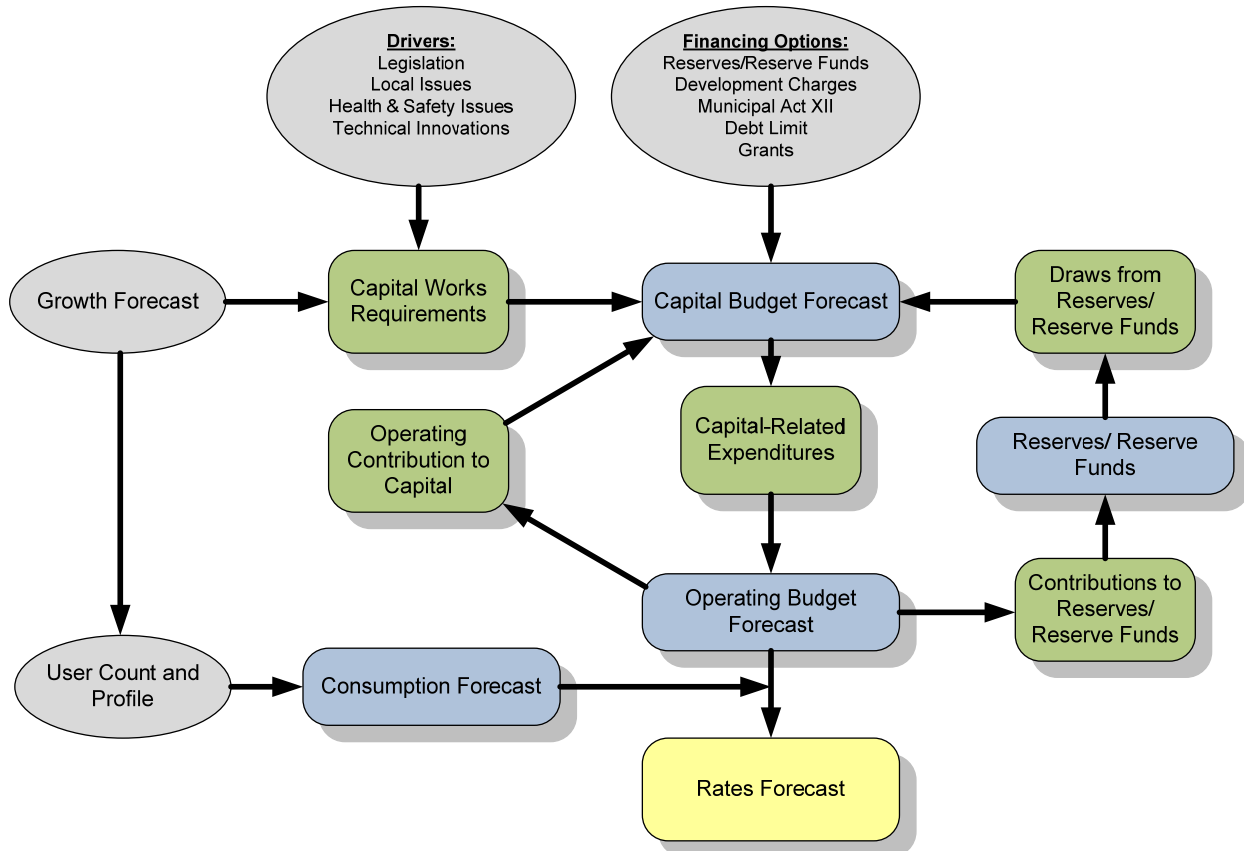
Where a Board has jurisdiction over a service, the plan (and any plan amendments) must be approved by the municipality in which the municipal service is provided, before submission to the Minister. The Minister may also direct preparation of joint or partially joint plans.

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

2.4 Water Forecast

As noted above, Watson has already assisted Village staff with the development of a water forecast (2014 Water Forecast). While this 2014 Water Forecast provides the necessary tools to complete the legislated water financial plan, it is not a comprehensive rate study. The rate study process is designed to address the “full cost” principles within SWSSA and does so in a manner that also reflects the guiding principles toward sustainable financial planning. Figure 2-1 below summarizes the process.

**FIGURE 2-1
WATER (AND WASTEWATER) RATE CALCULATION PROCESS**



The details of the financial plan arising from the 2014 Water Forecast are contained in Appendix A. It is recommended that a rate study update be completed in the near future.

3. APPROACH

3. APPROACH

3.1 Overview

The 2014 Water Forecast has been prepared on a modified cash basis; therefore a conversion was required in order to present a full accrual financial plan for the purposes of this report. The conversion process used will help to establish the structure of the financial plan along with the opening balances that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the financial plan. It is noted that the financial plan has been prepared for water.

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 2014 Water Forecast as well as part of the Village's annual PSAB 3150 compliance processes. Given the prospective nature of the 2014 Water Forecast, 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 2014 Water Forecast. However, these estimates only represent future assets that the Village anticipates

purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to the Village). 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

As per section 1.2.5 above, the new Statement of Operations eliminates and/or adds certain transactions that have been reported differently by municipalities since 2009 (see Figure 3-1). A wide range of adjustments will be considered and will depend on the size and complexity of the system. For example, the revenues and expenses associated with the now obsolete Statement of Capital and Statement of Reserves and Reserve Funds (see Section 1.2.5) will need to be adjusted for and included within the Statement of Operations. This includes all non-tangible capital asset costs previously included in the capital statement (i.e. expenses related to various studies) while at the same time eliminating all expenditures incurred to acquire tangible capital assets which will now form part of the tangible capital asset balance discussed in section 3.2.1.

Transfers to and from reserves are no longer explicitly reported on the Statement of Operations. Instead, these transactions are represented by changes in cash and accumulated surplus. Also, debt repayment costs relating to the principal payment portion only need to be removed, as they no longer qualify as an expense for reporting purposes. Principal payments will now be reported as a decrease in debt liability on the Statement of Financial Position. Finally, expenses relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets will be 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.

FIGURE 3-1
Village of Point Edward
Conversion Adjustments
Statement of Operations (Water)

Modified Cash Basis	Budget 2014	Adjustments		Full Accrual Budget 2014	Accrual Basis
		DR	CR		
Revenues					
Water Revenue	577,166			577,166	Rate Based Revenue
Transfers from Reserves	-	-	-	-	Earned Development Charges and Gas Tax Revenue
					Developer Contributions
Other Revenue	11,240		4,900	16,139	Other Revenue
Total Revenues	588,406			593,305	Total Revenues
Expenditures					Expenses
Operating	398,976	6,000		404,976	Operating Expenses
Capital					
Transfers to Reserves	99,053		99,053		
Transfers to Capital	6,000		6,000		
Debt Repayment (Principal & Interest)	84,377		64,047	20,330	Interest on Debt
		30,799		30,799	Amortization
		-		-	Loss on Disposal of Tangible Capital Assets
Total Expenditures	588,406			456,105	Total Expenses
Net Expenditures					
	-			137,200	Annual Surplus/(Deficit)
Increase (decrease) in amounts to be recovered	-			1,239,534	Accumulated Surplus/(Deficit), beginning of year
Change in Fund Balances		137,200		1,376,734	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		174,000	174,000		

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 Village 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 Village 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.

FIGURE 3-2
Village of Point Edward
Conversion Adjustments
Statement of Financial Position (Water)

Modified Cash Basis	Budget	Adjustments		Full Accrual Budget 2014	Accrual Basis
	2014	DR	CR		
ASSETS					ASSETS
Financial Assets					Financial Assets
Cash	89,114			89,115	Cash
Accounts Receivable	164,754			164,754	Accounts Receivable
				-	Investments
				-	Inventory for resale
Total Financial Assets	253,868			253,869	Total Financial Assets
LIABILITIES					LIABILITIES
Accounts Payable & Accrued Liabilities	3,990			3,991	Accounts Payable & Accrued Liabilities
Gross Long-term Liabilities	224,029			224,029	Debt (Principal only)
Deferred Revenue	-			-	Deferred Revenue
Other	-			-	Other
Total Liabilities	228,019			228,020	Total Liabilities
Net Assets/(Debt)	25,849			25,849	Net Financial Assets/(Debt)
					Non-Financial Assets
		1,356,885	6,000	1,350,885	Tangible Capital Assets
		-	-	-	Inventory of Supplies
		-	-	-	Prepaid Expenses
					Total Non-Financial Assets
Municipal Position					
Water Reserves	249,878	249,878	-		
Gas Tax Reserve Fund	-	-	-		
Development Charge Reserve Fund	-	-	-		
Amounts to be Recovered	(224,029)	-	224,029		
Total Municipal Position	25,849		1,376,734	1,376,734	Accumulated Surplus/(Deficit), end of year
TOTAL ADJUSTMENTS		1,606,763	1,606,763		

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

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

- b. Amortization Expense The method and timing of amortization should be based on the Village'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 2013 Rate Study.

- d. Contributed Assets As noted earlier, contributed assets could represent a significant part of the Village'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.

4. FINANCIAL PLAN

4. FINANCIAL PLAN

4.1 Introduction

The following tables provide the complete financial plan for the Village'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 Village'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 Village's water system. The first important indicator is net financial assets/(debt), which is defined as the difference between financial assets and liabilities. This indicator provides an indication of the system's "future revenue requirement". A net financial asset position is where financial assets are greater than liabilities and implies that the system has the resources to finance future operations. Conversely, a net debt position implies that the future revenues generated by the system will be needed to finance past transactions, as well as future operations. Table 4-1 indicates that in 2014, the Village's water system will be in a net asset position of approximately \$25,849. Due to the anticipated issuance of new debt to fund water capital projects, the financial plan forecasts a net debt position for each of the remaining years of the forecast period, reaching a net debt position of approximately \$1,018,291 in 2023 before improving to approximately \$528,780 by 2025.

Another important indicator on the Statement of Financial Position is the tangible capital asset balance. As noted earlier, providing this information is a new requirement for municipalities as part of PS3150 compliance and is significant from a financial planning perspective for the following reasons:

- Tangible capital assets such as water mains 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.

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

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 the tangible capital asset net book value is expected to grow by over \$2,449,800 over the 12-year forecast period. This indicates that the Village 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 staying relatively constant at 73% to 79% over the forecast period and as a result, annual surplus is expected to be relatively constant, from \$137,200 to \$194,658. It is important to note that an annual surplus is beneficial to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments.

Another important indicator on this statement is accumulated surplus/deficit. An accumulated surplus indicates that the available net resources are sufficient to provide future water services. An accumulated deficit indicates that resources are insufficient to provide future services and that borrowing or rate increases are required to finance annual deficits. From Table 4-2, the financial plan proposes to add approximately \$2,063,209 to a 2013 accumulated surplus of \$1,239,534 over the forecast period. This accumulated surplus, as indicated in Table 4-2, is predominantly made up of reserve and reserve fund balances as well as historical investments in tangible capital assets.

4.2.3 Statement of Change in Net Financial Assets/Debt (Table 4-3)

The Statement of Change in Net Financial Assets/Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (i.e. tangible capital assets) 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 tangible capital asset acquisitions (net of amortization for the year) exceeds the forecasted annual surplus for 2015 to 2017 and 2020 to 2023, resulting in a decrease in net financial assets. This is due to the planned use of debt to construct tangible capital assets in these years. In each of the other

years (2014, 2018, 2019, 2024 and 2025), forecasted annual surplus exceeds forecasted tangible capital asset acquisitions (net of amortization for the year) resulting in an increase in net financial assets. This allows for a long term plan of funding capital through accumulated surplus (i.e. reserves and reserve funds). This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions ranging between 0.71 and 0.99 over the forecast period¹.

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how the water system is 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 Village's water system to improve from a bank indebtedness balance of approximately \$30,785 at the beginning of 2014, to a cash balance of just under \$550,000 by the end of 2025. 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
 Village of Point Edward
 Statement of Financial Position: Water Services
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2014 - 2025

	Notes	Forecast											
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Financial Assets													
Cash	1	89,115	76,959	-	-	54,400	248,161	57,669	97,202	134,388	190,166	361,700	547,267
Accounts Receivable	1	164,754	169,696	174,787	180,031	185,432	190,995	196,724	202,626	208,705	214,966	221,415	228,057
Total Financial Assets		253,869	246,655	174,787	180,031	239,832	439,156	254,393	299,828	343,093	405,132	583,115	775,324
Liabilities													
Bank Indebtedness		-	-	20,301	124,047	-	-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	1	3,991	4,069	4,149	4,229	4,311	4,393	4,480	4,569	4,659	4,748	4,841	4,936
Debt (Principal only)	2	224,029	411,906	521,292	626,397	605,710	583,989	561,181	733,258	961,401	1,418,675	1,360,379	1,299,168
Total Liabilities		228,020	415,975	545,742	754,673	610,021	588,382	565,661	737,827	966,060	1,423,423	1,365,220	1,304,104
Net Financial Assets/(Debt)		25,849	(169,320)	(370,955)	(574,642)	(370,189)	(149,226)	(311,268)	(437,999)	(622,967)	(1,018,291)	(782,105)	(528,780)
Non-Financial Assets													
Tangible Capital Assets		1,350,885	1,704,082	2,061,891	2,422,311	2,377,895	2,333,479	2,681,193	3,002,574	3,382,200	3,969,569	3,900,541	3,831,523
Total Non-Financial Assets		1,350,885	1,704,082	2,061,891	2,422,311	2,377,895	2,333,479	2,681,193	3,002,574	3,382,200	3,969,569	3,900,541	3,831,523
Accumulated Surplus/(Deficit)	5	1,376,734	1,534,762	1,690,936	1,847,669	2,007,706	2,184,253	2,369,925	2,564,575	2,759,233	2,951,268	3,118,436	3,302,743
Financial Indicators													
1) Increase/(Decrease) in Net Financial Assets		(386,630)	167,999	(201,635)	(203,687)	204,453	220,963	(162,042)	(126,731)	(184,968)	(395,324)	236,186	253,325
2) Increase/(Decrease) in Tangible Capital Assets		2,449,839	353,197	357,809	360,420	(44,416)	(44,416)	347,714	321,381	379,626	587,359	(69,018)	(69,018)
3) Increase/(Decrease) in Accumulated Surplus		2,063,209	137,200	158,028	156,174	160,037	176,547	185,672	194,650	194,658	192,035	167,188	184,307

Table 4-2
Village of Point Edward
Statement of Operations: Water Services
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2014 - 2025

	Notes	Forecast															
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025				
Water Revenue																	
Water Revenue		577,166	594,588	612,539	631,027	650,076	669,693	689,907	710,725	732,174	754,266	777,028	800,471				
Other Revenue	6	16,139	16,227	14,647	12,955	16,797	20,956	17,580	18,728	19,838	21,320	13,739	14,020				
Total Revenues		593,305	610,815	627,186	643,982	666,873	690,649	707,487	729,453	752,012	775,586	790,767	814,491				
Water Expenses																	
Operating Expenses	Sch. 4-1	404,976	406,900	414,900	422,900	431,100	439,400	448,200	457,100	466,100	475,100	484,400	493,900				
Interest on Debt	2	20,330	15,088	22,245	25,260	31,320	30,286	29,199	28,059	26,663	48,070	70,181	67,266				
Amortization	4	30,799	30,799	33,867	39,089	44,416	44,416	44,416	49,644	54,591	60,381	69,018	69,018				
Loss on Disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-				
Total Expenses		456,105	452,787	471,012	487,249	506,836	514,102	521,815	534,803	557,354	583,551	623,599	630,184				
Annual Surplus/(Deficit)		137,200	158,028	156,174	156,733	160,037	176,547	185,672	194,650	194,658	192,035	167,168	184,307				
Accumulated Surplus/(Deficit), beginning of year	5	1,239,534	1,376,734	1,534,762	1,690,936	1,847,669	2,007,706	2,184,253	2,369,925	2,564,575	2,759,233	2,951,268	3,118,436				
Accumulated Surplus/(Deficit), end of year		1,376,734	1,534,762	1,690,936	1,847,669	2,007,706	2,184,253	2,369,925	2,564,575	2,759,233	2,951,268	3,118,436	3,302,743				
Note 5:																	
Accumulated Surplus/(Deficit) Reconciliation:																	
Reserve Balances																	
Reserves: Capital/Other		249,878	242,586	150,337	51,755	235,521	434,763	249,913	295,259	338,434	400,384	578,274	770,388				
Total Reserves Balance		249,878	242,586	150,337	51,755	235,521	434,763	249,913	295,259	338,434	400,384	578,274	770,388				
Less: Debt Obligations and Deferred Revenue		(224,029)	(411,908)	(521,292)	(626,397)	(605,710)	(583,989)	(561,181)	(733,258)	(961,401)	(1,418,675)	(1,360,379)	(1,299,168)				
Add: Tangible Capital Assets	4	1,350,885	1,704,082	2,061,891	2,422,311	2,377,895	2,333,479	2,681,193	3,002,574	3,382,200	3,969,559	3,900,541	3,831,523				
Total Ending Balance		1,376,734	1,534,762	1,690,936	1,847,669	2,007,706	2,184,253	2,369,925	2,564,575	2,759,233	2,951,268	3,118,436	3,302,743				
Financial Indicators																	
1) Expense to Revenue Ratio		77%	74%	75%	76%	76%	74%	74%	73%	74%	75%	79%	77%				
2) Increase/(Decrease) in Accumulated Surplus		137,200	158,028	156,174	156,733	160,037	176,547	185,672	194,650	194,658	192,035	167,168	184,307				

SCHEDULE 4-1
 Village of Point Edward
 Schedule of Operating Expenses: Water Services
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2014 - 2025

	Notes	Forecast																							
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025												
Operating Expenses																									
WATER - Salaries - Full Time Excl Dept 20		83,000	84,700	86,400	88,100	89,900	91,700	93,500	95,400	97,300	99,200	101,200	103,200												
WATER - Salaries - PW Dept 20		35,000	35,700	36,400	37,100	37,800	38,600	39,400	40,200	41,000	41,800	42,600	43,500												
WATER - Salaries - O/T PW Dept 20		5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000	6,100												
WATER - Benefits - Excl Dept 20		19,000	19,400	19,800	20,200	20,600	21,000	21,400	21,800	22,200	22,600	23,100	23,600												
WATER - Benefits - PW Dept 20		3,600	3,700	3,800	3,900	4,000	4,100	4,200	4,300	4,400	4,500	4,600	4,700												
WATER - WSIB - Excl Dept 20		1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900												
WATER - WSIB - PW Dept 20		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000												
WATER - OSWAP Expenses		-	-	-	-	-	-	-	-	-	-	-	-												
WATER - LAWSS Operating -Water Purchas		111,674	113,900	116,200	118,500	120,900	123,300	125,800	128,300	130,900	133,500	136,200	138,900												
WATER - Capital Water PT		43,102	44,000	44,900	45,800	46,700	47,600	48,600	49,600	50,600	51,600	52,600	53,700												
WATER - Watermains- Sarnia		7,900	7,700	7,900	8,100	8,300	8,500	8,700	8,900	9,100	9,300	9,500	9,700												
WATER - Watermains- Operating/Mntce/Sen		30,000	30,600	31,200	31,800	32,400	33,000	33,700	34,400	35,100	35,800	36,500	37,200												
WATER - Meter Maintenance		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500												
WATER - Hydrants - Mtce & Acces		5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000	6,100												
WATER - Water Testing		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000												
WATER - Meter Reads/Billings		7,000	7,100	7,200	7,300	7,400	7,500	7,600	7,700	7,800	7,900	8,000	8,100												
WATER - Office supplies		500	500	500	500	500	500	500	500	500	500	500	500												
WATER - DWOMS Audit		7,500	7,700	7,900	8,100	8,300	8,500	8,700	8,900	9,100	9,300	9,500	9,700												
WATER - Audit Fees		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500												
WATER - Training & Education		5,500	5,600	5,700	5,800	5,900	6,000	6,100	6,200	6,300	6,400	6,500	6,600												
WATER - Insurance		7,000	7,100	7,200	7,300	7,400	7,500	7,600	7,700	7,800	7,900	8,000	8,100												
WATER - Write off-Bad Debts		500	500	500	500	500	500	500	500	500	500	500	500												
WATER - Health & Safety		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500												
WATER - Meter Purchases		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000												
WATER - Hydrant & Accessory		3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,100												
WATER - Council - Training & Education		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000												
WATER - Equipment Purchase		3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,100												
WATER - Backflow Maintenance		4,000	4,100	4,200	4,300	4,400	4,500	4,600	4,700	4,800	4,900	5,000	5,100												
WATER - Autoread Support		1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700												
WATER - Valve Maintenance		5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000	6,100												
Non TCA - Expenses from Capital Budget	7	6,000	-	-	-	-	-	-	-	-	-	-	-												
TOTAL OPERATING EXPENSES		404,976	406,900	414,900	422,900	431,100	439,400	448,200	457,100	466,100	475,100	484,400	493,900												

Table 4-3
 Village of Point Edward
 Statement of Changes in Net Financial Assets/Debt: Water Services
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2014 - 2025

	Notes	Forecast											
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual Surplus/(Deficit)		137,200	158,028	156,174	156,733	160,037	176,547	185,672	194,650	194,658	192,035	167,168	184,307
Less: Acquisition of Tangible Capital Assets	4	-	(383,996)	(391,676)	(399,509)	-	-	(392,130)	(371,025)	(434,217)	(647,740)	-	-
Add: Amortization of Tangible Capital Assets	4	30,799	30,799	33,867	39,089	44,416	44,416	44,416	49,644	54,591	60,381	69,018	69,018
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-
		30,799	(353,197)	(357,809)	(360,420)	44,416	44,416	(347,714)	(321,381)	(379,626)	(587,359)	69,018	69,018
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)		167,999	(195,169)	(201,635)	(203,687)	204,453	220,963	(162,042)	(126,731)	(184,968)	(395,324)	236,186	253,325
Net Financial Assets/(Net Debt), beginning of year		(142,150)	25,849	(169,320)	(370,955)	(574,642)	(370,189)	(149,226)	(311,268)	(437,999)	(622,967)	(1,018,291)	(782,105)
Net Financial Assets/(Net Debt), end of year		25,849	(169,320)	(370,955)	(574,642)	(370,189)	(149,226)	(311,268)	(437,999)	(622,967)	(1,018,291)	(782,105)	(528,780)

Financial Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
1) Acquisition of Tangible Capital Assets (Cumulative)	-	383,996	775,672	1,175,181	1,175,181	1,175,181	1,567,311	1,938,336	2,372,553	3,020,283	3,020,293	3,020,293
2) Annual Surplus/Deficit before Amortization (Cumulative)	167,999	356,826	546,867	742,689	947,142	1,168,105	1,398,193	1,642,487	1,891,736	2,144,152	2,380,338	2,633,663
3) Ratio of Annual Surplus before Amortization to Acquisition of TCAs (Cumulative)	-	0.93	0.71	0.63	0.81	0.99	0.89	0.85	0.80	0.71	0.79	0.87

Table 4-4
 Village of Point Edward
 Statement of Cash Flow - Indirect Method: Water Services
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2014 - 2025

	Notes	Forecast												
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Operating Transactions														
Annual Surplus/Deficit		137,200	158,028	156,174	156,733	160,037	176,547	185,672	194,650	194,658	192,035	167,168	184,307	
Add: Amortization of TCAs	4	30,799	30,799	33,867	39,089	44,416	44,416	44,416	49,644	54,591	60,381	69,018	69,018	
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-	
Less: Earned Deferred Revenue	3	-	-	-	-	-	-	-	-	-	-	-	-	
Less: Developer Contributions		-	-	-	-	-	-	-	-	-	-	-	-	
Add: Deferred Revenue Proceeds		-	-	-	-	-	-	-	-	-	-	-	-	
Change in A/R (Increase)/Decrease		16,480	(4,943)	(5,091)	(5,244)	(5,401)	(5,563)	(5,730)	(5,902)	(6,079)	(6,261)	(6,449)	(6,642)	
Change in A/P (Increase)/Decrease		(532)	79	80	80	82	83	88	89	90	90	93	95	
Less: Interest Proceeds		(4,900)	(4,757)	(2,948)	(1,015)	(4,618)	(8,525)	(4,900)	(5,789)	(6,636)	(7,851)	-	-	
Cash Provided by Operating Transactions		179,047	179,206	182,082	189,643	194,516	206,958	219,546	232,692	236,624	238,384	229,830	246,778	
Capital Transactions														
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-	-	-	
Less: Cash Used to acquire Tangible Capital Assets	4	-	(383,996)	(391,676)	(399,509)	-	-	(392,130)	(371,025)	(434,217)	(647,740)	-	-	
Cash Applied to Capital Transactions		-	(383,996)	(391,676)	(399,509)	-	-	(392,130)	(371,025)	(434,217)	(647,740)	-	-	
Investing Transactions														
Proceeds from Investments		4,900	4,757	2,948	1,015	4,618	8,525	4,900	5,789	6,636	7,851	-	-	
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-	-	-	-	
Cash Provided by (applied to) Investing Transactions		4,900	4,757	2,948	1,015	4,618	8,525	4,900	5,789	6,636	7,851	-	-	
Financing Transactions														
Proceeds from Debt Issue	2	-	256,938	194,676	199,509	-	-	-	196,025	259,217	497,740	-	-	
Less: Debt Repayment (Principal only)	2	(64,047)	(69,061)	(82,290)	(94,404)	(20,687)	(21,722)	(22,808)	(23,948)	(31,074)	(40,467)	(58,296)	(61,211)	
Cash Applied to Financing Transactions		(64,047)	(69,061)	(82,290)	(94,404)	(20,687)	(21,722)	(22,808)	(23,948)	(31,074)	(40,467)	(58,296)	(61,211)	
Increase in Cash and Cash Equivalents		119,900	(12,156)	(97,260)	(103,746)	(178,447)	193,761	(190,492)	39,533	37,186	55,778	171,534	185,567	
Cash and Cash Equivalents, beginning of year	1	(30,785)	89,115	76,959	(20,301)	(124,047)	54,400	248,161	57,669	97,202	134,388	190,166	361,700	
Cash and Cash Equivalents, end of year	1	89,115	76,959	(20,301)	(124,047)	54,400	248,161	57,669	97,202	134,388	190,166	361,700	547,267	

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 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
- C. Investing transactions that are acquisitions and disposal of investments
- E. Change in cash and cash equivalents during the year
- F. 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 Village of Point Edward, some of the items listed above have been estimated given that the Village 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 balance required to complete the financial plan is 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 historical levels of water receivables as a percentage of annual water revenue earned (source: provided by staff); and
- b. Payables: Based on historical levels of water payables as a percentage of annual water expenses incurred (source: provided by staff).

2. Debt

Outstanding water related debt at the end of 2013 was \$288,076, with additional debt proceeds anticipated throughout the forecast period. Principal repayments for existing and new debt over the forecast period are scheduled as follows:

Year	Principal Payments
2014	64,047
2015	69,061
2016	82,290
2017	94,404
2018	20,687
2019	21,722
2020	22,808
2021	23,948
2022	31,074
2023	40,467
2024	58,296
2025	61,211
Total	\$ 590,015

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 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. The Village of Point Edward does not collect water development charges, therefore deferred revenue is assumed to be zero over the forecast period.

4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water related assets in the following categories:
 - i. Infrastructure
 - ii. Equipment
- Amortization is calculated based on the straight-line approach with no amortization in the year of acquisition or construction.
- Given the planned asset replacement forecast in the 2014 Water Forecast, 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 Village is unaware of any specific lead service piping in the municipal water system. However when older portions of the water main system are replaced as part of the ongoing replacement program, any lead service pipes will be replaced if and when found.

The balance of tangible capital assets is summarized as follows:

Asset Historical Cost	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Opening Tangible Capital Asset Balance	2,073,347	2,073,347	2,445,005	2,823,325	3,208,597	3,208,597	3,208,597	3,586,100	3,942,424	4,357,667	4,973,341	4,973,341
Acquisitions	-	383,996	391,676	399,509	-	-	392,130	371,025	434,217	647,740	-	-
Disposals	-	12,338	13,356	14,237	-	-	14,627	14,701	18,974	32,066	-	-
Closing Tangible Capital Asset Balance	2,073,347	2,445,005	2,823,325	3,208,597	3,208,597	3,208,597	3,586,100	3,942,424	4,357,667	4,973,341	4,973,341	4,973,341
Opening Accumulated Amortization	691,663	722,462	740,923	761,434	786,286	830,702	875,118	904,907	939,850	975,467	1,003,782	1,072,800
Amortization Expense	30,799	30,799	33,867	39,089	44,416	44,416	44,416	49,644	54,591	60,381	69,018	69,018
Amortization on Disposal	-	12,338	13,356	14,237	-	-	14,627	14,701	18,974	32,066	-	-
Ending Accumulated Amortization	722,462	740,923	761,434	786,286	830,702	875,118	904,907	939,850	975,467	1,003,782	1,072,800	1,141,818
Net Book Value	1,350,885	1,704,082	2,061,891	2,422,311	2,377,895	2,333,479	2,681,193	3,002,574	3,382,200	3,969,559	3,900,541	3,831,523

5. Accumulated Surplus

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

Water	2014 Opening Accumulated Surplus
Reserve Balances	
Reserves: Capital/Other	145,926
Total Reserves Balance	145,926
Less: Debt Obligations and Deferred Revenue	(288,076)
Add: Tangible Capital Assets	1,381,684
Total Opening Balance	1,239,534

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

6. Other revenue

Other revenue includes interest, service charges, penalties, meter purchases and other non-operating general revenues.

7. Operating Expenses

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

5. PROCESS FOR FINANCIAL PLAN APPROVAL AND SUBMISSION TO THE PROVINCE

5. PROCESS FOR APPROVAL AND SUBMISSION TO THE PROVINCE

As mentioned in section 1.2, the requirement to prepare the financial plan is provided in Section 32 (5) 2 ii of the SDWA. Proof of the preparation of a financial plan is one of the submission requirements for municipal drinking water licensing and upon completion, must be submitted to the Ministry of the Environment. As part of O.Reg. 453/07, the process established for plan approval, public circulation and filing is set out as follows:

1. The financial plan must be approved by resolution 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 Ministry of the Environment that the financial plans for the system satisfy the requirements under the Safe Drinking Water Act. (SDWA Section 32 (5) 2 ii)

6. RECOMMENDATIONS

6. RECOMMENDATIONS

This report presents the water financial plan for the Village of Point Edward 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 2014 Water Forecast or a future rate study update. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Village of Point Edward Water Financial Plan prepared by Watson & Associates Economists Ltd. dated July 24, 2014 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan and the Council Resolution approving the Financial Plan, be submitted to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3 (1) 6)
4. The Financial Plan and the Council Resolution approving the Financial Plan be submitted to the Ministry of the Environment, satisfying the requirements under the Safe Drinking Water Act. (SDWA Section 32 (5) 2 ii)

APPENDIX A
2014 WATER FORECAST – SUMMARY TABLES

Table A-2
Village of Point Edward
Water Service
Schedule of Non-Growth Related Debenture Repayments
 Inflated \$

Debenture Year	Principal (Inflated)	Forecast											
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2014	-	-	-	-	-	-	-	-	-	-	-	-	-
2015	256,938	-	-	-	-	-	-	-	-	-	-	-	-
2016	191,676	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
2017	199,509	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
2018	-	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
2019	-	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
2020	-	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
2021	196,025	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
2022	259,217	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
2023	497,740	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
2024	-	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
2025	-	-	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617	20,617
Total Annual Debt Charges	1,601,106	-	20,617	35,998	52,007	52,007	52,007	52,007	52,007	67,737	88,537	128,477	128,477

Table A-3
Village of Point Edward
Water Service
Water Reserves/ Reserve Funds Continuity
 Inflated \$

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Water Reserve (4040-0410)												
Opening Balance	38,014	127,058	-	-	-	-	-	-	-	-	-	-
Transfer from Operating	86,553	-	-	-	-	-	-	-	-	-	-	-
Transfer to Capital	-	127,058	-	-	-	-	-	-	-	-	-	-
Transfer to Operating	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance	124,566	-	-	-	-	-	-	-	-	-	-	-
Interest	2,491	-	-	-	-	-	-	-	-	-	-	-

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Water Reserve (4040-0441) - Long Term Projects												
Opening Balance	107,912	122,820	242,585	150,337	51,754	235,521	434,762	249,912	295,259	338,432	400,382	589,838
Transfer from Operating	12,500	115,008	104,804	100,403	179,148	190,716	202,380	214,557	211,538	204,099	177,891	192,114
Transfer to Capital	-	-	200,000	200,000	-	-	392,130	175,000	175,000	150,000	-	-
Transfer to Operating	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance	120,412	237,828	147,389	50,739	230,903	426,237	245,012	289,469	331,796	392,531	578,273	781,952
Interest	2,408	4,757	2,948	1,015	4,618	8,525	4,900	5,789	6,636	7,851	11,565	15,639

Table A-4
Village of Point Edward
Water Services
Operating Budget Forecast
 Inflated \$

Description	Forecast											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Expenditures												
Operating Costs												
WATER - Salaries - Full Time Excl Dept 20	83,000	84,700	86,400	88,100	89,900	91,700	93,500	95,400	97,300	99,200	101,200	103,200
WATER - Salaries - PW Dept 20	35,000	35,700	36,400	37,100	37,800	38,600	39,400	40,200	41,000	41,800	42,600	43,500
WATER - Salaries - O/T PW Dept 20	5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000	6,100
WATER - Benefits - Excl Dept 20	19,000	19,400	19,800	20,200	20,600	21,000	21,400	21,800	22,200	22,600	23,100	23,600
WATER - Benefits - PW Dept 20	3,600	3,700	3,800	3,900	4,000	4,100	4,200	4,300	4,400	4,500	4,600	4,700
WATER - WSIB - Excl Dept 20	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900
WATER - WSIB - PW Dept 20	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
WATER - OSWAP Expenses	-	-	-	-	-	-	-	-	-	-	-	-
WATER - LAWSS Operating - Water Purchas	111,674	113,900	116,200	118,500	120,900	123,300	125,800	128,300	130,900	133,500	136,200	138,900
WATER - Capital Water PT	43,102	44,000	44,900	45,800	46,700	47,600	48,600	49,600	50,600	51,600	52,600	53,700
WATER - Watermains - Sarnia	7,500	7,700	7,900	8,100	8,300	8,500	8,700	8,900	9,100	9,300	9,500	9,700
WATER - Watermains - Operating/Mntce/Sen	30,000	30,600	31,200	31,800	32,400	33,000	33,700	34,400	35,100	35,800	36,500	37,200
WATER - Meter Maintenance	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
WATER - Hydrants - Mntce & Acces	5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000	6,100
WATER - Water Testing	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
WATER - Meter Reads/Billings	7,000	7,100	7,200	7,300	7,400	7,500	7,600	7,700	7,800	7,900	8,000	8,100
WATER - Office supplies	500	500	500	500	500	500	500	500	500	500	500	500
WATER - DWOMS Audit	7,500	7,700	7,900	8,100	8,300	8,500	8,700	8,900	9,100	9,300	9,500	9,700
WATER - Audit Fees	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
WATER - Training & Education	5,500	5,600	5,700	5,800	5,900	6,000	6,100	6,200	6,300	6,400	6,500	6,600
WATER - Insurance	7,000	7,100	7,200	7,300	7,400	7,500	7,600	7,700	7,800	7,900	8,000	8,100
WATER - Write off-Bad Debts	500	500	500	500	500	500	500	500	500	500	500	500
WATER - Health & Safety	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
WATER - Meter Purchases	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
WATER - Hydrant & Accessory	3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,100
WATER - Council - Training & Education	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
WATER - Equipment Purchase	3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,100
WATER - Backflow Maintenance	4,000	4,100	4,200	4,300	4,400	4,500	4,600	4,700	4,800	4,900	5,000	5,100
WATER - Autoread Support	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
WATER - Valve Maintenance	5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900	6,000	6,100
Sub Total Operating	398,976	406,900	414,900	422,900	431,100	439,400	448,200	457,100	466,100	475,100	484,400	493,900
Capital Related												
Debentures												
LAWSS Debt (Principal)	64,047	69,061	74,520	80,448	-	-	-	-	-	-	-	-
LAWSS Debt (Interest)	20,330	15,088	9,398	3,218	-	-	-	-	-	-	-	-
New Debt (Principal)	-	-	7,770	13,956	20,687	21,722	22,808	23,948	31,074	40,467	58,296	61,211
New Debt (Interest)	-	-	12,847	22,042	31,320	30,286	29,199	28,059	36,663	48,070	70,181	67,266
Transfers												
Transfer to Capital	6,000	-	-	-	-	-	-	-	-	-	-	-
Transfer to Water Reserve (4040-0410)	86,553	-	-	-	-	-	-	-	-	-	-	-
Transfer to Water Reserve (4040-0415) - Specified Projects	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to Water Reserve (4040-0441) - Long Term Projects	12,500	115,008	104,804	100,403	179,148	190,716	202,380	214,557	211,538	204,099	177,891	192,114
Sub Total Capital Related	189,430	199,158	209,339	220,067	231,156	242,723	254,387	266,565	279,274	292,636	306,368	320,591
Total Expenditures	588,406	606,058	624,239	642,967	662,256	682,123	702,587	723,665	745,374	767,736	790,768	814,491
Revenues												
Meter Purchases	340	350	360	370	380	390	400	410	420	430	440	450
Interest / NSF - Billings	10,900	11,120	11,340	11,570	11,800	12,040	12,280	12,530	12,780	13,040	13,300	13,570
Other Revenue	-	-	-	-	-	-	-	-	-	-	-	-
Contributions from Reserves / Reserve Funds	-	-	-	-	-	-	-	-	-	-	-	-
Sub Total Operating Revenue	11,240	11,470	11,700	11,940	12,180	12,430	12,680	12,940	13,200	13,470	13,740	14,020
Water Billing Revenue	577,166	594,588	612,539	631,027	650,076	669,693	689,907	710,725	732,174	754,266	777,028	800,471
Total Revenues	588,406	606,058	624,239	642,967	662,256	682,123	702,587	723,665	745,374	767,736	790,768	814,491
Increase in Total Revenues		2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%