

**AYLMER SECONDARY WATER
SYSTEM**

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

FINANCIAL PLAN # 302-301

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 **Planning for growth**

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1. INTRODUCTION

1. INTRODUCTION

1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by the Aylmer Secondary Water System (the Aylmer SWS) 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 Aylmer SWS has already been completed and documented by Watson within the “Aylmer Secondary Water System Rate Study Update - 2010, September 1, 2010” (2010 Rate Study). The objective of the report provided herein is to convert the findings of the 2010 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 (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).

As of time of writing, the Sustainable Water and Sewage Systems Act, 2002 (SWSSA) cited above is not yet in force however, the standards that it directs will 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 resolution of the 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 resolution of the Governing Body;
- 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 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 period of at least six years but longer planning horizons are encouraged. The financial plan is to be completed and approved by the later of July 1, 2010 and the date that is six months after the first license is issued. Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary.

Where a licence has been issued, 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 recent reporting years. However, the format has changed to conform to the new requirements of PS1200 and PS3150 (see Figures 1-1 and 1-2). For example, the financial statements are to be reported on a full accrual accounting basis for 2009 and 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 a water system's financial position. Historically, water systems have reported their financial results 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, effective for the 2009 fiscal year, water systems (along with municipalities) were required to report additional information relating to the accounting treatment of tangible capital assets as indicated by the new 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 pre-2009 financial statements. From a financial planning perspective, this change is significant for water assets as they represent a significant portion of the Aylmer SWS's total assets.

The Statement of Cash Flow and the Statement of Change in Net Financial Assets/Debt (which is a new statement) 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 which provides 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 water systems 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)

<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
Accounts to be Recovered
From Future Revenues
From Reserves & Reserve Funds
TOTAL MUNICIPAL POSITION

NEW FORMAT

<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)

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

NEW FORMAT

<u>Revenue</u>
Base Charge Revenue
Rate Based Revenue
Earned DC Revenue
Other Revenue
Total Revenue
<u>Expenses</u>
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

NEW STATEMENT

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 members of the Governing Body.

The principles help form the framework for a sustainable financial plan. The substance of the financial plan may be derived from SWSSA which will require, once in force, water systems to assess the “full cost” of providing water services. Full cost as defined in subsections 3(7) and 4(7) includes:

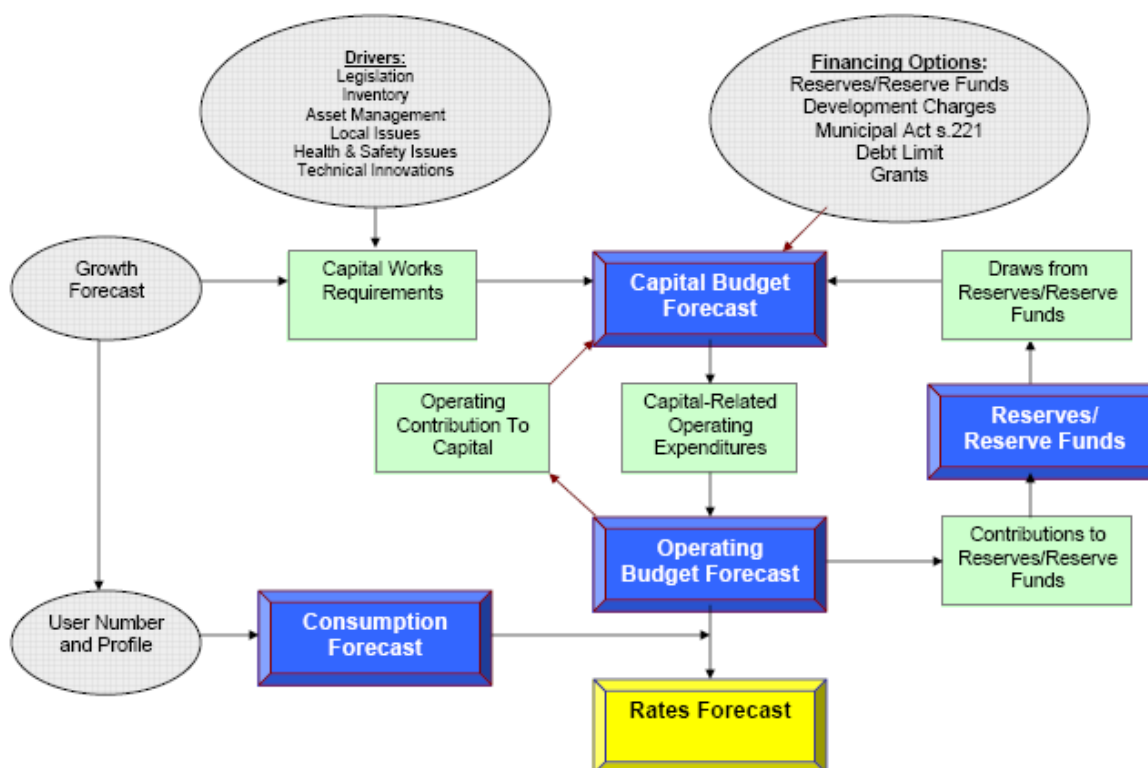
“source protection, operating costs, financing costs, renewal and replacement costs and improvement costs associated with extracting, treating or distributing water to the public and collecting, treating or discharging waste water, and such other costs which may be specified by regulation.”

Furthermore, water systems will be required to inventory and report their current infrastructure and how it will be maintained and managed going forward. Water systems will then be required to report on the full cost of services and how these costs will be recovered and paid for. The principles of SWSSA ensure that a long-term plan for sustainable asset management is developed and that all costs for providing water services are assessed so that there is sufficient funding for system needs.

2.2 Water Rate Study

As noted above, Watson has already completed extensive financial planning as documented in the 2010 Rate Study conducted on behalf of the Aylmer SWS. The study process was 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. Upon the Aylmer SWS Board’s review and approval of the 2010 Rate Study minor modifications were made as directed by the Board and these have been included for financial plan purposes. Figure 2-1 below summarizes the process.

**FIGURE 2-1
WATER RATE CALCULATION PROCESS**



As a result of employing this process, the 2010 Rate Study provides a sound financial plan for the Aylmer SWS by providing:

- A detailed assessment of current and future capital needs including an analysis of potential funding sources (*Principles 2, 4, 5, 6, 9*);
- An analysis of fixed and variable operating costs in order to determine how they will be impacted by evolving infrastructure needs and system growth (*Principles 2, 3, 6, 7, 9*);
- A review and recommendation on rate structures that ensure revenues are equitable and sufficient to meet system needs (*Principles 2, 3, 6, 7, 9*); and
- A public process that involves ongoing consultation with the main stakeholders including the Aylmer SWS staff, the Aylmer SWS Board, the general public (specifically the users of the system) and others with the aim of gaining input and collaboration on the sustainability of the financial plan (*Principles 1, 9*).

The 2010 Rate Study was prepared to cover the period 2010 – 2015. However, as previously noted, financial plans must include a projection period of a minimum of six years. To meet this requirement, the financial plan includes one extra year (2016). The 2016 financial projections have been estimated using 2010 Rate Study assumptions and trends. The details of the financial plan arising from the 2010 Rate Study (including the modifications made by the Aylmer SWS Board) are contained in Appendix A.

A summary of the projected water rates for the Aylmer SWS are as follows:

Description	2009	2010	2011	2012	2013	2014	2015
Total Water Billing Recovery	790,301	984,426	1,097,644	1,130,699	1,164,053	1,197,706	1,231,659
Total Consumption (m ³)	1,109,887	1,331,110	1,338,590	1,346,070	1,353,550	1,361,030	1,368,510
Constant Rate	0.74	0.74	0.82	0.84	0.86	0.88	0.90

3. APPROACH

3. APPROACH

3.1 Introduction

The 2010 Rate Study 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. This conversion process, when taken in conjunction with the opening balances from the 2009 financial statements, will help to establish the structure of the financial plan that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the financial plan.

3.2 Projection Process

The conversion from the existing modified cash basis used in the 2010 Water Rate Study to the full accrual reporting format required under O.Reg. 453/07 can be summarized in the following steps:

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

3.2.1 **Calculate Tangible Capital Asset Balances**

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water tangible capital assets, an inventory has already been compiled and reported in the 2009 Financial Statements of the Aylmer SWS as part of the effort to become compliant with PSAB 3150. As part of the Financial Statement reporting, the following calculations have been made to determine initial net book value:

- Historical cost up to the year prior to the first forecast year.
- Accumulated amortization up to the year prior to the first forecast year.

Future water capital needs have also been determined and summarized within the 2010 Rate Study. However, these estimates only represent future assets that the Aylmer SWS anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to the Aylmer SWS). 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. Further, projected disposals of tangible capital assets can be incorporated into the calculation of net book value for each year of the forecast period, with recognition of related gains or losses.

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 projected Statement of Financial Position over the forecast period.

3.2.2 Convert Statement of Operations

As discussed above, the 2010 Rate Study has been prepared using the modified cash basis, and therefore, must be converted to the full accrual basis. As per section 1.2.5, the new Statement of Operations eliminates and/or adds certain transactions which were reported using the modified cash basis by water systems before 2009. 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 new 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, needs 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, new expenses

relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets will be reported via the Statement of Operations in order to capture the allocation of the cost of these assets to operating activities over their useful lives.

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 calculated, balances for the remaining items on the Statement of Financial Position are determined and recorded. 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 new structure of the Statement of Financial Position as outlined in PS1200 and the 2009 Financial Statements.

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

The Statement of Cash Flow summarizes how the Aylmer SWS financed its activities or in other words, how the costs of providing services were recovered. The statement is derived using initial balances from the 2009 Financial Statements, as well as comparative data from the Statement of Financial Position, and the current Statement of Operations.

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.

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 Aylmer SWS 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 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 with the Aylmer SWS ledgers and/or financial statements.
- b. Amortization Expense The method and timing of amortization should be based on the Aylmer SWS 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 2010 Rate Study.

- d. Contributed Assets As noted earlier, contributed assets could represent a significant part of the Aylmer SWS'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 (i.e. it first appeared on the 2009 financial statements) 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, 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 Aylmer SWS. 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 Aylmer SWS. 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 Aylmer SWS. 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 the financial plan developed for the Aylmer SWS forecasts financial assets exceeding liabilities in each year of the forecast period. Net financial assets are projected to remain relatively constant, fluctuating from between \$280,000 and \$424,000 within the forecast period.

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 as part of PS3150 compliance and is significant from a financial planning perspective for the following reasons:

- Water tangible capital assets are imperative to water service delivery.

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

- These assets represent significant economic resources in terms of their historical and replacement costs. Therefore, ongoing capital asset management is essential to managing significant replacements and repairs.
- The annual maintenance required by these assets has an enduring impact on water operational budgets.

In general terms, an increase in the tangible capital asset balance indicates that assets may have been acquired either through purchase by the system 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 increase by over \$768,000 over the forecast period. This indicates that the Aylmer SWS 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 remaining relatively constant (i.e. between 92% and 96%) over the forecast period and as a result, the annual surplus remains relatively constant from approximately \$39,000 in 2010 to a high of \$96,000 in 2016. 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 \$464,000 to a 2009 accumulated surplus of \$5.1 million over the forecast period. This accumulated surplus, as indicated in Table 4-2, is

predominately made up of reserve and reserve fund balances as well as historic 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 in 2010, 2014, 2015 and 2016, forecasted tangible capital asset additions exceed forecasted annual surplus (net of amortization) resulting in a decrease in net financial assets for each year. In the other forecast years (i.e. 2011-2013), forecasted annual surplus (net of amortization) exceeds forecasted tangible capital asset additions resulting in increases in net financial assets each year. This allows for a long term plan of funding capital through accumulated surplus (i.e. reserves and reserve funds) as is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions improving from 0.41 to 0.83 from 2010 to 2015, before decreasing to 0.80 in 2016¹.

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 planning 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), repay debt, and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the Aylmer SWS to remain consistent, from a balance of approximately \$474,000 at the beginning of 2010, to approximately \$327,000 by the end of the forecast period.

¹ A desirable ratio is 1:1 or better.

Table 4-1
 Aylmer Secondary Water System
 Statement of Financial Position (Water)
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2016

	Notes	Forecast						
		2010	2011	2012	2013	2014	2015	2016
Financial Assets								
Cash	1	401,931	421,699	433,327	450,936	433,553	405,573	327,001
Accounts Receivable	1	265,702	296,618	305,796	315,054	324,394	333,813	346,352
Total Financial Assets		667,633	718,317	739,123	765,990	757,947	739,386	673,353
Liabilities								
Accounts Payable & Accrued Liabilities	1	288,523	312,725	326,657	342,336	361,794	377,319	393,432
Debt (Principal only)	2	-	-	-	-	-	-	-
Deferred Revenue	3	-	-	-	-	-	-	-
Total Liabilities		288,523	312,725	326,657	342,336	361,794	377,319	393,432
Net Financial Assets/(Debt)		379,110	405,592	412,466	423,654	396,153	362,067	279,921
Non-Financial Assets								
Tangible Capital Assets	4	4,757,855	4,817,559	4,885,628	4,932,669	5,023,618	5,103,734	5,281,645
Total Non-Financial Assets		4,757,855	4,817,559	4,885,628	4,932,669	5,023,618	5,103,734	5,281,645
Accumulated Surplus/(Deficit)	5	5,136,965	5,223,151	5,298,094	5,356,323	5,419,771	5,465,801	5,561,566
Financial Indicators (Forecast Only)								
1) Increase/(Decrease) in Net Financial Assets		(304,863)	26,482	6,874	11,188	(27,501)	(34,086)	(82,146)
2) Increase/(Decrease) in Tangible Capital Assets		768,601	59,704	68,069	47,041	90,949	80,116	177,911
3) Increase/(Decrease) in Accumulated Surplus		463,738	86,186	74,943	58,229	63,448	46,030	95,765

Table 4-2
 Aylmer Secondary Water System
 Statement of Operations (Water)
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2016

	Notes	Forecast						
		2010	2011	2012	2013	2014	2015	2016
Water Revenue								
Rate Based Revenue		984,426	1,097,644	1,130,699	1,164,053	1,197,706	1,231,659	1,285,184
Loss on Disposal of Tangible Capital Assets	4	-	-	-	-	-	-	-
Other Revenue	6	16,081	18,600	19,864	21,294	21,236	20,926	10,766
Total Revenues		1,000,507	1,116,244	1,150,563	1,185,347	1,218,942	1,252,585	1,295,950
Water Expenses								
Operating Expenses	Sched. 4-1	858,581	910,062	950,489	996,459	1,052,744	1,098,271	1,147,796
Amortization	4	102,789	119,996	125,131	130,659	102,750	108,284	52,389
Total Expenses		961,370	1,030,058	1,075,620	1,127,118	1,155,494	1,206,555	1,200,185
Annual Surplus/(Deficit)		39,137	86,186	74,943	58,229	63,448	46,030	95,765
Accumulated Surplus/(Deficit), beginning of year		5,097,828	5,136,965	5,223,151	5,298,094	5,356,323	5,419,771	5,465,801
Accumulated Surplus/(Deficit), end of year	5	5,136,965	5,223,151	5,298,094	5,356,323	5,419,771	5,465,801	5,561,566
Note 5:								
Accumulated Surplus/(Deficit) is made up of:								
Opening Reserve Balances	Notes							
Reserves: Capital/Operating								
Reserves: Development Charges								
Reserves: Other								
Total Reserves Balance								
Less: Debt Obligations and Deferred Revenue								
Add: Adjustment for TCA (Year of Implementation Only)	4							
Total Opening Balance		5,097,828	5,136,965	5,223,151	5,298,094	5,356,323	5,419,771	5,465,801
Add: Contributions to/(from) Reserves (excl. DC reserves)								
Contributions to Reserves and Interest		167,426	213,282	207,374	196,888	174,298	163,114	159,954
Transfers from Reserves		(373,100)	(186,800)	(200,500)	(185,700)	(201,800)	(197,200)	(242,100)
Total Change in Reserves		(205,674)	26,482	6,874	11,188	(27,502)	(34,086)	(82,146)
Add: Changes in TCA During the Year								
Capital Assets Purchased	4	347,600	179,700	193,200	177,700	193,700	188,400	230,300
Loss on Disposal of TCAs								
Amortization of Capital Assets	4	(102,789)	(119,996)	(125,131)	(130,659)	(102,750)	(108,284)	(52,389)
Total Changes in TCA		244,811	59,704	68,069	47,041	90,950	80,116	177,911
Subtract Changes in Debt Position								
New Debt	2	-	-	-	-	-	-	-
Debt Repayment	2	-	-	-	-	-	-	-
Total Change in Debt		-	-	-	-	-	-	-
Total Ending Balance		5,136,965	5,223,151	5,298,094	5,356,323	5,419,771	5,465,801	5,561,566

Financial Indicators (Forecast Only)		2010	2011	2012	2013	2014	2015	2016
1) Expense to Revenue Ratio		96%	92%	93%	95%	95%	96%	93%
2) Increase/(Decrease) in Accumulated Surplus		39,137	86,186	74,943	58,229	63,448	46,030	95,765

Schedule 4-1
 Aylmer Secondary Water System
 Schedule of Operating Expenses
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2016

	Notes	Forecast													
		2010	2011	2012	2013	2014	2015	2016							
Expenditures															
Operating Costs															
Line Maintenance Contract		71,000	73,500	73,500	75,000	77,000	79,000	81,052							
Primary Cost of Water		606,986	653,232	696,322	735,248	776,332	819,601	858,885							
Booster Station Costs		87,000	89,000	91,500	93,000	96,000	99,000	102,094							
Repairs		16,000	17,000	17,000	18,000	18,000	20,000	22,222							
Insurance		15,700	16,000	16,300	16,800	17,300	17,900	18,521							
Water Operations Manager		15,000	16,000	17,000	18,000	19,000	20,000	21,053							
Audit Fee including DWQMS Audit		4,500	11,000	3,700	3,900	12,000	4,100	1,401							
Other		1,200	1,200	1,300	1,300	1,300	1,400	1,508							
Admin Fees		6,000	6,500	6,700	7,000	7,200	7,500	7,813							
Property Taxes		1,395	1,480	1,567	1,661	1,762	1,870	1,985							
Small Tools		500	500	500	550	550	600	655							
Water Efficiency Program		-	5,000	5,000	5,000	5,000	5,000	5,000							
SCADA Operations & Mtc		7,800	12,550	12,800	13,000	13,200	13,500	13,807							
Operations and Maintenance (audited financial statement breakdown)		-	-	-	-	-	-	-							
Administrative (audited financial statement breakdown)		-	-	-	-	-	-	-							
Non TCA - Expenses from Capital Budget	7	25,500	7,100	7,300	8,000	8,100	8,800	11,800							
TOTAL OPERATING EXPENSES		858,581	910,062	950,489	996,459	1,052,744	1,098,271	1,147,796							

Table 4-3
 Aylmer Secondary Water System
 Statement of Changes in Net Financial Assets/Debt (Water)
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2016

	Notes	Forecast								
		2010	2011	2012	2013	2014	2015	2016		
Annual Surplus/(Deficit)		39,137	86,186	74,943	58,229	63,448	46,030	95,765		
Less: Acquisition of Tangible Capital Assets	4	(347,600)	(179,700)	(193,200)	(177,700)	(193,700)	(188,400)	(230,300)		
Add: Amortization of Tangible Capital Assets	4	102,789	119,996	125,131	130,659	102,750	108,284	52,389		
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-		
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-		
Add: Write-downs of Tangible Capital Assets		(205,673)	26,482	6,874	11,188	(27,501)	(34,086)	(82,146)		
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)		(205,673)	26,482	6,874	11,188	(27,501)	(34,086)	(82,146)		
Net Financial Assets/(Net Debt), beginning of year		584,783	379,110	405,592	412,466	423,654	396,153	362,067		
Net Financial Assets/(Net Debt), end of year		379,110	405,592	412,466	423,654	396,153	362,067	279,921		
Financial Indicators (Forecast Only)		2010	2011	2012	2013	2014	2015	2016		
1) Acquisition of Tangible Capital Assets (Cumulative)		347,600	527,300	720,500	898,200	1,091,900	1,280,300	1,510,600		
2) Annual Surplus/Deficit before Amortization (Cumulative)		141,926	348,109	548,183	737,071	903,269	1,057,583	1,205,737		
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		0.41	0.66	0.76	0.82	0.83	0.83	0.80		

Table 4-4
 Aylmer Secondary Water System
 Statement of Cash Flow - Indirect Method (Water)
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2016

	Notes	Forecast						
		2010	2011	2012	2013	2014	2015	2016
Operating Transactions								
Annual Surplus/Deficit		39,137	86,186	74,943	58,229	63,448	46,030	95,765
Add: Amortization of TCA's	4	102,789	119,996	125,131	130,659	102,750	108,284	52,389
Add: Loss on Disposal of TCAs		-	-	-	-	-	-	-
Less: Earned Deferred Revenue	3	-	-	-	-	-	-	-
Change in A/R (Increase/Decrease)		45,467	(30,916)	(9,179)	(9,258)	(9,340)	(9,420)	(12,540)
Change in A/P Increase/(Decrease)		88,591	24,202	13,932	15,679	19,458	15,525	16,113
Less: Interest Proceeds		(14,581)	(15,600)	(15,864)	(16,294)	(15,236)	(13,926)	(10,766)
Cash Provided by Operating Transactions		261,403	183,868	188,964	179,015	161,081	146,494	140,962
Capital Transactions								
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(347,600)	(179,700)	(193,200)	(177,700)	(193,700)	(188,400)	(230,300)
Cash Applied to Capital Transactions		(347,600)	(179,700)	(193,200)	(177,700)	(193,700)	(188,400)	(230,300)
Investing Transactions								
Proceeds from Investments		14,581	15,600	15,864	16,294	15,236	13,926	10,766
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		14,581	15,600	15,864	16,294	15,236	13,926	10,766
Financing Transactions								
Proceeds from Debt Issue	2	-	-	-	-	-	-	-
Less: Debt Repayment (principal only)	2	-	-	-	-	-	-	-
Cash Applied to Financing Transactions		-	-	-	-	-	-	-
Increase in Cash and Cash Equivalents		(71,616)	19,768	11,628	17,609	(17,383)	(27,980)	(78,572)
Cash and Cash Equivalents, beginning of year	1	473,547	401,931	421,699	433,327	450,936	433,553	405,573
Cash and Cash Equivalents, end of year	1	401,931	421,699	433,327	450,936	433,553	405,573	327,001

NOTES TO FINANCIAL PLAN

The financial plan format as outlined in Chapter 4 closely approximates the full accrual format used by Water Systems (and municipalities) in 2009 and future years 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 Aylmer SWS, initial balances for these items were obtained from the most recent audited financial statements of the system. For each year of the forecast, projections of revenues, expenses, debt requirements and other cash inflows and outflows were applied to these initial balances in order to determine annual balances for each forecasted year.

Significant assumptions used during the preparation of the financial plan have been documented below:

1. Cash, Receivables and Payables

Cash balances were determined by adjusting the opening cash balances obtained from the 2009 audited financial statements by the anticipated cash inflows and outflows for each applicable year of the forecast.

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

- a. Receivables: Based on historic levels of receivables as a percentage of annual revenue earned (source: prior years audited financial statements); and
- b. Payables: Based on historic levels of payables as a percentage of annual expenses incurred (source: prior years audited financial statements).

2. Debt

There was no outstanding debt at the end of 2009 and no debt proceeds are anticipated throughout the forecast period. 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 items 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 (i.e. development charges for municipalities). The Aylmer SWS does not collect water development charges and thus deferred revenue is assumed to be zero over the forecast period.

4. Tangible Capital Assets

- Opening 2010 net book value of tangible capital assets includes water related assets in the following categories:
 - i. Infrastructure (i.e. mains, hydrants)
 - ii. Facilities
 - iii. Land

- Amortization is calculated based on using the straight-line approach with no amortization in the year of acquisition or construction.
- Given the planned asset replacement forecast in the 2010 Rate Study, useful life on acquisitions is assumed to be equal to the weighted average useful life for all assets on hand in each respective asset category.
- Write-offs are assumed to equal \$0 for each year in the forecast period.
- Tangible capital assets are shown on a net basis. It is assumed that disposals occur when the asset is being replaced. To calculate the value of each asset disposal, the replacement value (of each new asset that has been identified as a “replacement”) has been deflated (by weighted average useful life for all assets on hand in the respective asset category) to an estimated historical cost. This figure was used to calculate disposals only.
- 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 Aylmer SWS does not have lead service piping in the water system.

The balance of tangible capital assets is summarized as follows:

Description	2010	2011	2012	2013	2014	2015	2016
Opening TCA Balance (Historical Cost)	5,903,476	6,171,575	6,311,330	6,461,584	6,597,119	6,740,707	6,874,311
Acquisitions	347,600	179,700	193,200	177,700	193,700	188,400	230,300
Disposals	79,501	39,945	42,946	42,165	50,112	54,796	76,480
Closing TCA Balance (Historical Cost)	6,171,575	6,311,330	6,461,584	6,597,119	6,740,707	6,874,311	7,028,131
Opening Accumulated Amortization	1,390,432	1,413,720	1,493,771	1,575,957	1,664,450	1,717,089	1,770,577
Amortization Expense	102,789	119,996	125,131	130,659	102,750	108,284	52,389
Amortization on Disposal	79,501	39,945	42,946	42,165	50,112	54,796	76,480
Ending Accumulated Amortization	1,413,720	1,493,771	1,575,957	1,664,450	1,717,089	1,770,577	1,746,486
Net Book Value	4,757,855	4,817,559	4,885,628	4,932,669	5,023,618	5,103,734	5,281,645

5. Accumulated Surplus

Accumulated Surplus for the initial year of the forecast period is reconciled as follows:

Water	2009
Opening Reserve Balances	
Reserves: Development Charges	-
Reserves: Other	-
Reserves: Capital/Operating	696,689
Total Reserves Balance	696,689
Less: Debt Obligations and Deferred Revenue	-
Add: Adjustment for TCA (Year of Implementation Only)	4,307,660
Total Opening Balance	5,004,349
Add: Contributions to/(from) Reserves (excl. DC reserves)	
Contributions to Reserves and Interest	-
Transfers from Reserves	(111,905)
Total Change in Reserves	(111,905)
Add: Changes in TCA During the Year	
Capital Assets Purchased	294,549
Loss on Disposal of TCAs	(1,591)
Amortization of Capital Assets	(87,574)
Total Changes in TCA	205,384
Subtract Changes in Debt Position	
New Debt	-
Debt Repayment	-
Total Change in Debt	-
Total Ending Balance	5,097,828

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, connection fees, penalties 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 provided 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 approval of the plan, public circulation, and filing is provided 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 of the system. (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 system'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 Water Drinking Act. (SDWA Section 32 (5) 2 ii)

6. RECOMMENDATIONS

6. RECOMMENDATIONS

This report presents the water financial plan for the Aylmer SWS in accordance with the mandatory reporting formats for water system as detailed in O.Reg. 453/07. It is important to note that while mandatory, the financial plan is provided for the Board's interest and approval however, for decision making purposes, it may be more informative to rely on the information contained within the 2010 Rate Study. Nevertheless, the Board is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Aylmer SWS Water Financial Plan prepared by Watson & Associates Economists Ltd. dated January 24, 2011 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. Submit the Financial Plan, the Board's Resolution approving the Financial Plan, and the Water Rate Study underpinning the Financial Plan, to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3 (1) 6)
4. Submit the Financial Plan, the Board's Resolution approving the Financial Plan, and the Water Rate Study underpinning the Financial Plan, to the Ministry of the Environment, satisfying the requirements under the Safe Drinking Water Act. (SDWA Section 32 (5) 2 ii))

APPENDIX A
2010 WATER RATE STUDY – WATER SUMMARY
TABLES

Table A-1
**Aylmer Secondary Water System
 Capital Budget Forecast**

Inflated \$

Description	Actual	Forecast						2016
	2009	2010	2011	2012	2013	2014	2015	
Capital Expenditures								
Equipment Purchases (SCADA backup in 2011,2012)	0	0	20,400	20,800	0	0	0	7,500
Unknown work for 2012 and beyond	0	0	0	10,000	12,000	14,000	16,000	9,100
Additional Chambers & Valves	146,254	10,000	0	0	0	0	0	1,900
Studies & Reports	14,529	14,000	7,100	7,300	8,000	8,100	8,800	9,600
Update Drawings & Op Manual at Booster Stn	0	11,500	0	0	0	0	0	2,200
Sampling Stations	1,783	2,000	0	0	0	0	0	400
SCADA								0
Engineering/Design - Insyght Systems	39,370	10,000	0	0	0	0	0	1,900
Installation Costs - City of London	88,604	210,000	0	0	0	0	0	39,400
SCADA - computer replacements	0	0	0	0	0	10,800	0	1,900
Lifecycle Replacement								0
Booster Station-Chlorination System as approved	5,088	80,600	0	0	0	0	0	15,100
Remove existing back check valve and replace with	2,304	35,000	0	0	0	0	0	6,600
Surge Anticipator Valve (SAV)	0	0	0	0	0	0	0	0
Curb stop & saddle replacement	0	0	20,400	20,800	21,200	21,600	22,100	18,800
Lifecycle Replacement - From Inventory								0
Meter Chambers - Mech/Elec/I&C	0	0	17,900	18,200	18,600	18,900	19,300	16,400
Air/Drain Chambers - Mech/Elec/I&C	0	0	45,900	46,800	47,800	48,700	49,700	42,200
Pumping Station (at EAWSS PS) - Mech/Elec/I&C	0	0	75,100	76,600	78,100	79,700	81,300	69,100
Total Capital Expenditures	313,166	373,100	186,800	200,500	185,700	201,800	197,200	242,100
Capital Financing								
Transfer from Operating	201,260							
From Capital Replacement Reserve Fund	111,906	115,600	159,300	162,400	165,700	168,900	172,400	0
Reserves and Reserve Funds	0	257,500	27,500	38,100	20,000	32,900	24,800	242,100
Total Capital Financing	313,166	373,100	186,800	200,500	185,700	201,800	197,200	242,100

Table A-2
Aylmer Secondary Water System
Water Reserves/ Reserve Funds Continuity
 Inflated \$

Description	2009	2010	2011	2012	2013	2014	2015	2016
Opening Balance	\$150,341	\$150,341	\$16,336	\$104,702	\$173,960	\$253,459	\$300,330	\$347,230
Transfer from Operating	0	122,868	111,839	100,667	89,751	68,220	58,345	58,345
Transfer to Capital	0	257,500	27,500	38,100	20,000	32,900	24,800	242,100
Transfer to Operating	0	0	0	0	0	0	0	0
Closing Balance	\$150,341	\$15,708	\$100,675	\$167,269	\$243,711	\$288,779	\$333,875	\$163,475
Interest	\$0	\$628	\$4,027	\$6,691	\$9,748	\$11,551	\$13,355	\$6,539

Table A-3
Aylmer Secondary Water System
Capital Replacement Reserve Continuity
 Inflated \$

Description	2009	2010	2011	2012	2013	2014	2015	2016
Opening Balance	\$546,348	\$434,443	\$362,773	\$300,889	\$238,505	\$170,194	\$95,822	\$14,836
Transfer from Operating	0	29,977	85,843	90,843	90,843	90,843	90,843	90,843
Transfer to Capital	111,906	115,600	159,300	162,400	165,700	168,900	172,400	0
Transfer to Operating	0	0	0	0	0	0	0	0
Closing Balance	\$434,443	\$348,820	\$289,316	\$229,332	\$163,648	\$92,137	\$14,265	\$105,679
Interest	\$0	\$13,953	\$11,573	\$9,173	\$6,546	\$3,685	\$571	\$4,227

Table A-4
Aylmer Secondary Water System
Operating Budget Forecast

Inflated \$

Description	Forecast							2016
	2009	2010	2011	2012	2013	2014	2015	
Expenditures								
<u>Operating Costs</u>								
Line Maintenance Contract	70,033	71,000	73,500	73,500	75,000	77,000	79,000	81,052
Primary Cost of Water	571,086	606,986	653,232	696,322	735,248	776,332	819,601	858,885
Booster Station Costs	86,132	87,000	89,000	91,500	93,000	96,000	99,000	102,094
Repairs	18,240	16,000	17,000	17,000	18,000	18,000	20,000	22,222
Insurance	14,018	15,700	16,000	16,300	16,800	17,300	17,900	18,521
Water Operations Manager	15,419	15,000	16,000	17,000	18,000	19,000	20,000	21,053
Audit Fee including DWQMS Audit	2,500	4,500	11,000	3,700	3,900	12,000	4,100	1,401
Other	1,799	1,200	1,200	1,300	1,300	1,300	1,400	1,508
Admin Fees	5,089	6,000	6,500	6,700	7,000	7,200	7,500	7,813
Property Taxes	1,328	1,395	1,480	1,567	1,661	1,762	1,870	1,985
Small Tools	425	500	500	500	550	550	600	655
Water Efficiency Program	-	-	5,000	5,000	5,000	5,000	5,000	5,000
SCADA Operations & Mtc	5,228	7,800	12,550	12,800	13,000	13,200	13,500	13,807
Sub Total Operating	791,297	833,081	902,962	943,189	988,459	1,044,644	1,089,471	1,135,996
Capital-Related								
Transfer to Reserves and Reserve Funds	0	122,868	111,839	100,667	89,751	68,220	58,345	58,345
Sub Total Capital Related	0	122,868	111,839	100,667	89,751	68,220	58,345	58,345
Total Expenditures	791,297	955,949	1,014,801	1,043,856	1,078,210	1,112,863	1,147,816	1,194,341
Revenues								
Interest Income - Bank	996	1,500	3,000	4,000	5,000	6,000	7,000	0
Total Operating Revenue	996	1,500	3,000	4,000	5,000	6,000	7,000	0
Water Billing Recovery - Operating	790,301	954,449	1,011,801	1,039,856	1,073,210	1,106,863	1,140,816	1,194,341
Lifecycle Reserve Contribution (\$)	0	29,977	85,843	90,843	90,843	90,843	90,843	90,843
Water Billing Recovery - Total	790,301	984,426	1,097,644	1,130,699	1,164,053	1,197,706	1,231,659	1,285,184

Table A-5
Aylmer Secondary Water System
Water Rate Forecast
 Inflated \$

Description	2009	2010	2011	2012	2013	2014	2015
Total Water Billing Recovery	790,301	984,426	1,097,644	1,130,699	1,164,053	1,197,706	1,231,659
Total Consumption (m ³)	1,109,887	1,331,110	1,338,590	1,346,070	1,353,550	1,361,030	1,368,510
Constant Rate	0.74	0.74	0.82	0.84	0.86	0.88	0.90
Costs Per Service Area:							
Aylmer	684,897	849,994	946,494	974,199	1,002,124	1,030,269	1,058,635
Central Elgin	28,798	37,523	43,108	45,268	47,481	49,747	52,065
Malahide - East of Aylmer	66,986	83,530	92,709	95,155	97,610	100,073	102,546
Malahide - West of Aylmer	9,621	13,380	15,334	16,077	16,838	17,617	18,414
Total	790,301	984,426	1,097,644	1,130,699	1,164,053	1,197,706	1,231,659
Percentage							
Aylmer	86.7%	86.3%	86.2%	86.2%	86.1%	86.0%	86.0%
Central Elgin	3.6%	3.8%	3.9%	4.0%	4.1%	4.2%	4.2%
Malahide - East of Aylmer	8.5%	8.5%	8.4%	8.4%	8.4%	8.4%	8.3%
Malahide - West of Aylmer	1.2%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%

Note: Volumes East of Aylmer are paid for by Aylmer and then included in rates charged to customers East of Aylmer