

**TOWN OF MINTO**

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

**FINANCIAL PLAN # 106-301A**

JANUARY 18, 2012



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 **Planning for growth**



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# 1. INTRODUCTION



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# 1. INTRODUCTION

## 1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by the Town of Minto (the Town) 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 Town's water systems has already been completed and documented by Watson within the "Town of Minto Water and Wastewater Rate Study, January 18, 2012" (2012 Rate Study). The objective of the report provided herein is to convert the findings of the 2012 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 in force (see Section 2.2 of this report) 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.

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### **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 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

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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.

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### **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). For example, the financial statements were reported on a full accrual accounting basis for 2009 and this 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 a municipality’s financial position. Before 2009, municipalities 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, since the 2009 fiscal year, municipalities have been required to report additional information relating to the accounting treatment of tangible capital assets 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 represent a significant portion of the Town’s infrastructure.

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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 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 municipalities 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)

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

### 2009 AND FUTURE

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

## FIGURE 1-2 STATEMENT OF OPERATIONS

### OLD FORMAT (PRE-2009)

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

### 2009 AND FUTURE

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

**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
<b>Sub-total</b>
Less: Acquisition of supplies inventory
Less: Acquisition of prepaid expenses
Add: Consumption of supplies inventory
Add: Use of prepaid expenses
<b>Sub-total</b>
<b>(Increase)/Decrease in net financial assets/net debt</b>
<b>Net financial assets/(net debt), beginning of year</b>
<b>Net financial assets/(net debt), end of year</b>

## FIGURE 1-4 STATEMENT OF CASH FLOW<sup>1</sup>

### DIRECT METHOD

<p><b><u>Operating Transactions</u></b>  Cash received from:      Water Operations  Less: Cash paid for:      Operating expenses      Finance charges</p>
<b>Cash provided by operating transactions</b>
<p><b><u>Capital Transactions</u></b>  Proceeds on sale of tangible capital assets  Less: Cash used to acquire tangible capital assets</p>
<b>Cash applied to capital transactions</b>
<p><b><u>Investing Transactions</u></b>  Proceeds from investments  Less: Cash used to acquire investments</p>
<b>Cash provided by (applied to) investing transactions</b>
<p><b><u>Financing Transactions</u></b>  Proceeds from debt issue  Less: Debt repayment (principal only)</p>
<b>Cash applied to financing transactions</b>
<b>Increase in cash and cash equivalents</b>
<b>Cash and cash equivalents, beginning of year</b>
<b>Cash and cash equivalents, end of year</b>

### INDIRECT METHOD

<p><b><u>Operating Transactions</u></b>  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>
<b>Cash provided by operating transactions</b>
<p><b><u>Capital Transactions</u></b>  Proceeds on sale of tangible capital assets  Less: Cash used to acquire tangible capital assets</p>
<b>Cash applied to capital transactions</b>
<p><b><u>Investing Transactions</u></b>  Proceeds from investments  Less: Cash used to acquire investments</p>
<b>Cash provided by (applied to) investing transactions</b>
<p><b><u>Financing Transactions</u></b>  Proceeds from debt issue  Less: Debt repayment (principal only)</p>
<b>Cash applied to financing transactions</b>
<b>Increase in cash and cash equivalents</b>
<b>Cash and cash equivalents, beginning of year</b>
<b>Cash and cash equivalents, end of year</b>

<sup>1</sup> 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.

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## **2. SUSTAINABLE FINANCIAL PLANNING**



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## 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 is to introduce the requirement for municipalities to undertake an assessment of the “full cost” of providing their water and the wastewater services. It is noted that, at the time of writing, the regulations, which accompany the Act, have not been issued. In total, there are 40 areas within the Act to which the Minister may make Regulations.

The Act would require the preparation of two reports for submission to the Ministry of the Environment (or such other member of the Executive Council as may be assigned the administration of this Act under the Executive Council Act). The first report is on the “full cost of services” and the second is the “cost recovery plan.” Once these reports have been reviewed and approved by the Ministry, the municipality will be required to implement the plans within a specified time period.

The Act provides the Minister the power to approve or not approve the plans. If the Minister is not satisfied with the report or if a municipality does not submit a plan, the Minister may have a plan prepared. The cost to the Crown for preparing the plan will be recovered from the municipality. Once the plans are approved and in place, the municipality will be required to submit progress reports. The timing of these reports and the information to be contained therein will be established by the regulations. A municipal auditor’s opinion must be provided with the progress report.

As of the time of writing, the regulations to implement this Act have not been passed; hence the Act will not be in effect until these regulations are passed.

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### **2.3 Water Opportunities Act, 2010 (Bill 72)**

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

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.

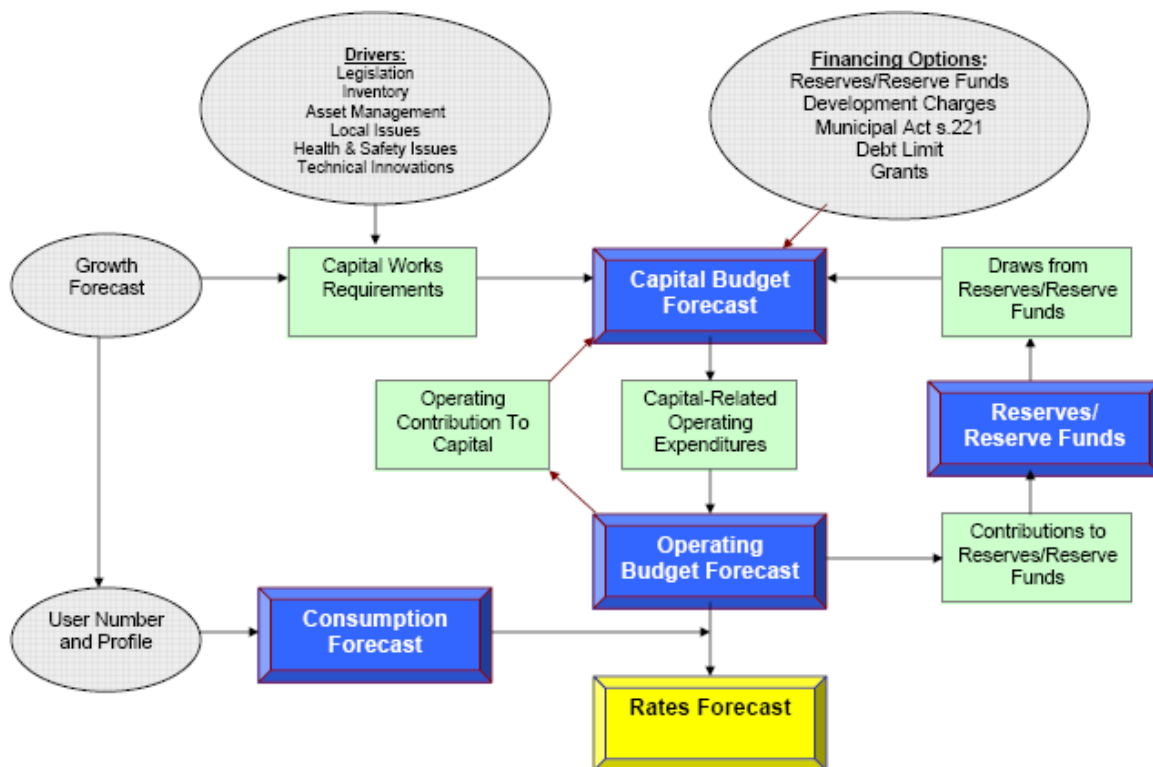
Where a Board has jurisdiction over a service, the plan (and any plan amendments) must be approved by the municipality in which the municipal service is provided, before submission to the Minister. The Minister may also direct preparation of joint or partially joint plans.

Regulations (to be 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 and Wastewater Rate Study

As noted above, Watson has already completed extensive financial planning as documented in the 2012 Rate Study conducted on behalf of the Town. 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. Figure 2-1 below summarizes the process.

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



As a result of employing this process, the 2012 Rate Study provides a sound financial plan for the Town’s water system 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 Town staff, Council, the general public (specifically the users of the system ) and others with the aim of gaining input and collaboration on the sustainability of the financial plan (*Principles 1, 9*).

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

### **Water:**

RECOMMENDED WATER RATES - SMOOTH IMPACT OF METERING (2013 to 2017)

Description	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Calculated Water Charge per m <sup>3</sup>	1.01	1.10	1.25	1.39	1.61	1.75	1.86	1.86	1.86	1.86
Percentage Increase in Water Charge per m <sup>3</sup>		8.4%	13.7%	11.1%	16.2%	8.5%	6.0%	0.0%	0.0%	0.0%
Estimated Monthly Flat Charge (22.50 m <sup>3</sup> /month)	42.50	46.00	47.35	48.70	50.05	51.40	-	-	-	-
Percentage Increase in Water Flat Rate		8.2%	2.9%	2.9%	2.8%	2.7%				



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### **3. APPROACH**



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## 3. APPROACH

### 3.1 Overview

The 2012 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. 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 only.

### 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 2012 Rate Study as well as part of the Town's efforts to become compliant with PSAB 3150. Given the prospective nature of the 2012 Rate Study, replacement cost is provided for each asset. However, historical cost (which is the original cost to purchase, develop, or construct each asset) is required for financial reporting purposes. Once historical cost is established, the following calculations are made to determine net book value:

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

Future water capital needs have also been determined and summarized within the 2012 Rate Study. However, these estimates only represent future assets that the Town anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to the Town). 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.

**FIGURE 3-1  
Town of Minto  
Conversion Adjustments  
Statement of Operations (Water)**

Modified Cash Basis	Budget 2011	Adjustments		Full Accrual Budget 2011	Accrual Basis	Notes on Adjustments
		DR	CR			
<b>Revenues</b>						
Billing Revenue	1,387,197			1,387,197	Revenues	No change
Transfers from Reserves	231,003	231,003		-	Billing Revenue	Removes non-accrual reserve account
Other Revenue	62,662		192,694	255,356	Other Revenue	To Account for Interest Revenue and Capital Grants
Total Revenues	1,680,862			1,642,553	Total Revenues	
<b>Expenditures</b>						
Operating	837,606			867,606	Operating Expenses	Various Expenses previously classified as capital expenditures
Capital		30,000		-		
Transfers to Reserves	441,975		441,975	-	Interest on Debt	Removes non-accrual reserve account
Debt Repayment (Principal & Interest)	401,281	402,830	327,863	73,418	Amortization	Removes principal portion of debt - now reflected on statement of cash flow. New account created as a result of PSAB 3150 - reflects cost of using TCA
Total Expenditures	1,680,862	402,830		1,343,854	Total Expenses	
<b>Net Expenditures</b>					<b>Annual Surplus/(Deficit)</b>	Represents difference between Revenues and Expenditures
Increase (decrease) in amounts to be recovered	-			298,699		
<b>Change in fund balances</b>				21,760,834	Accumulated Surplus/(Deficit), beginning of year	
				<b>22,059,533</b>	<b>Accumulated Surplus/(Deficit), end of year</b>	To transfer annual surplus to accumulated surplus
<b>TOTAL ADJUSTMENTS</b>		<b>962,532</b>	<b>962,532</b>			

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

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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.

### **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 Town and as such, will be difficult to isolate the information that is relevant to water. An example of this is accounts receivable, which may be administered centrally by the Finance Department. Ontario Regulation 453/07 allows for the exclusion of these numbers if they are not known at the time of preparing the financial plan. Please refer to the Financial Plan Notes in Chapter 4 for more details.

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

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

**FIGURE 3-2**  
**Town of Minto**  
**Conversion Adjustments**  
**Statement of Financial Position (Water)**

Modified Cash Basis	Budget 2011	Adjustments		Full Accrual Budget 2011	Accrual Basis	Notes on Adjustments
		DR	CR			
<b>Assets</b>						
<b>Financial Assets</b>						
Cash	342,706			342,706	Cash	No change
Accounts Receivable	513,234			513,234	Accounts Receivable	No change
Total Financial Assets	855,940			855,940	Total Financial Assets	
<b>Liabilities</b>						
Accounts Payable & Accrued Liabilities	82,400			82,400	Accounts Payable & Accrued Liabilities	No Change
Gross Long-term Liabilities	1,500,697			1,500,697	Debt (Principal only)	No Change
Deferred Revenue	36,599			36,599	Deferred Revenue	No Change
Total Liabilities	1,619,696			1,619,696	Total Liabilities	
<b>Net Assets/(Debt)</b>	<b>(763,756)</b>			<b>(763,756)</b>	<b>Net Financial Assets/(Debt)</b>	
<b>Municipal Position</b>						
Water Reserves	736,941				Tangible Capital Assets	Adds NBV of Tangible Capital Assets - offset entry is to accumulated surplus
Development Charge Reserve Fund	36,599				Total Non-Financial Assets	
Amounts to be Recovered	(1,537,296)	736,941		-		Removes non-accrual reserve account - balance to be transferred to accumulated surplus
		36,599		-		Removes non-accrual reserve account - balance to be transferred to accumulated surplus
			1,537,296	-		Removes account - balance to be transferred to accumulated surplus
<b>Total Municipal Position</b>	<b>(763,756)</b>			<b>22,059,533</b>	<b>Accumulated Surplus/(Deficit)</b>	Represents offset entry for TCA's and existing reserve fund balances
<b>TOTAL ADJUSTMENTS</b>		<b>23,626,829</b>	<b>23,626,829</b>			

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

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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 Town at a set point in time. The Statement of Operations summarizes how these resources and obligations changed over the reporting period. To this end, the accumulated surplus/deficit reported on the Statement of Financial Position should equal the accumulated surplus/deficit reported on the Statement of Operations.

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

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

- a. Opening cash balances Opening cash balances are necessary to complete the Statement of Cash Flows and balance the Statement of Financial Position. Preferably, opening cash balances should be derived from actual information contained with the Town'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 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 Town'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 2012 Rate Study.
- d. Contributed Assets As noted earlier, contributed assets could represent a significant part of the Town's infrastructure acquisitions. As such, a reasonable estimate of value and timing of acquisition/donation may be required in order to adequately capture these assets. In the case where contributed assets are deemed to be insignificant or unknown, an assumption of "no contributed assets within the forecast period" will be made.
- e. Accumulated Surplus The magnitude of the surplus in this area may precipitate the need for additional explanation especially in the first year of reporting. This Accumulated Surplus captures the historical infrastructure investment which has not been reported in the past but has accumulated to significant levels. It also includes all water reserve and reserve fund balances.
- f. Other Revenues Will represent the recognition of revenues previously deferred (i.e. development charge revenues) and/or accrued revenues (developer contributions), and/or other minor miscellaneous revenues.



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## 4. FINANCIAL PLAN



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## 4. FINANCIAL PLAN

### 4.1 Introduction

The following tables provide the complete financial plan for the Town's water systems. A brief description and analysis of each table is provided below. It is important to note that the financial plan that follows is a forward look at the financial position of the Town's water systems. It is not an audited document<sup>1</sup> 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 Town's water systems. The first important indicator is net financial assets/(debt), which is defined as the difference between financial assets and liabilities. This indicator provides an indication of the system's "future revenue requirement". A net financial asset position is where financial assets are greater than liabilities and implies that the system has the resources to finance future operations. Conversely, a net debt position implies that the future revenues generated by the system will be needed to finance past transactions, as well as future operations. Table 4-1 indicates that in 2011, due to current debt levels, the Town's water system will be in a net debt position of approximately \$763,756. The financial plan forecasts an increasing net financial debt position during the forecast period. Net financial debt is projected to grow to over \$1.6 million by the end of 2020. This is due to the fact that significant reserve balances are being used to purchase or construct significant capital assets over the 10-year period. However, by 2019 and 2020 the anticipated cash balance of the water systems begin to improve as more funds are transferred back into reserves.

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 of municipalities as

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

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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.

In general terms, an increase in the tangible capital asset balance indicates that assets may have been acquired either through purchase by the municipality or donation/contribution by a third party. A decrease in the tangible capital asset balance can indicate a disposal, write down, or use of assets. A use of assets is usually represented by an increase in accumulated amortization due to annual amortization expenses arising as a result of allocating the cost of the asset to operations over the asset's useful life. Table 4-1 shows tangible capital assets are expected to grow by approximately \$3.7 million over the 10-year forecast period. This indicates that the Town 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 fairly constant at 79% to 85% over the forecast period and as a result, annual surplus remains fairly constant at \$266,000 to \$358,000. 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 \$3.0 million to a 2010 accumulated surplus of approximately \$21.8 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 historical investments in tangible capital assets.

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

The Statement of Change in Net Financial Assets/Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (i.e. inventory supplies, prepaid expenses, tangible capital assets, etc.) and in so doing, explains the difference between the annual surplus/deficit and the change in net financial assets/debt for the period. Table 4-3 indicates that in 2011 and 2012, 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). In each of the subsequent years (i.e. 2013 to 2020), forecasted tangible capital asset acquisitions (net of amortization) exceeds the forecasted annual surplus resulting in a decrease in the net financial asset position. This is due to the planned purchase or construction of significant tangible capital assets during this forecast period. This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions declining from 2.19 to 0.94 over the forecast period<sup>1</sup>.

#### **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) and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the Town's water systems to improve overall from a balance of approximately \$292,088 at the

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<sup>1</sup> A desirable ratio is 1:1 or better.

beginning of 2011 to approximately \$357,213 by the end of 2020. For further discussions, on projected cash balances please refer to the Notes to the Financial Plan.



TABLE 4-2  
Town of Minto  
Statement of Operations (Water)  
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY  
2011 - 2020

	Notes	Forecast												
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
<b>Water Revenue</b>														
Billing Revenue		1,387,197	1,520,066	1,602,525	1,545,260	1,554,662	1,564,063	1,573,464	1,589,257	1,605,049	1,620,842			
Earned Development Charges Revenue	3	-	2,590	38,204	38,204	49,269	54,919	60,783	60,783	60,783	60,783			
Other Revenue	6	255,356	92,242	69,417	79,289	84,807	92,955	105,412	118,948	132,622	144,559			
Total Revenues		1,642,553	1,614,898	1,710,146	1,662,753	1,688,738	1,711,937	1,733,795	1,768,988	1,798,454	1,826,184			
<b>Water Expenses</b>														
Operating Expenses	Sched. 4-1	867,606	854,300	871,300	888,600	906,200	924,200	942,500	961,500	980,700	1,000,200			
Interest on Debt	2	73,418	60,338	60,701	51,779	62,423	66,405	72,247	89,350	112,161	115,768			
Amortization	4	402,830	407,780	420,504	412,902	400,425	402,252	415,430	426,981	437,024	443,788			
Total Expenses		1,343,854	1,322,418	1,352,505	1,353,281	1,369,048	1,392,857	1,430,177	1,477,831	1,529,885	1,569,756			
Annual Surplus/(Deficit)		298,699	292,480	357,641	309,472	319,690	319,080	303,618	291,157	268,569	266,428			
Accumulated Surplus/(Deficit), beginning of year	5	21,760,834	22,059,533	22,352,013	22,709,654	23,019,126	23,338,816	23,657,896	23,961,514	24,252,671	24,521,240			
Accumulated Surplus/(Deficit), end of year		22,059,533	22,352,013	22,709,654	23,019,126	23,338,816	23,657,896	23,961,514	24,252,671	24,521,240	24,787,668			
<b>Note 5:</b>														
<b>Accumulated Surplus/(Deficit) is made up of:</b>														
Reserve Balances														
Reserves: Development Charges		36,599	56,696	41,004	25,133	(2,433)	(36,527)	(71,533)	(113,583)	(156,816)	(201,280)			
Reserves: Capital/Other		736,941	691,367	85,389	94,981	37,418	45,695	165,907	480,367	798,389	1,071,352			
<b>Total Reserves Balance</b>		<b>773,540</b>	<b>748,063</b>	<b>126,393</b>	<b>120,114</b>	<b>34,985</b>	<b>9,168</b>	<b>94,374</b>	<b>366,784</b>	<b>641,573</b>	<b>870,072</b>			
Less: Debt Obligations and Deferred Revenue		(1,537,296)	(1,400,560)	(1,229,745)	(1,449,092)	(1,371,848)	(1,380,688)	(1,613,856)	(1,954,128)	(2,238,325)	(2,486,607)			
Add: Tangible Capital Assets	4	22,823,289	23,084,510	23,813,006	24,348,104	24,675,679	25,029,426	25,480,996	25,840,015	26,117,992	26,404,203			
<b>Total Ending Balance</b>		<b>22,059,533</b>	<b>22,352,013</b>	<b>22,709,654</b>	<b>23,019,126</b>	<b>23,338,816</b>	<b>23,657,896</b>	<b>23,961,514</b>	<b>24,252,671</b>	<b>24,521,240</b>	<b>24,787,668</b>			
<b>Financial Indicators</b>														
1) Expense to Revenue Ratio		82%	82%	79%	81%	81%	81%	82%	84%	85%	85%			
2) Increase/(Decrease) in Accumulated Surplus		298,699	292,480	357,641	309,472	319,690	319,080	303,618	291,157	268,569	266,428			

Schedule 4-1  
Town of Minto  
Schedule of Operating Expenses  
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY  
2011 - 2020

	Notes	Forecast																		
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020									
<b>Expenditures</b>																				
Operating Costs																				
Salaries & Wages		212,724	217,000	221,300	225,700	230,200	234,800	239,500	244,300	249,200	254,200									
Benefits		42,592	43,400	44,300	45,200	46,100	47,000	47,900	48,900	49,900	50,900									
Staff Development		30,000	30,600	31,200	31,800	32,400	33,000	33,700	34,400	35,100	35,800									
Dues & Fees		800	800	800	800	800	800	800	800	800	800									
Engineering		39,600	40,400	41,200	42,000	42,800	43,700	44,600	45,500	46,400	47,300									
Billing & Collecting		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500									
Bad Debts		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000									
Legal		3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900									
Consulting		57,700	58,900	60,100	61,300	62,500	63,800	65,100	66,400	67,700	69,100									
Water Sampling		47,200	48,100	49,100	50,100	51,100	52,100	53,100	54,200	55,300	56,400									
Water Treatment		56,000	57,100	58,200	59,400	60,600	61,800	63,000	64,300	65,600	66,900									
Insurance		15,700	16,000	16,300	16,600	16,900	17,200	17,500	17,900	18,300	18,700									
Property Tax		1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300									
Office and General		5,600	5,700	5,800	5,900	6,000	6,100	6,200	6,300	6,400	6,500									
Utilities		65,400	66,700	68,000	69,400	70,800	72,200	73,600	75,100	76,600	78,100									
Materials		45,300	46,200	47,100	48,000	49,000	50,000	51,000	52,000	53,000	54,100									
Repairs & Maintenance		193,990	197,900	201,900	205,900	210,000	214,200	218,500	222,900	227,400	231,900									
Water Meters		5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800	5,900									
Vehicle		5,700	5,800	5,900	6,000	6,100	6,200	6,300	6,400	6,500	6,600									
Communications		3,500	3,600	3,700	3,800	3,900	4,000	4,100	4,200	4,300	4,400									
Other		3,000	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900									
Non TCA - Expenses from Capital Budget	7	30,000	-	-	-	-	-	-	-	-	-									
<b>TOTAL OPERATING EXPENSES</b>		<b>867,606</b>	<b>854,300</b>	<b>871,300</b>	<b>888,600</b>	<b>906,200</b>	<b>924,200</b>	<b>942,500</b>	<b>961,500</b>	<b>980,700</b>	<b>1,000,200</b>									

TABLE 4-3  
Town of Minto  
Statement of Changes in Net Financial Assets/Debt (Water)  
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY  
2011 - 2020

	Notes	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Annual Surplus/(Deficit)		298,699	292,480	357,641	309,472	319,690	319,080	303,618	291,157	268,569	266,428
Less: Acquisition of Tangible Capital Assets	4	(320,000)	(679,000)	(1,139,000)	(948,000)	(728,000)	(756,000)	(867,000)	(786,000)	(715,000)	(730,000)
Add: Amortization of Tangible Capital Assets	4	402,830	407,760	420,504	412,902	400,425	402,252	415,430	426,981	437,024	443,788
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
		381,529	21,259	(360,855)	(225,626)	(7,885)	(34,667)	(147,952)	(67,862)	(9,408)	(19,783)
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)		381,529	21,259	(360,855)	(225,626)	(7,885)	(34,667)	(147,952)	(67,862)	(9,408)	(19,783)
Net Financial Assets/(Net Debt), beginning of year		(1,145,285)	(763,756)	(742,497)	(1,103,352)	(1,328,978)	(1,336,863)	(1,371,530)	(1,519,482)	(1,587,344)	(1,596,752)
Net Financial Assets/(Net Debt), end of year		(763,756)	(742,497)	(1,103,352)	(1,328,978)	(1,336,863)	(1,371,530)	(1,519,482)	(1,587,344)	(1,596,752)	(1,616,535)
<b>Financial Indicators</b>		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
1) Acquisition of Tangible Capital Assets (Cumulative)		320,000	989,000	2,138,000	3,086,000	3,814,000	4,570,000	5,437,000	6,223,000	6,938,000	7,668,000
2) Annual Surplus/Deficit before Amortization (Cumulative)		701,529	1,401,789	2,179,934	2,902,308	3,622,423	4,343,755	5,062,803	5,780,941	6,486,534	7,196,750
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		2.19	1.40	1.02	0.94	0.95	0.95	0.93	0.93	0.93	0.94

TABLE 4-4  
Town of Minto  
Statement of Cash Flow - Indirect Method (Water)  
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY  
2011 - 2020

	Notes	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Operating Transactions</b>											
Annual Surplus/Deficit		298,699	292,480	357,641	309,472	319,690	319,080	303,618	291,157	268,569	266,428
Add: Amortization of TCA's	4	402,830	407,780	420,504	412,902	400,425	402,252	415,430	426,981	437,024	443,788
Less: Earned Deferred Revenue	3	-	(2,590)	(38,204)	(38,204)	(49,269)	(54,919)	(54,919)	(60,783)	(60,783)	(60,783)
Less: Developer Contributions		-	-	-	-	-	-	-	-	-	-
Add: Development Charge Proceeds		21,500	22,687	22,512	22,333	21,703	20,825	19,913	18,733	17,549	16,318
Change in A/R (Increase)/Decrease		(63,101)	(48,092)	(6,670)	(6,691)	(6,065)	(6,100)	(6,101)	(6,100)	(6,101)	(6,100)
Change in A/P Increase/(Decrease)		18,553	1,642	1,673	1,702	1,731	1,771	1,800	1,869	1,889	1,918
Less: Interest P proceeds		(28,344)	(26,591)	(720)	(1,089)	1,125	807	(3,817)	(15,912)	(28,143)	(38,642)
Cash Provided by Operating Transactions		650,137	647,316	786,736	700,425	689,340	683,716	675,924	655,945	630,004	622,927
<b>Capital Transactions</b>											
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(320,000)	(679,000)	(1,139,000)	(948,000)	(728,000)	(756,000)	(867,000)	(786,000)	(715,000)	(730,000)
Cash Applied to Capital Transactions		(320,000)	(679,000)	(1,139,000)	(948,000)	(728,000)	(756,000)	(867,000)	(786,000)	(715,000)	(730,000)
<b>Investing Transactions</b>											
Proceeds from Investments		28,344	26,591	720	1,089	(1,125)	(807)	3,817	15,912	28,143	38,642
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		28,344	26,591	720	1,089	(1,125)	(807)	3,817	15,912	28,143	38,642
<b>Financing Transactions</b>											
Proceeds from Debt Issue	2	20,000	275,000	-	485,445	199,623	200,000	445,279	600,000	600,000	600,000
Less: Debt Repayment (principal only)	2	(327,863)	(341,833)	(245,123)	(250,226)	(243,300)	(157,056)	(177,115)	(217,678)	(272,570)	(307,254)
Cash Applied to Financing Transactions		(307,863)	(66,833)	(49,617)	235,219	(49,617)	42,944	268,164	382,322	327,430	292,746
Increase in Cash and Cash Equivalents		50,618	(71,926)	(626,667)	(11,267)	(89,462)	(30,147)	80,905	268,179	270,577	224,315
Cash and Cash Equivalents, beginning of year	1	292,088	342,706	270,780	(355,887)	(367,154)	(456,616)	(486,763)	(408,858)	(137,679)	132,898
Cash and Cash Equivalents, end of year	1	342,706	270,780	(355,887)	(367,154)	(456,616)	(486,763)	(408,858)	(137,679)	132,898	357,213

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## 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 Town of Minto, some of the items listed above have been estimated given that the Town does not maintain all financial asset and liability data separately for water. Usually, this type of data is combined with the financial assets and liabilities of other departments and services given that there is not a current obligation to disclose this data separately (as there is with revenue and expenses). The assumptions used have been documented below:

### 1. Cash, Receivables and Payables

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

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

For the Town of Minto, water receivables and payables were estimated for 2011 based on the proportionate share of the 2009 and 2010 Town wide receivables and payables, which was used to estimate receivables and payables throughout the forecast period. Therefore, the opening cash balance was estimated based on the above calculation.

### 2. Debt

Outstanding water related debt at the end of 2010 was \$1,808,560, 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
2011	\$ 327,863
2012	\$ 341,833
2013	\$ 245,123
2014	\$ 250,226
2015	\$ 243,300
2016	\$ 157,056
2017	\$ 177,115
2018	\$ 217,678
2019	\$ 272,570
2020	\$ 307,254
<b>Total</b>	<b>\$ 2,540,018</b>

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

#### 4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water related assets in the following categories:
  - i. Infrastructure
  - ii. Facilities
  - iii. Land
- Amortization is calculated based on using the straight-line approach.
- Given the planned asset replacement forecast in the 2012 Rate Study, useful life on acquisitions is assumed to be equal to the weighted average useful life for all assets on hand in each respective asset category.
- Write-offs are assumed to equal \$0 for each year in the forecast period.
- Tangible capital assets are shown on a net basis. It is assumed that disposals occur when the asset is being replaced, unless the asset is documented as a new asset. The value of each asset disposal is calculated by estimating the original purchase/construction date and deflating current replacement cost values to those estimated dates in order to calculate original historical cost.
- Gains/losses on disposal are assumed to be \$0 (it is assumed that historical cost is equal to accumulated amortization for all disposals).
- Residual value is assumed to be \$0 for all assets within the forecast period.
- Contributed Assets, as described in Section 3.2.1, are deemed to be insignificant/unknown during the forecast period and are therefore assumed to be \$0.
- The Town is unaware of any 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:

Description	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Opening TCA Balance (Historical Cost)	22,906,119	23,212,600	23,882,227	25,000,834	25,922,968	26,641,371	27,375,914	28,210,167	28,955,587	29,649,449
Acquisitions	320,000	679,000	1,139,000	948,000	728,000	756,000	867,000	786,000	715,000	730,000
Disposals	13,519	9,373	20,393	25,866	9,597	21,457	32,747	40,580	21,138	21,980
<b>Closing TCA Balance (Historical Cost)</b>	<b>23,212,600</b>	<b>23,882,227</b>	<b>25,000,834</b>	<b>25,922,968</b>	<b>26,641,371</b>	<b>27,375,914</b>	<b>28,210,167</b>	<b>28,955,587</b>	<b>29,649,449</b>	<b>30,357,469</b>
Opening Accumulated Amortization	-	389,310	787,717	1,187,828	1,574,864	1,965,693	2,346,488	2,729,171	3,115,571	3,531,458
Amortization Expense	402,830	407,780	420,504	412,902	400,425	402,252	415,430	426,981	437,024	443,788
Amortization on Disposal	13,519	9,373	20,393	25,866	9,597	21,457	32,747	40,580	21,138	21,980
<b>Ending Accumulated Amortization</b>	<b>389,311</b>	<b>787,717</b>	<b>1,187,828</b>	<b>1,574,864</b>	<b>1,965,692</b>	<b>2,346,488</b>	<b>2,729,171</b>	<b>3,115,572</b>	<b>3,531,457</b>	<b>3,953,266</b>
<b>Net Book Value</b>	<b>22,823,289</b>	<b>23,094,510</b>	<b>23,813,006</b>	<b>24,348,104</b>	<b>24,675,679</b>	<b>25,029,426</b>	<b>25,480,996</b>	<b>25,840,015</b>	<b>26,117,992</b>	<b>26,404,203</b>

5. Accumulated Surplus

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

Water	2011 Opening Accumulated Surplus
Reserve Balances	
Reserves: Development Charges	15,099
Reserves: Capital/Other	663,275
<b>Total Reserves Balance</b>	<b>678,374</b>
Less: Debt Obligations and Deferred Revenue	(1,823,659)
Add: Tangible Capital Assets	22,906,119
<b>Total Opening Balance</b>	<b>21,760,834</b>

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

6. Other revenue

Other revenue includes administration charges 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.



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



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## 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. (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)



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## 6. RECOMMENDATIONS



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## 6. RECOMMENDATIONS

This report presents the water financial plan for the Town of Minto 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 2012 Rate Study. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Town of Minto Water Financial Plan prepared by Watson & Associates Economists Ltd. dated January 18, 2012 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. Submit the Financial Plan, the Council 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 Council Resolution approving the Financial Plan, to the Ministry of the Environment, satisfying the requirements under the Safe Drinking Water Act. (SDWA Section 32 (5) 2 ii)<sup>1</sup>

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<sup>1</sup> Note: The Ministry of the Environment does not require the Council Resolution for the initial financial plan submission. We encourage the municipality to contact the Ministry of the Environment to verify all requirements have been met.

