

**Municipality of Centre
Hastings**

**Water
Ontario Regulation 453/07
Financial Plan**

Financial Plan # 153-301

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 **Planning for growth**

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List of Acronyms

| | |
|------------|--|
| O.Reg. | Ontario Regulation |
| P.S.A.B. | Public Sector Accounting Board |
| S.D.W.A. | Safe Drinking Water Act |
| S.W.S.S.A. | Sustainable Water and Sewage Systems Act |

1. Introduction

1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by the Municipality of Centre Hastings (the Municipality) to prepare a water financial plan as part of the five submission requirements for the purposes of obtaining a municipal drinking water license as per the Safe Drinking Water Act, 2002. In general, a financial plan requires an in-depth analysis of capital and operating needs, a review of current and future demand versus supply, and consideration of available funding sources. This detailed financial planning and forecasting in regards to the Municipality's water systems has already been completed and documented by Municipal staff through the 2015 Budget, and supplemented with forecasts developed by staff with assistance from Watson (2015 Forecast). The objective of the report provided herein is to convert the findings of the 2015 Forecast into the prescribed reporting requirements for a financial plan as defined by Ontario Regulation 453/07 (O.Reg. 453/07).

1.2 Background

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

“No person shall,

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

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

1. Obtain a drinking water works permit;
2. Acceptance of the operational plan for the system based on the Drinking Water Quality Management Standard;
3. Accreditation of the Operating Authority;

4. Prepare and provide a financial plan; and
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 S.D.W.A. 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 cited above has been repealed (see Section 2.2 of this report); however, the standards that it directs underpin the specific requirements of s.30 (1) part b as they are outlined in O.Reg. 453/07 and which will be examined in detail below.

1.2.2 Financial Plan Requirements – New System

O.Reg. 453/07 provides the following parameters with regard to s.30 (1) part b of the S.D.W.A. 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 the Public Sector Accounting Board (P.S.A.B.) for each year in which the financial plans apply;

- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system;
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and
- Financial plans are 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 regard to s.30 (1) part b of the S.D.W.A. for existing water systems. The requirements for existing systems are summarized as follows:

- Financial plans must be approved by Council resolution (or governing body);
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six-year period (commencing in the year of licence expiry);
- Financial plans must include detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and accumulated surplus/deficit (i.e. the components of a “Statement of Operations” as per the P.S.A.B.) for each year in which the financial plans apply;
- Financial plans must present financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets (i.e. the components of a “Statement of Financial Position” as per the P.S.A.B.) for each year in which the financial plans apply;
- Gross cash receipts/payments itemized by operating transactions, capital transactions, investing transactions and financial transactions (i.e. the components of a “Statement of Cash Flow” as per the P.S.A.B.) for each year in which the financial plans apply;
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system;
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and

- Financial plans are 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 S.D.W.A., a financial plan is mandatory for water systems and encouraged for wastewater systems. The financial plans shall be for a forecast period of at least six years but longer planning horizons are encouraged. The financial plan is to be completed, approved and submitted at the time of licence renewal (i.e. six months prior to licence expiry). Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary.

The financial plans 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 (P.S.A.B.) Requirements

The components of the financial plans indicated by the regulation are consistent with the requirements for financial statement presentation as set out in section PS1200 of the Chartered Professional Accountants Canada (previously Canadian Institute of Chartered Accountants) Public Sector Accounting Handbook:

“Financial statements should include a Statement of Financial Position, a Statement of Operations, a Statement of Change in Net Debt, and a Statement of Cash Flow.”

Both the Statement of Financial Position and the Statement of Operations were required for financial reporting purposes in pre-2009 reporting years; however, the format changed in 2009 to conform to the requirements of PS1200 and PS3150 (see Figures 1-1 and 1-2). Financial statements are now reported on a full accrual accounting basis, which will continue in future years. The accrual accounting method recognizes revenues and expenses in the same period as the activities that give rise to them regardless of when they are actually paid for. Since an exchange of cash is not necessary to report a financial transaction, the accrual method is meant to provide a more accurate picture of financial position. Before 2009, financial results were reported on a modified cash basis of accounting, whereby revenues and expenses are recognized when cash is paid or received and only certain accrual-type items such as payables and receivables are recognized at year-end. The difference between the methods is in the timing of when transactions are reported. This timing difference has impacted the presentation of the statements in that various accounts have been added or deleted in order to properly report the transactions.

Moreover, since the 2009 fiscal year, additional information relating to the accounting treatment of tangible capital assets is included in annual reporting, as indicated by the requirements under section PS3150. Pre-2009, the costs to acquire, develop and/or construct capital assets were expensed in the year in which they occur. Going forward, tangible capital assets are 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 required further changes to the format of existing financial statements. From a financial planning perspective, this change is significant for water assets as they can represent a significant portion of the Municipality's total assets.

The Statement of Cash Flow and the Statement of Change in Net Financial Assets/Debt (which is a new statement as of 2009) are required statements going forward. The Statement of Change in Net Financial Assets/Debt reports on whether enough revenue was generated in a period to cover the expenses in the period and whether sufficient resources have been generated to support current and future activities (see Figure 1-3). The Statement of Cash Flow reports on how activities were financed for a given period providing a measure of the changes in cash for that period (see Figure 1-4).

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

Figure 1-1
Statement of Financial Position

OLD FORMAT (PRE-2009)**2009 AND FUTURE**

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

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

Figure 1-2
Statement of Operations

OLD FORMAT (PRE-2009)

| |
|--|
| <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 |
| |

2009 AND FUTURE

| |
|---|
| <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

2009 AND FUTURE

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

Figure 1-4
Statement of Cash Flow¹

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

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

2. Sustainable Financial Planning

2.1 Introduction

In general, sustainability refers to the ability to maintain a certain position over time. While the S.D.W.A. requires a declaration of the financial plan's sustainability, it does not give a clear definition of what would be considered sustainable. Instead, the 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: Lifecycle planning with mid-course corrections is preferable to planning over the short term, or not planning at all.
- Principle #5: An asset management plan is a key input to the development of a financial plan.
- Principle #6: A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.
- Principle #7: Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.
- Principle #8: Financial plans are "living" documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.
- Principle #9: Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff and municipal Council.

2.2 Sustainable Water and Sewage Systems Act

The Sustainable Water and Sewage Systems Act (S.W.S.S.A.) was passed on December 13, 2002. The intent of the Act was to introduce the requirement for municipalities to undertake an assessment of the “full cost” of providing their water and the wastewater services. In total, there were 40 areas within the Act to which the Minister could have made regulations. It is noted that, the regulations, which accompany the Act, were not issued and the Act was repealed on December 31, 2012.

2.3 Water Opportunities Act, 2010 (Bill 72)

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

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

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

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

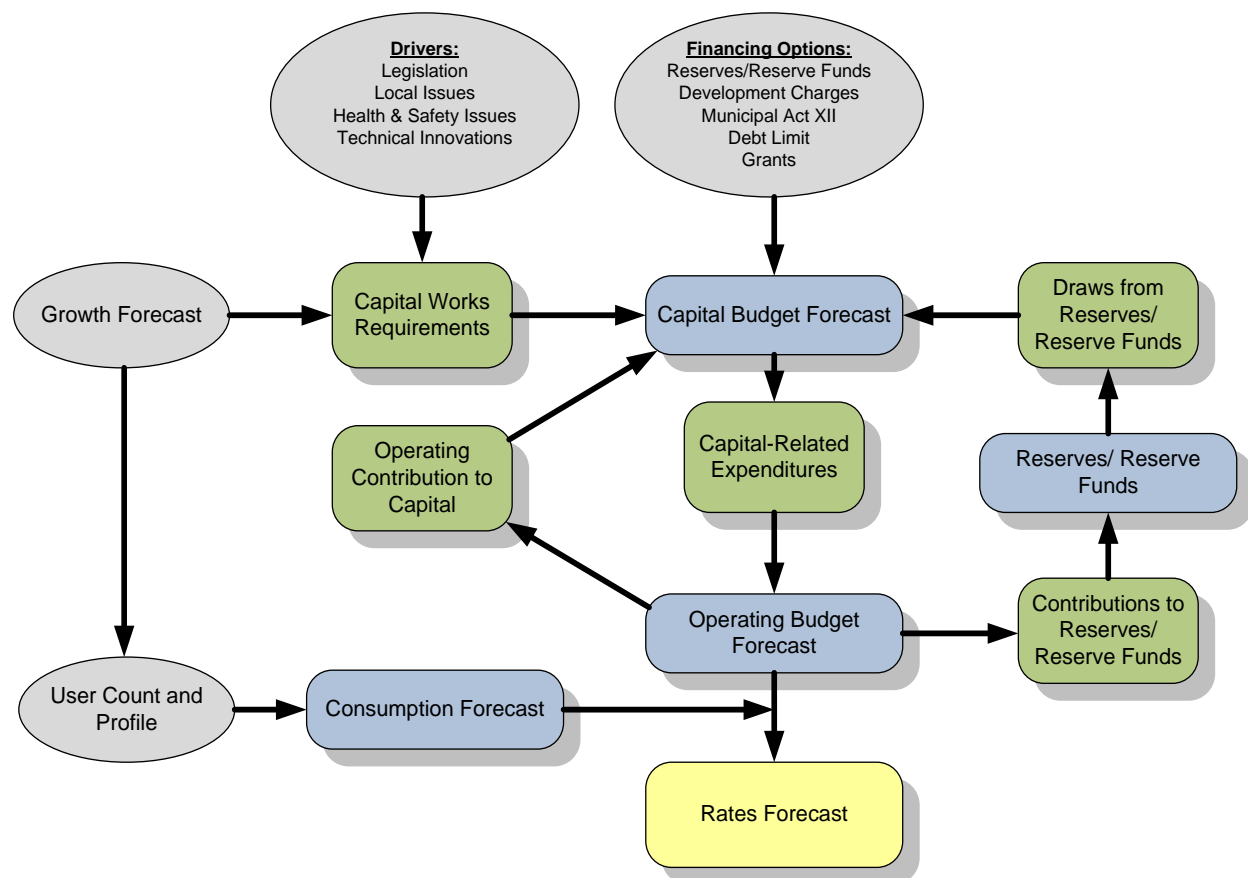
Where a Board has jurisdiction over a service, the plan (and any plan amendments) must be approved by the municipality in which the municipal service is provided, before submission to the Minister. The Minister may also direct preparation of joint or partially joint plans.

Regulations (still forthcoming) will prescribe details with 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 2015 Forecast

As noted above, Watson has assisted Municipal staff in completing a 6-year water forecast. However, this forecast does not represent a Rate Study. The Rate Study process is designed to address “full cost” principles and reflect the guiding principles toward sustainable financial planning. Figure 2-1 below summarizes the process.

**Figure 2-1
Water Rate Calculation Process**



As a result of employing this process, a Rate Study provides a sound financial plan for the Municipality’s water systems by providing:

- A detailed assessment of current and future capital needs including an analysis of potential funding sources;
- An analysis of fixed and variable operating costs in order to determine how they will be impacted by evolving infrastructure needs and system growth;
- A review and recommendation on rate structures that ensure revenues are equitable and sufficient to meet system needs; and
- A public process that involves ongoing consultation with the main stakeholders including the Municipality 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.

It is recommended that the Municipality complete a Water Rate Study in the near future to address the principles discussed above.

Given this water financial plan was based on the staff prepared 2015 Forecast, the details of the financial plan arising from the 2015 Forecast are contained in Appendix A.

3. Approach

3.1 Overview

The 2015 Forecast has been prepared on a modified cash basis; therefore, a conversion was required in order to present a full accrual financial plan for the purposes of this report. The conversion process used will help to establish the structure of the financial plan along with the opening balances that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the financial plan.

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; and
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 2015 Forecast as well as part of the Municipality's annual P.S.A.B. 3150 compliance processes. Given the prospective nature of the 2015 Forecast, replacement cost is provided for each asset; however, historical cost (which is the original cost to purchase, develop or construct each asset) is required for financial reporting purposes. Once historical cost is established, the following calculations are made to determine net book value:

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

Future water capital needs have also been determined and summarized within the 2015 Forecast. These estimates, however, only represent future assets that the Municipality anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no cost or partial cost to the Municipality). These contributed assets could form a significant part of the infrastructure going forward in terms of the sustainability of the system as a whole and despite their non-monetary nature; the financial plan may need to be adjusted in order to properly account for these transactions. Once the sequence and total asset acquisition has been determined for the forecast period, annual amortization of these assets for each year is calculated in a similar manner as that used for existing assets.

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

3.2.2 Convert Statement of Operations

As per subsection 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 subsection 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 subsection 3.2.1. Transfers to and from reserves are no longer explicitly reported on the Statement of Operations. Instead, these transactions are represented by changes in cash and accumulated surplus. Also, debt repayment costs relating to the principal payment portion only need to be removed, as they no longer qualify as an expense for reporting purposes. Principal payments will now be reported as a decrease in debt liability on the Statement of Financial Position. Finally, expenses relating to tangible capital assets, such as amortization, write-offs and (gain)/loss on disposal of assets, will be reported on the Statement of Operations in order to capture the allocation of the cost of these assets to operating activities over their useful lives.

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

| Modified Cash Basis | Budget 2015 | Adjustments | | Full Accrual Budget 2015 | Accrual Basis |
|--|----------------|---------------|---------------|--------------------------------|---|
| | | DR | CR | | |
| Revenues | | | | | Revenues |
| Rate Based Revenue | 560,515 | | | 560,515 | Rate Based Revenue |
| Transfers from Reserves | 7,200 | 7,200 | | | |
| Other Revenue | 3,005 | | | 3,005 | Other Revenue |
| Total Revenues | 570,720 | | | 563,520 | Total Revenues |
| Expenditures | | | | | Expenses |
| Operating | 477,320 | | | 477,320 | Operating Expenses |
| Capital | | | | | |
| Transfers to Capital | 93,400 | | 93,400 | | |
| | | 58,688 | | 58,688 | Amortization |
| Total Expenditures | 570,720 | | | 536,008 | Total Expenses |
| Net Expenditures | - | | | 27,512 | Annual Surplus/(Deficit) |
| Increase (decrease) in amounts to be recovered | - | | | 2,108,618 | Accumulated Surplus/(Deficit), beginning of year |
| Change in Fund Balances | - | 27,512 | | 2,136,130 | Accumulated Surplus/(Deficit), end of year |
| TOTAL ADJUSTMENTS | | 93,400 | 93,400 | | |

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

3.2.3 Convert Statement of Financial Position

Once the Statement of Operations has been converted and the net book value of tangible capital assets has been recorded, balances for the remaining items on the Statement of Financial Position are determined and recorded (see Figure 3-2). As noted earlier, the applicable balances from the Statement of Capital and the Statement of Reserve and Reserve Funds will need to be transferred to this statement. The opening/actual balances for the remaining accounts, such as accounts receivable, inventory, accounts payable and outstanding debt (principal only), are recorded and classified according to the structure of the Statement of Financial Position as outlined in PS1200.

It is acknowledged that some of the balances required on the Statement of Financial Position will be consolidated across the Municipality and, as such, 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 Municipality financed its activities or, in other words, how the costs of providing services were recovered. The statement is derived using comparative Statement of Financial Position, the current Statement of Operations and other available transaction data.

The Statement of Change in Net Financial Assets/Debt is a new statement which reconciles the difference between the surplus or deficit from current operations and the change in net financial assets/debt for the year. This is significant, as net debt provides an indication of future revenue requirements. In order to complete the Statement of Net Financial Assets/Debt, additional information regarding any gains/losses on disposals of assets, asset write-downs, acquisition/use of supplies inventory and the acquisition use of prepaid expenses, is necessary (if applicable). Although the Statement of Change in Net Financial Assets/Debt is not required under O.Reg. 453/07, it has been included in this report as a further indicator of financial viability.

Figure 3-2
Conversion Adjustments
Statements of Financial Position (Water)

| Modified Cash Basis | Budget 2015 | Adjustments | | Full Accrual Budget 2015 | Accrual Basis |
|--|------------------|------------------|------------------|--------------------------------|---|
| | | DR | CR | | |
| <u>ASSETS</u> | | | | | <u>ASSETS</u> |
| <u>Financial Assets</u> | | | | | <u>Financial Assets</u> |
| Cash | 65,326 | | | 65,326 | Cash |
| Accounts Receivable | 94,720 | | | 94,720 | Accounts Receivable |
| <i>Total Financial Assets</i> | 160,046 | | | 160,046 | <i>Total Financial Assets</i> |
| <u>LIABILITIES</u> | | | | | <u>Liabilities</u> |
| Accounts Payable & Accrued Liabilities | 45,692 | | | 45,692 | Accounts Payable & Accrued Liabilities |
| Gross Long-term Liabilities | 200,569 | | | 200,569 | Debt (Principal only) |
| Deferred Revenue | 28,650 | | | 28,650 | Deferred Revenue |
| <i>Total Liabilities</i> | 274,911 | | | 274,911 | <i>Total Liabilities</i> |
| | | | | | |
| Net Assets/(Debt) | (114,865) | | | (114,865) | Net Financial Assets/(Debt) |
| | | 2,250,995 | | 2,250,995 | <u>Non-Financial Assets</u> |
| | | | | 2,250,995 | Tangible Capital Assets |
| | | | | | Total Non-Financial Assets |
| <u>Municipal Position</u> | | | | | |
| Water Reserves | 85,704 | 85,704 | | | |
| Gas Tax Reserve Fund | 28,650 | 28,650 | | | |
| Amounts to be Recovered | (229,219) | | 229,219 | | |
| | | | | | |
| Total Municipal Position | (114,865) | | 2,136,130 | 2,136,130 | Accumulated Surplus/(Deficit), end of year |
| TOTAL ADJUSTMENTS | | 2,365,349 | 2,365,349 | | |

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

3.2.5 Verification and Note Preparation

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

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

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

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

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

- b) Amortization Expense – The method and timing of amortization should be based on the Municipality's amortization policy. Otherwise, an assumption will need to be made and applied consistently throughout the financial plan.

- c) Accumulated Amortization – Will be based on the culmination of accumulated amortization expenses throughout the life of each asset however derived, along with information on construction/acquisition date and useful life obtained from the 2015 Forecast.
- d) Contributed Assets – As noted earlier, contributed assets could represent a significant part of the Municipality’s infrastructure acquisitions. As such, a reasonable estimate of value and timing of acquisition/donation may be required in order to adequately capture these assets. In the case where contributed assets are deemed to be insignificant or unknown, an assumption of “no contributed assets within the forecast period” will be made.
- e) Accumulated Surplus – The magnitude of the surplus in this area may precipitate the need for additional explanation especially in the first year of reporting. This Accumulated Surplus captures the historical infrastructure investment which has not been reported in the past but has accumulated to significant levels. It also includes all water reserve and reserve fund balances.
- f) Other Revenues – Will represent the recognition of revenues previously deferred (i.e. development charge revenues) and/or accrued revenues (developer contributions) and/or other minor miscellaneous revenues.

4. Financial Plan

4.1 Introduction

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

4.2 Water Financial Plan

4.2.1 Statement of Financial Position (Table 4-1)

The Statement of Financial Position provides information that describes the assets, liabilities, and accumulated surplus of the Municipality's water 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 estimation 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 at the end of 2015, the Municipality's water systems will be in a net debt position of approximately \$115,000. After improving to a net financial asset position of just under \$39,000 in 2016, the Municipality's water systems are projected to return to a net debt position in 2017, in the amount of over \$180,000. Net debt grows annually from 2018 to 2021, reaching just under \$850,000 in 2021. This is due to the proposed use of debt to pay for anticipated capital projects in 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 requirement for municipalities as part of PS3150 compliance and is significant from a financial planning perspective for the following reasons:

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

- Tangible capital assets such as water mains 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; and
- 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 increase by approximately \$3.2 million over the forecast period. This indicates that the Municipality has plans to invest in tangible capital assets in excess of the anticipated use of existing assets over the forecast period.

4.2.2 Statement of Operations (Table 4-2)

The Statement of Operations summarizes the revenues and expenses generated by the water systems 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. In 2016 and 2018, due to projected use of gas tax and other capital grant revenue to fund capital expenditures, the ratio of expenses to revenues is anticipated to achieve values of 33% for 2016 and 31% in 2018. In other years (i.e. 2015, 2017, and 2019 to 2021), the ratio is more stable, increasing from 95% in 2015 to 104% by 2021. As a result, annual surpluses are forecast for the years 2015 to 2018, with higher values projected in 2016 (at approximately \$1.1 million) and 2018 (at approximately \$1.4 million) due to the recognition of the anticipated grant revenue in those years. For the years 2019 to 2021, the financial plan projects annual deficits including just over \$29,000 in 2021. It is important to note that an annual surplus is beneficial to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments.

Another important indicator on this statement is accumulated surplus/deficit. An accumulated surplus indicates that the available net resources are sufficient to provide future water services. An accumulated deficit indicates that resources are insufficient to

provide future services and that borrowing or rate increases are required to finance annual deficits. From Table 4-2, the financial plan proposes to add approximately \$2.5 million to a 2014 accumulated surplus of approximately \$2.1 million over the forecast period. This accumulated surplus, as indicated in Table 4-2, is predominantly made up of reserve and reserve fund balances as well as historical investments in tangible capital assets.

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

The Statement of Change in Net Financial Assets/Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (i.e. 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 2015 and 2016, forecasted annual surplus exceeds forecasted tangible capital asset acquisitions (net of amortization for the year) resulting in annual increases in net financial assets. In each of the other years within the forecast (i.e. 2017 to 2021), forecasted tangible capital asset acquisitions (net of amortization for the year) exceeds the forecasted annual surplus/(deficit) resulting in a decrease to net financial assets in these years. This reveals the impact of a long-term plan of funding capital through accumulated surplus (i.e. reserves). This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions decreasing from a value of 1.89 in 2015 to 0.82 by 2021.¹

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how water systems are expected to generate and use cash resources during the forecast period. The transactions that provide/use cash are classified as operating, capital, investing and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash 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), make debt principal payments and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the Municipality's water systems to increase from approximately \$65,000 at the end of 2015 to over \$324,000 at the end of 2020, before decreasing to approximately \$87,000 at the end of 2021. For further discussions on projected cash balances, please refer to the Notes to the Financial Plan.

¹ A desirable ratio is 1:1 or better.

Table 4-1
Statement of Financial Position: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

| | Notes | Forecast | | | | | | |
|---|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Financial Assets | | | | | | | | |
| Cash | 1 | 65,326 | 128,345 | 227,848 | 283,639 | 310,171 | 324,069 | 87,431 |
| Accounts Receivable | 1 | 94,720 | 97,561 | 100,488 | 103,503 | 106,608 | 109,806 | 113,100 |
| Total Financial Assets | | 160,046 | 225,906 | 328,336 | 387,142 | 416,779 | 433,875 | 200,531 |
| Liabilities | | | | | | | | |
| Accounts Payable & Accrued Liabilities | 1 | 45,692 | 46,602 | 47,512 | 48,928 | 50,374 | 50,383 | 51,379 |
| Debt (Principal only) | 2 | 200,569 | 140,569 | 463,969 | 636,235 | 804,019 | 1,013,606 | 997,756 |
| Deferred Revenue | 3 | 28,650 | - | - | - | - | - | - |
| Total Liabilities | | 274,911 | 187,171 | 511,481 | 685,163 | 854,393 | 1,063,989 | 1,049,135 |
| Net Financial Assets/(Debt) | | (114,865) | 38,735 | (183,145) | (298,021) | (437,614) | (630,114) | (848,604) |
| Non-Financial Assets | | | | | | | | |
| Tangible Capital Assets | 4 | 2,250,995 | 3,226,787 | 3,468,402 | 4,976,185 | 5,082,053 | 5,249,888 | 5,439,194 |
| Total Non-Financial Assets | | 2,250,995 | 3,226,787 | 3,468,402 | 4,976,185 | 5,082,053 | 5,249,888 | 5,439,194 |
| Accumulated Surplus/(Deficit) | 5 | 2,136,130 | 3,265,522 | 3,285,257 | 4,678,164 | 4,644,439 | 4,619,774 | 4,590,590 |
| Financial Indicators | | | | | | | | |
| | Total Change | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| 1) Increase/(Decrease) in Net Financial Assets | (693,139) | 40,600 | 153,600 | (221,880) | (114,876) | (139,593) | (192,500) | (218,490) |
| 2) Increase/(Decrease) in Tangible Capital Assets | 3,175,111 | (13,088) | 975,792 | 241,615 | 1,507,783 | 105,868 | 167,835 | 189,306 |
| 3) Increase/(Decrease) in Accumulated Surplus | 2,481,972 | 27,512 | 1,129,392 | 19,735 | 1,392,907 | (33,725) | (24,665) | (29,184) |

Table 4-2
Statement of Operations: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

| | Notes | Forecast | | | | | | |
|--|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Water Revenue | | | | | | | | |
| Rate Based Revenue | | 560,515 | 577,330 | 594,650 | 612,490 | 630,865 | 649,791 | 669,284 |
| Earned Development Charges Revenue | 3 | - | 212,100 | - | 56,550 | - | - | - |
| Other Revenue | 6 | 3,005 | 903,100 | 3,200 | 1,359,150 | 3,400 | 3,500 | 3,600 |
| Total Revenues | | 563,520 | 1,692,530 | 597,850 | 2,028,190 | 634,265 | 653,291 | 672,884 |
| Water Expenses | | | | | | | | |
| Operating Expenses | Sch. 4-1 | 477,320 | 486,830 | 496,330 | 511,130 | 526,230 | 526,330 | 536,730 |
| Interest on Debt | 2 | - | - | - | 15,336 | 24,627 | 32,161 | 40,544 |
| Amortization | 4 | 58,688 | 76,308 | 81,785 | 108,817 | 117,132 | 119,465 | 124,794 |
| Total Expenses | | 536,008 | 563,138 | 578,115 | 635,283 | 667,990 | 677,956 | 702,068 |
| Annual Surplus/(Deficit) | | 27,512 | 1,129,392 | 19,735 | 1,392,907 | (33,725) | (24,665) | (29,184) |
| Accumulated Surplus/(Deficit), beginning of year | 5 | 2,108,618 | 2,136,130 | 3,265,522 | 3,285,257 | 4,678,164 | 4,644,439 | 4,619,774 |
| Accumulated Surplus/(Deficit), end of year | | 2,136,130 | 3,265,522 | 3,285,257 | 4,678,164 | 4,644,439 | 4,619,774 | 4,590,590 |
| Note 5: | | | | | | | | |
| Accumulated Surplus/(Deficit) Reconciliation: | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Reserve Balances | | | | | | | | |
| Reserves: Gas Tax | | 28,650 | - | - | - | - | - | - |
| Reserves: Capital/Other | | 85,704 | 179,304 | 280,824 | 338,214 | 366,405 | 383,492 | 149,152 |
| Total Reserves Balance | | 114,354 | 179,304 | 280,824 | 338,214 | 366,405 | 383,492 | 149,152 |
| Less: Debt Obligations and Deferred Revenue | | (229,219) | (140,569) | (463,969) | (636,235) | (804,019) | (1,013,606) | (997,756) |
| Add: Tangible Capital Assets | 4 | 2,250,995 | 3,226,787 | 3,468,402 | 4,976,185 | 5,082,053 | 5,249,888 | 5,439,194 |
| Total Ending Balance | | 2,136,130 | 3,265,522 | 3,285,257 | 4,678,164 | 4,644,439 | 4,619,774 | 4,590,590 |
| Financial Indicators | | | | | | | | |
| | Total Change | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| 1) Expense to Revenue Ratio | | 95% | 33% | 97% | 31% | 105% | 104% | 104% |
| 2) Increase/(Decrease) in Accumulated Surplus | 2,481,972 | 27,512 | 1,129,392 | 19,735 | 1,392,907 | (33,725) | (24,665) | (29,184) |

Schedule 4-1
Statement of Operating Expenses: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

| | Notes | Forecast | | | | | | |
|--|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Operating Expenses | | | | | | | | |
| Wages - Full Time | | 108,000 | 110,200 | 112,400 | 114,600 | 116,900 | 119,200 | 121,600 |
| Wages - Part Time | | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Vacation Pay | | 17,000 | 17,300 | 17,600 | 18,000 | 18,400 | 18,800 | 19,200 |
| Sick Leave | | 4,000 | 4,100 | 4,200 | 4,300 | 4,400 | 4,500 | 4,600 |
| Benefits - CPP | | 5,600 | 5,700 | 5,800 | 5,900 | 6,000 | 6,100 | 6,200 |
| Benefits E.I.C | | 3,100 | 3,200 | 3,300 | 3,400 | 3,500 | 3,600 | 3,700 |
| Benefits - Omers | | 13,000 | 13,300 | 13,600 | 13,900 | 14,200 | 14,500 | 14,800 |
| Benefits - Manulife | | 26,500 | 27,000 | 27,500 | 28,100 | 28,700 | 29,300 | 29,900 |
| Benefits - Clothing Allowance | | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| EHT | | 2,800 | 2,900 | 3,000 | 3,100 | 3,200 | 3,300 | 3,400 |
| WSIB | | 3,100 | 3,200 | 3,300 | 3,400 | 3,500 | 3,600 | 3,700 |
| Seminars & Workshops | | 5,000 | 5,100 | 5,200 | 5,300 | 5,400 | 5,500 | 5,600 |
| Memberships | | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Specialized Training | | 7,000 | 7,100 | 7,200 | 7,300 | 7,400 | 7,500 | 7,700 |
| Other Materials | | 20,000 | 20,400 | 20,800 | 21,200 | 21,600 | 22,000 | 22,400 |
| Equipment/Supplies | | 12,000 | 12,200 | 12,400 | 12,600 | 12,900 | 13,200 | 13,500 |
| Vehicle Fuel | | 13,000 | 13,300 | 13,600 | 13,900 | 14,200 | 14,500 | 14,800 |
| Hydro | | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Cell Phones | | 900 | 900 | 900 | 900 | 900 | 900 | 900 |
| Radio/ Communication | | 700 | 700 | 700 | 700 | 700 | 700 | 700 |
| Vehicle Repairs | | 4,000 | 4,100 | 4,200 | 4,300 | 4,400 | 4,500 | 4,600 |
| Dues & Subscriptions | | 150 | 200 | 200 | 200 | 200 | 200 | 200 |
| Office Supplies | | 250 | 300 | 300 | 300 | 300 | 300 | 300 |
| Postage | | 4,000 | 4,100 | 4,200 | 4,300 | 4,400 | 4,500 | 4,600 |
| Computer Services | | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Advertising | | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Repairs & Maintenance | | 15,000 | 15,300 | 15,600 | 15,900 | 16,200 | 16,500 | 16,800 |
| Contracts - OCWA | | 172,595 | 176,000 | 179,500 | 183,100 | 186,800 | 190,500 | 194,300 |
| Service | | 28,000 | 28,600 | 29,200 | 29,800 | 30,400 | 31,000 | 31,600 |
| Mileage | | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| Insurance | | 25 | 30 | 30 | 30 | 30 | 30 | 30 |
| Licenses | | 900 | 900 | 900 | 900 | 900 | 900 | 900 |
| Provincial Water Licenses | | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Equipment Repairs | | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Equipment Rentals | | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Water Tower Inspection | | - | - | - | - | 10,000 | - | - |
| Hydrant Flow Testing | | - | - | - | 5,000 | - | - | - |
| Non TCA - Expenses from Capital Budget | 7 | - | - | - | - | - | - | - |
| TOTAL OPERATING EXPENSES | | 477,320 | 486,830 | 496,330 | 511,130 | 526,230 | 526,330 | 536,730 |

Table 4-3
Statement of Changes in Net Financial Assets/Debt: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

| | Notes | Forecast | | | | | | |
|--|-------|------------------|---------------|------------------|------------------|------------------|------------------|------------------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Annual Surplus/(Deficit) | | 27,512 | 1,129,392 | 19,735 | 1,392,907 | (33,725) | (24,665) | (29,184) |
| Less: Acquisition of Tangible Capital Assets | 4 | (45,600) | (1,052,100) | (323,400) | (1,616,600) | (223,000) | (287,300) | (314,100) |
| Add: Amortization of Tangible Capital Assets | 4 | 58,688 | 76,308 | 81,785 | 108,817 | 117,132 | 119,465 | 124,794 |
| (Gain)/Loss on disposal of Tangible Capital Assets | | - | - | - | - | - | - | - |
| Add: Proceeds on Sale of Tangible Capital Assets | | - | - | - | - | - | - | - |
| Add: Write-downs of Tangible Capital Assets | | - | - | - | - | - | - | - |
| | | 13,088 | (975,792) | (241,615) | (1,507,783) | (105,868) | (167,835) | (189,306) |
| Increase/(Decrease) in Net Financial Assets/(Net Debt) | | 40,600 | 153,600 | (221,880) | (114,876) | (139,593) | (192,500) | (218,490) |
| Net Financial Assets/(Net Debt), beginning of year | | (155,465) | (114,865) | 38,735 | (183,145) | (298,021) | (437,614) | (630,114) |
| Net Financial Assets/(Net Debt), end of year | | (114,865) | 38,735 | (183,145) | (298,021) | (437,614) | (630,114) | (848,604) |

| Financial Indicators | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|--------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1) Acquisition of Tangible Capital Assets (Cumulative) | 45,600 | 1,097,700 | 1,421,100 | 3,037,700 | 3,260,700 | 3,548,000 | 3,862,100 |
| 2) Annual Surplus/Deficit before Amortization (Cumulative) | 86,200 | 1,291,900 | 1,393,420 | 2,895,144 | 2,978,551 | 3,073,351 | 3,168,961 |
| 3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative) | 1.89 | 1.18 | 0.98 | 0.95 | 0.91 | 0.87 | 0.82 |

Table 4-4
Statement of Cash Flow – Indirect Method: Water Services
UNAUDITED: For Financial Planning Purposes Only
2015-2021

| | Notes | Forecast | | | | | | |
|--|----------|---------------|----------------|----------------|----------------|----------------|----------------|---------------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Operating Transactions | | | | | | | | |
| Annual Surplus/Deficit | | 27,512 | 1,129,392 | 19,735 | 1,392,907 | (33,725) | (24,665) | (29,184) |
| Add: Amortization of TCA's | 4 | 58,688 | 76,308 | 81,785 | 108,817 | 117,132 | 119,465 | 124,794 |
| Less: Earned Deferred Revenue | 3 | - | (212,100) | - | (56,550) | - | - | - |
| Add: Deferred Revenue Proceeds | | - | 183,450 | - | 56,550 | - | - | - |
| Change in A/R (Increase)/Decrease | | (3,064) | (2,841) | (2,927) | (3,015) | (3,104) | (3,199) | (3,294) |
| Change in A/P Increase/(Decrease) | | 948 | 910 | 910 | 1,416 | 1,446 | 9 | 996 |
| Cash Provided by Operating Transactions | | 84,084 | 1,175,119 | 99,503 | 1,500,125 | 81,749 | 91,610 | 93,312 |
| Capital Transactions | | | | | | | | |
| Proceeds on sale of Tangible Capital Assets | | - | - | - | - | - | - | - |
| Less: Cash Used to acquire Tangible Capital Assets | 4 | (45,600) | (1,052,100) | (323,400) | (1,616,600) | (223,000) | (287,300) | (314,100) |
| Cash Applied to Capital Transactions | | (45,600) | (1,052,100) | (323,400) | (1,616,600) | (223,000) | (287,300) | (314,100) |
| Financing Transactions | | | | | | | | |
| Proceeds from Debt Issue | 2 | - | - | 383,400 | 264,200 | 243,569 | 287,300 | 88,900 |
| Less: Debt Repayment (Principal only) | 2 | (47,800) | (60,000) | (60,000) | (91,934) | (75,786) | (77,712) | (104,750) |
| Cash Applied to Financing Transactions | | (47,800) | (60,000) | 323,400 | 172,266 | 167,783 | 209,588 | (15,850) |
| Increase in Cash and Cash Equivalents | | (9,316) | 63,019 | 99,503 | 55,791 | 26,532 | 13,898 | (236,638) |
| Cash and Cash Equivalents, beginning of year | 1 | 74,642 | 65,326 | 128,345 | 227,848 | 283,639 | 310,171 | 324,069 |
| Cash and Cash Equivalents, end of year | 1 | 65,326 | 128,345 | 227,848 | 283,639 | 310,171 | 324,069 | 87,431 |

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. The financial plan, however, 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); and
- C. Net debt (i.e. the difference between A and B above).

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

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

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

1. Cash, Receivables and Payables

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

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

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

- a) Receivables: Based on historical levels of Municipality-wide receivables as a percentage of annual revenues, applied to projected water revenues (source: prior years' audited financial statements);
- b) Payables: Based on historical levels of Municipality-wide payables as a percentage of annual expenses incurred, applied to projected water expenses (source: prior years' audited financial statements).

2. Debt

The Municipality had internal water related debt of \$248,369 at the end of 2014. It is anticipated that additional debt proceeds will be required over the forecast period. Principal repayments over the forecast period are estimated as follows:

| Year | Principal Payments |
|--------------|--------------------|
| 2015 | 47,800 |
| 2016 | 60,000 |
| 2017 | 60,000 |
| 2018 | 91,934 |
| 2019 | 75,786 |
| 2020 | 77,712 |
| 2021 | 104,750 |
| Total | \$ 517,982 |

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 gas tax reserve fund balances which are considered to be a liability for financial reporting purposes until the funds are used to emplace the works for which they have been collected.

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. Hydrants;
 - iv. Equipment; and
 - v. Land.
- Amortization is calculated based on the straight-line approach.
- Given the planned asset replacement forecast in the 2015 Forecast, useful life on acquisitions is assumed to be equal to typical values assigned by the Municipality for each 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 disposals 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 subsection 3.2.1, are shown as Developer Contributions, a revenue, on the Statement of Operations in the year of contribution, if applicable.
- The Municipality is unaware of any specific lead service piping in the Municipality's water systems.

The balance of tangible capital assets is summarized as follows:

| Asset Historical Cost | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Opening Tangible Capital Asset Balance | 3,392,852 | 3,435,659 | 4,482,403 | 4,780,290 | 6,386,581 | 6,594,184 | 6,856,020 |
| Acquisitions | 45,600 | 1,052,100 | 323,400 | 1,616,600 | 223,000 | 287,300 | 314,100 |
| Disposals | 2,793 | 5,356 | 25,513 | 10,309 | 15,397 | 25,464 | 28,221 |
| Closing Tangible Capital Asset Balance | 3,435,659 | 4,482,403 | 4,780,290 | 6,386,581 | 6,594,184 | 6,856,020 | 7,141,899 |
| Opening Accumulated Amortization | 1,128,769 | 1,184,664 | 1,255,616 | 1,311,888 | 1,410,396 | 1,512,131 | 1,606,132 |
| Amortization Expense | 58,688 | 76,308 | 81,785 | 108,817 | 117,132 | 119,465 | 124,794 |
| Amortization on Disposal | 2,793 | 5,356 | 25,513 | 10,309 | 15,397 | 25,464 | 28,221 |
| Ending Accumulated Amortization | 1,184,664 | 1,255,616 | 1,311,888 | 1,410,396 | 1,512,131 | 1,606,132 | 1,702,705 |
| Net Book Value | 2,250,995 | 3,226,787 | 3,468,402 | 4,976,185 | 5,082,053 | 5,249,888 | 5,439,194 |

5. Accumulated Surplus

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

| Water | 2015 Opening Accumulated Surplus |
|---|---|
| Reserve Balances | |
| Reserves: Gas Tax | 28,650 |
| Reserves: Capital/Other | 92,904 |
| Total Reserves Balance | 121,554 |
| Less: Debt Obligations and Deferred Revenue | (277,019) |
| Add: Tangible Capital Assets | 2,264,083 |
| Total Opening Balance | 2,108,618 |

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

6. Other Revenue

Other revenue includes penalties and interest, as well as 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

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

1. The financial plan must be approved by resolution of the municipality who owns the drinking water systems or the governing body of the owner. (O.Reg. 453/07, Section 3 (1) 1)
2. The owner of the drinking water systems 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 systems 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 systems 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. (S.D.W.A. Section 32 (5) 2 ii)

6. Recommendations

This report presents the water financial plan for the Municipality of Centre Hastings 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 2015 Forecast. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Municipality of Centre Hastings Water Financial Plan prepared by Watson & Associates Economists Ltd. dated January 6, 2016 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan and the Council Resolution approving the Financial Plan be submitted to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3 (1) 6).
4. The Financial Plan and the Council Resolution approving the Financial Plan be submitted to the Ministry of the Environment, satisfying the requirements under the Safe Drinking Water Act. (S.D.W.A. Section 32 (5) 2 ii)).

Appendix A – 2015 Forecast – Water Summary Tables

Table A-1
Municipality of Centre Hastings
Water Service
Capital Budget Forecast
Inflated \$

| Description | Budget 2015 | Total | Forecast | | | | | |
|------------------------------------|---------------|------------------|------------------|----------------|------------------|----------------|----------------|----------------|
| | | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Capital Expenditures | | | | | | | | |
| Improvement - Capital OCWA | 28,600 | 190,600 | 29,500 | 30,300 | 31,300 | 32,200 | 33,200 | 34,100 |
| Capital Expenditures | 12,000 | 79,900 | 12,400 | 12,700 | 13,100 | 13,500 | 13,900 | 14,300 |
| New Water Source | 5,000 | - | - | - | - | - | - | - |
| Unfinanced Capital - Prior | 47,800 | 200,569 | 60,000 | 60,000 | 60,000 | 20,569 | - | - |
| New Well | - | 2,506,500 | 1,000,000 | - | 1,506,500 | - | - | - |
| Water Tower - Refurbish | - | 225,200 | - | - | - | - | - | 225,200 |
| Water Mains & Valves - Replacement | - | 695,900 | - | 270,000 | 55,100 | 112,400 | 229,200 | 29,200 |
| Water Hydrants - Replacement | - | 64,300 | 10,200 | 10,400 | 10,600 | 10,800 | 11,000 | 11,300 |
| Rollins Well Back-Up Generator | - | 54,100 | - | - | - | 54,100 | - | - |
| Total Capital Expenditures | 93,400 | 4,017,069 | 1,112,100 | 383,400 | 1,676,600 | 243,569 | 287,300 | 314,100 |
| Capital Financing | | | | | | | | |
| Provincial/Federal Grants | - | 2,255,850 | 900,000 | - | 1,355,850 | - | - | - |
| Gas Tax Reserve Fund | - | 268,650 | 212,100 | - | 56,550 | - | - | - |
| Debenture Requirements | - | 1,267,369 | - | 383,400 | 264,200 | 243,569 | 287,300 | 88,900 |
| Operating Contributions | 93,400 | - | - | - | - | - | - | - |
| Waterworks Reserve | - | - | - | - | - | - | - | - |
| Water Tower Reserve | - | 225,200 | - | - | - | - | - | 225,200 |
| Total Capital Financing | 93,400 | 4,017,069 | 1,112,100 | 383,400 | 1,676,600 | 243,569 | 287,300 | 314,100 |

Table A-2
Municipality of Centre Hastings
Water Service
Schedule Debenture Repayments
Inflated \$

| Debenture Year | 2015 | Principal (Inflated) | Forecast | | | | | |
|----------------------------------|------|----------------------|----------|------|---------------|---------------|----------------|----------------|
| | | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| 2016 | | - | | | | | | |
| 2017 | | 383,400 | | - | 47,270 | 47,270 | 47,270 | 47,270 |
| 2018 | | 264,200 | | | | 32,573 | 32,573 | 32,573 |
| 2019 | | 243,569 | | | | | 30,030 | 30,030 |
| 2020 | | 287,300 | | | | | | 35,421 |
| 2021 | | 88,900 | | | | | | |
| Total Annual Debt Charges | | 1,267,369 | | | 47,270 | 79,843 | 109,873 | 145,295 |

Table A-3
Municipality of Centre Hastings
Water Service
Gas Tax Reserve Fund - Water Portion
Inflated \$

| Description | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|--------|---------|------|--------|------|------|------|
| Opening Balance | 28,650 | 28,650 | - | - | - | - | - |
| Proceeds - Water Portion | - | 183,450 | - | 56,550 | - | - | - |
| Transfer to Capital | - | 212,100 | - | 56,550 | - | - | - |
| Transfer to Operating | - | - | - | - | - | - | - |
| Closing Balance | 28,650 | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - |

Table A-4
Municipality of Centre Hastings
Water Service
Waterworks Reserve
Inflated \$

| Description | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|--------|---------|---------|---------|---------|---------|---------|
| Opening Balance | 92,904 | 85,704 | 143,604 | 208,711 | 228,959 | 219,265 | 197,710 |
| Transfer from Operating | - | 57,900 | 65,106 | 20,248 | - | - | - |
| Transfer to Capital | - | - | - | - | - | - | - |
| Transfer to Operating | 7,200 | - | - | - | 9,694 | 21,556 | 48,556 |
| Closing Balance | 85,704 | 143,604 | 208,711 | 228,959 | 219,265 | 197,710 | 149,153 |
| Interest | - | - | - | - | - | - | - |

Table A-5
Municipality of Centre Hastings
Water Service
Water Tower Reserve
Inflated \$

| Description | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|------|--------|--------|---------|---------|---------|---------|
| Opening Balance | - | - | 35,700 | 72,114 | 109,256 | 147,141 | 185,784 |
| Transfer from Operating | - | 35,700 | 36,414 | 37,142 | 37,885 | 38,643 | 39,416 |
| Transfer to Capital | - | - | - | - | - | - | 225,200 |
| Transfer to Operating | - | - | - | - | - | - | - |
| Closing Balance | - | 35,700 | 72,114 | 109,256 | 147,141 | 185,784 | - |
| Interest | - | - | - | - | - | - | - |

Table A-6
Municipality of Centre Hastings
Water Services
Operating Budget Forecast
Inflated \$

| Description | Budget 2015 | Forecast | | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Expenditures | | | | | | | |
| Operating Costs | | | | | | | |
| Wages - Full Time | 108,000 | 110,200 | 112,400 | 114,600 | 116,900 | 119,200 | 121,600 |
| Wages - Part Time | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Vacation Pay | 17,000 | 17,300 | 17,600 | 18,000 | 18,400 | 18,800 | 19,200 |
| Sick Leave | 4,000 | 4,100 | 4,200 | 4,300 | 4,400 | 4,500 | 4,600 |
| Benefits - CPP | 5,600 | 5,700 | 5,800 | 5,900 | 6,000 | 6,100 | 6,200 |
| Benefits E.I.C | 3,100 | 3,200 | 3,300 | 3,400 | 3,500 | 3,600 | 3,700 |
| Benefits - Omers | 13,000 | 13,300 | 13,600 | 13,900 | 14,200 | 14,500 | 14,800 |
| Benefits - Manulife | 26,500 | 27,000 | 27,500 | 28,100 | 28,700 | 29,300 | 29,900 |
| Benefits - Clothing Allowance | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| EHT | 2,800 | 2,900 | 3,000 | 3,100 | 3,200 | 3,300 | 3,400 |
| WSIB | 3,100 | 3,200 | 3,300 | 3,400 | 3,500 | 3,600 | 3,700 |
| Seminars & Workshops | 5,000 | 5,100 | 5,200 | 5,300 | 5,400 | 5,500 | 5,600 |
| Memberships | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Specialized Training | 7,000 | 7,100 | 7,200 | 7,300 | 7,400 | 7,500 | 7,700 |
| Other Materials | 20,000 | 20,400 | 20,800 | 21,200 | 21,600 | 22,000 | 22,400 |
| Equipment/Supplies | 12,000 | 12,200 | 12,400 | 12,600 | 12,900 | 13,200 | 13,500 |
| Vehicle Fuel | 13,000 | 13,300 | 13,600 | 13,900 | 14,200 | 14,500 | 14,800 |
| Hydro | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Cell Phones | 900 | 900 | 900 | 900 | 900 | 900 | 900 |
| Radio/ Communication | 700 | 700 | 700 | 700 | 700 | 700 | 700 |
| Vehicle Repairs | 4,000 | 4,100 | 4,200 | 4,300 | 4,400 | 4,500 | 4,600 |
| Dues & Subscriptions | 150 | 200 | 200 | 200 | 200 | 200 | 200 |
| Office Supplies | 250 | 300 | 300 | 300 | 300 | 300 | 300 |
| Postage | 4,000 | 4,100 | 4,200 | 4,300 | 4,400 | 4,500 | 4,600 |
| Computer Services | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Advertising | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Repairs & Maintenance | 15,000 | 15,300 | 15,600 | 15,900 | 16,200 | 16,500 | 16,800 |
| Contracts - OCWA | 172,595 | 176,000 | 179,500 | 183,100 | 186,800 | 190,500 | 194,300 |
| Service | 28,000 | 28,600 | 29,200 | 29,800 | 30,400 | 31,000 | 31,600 |
| Mileage | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| Insurance | 25 | 30 | 30 | 30 | 30 | 30 | 30 |
| Licenses | 900 | 900 | 900 | 900 | 900 | 900 | 900 |
| Provincial Water Licenses | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Equipment Repairs | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Equipment Rentals | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Water Tower Inspection | - | - | - | - | 10,000 | - | - |
| Hydrant Flow Testing | - | - | - | 5,000 | - | - | - |
| Sub Total Operating | 477,320 | 486,830 | 496,330 | 511,130 | 526,230 | 526,330 | 536,730 |
| Capital-Related | | | | | | | |
| New Debt (Principal) | - | - | - | 31,934 | 55,217 | 77,712 | 104,750 |
| New Debt (Interest) | - | - | - | 15,336 | 24,627 | 32,161 | 40,544 |
| Transfer to Capital | 93,400 | - | - | - | - | - | - |
| Transfer to Waterworks Reserve | - | 57,900 | 65,106 | 20,248 | - | - | - |
| Transfer to Water Tower Reserve | - | 35,700 | 36,414 | 37,142 | 37,885 | 38,643 | 39,416 |
| Sub Total Capital Related | 93,400 | 93,600 | 101,520 | 104,660 | 117,728 | 148,516 | 184,711 |
| Total Expenditures | 570,720 | 580,430 | 597,850 | 615,790 | 643,958 | 674,846 | 721,441 |
| Revenues | | | | | | | |
| Other Revenue | 3,005 | 3,100 | 3,200 | 3,300 | 3,400 | 3,500 | 3,600 |
| Contributions from Waterworks Reserve | 7,200 | - | - | - | 9,694 | 21,556 | 48,556 |
| Total Operating Revenue | 10,205 | 3,100 | 3,200 | 3,300 | 13,094 | 25,056 | 52,156 |
| Water Billing Recovery - Total | 560,515 | 577,330 | 594,650 | 612,490 | 630,865 | 649,791 | 669,284 |