



# Water Ontario Regulation 453/07 Financial Plan

Town of Parry Sound

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Financial Plan #144-101

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## List of Acronyms and Abbreviations

<b>Acronym</b>	<b>Full Description of Acronym</b>
MECP	Ministry of the Environment, Conservation and Parks
MMAH	Ministry of Municipal Affairs and Housing
O. Reg.	Ontario Regulation
PSAB	Public Sector Accounting Board
S.D.W.A.	Safe Drinking Water Act
T.C.A.	Tangible Capital Assets
W.O.A.	Water Opportunities Act



# Report



# Chapter 1

## Introduction



# 1. Introduction

## 1.1 Study Purpose

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The Town of Parry Sound (the Town) retained Watson & Associates Economists Ltd. (Watson) to undertake a Water and Wastewater Rate Study. In addition, Watson was also retained to prepare a Water Financial Plan as part of the five submission requirements for the purposes of obtaining a municipal drinking water licence as per the *Safe Drinking Water Act, 2002* (S.D.W.A.). 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.

The detailed financial planning and forecasting regarding the Town's water system has been completed based on the Town's Water and Wastewater Rate Study, dated November 9, 2020 (2020 Rate Study). The objective of the report provided herein is to convert the findings of the 2020 Rate Study into the prescribed reporting requirements for a financial plan as defined by Ontario Regulation 453/07 (O. Reg. 453/07). The Town's application to renew its Municipal Drinking Water Licence must be submitted to the Province by February 1, 2021, including a copy of the Council approved Financial Plan.

## 1.2 Background

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The Safe Drinking Water Act (S.D.W.A.), "the Act," was passed in December 2002 in order to address the recommendations made by the Walkerton Inquiry Part II report. Note that S.D.W.A. has been amended several times since 2002. 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.

For licence renewals, the application must be accompanied by proof that the financial plan meets the prescribed requirements as per the Act s. 32 (5) 2.ii.

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

### **1.2.1 Financial Plan Defined**

Subsection 30 of the Act provides the following definition of financial plans:

"financial plans" means financial plans that satisfy the requirements prescribed by the Minister. 2017, c. 2, Sched. 11, s. 6 (3).

As of time of writing, the *Sustainable Water and Sewage Systems Act*, 2002 has been repealed (see section 2.2 of this report); however, the standards that it directs underpin the specific requirements of s. 30 as they are outlined in O. Reg. 453/07 and which will be examined in detail below.

### **1.2.2 Financial Plan Requirements – Existing System**

The O. Reg. 453/07 provides details with regards to the financial plans for existing water systems. The requirements for existing systems are summarized as follows:





- Financial plans must be approved by resolution of Council (or governing body);
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six-year period (commencing in the year of licence expiry);
- Financial plans must include detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and accumulated surplus/deficit (i.e. the components of a “Statement of Operations” as per the PSAB) for each year in which the financial plans apply;
- Financial plans must present financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets (i.e. the components of a “Statement of Financial Position” as per PSAB) for each year in which the financial plans apply;
- 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;
- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing; and
- The resolution of Council approving the Financial Plan be submitted to the Ministry of the Environment, Conservation and Parks (MECP).

### **1.2.3 Financial Plan Requirements – General**

Given that the requirements for a financial plan is legislated under the Act, a financial plan is mandatory for water systems. The financial plans shall be for a forecast period of at least six years but longer planning horizons are encouraged. The financial plan is to be completed and approved by resolution of Council or the governing body in accordance with subsection 3(1)1 of O. Reg. 453/07. Confirmation of approval of the



financial plan must be submitted at the time of municipal drinking water licence renewal (i.e. six months prior to licence expiry).

A copy of the financial plan will be submitted to the Ministry of Municipal Affairs and Housing (MMAH) and not the MECP; however, MECP may request it in the course of review of the licence renewal. Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary. The financial plan must contain on the front page, the appropriate financial plan number as set out in Schedule A of the Municipal Drinking Water Licence.

#### **1.2.4 Public Sector Accounting Board (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 Public Sector Accounting Handbook:

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

The format required is to conform to the requirements of PS1200 and PS3150. The financial statements are to be reported on a full accrual accounting basis. The accrual accounting method recognizes revenues and expenses in the same period as the activities that give rise to them regardless of when they are actually paid for. Since an exchange of cash is not necessary to report a financial transaction, the accrual method is meant to provide a more accurate picture of financial position.

The accounting treatment of tangible capital assets is prescribed under section PS3150. Tangible capital assets are to be capitalized to ensure an inventory of the assets owned are recorded and to account for their ability to provide future benefits.

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



### **1.2.5 The Town's Financial Plan**

The Town is currently in the process of renewing the drinking water licence and the previous version of the financial plan no longer meets the requirements as it must apply to a period of a least six years beginning in the year that the licence would otherwise expire. Although the Act requires at least six years to be included, this financial plan provides for a nine-year forecast period 2021 to 2029.



# Chapter 2

## Sustainable Financial Planning



## 2. Sustainable Financial Planning

### 2.1 Introduction

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In general, sustainability refers to the ability to maintain a certain position over time. While the Act requires a declaration of the financial plan's sustainability, it does not give a clear definition of what would be considered sustainable. Instead, MECP released a guideline ("Towards Financially Sustainable Drinking-Water and Wastewater Systems") that provides possible approaches to achieving sustainability. The Province's Principles of Financially Sustainable Water 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

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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

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

The purposes of the *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 W.O.A. provides for the creation of performance targets (financial, operational and maintenance related), which will vary by service type and location and the required submission of conservation and sustainability plans for water, wastewater and stormwater.

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

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



- additional information considered advisable.

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

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

## **2.4 Infrastructure for Jobs and Prosperity Act (I.J.P.A.), 2015**

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On June 4, 2015, the Province passed the Infrastructure for Jobs and Prosperity Act (I.J.P.A.) which, over time, will require municipalities to undertake and implement asset management plans for all infrastructure they own. On December 27, 2017, the Province of Ontario released Ontario Regulation 588/17 under I.J.P.A. which has 3 phases that municipalities must meet.

Every municipality in Ontario will have to prepare a strategic asset management policy by July 1, 2019. Municipalities will be required to review their strategic asset management policies at least every five years and make updates as necessary. The subsequent phases are as follows:

- Phase 1 – Asset Management Plan (by July 1, 2021):
  - For core assets – Municipalities must have the following:
    - Inventory of assets;
    - Current levels of service measured by standard metrics; and
    - Costs to maintain levels of service.
- Phase 2 – Asset Management Plan (by July 1, 2023):
  - Same steps as Phase 1 but for all assets.
- Phase 3 – Asset Management Plan (by July 1, 2024):
  - Builds on Phase 1 and 2 by adding:
    - Proposed levels of service; and
    - Lifecycle management and Financial strategy.



In relation to water (which is considered a core asset), municipalities will need to have an asset management plan that addresses the related infrastructure by July 1, 2021 (Phase 1). O. Reg. 588/17 specifies that the municipality's asset management plan must include the following for each asset category:

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

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

## **2.5 Water Forecast**

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As noted earlier, the Town has already completed a Rate Study process that was designed to address "full cost" principles and reflect the guiding principles toward sustainable financial planning.

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

- A detailed assessment of current and future capital needs including an analysis of potential funding sources;





- An analysis of operating costs in order to determine how they will be impacted by evolving infrastructure needs;
- A review and recommendation on rates that ensure revenues are equitable and sufficient to meet system needs; and
- A public process that involved consultation with the main stakeholders including the Town's staff, Council, the general public (specifically the users of the system) and others with the aim of gaining input and collaboration on the sustainability of the water systems.



# Chapter 3

## Approach



## 3. Approach

### 3.1 Overview

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The 2020 Rate Study (along with additional detailed information provided by Town Staff) has been used as a starting point to prepare the water financial plan. The water forecast is prepared on a modified cash basis; therefore, a conversion is required in order to present a full accrual financial plan for the purposes of this report. The conversion process used will help to establish the structure of the financial plan along with the opening balances that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the water financial plan for the municipal water system.

### 3.2 Conversion Process

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The conversion from the existing modified cash basis found in the 2020 Rate Study to the full accrual reporting format required under O. Reg. 453/07 can be summarized in the following steps:

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

#### **3.2.1 Calculate Tangible Capital Asset Balances**

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water assets, an inventory has already been compiled and summarized by the Town for the purposes of their annual PSAB 3150 compliance process. As required, for PSAB 3150 reporting purposes, the asset inventory listing included historical cost (which is the original cost to purchase, develop, or construct each asset) along with an estimated useful life for each



asset and any anticipated salvage value is recorded. The following calculations are made to determine net book value:

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

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

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

### **3.2.2 Convert Statement of Operations**

A wide range of adjustments will be considered, dependent on the size and complexity of the systems, in order to convert from the cash to full accrual basis (see Figure 3-1). For example, debt repayment costs relating to the principal payment portion only needs to be removed under the accrual basis, as they no longer qualify as an expense for reporting purposes. Principal payments are reported as a decrease in debt liability on the Statement of Financial Position. Transfers to and from reserves are removed as these transactions are represented by changes in cash and accumulated surplus. Finally, expenses relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets are reported on the Statement of Operations in order to capture the allocation of the cost of these assets to operating activities over their useful lives and therefore are added in under the accrual basis.



Table 3-1  
Conversion Adjustments  
Statement of Operations

Modified Cash Basis	Budget 2021	Adjustments		Full Accrual Budget 2021	Accrual Basis
		DR	CR		
<b>Revenues</b>					<b>Revenues</b>
Base Charge Revenue	1,053,642			1,053,642	Base Charge Revenue
Rate Based Revenue	1,500,732			1,500,732	Rate Based Revenue
Other Revenue	205,286		81,903	287,189	Other Revenue
<b>Total Revenues</b>	<b>2,759,660</b>			<b>2,841,563</b>	<b>Total Revenues</b>
<b>Expenditures</b>					<b>Expenses</b>
Operating	1,502,300			1,502,300	Operating Expenses
Capital					
Transfers to Reserves	1,041,550		1,041,550		
Debt Repayment (Principal & Interest)	215,810		168,356	47,454	Interest on Debt
		671,307		671,307	Amortization
<b>Total Expenditures</b>	<b>2,759,660</b>			<b>2,221,061</b>	<b>Total Expenses</b>
<b>Net Expenditures</b>	<b>-</b>			<b>620,502</b>	<b>Annual Surplus/(Deficit)</b>
Increase (decrease) in amounts to be recovered	-			24,330,340	Accumulated Surplus/(Deficit), beginning of year
<b>Change in Fund Balances</b>	<b>-</b>	<b>620,502</b>	<b>-</b>	<b>24,950,842</b>	<b>Accumulated Surplus/(Deficit), end of year</b>
<b>TOTAL ADJUSTMENTS</b>		<b>1,291,809</b>	<b>1,291,809</b>		

**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). 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.

The Statement of Change in Net Financial Assets/Debt is a 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, information regarding any gains/losses on disposals of assets, asset write-downs, acquisition/use of supplies inventory, and the acquisition use of prepaid expenses is necessary, (if applicable). Although the Statement of Change in Net Financial Assets/Debt is not required under O. Reg. 453/07, it has been included in this report as a further indicator of financial viability.



Table 3-2  
Conversion Adjustments  
Statement of Financial Position

Modified Cash Basis	Budget 2021	Adjustments		Full Accrual Budget 2021	Accrual Basis
		DR	CR		
<b>ASSETS</b>					<b>ASSETS</b>
<b>Financial Assets</b>					<b>Financial Assets</b>
Cash	3,673,806			3,673,806	Cash
Accounts Receivable	816,898			816,898	Accounts Receivable
<b>Total Financial Assets</b>	<b>4,490,704</b>			<b>4,490,704</b>	<b>Total Financial Assets</b>
<b>LIABILITIES</b>					<b>Liabilities</b>
Accounts Payable & Accrued Liabilities	177,171			177,171	Accounts Payable & Accrued Liabilities
Gross Long-term Liabilities	1,055,958			1,055,958	Debt (Principal only)
Deferred Revenue	136,471			136,471	Deferred Revenue
<b>Total Liabilities</b>	<b>1,369,600</b>			<b>1,369,600</b>	<b>Total Liabilities</b>
<b>Net Assets/(Debt)</b>	<b>3,121,104</b>			<b>3,121,104</b>	<b>Net Financial Assets/(Debt)</b>
		21,829,738	-	21,829,738	<b>Non-Financial Assets</b>
				<b>21,829,738</b>	Tangible Capital Assets
					<b>Total Non-Financial Assets</b>
<b>Municipal Position</b>					
Water Reserves	4,177,062	4,177,062	-		
Development Charge Reserve Fund	136,471	136,471	-		
Amounts to be Recovered	(1,192,429)	-	1,192,429		
<b>Total Municipal Position</b>	<b>3,121,104</b>		24,950,842	<b>24,950,842</b>	<b>Accumulated Surplus/(Deficit), end of year</b>
<b>TOTAL ADJUSTMENTS</b>		<b>26,143,271</b>	<b>26,143,271</b>		

**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 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 within the Town’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 Town’s amortization policy.
- 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 capital asset listing provided.
- 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



# Chapter 4

## Financial Plan



## 4. Financial Plan

### 4.1 Introduction

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The following tables provide the complete financial plan for the Town's water system. A brief description and analysis of each table is provided below. It is important to note that the financial plan that follows is a forward look at the financial position of the Town's water system. It is not an audited document<sup>1</sup> and it contains various estimates as detailed in the "Notes to the Financial Plan" section below.

### 4.2 Water Financial Plan

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#### 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 system. The first important indicator is net financial assets/(debt), which is defined as the difference between financial assets and liabilities. This indicator provides an indication of the system's "future revenue requirement." A net financial asset position is where financial assets are greater than liabilities and implies that the system has the resources to finance future operations. Conversely, a net debt position implies that the future revenues generated by the system will be needed to finance past transactions, as well as future operations. Table 4-1 indicates that for 2021, the Town's water system will be in a net financial asset position of \$3.12 million. The financial plan forecasts a net financial asset position for each year of the forecast period, increasing to a net financial asset position of \$6.37 million by 2029.

Another important indicator on the Statement of Financial Position is the tangible capital asset balance under section PS3150. 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:

- Tangible capital assets such as watermains and treatment facilities are imperative to water service delivery.

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

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- 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 net book value is expected to increase over the forecast period by approximately \$2.99 million. 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, although fluctuating to some extent, decreasing slightly over the forecast period from 78% in 2021 to 75% by 2029. As a result, annual surpluses are anticipated in every year of the forecast. 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 capital 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 \$6.86 million over the forecast period to a 2021 accumulated surplus of \$24.33 million. The 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 by the municipality.

#### **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 2021, 2023, and 2026 the forecasted tangible capital asset acquisitions (net of amortization for the year) exceed forecasted annual surplus, resulting in decreases in net financial assets during these years. In all other years, the forecasted annual surplus exceeds forecasted tangible capital asset acquisitions (net of amortization for the year), resulting in increases in the net financial asset balance. Overall, an increase to the net financial assets is anticipated over the forecast period to 2029. This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions increasing from 0.77 to 1.28 over the forecast period (note, a desirable ratio is 1:1 or better).

#### **4.2.4 Statement of Cash Flow (Table 4-4)**

The Statement of Cash Flow summarizes how water systems are expected to generate and use cash resources during the forecast period. The transactions that provide/use cash are classified as operating, capital, investing, and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash-based 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 system to improve from a balance of \$4.25 million at the beginning of 2021, to approximately \$5.82 million by the end of 2029. For further discussions, on projected cash balances please refer to the Notes to the Financial Plan



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

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Financial Assets</b>										
Cash	1	3,673,806	3,724,143	3,411,354	3,655,484	4,073,433	2,127,387	3,416,310	4,575,323	5,822,579
Accounts Receivable	1	816,898	834,717	853,353	872,849	893,219	914,564	936,875	960,231	979,731
<b>Total Financial Assets</b>		<b>4,490,704</b>	<b>4,558,860</b>	<b>4,264,707</b>	<b>4,528,333</b>	<b>4,966,652</b>	<b>3,041,951</b>	<b>4,353,185</b>	<b>5,535,554</b>	<b>6,802,310</b>
<b>Liabilities</b>										
Accounts Payable & Accrued Liabilities	1	177,171	180,721	184,330	188,021	191,783	195,616	199,520	203,506	207,574
Debt (Principal only)	2	1,055,958	887,602	719,246	550,891	382,535	214,179	145,824	104,160	62,496
Deferred Revenue	3	136,471	139,200	141,984	144,824	147,720	150,674	153,688	156,762	159,897
<b>Total Liabilities</b>		<b>1,369,600</b>	<b>1,207,523</b>	<b>1,045,560</b>	<b>883,736</b>	<b>722,038</b>	<b>560,469</b>	<b>499,032</b>	<b>464,428</b>	<b>429,967</b>
<b>Net Financial Assets/(Debt)</b>		<b>3,121,104</b>	<b>3,351,337</b>	<b>3,219,147</b>	<b>3,644,597</b>	<b>4,244,614</b>	<b>2,481,482</b>	<b>3,854,153</b>	<b>5,071,126</b>	<b>6,372,343</b>
<b>Non-Financial Assets</b>										
Tangible Capital Assets	4	21,829,738	22,340,360	23,222,928	23,544,708	23,731,174	26,280,395	25,650,966	25,251,238	24,819,052
<b>Total Non-Financial Assets</b>		<b>21,829,738</b>	<b>22,340,360</b>	<b>23,222,928</b>	<b>23,544,708</b>	<b>23,731,174</b>	<b>26,280,395</b>	<b>25,650,966</b>	<b>25,251,238</b>	<b>24,819,052</b>
<b>Accumulated Surplus/(Deficit)</b>	5	<b>24,950,842</b>	<b>25,691,697</b>	<b>26,442,075</b>	<b>27,189,305</b>	<b>27,975,788</b>	<b>28,761,877</b>	<b>29,505,119</b>	<b>30,322,364</b>	<b>31,191,395</b>
<b>Financial Indicators</b>										
	<b>Total Change</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
1) Increase/(Decrease) in Net Financial Assets	2,869,048	(382,191)	230,233	(132,190)	425,450	600,017	(1,763,132)	1,372,671	1,216,973	1,301,217
2) Increase/(Decrease) in Tangible Capital Assets	3,992,007	1,002,693	510,622	882,568	321,780	186,466	2,549,221	(629,429)	(399,728)	(432,186)
3) Increase/(Decrease) in Accumulated Surplus	6,861,055	620,502	740,855	750,378	747,230	786,483	786,089	743,242	817,245	869,031



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

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Water Revenue</b>										
Base Charge Revenue		1,053,642	1,107,451	1,163,957	1,223,208	1,285,347	1,350,618	1,419,085	1,490,913	1,549,647
Rate Based Revenue		1,500,732	1,502,515	1,504,300	1,506,086	1,507,874	1,509,662	1,511,452	1,513,243	1,515,036
Other Revenue	6	287,189	293,007	291,780	301,646	314,996	282,174	312,862	341,190	371,238
<b>Total Revenues</b>		<b>2,841,563</b>	<b>2,902,973</b>	<b>2,960,037</b>	<b>3,030,940</b>	<b>3,108,217</b>	<b>3,142,454</b>	<b>3,243,399</b>	<b>3,345,346</b>	<b>3,435,921</b>
<b>Water Expenses</b>										
Operating Expenses	Sch. 4-1	1,502,300	1,532,400	1,563,000	1,594,300	1,626,200	1,658,700	1,691,800	1,725,600	1,760,100
Interest on Debt	2	47,454	40,340	33,227	26,190	19,000	11,886	5,928	3,773	2,604
Amortization	4	671,307	589,378	613,432	663,220	676,534	685,779	802,429	798,728	804,186
<b>Total Expenses</b>		<b>2,221,061</b>	<b>2,162,118</b>	<b>2,209,659</b>	<b>2,283,710</b>	<b>2,321,734</b>	<b>2,356,365</b>	<b>2,500,157</b>	<b>2,528,101</b>	<b>2,566,890</b>
<b>Annual Surplus/(Deficit)</b>		<b>620,502</b>	<b>740,855</b>	<b>750,378</b>	<b>747,230</b>	<b>786,483</b>	<b>786,089</b>	<b>743,242</b>	<b>817,245</b>	<b>869,031</b>
Accumulated Surplus/(Deficit), beginning of year	5	24,330,340	24,950,842	25,691,697	26,442,075	27,189,305	27,975,788	28,761,877	29,505,119	30,322,364
Accumulated Surplus/(Deficit), end of year		24,950,842	25,691,697	26,442,075	27,189,305	27,975,788	28,761,877	29,505,119	30,322,364	31,191,395
<b>Note 5:</b>										
<b>Accumulated Surplus/(Deficit) Reconciliation:</b>										
		2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Reserve Balances</b>										
Reserves: Development Charges		136,471	139,200	141,984	144,824	147,720	150,674	153,688	156,762	159,897
Reserves: Capital/Other		4,177,062	4,238,939	3,938,393	4,195,488	4,627,149	2,695,661	3,999,977	5,175,286	6,434,839
<b>Total Reserves Balance</b>		<b>4,313,533</b>	<b>4,378,139</b>	<b>4,080,377</b>	<b>4,340,312</b>	<b>4,774,869</b>	<b>2,846,335</b>	<b>4,153,665</b>	<b>5,332,048</b>	<b>6,594,736</b>
Less: Debt Obligations and Deferred Revenue		(1,192,429)	(1,026,802)	(861,230)	(695,715)	(530,255)	(364,853)	(299,512)	(260,922)	(222,393)
Add: Tangible Capital Assets	4	21,829,738	22,340,360	23,222,928	23,544,708	23,731,174	26,280,395	25,650,966	25,251,238	24,819,052
<b>Total Ending Balance</b>		<b>24,950,842</b>	<b>25,691,697</b>	<b>26,442,075</b>	<b>27,189,305</b>	<b>27,975,788</b>	<b>28,761,877</b>	<b>29,505,119</b>	<b>30,322,364</b>	<b>31,191,395</b>
<b>Financial Indicators</b>										
	Total Change	2021	2022	2023	2024	2025	2026	2027	2028	2029
1) Expense to Revenue Ratio		78%	74%	75%	75%	75%	75%	77%	76%	75%
2) Increase/(Decrease) in Accumulated Surplus	6,861,055	620,502	740,855	750,378	747,230	786,483	786,089	743,242	817,245	869,031



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

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Operating Expenses</b>										
Water Collection System		653,500	666,600	679,900	693,500	707,400	721,500	735,900	750,600	765,600
Water Treatment Plant		848,800	865,800	883,100	900,800	918,800	937,200	955,900	975,000	994,500
Non TCA - Expenses from Capital Budget	7	-	-	-	-	-	-	-	-	-
<b>TOTAL OPERATING EXPENSES</b>		<b>1,502,300</b>	<b>1,532,400</b>	<b>1,563,000</b>	<b>1,594,300</b>	<b>1,626,200</b>	<b>1,658,700</b>	<b>1,691,800</b>	<b>1,725,600</b>	<b>1,760,100</b>

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

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
Annual Surplus/(Deficit)		620,502	740,855	750,378	747,230	786,483	786,089	743,242	817,245	869,031
Less: Acquisition of Tangible Capital Assets	4	(1,674,000)	(1,100,000)	(1,496,000)	(985,000)	(863,000)	(3,235,000)	(173,000)	(399,000)	(372,000)
Add: Amortization of Tangible Capital Assets	4	671,307	589,378	613,432	663,220	676,534	685,779	802,429	798,728	804,186
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
		(1,002,693)	(510,622)	(882,568)	(321,780)	(186,466)	(2,549,221)	629,429	399,728	432,186
<b>Increase/(Decrease) in Net Financial Assets/(Net Debt)</b>		<b>(382,191)</b>	<b>230,233</b>	<b>(132,190)</b>	<b>425,450</b>	<b>600,017</b>	<b>(1,763,132)</b>	<b>1,372,671</b>	<b>1,216,973</b>	<b>1,301,217</b>
Net Financial Assets/(Net Debt), beginning of year		3,503,295	3,121,104	3,351,337	3,219,147	3,644,597	4,244,614	2,481,482	3,854,153	5,071,126
<b>Net Financial Assets/(Net Debt), end of year</b>		<b>3,121,104</b>	<b>3,351,337</b>	<b>3,219,147</b>	<b>3,644,597</b>	<b>4,244,614</b>	<b>2,481,482</b>	<b>3,854,153</b>	<b>5,071,126</b>	<b>6,372,343</b>
<b>Financial Indicators</b>		<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
1) Acquisition of Tangible Capital Assets (Cumulative)		1,674,000	2,774,000	4,270,000	5,255,000	6,118,000	9,353,000	9,526,000	9,925,000	10,297,000
2) Annual Surplus/Deficit before Amortization (Cumulative)		1,291,809	2,622,042	3,985,852	5,396,302	6,859,319	8,331,187	9,876,858	11,492,831	13,166,048
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		0.77	0.95	0.93	1.03	1.12	0.89	1.04	1.16	1.28





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

	Notes	Forecast								
		2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Operating Transactions</b>										
Annual Surplus/Deficit		620,502	740,855	750,378	747,230	786,483	786,089	743,242	817,245	869,031
Add: Amortization of TCA's	4	671,307	589,378	613,432	663,220	676,534	685,779	802,429	798,728	804,186
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Less: Earned Deferred Revenue	3	-	-	-	-	-	-	-	-	-
Less: Developer Contributions		-	-	-	-	-	-	-	-	-
Add: Deferred Revenue Proceeds		2,676	2,729	2,784	2,840	2,896	2,954	3,014	3,074	3,135
Change in A/R (Increase)/Decrease		(34,711)	(17,819)	(18,636)	(19,496)	(20,370)	(21,345)	(22,311)	(23,356)	(19,500)
Change in A/P Increase/(Decrease)		3,480	3,550	3,609	3,691	3,762	3,833	3,904	3,986	4,068
Less: Interest Proceeds		(81,903)	(83,116)	(77,223)	(82,264)	(90,728)	(52,856)	(78,431)	(101,476)	(126,173)
<b>Cash Provided by Operating Transactions</b>		<b>1,181,351</b>	<b>1,235,577</b>	<b>1,274,344</b>	<b>1,315,222</b>	<b>1,358,577</b>	<b>1,404,454</b>	<b>1,451,848</b>	<b>1,498,201</b>	<b>1,534,747</b>
<b>Capital Transactions</b>										
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(1,674,000)	(1,100,000)	(1,496,000)	(985,000)	(863,000)	(3,235,000)	(173,000)	(399,000)	(372,000)
<b>Cash Applied to Capital Transactions</b>		<b>(1,674,000)</b>	<b>(1,100,000)</b>	<b>(1,496,000)</b>	<b>(985,000)</b>	<b>(863,000)</b>	<b>(3,235,000)</b>	<b>(173,000)</b>	<b>(399,000)</b>	<b>(372,000)</b>
<b>Investing Transactions</b>										
Proceeds from Investments		81,903	83,116	77,223	82,264	90,728	52,856	78,431	101,476	126,173
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-
<b>Cash Provided by (applied to) Investing Transactions</b>		<b>81,903</b>	<b>83,116</b>	<b>77,223</b>	<b>82,264</b>	<b>90,728</b>	<b>52,856</b>	<b>78,431</b>	<b>101,476</b>	<b>126,173</b>
<b>Financing Transactions</b>										
Proceeds from Debt Issue	2	-	-	-	-	-	-	-	-	-
Less: Debt Repayment (Principal only)	2	(168,356)	(168,356)	(168,356)	(168,356)	(168,356)	(168,356)	(68,356)	(41,664)	(41,664)
<b>Cash Applied to Financing Transactions</b>		<b>(168,356)</b>	<b>(168,356)</b>	<b>(168,356)</b>	<b>(168,356)</b>	<b>(168,356)</b>	<b>(168,356)</b>	<b>(68,356)</b>	<b>(41,664)</b>	<b>(41,664)</b>
Increase in Cash and Cash Equivalents		(579,102)	50,337	(312,789)	244,130	417,949	(1,946,046)	1,288,923	1,159,013	1,247,256
Cash and Cash Equivalents, beginning of year	1	4,252,908	3,673,806	3,724,143	3,411,354	3,655,484	4,073,433	2,127,387	3,416,310	4,575,323
<b>Cash and Cash Equivalents, end of year</b>	<b>1</b>	<b>3,673,806</b>	<b>3,724,143</b>	<b>3,411,354</b>	<b>3,655,484</b>	<b>4,073,433</b>	<b>2,127,387</b>	<b>3,416,310</b>	<b>4,575,323</b>	<b>5,822,579</b>



## Notes to Financial Plan

The financial plan format as outlined in Chapter 4 closely approximates the full accrual format used by municipalities 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
- B. Investing transactions that are acquisitions and disposal of investments
- C. Change in cash and cash equivalents during the year
- D. Cash and cash equivalents at the beginning and end of the year

In order to show a balanced financial plan in a full accrual format for the Town, 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, receivable and payable balances were estimated for each year of the forecast based on the following factors:

- a) Receivables: Based on the historical levels of Town-wide receivables as a percentage of revenues, applied to projected water revenues (as per the 2017, 2018, and 2019 Financial Information Returns); and
- b) Payables: Based on historical levels of Town-wide payables as a percentage of annual expenses incurred, applied to projected water expenses (as per the 2017, 2018, and 2019 Financial Information Returns).

## 2. Debt

Outstanding water related debt at the end of 2020 was \$1,224,314. No additional debt proceeds are anticipated over the forecast period. Principal repayments over the forecast period are estimated as follows:



Year	Principal Payments
2021	\$ 168,356
2022	\$ 168,356
2023	\$ 168,356
2024	\$ 168,356
2025	\$ 168,356
2026	\$ 168,356
2027	\$ 68,356
2028	\$ 41,664
2029	\$ 41,664
<b>Total</b>	<b>\$ 1,161,820</b>

### 3. Deferred Revenue

Deferred revenue is typically made up of water development charge reserve balances which are considered to be a liability for financial reporting purposes until the funds are used to emplace the works for which they have been collected. The Town of Parry Sound does not collect water development charges currently, therefore deferred revenue is assumed to be zero over the forecast period.

### 4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water related assets in the following categories:
  - i. Infrastructure;
  - ii. Facilities;
  - iii. Vehicles and equipment;
  - iv. Land Improvements; and
  - v. Land.
- Amortization is calculated based on using the straight-line approach.
- Given the planned asset replacement forecast in the 2021 Rate Study, useful life on acquisitions is assumed to be equal to the weighted average useful life for all assets on hand in each respective asset category.
- Write-offs are assumed to equal \$0 for each year in the forecast period.
- Tangible capital assets are shown on a net basis. It is assumed that disposals occur when the asset is being replaced. To calculate the value of each asset disposal, the replacement value (of each new asset that has been identified as a “replacement”) has been deflated (by weighted average useful life for all assets



on hand in the respective asset category) to an estimated historical cost. This figure was used to calculate disposals only. Future assets are disposed of when fully amortized.

- Gains/losses on disposal are assumed to be \$0 (it is assumed that historical cost is equal to accumulated amortization for all disposals).
- Residual value is assumed to be \$0 for all assets contained within the forecast period.
- Contributed Assets, as described in section 3.2.1, are deemed to be insignificant/unknown during the forecast period and are therefore assumed to be \$0.
- The Town is unaware of any specific lead service piping in the municipal water system.



- The balance of tangible capital assets is summarized as follows:

Asset Historical Cost	2021	2022	2023	2024	2025	2026	2027	2028	2029
Opening Tangible Capital Asset Balance	33,894,528	34,817,578	35,497,025	36,285,961	37,119,335	37,915,868	39,425,327	39,561,051	39,846,540
Acquisitions	1,674,000	1,100,000	1,496,000	985,000	863,000	3,235,000	173,000	399,000	372,000
Disposals	750,950	420,553	707,064	151,626	66,467	1,725,541	37,276	113,511	140,796
<b>Closing Tangible Capital Asset Balance</b>	<b>34,817,578</b>	<b>35,497,025</b>	<b>36,285,961</b>	<b>37,119,335</b>	<b>37,915,868</b>	<b>39,425,327</b>	<b>39,561,051</b>	<b>39,846,540</b>	<b>40,077,744</b>
Opening Accumulated Amortization	13,067,483	12,987,840	13,156,665	13,063,033	13,574,627	14,184,694	13,144,932	13,910,085	14,595,302
Amortization Expense	671,307	589,378	613,432	663,220	676,534	685,779	802,429	798,728	804,186
Amortization on Disposal	750,950	420,553	707,064	151,626	66,467	1,725,541	37,276	113,511	140,796
<b>Ending Accumulated Amortization</b>	<b>12,987,840</b>	<b>13,156,665</b>	<b>13,063,033</b>	<b>13,574,627</b>	<b>14,184,694</b>	<b>13,144,932</b>	<b>13,910,085</b>	<b>14,595,302</b>	<b>15,258,692</b>
<b>Net Book Value</b>	<b>21,829,738</b>	<b>22,340,360</b>	<b>23,222,928</b>	<b>23,544,708</b>	<b>23,731,174</b>	<b>26,280,395</b>	<b>25,650,966</b>	<b>25,251,238</b>	<b>24,819,052</b>



## 5. Accumulated Surplus

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

Water	2021 Opening Accumulated Surplus
<b>Reserve Balances</b>	
Reserves: Development Charges	133,795
Reserves: Capital/Other	4,727,609
<b>Total Reserves Balance</b>	<b>4,861,404</b>
Less: Debt Obligations and Deferred Revenue	(1,358,109)
Add: Tangible Capital Assets	20,827,045
<b>Total Opening Balance</b>	<b>24,330,340</b>

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

## 6. Other Revenue

Other revenues include revenues from the municipal servicing agreement with the Municipality of McDougall, 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.



# Chapter 5

## Process for Financial Plan Approval and Submission to the Province





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

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

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



# Chapter 6

## Recommendations



## 6. Recommendations

This report presents the Financial Plan for the Town in accordance with the mandatory reporting formats for water systems as detailed in O. Reg. 453/07. It is important to note that while mandatory, the Financial Plan is provided for Council's interest and approval however, for decision making purposes, it may be more informative to rely on the information contained within the 2020 Rate Study. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Town of Parry Sound's Ontario Regulation 453/07 Water Financial Plan prepared by Watson & Associates Economists Ltd. dated January 15, 2021 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. The Financial Plan dated January 15, 2021 be submitted to the Ministry of Municipal Affairs and Housing. (O. Reg. 453/07, section 3 (1) 6).
4. The resolution of Council approving the Financial Plan be submitted to the MECP, satisfying the requirements under the Safe Drinking Water Act. (S.D.W.A. section 32 (5) 2.ii.).



# Appendices



# Appendix A

## Rate Study – Water Summary Tables



**Table A-1**  
**Town of Parry Sound**  
**Water Service**  
**Capital Budget Forecast**  
 Inflated \$

Description	Forecast								
	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Capital Expenditures</b>									
Water Hydrants	72,000	73,000	74,000	76,000	77,000	79,000	81,000	82,000	84,000
Watermains	-	183,000	-	699,000	753,000	-	84,000	189,000	140,000
Water Plant	1,587,000	746,000	1,117,000	-	-	2,670,000	-	-	-
Water Equipment	11,000	56,000	91,000	-	33,000	-	-	15,000	-
Water Tower	-	-	-	-	-	-	8,000	113,000	-
Water Booster Station	4,000	-	64,000	-	-	-	-	-	-
Light Duty Trucks/Vehicles	-	42,000	61,000	-	-	-	-	-	48,000
Access Road/Driveways/Paved Assets	-	-	-	95,000	-	371,000	-	-	-
Computer Hardware	-	-	89,000	91,000	-	94,000	-	-	100,000
Computer Software	-	-	-	-	-	21,000	-	-	-
Fencing	-	-	-	24,000	-	-	-	-	-
<b>Total Capital Expenditures</b>	<b>1,674,000</b>	<b>1,100,000</b>	<b>1,496,000</b>	<b>985,000</b>	<b>863,000</b>	<b>3,235,000</b>	<b>173,000</b>	<b>399,000</b>	<b>372,000</b>
<b>Capital Financing</b>									
Provincial/Federal Grants									
Development Charges Reserve Fund	-	-	-	-	-	-	-	-	-
Non-Growth Related Debenture Requirements	-	-	-	-	-	-	-	-	-
Growth Related Debenture Requirements	-	-	-	-	-	-	-	-	-
Operating Contributions	-	-	-	-	-	-	-	-	-
Lifecycle Reserve Fund	-	-	-	-	-	-	-	-	-
Water Reserve	1,674,000	1,100,000	1,496,000	985,000	863,000	3,235,000	173,000	399,000	372,000
<b>Total Capital Financing</b>	<b>1,674,000</b>	<b>1,100,000</b>	<b>1,496,000</b>	<b>985,000</b>	<b>863,000</b>	<b>3,235,000</b>	<b>173,000</b>	<b>399,000</b>	<b>372,000</b>



**Table A-2**  
**Town of Parry Sound**  
**Water Service**  
**Schedule of Non-Growth Related Debenture Repayments**  
Inflated \$

Debenture Year	Forecast								
	2021	2022	2023	2024	2025	2026	2027	2028	2029
2021		-	-	-	-	-	-	-	-
2022			-	-	-	-	-	-	-
2023				-	-	-	-	-	-
2024					-	-	-	-	-
2025						-	-	-	-
2026							-	-	-
2027								-	-
2028									-
2029									
<b>Total Annual Debt Charges</b>	-	-	-	-	-	-	-	-	-



**Table A-3**  
**Town of Parry Sound**  
**Water Service**  
**Water Reserves/ Reserve Funds Continuity**  
 Inflated \$

Description	2021	2022	2023	2024	2025	2026	2027	2028	2029
Opening Balance	4,727,609	4,177,062	4,238,940	3,938,394	4,195,488	4,627,150	2,695,662	3,999,978	5,175,287
Transfer from Operating	1,041,550	1,078,761	1,118,230	1,159,830	1,203,933	1,250,656	1,398,885	1,472,833	1,505,380
Transfer to Capital	1,674,000	1,100,000	1,496,000	985,000	863,000	3,235,000	173,000	399,000	372,000
Transfer to Operating	-	-	-	-	-	-	-	-	-
<b>Closing Balance</b>	<b>4,095,159</b>	<b>4,155,824</b>	<b>3,861,171</b>	<b>4,113,224</b>	<b>4,536,421</b>	<b>2,642,805</b>	<b>3,921,547</b>	<b>5,073,811</b>	<b>6,308,667</b>
Interest	81,903	83,116	77,223	82,264	90,728	52,856	78,431	101,476	126,173

**Table A-4**  
**Town of Parry Sound**  
**Water Service**  
**Water Development Reserve/Reserve Fund Continuity**  
 Inflated \$

Description	2021	2022	2023	2024	2025	2026	2027	2028	2029
Opening Balance	133,795	136,471	139,201	141,985	144,824	147,721	150,675	153,689	156,763
Development Charge Proceeds	-	-	-	-	-	-	-	-	-
Transfer to Capital	-	-	-	-	-	-	-	-	-
Transfer to Operating	-	-	-	-	-	-	-	-	-
<b>Closing Balance</b>	<b>133,795</b>	<b>136,471</b>	<b>139,201</b>	<b>141,985</b>	<b>144,824</b>	<b>147,721</b>	<b>150,675</b>	<b>153,689</b>	<b>156,763</b>
Interest	2,676	2,729	2,784	2,840	2,896	2,954	3,014	3,074	3,135





**Table A-5  
Town of Parry Sound  
Water Services  
Operating Budget Forecast  
Inflated \$**

Description	Forecast								
	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Expenditures</b>									
<u>Operating Costs</u>									
Water Collection System	653,500	666,600	679,900	693,500	707,400	721,500	735,900	750,600	765,600
Water Treatment Plant	848,800	865,800	883,100	900,800	918,800	937,200	955,900	975,000	994,500
<b>Sub Total Operating</b>	<b>1,502,300</b>	<b>1,532,400</b>	<b>1,563,000</b>	<b>1,594,300</b>	<b>1,626,200</b>	<b>1,658,700</b>	<b>1,691,800</b>	<b>1,725,600</b>	<b>1,760,100</b>
<u>Capital-Related</u>									
Existing Debt (Principal) - Non-Growth Related	168,356	168,356	168,356	168,356	168,356	168,356	68,356	41,664	41,664
Existing Debt (Interest) - Non-Growth Related	47,454	40,340	33,227	26,190	19,000	11,886	5,928	3,773	2,604
New Non-Growth Related Debt (Principal)	-	-	-	-	-	-	-	-	-
New Non-Growth Related Debt (Interest)	-	-	-	-	-	-	-	-	-
Transfer to Capital Reserve	1,041,550	1,078,761	1,118,230	1,159,830	1,203,933	1,250,656	1,398,885	1,472,833	1,505,380
<b>Sub Total Capital Related</b>	<b>1,257,359</b>	<b>1,287,457</b>	<b>1,319,813</b>	<b>1,354,375</b>	<b>1,391,288</b>	<b>1,430,897</b>	<b>1,473,169</b>	<b>1,518,270</b>	<b>1,549,647</b>
<b>Total Expenditures</b>	<b>2,759,659</b>	<b>2,819,857</b>	<b>2,882,813</b>	<b>2,948,675</b>	<b>3,017,488</b>	<b>3,089,597</b>	<b>3,164,969</b>	<b>3,243,870</b>	<b>3,309,747</b>
<b>Revenues</b>									
Base Charge	1,053,642	1,107,451	1,163,957	1,223,208	1,285,347	1,350,618	1,419,085	1,490,913	1,549,647
McDougall Service Charges	90,386	92,691	95,056	97,481	99,967	102,517	105,132	107,814	110,564
Other Revenue	114,900	117,200	119,500	121,900	124,300	126,800	129,300	131,900	134,500
<b>Total Operating Revenue</b>	<b>1,258,928</b>	<b>1,317,342</b>	<b>1,378,512</b>	<b>1,442,589</b>	<b>1,509,615</b>	<b>1,579,935</b>	<b>1,653,517</b>	<b>1,730,627</b>	<b>1,794,712</b>
<b>Water Billing Recovery - Total</b>	<b>1,500,732</b>	<b>1,502,515</b>	<b>1,504,300</b>	<b>1,506,086</b>	<b>1,507,874</b>	<b>1,509,662</b>	<b>1,511,452</b>	<b>1,513,243</b>	<b>1,515,036</b>



**Table A-6**  
**Town of Parry Sound**  
**Water Rate Forecast**  
 Inflated \$

Description	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Monthly Base Charge by Meter Size</b>									
5/8", 3/4"	\$ 25.14	\$ 26.40	\$ 27.73	\$ 29.11	\$ 30.57	\$ 32.09	\$ 33.69	\$ 35.36	\$ 36.72
1"	\$ 78.09	\$ 82.01	\$ 86.12	\$ 90.43	\$ 94.94	\$ 99.68	\$ 104.64	\$ 109.84	\$ 114.07
1 1/4", 1 1/2"	\$ 132.07	\$ 138.69	\$ 145.65	\$ 152.93	\$ 160.56	\$ 168.57	\$ 176.96	\$ 185.76	\$ 192.92
2"	\$ 204.01	\$ 214.24	\$ 224.98	\$ 236.23	\$ 248.02	\$ 260.39	\$ 273.35	\$ 286.94	\$ 297.99
3"	\$ 516.42	\$ 542.33	\$ 569.51	\$ 597.99	\$ 627.83	\$ 659.15	\$ 691.97	\$ 726.37	\$ 754.35
4"	\$ 960.87	\$ 1,009.07	\$ 1,059.65	\$ 1,112.64	\$ 1,168.16	\$ 1,226.43	\$ 1,287.50	\$ 1,351.51	\$ 1,403.56
6"	\$ 1,885.53	\$ 1,980.12	\$ 2,079.37	\$ 2,183.35	\$ 2,292.30	\$ 2,406.64	\$ 2,526.48	\$ 2,652.09	\$ 2,754.22
<b>Consumptive Rate</b>									
Total Consumption (gallons)	168,412,029	168,541,708	168,671,386	168,801,065	168,930,744	169,060,423	169,190,102	169,319,781	169,449,459
Constant Rate (\$/1,000 gallons)	\$ 8.91	\$ 8.91	\$ 8.92	\$ 8.92	\$ 8.93	\$ 8.93	\$ 8.93	\$ 8.94	\$ 8.94