



DESBARATS  
DRINKING WATER SYSTEM

FINANCIAL PLAN # 275-301

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Appendix A: Council Resolution

## 1 Introduction

### 1.1 Background

The Drinking water licensing program was developed by the Province of Ontario based on Justice O'Connor's Part II Walkerton 2000 Report issued as a result of his inquiry following the Walkerton Ontario Drinking Water incident. The Licensing program was required by Regulations under the promulgation of the Safe Drinking Water Act in 2002. The program includes several elements which are pre-requisites to formal issuance of a Drinking Water License by the Ministry of the Environment. These elements include:

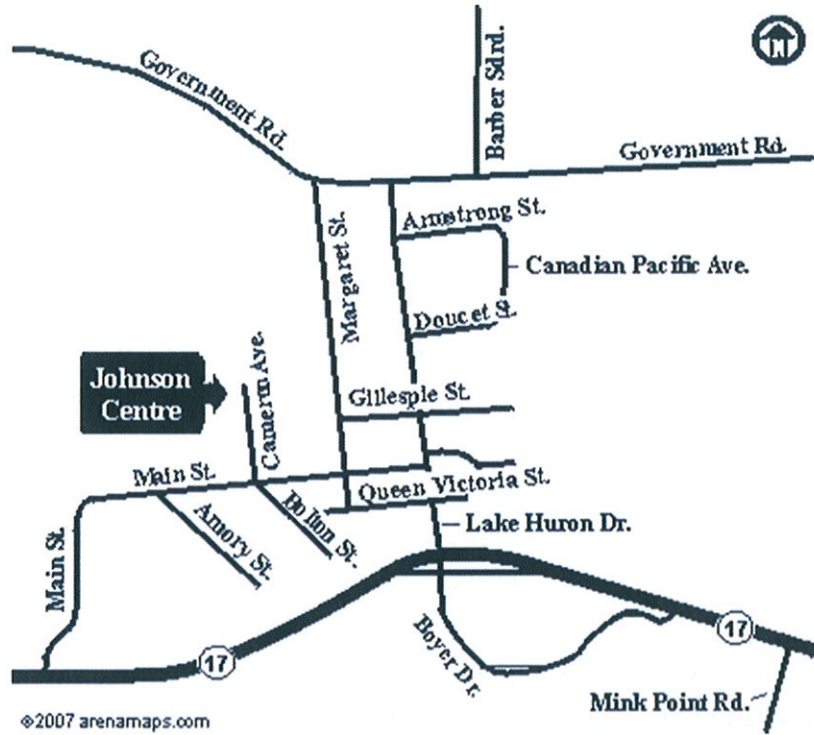
- Receipt of a Drinking Water Works Permit, (DWWP) which replaces the Certificate of Approval formerly issued
- A Permit to Take Water – required under the Ontario Water Resources Act for daily water taking in excess of 50,000 litres per day
- An approved Operational Plan (OP) - in compliance with the Drinking Water Quality Management Standard, (DWQMS)
- An approved Financial Plan – as required under the Financial Plans Regulation (O. Reg. 453/07)
- Accreditation of the Drinking Water Operating Authority – based on the acceptance of an audited OP by the Canadian General Standards Board

The requirement for the Financial Plan for the Township of Johnson since it is an existing water works system is included as a condition in the License for the water works. The License condition requires that the Financial Plan be submitted within 6 months of the date of issuance of the License. The License was issued on August 23, 2011. The content of the Financial Plan must be prepared in accordance with the requirements outlined in the Financial Plans Regulation (O Reg 453/07).

### 1.2 Study Area

The Hamlet of Desbarats has a permanent population of 400 and is located on Highway 17 approximately 60 kilometres east of Sault Ste. Marie. It is the commercial hub for the Township of Johnson which encompasses a large area of the shoreline of Lake Huron between the Township of Tarbutt and Tarbutt Additional and the Town of Bruce Mines in the District of Algoma. The Township is responsible for a water supply, treatment and distribution within the Hamlet of Desbarats. The Hamlet is located immediately north of Lake George and Highway 17 East. Municipal services, including water and wastewater are supplied to approximated 93 homes and 15 commercial and institutional buildings. The population is largely stable with the majority of employment in Sault Ste. Marie as well as local tourist establishments. The map below shows the Hamlet. Immediately below that is a google map section showing the location of the water treatment plant which at the end of Kensington Point Road , (at the bottom, left of center on the map).

Figure 1-1: Study Area



### 1.3 Drinking Water System Description

The water treatment plant which is located on Kensington Point near the marina was commissioned in 1986. The raw surface water is drawn from Lake Huron through a 170 meter, 114 millimeter intake extending 70 meters from the shore. Treatment consists of coagulation, flocculation and sedimentation followed by dual media filtration. Following filtration, disinfection is provided by a duplex hypochlorite (chlorine) disinfection system. Treated water is stored in six pre-charged pressure tanks. Treated and disinfected water is directed by force main to the Hamlet.

### 1.4 Licensing Requirements

The Safe Drinking Water Act (SDWA) mandates the licensing of municipal water providers in Section 31. This section states:

31. (1) 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. 2002, c. 32, s. 31 (1).

### 1.5 Operational Plan

The Operational Plan was prepared by the PUC Services (PUC). Option 2; Limited Scope – Entire DWQMS was selected and required the following;

- All elements of the DWQMS will be documented in the operational plan but are not required to be implemented;
- The operating authority will be accredited upon successful completion of an audit of the operational plan document;
- The full QMS must then be implemented within 12 months of receiving a certificate of accreditation (limited scope). Upon successful completion of an audit a certificate of accreditation (full scope) will be issued the plan will be based on the Drinking Water Quality Management Standard (DWQMS).

The Operational Plan which documents the operating authority's quality management system (QMS) was filed with the Canadian General Standards Board, (CGSB). The Operational Plan was accepted and a "desk top" audit was conducted by CGBS. The approved Operational Plan was submitted to MOE together with the other documents required for the issuance of the Drinking Water License.

## 2 Financial Plan Guidelines and Requirements

### 2.1 Sustainable Financial Planning

The Ministry of the Environment prepared and released a document in August, 2007 entitled, *Toward Financially Sustainable Drinking-Water and Wastewater Systems*, in order to assist with the preparation of the required Financial Plans for the Municipal Drinking Water License. Nine principles were established and are listed as follows:

- 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 Definition of Financial Plans

According to Section 30(1) of the SDWA, Financial Plans are defined as:

- (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).

### 2.3 Importance of Long Range Financial Planning

A Long Range Financial Plan is important for a number of reasons in order to assist a municipality to:

- Sustain long term cash flows;
- Protect and maintain its assets through a well-developed plan;
- Distribute resources fairly between current and future ratepayers;
- Ensure financial stability during periods of economic uncertainty;
- Provide safe drinking water in the long and short terms;
- Ensure maximization of financial flexibility;
- Preserve the desired integrity of programs and services; and
- Provide rate consistency and predictability.

### 2.4 Financial Plans Regulation

The key points of the Financial Plan Regulation (O Reg 453/07) are described in the subsections below. These requirements have been limited to those required for existing systems which is the situation in the Township of Johnson:

- Declaration: The Financial Plan must include a statement that the financial impacts of the drinking water system have been considered.
- Projection Length: The Financial Plan shall be for a period of at least six years.
- Public Transparency: The Financial Plan must be made available, on request and without charge to the members of the public that are served by the water system. If the system owner maintains a website, then the Financial Plan must be made available on the website without charge. The owner must provide a notice informing the public of the availability of the Financial Plan, in a manner that the Owner deems fit to bring the notice to the attention of the members of the public that are served by the water system.
- Approval: The Financial Plan must be approved by a council resolution that indicates that the drinking water system is not financially viable.
- Submission: A copy of the Financial Plan, along with the resolution must be submitted to the Ministry of Municipal Affairs and Housing.
- Update: The Financial Plan should be updated and approved prior to applying for a licence renewal (i.e. every five years). However, the Regulation does not prevent the Plan from being amended more regularly.

In addition to the general requirements, the Financial Plan must include details of the projected financial operations, itemized by:

- Total revenues (water rates, user charges, and other revenues)



- Total expenses (amortization expenses, interest expenses, and other expenses)
- Annual surplus or deficit
- Accumulated surplus or deficit

The projected financial position must be itemized by:

1. Total financial assets;
2. Total liabilities;
3. Net debt;
4. Non-financial assets that are tangible capital assets, tangible capital assets under construction, inventories of supplies, and prepaid expenses;
5. Changes in tangible capital assets that are additions, donations, write downs, and disposals.

Items 1, 2, and 3 apply only if the information is known to the owner at the time when the Financial Plan is prepared.

The projected gross cash receipts and payments details are itemized by:

- a. Operating transactions that are cash received from revenues and paid for operating expenses and finance charges
- b. Capital transactions that are proceeds on the sale of tangible capital assets and cash used to acquire capital assets
- c. Investing transactions that are acquisitions and disposal of investments
- d. Financing transactions that are proceeds from the issuance of debt and debt repayment
- e. Changes in cash and cash equivalents during the year
- f. Cash and cash equivalents at the beginning and end of the year

Items a, c, e, and f apply only if the information is known to the owner at the time when the Financial Plan is prepared.

The first year to which the Financial Plan must apply is the latest of 2010 and the year in which the first licence was issued.

## 2.5 Financial Plan Guidelines

The guidelines released in the previously mentioned *Toward Financially Sustainable Drinking-Water and Wastewater Systems* document prepared by the Ministry of the Environment (August, 2007) apply to wastewater systems as well. However, a Financial Plan for a wastewater system is not mandatory.

The guidelines set out the following nine principles that have informed the development this Financial Plan:

1. Ongoing public engagement and transparency can build support for, and confidence in the Financial Plans and their corresponding system(s).

2. An integrated approach to planning among water, wastewater, and storm water systems is encouraged considering the inherent relationship among these systems.
3. Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.
4. Life-cycle planning with mid-course corrections is preferable to short-term planning or no planning at all.
5. An asset management plan is a key input to the development of a Financial Plan
6. A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while ensuring sufficient resources for future rehabilitation and replacement needs.
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.
8. Financial Plans are documents that require continuous updates and improvement. Improved planning for the future can be achieved by comparing the accuracy of financial projections with actual results.
9. Financial Plans can benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal council.

## **2.6 Public Sector Accounting Board (PSAB) Requirements**

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) approved new municipal financial accounting and reporting standards in June 2006. The new standards require full accrual accounting for 2009 and future years, as well as accounting of tangible capital assets in the financial statements.

The accrual accounting method recognizes revenues and expenses in the same period as the activities which give rise to them regardless of when the payment was actually made. Since the exchange of cash is not necessary to report a financial transaction, the accrual method provides a more accurate picture of the city's financial position. Tangible capital assets will be capitalized so as to create an inventory of the assets owned and to account for their ability to provide future benefits.

## **3 Financial Plan Study Approach**

The Financial Plan guidelines were used to select the approach for preparing the Township of Johnson Drinking Water System Financial Plan. These steps include:

1. Determination of the current period expenses and forecast future period expenses;
2. Determination and forecasting capital expenditure needs;
3. Identification of all current revenues sources and forecast revenues with a minimal increases (as outlined in the Notes to the Projected Financial Statements) of to show some growth;
4. Assess the suitability of the existing revenues;
5. Identify funding requirements and determine the required revenue increases; and
6. Prepare the following statements based on the required revenue increases:

- Statement of Operations
- Statement of Cash Flow
- Statement of Financial Position
- Statement of Changes in Net Financial Assets

## **4 Expenses**

### **4.1 Data Sources and Assumptions**

There are three categories of expenses included for the purposes of this Financial Plan: operating costs, interest, and amortization. The current period operating expenses were determined from the Township's 2012 budget, as well as information provided by the PUC. A complete listing of operating expenses is provided in the Schedule of Operating Expenses included with the projected financial statements.

The future period Operation and Maintenance (O/M) expenses were assumed to increase by 2% each year. The Water and sewage contract expenses are based on the PUC contract provided by the Township, (contract period 2012 to 2016). Thereafter, the expense is assumed to increase two (2) percent per year. A copy of the Services Agreement is available in the Municipal Office. Further Information relating to the assumed rates of increase for additional future operating expenses can be found in the Notes to the Projected Financial Statements. In addition, all information pertaining to current debts, interest rates, and repayment schedules were provided by the Township. No new debts were projected for future periods, however, in the event that the Township should determine that there is a need to incur new debt then the forecasted interest expense will require revision to reflect this. The annual amortization expenses were calculated using the straight-line method and were based on PSAB information provided by the Township as to the historic cost of assets and their estimated useful lives.

### **4.2 Operating Expenses**

Operating expenses include all charges associated with the operation and maintenance of the water works components which include; the intake works, the raw water pumping and clear well, the water treatment plant and the water distribution system. The distribution system includes only those components up to the "curbstop" and does not include service lateral. A complete description of the water system is included in the January 2012 operating Service Agreement. In addition to the services included in this agreement, the Township pays directly for the cost of Hydro. A complete list of operating expenses is provided in the Schedule of Operating Expenses.

The "initial period" for the Service Agreement commenced on January 1, 2012 for a five year period ending in December 2016. It can be renewed for successive terms as agreed to by both parties. The annual agreement cost is adjusted each year after the first year by a cost of living adjustment calculated on the annual CPI provided by Statistics Canada. As mentioned previously, for the purposes of this Financial Plan it was assumed that in future years, the CPI would be 2%, which matches the most recent CPI posted by Statistics Canada. In the case of Hydro, although there is uncertainty of Hydro costs, for

the purposes of this Plan an annual increase used is 2%. Complete information on the assumed rate of increase for all operating expenses is provided in the Notes to the Projected Financial Statements.

The projected operating expenses are shown in Figure 4-1.

Figure 4-1: Projected Operating Expenses

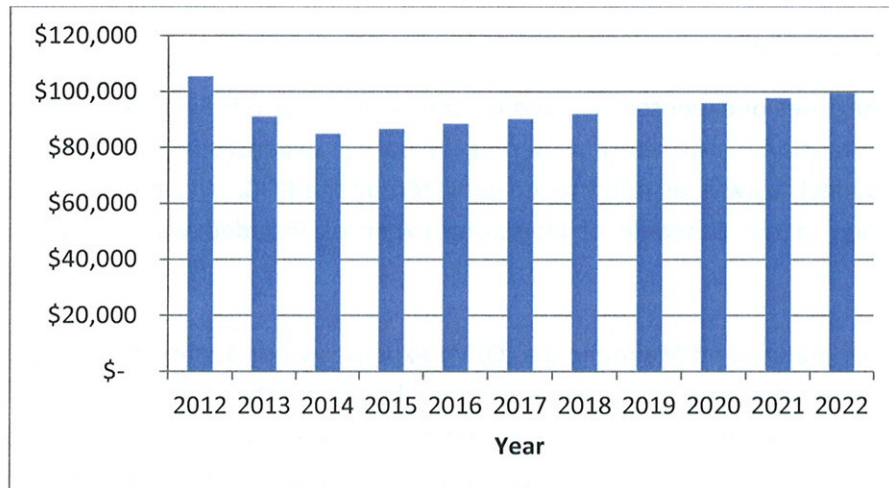
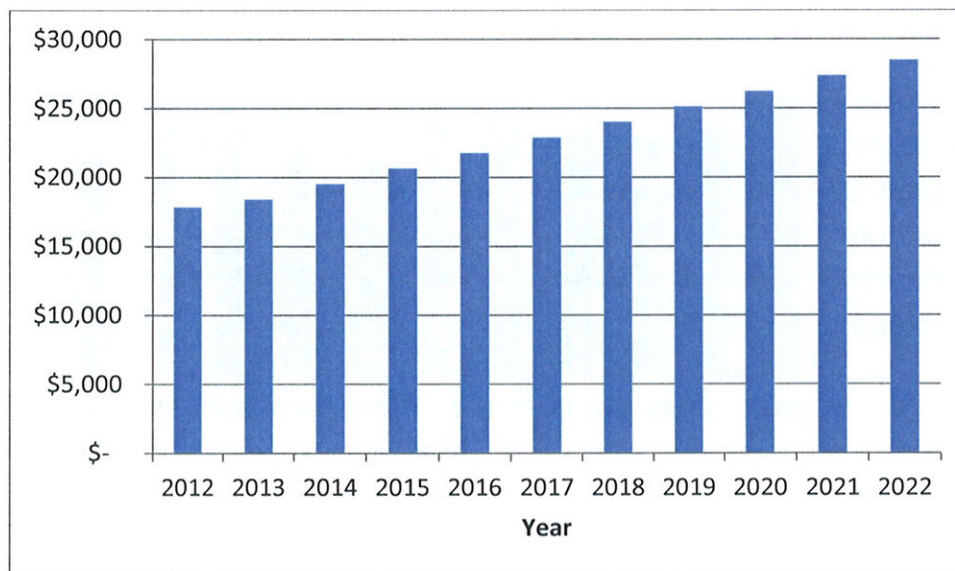


Figure 4-1 shows that operating expenses are projected to decrease from \$105,585 in 2012 to \$99,738 in 2022. Operating expenses are shown to gradually decrease due to lack of reserve expenses. All other expenses gradually increase based on the assumed rates of increase.

### 4.3 Amortization Expenses

Amortization is a non-cash expense that indicates the consumption of tangible capital assets (TCAs) over the course of their useful lives using the straight-line depreciation method. As previously mentioned, details on the historical cost of TCAs were as well as their estimated useful lives were provided by the Township. The projected amortization is shown in Figure 4-2. These yearly projections are also included in the Schedule of Amortization.

Figure 4-2: Projected Amortization Expenses



The variance in amortization expenses shown in Figure 4-2 is a result of the acquisition or disposition of assets. It is important to note that, for the purposes of amortization calculations, all acquisitions and dispositions are assumed to occur as of July 1<sup>st</sup> in the first year. Amortization is therefore calculated at 50% of the normal rate for the asset for their first and last year of service.

#### 4.4 Interest Expenses

There is currently no debt relating to water infrastructure as provided by the Township. As mentioned previously, no new debt has been forecast. Should the Township identify a need to incur new debt in the future based on an evaluation of existing data the forecast interest expenses will require revision.

#### 4.5 Total Expenses

The total expenses are the sum of the operating, amortization, and interest expenses. The projected total expenses are shown in Figure 4-3.

Figure 4-3: Projected Total Expenses

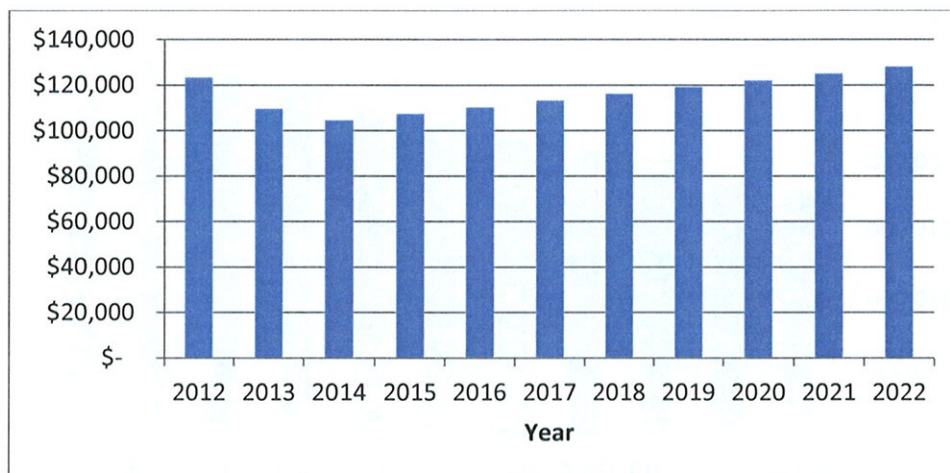


Figure 4-3 shows that the total annual expenses increase gradually over the forecast period from \$123,446 in 2012 to \$128,239 in 2022. Although Figure 4-3 shows a decrease it is important to note that total annual expenses remain relatively consistent throughout the forecast period. The decrease shown is primarily attributable to decreasing reserve expense.

## 5 Capital Expenditures

### 5.1 Data Sources and Assumptions

PUC has not indicated any capital expenditures for the period of 2012-2022. For the years Estimates for the useful lives of all assets included in the projections were based on PSAB information provided by the Township. The municipality has estimated capital expenditures at \$28,000 per year.

### 5.2 Projected Future Capital Expenditures

The projected future capital expenditures for the Township's water system over the next 10 years were provided by PUC. The estimated capital expenditures are \$28,000 per year.

## 6 Revenues

### 6.1 Data Sources and Assumptions

Revenue information was provided by the Township in its 2012 budget.

### 6.2 Existing Revenues

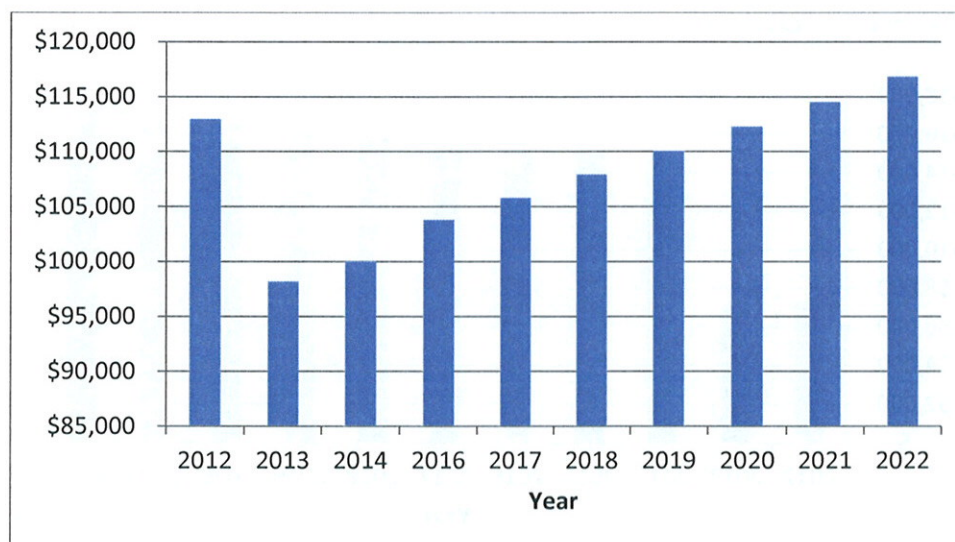
The budgeted revenues for 2012 were provided by the Municipality as the base calculation for revenues.

### 6.3 Projected Revenues

In consultation with the Township it was determined that the highest possible assumed increase in user rate revenues is 2% each year.

The projected revenues for the Township's water system are shown in Figure 6-1.

Figure 6-1: Projected Revenues



With an assumed rate of increase of 2% a year for user rates, revenues grow from approximately \$112,982 in 2012 to approximately \$116,843 in 2022. This latter figure should be compared to an estimated \$128,239 in expenses in 2022.

## 7 Revenue Analysis

### 7.1 Operating Cash Flow

Operating cash flow is calculated using the following equation:

$$\begin{aligned}
 &\text{Operating Cash Flow} \\
 &= \text{Revenues} \\
 &- \text{Operating Costs (excluding amortization)} \\
 &- \text{Interest on Existing Debt}
 \end{aligned}$$

This equation shows that current period operations can generate either a surplus or deficit from a cash perspective, depending on the balance between revenues and cash expenses.

As an example, the operating cash flow for 2012 can be calculated as follows:

Revenues = \$112,982 (also shown in Figure 6-1)

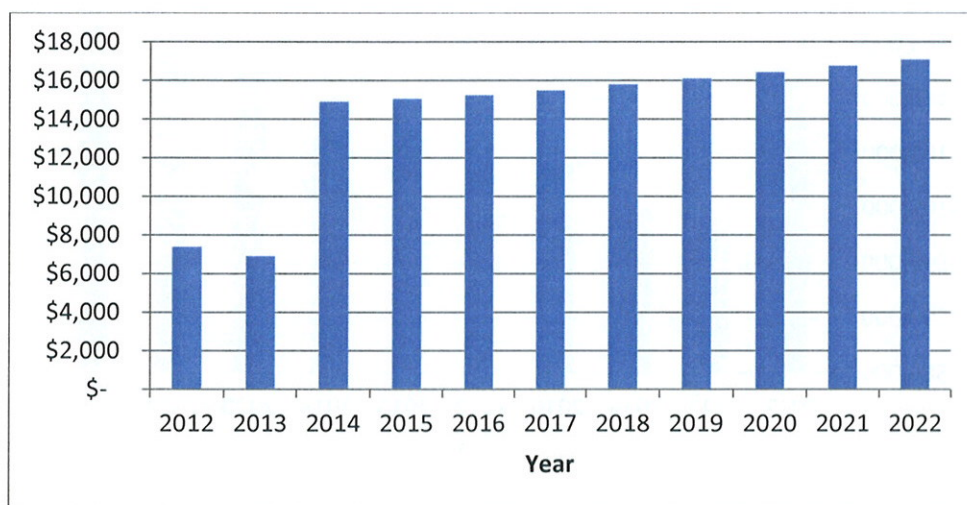
Operating Expenses = \$105,585 (also shown in Figure 4-1)

Interest Expenses = \$0 (See heading 4-4)

Operating Cash Flow = \$112,982 - \$105,585 = \$7,397

The operating cash flow for subsequent years can be similarly calculated. The projected operating cash flow is shown in Figure 7-1.

Figure 7-1: Projected Operating Cash Flow



Operating cash flow is seen to be increasing over the forecast period to approximately \$17,105 in 2022.

## 8 Capital Expenditure Balance

The capital expenditure balance calculates the cash that is available for capital expenditures. It is expressed as the following equation:

$$\begin{aligned}
 &\text{Cash Available for Capital Expenditures} \\
 &= \text{Operating Cash Flow} \\
 &+ \text{New Debt} \\
 &+ \text{Previous Debt Payment} \\
 &+ \text{Disposals} \\
 &+ \text{Transfers from Reserves} \\
 &+ \text{Reserve Fund Balance}
 \end{aligned}$$

This equation shows that cash available for capital expenditures is the sum of operating cash flow, new debt issuance, previous debt payment and the balance of the reserve fund.

For example, in 2012 the capital expenditure balance is calculated as follows:

Operating Cash Flow = \$7,397 (also shown in Figure 7-1)



New Debt = \$0

Previous Debt Payment = \$0

Disposals = \$0

Transfers from Reserves = \$0

Reserve Fund Balance = \$57,083

Capital Expenditure Balance = \$64,480

The capital expenditure balance for subsequent years can be determined in a similar manner. The projected capital expenditure is provided in Table 8-1.

Figure 8-1: Capital Expenditure

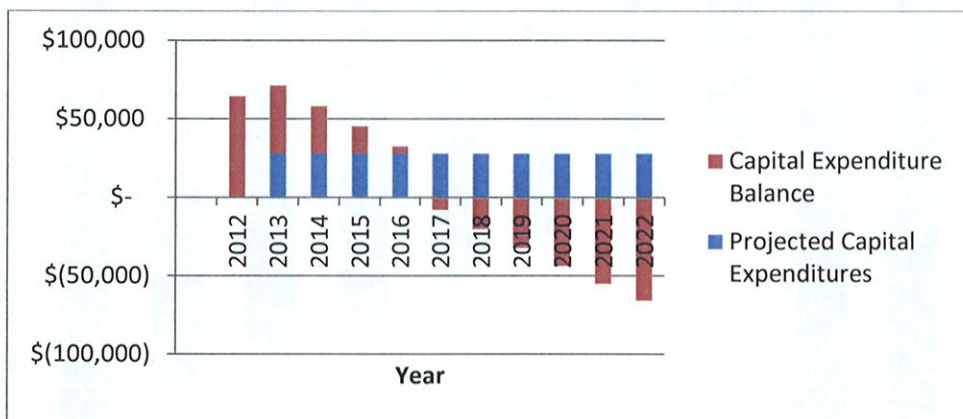


Figure 8-1 shows that the Township will not have sufficient cash available for projected capital expenditures during the period of 2012 to 2022.

### 8.1 Annual Surplus/Deficit

The accumulated surplus/deficit is the primary indicator of the financial resources the Township has available to provide for future services. It consists of revenues less total expenses. It is important to note that the calculation of the annual surplus/deficit includes cash and non-cash components, the latter of which takes into account amortization expenses. This is distinct from the calculation of operating cash flow which did not include amortization expenses.

For example, the annual surplus/deficit for 2012 is calculated as follows:

Revenues = \$112,982 (also shown in Figure 6-1)

Total Expenses = \$123,446 (also shown in Figure 4-3)

Annual Surplus/Deficit =  $\$112,982 - \$123,446 = (\$10,464)$

The annual surplus is lower than the operating cash flow because, as explained above, the former takes into account amortization expenses. Thus for 2012, although the annual surplus/deficit is  $(\$10,464)$ , operating cash flow is  $\$7,397$ .

Annual surplus/deficit for subsequent years can be similarly calculated and Figure 8-2 shows the annual surplus/deficit for the forecast period.

Figure 8-2: Annual Surplus/Deficit

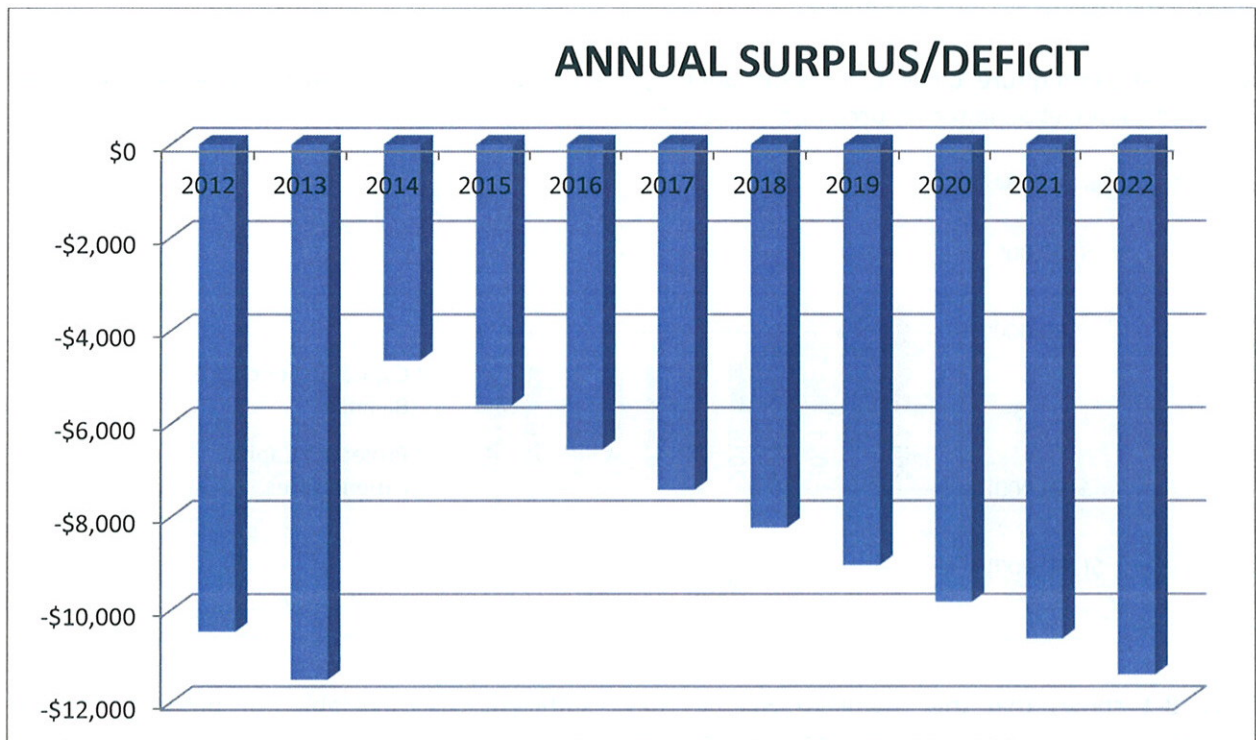
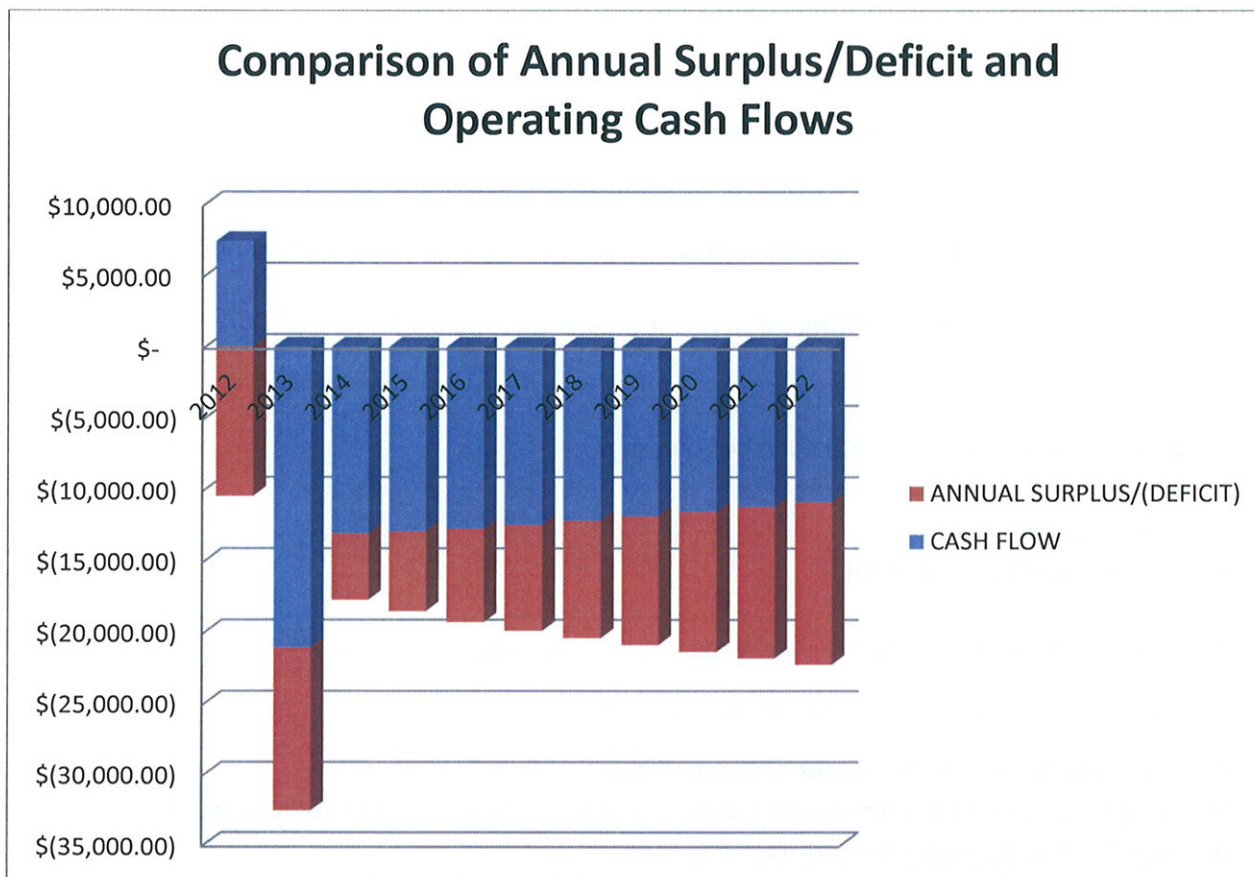


Figure 8-2 shows that the annual surplus/ (deficit) decreases gradually from approximately  $(\$10,464)$  in 2012 to approximately  $(\$11,396)$  in 2022. A comparison of the annual surplus/deficit to the operating cash flow is provided in Figure 8-3.

Figure 8-3: Comparison of Annual Surplus/Deficit and Operating Cash Flow



As shown in Figure 8-3 the operating cash flow, which does not include amortization expenses is comparatively higher than the annual surplus/deficit throughout the forecast period.

## 9 Financial Plan

### 9.1 Introduction

The Financial Plan is a living document that will require ongoing updating and revision. In keeping with the Financial Plans Regulation (O Reg 453/07) it consists of the following statements:

- Statement of Operations
- Statement of Cash Flow
- Statement of Financial Position
- Statement of Changes in Net Financial Assets

### 9.2 Statement of Operations

The Statement of Operations reports on:

- revenues;
- expenses; and
- results for the forecast period.

The statement of operations for the forecast period is provided in Table 9-1.

### **9.3 Statement of Cash Flow**

The statement of cash flow identifies:

- the source of the cash;
- how cash was used; and
- provides details on changes in cash and cash equivalents since the previous period.

The statement of cash flow for the forecast period is provided in Table 9-3.

### **9.4 Statement of Financial Position**

The Statement of Financial Position shows the Township's:

- assets;
- liabilities; and
- accumulated surplus/deficit

The Statement of Financial Position for the forecast period is provided in Table 9-4.

### **9.5 Statement of changes in net financial assets**

The Statement of Changes in Net Financial Assets shows:

- the difference between the annual surplus/deficit and the change in net financial assets;
- how TCAs were acquired and disposed of; and
- details relating to the changes in net financial assets since the previous period.

The Statement of Changes in Net Financial Assets for the forecast period is provided in Table 9-5.

Table 9-1: Projected Statement of Operations 2012-2022 (Unaudited)

		Forecast Period										
NOTES		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>REVENUE</b>												
1	Water/Sewer	95,852	97,769	99,725	101,719	103,754	105,829	107,945	110,104	112,306	114,552	116,843
	Fees Billed	-	-	-	-	-	-	-	-	-	-	-
3	Interest	-	434	303	174	46	-	-	-	-	-	-
2	OSWAP Funding Transfer from Reserve	17,130	-	-	-	-	-	-	-	-	-	-
	<b>Total Revenue</b>	112,982	98,203	100,028	101,893	103,800	105,829	107,945	110,104	112,306	114,552	116,843
<b>EXPENSES</b>												
4	Operating Expenses	105,585	91,282	85,126	86,829	88,565	90,337	92,145	93,985	95,865	97,782	99,738
	Interest	-	-	-	-	-	-	-	-	-	-	-
5	Depreciation	17,861	18,421	19,541	20,661	21,781	22,901	24,021	25,141	26,261	27,381	28,501
	<b>Total Expenses</b>	123,446	109,703	104,667	107,490	110,346	113,238	116,166	119,126	122,126	125,163	128,239
	<b>Annual surplus/ (deficit)</b>	(10,464)	(11,500)	(4,639)	(5,597)	(6,546)	(7,409)	(8,221)	(9,022)	(9,820)	(10,611)	(11,396)
6	Accumulated surplus, beginning of period	406,515	396,051	384,551	379,912	374,315	367,769	360,360	352,139	343,117	333,297	322,686
	Accumulated surplus, end of period	396,051	384,551	379,912	374,315	367,769	360,360	352,139	343,117	333,297	322,686	311,290
	<b>EXPENSE TO REVENUE RATIO</b>	109%	112%	105%	105%	106%	107%	108%	108%	109%	109%	110%

See accompanying notes and assumptions to these projected financial statements

Table 9-2: Schedule of Operating Expenses 2012-2022 (Unaudited)

DETAILED OPERATING EXPENSES	NOTES	Forecast Period										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Water- Roads Crew Wages Exp.	9	6,000	6,500	6,630	6,763	6,898	7,036	7,177	7,320	7,466	7,616	7,768
Water - PUC	10	45,000	46,500	47,430	48,379	49,346	50,333	51,340	52,367	53,414	54,482	55,572
Water - Misc.	11	30,000	20,000	20,400	20,808	21,224	21,649	22,082	22,523	22,974	23,433	23,902
Insurance	12	2,857	3,007	3,067	3,128	3,191	3,255	3,320	3,386	3,454	3,523	3,593
Property Taxes	8	2,318	2,350	2,397	2,445	2,494	2,544	2,595	2,646	2,699	2,753	2,808
Reserves		14,410	7,825	-	-	-	-	-	-	-	-	-
Consulting expenses	7	5,000	5,100	5,202	5,306	5,412	5,520	5,631	5,743	5,858	5,975	6,095
<b>Total Operating Expenses</b>		<b>105,585</b>	<b>91,282</b>	<b>85,126</b>	<b>86,829</b>	<b>88,565</b>	<b>90,337</b>	<b>92,145</b>	<b>93,985</b>	<b>95,865</b>	<b>97,782</b>	<b>99,738</b>

See accompanying notes and assumptions to these projected financial statements

Desbarats Drinking Water System Financial Plan # 275-301

Table 9-3: Statement of Cash Flow 2012-2022 (Unaudited)

NOTES	Forecast Period											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
<b>OPERATING TRANSACTIONS</b>												
Cash received from:												
Revenues	112,982	98,203	100,028	101,893	103,800	105,829	107,945	110,104	112,306	114,552	116,843	
Cash paid for:												
Operating costs	105,585	91,282	85,126	86,829	88,565	90,337	92,145	93,985	95,865	97,782	99,738	
Finance charges	-	-	-	-	-	-	-	-	-	-	-	
Total	105,585	91,282	85,126	86,829	88,565	90,337	92,145	93,985	95,865	97,782	99,738	
Cash provided from operating transactions	7,397	6,921	14,902	15,064	15,235	15,492	15,800	16,119	16,441	16,770	17,105	
<b>CAPITAL TRANSACTIONS</b>												
Acquisition of tangible capital assets	-	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	
Cash applied to capital transactions	-	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	
<b>FINANCE TRANSACTIONS</b>												
Proceeds from debt issues												
Transfer from reserve												
Debt repayment												
Cash applied to financing transactions	-	-	-	-	-	-	-	-	-	-	-	
Increase/(decrease) in cash and cash equivalents	7,397	(21,079)	(13,098)	(12,936)	(12,765)	(12,508)	(12,200)	(11,881)	(11,559)	(11,230)	(10,895)	
Cash and cash equivalents, beginning of period	57,083	64,480	43,401	30,303	17,367	4,602	(7,906)	(20,106)	(31,987)	(43,546)	(54,776)	
Cash and cash equivalents, end of period	64,480	43,401	30,303	17,367	4,602	(7,906)	(20,106)	(31,987)	(43,546)	(54,776)	(65,671)	
Cash as percentage of net fixed assets	20%	13%	9%	5%	1%	-2%	-6%	-9%	-12%	-15%	-18%	

See accompanying notes and assumptions to these projected financial statements

Table 9-4: Statement of Financial Position 2012-2022 (Unaudited)

		Forecast Period										
NOTES		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>FINANCIAL ASSETS</b>												
	Bank	64,480	43,401	30,303	17,367	4,602	(7,906)	(20,106)	(31,987)	(43,546)	(54,776)	(65,671)
	Liabilities											
	Debt	-	-	-	-	-	-	-	-	-	-	-
	<b>Net financial assets (debt)</b>	64,480	43,401	30,303	17,367	4,602	(7,906)	(20,106)	(31,987)	(43,546)	(54,776)	(65,671)
<b>NON FINANCIAL ASSETS</b>												
	Tangible Capital Assets	324,173	333,752	342,211	349,550	355,769	360,867	364,846	367,705	369,444	370,062	369,561
	<b>ACCUMULATED SURPLUS/ (DEFICIT)</b>	388,653	377,153	372,514	366,917	360,374	352,961	344,740	335,718	325,898	315,286	303,890

See accompanying notes and assumptions to these projected financial statements



Table 9-5: Statement of Changes in Net Financial Assets 2012-2022 (Unaudited)

	NOTES	Forecast Period										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Annual surplus/(deficit)		(10,464)	(11,500)	(4,639)	(5,597)	(6,546)	(7,409)	(8,221)	(9,022)	(9,820)	(10,611)	(11,396)
Amortization of tangible capital assets		17,861	18,421	19,541	20,661	21,781	22,901	24,021	25,141	26,261	27,381	28,501
Acquisition of tangible capital assets		-	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)
Change in net financial assets (debt)		7,397	(21,079)	(13,098)	(12,936)	(12,765)	(12,508)	(12,200)	(11,881)	(11,559)	(11,230)	(10,895)
Net financial assets (debt) position, beginning of period		57,083	64,480	43,401	30,303	17,367	4,602	(7,906)	(20,106)	(31,987)	(43,546)	(54,776)
Net financial asset (debt) position, end of period	18	64,480	43,401	30,303	17,367	4,602	(7,906)	(20,106)	(31,987)	(43,546)	(54,776)	(65,671)

See accompanying notes and assumptions to these projected financial statements

Financial Performance

Item	2019-2020	2018-2019
Revenue	100.0	100.0
Operating Expenses	(85.0)	(85.0)
Operating Profit	15.0	15.0
Net Profit	15.0	15.0
EPS	1.50	1.50

The following table provides a summary of the financial performance of the Company for the periods indicated. All amounts are in millions of dollars, unless otherwise indicated.

Operating Performance

Operating performance is measured by the following metrics:

## 9.6 Notes to the Projected Financial Statements

1. User rate revenues increase by two (2) percent per year over the forecast period.
2. OSWAP grant was only available for the five years ending in 2012. This represents a significant revenue loss for the municipality.
3. Interest is calculated at 1% of cash balance.
4. Operating costs are outlined in the Schedule of Operating Expenses (See Table 9-1).
5. For the purpose of amortization calculations – all acquisitions and dispositions based on the straight-line approach and the figures are calculated at 50% of the normal rate for the asset for their first and last year of service. The assets are recorded at historical costs.
6. Accumulated surplus, beginning of period is calculated as the sum of the fixed assets for the previous period and the reserve fund balance for the previous year.
7. Consultant expenses are calculated based on the 2012 water revenue and expenses budget provided by the Municipality and are assumed to increase two (2) percent per year.
8. Property taxes are assumed to increase two (2) percent per year.
9. Water road crew wage expenses are based on the 2012 budget expenses provided by the Municipality and are assumed to increase two (2) percent per year.
10. PUC expenses are based on the 2012 budget expenses provided by the Municipality and are assumed to increase two (2) percent per year.
11. The miscellaneous water expenses are based on the 2012 budget expenses provided by the Municipality and are assumed to increase two (2) percent per year.
12. Insurance expenses are based on the 2012 budget expenses provided by the Municipality and are assumed to increase two (2) percent per year.
13. Capital asset acquisitions of \$28,000 per year are recommended by PUC. It is recommended that the Township consider including this amount in reserves, if possible, during the forecast period.
14. No debt issues were projected by the Municipality.
15. Cash and cash equivalents, beginning of period are calculated as the opening balance of the reserve fund provided by the Municipality.
16. Cash is equal to the reserve fund balance at the end of the year.

17. Tangible capital assets are non-financial assets calculated as the net book value of the fixed assets plus any acquisition made during the period.
18. The net financial assets (debt) position, end of period indicates that there is a net debt of (\$65,671) at the end of 2022. This negative net asset position indicates that the system will not have the necessary resources to finance future operations.

## 10 Conclusions

The Financial Plan was developed to determine the most appropriate balance of operating revenues, short term one-time government funding and new debt financing.

The Financial Plan has achieved the following conclusions:

- The flat water rate structure was developed by a “Cost Recovery for Water System Operation” conducted in 2005. Revenues are presently set annually based on the financial statements from the previous year.
- The Township must consider future rate increases based on the principles outlined in the *Toward Financially Sustainable Drinking-Water and Wastewater Systems* guidelines document released by the Ministry of the Environment. Adoption of these principles results in a need to consider the sizable projected increases in rates proposed in this Financial Plan;
- Water consumption for the purpose of this Financial Plan are assumed to remain unchanged for the duration of the study period to 2022;
- Government funding programs (i.e. OSWAP) ended following the first year of the forecast period (2012); this represented a significant loss of revenue for the municipality.
- Amortization of the Water Treatment Plant commissioned in 1986 represents one of the largest projected expenses, and is on a comparable level with operating costs throughout the forecast period;
- There is no requirement to finance the cost of the Water Treatment Plant. The Township will have to rely on assistance from senior levels of government to cover the cost of the replacement of the treatment plant.
- The Financial Plan shows a decrease over the forecast period in the cash reserves. The annual rate decreases result in insufficient revenue to cover the Township’s annual operating costs and the cost of capital expenditures. The figures provided by PUC anticipate significant capital expenditures, which represent a significant challenge to the Township; and
- Annual rate increases were projected higher in order to achieve the revenue/ expenditure projections over the planning period included in the Financial Plans Regulation (O Reg 453/07) planning period of 6 years. This was reduced significantly following consultation with the Township’s Treasurer and the Ministry of Municipal Affairs (MMAH). MMAH indicated that the study timeframe could be extended to 2022 given the size of the Township and the proportionally higher per residence rate charges. Even though the annual rate increases were projected high, this still result in the inability to operate and maintain the water works with no contribution to reserves and the inability to meet in future unexpected capital requirements (including the \$28,000/year identified by PUC) over the forecast period

## 11 Council Resolution

A Council Resolution accepting the Financial Plan was passed at the regular meeting of Municipal Council held on September XX, 2014. The Council Resolution is provided in Appendix A.

## 12 Next Steps

The following next steps are required in accordance with the requirements of the Financial Plan Regulation:

1. Notice of the availability of the Financial Plan must be advertised;
2. The Financial Plan be made available, on request and without charge, to the members of the public that are served by the water system;
3. The Financial Plan be made available on the Township of Johnson's website without charge
4. A copy of the Financial Plan, along with the council resolution be submitted to the Ministry of Municipal Affairs and Housing (MMAH)
5. The Financial Plan must be updated and approved prior to applying for a licence renewal (i.e. every five years); a copy of the Council resolution will have to be submitted to the Ministry of the Environment with the licence renewal application.