



The Municipality of Powassan  
Drinking Water System

# Financial Plan

September 16, 2010



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## **1. Introduction**

The Municipality of Powassan has authorized the Ontario Clean Water Agency and Sharratt Water Management Ltd. to develop the Financial Plan for the Municipality's drinking water systems. The Financial Plan was prepared in accordance with the Financial Plan regulation (O. Reg. 453/07) made under the Safe Drinking Water Act, as well as the provisions of the financial planning guidelines published by the Ministry of the Environment (MOE) in August, 2007 entitled "Toward Financially Sustainable Drinking-Water and Wastewater Systems". The proposed water rates are set out in the POWASSAN WATER SYSTEM FINAL RATE REPORT (FINAL RATE REPORT), dated September 10, 2010.

The FINAL RATE REPORT estimates the capital replacement and major maintenance costs from the year 2010 to the year 2044. The operating plan includes a projection of revenue sources, including user fees, that fund all operating costs to 2016 and makes provision for the capital and major maintenance needs to 2044. User fees are set so that adequate reserves are developed in order to fund capital and major maintenance expenses.

The Financial Plan was developed for the Municipality's drinking water systems, based on the FINAL RATE REPORT, as well as tangible capital asset information that the Municipality generated in accordance with the Public Sector Accounting Board (PSAB) standard requirements. The Financial Plan includes financial statements for 2009 and a projection of financial statements over seven years from the year 2010 to the year 2016.

### **1.1 Legislative Context to Financial Planning**

There have been a number of legislative initiatives affecting water system management and operations over the past decade. These initiatives were precipitated as a result of the water borne illness tragedy in Walkerton in 2000 and the subsequent public inquiry chaired by the Honourable Dennis O'Connor. The Inquiry Report recommended a comprehensive approach to the delivery of safe drinking water in Ontario.

The MOE has responded to the Inquiry recommendations by making several legislative changes. One change having directly related to the development of the Financial Plan was the passage of the Safe Drinking Water Act, 2002 (SDWA). It requires owners of municipal drinking water systems to apply for and obtain a Municipal Drinking Water

Licence. There are five elements that must be in place in order for the owner of a drinking water system to obtain a licence:

- 1) A Drinking Water Works Permit to establish or alter a drinking-water system.
- 2) An accepted Operational Plan. The Drinking Water Quality Management Standard (DWQMS) is the standard upon which operational plans are based. The plan documents an operating authority's quality management system (QMS).
- 3) An Accredited Operating Authority. A third party audit of an operating authority's QMS will be the basis for accreditation.
- 4) A Permit to Take Water.
- 5) A Financial Plan that must be prepared and approved in accordance with the prescribed requirements in the Financial Plans Regulation.

Under section 30 of the SDWA, the Financial Plan element of the licence program must either be prepared in accordance with the Sustainable Water and Sewage System Act, 2002 (SWSSA) or in accordance with the requirements set by the Minister of the Environment. SWSSA regulations have not been published. Accordingly, the requirements set by the Minister of Environment apply as per the 2007 MOE guidelines.

Regulation 453/07 of the Safe Drinking Water Act was passed in 2007 and contains two key provisions that apply to existing water systems:

A person who makes an application under the Act for a municipal drinking water licence shall, before making the application, prepare and approve financial plans for the system that satisfy the requirements of Reg. 453/07 (O. Reg. 453/07, S. 1(1)).

As a condition in a municipal drinking water licence that is issued in response to an application made under section 33 of the Act for a municipal drinking water licence, the Director shall include a requirement that the owner of the drinking water system, by the later of July 1, 2010 and the date that is six months after the date the first licence for the system is issued, prepare and approve financial plans for the system that satisfy the requirements prescribed Reg. 453/07 (O. Reg. 453/07, S. 1(3)).

Several other provisions are also set out in the regulation that must be met by a municipality operating a water system:

- The Financial Plan must be approved by a resolution that is passed by the Council of the municipality.
- The Financial Plan must apply to a period of at least six years.
- The first year to which the Financial Plan must apply must be the later of July 1, 2010 or six months after the first licence for the system was issued.

Once a system is licensed, the municipality's Financial Plan is required to be updated every 5 years, in conjunction with every application for license renewal.

## **1.2 Additional Legislative Context to Financial Planning**

In June 2006, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered accountants approved new municipal financial accounting and reporting standards requiring that tangible capital assets (TCA), including components of water and wastewater systems, be included in municipal financial statements. The new accounting standard PS 3150 came into effect on January 1, 2009. This provides for a sharper focus on the depreciation of the capital asset base of the water and wastewater systems and the need to plan for renewal and replacement on a timely basis. This data is an integral component of the financial statements included in the Financial Plan.

The Clean Water Act 2006 targets the protection of drinking water supplies through the development of collaborative, locally driven, science and watershed based source protection plans. According to the MOE financial planning guidelines, Financial Plans should include source water protection costs related to the provision of water services. Utilities are encouraged to have, at minimum, estimates of any current source protection costs as a separate cost item by the time that their Financial Plans are required in order to effectively align with the anticipated approval timelines for source protection plans (2010-2012).

In June 2007, the government of Ontario proposed a lead action plan. The Financial Plans regulation contains requirements for municipalities to include in their Financial Plans, the costs associated with replacing lead service pipes that are part of the drinking water system.

## **1.3 The Municipality of Powassan Water System**

The Powassan water system consists of a ground water well supply system consisting of two municipal wells and a water distribution system. A new water reservoir has been constructed and some distribution system upgrades have been completed in 2007-2009.

The distribution system is comprised of a piping network of approximately 8.459 km in length. The drinking water system serves 484 users. A universal metering project is underway and will be completed shortly. All users will be charged according to metered usage commencing on January 1, 2011. The system is projected to grow by two customers per year.

## **2. Operating Plan**

The operating plan details the recurring operating costs and the capital investments costs required to sustain the drinking water systems. These costs have been developed using assumptions that are detailed in the FINAL RATE REPORT. Some key assumptions are detailed below.

### **2.1 Operations Expenses**

Operating costs such as labour, chemicals, insurance and other costs are projected to increase at 3% per year for the 2010-2016 period.

### **2.2 Capital and Major Maintenance Expenses**

Capital renewal and major maintenance costs have been projected to 2044 and funding needs to 2044 have been included in the rates for 2010-2016. The intent is to ensure that funding will be available for the projected capital costs when needed. Capital costs were projected to increase at 3% per year to cover inflation. The capital needs are set out in the FINAL RATE REPORT. Capital needs beyond 2044 should be considered in the next Financial Plan report due in 2015.

### **2.3 Debt Service / Repayment**

A water and wastewater system loan will be finalized in October 2010 to run for 15 years. The portion of this loan that is attributable to the water system is \$1.758 million. No other water system long term debt is anticipated until 2024.

### **2.4 Lead Replacement Costs**

There is no lead present in the system and as a result, no funds have been set aside for lead abatement.

## **2.5 Source Water Protection Costs**

Studies related to source protection are underway however no specific protection costs have been identified at this time for either system. Until such time as the source water protection initiative is better defined, we have not ventured to guess what such costs might be. This should be revisited at the time the Financial Plan is next updated in the year 2015.

## **3. Funding Plan**

The funding plan lays out a plan on how the Municipality will generate the required funds to meet the expenditure requirements detailed in the operating plan. The Funding Plan is detailed in the FINAL RATE REPORT. The funding plan proposed will rely on user fees (with some funds provided from connection charges and late payment charges), government funding and loans. Some key assumptions and results are presented below.

### **3.1 Government Grant**

The Township currently receives an Ontario Small Water Works Assistance Program (OSWAP) operating grant provided through a provincial program that helps reduce the cost of operating water systems with small number of users. This is projected to continue throughout the 2010-2016 period.

### **3.2 Debt**

The Municipality will be servicing an existing water and wastewater system loan which is scheduled to run from 2010 to 2024. The portion of this loan that is attributable to the water system is \$1.758 million.

### **3.3 Required User Fee**

Based on the current funding plan, the Powassan water rates are projected to increase at an average of 4.8% per annum for the 2010-2016 period. As of January 1, 2011, all users will be charged on a metered water use basis. The rate development process is set out in the FINAL RATE REPORT. Table 3.1 outlines the proposed rates.

**Table 3.1  
Municipality of Powassan Proposed Water Rates 2011-2016  
Inflated \$**

		2011	2012	2013	2014	2015	2016
<b>Metered Fixed per Month (\$)</b>							
Meter Size (inches)	0.62	11.91	12.47	13.07	13.69	14.34	15.02
	0.75	11.91	12.47	13.07	13.69	14.34	15.02
	1	16.67	17.46	18.29	19.16	20.07	21.03
	1.5	21.44	22.45	23.52	24.64	25.81	27.03
	2	34.54	36.18	37.90	39.70	41.58	43.56
	2.5	83.36	87.32	91.47	95.82	100.37	105.13
	3	131.00	137.22	143.74	150.57	157.72	165.21
<b>Volumetric Charge (\$)</b>							
	Per 1,000 gallons	11.52	12.03	12.56	13.12	13.70	14.31
	Per cubic meter	2.53	2.65	2.76	2.89	3.01	3.15

Under the proposed water rate structure a user with a standard .62 inch meter will pay in 2011 a fixed charge of \$11.91 per month plus a charge of \$2.53 for each cubic meter of water that passes through the water meter. Users with a larger meter size will pay a higher fixed charge.

#### **4. Continuous Improvement**

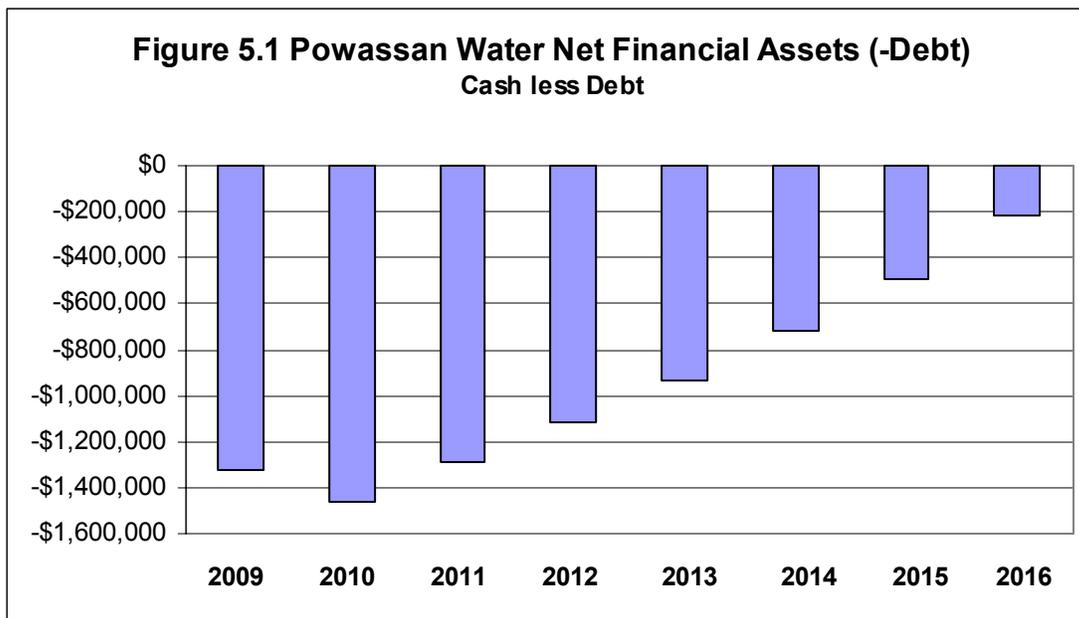
The Financial Plan regulation requires that the Financial Plans be updated every 5 years, along with the request for application for the renewal of the Drinking Water Licence. This on-going update will assist in revisiting the assumptions made to develop the operating and funding plans as well as re-assessing the need for capital expenses.

#### **5. Financial Plan Summary**

This section provides a summary of principal markers contained in the projected Financial Statements over 7 years (2010-2016) in compliance with O. Reg. 453. The detailed financial statements are set out in Section 6. The notes regarding the Financial Plan are presented at the end of the financial statement section.

### 5.1 Statement of Financial Position (Table 6.1)

One important marker of the financial position of a water system is the net financial assets/debt. A positive number indicates that the system has the resources to deal with future capital and other needs. A negative number indicates that past capital and other investments must be financed from future revenues. The Powassan water system net financial assets are summarized in Figure 5.1.



The system is currently carrying substantial debt as a result of the construction of the reservoir and upgrades to distribution system undertaken in 2007-2009. However, the deficit will almost be eliminated by the end of 2016.

A second important marker is the total value of the water system assets such as wells, reservoirs and water lines. Consideration of the value of tangible capital assets is part of PSAB compliance. Water systems have a great deal of resources tied up in tangible capital assets and managing these assets is critical to maintaining current levels of service. Tangible capital assets are constantly decreasing in value as the assets age. This is termed amortization. An increase in tangible capital assets is an indication that new assets have been added to the water system

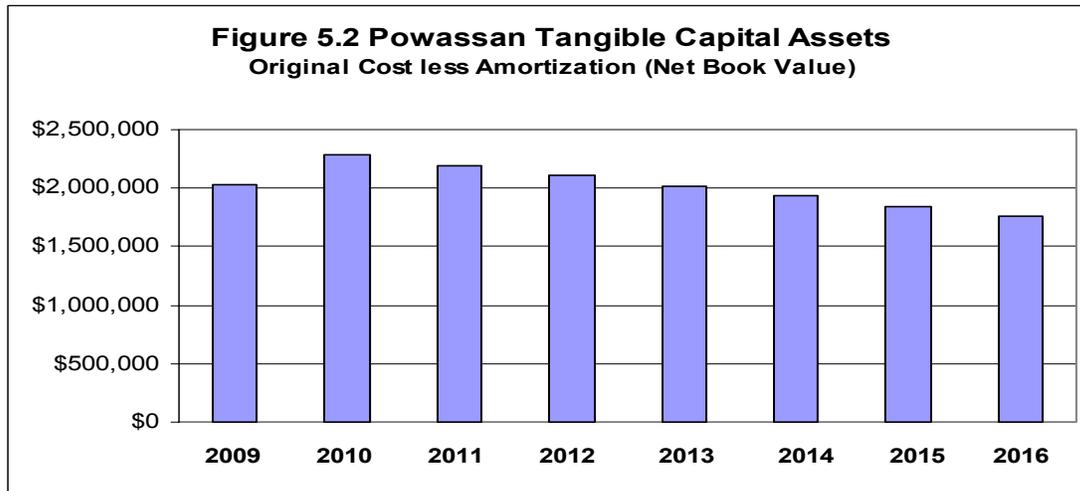
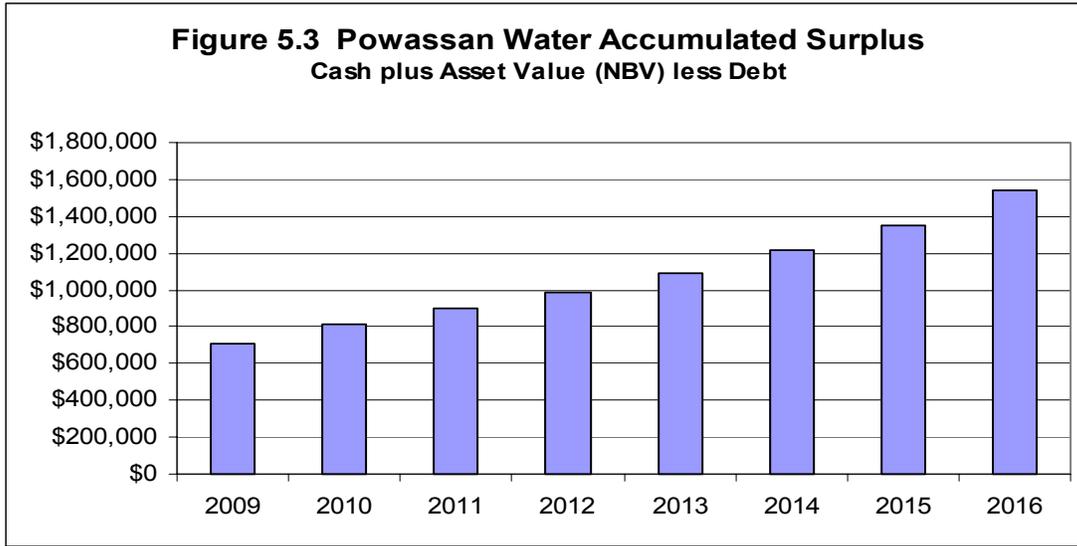


Figure 5.2 indicates that new assets were added in 2010 with the installation of water meters. After that there is a slow yearly decline representing the depreciation of existing assets and the fact that no new major asset are being planned up to 2016. Had this chart been prepared showing tangible capital assets from 2006 onward, it would have shown a large increase in the 2006 to 2009 period as major new assets such as the reservoir and distribution system upgrades were added to the system. Figure 5.2 indicates the need to maintain vigilance in managing the system's tangible capital assets. The Final Rate Study contains a plan to 2044 for maintaining these assets.

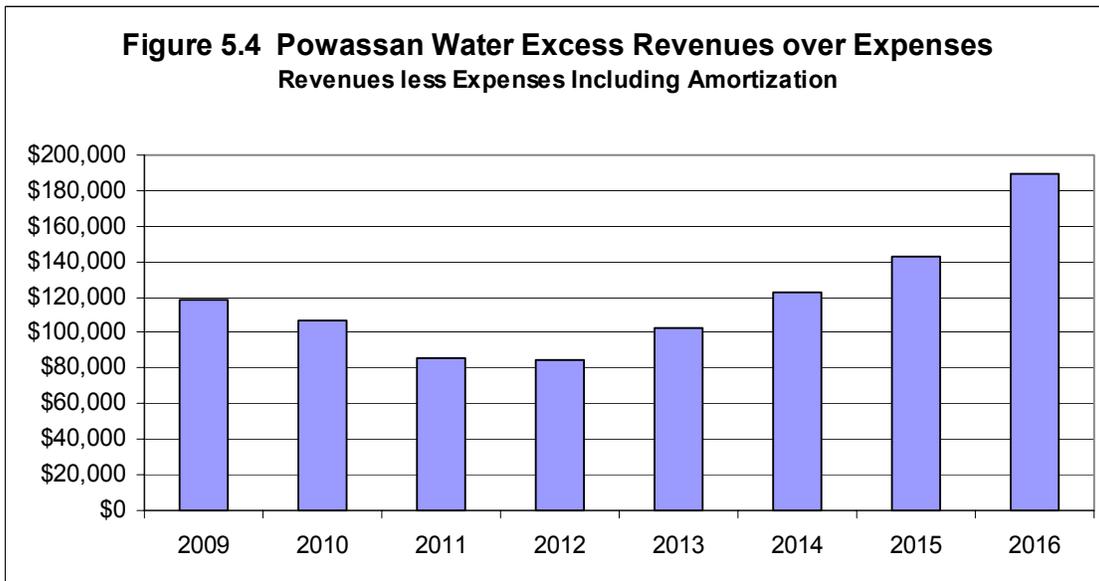
A third important marker is the accumulated surplus (Figure 5.3). It represents cash on hand plus the book value of assets less debt. A surplus indicates that the proposed rates are generating revenues to fund future operating and capital renewal requirements.

The water system is showing positive numbers. The combination of the book value of its assets plus cash on hand increasingly exceeds debt payable. The surplus doubles from 2009 to 2016.



## 5.2 Statement of Operations (Table 6.2)

The statement summarizes the revenues and expenditures that include asset amortization and provides an indication of whether or not the assets of the system are being maintained.

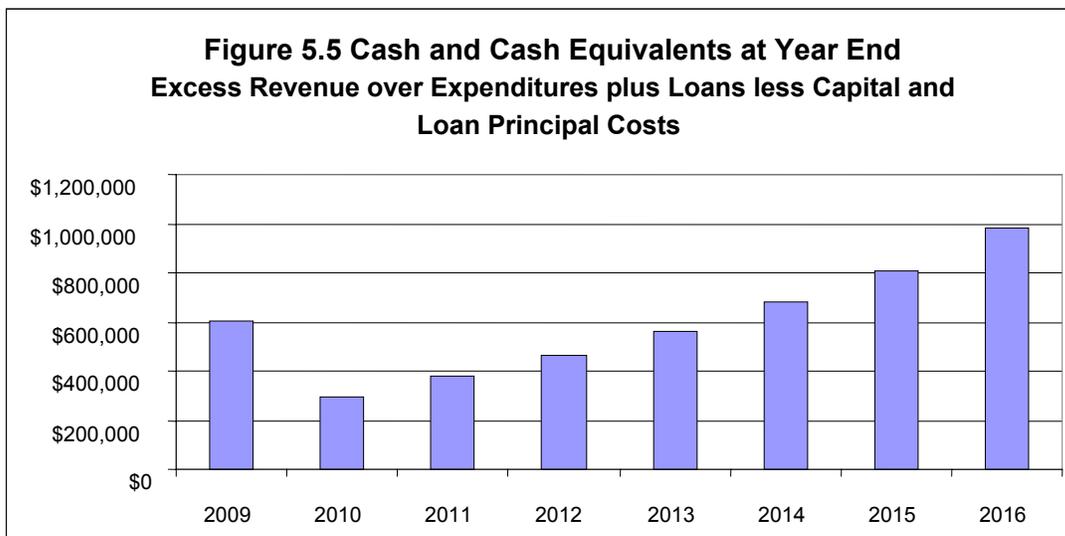


As shown in Figure 5.4, the system's excess of revenues over expenses is positive from 2009 to 2016, indicating that the system and its asset base is being maintained, with

funds left over to build reserves for future capital renewal or major maintenance expenditures. The numbers decline in 2011 and 2012. After that the surplus rises so that by 2016, it is 50% higher than it was in 2009.

### 5.3 Statement of Cash Flow (Table 6.3)

This statement of cash flow shows how revenues are generated and spent from 2009 to 2016. The revenues include user fees and loans. The expenditures include operating expenses, interest, capital acquisitions and loan principal payment. Figure 5.5 indicates that the cash expenditures are positive throughout the 8 years period. The balance is drawn down in 2010 due the funding of the metering project, but rebuilds to nearly \$1 million by 2016. This cash balance will be used to fund future capital renewal and major maintenance projects.



### 5.4 Statement of Change in Net Financial Assets (Table 6.4)

This statement provides an indication of where cash is being used. The cash balance is set out in Figure 5.1. The statement indicates that this deficit results from the acquisition of tangible capital assets in 2009 and 2010. The net financial asset total shows a quick recovery with the deficit almost eliminated by 2016.

## **5.5 Conclusion**

The financial statements reveal that the system is in sound condition, based on the implementing of the proposed rates and the identified long range capital renewal and major maintenance plan. The detailed financial statements that were the basis for the above summary are set out in the following pages.

## **6. Financial Statements**

The detailed financial statements are set out in the following pages.

**Table 6.1 Statement of Financial Position - Powassan Water System**

	2009	2010	2011	2012	2013	2014	2015	2016	Notes
<b>Financial Assets</b>									
Cash and Cash Equivalents	\$603,974	\$294,702	\$380,439	\$462,522	\$562,597	\$678,158	\$809,256	\$983,135	1
Accounts Receivable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Deposits	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
<b>Total Financial Assets</b>	<b>\$603,974</b>	<b>\$294,702</b>	<b>\$380,439</b>	<b>\$462,522</b>	<b>\$562,597</b>	<b>\$678,158</b>	<b>\$809,256</b>	<b>\$983,135</b>	
<b>Liabilities</b>									
Accounts Payable (Capital)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Debt Principal/Working Deficit	\$1,928,304	\$1,758,304	\$1,671,642	\$1,581,722	\$1,492,381	\$1,398,441	\$1,300,215	\$1,197,508	2
Other liabilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
<b>Total Liabilities</b>	<b>\$1,928,304</b>	<b>\$1,758,304</b>	<b>\$1,671,642</b>	<b>\$1,581,722</b>	<b>\$1,492,381</b>	<b>\$1,398,441</b>	<b>\$1,300,215</b>	<b>\$1,197,508</b>	
Tangible Capital Asset Under Construction	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
<b>Net Financial Asset (-Debt)</b>	<b>-\$1,324,330</b>	<b>-\$1,463,602</b>	<b>-\$1,291,203</b>	<b>-\$1,119,199</b>	<b>-\$929,784</b>	<b>-\$720,283</b>	<b>-\$490,960</b>	<b>-\$214,373</b>	
<b>Non Financial Assets</b>									
Tangible Capital Asset Cost	\$1,380,003	\$2,478,008	\$2,803,008	\$2,803,008	\$2,803,008	\$2,803,008	\$2,803,008	\$2,803,008	3
Changes in Tangible Capital Assets - Cost	\$1,098,005	\$325,000	\$0	\$0	\$0	\$0	\$0	\$0	4
Tangible Capital Asset Under Construction	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Accumulated Amortization incl. Addition	\$443,680	\$522,517	\$609,477	\$696,438	\$783,399	\$870,360	\$957,321	\$1,044,282	
<b>Total Non Financial Assets</b>	<b>\$2,034,328</b>	<b>\$2,280,491</b>	<b>\$2,193,530</b>	<b>\$2,106,569</b>	<b>\$2,019,608</b>	<b>\$1,932,647</b>	<b>\$1,845,686</b>	<b>\$1,758,726</b>	
<b>Accumulated Surplus/(deficit)</b>	<b>\$709,998</b>	<b>\$816,889</b>	<b>\$902,328</b>	<b>\$987,370</b>	<b>\$1,089,825</b>	<b>\$1,212,364</b>	<b>\$1,354,727</b>	<b>\$1,544,353</b>	

**Note: Unaudited for Planning Purposes Only - Actual results will differ from the above and these differences could be material.**

**Table 6.2 Statement of Financial Operations - Powassan Water System**

	2009	2010	2011	2012	2013	2014	2015	2016	Notes
<b>Revenues</b>									
User Fees	\$305,916	\$368,904	\$386,427	\$404,782	\$424,009	\$444,149	\$465,247	\$487,346	5
Connection Charges	\$1,200	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	
Operating Grants (OSWAP)	\$36,824	\$36,824	\$36,824	\$36,824	\$36,824	\$36,824	\$36,824	\$36,824	6
Other Revenues	\$7,335	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,050	7
Interest Income	\$8,868	\$0	\$10,315	\$13,315	\$16,188	\$19,691	\$23,736	\$28,324	8
<b>Total Revenues</b>	<b>\$360,143</b>	<b>\$409,728</b>	<b>\$437,565</b>	<b>\$458,922</b>	<b>\$481,022</b>	<b>\$504,665</b>	<b>\$529,806</b>	<b>\$556,544</b>	
<b>Expenses</b>									
Operating	\$154,963	\$204,000	\$196,947	\$217,958	\$226,566	\$234,224	\$243,828	\$227,734	9
Debt Interest	\$15,644	\$20,000	\$68,220	\$68,960	\$65,040	\$60,941	\$56,654	\$52,173	10
Amortization	\$70,711	\$78,836	\$86,961	\$86,961	\$86,961	\$86,961	\$86,961	\$86,961	
<b>Total Expenses</b>	<b>\$241,317</b>	<b>\$302,836</b>	<b>\$352,128</b>	<b>\$373,879</b>	<b>\$378,567</b>	<b>\$382,125</b>	<b>\$387,444</b>	<b>\$366,868</b>	
Excess of Revenues over Expenses before Other	\$118,826	\$106,892	\$85,437	\$85,042	\$102,455	\$122,539	\$142,363	\$189,676	
<b>Other</b>									
Government Transfers Related to Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Developer In Kind	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
<b>Excess of Revenues over Expenses</b>	<b>\$118,826</b>	<b>\$106,892</b>	<b>\$85,437</b>	<b>\$85,042</b>	<b>\$102,455</b>	<b>\$122,539</b>	<b>\$142,363</b>	<b>\$189,676</b>	
Accumulated Surplus (Deficit) Beginning of year	\$591,173	\$709,999	\$816,891	\$902,328	\$987,370	\$1,089,825	\$1,212,364	\$1,354,727	
<b>Accumulated Surplus (Deficit) End of Year</b>	<b>\$709,999</b>	<b>\$816,891</b>	<b>\$902,328</b>	<b>\$987,370</b>	<b>\$1,089,825</b>	<b>\$1,212,364</b>	<b>\$1,354,727</b>	<b>\$1,544,403</b>	

**[Note: Unaudited for Planning Purposes Only - Actual results will differ from the above and these differences could be material.]**

**Table 6.3 Statements of Change in Cash Flow - Powassan Water System**

	2009	2010	2011	2012	2013	2014	2015	2016	Notes
<b>Operating Transactions</b>									
Total Revenues	\$351,275	\$409,728	\$427,251	\$445,606	\$464,833	\$484,974	\$506,071	\$528,170	
Cash paid for Operating	\$154,963	\$204,000	\$174,442	\$179,527	\$184,783	\$190,216	\$195,834	\$201,644	11
Cash Paid for Major Maintenance	\$0	\$0	\$22,506	\$38,431	\$41,783	\$44,007	\$47,994	\$26,090	12
Cash paid for Financing	\$15,644	\$20,000	\$68,220	\$68,960	\$65,040	\$60,941	\$56,654	\$52,173	13
Excess of Revenues Over Expenses	\$180,669	\$185,728	\$162,083	\$158,688	\$173,227	\$189,809	\$205,588	\$248,263	
<b>Deduct Non Cash Charges to Operations</b>									
Amortization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	14
Others	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
<b>Working Capital Items</b>									
Accounts Receivable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Capital Work in Progress	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Cash provided/used in Operating Transactions	\$180,669	\$185,728	\$162,083	\$158,688	\$173,227	\$189,809	\$205,588	\$248,263	
<b>Capital Transactions</b>									
Acquisition of TCAs	\$1,098,005	\$325,000	\$0	\$0	\$0	\$0	\$0	\$0	
Proceeds on Disposal of TCA	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Cash provided/used in Capital Transactions	\$1,098,005	\$325,000	\$0	\$0	\$0	\$0	\$0	\$0	
<b>Investing Transactions</b>									
Proceeds from Investments	\$8,868	\$0	\$10,315	\$13,315	\$16,188	\$19,691	\$23,736	\$28,324	
Cash (used in) Provided by Investing Activities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Cash Provided/used in Investing Transactions	\$8,868	\$0	\$10,315	\$13,315	\$16,188	\$19,691	\$23,736	\$28,324	
<b>Financing Transactions</b>									
Proceeds from Debentures	\$975,260	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Repayment of Long Term Debt	\$53,991	\$170,000	\$86,660	\$89,920	\$89,341	\$93,940	\$98,226	\$102,708	15
Cash Provided by/used in Financing Activities	\$1,029,251	\$170,000	\$86,660	\$89,920	\$89,341	\$93,940	\$98,226	\$102,708	
Increase (decrease) in Cash Equivalents	\$12,801	-\$309,272	\$85,738	\$82,083	\$100,075	\$115,561	\$131,098	\$173,879	
Cash and Cash Equivalents at the beginning of the Year	\$591,173	\$603,974	\$294,702	\$380,439	\$462,522	\$562,597	\$678,158	\$809,256	16
Cash and Cash Equivalents at the End of the Year	\$603,974	\$294,702	\$380,439	\$462,522	\$562,597	\$678,158	\$809,256	\$983,135	

**[Note: Unaudited for Planning Purposes Only - Actual results will differ from the above and these differences could be material.]**

**Table 6.4 Statements of Change in Net Financial Assets - Powassan Water System**

	2009	2010	2011	2012	2013	2014	2015	2016	Notes
<b>Excess Revenues over Expenditures</b>	\$118,826	\$106,892	\$85,437	\$85,042	\$102,455	\$122,539	\$142,363	\$189,676	
Amortization of Tangible Capital Assets	\$70,711	\$78,836	\$86,961	\$86,961	\$86,961	\$86,961	\$86,961	\$86,961	
Proceeds on the Disposal of TCA's	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Change in inventories, prepaid expenses and deferred charges	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Loss (gain ) on the sale of TCAs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Acquisition of TCAs	\$1,098,005	\$325,000	\$0	\$0	\$0	\$0	\$0	\$0	
Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
<b>Increase (-Decrease) in Net Financial Assets</b>	<b>-\$908,469</b>	<b>-\$139,272</b>	<b>\$172,398</b>	<b>\$172,003</b>	<b>\$189,416</b>	<b>\$209,500</b>	<b>\$229,324</b>	<b>\$276,637</b>	
Net Financial Assets, Beginning of Year	-\$415,861	-\$1,324,330	-\$1,463,602	-\$1,291,204	-\$1,119,200	-\$929,785	-\$720,284	-\$490,961	
Net Financial Assets, End of Year	-\$1,324,330	-\$1,463,602	-\$1,291,204	-\$1,119,200	-\$929,785	-\$720,284	-\$490,961	-\$214,324	

**Note: Unaudited for Planning Purposes Only - Actual results will differ from the above and these differences could be material.**

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Notes on the Powassan Water System Financial Plan

1. Cash equivalent is a reserve set aside for future capital renewal to 2039
2. This is a loan to cover the cost of constructing a new reservoir. The loan's final terms will be set in late 2010 and will run for 15 years.
3. Tangible capital assets acquired in the past were valued in 2010 cost and deflated to historic cost using the construction price index. Capital works are assumed to have no residual value when they have reached the end of their projected life set out in the September 10, 2010 rate study. Future capital works costs are 2010 costs inflated to future cost at an inflation rate of 3% per annum. Amortization was determined using the straight line method.
4. In 2009, the Municipality expanded its reservoir and in 2010 a meter project is underway.
5. User fee revenues are geared to providing a sustainable water service based on capital renewal projections to 2039 as set out in the September 10, 2010 rate study.
6. The system is assisted by an OSWAP provincial government grant intended to assist water users in small systems. It is assumed to continue through 2016.
7. Other revenues are late payment penalty charges.
8. This revenue is represented by the interest at 4.5% per annum earned on the reserve investments.
9. Operating costs are projected to increase at 3% for most items and 5% for energy.
10. These expenses are the interest paid for loans to carry the reservoir project. The loan will be finalized in late 2010 and run for 15 years.
11. Cash paid for operating includes the cost of paying for regular operating expenses assumed to inflate at 3% per annum
12. These projects were identified as major maintenance in the September 10, 2010 Final Rate Report and are not capital according to PSAB definitions.
13. This is the interest paid on the water reservoir loan.
14. No amortization was included in the expense total and therefore none was deducted.
15. This is the principal on the water reservoir loan. \$100,000 was taken from the reserve in 2010 to pay down the principal plus the normal payment.
16. The opening cash position was based on an opening reserve balance of \$591,173 in 2009.

# APPENDIX

## Copy of O. Reg 453/07 “Financial Plans”

## Safe Drinking Water Act, 2002

### ONTARIO REGULATION 453/07

#### FINANCIAL PLANS

**Consolidation Period:** From April 1, 2008 to the [e-Laws currency date](#).

Last amendment: O. Reg. 69/08.

*This is the English version of a bilingual regulation.*

##### Requirement to prepare financial plans

**1. (1)** A person who makes an application under clause 32 (1) (b) of the Act for a municipal drinking water licence shall, before making the application, prepare and approve financial plans for the system that satisfy the requirements prescribed under section 2. O. Reg. 453/07, s. 1 (1).

**(2)** A person who makes an application under subsection 32 (4) of the Act for the renewal of a municipal drinking water licence shall, before making the application, prepare and approve financial plans for the system that satisfy the requirements prescribed under section 3. O. Reg. 453/07, s. 1 (2).

**(3)** As a condition in a municipal drinking water licence that is issued in response to an application made under section 33 of the Act for a municipal drinking water licence, the Director shall include a requirement that the owner of the drinking water system, by the later of July 1, 2010 and the date that is six months after the date the first licence for the system is issued, prepare and approve financial plans for the system that satisfy the requirements prescribed under section 3. O. Reg. 453/07, s. 1 (3).

**(4)** The Director shall include, as a condition in a municipal drinking water licence, the requirement set out in subsection (3) in any amendments to a license made after the application, if the condition is not satisfied at the time when the amendment is made. O. Reg. 453/07, s. 1 (4).

##### Financial plan requirements; new systems

**2.** For the purposes of clause (b) of the definition of “financial plans” in subsection 30 (1) of the Act, the following requirements are prescribed for financial plans that are required by subsection 1 (1) to satisfy the requirements of this section:

1. The financial plans must be approved by a resolution that indicates that the drinking water system is financially viable and that is passed by,
  - i. the council of the municipality, if the owner of the drinking water system is a municipality, or
  - ii. the governing body of the owner, if the owner of the drinking water system has a governing body and is not a municipality.
2. The financial plans,
  - i. must include a statement that the financial impacts of the drinking water system have been considered, and
  - ii. must apply for a period of at least six years.
3. The first year to which the financial plan must apply is the year in which the drinking water system is expected to first serve the public.
4. For each year in which the financial plans apply, the financial plans must include details of the proposed or projected financial operations of the drinking water system itemized by,
  - i. total revenues, further itemized by water rates, user charges and other revenues,
  - ii. total expenses, further itemized by amortization expenses, interest expenses and other expenses,
  - iii. annual surplus or deficit, and

- iv. accumulated surplus or deficit.
- 5. The owner of the drinking water system must,
  - i. make the financial plans available, on request, to members of the public who are served by the drinking water system without charge,
  - ii. make the financial plans available to members of the public without charge through publication on the Internet, if the owner maintains a website on the Internet, and
  - iii. provide notice advising the public of the availability of the financial plans under subparagraphs i and ii, if applicable, in a manner that, in the opinion of the owner, will bring the notice to the attention of members of the public who are served by the drinking water system.
- 6. The owner of the drinking water system must give a copy of the financial plans to the Ministry of Municipal Affairs and Housing. O. Reg. 453/07, s. 2.

**Financial plan requirements; licence renewal**

**3. (1)** For the purposes of clause (b) of the definition of “financial plans” in subsection 30 (1) of the Act, the following requirements are prescribed for financial plans that are required by subsection 1 (2) or a condition that is included in a municipal drinking water licence under subsection 1 (3) to satisfy the requirements of this section:

- 1. The financial plans must be approved by a resolution that is passed by,
  - i. the council of the municipality, if the owner of the drinking water system is a municipality, or
  - ii. the governing body of the owner, if the owner of the drinking water system has a governing body and is not a municipality.
- 2. The financial plans must apply to a period of at least six years.
- 3. The first year to which the financial plans must apply must be the year determined in accordance with the following rules:
  - i. If the financial plans are required by subsection 1 (2), the first year to which the financial plans must apply must be the year in which the drinking water system’s existing municipal drinking water licence would otherwise expire.
  - ii. If the financial plans are required by a condition that was included in a municipal drinking water licence under subsection 1 (3), the first year to which the financial plans must apply must be the later of 2010 and the year in which the first licence for the system was issued.
- 4. Subject to subsection (2), for each year to which the financial plans apply, the financial plans must include the following:
  - i. Details of the proposed or projected financial position of the drinking water system itemized by,
    - A. total financial assets,
    - B. total liabilities,
    - C. net debt,
    - D. non-financial assets that are tangible capital assets, tangible capital assets under construction, inventories of supplies and prepaid expenses, and
    - E. changes in tangible capital assets that are additions, donations, write downs and disposals.
  - ii. Details of the proposed or projected financial operations of the drinking water system itemized by,
    - A. total revenues, further itemized by water rates, user charges and other revenues,
    - B. total expenses, further itemized by amortization expenses, interest expenses and other expenses,

- C. annual surplus or deficit, and
  - D. accumulated surplus or deficit.
- iii. Details of the drinking water system's proposed or projected gross cash receipts and gross cash payments itemized by,
- A. operating transactions that are cash received from revenues, cash 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, and
  - F. cash and cash equivalents at the beginning and end of the year.
- iv. Details of the extent to which the information described in subparagraphs i, ii and iii relates directly to the replacement of lead service pipes as defined in section 15.1- 3 of Schedule 15.1 to Ontario Regulation 170/03 (Drinking Water Systems), made under the Act.
5. The owner of the drinking water system must,
- i. make the financial plans available, on request, to members of the public who are served by the drinking water system without charge,
  - ii. make the financial plans available to members of the public without charge through publication on the Internet, if the owner maintains a website on the Internet, and
  - iii. provide notice advising the public of the availability of the financial plans under subparagraphs i and ii, if applicable, in a manner that, in the opinion of the owner, will bring the notice to the attention of members of the public who are served by the drinking water system.
6. The owner of the drinking water system must give a copy of the financial plans to the Ministry of Municipal Affairs and Housing. O. Reg. 453/07, s. 3 (1).

(2) 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). O. Reg. 453/07, s. 3 (2).

**Alternative requirements for two or more drinking water systems**

4. If section 3 applies to the financial plans of two or more drinking water systems that are solely owned by the same owner, the requirements prescribed by the section may, as an alternative, be satisfied by financial plans that comply with the section but treat those systems as if they were one drinking water system. O. Reg. 453/07, s. 4.

**Amendment of financial plans**

5. Sections 2 and 3 do not prevent financial plans from being amended. O. Reg. 453/07, s. 5.

**Additional information**

6. The requirements of this Regulation do not prevent a person from providing additional information in financial plans prepared for the purpose of meeting the requirements of the Act. O. Reg. 453/07, s. 6.

7. OMITTED (PROVIDES FOR COMING INTO FORCE OF PROVISIONS OF THIS REGULATION). O. Reg. 453/07, s. 7.