

TOWN OF RENFREW

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

FINANCIAL PLAN # 183-301A

JUNE 13, 2011



4304 Village Centre Court
Mississauga, Ontario
Canada L4Z 1S2

Phone: (905)272-3600

Fax: (905)272-3602

e-mail: info@watson-econ.ca

 **Planning for growth**

CONTENTS

	<u>Page</u>
1. INTRODUCTION	
1.1 Study Purpose	1-1
1.2 Background	1-1
1.2.1 Financial Plans Defined	1-2
1.2.2 Financial Plan Requirements – New System	1-3
1.2.3 Financial Plan Requirements – Existing System	1-3
1.2.4 Financial Plan Requirements – General	1-4
1.2.5 Public Sector Accounting Board (PSAB) Requirements	1-5
2. SUSTAINABLE FINANCIAL PLANNING	
2.1 Introduction	2-1
2.2 <i>Sustainable Water and Sewage Systems Act</i>	2-2
2.3 <i>Water Opportunities Act (Bill 72)</i>	2-3
2.4 Water Rate Study	2-4
3. APPROACH	
3.1 Overview	3-1
3.2 Conversion Process	3-1
3.2.1 Calculate Tangible Capital Asset Balances	3-1
3.2.2 Convert Statement of Operations	3-2
3.2.3 Convert Statement of Financial Position	3-4
3.2.4 Convert Statements of Cash Flow and Change in Net Financial Assets/Debt	3-4
3.2.5 Verification and Note Preparation	3-6
4. FINANCIAL PLAN	
4.1 Introduction	4-1
4.2 Water Financial Plan	4-1
4.2.1 Statement of Financial Position	4-1
4.2.2 Statement of Operations	4-2
4.2.3 Statement of Change in Net Assets/Debt	4-3
4.2.4 Statements of Change in Cash Flow	4-3
5. PROCESS FOR FINANCIAL PLAN APPROVAL AND SUBMISSION TO THE PROVINCE	5-1
6. RECOMMENDATIONS	6-1
 <u>APPENDICES</u>	
A 2010 WATER AND WASTEWATER RATE STUDY – WATER SUMMARY TABLES (REVISED)	A-1

1. INTRODUCTION

1. INTRODUCTION

1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by the Town of Renfrew (the Town) to prepare a water financial plan as part of the five submission requirements for the purposes of obtaining a municipal drinking water license as per the *Safe Drinking Water Act, 2002*. In general, a financial plan requires an in-depth analysis of capital and operating needs, a review of current and future demand versus supply, and consideration of available funding sources. This detailed financial planning and forecasting in regards to the Town's water systems has already been completed and documented by Watson within the "Town of Renfrew Water and Wastewater Rate Study, May 5, 2010" (2010 Rate Study). The objective of the report provided herein is to convert the findings of the 2010 Rate Study into the prescribed reporting requirements for a financial plan as defined by Ontario Regulation 453/07 (O.Reg. 453/07).

1.2 Background

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

"No person shall,

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

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

1. Obtain a drinking water works permit.
2. Acceptance of the operational plan for the system based on the Drinking Water Quality Management Standard.
3. Accreditation of the Operating Authority.
4. Prepare and provide a financial plan.
5. Obtain permit to take water.

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

1.2.1 Financial Plan Defined

Section 30 (1) of the SDWA provides the following definition of financial plans:

"financial plans" means,

- (a) financial plans that satisfy the requirements of subsection (2), but only if,
 - (i) Bill 175 (Sustainable Water and Sewage Systems Act, 2002, introduced on September 23, 2002) receives Royal Assent, and
 - (ii) sections 3 and 9 of Bill 175 (Sustainable Water and Sewage Systems Act, 2002) are in force, or
- (b) financial plans that satisfy the requirements prescribed by the Minister, in any other case. 2002, c. 32, s. 30 (1).

As of time of writing, the Sustainable Water and Sewage Systems Act, 2002 (SWSSA) cited above is not in force (see Section 2.2 of this report) however, the standards that it directs will underpin the specific requirements of s.30 (1) part b as they are outlined in O.Reg. 453/07 and which will be examined in detail below.

1.2.2 Financial Plan Requirements – New System

O.Reg. 453/07 provides the following parameters with regards to s.30 (1) part b of the SDWA for new water systems:

- Financial plans must be approved by Council resolution (or governing body) indicating that the drinking water system is financially viable;
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six year period (commencing when the system first serves the public);
- Financial plans must include detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and accumulated surplus/deficit (i.e. the components of a “Statement of Operations” as per Public Sector Accounting Board (PSAB)) for each year in which the financial plans apply;
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system.
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public, and
- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.3 Financial Plan Requirements – Existing System

O.Reg. 453/07 also provides details with regards to s.30 (1) part b of the SDWA for existing water systems. The requirements for existing systems are summarized as follows:

- Financial plans must be approved by Council resolution (or governing body);
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six year period (commencing when the system first serves the public);
- Financial plans must include detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and accumulated

surplus/deficit (i.e. the components of a “Statement of Operations” as per the PSAB) for each year in which the financial plans apply;

- Financial plans must present financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets (i.e. the components of a “Statement of Financial Position” as per PSAB) for each year in which the financial plans apply; and
- Gross cash receipts/payments itemized by operating transactions, capital transactions, investing transactions and financial transactions (i.e. the components of a “Statement of Cash Flow” as per PSAB) for each year in which the financial plans apply.
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system.
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and
- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.4 Financial Plan Requirements - General

Given that the legislation falls under the SDWA, a financial plan is mandatory for water systems and encouraged for wastewater systems. The financial plans shall be for a period of at least six years but longer planning horizons are encouraged. The financial plan is to be completed and approved by the later of July 1, 2010 and the date that is six months after the first license is issued. Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary.

Where a licence has been issued, the financial plan must contain on the front page, the appropriate financial plan number as set out in Schedule A of the Municipal Drinking Water Licence document.

1.2.5 Public Sector Accounting Board (PSAB) Requirements

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

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

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

Moreover, since the 2009 fiscal year, municipalities have been required to report additional information relating to the accounting treatment of tangible capital assets as indicated by the requirements under section PS3150. Pre-2009, the costs to acquire, develop and/or construct capital assets were expensed in the year in which they occur. Going forward, tangible capital assets will be capitalized so as to create an inventory of the assets owned and to account for their ability to provide future benefits. The reporting of tangible capital assets requires further changes to the format of existing financial statements. From a financial planning perspective, this change is significant for water assets as they represent a significant portion of the Town’s infrastructure.

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

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

FIGURE 1-1 STATEMENT OF FINANCIAL POSITION

OLD FORMAT (PRE-2009)

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

2009 AND FUTURE

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

FIGURE 1-2 STATEMENT OF OPERATIONS

OLD FORMAT (PRE-2009)

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

2009 AND FUTURE

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

FIGURE 1-3
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS/DEBT

2009 AND FUTURE

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

FIGURE 1-4 STATEMENT OF CASH FLOW¹

DIRECT METHOD

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

INDIRECT METHOD

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

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

2. SUSTAINABLE FINANCIAL PLANNING

2. SUSTAINABLE FINANCIAL PLANNING

2.1 Introduction

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

- Principle #1: Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.
- Principle #2: An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.
- Principle #3: Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.
- Principle #4: Life-cycle planning with mid-course corrections is preferable to planning over the short-term, or not planning at all.
- Principle #5: An asset management plan is a key input to the development of a financial plan.
- Principle #6: A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.
- Principle #7: Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.

Principle #8: Financial plans are “living” documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.

Principle #9: Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal council.

2.2 Sustainable Water and Sewage Systems Act

The *Sustainable Water and Sewage Systems Act* (SWSSA) was passed on December 13, 2002. The intent of the Act is to introduce the requirement for municipalities to undertake an assessment of the “full cost” of providing their water and the wastewater services. It is noted that, at the time of writing, the regulations, which accompany the Act, have not been issued. In total, there are 40 areas within the Act to which the Minister may make Regulations.

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

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

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

2.3 Water Opportunities Act, 2010 (Bill 72)

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

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

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

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

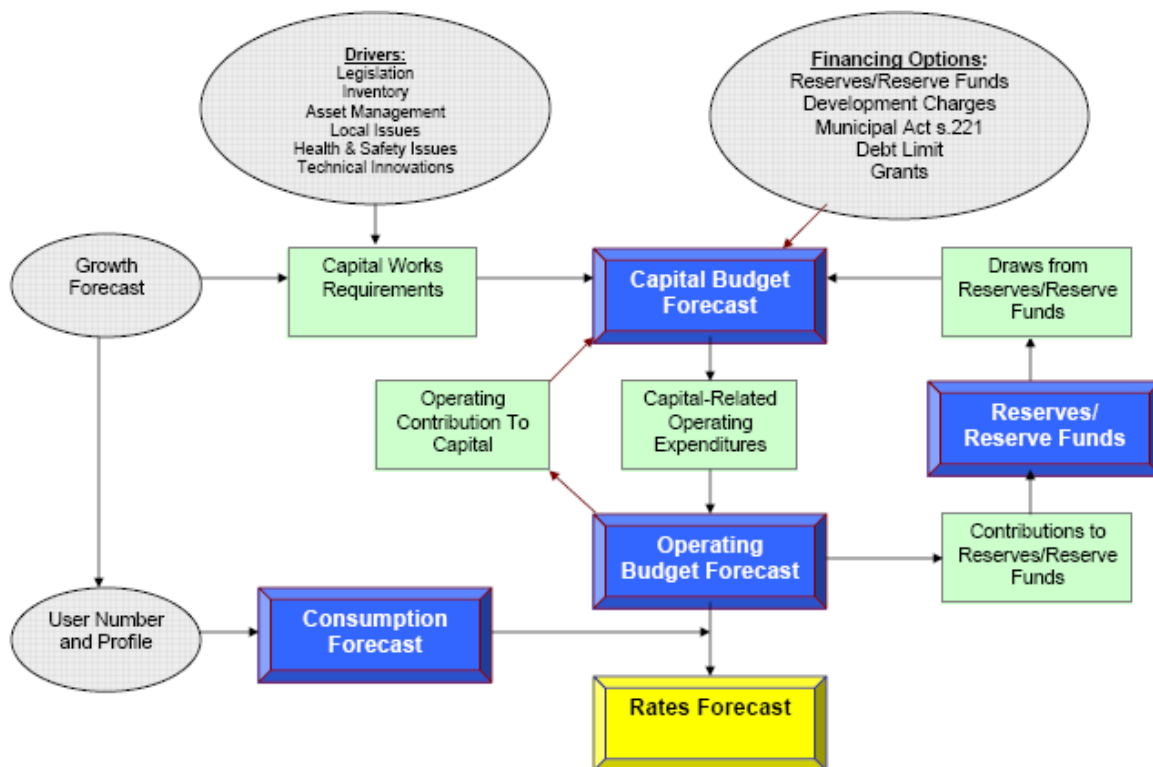
Where a Board has jurisdiction over a service, the plan (and any plan amendments) must be approved by the municipality in which the municipal service is provided, before submission to the Minister. The Minister may also direct preparation of joint or partially joint plans.

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

2.4 Water Rate Study

As noted above, Watson has already completed extensive financial planning as documented in the 2010 Rate Study conducted on behalf of the Town. The study process was designed to address the “full cost” principles within SWSSA and does so in a manner that also reflects the guiding principles toward sustainable financial planning. Figure 2-1 below summarizes the process.

**FIGURE 2-1
WATER RATE CALCULATION PROCESS**



As a result of employing this process, the 2010 Rate Study provides a sound financial plan for the Town’s water system by providing:

- A detailed assessment of current and future capital needs including an analysis of potential funding sources (*Principles 2, 4, 5, 6, 9*);

- An analysis of fixed and variable operating costs in order to determine how they will be impacted by evolving infrastructure needs and system growth (*Principles 2, 3, 6, 7, 9*);
- A review and recommendation on rate structures that ensure revenues are equitable and sufficient to meet system needs (*Principles 2, 3, 6, 7, 9*); and
- A public process that involves ongoing consultation with the main stakeholders including the Town staff, Council, the general public (specifically the users of the system) and others with the aim of gaining input and collaboration on the sustainability of the financial plan (*Principles 1, 9*).

A summary of the water rates projected for the Town are as follows (see appendix A for details):

Water:

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Water Billing Recovery	1,549,292	1,578,858	1,860,423	1,986,819	2,007,408	2,027,724	2,048,488	2,069,171	2,090,749	2,094,299
Total Consumption (m ³)	836,957	840,785	844,865	848,945	853,025	857,105	861,185	865,265	869,345	873,425
Constant Rate (2010 and 2011 are actual rates)	1.88	1.88	2.20	2.34	2.35	2.37	2.38	2.39	2.40	2.40

Please note that the existing rates differ from the recent 2010 Rate Study, in that the 2010 consumptive rate was kept constant for 2011. All information shown in appendix A, which forms the basis for this financial plan, has been revised to account for recently approved water budgets and forecasts.

3. APPROACH

3. APPROACH

3.1 Overview

The 2010 Rate Study (and the Town's water budget) has been prepared on a modified cash basis; therefore a conversion was required in order to present a full accrual financial plan for the purposes of this report. The conversion process used will help to establish the structure of the financial plan along with the opening balances that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the financial plan. It is noted that the financial plan has been prepared for water only.

3.2 Conversion Process

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

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

3.2.1 Calculate Tangible Capital Asset Balances

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water assets, an inventory has already been compiled and summarized within the 2010 Rate Study as well as part of the Town's efforts to become compliant with PSAB 3150. Given the prospective nature of the 2010 Rate Study, replacement cost is provided for each asset. However, historical cost (which is the original cost to purchase, develop, or construct each asset) is required for financial reporting purposes. Once historical cost is established, the following calculations are made to determine net book value:

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

Future water capital needs have also been determined and summarized within the 2010 Rate Study. However, these estimates only represent future assets that the Town anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to the Town). These contributed assets could form a significant part of the infrastructure going forward in terms of the sustainability of the system as a whole and despite their non-monetary nature; the financial plan may need to be adjusted in order to properly account for these transactions. Once the sequence and total asset acquisition has been determined for the forecast period, annual amortization of these assets for each year is calculated in a similar manner as that used for existing assets.

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

3.2.2 Convert Statement of Operations

As per section 1.2.5 above, the new Statement of Operations eliminates and/or adds certain transactions that have been reported differently by municipalities since 2009 (see Figure 3-1). A wide range of adjustments will be considered and will depend on the size and complexity of the system. For example, the revenues and expenses associated with the now obsolete Statement of Capital and Statement of Reserves and Reserve Funds (see Section 1.2.5) will need to be adjusted for and included within the Statement of Operations. This includes all non tangible capital asset costs previously included in the capital statement (i.e. expenses related to various studies) while at the same time eliminating all expenditures incurred to acquire tangible capital assets which will now form part of the tangible capital asset balance discussed in section 3.2.1.

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

Modified Cash Basis	Actual 2010	Adjustments		Full Accrual Actual 2010	Accrual Basis	Notes on Adjustments
		DR	CR			
Revenues						
Base Charge Revenue	536,374			536,374	Base Charge Revenue	No change
Rate Based Revenue	1,549,292			1,549,292	Rate Based Revenue	No change
Transfers from Reserves	64,413	64,413		-	Other Revenue	Removes non-accrual reserve account
Other Revenue	2,560		909,678	912,238	Total Revenues	To Account for Interest Revenue and Capital Grants
Total Revenues	2,152,639			2,997,904		
Expenditures						
Operating Capital	1,447,174		13,995	1,461,169	Operating Expenses	Various Expenses previously classified as capital expenditures
Transfers to Capital	265,751			-	Interest on Debt	Removes TCA related balances which are now captured in statement of financial position
Debt Repayment (Principal & Interest)	439,714		265,751	119,714	Amortization	Removes principal portion of debt - now reflected on statement of cash flow.
Total Expenditures	2,152,639	384,759		1,965,642	Total Expenses	New account created as a result of PSAB 3150 - reflects cost of using TCA
Net Expenditures	-			1,032,262	Annual Surplus/(Deficit)	
Increase (decrease) in amounts to be recovered	-			11,581,693	Accumulated Surplus/(Deficit), beginning of year	Represents difference between Revenues and Expenditures
Change in fund balances	-	1,032,262		12,613,955	Accumulated Surplus/(Deficit), end of year	To transfer annual surplus to accumulated surplus
TOTAL ADJUSTMENTS		1,495,429	1,495,429			

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

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

3.2.3 Convert Statement of Financial Position

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

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

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

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

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

3.2.5 Verification and Note Preparation

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

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

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

- a. Opening cash balances Opening cash balances are necessary to complete the Statement of Cash Flows and balance the Statement of Financial Position. Preferably, opening cash balances should be derived from actual information contained with the Town's ledgers. However, it may not be possible to extract this information from the ledgers for water alone; therefore a reasonable proxy

will be needed. One approach is to assume opening cash balances equal ending reserve and reserve fund balances from the previous year adjusted for accrual-based transactions reflected by accounts receivable/payable balances. The following equation outlines this approach:

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

- b. Amortization Expense The method and timing of amortization should be based on the Town's amortization policy. Otherwise, an assumption will need to be made and applied consistently throughout the financial plan.
- c. Accumulated Amortization Will be based on the culmination of accumulated amortization expenses throughout the life of each asset however derived, along with information on construction/acquisition date and useful life obtained from the 2010 Rate Study.
- d. Contributed Assets As noted earlier, contributed assets could represent a significant part of the Town's infrastructure acquisitions. As such, a reasonable estimate of value and timing of acquisition/donation may be required in order to adequately capture these assets. In the case where contributed assets are deemed to be insignificant or unknown, an assumption of "no contributed assets within the forecast period" will be made.
- e. Accumulated Surplus The magnitude of the surplus in this area may precipitate the need for additional explanation especially in the first year of reporting. This Accumulated Surplus captures the historical infrastructure investment which has not been reported in the past but has accumulated to significant levels. It also includes all water reserve and reserve fund balances.
- f. Other Revenues Will represent the recognition of revenues previously deferred (i.e. development charge revenues) and/or accrued revenues (developer contributions), and/or other minor miscellaneous revenues.

4. FINANCIAL PLAN

4. FINANCIAL PLAN

4.1 Introduction

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 document¹ and contains various estimates as detailed in the "Notes to the Financial Plan" section below.

4.2 Water Financial Plan

4.2.1 *Statement of Financial Position (Table 4-1)*

The Statement of Financial Position provides information that describes the assets, liabilities, and accumulated surplus of the 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 in 2010, due to historical use of debt financing for water projects, the Town's water system is in a net debt position of approximately \$4.7 million. However, after 2010, the financial plan forecasts an improving net financial asset/(debt) position in each subsequent year of the forecast period. Net financial assets are projected to grow by over \$3.4 million by the end of 2019.

Another important indicator on the Statement of Financial Position is the tangible capital asset balance. As noted earlier, providing this information is a new requirement of municipalities as part of PS3150 compliance and is significant from a financial planning perspective for the following reasons:

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

- Tangible capital assets such as water mains are imperative to water service delivery.
- These assets represent significant economic resources in terms of their historical and replacement costs. Therefore, ongoing capital asset management is essential to managing significant replacements and repairs.
- The annual maintenance required by these assets has an enduring impact on water operational budgets.

In general terms, an increase in the tangible capital asset balance indicates that assets may have been acquired either through purchase by the municipality or donation/contribution by a third party. A decrease in the tangible capital asset balance can indicate a disposal, write down, or use of assets. A use of assets is usually represented by an increase in accumulated amortization due to annual amortization expenses arising as a result of allocating the cost of the asset to operations over the asset's useful life. Table 4-1 shows tangible capital assets are expected to decline by approximately \$426,000 over the 10-year forecast period. This decline indicates that the Town plans to amortize and dispose of tangible capital assets in amounts greater than planned investments in tangible capital 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 increasing from 66% in 2010 to 104% in 2011. The low percentage in 2010 is attributable to the grant funding received on water capital projects, and results in a larger annual surplus in 2010. After 2010, the expense to revenue ratio decreases from 104% to 90% over the forecast period and as a result, annual surplus/(deficit) grows from a planned deficit of approximately \$79,309 in 2011 to a surplus of \$288,924 by 2019. It is important to note that an annual surplus is beneficial to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments.

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

that borrowing or rate increases are required to finance annual deficits. From Table 4-2, the financial plan proposes to add approximately \$3.1 million to a 2009 accumulated surplus of \$11.6 million over the forecast period. This accumulated surplus, as indicated in Table 4-2, is predominately made up of reserve and reserve fund balances as well as historical investments in tangible capital assets.

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

The Statement of Change in Net Financial Assets/Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (i.e. inventory supplies, prepaid expenses, tangible capital assets, etc.) and in so doing, explains the difference between the annual surplus/deficit and the change in net financial assets/debt for the period. Table 4-3 indicates that, in each year for the forecast period, forecasted annual surplus exceed forecasted tangible capital asset acquisitions (net of amortization for the year) resulting in an increase in net financial asset position in each year. This allows for a long term plan of funding capital through accumulated surplus (i.e. reserves and reserve funds). This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions improving from 1.04 to 1.90 over the forecast period¹.

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how the water system is expected to generate and use cash resources during the planning period. The transactions that provide/use cash are classified as operating, capital, investing, and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash and accrual based reporting. Table 4-4 indicates that cash from operations will be used to fund capital transactions (i.e. tangible capital asset acquisitions) and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the Town's water system to improve from a negative balance of approximately \$533,782 at the beginning of 2010, to a positive balance of approximately \$312,957 by the end of 2019. For further discussions, on projected cash balances please refer to the Notes to the Financial Plan.

¹ A desirable ratio is 1:1 or better.

TABLE 4-1
Town of Renfrew
Statement of Financial Position (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Forecast														
		Actual 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019					
Financial Assets																
Cash (Due from Town of Renfrew)	1	-	-	-	-	-	-	-	-	-	-	-	113,138	-	312,957	
Accounts Receivable	1	435,033	444,673	506,473	536,059	543,639	551,285	559,060	566,939	575,045	579,517	588,183	596,939	605,045	613,517	
Total Financial Assets		435,033	444,673	506,473	536,059	543,639	551,285	559,060	566,939	575,045	579,517	588,183	596,939	605,045	613,517	
Liabilities																
Bank Indebtedness (Due to Town of Renfrew)	1	183,757	283,075	440,633	421,531	348,562	274,754	189,803	101,754	-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	1	63,875	73,571	75,041	76,541	78,073	79,629	81,221	82,843	84,503	86,189	87,927	89,675	91,423	93,171	94,919
Debt (Principal only)	2	4,732,200	4,395,851	4,043,167	3,690,559	3,337,819	2,985,274	2,632,660	2,280,045	1,927,427	1,574,819	1,222,201	869,606	516,991	164,276	1,874,819
Deferred Revenue	3	106,378	110,979	115,987	121,385	127,200	133,159	139,263	145,515	151,933	158,520	165,262	172,159	179,111	186,129	193,197
Due to Ontario		66,916	66,916	66,916	66,916	66,916	66,916	66,916	66,916	66,916	66,916	66,916	66,916	66,916	66,916	66,916
Total Liabilities		5,153,126	4,930,392	4,741,744	4,376,932	3,988,570	3,539,732	3,109,863	2,737,073	2,410,779	2,186,444	1,964,829	1,742,921	1,521,011	1,299,129	1,077,246
Net Financial Assets/(Debt)		(4,718,093)	(4,485,719)	(4,235,271)	(3,840,873)	(3,414,931)	(2,988,447)	(2,550,803)	(2,170,134)	(1,722,596)	(1,293,970)	(896,646)	(494,082)	(94,142)	324,388	536,271
Non-Financial Assets																
Tangible Capital Assets	4	17,236,948	16,920,290	16,842,974	16,686,564	16,533,520	16,388,846	16,240,150	16,127,796	15,977,616	15,830,432	15,683,248	15,536,064	15,388,880	15,241,696	15,094,512
Inventory of Supplies		95,100	100,075	105,311	110,821	116,619	122,720	129,140	135,896	143,006	150,488	158,196	166,164	174,492	183,072	191,800
Total Non-Financial Assets		17,332,048	17,020,365	16,948,285	16,797,385	16,650,139	16,511,566	16,369,290	16,263,692	16,120,622	15,980,920	15,841,444	15,701,658	15,561,976	15,422,768	15,283,312
Accumulated Surplus/(Deficit)	5	12,613,955	12,534,646	12,713,014	12,956,512	13,235,208	13,523,119	13,818,487	14,093,568	14,368,649	14,643,730	14,918,811	15,193,892	15,468,973	15,744,054	16,019,135
Financial Indicators	Total Change	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019					
(1) Increase/(Decrease) in Net Financial Assets	3,471,793	47,670	232,374	250,448	394,398	425,942	426,484	437,644	380,669	447,538	428,626					
(2) Increase/(Decrease) in Tangible Capital Assets	(426,652)	979,864	(316,658)	(77,316)	(156,410)	(153,044)	(144,674)	(148,696)	(112,354)	(150,180)	(147,184)					
(3) Increase/(Decrease) in Accumulated Surplus	3,105,257	1,032,262	(79,309)	178,368	243,498	278,696	287,911	295,368	275,071	304,468	288,924					

TABLE 4-2
Town of Renfrew
Statement of Operations (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Forecast									
		Actual 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Water Revenue											
Base Charge Revenue		536,374	551,173	566,152	581,675	597,383	613,659	630,126	647,169	664,400	682,223
Rate Based Revenue		1,549,292	1,578,858	1,860,423	1,986,819	2,007,408	2,027,724	2,048,488	2,069,171	2,090,749	2,094,299
Other Revenue	6	912,238	4,467	4,567	4,665	4,757	4,860	4,955	5,051	5,150	5,247
Total Revenues		2,997,904	2,134,498	2,431,142	2,573,159	2,609,548	2,646,243	2,683,569	2,721,391	2,760,299	2,781,769
Water Expenses											
Operating Expenses	Sched. 4-1	1,461,169	1,666,840	1,700,150	1,782,140	1,790,840	1,826,090	1,863,170	1,928,910	1,937,520	1,976,720
Interest on Debt	2	119,714	124,309	128,309	116,111	104,968	93,569	82,334	71,056	63,132	56,941
Amortization	4	384,759	422,658	424,315	431,410	435,044	438,673	442,697	446,354	455,179	459,184
Total Expenses		1,965,642	2,213,807	2,252,774	2,329,661	2,330,852	2,358,332	2,388,201	2,446,320	2,455,831	2,492,845
Annual Surplus/(Deficit)		1,032,262	(79,309)	178,368	243,498	278,696	287,911	295,368	275,071	304,468	288,924
Accumulated Surplus/(Deficit), beginning of year	5	11,581,693	12,613,955	12,534,646	12,713,014	12,956,512	13,235,208	13,523,119	13,818,487	14,093,558	14,398,026
Accumulated Surplus/(Deficit), end of year		12,613,955	12,534,646	12,713,014	12,956,512	13,235,208	13,523,119	13,818,487	14,093,558	14,398,026	14,686,950
Note 5:											
Accumulated Surplus/(Deficit) is made up of:											
Reserve Balances											
Reserves: Development Charges		106,378	110,979	115,987	121,385	127,200	133,159	139,263	145,515	151,933	158,520
Reserves: Capital/Other		319,961	220,961	123,961	171,261	250,261	330,301	421,751	516,561	738,591	942,091
Total Reserves Balance		426,339	331,940	239,948	292,646	377,461	463,460	561,014	662,076	890,524	1,100,611
Less: Debt Obligations and Deferred Revenue		(4,838,578)	(4,506,830)	(4,159,154)	(3,811,944)	(3,485,019)	(3,118,433)	(2,771,923)	(2,485,560)	(2,259,360)	(2,033,339)
Less: Unfinanced Capital Expenditures		(210,754)	(210,754)	(210,754)	(210,754)	(210,754)	(210,754)	(210,754)	(210,754)	(210,754)	(210,754)
Add: Tangible Capital Assets	4	17,236,948	16,920,290	16,842,974	16,686,564	16,533,520	16,388,846	16,240,150	16,127,796	15,977,616	15,830,432
Total Ending Balance		12,613,955	12,534,646	12,713,014	12,956,512	13,235,208	13,523,119	13,818,487	14,093,558	14,398,026	14,686,950
Financial Indicators											
Total Change		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(1) Expense to Revenue Ratio		66%	104%	93%	91%	89%	89%	89%	90%	89%	90%
(2) Increase/(Decrease) in Accumulated Surplus		1,032,262	(79,309)	178,368	243,498	278,696	287,911	295,368	275,071	304,468	288,924

Schedule 4-1
Town of Renfrew
Schedule of Operating Expenses
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Forecast																		
		Actual 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019									
Expenditures																				
Operating Costs																				
Administration		66,199	72,700	74,210	75,750	77,310	78,900	80,520	82,070	83,750	85,360									
Labour and Related		353,214	445,400	454,300	463,350	472,570	481,960	491,620	501,450	511,460	521,660									
OCWA Operating Charges		668,570	710,540	724,750	739,210	754,040	769,050	784,440	800,120	816,090	832,360									
Utilities		4,995	6,000	6,120	6,240	6,360	6,490	6,620	6,750	6,890	7,030									
Maintenance		354,196	432,200	440,770	449,590	458,560	467,690	476,970	486,520	496,330	506,310									
Non TCA - Expenses from Capital Budget	7	13,995	-	-	48,000	22,000	22,000	23,000	52,000	23,000	24,000									
TOTAL OPERATING EXPENSES		1,461,169	1,666,840	1,700,150	1,782,140	1,790,840	1,826,090	1,863,170	1,928,910	1,937,520	1,976,720									

TABLE 4-3
Town of Renfrew
Statement of Changes in Net Financial Assets/Debt (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Actual		Forecast									
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
Annual Surplus/(Deficit)		1,032,262	(79,309)	178,368	243,498	278,696	287,911	295,368	275,071	304,468	288,924		
Less: Acquisition of Tangible Capital Assets	4	(1,364,623)	(106,000)	(347,000)	(275,000)	(282,000)	(294,000)	(294,000)	(334,000)	(305,000)	(312,000)		
Add: Amortization of Tangible Capital Assets	4	384,759	422,658	424,315	431,410	435,044	438,673	442,697	446,354	455,179	459,184		
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-		
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-		
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-		
Less: Acquisition of Supplies Inventory		52,398	237,349	255,683	399,908	431,740	432,584	444,065	387,425	454,647	436,108		
Less: Acquisition of Prepaid Expenses		(4,728)	(4,975)	(5,236)	(5,510)	(5,798)	(6,101)	(6,420)	(6,756)	(7,110)	(7,482)		
Increase/(Decrease) in Net Financial Assets/(Net Debt)		(4,728)	(4,975)	(5,236)	(5,510)	(5,798)	(6,101)	(6,420)	(6,756)	(7,110)	(7,482)		
Net Financial Assets/(Net Debt), beginning of year		47,670	232,374	250,448	394,398	425,942	426,484	437,644	380,669	447,538	428,626		
Net Financial Assets/(Net Debt), end of year		(4,765,763)	(4,718,093)	(4,485,719)	(4,235,271)	(3,840,873)	(3,414,931)	(2,988,447)	(2,550,803)	(2,170,134)	(1,722,596)		
		(4,718,093)	(4,485,719)	(4,235,271)	(3,840,873)	(3,414,931)	(2,988,447)	(2,550,803)	(2,170,134)	(1,722,596)	(1,293,970)		
Financial Indicators													
1) Acquisition of Tangible Capital Assets (Cumulative)		1,364,623	1,470,623	1,817,623	2,092,623	2,374,623	2,668,623	2,962,623	3,296,623	3,601,623	3,913,623		
2) Annual Surplus/Deficit before Amortization (Cumulative)		1,417,021	1,760,370	2,363,053	3,037,961	3,751,701	4,478,285	5,216,350	5,937,775	6,697,422	7,445,530		
3) Ratio of Annual Surplus before Amortization to Acquisition of TCAs (C		1.04	1.20	1.30	1.45	1.58	1.68	1.76	1.80	1.86	1.90		

TABLE 4-4
Town of Renfrew
Statement of Cash Flow - Indirect Method (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Actual	Forecast								
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating Transactions											
Annual Surplus/Deficit		1,032,262	(79,309)	178,368	243,498	278,686	287,911	295,368	275,071	304,468	288,924
Add: Amortization of TCA's	4	384,759	422,658	424,315	431,410	435,044	438,673	442,697	446,354	455,179	459,184
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Less: Earned Deferred Revenue	3	-	-	-	-	-	-	-	-	-	-
Less: Developer Contributions		-	-	-	-	-	-	-	-	-	-
Add: Development Charge Proceeds		4,217	4,601	5,008	5,398	5,815	5,959	6,104	6,252	6,418	6,587
Change in A/R (Increase)/Decrease		(32,306)	(9,640)	(61,799)	(29,586)	(7,580)	(7,645)	(7,776)	(7,879)	(8,106)	(4,472)
Change in A/P Increase/(Decrease)		(1,756)	9,696	1,470	1,500	1,532	1,556	1,592	1,622	1,660	1,686
Change in Inventory of Supplies (Increase)/Decrease		(4,728)	(4,975)	(5,236)	(5,510)	(5,798)	(6,101)	(6,420)	(6,756)	(7,110)	(7,482)
Cash Provided by Operating Transactions		1,382,448	343,031	542,126	646,710	707,709	720,353	731,565	714,664	752,509	744,427
Capital Transactions											
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(1,364,623)	(106,000)	(347,000)	(275,000)	(282,000)	(294,000)	(294,000)	(334,000)	(305,000)	(312,000)
Cash Applied to Capital Transactions		(1,364,623)	(106,000)	(347,000)	(275,000)	(282,000)	(294,000)	(294,000)	(334,000)	(305,000)	(312,000)
Investing Transactions											
Proceeds from Investments		-	-	-	-	-	-	-	-	-	-
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		-	-	-	-	-	-	-	-	-	-
Financing Transactions											
Proceeds from Debt Issue	2	652,200	-	-	-	-	-	-	-	-	-
Less: Debt Repayment (principal only)	2	(320,000)	(336,349)	(352,684)	(352,608)	(352,740)	(352,545)	(352,614)	(292,615)	(232,617)	(232,608)
Cash Applied to Financing Transactions		332,200	(336,349)	(352,684)	(352,608)	(352,740)	(352,545)	(352,614)	(292,615)	(232,617)	(232,608)
Increase in Cash and Cash Equivalents		350,025	(99,318)	(157,558)	19,102	72,969	73,808	84,951	88,049	214,892	199,819
Cash and Cash Equivalents, Beginning of Year	1	(533,782)	(183,757)	(283,075)	(440,633)	(421,531)	(348,562)	(274,754)	(189,803)	(101,754)	113,138
Cash and Cash Equivalents, end of year	1	(183,757)	(283,075)	(440,633)	(421,531)	(348,562)	(274,754)	(189,803)	(101,754)	113,138	312,957

WATER

NOTES TO FINANCIAL PLAN

The financial plan format as outlined in Chapter 4 closely approximates the full accrual format used by municipalities (2009 onward) on their audited financial statements. However, the financial plan is not an audited document and contains various estimates. In this regard, Section 3 (2) of O.Reg. 453/07 states the following:

“Each of the following sub-subparagraphs applies only if the information referred to in the sub-subparagraph is known to the owner at the time the financial plans are prepared:

1. Sub-subparagraphs 4 i A, B and C of subsection (1)
2. Sub-subparagraphs 4 iii A, C, E and F of subsection (1).”

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

- A. Total financial assets (i.e. cash and receivables);
- B. Total liabilities (i.e. payables, debt and deferred revenue);
- C. Net debt (i.e. the difference between A and B above).

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

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

In order to show a balanced financial plan in a full accrual format for the Town of Renfrew, 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

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

- a. Receivables: Based on historical levels of receivables as a percentage of annual revenue earned (source: prior years audited waterworks financial statements); and
- b. Payables: Based on historical levels of payables as a percentage of annual expenses incurred (source: prior years audited waterworks financial statements).

2. Debt

Outstanding water related debt at the end of 2009 was \$4.4 million, with the only additional debt proceeds anticipated throughout the forecast period being the new water debt incurred in 2010. Principal repayments over the forecast period are scheduled as follows:

Year	Principal Payments
2010	\$ 320,000
2011	\$ 336,349
2012	\$ 352,684
2013	\$ 352,608
2014	\$ 352,740
2015	\$ 352,545
2016	\$ 352,614
2017	\$ 292,615
2018	\$ 232,617
2019	\$ 232,608
Total	\$ 3,177,380

For financial reporting purposes, debt principal payments represent a decrease in debt liability and the interest payments represent a current year operating expense.

3. Deferred Revenue

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

4. Tangible Capital Assets

- Opening net book value of tangible capital assets includes water related assets in the following categories:
 - i. Infrastructure
 - ii. Facilities
 - iii. Vehicles
- Amortization is calculated based on using the straight-line approach with no amortization in the year of acquisition or construction.
- Given the planned asset replacement forecast in the capital forecast, useful life on acquisitions is assumed to be equal to the weighted average useful life for all assets on hand in each respective asset category.
- Write-offs are assumed to equal \$0 for each year in the forecast period.
- Tangible capital assets are shown on a net basis. It is assumed that disposals occur when the asset is being replaced, unless the asset is documented as a new asset. The value of each asset disposal is calculated by estimating the original purchase/construction date and deflating current replacement cost values to those estimated dates in order to calculate original historical cost.
- Gains/losses on disposal are assumed to be \$0 (it is assumed that historical cost is equal to accumulated amortization for all disposals).
- Residual value is assumed to be \$0 for all assets 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. However when older portions of the water main system are replaced as part of the ongoing replacement program, any lead service pipes will be replaced if and when found.

The balance of tangible capital assets is summarized as follows:

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Opening TCA Balance (Historical Cost)	19,418,753	20,770,073	20,870,927	21,157,657	21,422,294	21,693,441	21,975,799	22,257,626	22,544,630	22,836,463
Acquisitions	1,364,623	106,000	347,000	275,000	282,000	294,000	294,000	334,000	305,000	312,000
Disposals	13,303	5,146	60,270	10,363	10,853	11,642	12,173	46,996	13,167	13,522
Closing TCA Balance (Historical Cost)	20,770,073	20,870,927	21,157,657	21,422,294	21,693,441	21,975,799	22,257,626	22,544,630	22,836,463	23,134,941
Opening Accumulated Amortization	3,161,669	3,533,125	3,950,638	4,314,683	4,735,730	5,159,922	5,586,952	6,017,476	6,416,835	6,858,847
Amortization Expense	384,759	422,658	424,315	431,410	435,044	438,673	442,697	446,354	455,179	459,184
Amortization on Disposal	13,303	5,146	60,270	10,363	10,853	11,642	12,173	46,996	13,167	13,522
Ending Accumulated Amortization	3,533,125	3,950,637	4,314,683	4,735,730	5,159,921	5,586,953	6,017,476	6,416,834	6,858,847	7,304,509
Net Book Value	17,236,948	16,920,290	16,842,974	16,686,564	16,533,520	16,388,846	16,240,150	16,127,796	15,977,616	15,830,432

5. Accumulated Surplus

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

Water	2010 Opening
Reserve Balances	
Reserves: Development Charges	102,161
Reserves: Capital/Other	442,208
Total Reserves Balance	544,369
Less: Debt Obligations and Deferred Revenue	(4,502,161)
Less: Unfinanced Capital Expenditures from 2009	(717,599)
Add: Tangible Capital Assets	16,257,084
Total Opening Balance	11,581,693

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

6. Other revenue

Other revenue includes miscellaneous revenue and other non-operating general revenues.

7. Operating Expenses

Capital expenditures for items not meeting the definition of tangible capital assets have been reclassified as operating expenses and have been expensed in the year in which they occur.

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

5. PROCESS FOR APPROVAL AND SUBMISSION TO THE PROVINCE

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

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

6. RECOMMENDATIONS

6. RECOMMENDATIONS

This report presents the water financial plan for the Town of Renfrew 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 2010 Rate Study as well as the approved operating and capital forecasts. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Town of Renfrew Water Financial Plan prepared by Watson & Associates Economists Ltd. dated June 13, 2011 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. Submit the Financial Plan and the Council Resolution approving the Financial Plan to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3 (1) 6)
4. Submit the Council Resolution approving the Financial Plan, to the Ministry of the Environment, satisfying the requirements under the Safe Drinking Water Act. (SDWA Section 32 (5) 2 ii))¹

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

**APPENDIX A
2010 WATER AND WASTEWATER RATE STUDY –
WATER SUMMARY TABLES
(REVISED)**

Table A-1
Town of Renfrew
Water Service
Capital Budget Forecast
 Inflated \$

Description	Forecast										
	Actual 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Capital Expenditures											
Barr/Quarry - Water	1,012,790										
W 02 - 1/2 ton truck replaced 2009								34,000			
W 04 - 2005 Crew Cab			48,000								
Leak Detection				27,000				29,000			
Infrastructure Revitalization				212,000	216,000	221,000	225,000	230,000	234,000	239,000	
Directional flushing model											
Raglan / Mutual	104,309										
Fire Flow Testing	13,995										
OCWA WTP Capital	36,759	106,000	59,000	63,000	66,000	67,000	69,000	70,000	71,000	73,000	
Upstaffing for Water Tower											
Water Tower	41,046										
Chloramination Upgrade - Allowance			120,000								
Actiflow Treatment - Allowance			120,000								
Kedrosky Pumping Station- emergency repairs											
Replace Watermain Locator	4,907					6,000					
Water Meter Maintenance				21,000	22,000	22,000	23,000	23,000	23,000	24,000	
June Street Rehabilitation	164,812										
Total Capital Expenditures	1,378,618	106,000	347,000	323,000	304,000	316,000	317,000	386,000	328,000	336,000	
Capital Financing											
Provincial/Federal Grants											
Building Canada Fund (Barr/Quarry) - Federal	297,433										
Building Canada Fund (Barr/Quarry) - Ontario	297,433										
ISF - Federal	42,222										
ISF - Ontario	42,222										
Federal Gas Tax	190,184										
Investing in Ontario	40,184										
Debtentures:											
Water Tower	41,046										
Raglan / Mutual	104,309										
Non-Growth Debtenture Requirements											
Growth Related Debtenture Requirements											
Operating Contributions	265,751										
Development Charges											
Lifecycle Reserve	57,834	106,000	347,000	323,000	304,000	316,000	317,000	386,000	328,000	336,000	
Reserves and Reserve Funds											
Total Capital Financing	1,378,618	106,000	347,000	323,000	304,000	316,000	317,000	386,000	328,000	336,000	

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

Debenture Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010										
2011										
2012										
2013										
2014										
2015										
2016										
2017										
2018										
2019										
Total Annual Debt Charges										

Table A-3
Town of Renfrew
Water Service
Schedule of Non-Growth Related Debenture Repayments - Water Tower
 Inflated \$

Debenture Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010		30,860	60,620	59,090	57,770	56,120	54,740	53,290	51,840	50,380
		30,860	60,620	59,090	57,770	56,120	54,740	53,290	51,840	50,380
Total Annual Debt Charges										

Rate
 Borrowing Term (Years)

Table A-4
Town of Renfrew
Water Service
Schedule of Growth Related Debenture Repayments
 Inflated \$

Debtenture Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010										
2011										
2012										
2013										
2014										
2015										
2016										
2017										
2018										
2019										
Total Annual Debt Charges										

Table A-5
Town of Renfrew
Water Service
Water Development Charges Reserve Fund Continuity -
 Inflated \$

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Opening Balance	102,160	106,377	110,978	115,986	121,384	127,199	133,158	139,263	145,514	151,932
Development Charge Proceeds	3,164	3,502	3,860	4,196	4,556	4,641	4,725	4,811	4,914	5,018
Transfer from Wastewater DC Reserve (Correction)										
Transfer to Capital	-	-	-	-	-	-	-	-	-	-
Transfer to Operating	-	-	-	-	-	-	-	-	-	-
Closing Balance	105,324	109,879	114,838	120,182	125,940	131,840	137,884	144,073	150,428	156,950
Interest	1,053	1,099	1,148	1,202	1,259	1,318	1,379	1,441	1,504	1,569
Required from Development Charges										

Table A-6
Town of Renfrew
Water Service
Water Lifecycle Reserve Fund Continuity
 Inflated \$

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Opening Balance	442,208	319,961	220,961	123,961	171,261	250,261	330,301	421,751	516,561	738,591
Transfer from Operating		7,000	250,000	370,300	383,000	396,040	408,450	480,810	550,030	539,500
Transfer to Capital	57,834	106,000	347,000	323,000	304,000	316,000	317,000	386,000	328,000	336,000
Transfer to Operating	64,413									
Closing Balance	319,961	220,961	123,961	171,261	250,261	330,301	421,751	516,561	738,591	942,091

Table A-7
Town of Renfrew
Water Services
Operating Budget Forecast
 Inflated \$

Description	Forecast										
	Actual 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Expenditures											
Operating Costs											
Administration	66,199	72,700	74,210	75,750	77,310	78,900	80,520	82,070	83,750	85,360	
Labour and Related	353,214	445,400	454,300	463,350	472,570	481,960	491,620	501,450	511,460	521,660	
OCWA Operating Charges	668,570	710,540	724,750	739,210	754,040	769,050	784,440	800,120	816,090	832,360	
Utilities	4,995	6,000	6,120	6,240	6,360	6,490	6,620	6,750	6,890	7,030	
Maintenance	354,196	432,200	440,770	449,590	458,560	467,690	476,970	486,520	496,330	506,310	
Sub Total Operating	1,447,174	1,666,840	1,700,150	1,734,140	1,768,840	1,804,090	1,840,170	1,876,910	1,914,520	1,952,720	
Capital-Related											
Existing Debt - 2006 Plant Upgrade - Principal	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	
Existing Debt - 2006 Plant Upgrade - Interest	82,120	77,373	72,998	67,651	63,080	58,320	53,703	49,067	43,909	39,169	
Existing Debt - 2006 Water Meters - Principal	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	
Existing Debt - 2006 Water Meters - Interest	37,595	32,425	27,376	21,979	16,859	11,675	6,505	1,314	32,615	32,608	
New Debt - Water Tower- Principal Payment		16,349	32,684	32,608	32,740	32,545	32,614	32,615	32,617	32,608	
New Debt - Water Tower - Interest Payment		14,511	27,936	26,482	25,030	23,575	22,126	20,675	19,223	17,772	
Existing Debt - Growth Related											
New Non-Growth Related Debt											
New Growth Related Debt											
Capital From Current	265,751										
Transfer to Water Reserve Fund											
Sub Total Capital Related	705,465	460,658	480,993	468,719	457,708	446,114	434,948	363,671	295,749	289,549	
Total Expenditures	2,152,639	2,127,498	2,181,143	2,202,859	2,226,548	2,250,204	2,275,118	2,240,581	2,210,269	2,242,269	
Revenues											
Base Charge	536,374	551,173	566,152	581,675	597,383	613,659	630,126	647,169	664,400	682,223	
Miscellaneous Revenue	138	241	246	251	256	262	267	272	277	283	
Other Fees And Charges	1,718	2,998	3,065	3,131	3,192	3,262	3,324	3,390	3,456	3,521	
Customer Charges	704	1,229	1,257	1,283	1,309	1,337	1,363	1,390	1,417	1,444	
Contributions from Development Charges Reserve Fund											
Contributions from Reserves / Reserve Funds											
Total Operating Revenue	538,934	555,640	570,720	586,340	602,140	618,520	635,080	652,220	669,550	687,470	
Water Billing Recovery - Operating	1,613,705	1,571,858	1,610,423	1,616,519	1,624,408	1,631,684	1,640,038	1,588,361	1,540,719	1,554,799	
Lifecycle Reserve Contribution (\$)	-64,413	7,000	250,000	370,300	383,000	396,040	408,450	480,810	550,030	539,500	
Water Billing Recovery - Total	1,549,292	1,578,858	1,860,423	1,986,819	2,007,408	2,027,724	2,048,488	2,069,171	2,090,749	2,094,299	

