
Township of Wellington North

**2020 O.Reg 453/07 Water System Financial Plan No. 113-301A
and Wastewater System Financial Plan (Final)**



DFA Infrastructure International Inc.

November 13, 2020



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November 13, 2020

Matthew Aston
Director of Operations
Township of Wellington North
7490 Sideroad 7 W
Kenilworth, Ontario
N0G 2E0

Re: 2020 O.Reg 453/07 Water System Financial Plan No. 113-301A and Wastewater System Financial Plan (Final)

Dear Matt:

We are pleased to submit to you the above noted report entitled: "2020 O. Reg 453/07 Water System Financial Plan and Wastewater System Financial Plan (Final)". The water and wastewater financial plans are based on the results of the Township's water and wastewater rate study that will be presented to your Council at the November 23rd Council meeting.

Yours truly,

DFA Infrastructure International Inc.

Derek Ali, MBA, P.Eng.

President

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1 Introduction

1.1 Background`

Regulation 188/07 under the Safe Drinking Water Act requires Ontario municipalities to apply for and obtain Drinking Water System Licences as part of their overall DWQMS. One of the requirements of holding a valid drinking water licence is preparing and submitting to the Province an updated financial plan in accordance with O.Reg. 453/07. The financial plan must include financial statements on the following:

- The proposed or projected financial position of the drinking water systems;
- The proposed or projected gross cash receipts and gross cash payments;
- The proposed or projected financial operations of the drinking water system; and
- Details on the extent to which the above information applies to the replacement of lead service pipes, if applicable.

Appendix A lists each requirement of the regulation and references the respective financial statements and other relevant information required under each regulatory requirement. The financial plan must apply to a period of at least six (6) years with the first year being the year the existing license expires. In the Township's case an updated Water System Financial Plan is required for the period 2021 to 2026.

It is important to note that the water system financial plan, along with the accompanying wastewater system financial plan are based on the results of the Township's 2020 Water of Wastewater Rate Study and O. Reg 453/07 Financial Plan.

Upon Council's approval, the financial plans will be made available to the public at no charge and posted on the Township's website. The plans will also be submitted to the Province as part of the Township's drinking water license renewal application.

2 O.Reg 453/07 Water System Financial Plan No. 113-301A

This section presents an updated water system financial plan as defined in O.Reg. 453/07, thereby allowing the Township to fulfil its obligations under the drinking water licensing regulations for the renewal of its drinking water systems license. The number for the updated financial plan is 113-301A

2.1 Water Tangible Capital Assets (TCA) Analysis

As noted in the introduction the results of the 2020 Water and Wastewater Rate Study are used as the basis for preparing the water system financial plan. The Township's Tangible Capital Asset inventories were also used in the preparation of the water system financial plan. The amortization of the tangible capital assets is shown as a "non-cash" annual cost that reflects the annual "use" of assets until the end of their respective useful lives.

Allowances are made to finance the replacement and/ or rehabilitation of the existing assets once they “expire” and can no longer play a role in providing the required drinking water service to customers. It should be noted however that since amortization is based on the original (historical) cost at the time the asset was placed in service it does not account for inflation since the year of installation. Therefore, basing asset replacement costs on amortization alone is not sufficient to cover the future replacement needs.

The TCA projections contained in the Township’s water system financial plan are based on the following assumptions:

- Amortization of existing assets is based on the Township’s Tangible Capital Assets Policies and Procedures. Amortization of new infrastructure investments is based on straight line depreciation with half year depreciation charged in the year of acquisition;
- Historical costs, life expectancy and remaining useful life are as identified in the TCA data provided by the Township;
- Fully depreciated assets continue to be used in service i.e. no asset removals; and
- New assets to be acquired are based on the capital forecast presented. The forecast includes projects in the Township’s Capital Budget Forecast, 2018 Development Charges Study and asset replacement projections based on an analysis of the Township’s tangible capital asset inventories.

Water Asset Value

The water system is comprised of the following asset classes:

- Wells and Storage, and
- Watermains

Table 2-1 shows the current capital asset value based on historical cost and accumulated amortization to 2021. This is reflected as the net book value (NBV) i.e. the “accounting” value, and indicates that the water system as a whole is approximately 33% depreciated or has approximately 67% remaining life based on the TCA data. This suggests that the water system assets are relatively new.

Table 2-1: Water – Asset Amortization and Book Value (NBV)

2021 Water Asset Details			
Historical Cost	\$	26,775,219	100%
Accumulated Amortization	\$	8,835,962	33%
Net Book Value	\$	17,939,257	67%

2.2 Water Financial Statements

This financial plan involves the review, analysis and assessment of financial information contained in the rate study including costs, revenues, debt, cash transactions and Tangible Capital Assets (TCA) to prepare the following three (3) financial statements covering the period 2021 – 2026 as required under O.Reg 453/07:

- Statement of Financial Position;
- Statement of Operations; and
- Statement of Cash Flow

2.2.1 Water - Statement of Financial Position

The Statement of Financial Position is presented in Table 2-2. This statement summarizes the Township's water-related financial and non-financial assets i.e. Tangible Capital Assets (TCA) and liabilities, and provides the net financial asset (or net debt) position and accumulated surplus related to managing the water system. The financial assets are primarily cash balances in the water reserves and reserve funds. Liabilities consist of the water deferred revenues and long-term debt. The non-financial assets (TCA) include the Township's water infrastructure. The historical costs are amortized over the asset life to arrive at the net book value each year from 2021 to 2026. New assets are added in the years acquired, developed or built. Contributed assets are primarily new infrastructure and facilities that would be transferred to the Township's ownership and control by developers as they are completed. However this is assumed to be zero. It is also assumed that other non-financial assets such as inventory and prepaid expenses are zero.

Contained within the Statement of Financial Position are important indicators, the first being net financial assets (or net debt) which is defined as the difference between financial assets and liabilities. This indicator provides a measure of the water system's "future revenue requirement". Table 2-2 indicates that in 2021, the Township's water system will be in a financial asset position of \$4.2 million. This will decrease to a net debt position of \$1.6 million by 2026. The net debt position indicates that additional financial resources will be required to fund future operations. The trend to the net debt position is due to a significant increase of long-term debt and increase deferred revenues, offset by an increase of cash balances.

The next important indicator contained in the Statement of Financial Position is the net book value of TCA. Table 2-2 shows that net TCA are expected to increase over the forecast period by about \$13.2 million. This indicates that the Township has plans to invest in tangible capital assets greater than the consumption of existing assets. Further, a consumption ratio consisting of the accumulated amortization of the Township's TCA as a percent of historical cost ratio highlights the aged condition of the assets and their potential replacement needs. The Township's Water Asset Consumption Ratio decreases over the forecast period from 33% to 18%, suggesting that the water system would be less than a quarter through its life expectancy by 2026. As this percentage is decreasing over time, it indicates the Township is allocating adequate funds to finance the replacement or rehabilitation of aging assets as they expire.

Another important indicator in the Statement of Financial Position is the accumulated surplus. This indicator provides a measure of the resources available to the Township for managing its water system. The accumulated surplus is projected to increase from approximately \$22.2 million in 2021 to approximately \$29.5 million by 2026. The accumulated surplus consists of non-financial assets that are made up of the net TCA balance representing past investments in water infrastructure, offset by the net debt balances.

Table 2-2: Water – Statement of Financial Position

	2021	2022	2023	2024	2025	2026
Financial Assets						
Cash, Receivables and Investment	\$5,623,913	\$6,536,908	\$7,309,960	\$7,377,862	\$6,299,693	\$7,045,904
Total Financial Assets	\$5,623,913	\$6,536,908	\$7,309,960	\$7,377,862	\$6,299,693	\$7,045,904
Financial Liabilities						
Accounts Payable & Deferred Revenue	\$1,033,584	\$1,477,588	\$1,704,064	\$1,928,692	\$2,006,296	\$1,610,628
Long-term Liabilities	\$348,487	\$2,607,835	\$2,550,794	\$3,667,622	\$7,328,139	\$7,043,572
Total Financial Liabilities	\$1,382,071	\$4,085,423	\$4,254,859	\$5,596,313	\$9,334,435	\$8,654,200
Net Financial Assets (Net Debt)	\$4,241,842	\$2,451,485	\$3,055,101	\$1,781,548	(\$3,034,742)	(\$1,608,295)
Non-Financial Assets						
Tangible Capital Assets	\$26,775,219	\$29,467,552	\$30,033,771	\$32,413,880	\$37,071,228	\$38,199,384
Accumulated Amortization	(\$8,835,962)	(\$8,665,797)	(\$8,477,039)	(\$8,173,065)	(\$6,549,605)	(\$7,044,867)
Total Non-Financial Assets	\$17,939,257	\$20,801,755	\$21,556,733	\$24,240,814	\$30,521,622	\$31,154,518
Accumulated Surplus	\$22,181,099	\$23,253,239	\$24,611,834	\$26,022,363	\$27,486,881	\$29,546,222
Financial Indicators						
Increase (Decrease) in Net Financial Assets	(\$1,045,722)	(\$1,790,357)	\$603,617	(\$1,273,553)	(\$4,816,290)	\$1,426,446
Increase (Decrease) in Tangible Capital Assets	\$2,111,594	\$2,862,498	\$754,978	\$2,684,081	\$6,280,808	\$632,895
Increase (Decrease) in Accumulated Surplus	\$1,065,872	\$1,072,141	\$1,358,595	\$1,410,529	\$1,464,518	\$2,059,342
Water Asset Consumption Ratio	33%	29%	28%	25%	18%	18%

2.2.2 Water - Statement of Operations

The Statement of Operations is presented in Table 2-3. It summarizes the annual revenues and expenses associated with managing the Township's water system. It provides a report on the transactions and events that have an influence on the accumulated surplus. The main revenue items included are:

- Revenues from water rates and charges;
- Earned revenues, and
- Other Revenues (meter and backflow fees, service connection fees, miscellaneous fees and charges).

The main expense items are:

- The annual cost of operating and maintaining the water systems;
- Interest on long-term debt; and
- Amortization expenses on existing and added TCA.

The operating surplus (or deficit) is an important indicator contained in the Statement of Operations. An operating surplus (deficit) measures whether operating revenues generated in a year were sufficient to cover operating expenses incurred in that year. It is important to note that an annual surplus is necessary to ensure funds will be available to address non-expense items such as TCA acquisitions over and above amortization expenses, reserve/reserve fund contributions for asset replacement and rate stabilization, and repayment of

outstanding debt principal. A ratio of operating surplus to total revenue is shown in Table 2-3 and reflects the percent of total revenue that can be allocated to funding the non-expense items noted above.

Table 2-3: Water – Statement of Operation

	2021	2022	2023	2024	2025	2026
Water Revenue						
Rate Revenue	\$2,629,318	\$2,722,156	\$2,817,188	\$2,914,458	\$3,014,012	\$3,115,898
Earned Revenue	\$0	\$41,903	\$317,142	\$337,441	\$501,570	\$986,590
Other Revenue	\$141,249	\$149,302	\$157,775	\$159,535	\$145,103	\$157,864
Total Revenues	\$2,770,567	\$2,913,361	\$3,292,105	\$3,411,435	\$3,660,685	\$4,260,352
Water Expenses						
Operating Expenses	\$1,307,556	\$1,380,000	\$1,360,382	\$1,387,589	\$1,415,341	\$1,443,648
Interest on Debt	\$0	\$12,197	\$91,274	\$89,278	\$128,367	\$0
Amortization	\$397,139	\$449,023	\$481,854	\$524,039	\$652,460	\$757,363
Total Expenses	\$1,704,695	\$1,841,220	\$1,933,510	\$2,000,906	\$2,196,168	\$2,201,010
Annual Surplus/(Deficit)	\$1,065,872	\$1,072,141	\$1,358,595	\$1,410,529	\$1,464,517	\$2,059,341
Accumulated Surplus/(Deficit), Beginning of Year	\$21,115,226	\$22,181,099	\$23,253,240	\$24,611,835	\$26,022,363	\$27,486,881
Accumulated Surplus/ (Deficit), End of Year	\$22,181,099	\$23,253,240	\$24,611,835	\$26,022,363	\$27,486,881	\$29,546,222
Financial Indicators						
Increase (Decrease) in Total Revenues	\$45,660	\$142,794	\$378,744	\$119,330	\$249,250	\$599,667
Increase (Decrease) in Total Expenses	\$27,978	\$136,525	\$92,290	\$67,396	\$195,261	\$4,843
Increase (Decrease) in Annual Surplus	\$17,681	\$6,269	\$286,454	\$51,934	\$53,989	\$594,824
Operating Surplus Ratio	38.5%	36.8%	41.3%	41.3%	40.0%	48.3%

2.2.3 Water - Statement of Cash Flows

The Statement of Cash Flow is presented in Table 2-4. This statement summarizes the main cash inflows and outflows related to the water system in four (4) main areas - operating, capital, investing and financing, and shows the annual changes in cash.

The operating cash transactions begin with the surplus or deficit identified in the Statement of Operations. This figure is adjusted to add or subtract non-cash items that were included as revenues or expenses (e.g. amortization expenses and earned revenues). It is assumed that there are no “investing activities” over the period. The capital section indicates the amounts to be spent to acquire capital assets (TCA) or to be received from the sale of assets. In the Township’s case, it is assumed that there are no assets to be sold to generate cash. The financing section identifies funds external sources, proceeds from the issuance of debenture as cash inflows, and the portion of debt repaid as cash outflows.

Table 2-4 indicates that cash is being generated from operations, which is used in funding the acquisition of TCA and towards building internal reserves. The Town's cash position is projected to increase over the forecast period from \$5.6 million in 2021 to a \$7.0 million in 2026.

Table 2-4: Water – Statement of Cash Flow

	2021	2022	2023	2024	2025	2026
Cash Provided by:						
Operating Activities						
Annual Surplus/(Deficit)	\$1,065,872	\$1,072,141	\$1,358,595	\$1,410,529	\$1,464,517	\$2,059,341
Non-Cash Items						
Amortization	\$397,139	\$449,023	\$481,854	\$524,039	\$652,460	\$757,363
Earned Revenue	\$0	(\$41,903)	(\$317,142)	(\$337,441)	(\$501,570)	(\$986,590)
Net Change in Cash Provided by Operating Activities	\$1,463,011	\$1,479,262	\$1,523,308	\$1,597,126	\$1,615,407	\$1,830,114
Capital Activities						
Purchase of TCA	(\$2,508,732)	(\$3,311,521)	(\$1,236,832)	(\$3,208,121)	(\$6,933,268)	(\$1,390,258)
Net Change in Cash Used in Capital Activities	(\$2,508,732)	(\$3,311,521)	(\$1,236,832)	(\$3,208,121)	(\$6,933,268)	(\$1,390,258)
Financing Activities						
DC Collections	\$466,803	\$485,906	\$543,618	\$562,069	\$579,174	\$590,922
External Financing	\$0	\$0	\$0	\$0	\$0	\$0
Proceeds From Long-Term Debt	\$348,487	\$2,289,054	\$168,826	\$1,364,991	\$4,033,720	\$445,538
Repayment of Long-Term Debt	\$0	(\$29,706)	(\$225,867)	(\$248,164)	(\$373,203)	(\$730,105)
Net Change in Cash Used in Financing Activities	\$815,290	\$2,745,254	\$486,577	\$1,678,896	\$4,239,692	\$306,355
Net Change in Cash and Cash Equivalents	(\$230,432)	\$912,995	\$773,052	\$67,902	(\$1,078,169)	\$746,211
Cash and Cash Equivalents, Beginning of the Year	\$5,854,345	\$5,623,913	\$6,536,908	\$7,309,960	\$7,377,862	\$6,299,693
Cash and Cash Equivalents, End of the Year	\$5,623,913	\$6,536,908	\$7,309,960	\$7,377,862	\$6,299,693	\$7,045,904

2.3 Lead Service Pipe Removal

The financial plan is also required to detail the extent to which the information described above relates directly to the replacement of lead service pipes. There are no known lead service pipes in the Township. There is no dedicated lead service pipe removal program in place. If lead pipe is discovered during normal operations, it is replaced accordingly. Therefore, there are no significant material financial costs associated with lead pipe removal.

3 Wastewater System Financial Plan

Preparing a wastewater system financial plan is not mandatory but has become a municipal best practice over the past few years. It is typically prepared in accordance with the requirements of O.Reg 453/07 which applies to water systems.

This financial plan involves the review, analysis and assessment of financial information contained in the 2020 water and wastewater rate study including costs, revenues, debt, cash transactions and Tangible Capital Assets (TCA) to prepare the following three (3) financial statements covering the period 2021 to 2026 as required under O.Reg. 453/07:

- Statement of Financial Position;
- Statement of Operations; and
- Statement of Cash Flow.

The wastewater system financial plan applies to a period of (6) six years from 2021 to 2026 to be consistent with the period covered by the water system financial plan. It is anticipated that the financial plan would be made available to the public at no charge on the Town's website following final approval of the rate study and financial plan by Council.

3.1 Wastewater Tangible Capital Assets (TCA) Analysis

As in the preparation of the water system financial plan, the results of the 2020 water and wastewater rate study are used as the basis for preparing the wastewater system financial plan. The Township's Asset Inventories were also used in the preparation of the wastewater system financial plan. The amortization of the tangible capital assets is shown as a "non-cash" annual cost that reflects the annual "use" of assets until the end of their respective useful lives. Allowances are made to finance the replacement and/ or rehabilitation of the existing assets once they "expire" and can no longer play a role in providing the required wastewater service to customers. However, it should be noted that since amortization is based on the original (historical) cost at the time the asset was placed in service it does not account for inflation since the year of installation. Therefore, basing asset replacement costs on amortization alone is not sufficient to cover the future replacement needs.

The TCA projections contained in the Township's wastewater financial plan are based on the following assumptions:

- Amortization of existing assets is based on the Township's Tangible Capital Assets policies and procedures. Amortization of new infrastructure investments is based on straight line depreciation with half year depreciation charged in the year of acquisition.
- Historical costs, life expectancy and remaining useful life as per the TCA data provided by the Township;
- Fully depreciated assets continue to be used in service i.e. no asset removals; and
- New assets to be acquired are based on the capital forecast. The forecast includes projects in the Township's Capital Budget Forecast, 2018 Development Charges Study and asset replacement projections based on an analysis of the Township's tangible capital asset inventories.

Wastewater Asset Value

The wastewater system is comprised of the following asset classes:

- Pump Stations and Lagoons
- Forcemains
- Sanitary Mains, and
- Wastewater Treatment Plant

Table 3-1 shows the current capital asset value based on historical cost and accumulated amortization to 2021. This is reflected as the net book value (NBV) i.e. the "accounting" value, and indicates that the wastewater

system as a whole is approximately 31% depreciated or has approximately 69% remaining life based on the TCA data. This suggests that the water system assets are relatively new.

Table 3-1: Wastewater – Asset Amortization and 2020 Net Book Value (NBV)

2021 Wastewater Asset Details		
Historical Cost	\$ 42,562,906	100%
Accumulated Amortization	\$ 12,999,913	31%
Net Book Value	\$ 29,562,993	69%

3.2 Wastewater Financial Statements

This financial plan involves the review, analysis and assessment of financial information contained in the rate study including costs, revenues, debt, cash transactions and Tangible Capital Assets (TCA) to prepare the following three (3) financial statements covering the period 2021 – 2026 as required under O.Reg 453/07:

- Statement of Financial Position;
- Statement of Operations; and
- Statement of Cash Flow.

3.2.1 Wastewater - Statement of Financial Position

The Statement of Financial Position is presented in Table 3-2. This statement summarizes the Township’s wastewater related financial and non-financial assets (Tangible Capital Assets – TCA) and liabilities and provides the net financial asset/ (net debt) position and accumulated surplus related to managing the wastewater system. The financial assets are primarily cash balances in the wastewater reserves and reserve funds. Liabilities consist of wastewater deferred revenues and long-term debt. The non-financial assets (TCA) include the Township’s wastewater infrastructure. The historical costs are amortized over the asset life to arrive at the net book value each year from 2021 to 2026. New assets are added in the years acquired, developed or built. Contributed assets are primarily new infrastructure that would be transferred to the Township’s ownership and control by developers as they are completed. However, this is assumed to be zero. It is also assumed that other non-financial assets such as inventory and prepaid expenses are zero.

Contained within the Statement of Financial Position are important indicators, the first being net financial assets (or net debt) which is defined as the difference between financial assets and liabilities. This indicator provides a measure of the wastewater system's "future revenue requirement". Table 3.2 indicates that in 2021, the Township's wastewater system will be in a net debt position in the amount of \$3.2 million. There will be change to a net financial asset position of \$1.0 million by 2026. The net financial asset position indicates that financial resources will be available to fund future operations. The change to a net financial asset position is due to a combination of a decrease liabilities through a decrease in long-term debt with a decrease in deferred revenues, and an increase in the cash position.

The next important indicator contained in the Statement of Financial Position is the net book value of TCA. Table 3-2 shows that net TCA are expected to grow by \$8.4 million over the forecast period, or from \$29.6 million in 2021 to \$37.9 million in 2026. This indicates that the Township has plans to invest in tangible capital assets in excess of the consumption of existing assets. Further, a consumption ratio consisting of the accumulated amortization of the Township's TCA as a percent of historical cost ratio highlights the aged condition of the assets and their potential replacement needs. The Township's Wastewater Asset Consumption Ratio will decrease from 31% in 2021 to 28% in 2026. As this percentage is decreasing over time, it indicates the Township is allocating adequate funds to finance the replacement or rehabilitation of aging assets as they expire.

Another important indicator in the Statement of Financial Position is the accumulated surplus. This indicator provides a measure of the resources available to the Township for managing its water system. The accumulated surplus is projected to increase from approximately \$26.3 million in 2021 to approximately \$38.9 million by 2026. The accumulated surplus consists of non-financial assets that are made up of the net TCA balance representing past investments in wastewater infrastructure, and net financial assets that consist of cash balances, offset by deferred revenues and long-term debt.

Table 3-2: Wastewater - Statement of Financial Position

	2021	2022	2023	2024	2025	2026
Financial Assets						
Cash, Receivables and Investment	\$6,023,404	\$5,639,779	\$6,248,399	\$6,659,972	\$5,512,722	\$6,529,884
Total Financial Assets	\$6,023,404	\$5,639,779	\$6,248,399	\$6,659,972	\$5,512,722	\$6,529,884
Financial Liabilities						
Accounts Payable & Deferred Revenue	\$4,441,471	\$3,998,925	\$4,502,398	\$5,075,889	\$3,881,356	\$3,825,186
Long-term Liabilities	\$4,828,531	\$4,153,231	\$3,448,989	\$2,714,480	\$2,208,280	\$1,684,363
Total Financial Liabilities	\$9,270,002	\$8,152,156	\$7,951,387	\$7,790,369	\$6,089,636	\$5,509,550
Net Financial Assets (Net Debt)	(\$3,246,598)	(\$2,512,377)	(\$1,702,988)	(\$1,130,398)	(\$576,914)	\$1,020,335
Non-Financial Assets						
Tangible Capital Assets	\$42,562,906	\$44,631,124	\$46,081,959	\$47,802,853	\$51,093,078	\$52,799,541
Accumulated Amortization	(\$12,999,913)	(\$13,329,323)	(\$13,812,792)	(\$14,249,447)	(\$14,369,043)	(\$14,889,555)
Total Non-Financial Assets	\$29,562,993	\$31,301,801	\$32,269,167	\$33,553,406	\$36,724,035	\$37,909,987
Accumulated Surplus	\$26,316,395	\$28,789,425	\$30,566,179	\$32,423,009	\$36,147,121	\$38,930,321
Financial Indicators						
Increase (Decrease) in Net Financial Assets	\$847,689	\$734,221	\$809,388	\$572,591	\$553,484	\$1,597,249
Increase (Decrease) in Tangible Capital Assets	\$2,569,493	\$1,738,808	\$967,366	\$1,284,239	\$3,170,629	\$1,185,952
Increase (Decrease) in Accumulated Surplus	\$3,417,181	\$2,473,029	\$1,776,754	\$1,856,830	\$3,724,112	\$2,783,200
Water Asset Consumption Ratio	31%	30%	30%	30%	28%	28%

3.2.2 Wastewater - Statement of Operations

The Statement of Operations is presented in Table 3-3. It summarizes the annual revenues and expenses associated with managing the Township's wastewater system. It provides a report on the transactions and events that have an influence on the accumulated surplus. The main revenue items included are:

- Revenues from wastewater rates and charges;
- Earned Revenues; and
- Other Revenues (service connection fees, and miscellaneous fees and charges).

The main expense items are:

- The annual cost of operating and maintaining the wastewater system;
- Interest on long-term debt; and
- Amortization expenses on existing and new TCA.

The operating surplus/ (deficit) is an important indicator contained in the Statement of Operations. An operating surplus/ (deficit) measures whether operating revenues generated in a year were sufficient to cover operating expenses incurred in that year. It is important to note that an annual surplus is necessary to ensure funds will be available to address non-expense items such as TCA acquisitions over and above amortization expenses, reserve/reserve fund contributions for asset replacement and rate stabilization, and repayment of outstanding debt principal. A ratio of operating surplus to total revenue is shown in Table 3-3 and reflects the percent of total revenue that can be allocated to funding the non-expense items noted above.

Table 3-3: Wastewater - Statement of Operations

	2021	2022	2023	2024	2025	2026
Water Revenue						
Rate Revenue	\$3,015,355	\$3,125,202	\$3,237,666	\$3,352,800	\$3,470,661	\$3,591,302
Earned Revenue	\$2,764,211	\$1,752,026	\$960,106	\$939,407	\$2,736,192	\$1,641,947
Other Revenue	\$36,870	\$37,944	\$39,596	\$39,957	\$38,885	\$51,557
Total Revenues	\$5,816,436	\$4,915,172	\$4,237,368	\$4,332,165	\$6,245,737	\$5,284,806
Water Expenses						
Operating Expenses	\$1,437,284	\$1,466,030	\$1,495,350	\$1,525,257	\$1,555,762	\$1,586,878
Interest on Debt	\$209,809	\$182,134	\$153,194	\$122,926	\$95,007	\$0
Amortization	\$752,161	\$793,979	\$812,070	\$827,152	\$870,855	\$914,728
Other	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenses	\$2,399,255	\$2,442,143	\$2,460,614	\$2,475,335	\$2,521,624	\$2,501,605
Annual Surplus/(Deficit)	\$3,417,181	\$2,473,029	\$1,776,754	\$1,856,830	\$3,724,113	\$2,783,200
Accumulated Surplus/(Deficit), Beginning of Year	\$22,899,214	\$26,316,395	\$28,789,425	\$30,566,179	\$32,423,009	\$36,147,121
Accumulated Surplus/ (Deficit), End of Year	\$26,316,395	\$28,789,425	\$30,566,179	\$32,423,009	\$36,147,121	\$38,930,321
Financial Indicators						
Increase (Decrease) in Total Revenues	\$2,319,656	(\$901,264)	(\$677,804)	\$94,796	\$1,913,572	(\$960,931)
Increase (Decrease) in Total Expenses	\$42,888	\$42,888	\$18,471	\$14,721	\$46,289	(\$20,019)
Increase (Decrease) in Annual Surplus	(\$938,752)	(\$944,152)	(\$696,275)	\$80,076	\$1,867,283	(\$940,912)
Operating Surplus Ratio	58.8%	50.3%	41.9%	42.9%	59.6%	52.7%

3.2.3 Wastewater - Statement of Cash Flows

The Statement of Cash Flow is presented in Table 3-4. This statement summarizes the main cash inflows and outflows related to the wastewater system in four (4) main areas - operating, capital, investing and financing, and shows the annual changes in cash.

The operating cash transactions begin with the surplus or deficit identified in the Statement of Operations. This figure is adjusted to add or subtract non-cash items that were included as revenues or expenses (e.g. amortization expenses and earned revenues). It is assumed that there are no “investing activities” over the period. The capital section indicates the amounts to be spent to acquire capital assets (TCA) or to be received from the sale of assets. In the Township’s case, it is assumed that there are no assets to be sold to generate cash. The financing section identifies funds external sources, proceeds from the issuance of debenture as cash inflows, and the portion of debt repaid as cash outflows.

Table 3-4 indicates that cash is being generated from operations, which is used in funding the acquisition of TCA and towards building internal reserves. The Township's cash position is projected to increase over the forecast period from \$6.0 million in 2021 to a \$6.5 million in 2026.

Table 3-4: Wastewater - Statement of Cash Flows

	2021	2022	2023	2024	2025	2026
Cash Provided by:						
Operating Activities						
Annual Surplus/(Deficit)	\$3,417,181	\$2,473,029	\$1,776,754	\$1,856,830	\$3,724,113	\$2,783,200
Non-Cash Items						
Amortization	\$752,161	\$793,979	\$812,070	\$827,152	\$870,855	\$914,728
Earned Revenue	(\$2,764,211)	(\$1,752,026)	(\$960,106)	(\$939,407)	(\$2,736,192)	(\$1,641,947)
Net Change in Cash Provided by Operating Activities	\$1,405,132	\$1,514,983	\$1,628,718	\$1,744,574	\$1,858,776	\$2,055,981
Capital Activities						
Purchase of TCA	(\$3,321,654)	(\$2,532,787)	(\$1,779,436)	(\$2,111,391)	(\$4,041,484)	(\$2,100,679)
Net Change in Cash Used in Capital Activities	(\$3,321,654)	(\$2,532,787)	(\$1,779,436)	(\$2,111,391)	(\$4,041,484)	(\$2,100,679)
Financing Activities						
DC Collections	\$1,278,242	\$1,309,480	\$1,463,579	\$1,512,899	\$1,541,658	\$1,585,777
External Financing	\$0	\$0	\$0	\$0	\$0	\$0
Proceeds From Long-Term Debt	\$0	\$0	\$0	\$0	\$0	\$0
Repayment of Long-Term Debt	(\$647,626)	(\$675,301)	(\$704,241)	(\$734,509)	(\$506,200)	(\$523,917)
Net Change in Cash Used in Financing Activities	\$630,616	\$634,180	\$759,337	\$778,390	\$1,035,458	\$1,061,860
Net Change in Cash and Cash Equivalents	(\$1,285,906)	(\$383,625)	\$608,619	\$411,573	(\$1,147,249)	\$1,017,162
Cash and Cash Equivalents, Beginning of the Year	\$7,309,310	\$6,023,404	\$5,639,779	\$6,248,399	\$6,659,972	\$5,512,722
Cash and Cash Equivalents, End of the Year	\$6,023,404	\$5,639,779	\$6,248,399	\$6,659,972	\$5,512,722	\$6,529,884

4 Conclusions & Recommendations

The following are the main conclusions regarding the water system:

1. The financial statements for the water system are prepared based on the results of the rate study analyses and projections, indicate the following:
 - The accumulated surplus is projected to increase from approximately \$22.1 million in 2021 to approximately \$29.5 million by 2026.
 - The operating surplus ratio is projected to increase from approximately 39% in 2021 to 48% in 2026.
 - The cash position is projected to increase from \$5.6 million in 2021 to a \$7.0 million in 2026.

These indicate that the financial outlook for the water system over the 6-year period 2021 to 2026 is excellent.

The following are the main conclusions regarding the wastewater system:

2. The financial statements for the wastewater system are prepared based on the results of the rate study analyses and projections, indicate the following:
 - The accumulated surplus is projected to increase from approximately \$26.3 million in 2021 to approximately \$38.9 million by 2026.
 - The operating surplus ratio is projected to decrease from approximately 59% in 2021 to 53% in 2026
 - The cash position is projected to increase from \$6.0 million in 2022 to \$6.5 million in 2026.

These indicate that the financial outlook for the wastewater system over the 6-year period 2021 to 2026 is excellent.

The following are the main recommendations resulting from the O. Reg 453.07 water system and wastewater financial plans:

3. That the O.Reg. 453/07 Water System Financial Plan No. 113-301A including the Financial Statements contained herein be approved by Council and submitted to the Province of Ontario in accordance with the Drinking Water System License renewal requirements and O. Reg. 453/07.
4. That the Wastewater System Financial Plan including the Financial Statements contained herein be received by Council.
5. That a copy of the Water Financial Plan No. 113-301A and the Wastewater Financial Plan be posted on the Township's website and made available to the public at no charge.

Appendix A

Requirements of O. Reg. 453/07

Appendix A: Requirements of O.Reg. 453/07

Requirements		How Requirements are Met
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.	<ul style="list-style-type: none"> It is expected the Council will approve the Updated Financial Plan 6 months prior to the expiry of the drinking water licence – May 19, 2021)
	ii. The governing body of the owner, if the owner of the drinking water system has a governing body and is not a municipality.	<ul style="list-style-type: none"> N/A
2.	The financial plans must apply to a period of at least six years.	<ul style="list-style-type: none"> Applies for 6 years from 2021 to 2026 inclusive.
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 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.	<ul style="list-style-type: none"> The licence expires in 2021 for the water systems (No. 113-301A). Therefore, the first year of the Updated Financial Plan is 2021
	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.	<ul style="list-style-type: none"> N/A
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:	<ul style="list-style-type: none"> See Statement of Financial Position for all water systems combined in Financial Plan.
	a. Total financial assets	<ul style="list-style-type: none"> See Statement of Financial Position for all water systems combined in Financial Plan.
	b. Total liabilities	<ul style="list-style-type: none"> See Statement of Financial Position for all water systems combined in Financial Plan.
	c. Net financial assets (debt)	<ul style="list-style-type: none"> See Statement of Financial Position for all water systems combined in Financial Plan.
	d. Non-financial assets that are tangible capital assets, tangible capital assets under construction, inventories of supplies and prepaid expenses.	<ul style="list-style-type: none"> See Statement of Financial Position for all water systems combined in Financial Plan. TCA Projections in Financial Plan.

Appendix A: Requirements of O.Reg. 453/07

	e.	Changes in tangible capital assets that are additions, donations, write downs and disposals.	<ul style="list-style-type: none"> See Statement of Financial Position for all water systems combined in Financial Plan. TCA Projections in Financial Plan.
	ii.	Details of the proposed or projected financial operations of the drinking water system itemized by,	<ul style="list-style-type: none"> See Statement of Operations for all water systems combined in Financial Plan.
	a.	Total revenues, further itemized by water rates, user charges and other revenues.	<ul style="list-style-type: none"> See Statement of Operations for all water systems combined in Financial Plan.
	b.	Total expenses, further itemized by amortization expenses, interest expenses and other expenses	<ul style="list-style-type: none"> See Statement of Operations for all water systems combined in Financial Plan.
	c.	Annual surplus or deficit, and	<ul style="list-style-type: none"> See Statement of Operations for all water systems combined in Financial Plan.
	d.	Accumulated surplus or deficit	<ul style="list-style-type: none"> See Statement of Operations for all water systems combined in Financial Plan.
	iii.	Details of the drinking water system's proposed or projected gross cash receipts and gross cash payments itemized by,	<ul style="list-style-type: none"> See Statement of Cash Flow for all water systems combined in Financial Plan.
	a.	Operating transactions that are cash received from revenues, cash paid for operating expenses and finance charges, - done in full cost report	<ul style="list-style-type: none"> See Statement of Cash Flow for all water systems combined in Financial Plan.
	b.	Capital transactions that are proceeds on the sale of tangible capital assets and cash used to acquire capital assets,	<ul style="list-style-type: none"> See Statement of Cash Flow for all water systems combined in Financial Plan.
	c.	Investing transactions that are acquisitions and disposal of investments,	<ul style="list-style-type: none"> See Statement of Cash Flow for all water systems combined in Financial Plan.
	d.	Financing transactions that are proceeds from the issuance of debt and debt repayment.	<ul style="list-style-type: none"> See Statement of Cash Flow for all water systems combined in Financial Plan.
	e.	Changes in cash and cash equivalents during the year,	<ul style="list-style-type: none"> See Statement of Cash Flow for all water systems combined in Financial Plan.
	f.	Cash and cash equivalents at the beginning and end of the year.	<ul style="list-style-type: none"> See Statement of Cash Flow for all water systems combined in Financial Plan.
	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.	<ul style="list-style-type: none"> There is no dedicated lead service pipe removal program in place. If lead pipe is discovered during normal operations, it is replaced accordingly. Therefore, there are no significant material financial costs associated with lead pipe removal.
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,	<ul style="list-style-type: none"> This will be done by the municipality following Council approval.

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	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,	<ul style="list-style-type: none"> The Financial Plan will be posted on the municipality's website and made available for public review at no charge.
	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.	<ul style="list-style-type: none"> A notice will be issued following Council approval.
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).	<ul style="list-style-type: none"> Will be submitted following Council approval.
		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.	<ul style="list-style-type: none"> The Financial Plan was prepared using available information at the time of preparation and may not contain all desired items. Reasonable assumptions were made and these are noted in the Financial Plan.
	1.	Sub-subparagraphs 4 i A, B and C of subsection (1).	<ul style="list-style-type: none"> The Financial Plan was prepared using available information at the time of preparation and may not contain all desired items. Reasonable assumptions were made and these are noted in the Financial Plan.
	2.	Sub-subparagraphs 4 iii A, C, E and F of subsection (1). O. Reg. 453/07, s. 3 (2).	<ul style="list-style-type: none"> The Financial Plan was prepared using available information at the time of preparation and may not contain all desired items. Reasonable assumptions were made and these are noted in the Financial Plan.