



**SOUTH DUNDAS
REGIONAL DRINKING WATER SYSTEM
FINANCIAL PLAN**

July 2011

Township of South Dundas

July 2011

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INTRODUCTION

This Township of South Dundas Water Financial Plan is presented as one of the submission requirements necessary in obtaining a municipal drinking water license under the *Safe Drinking Water Act, 2002 (SDWA)*.

Financial Plans are defined in section 30(1) of the *SDWA* as follows:

- (a) Financial plans that satisfy the requirements of subsection (2), but only if,
 - (i) Bill 175 (Sustainable Water and Sewage Systems Act, 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).

At this time, Bill 175 (Sustainable Water and Sewage Systems Act, 2002) as noted above, is not in force however, the specific requirements of s.30 (1) part b are outlined in O.Reg. 453/07.

The *SDWA* and *O. Reg. 453/07* includes the following general requirements for a financial plan:

- mandatory for all municipal water systems and recommended for wastewater systems;
- include a planning horizon of at least six years (commencing when the system first serves the public, for new systems);
- completed and approved by the later of July 1, 2010 and the date that is six months after the first license is issued;
- may be amended and additional information may be included beyond what is prescribed, as necessary;
- be approved by Council resolution indicating that the drinking water system is financially viable.

In addition to the above noted general requirements, the following specific statements are required in the financial plan:

Statement of Operations

This statement includes details on the projected financial operations itemized by total revenues, total expenses, annual surplus/deficit, and the cumulative surplus/deficit for each year in which the financial plan applies. An annual surplus represents funds available to the Municipality to fund non operating expenses such as the acquisition of tangible capital assets, principal

payments on debt, and transfers to replenish or grow the reserve and reserve funds. The Statement of Operations is discussed in more detail later in this report, and is included as Table 1.

Statement of Financial Position

This statement provides information on the Municipality's assets and liabilities includes details on the financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets. The recording of tangible capital assets is new to all municipalities, and requires the capitalization of assets and to account for their ability to provide for future benefits. A net financial asset position on this statement indicates that the water system has the financial resources required to fund its future operations. The Statement of Financial Position is discussed in more detail later in this report, and is included as Table 2.

Statement of Cash Flow

This statement provides information on the generation and use of cash resources. The gross cash receipts/payments are itemized by: operating; capital; investing and financial transactions. By itemizing the cash receipts and payments by category allows the reader to understand where the cash is being generated (i.e. Operating water rates), and how the cash is being used (ie. Capital and operating expenses).

Statement of Net Financial Assets/Debt

While this statement is not required under O. Reg 453/07, it does provide further information about the financial performance of the Municipality's water system. The Statement of Net Financial Assets/Debt provides information on whether the revenue generated is sufficient to support the operating and tangible capital asset costs. The statement also reconciles the difference between the annual surplus/deficit and the change in net financial assets/debt for the period

BACKGROUND INFORMATION REGARDING 2010 WATER RATE REVIEW

A comprehensive review of water rates was completed in 2008 and new rates were implemented at the start of 2009.

Highlights of the new rate structure included:

- Represent full cost recovery
- Based on growth, consumption and budgets as presented
- Consist of a Fixed/Flat Rate and a Consumption / Metered Rate. The Flat Rate represents the minimum level of revenue required to pay for fixed costs, such as equipment maintenance, insurance and building costs. The Metered Rate represents the revenue to cover variable costs such as fuel and chemicals and is calculated on water consumption. Staffing costs are split.
- No minimum consumption included. Pay for every m³ used.
- Establish a uniform rate for all classes. Declining block rate structure for Commercial/Industrial is eliminated.
- Special Area Rate is eliminated.
- Sewer rates remain at 100% of water
- All revenues are credited to system
- Rate includes an allocation of \$0.092/m³ to Capital Replacement Reserve

An additional grant of \$1,038,866 was received in May 2008 and this allowed the Capital Levy implemented in 2008 at \$0.75/m³ to be reduced to \$0.50/m³ with funds from the additional allocation used to pay the difference between revenue received and debt payments due.

The new rate structure that was implemented was based on the average cost projections for the planning period from 2009 to 2013. Adopting the average cost and resulting rate eliminated the need to adjust rates each year. While consumption, revenue and expenditure are monitored on an ongoing basis, a comprehensive review of rates is not required unless there is a significant increase in operating costs, a major capital project is undertaken or there is a considerable reduction in consumption.

While it was anticipated that the introduction of the new rate structure would result in a decrease in consumption, it was not expected to be to the degree demonstrated. While residents are being more prudent about the water they use, the result is a substantial reduction in revenue. The ongoing challenge is to keep the water system self sustaining without an increase in rates and the policy decisions made by Council when the new rate structure was implemented have proven beneficial.

The Municipality’s water rates contain two components: a fixed rate; and a consumption/volumetric rate. These rates are based on the level of consumption used in a month. The table below summarizes the fixed and volumetric rates in the Township of South Dundas effective January 1, 2009.

Fixed Monthly Charge (minimum)	\$19.54
Consumption Charge	\$0.62 m ³
Capital Levy (WTP Repayment)	\$0.50 m ³

With assistance from our Municipal Auditors, we have prepared the required reports under the proposed *Sustainable Water and Sewage Systems Act* for the period until 2015.

WATER FINANCIAL PLAN

This section summarizes the complete financial plan for the South Dundas Water System.

The financial plan represents a forecast or projection of the Municipality's future financial position. The statements included in this study are not audited documents and contain estimates and assumptions as described in this report.

STATEMENT OF FINANCIAL ACTIVITIES – TABLE 1

The Statement of Operations provides information on the revenues and expenses generated from the water system in each year. An annual surplus will be generated where annual revenues exceed annual expenses for the year. Conversely, where the expenses exceed the revenues, an annual deficit will result. The annual surplus is available to fund non-operating expenses such as the acquisition of tangible capital assets, principal payments on debt, and transfers to replenish or grow the reserves and reserve funds.

In 2011, the projected revenue, net of recoverable debt payments, is approximately \$884,860 with expenditures, net of debt repayments, of approximately \$703,779. As revenues exceed expenses, an annual surplus is projected of approximately \$181,080. Any surplus is allocated to the Water Rate Stabilization and Water Capital Replacement reserves respectively to benefit system users.

The beginning period accumulated surplus of \$19,548,470 (2010) is equal to the opening reserve balances, plus tangible capital assets, and less any debt obligations and deferred revenue. A reconciliation of this amount can be found in Table 5, Projected Allocation of Surplus. The Municipality's forecasted Statement of Operations indicates an annual surplus in each of the year's projected. The accumulated surplus is anticipated to grow over the forecast period which supports the Municipality's need to grow its reserves to pay for the repair and ultimate replacement of the tangible capital assets.

STATEMENT OF FINANCIAL POSITION – TABLE 2

The Statement of Financial Position provides information on the assets and liabilities of the South Dundas Water System.

Net Financial Assets/(Debt) is the difference between assets and liabilities. A position of net financial assets occurs when assets are greater than liabilities. Conversely, net financial debt occurs when liabilities exceed their

assets. A net financial assets position implies that the system has the financial resources required to fund its future operations. A net financial debt position indicates that future revenues will be required to pay for past transactions.

The South Dundas Water System has a net financial debt position throughout the period projected due to the fact that we are financing the capital cost of the new water plant.

The Statement of Financial Position also provides information on the systems tangible capital assets. The reporting of tangible capital assets is a new requirement under PS3150 of the Public Sector Accounting Board. Previous to 2009, the costs to acquire or construct capital assets were expensed in the year in which they occur. Effective for the statements prepared in 2009, municipalities are required to capitalize their assets and to account for their ability to provide future benefits. An increase in the tangible capital asset balance suggests that new assets have been acquired, and a decrease in the balance indicates the disposal, write down or use of assets.

STATEMENT OF CASH FLOW – TABLE 3

The Statement of Cash Flow provides information on the generation and use of cash resources in the following categories: operating; capital; investments; and financing activities.

The statement describes how the cash from operations will be used to support the capital transactions. The difference between the total cash generated and cash used, results in an increase or decrease in cash and cash equivalents. The beginning of period cash and cash equivalents is equal to the water reserves and reserve funds on hand at the start of the period.

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS/DEBT – TABLE 4

The Statement of Change in Net Financial Assets/Debt provides information on whether the revenue generated is sufficient to support the operating and tangible capital assets costs. The statement also reconciles the difference between the annual surplus/deficit and the change in net financial assets/debt for the period.

ALLOCATION OF SURPLUS – TABLE 5

The Allocation of Surplus reconciles the accumulated surplus and shows the allocation of surplus to reserve funds.

NOTES AND ASSUMPTIONS TO FINANCIAL PLAN

Section 3(2) of O Reg. 453/07 states that the information is required only if the information is known to the owner at the time the financial plans are prepared. To that end, the Municipality does not maintain all financial information separately for water services. The assumptions used in preparing the financial plan are noted below.

1. A five year water financial plan was forecasted for the fiscal years 2011 to 2015
2. 2010 Fiscal Year water operations was used as the base for the forecast
3. Amortization expense from 2010 remained the same for the 2011 – 2015 fiscal years.
4. Local improvement billings ceased after the 2012 fiscal year.
5. Funds from the OSTAR grant (deferred revenue) were used from 2011 – 2015 to offset water plant debt payments.
6. Funds raised, interest expense incurred and debt payments made in relation to the water plant nets out to zero on an annual basis.
7. Future growth loan proceeds is \$32,000 on an annual basis, which are repaid to the Township's reserve funds.
8. Annual payments received from Rohmax are used to prepay the Township's reserve funds.
9. Interest earned on the Rohmax debenture is recorded into the water rate stabilization reserve fund.
10. Interest earned on the deferred OSTAR grant is calculated at 0.48% - same % rate for 2010.
11. Interest earned on the water rate stabilization reserve fund is 5.87%, same % rate for 2010.
12. Interest earned on the capital stabilization reserve fund is 1.11%, same % rate for 2010.
13. Annual surpluses after debt payments are allocated to the water rate stabilization reserve fund.

14. There are no acquisitions of tangible capital assets between 2011 and 2015.
15. Cash in the RBC account will be the same as the deferred revenue (ONSTAR grant) balance on an annual basis.
16. Cash will be segregated in the same amount for the capital and water rate stabilization reserve funds on an annual basis.
17. Trade payables will remain the same on an annual basis of \$80,000 due to Caneau Water and Sewage.
18. Accounts receivable will remain the same on an annual basis of \$115,000 from Rideau St. Lawrence Utilities.
19. Accrued interest on long-term debt is calculated up to December 31st of each year from the last annual payment made for both external loans.
20. Operating cash balance is the difference of all other net financial assets and net financial liabilities.