

TOWN OF PETROLIA

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

FINANCIAL PLAN # 034-301

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 **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 and Wastewater 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

APPENDICES

A	2012 WATER AND WASTEWATER RATE STUDY – WATER SUMMARY TABLES	A-1
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1. INTRODUCTION

1. INTRODUCTION

1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by the Town of Petrolia (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 "2012 Town of Petrolia Water and Wastewater Rate Study" (2012 Rate Study). The objective of the report provided herein is to convert the findings of the 2012 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

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

<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
Cash provided by operating transactions
<u>Capital Transactions</u>
Proceeds on sale of tangible capital assets
Less: Cash used to acquire tangible capital assets
Cash applied to capital transactions
<u>Investing Transactions</u>
Proceeds from investments
Less: Cash used to acquire investments
Cash provided by (applied to) investing transactions
<u>Financing Transactions</u>
Proceeds from debt issue
Less: Debt repayment (principal only)
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

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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.

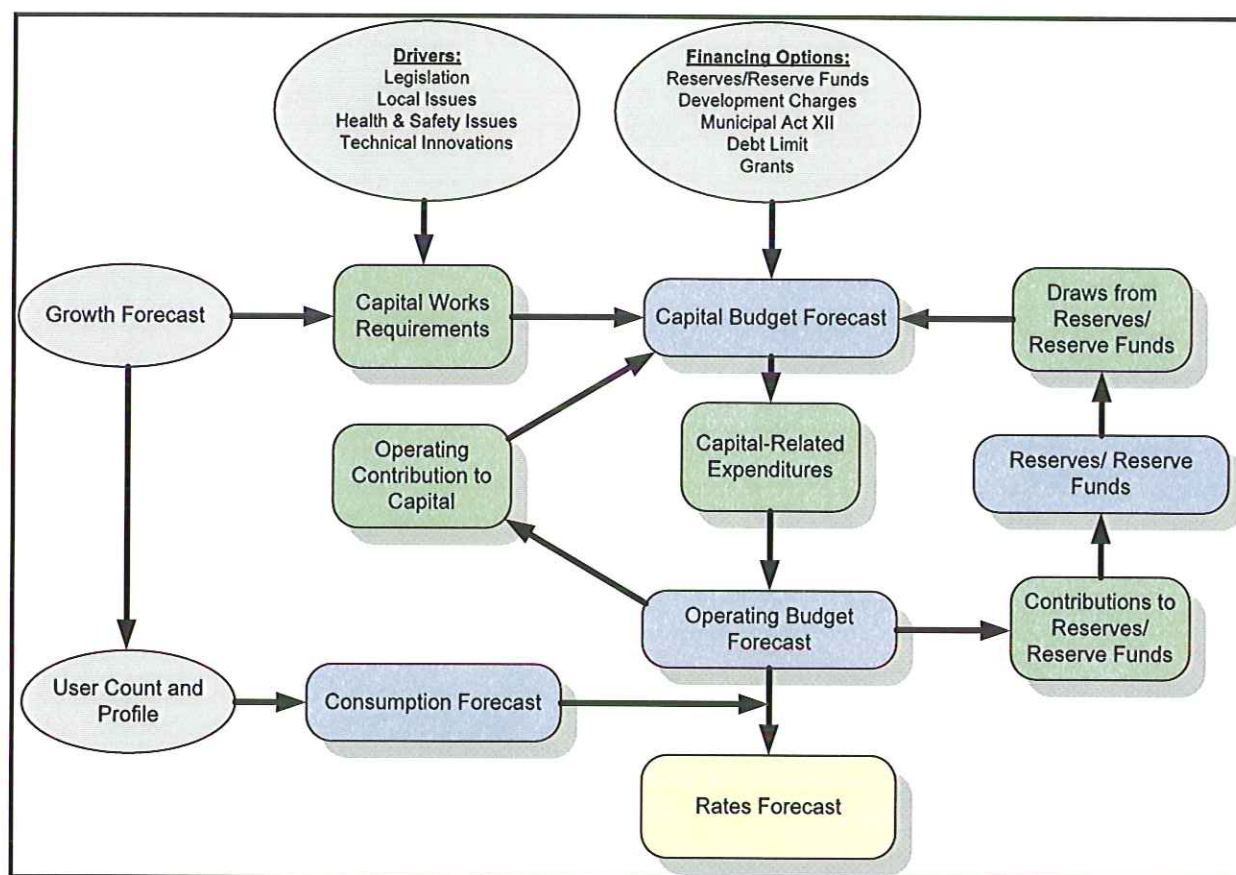
Where a Board has jurisdiction over a service, the plan (and any plan amendments) must be approved by the municipality in which the municipal service is provided, before submission to the Minister. The Minister may also direct preparation of joint or partially joint plans.

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 and Wastewater Rate Study

As noted above, Watson has already completed extensive financial planning as documented in the 2012 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 (AND WASTEWATER) RATE CALCULATION PROCESS**



As a result of employing this process, the 2012 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*).

The details of the financial plan arising from the 2012 Rate Study are contained in Appendix A. Please note that the financial plan and the details in Appendix A are based on the "0% Grant Funding" water scenario as described in the 2012 Rate Study.

3. APPROACH

3. APPROACH

3.1 Overview

The 2012 Rate Study 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 2012 Rate Study as well as part of the Town's efforts to become compliant with PSAB 3150. Given the prospective nature of the 2012 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 2012 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 Petrolia
Conversion Adjustments
Statement of Operations (Water)

Modified Cash Basis	Budget 2011	Adjustments		Full Accrual Budget 2011	Accrual Basis	Notes on Adjustments
		DR	CR			
Revenues					Revenues	
Fixed Charge Revenue	242,720			242,720	Fixed Charge Revenue	No change
Rate Based Revenue	742,593			742,593	Rate Based Revenue	No change
Other Revenue	950,000			950,000	Other Revenue	No change
Total Revenues	1,935,313			1,935,313	Total Revenues	
Expenditures					Expenditures	
Operating Capital	902,419	23,000		925,418	Operating Expenses	Various Expenses previously classified as capital expenditures
Transfers to Reserves	309,636		309,636	-		Removes non-accrual reserve account
Transfers to Capital	72,000		72,000	-		Removes TCA related balances which are now captured in statement of financial position
Debt Repayment (Principal & Interest)	651,258		535,189	116,069	Interest on Debt	Removes principal portion of debt - now reflected on statement of cash flow.
Total Expenditures	1,935,313	336,442		1,377,329	Amortization	New account created as a result of PSAB 3150 - reflects cost of using TCA
Net Expenditures	-			657,384	Total Expenses	
Increase (decrease) in amounts to be recovered	-				Annual Surplus/(Deficit)	Represents difference between Revenues and Expenditures
Change in fund balances	-	557,384		11,414,844	Accumulated Surplus/(Deficit), beginning of year	
				11,972,228	Accumulated Surplus/(Deficit), end of year	To transfer annual surplus to accumulated surplus
TOTAL ADJUSTMENTS		916,826	916,825			

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.

FIGURE 3-2
Town of Petrolia
Conversion Adjustments
Statement of Financial Position (Water)

Modified Cash Basis	Budget 2011	Adjustments		Full Accrual Budget 2011	Accrual Basis	Notes on Adjustments
		DR	CR			
Assets						
Financial Assets						
Cash	1,563,425			1,563,425	Financial Assets	
Accounts Receivable	136,805			136,805	Cash	No change
Total Financial Assets	1,700,230			1,700,230	Accounts Receivable	No change
Liabilities					Total Financial Assets	
Accounts Payable & Accrued Liabilities	161,104			161,104	Liabilities	
Gross Long-term Liabilities	2,483,501			2,483,501	Accounts Payable & Accrued Liabilities	No Change
Total Liabilities	2,644,605			2,644,605	Debt (Principal only)	No Change
Net Assets/(Debt)	(944,375)			(944,375)	Total Liabilities	
					Net Financial Assets/(Debt)	
					Non-Financial Assets	
		12,939,603	23,000	12,916,603	Tangible Capital Assets	Adds NBV of Tangible Capital Assets - offset entry is to accumulated surplus
Municipal Position				12,916,603	Total Non-Financial Assets	
Water Reserves	1,539,126			-		
Development Charge Reserve Fund	-	1,539,126		-		Removes non-accrual reserve account - balance to be transferred to accumulated surplus
Amounts to be Recovered	(2,483,501)		2,483,501	-		Removes non-accrual reserve account - balance to be transferred to accumulated surplus
Total Municipal Position	(944,375)		11,972,228	11,972,228	Accumulated Surplus/(Deficit)	Removes account - balance to be transferred to accumulated surplus
TOTAL ADJUSTMENTS		14,478,729	14,478,729			Represents offset entry for TCA's and existing reserve fund balances

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

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 2012 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 2011 due to the existing levels of water debt, the Town's water system will be in a net debt position of approximately \$944,375. After 2011, the financial plan forecasts an increasing net debt position to 2016 where a net debt position of approximately \$11.4 million is forecasted. The increase in net debt to 2016 is due to the anticipated issuance of additional water debt in the first half of the forecast period. After 2016, the forecast anticipates an improving net debt position, reducing to a value of approximately \$7.3 million by 2020.

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

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

part of PS3150 compliance and is significant from a financial planning perspective for the following reasons:

- 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 grow by over \$12.8 million over the 10-year forecast period. This indicates that the Town has plans to invest in tangible capital assets in excess of the anticipated use of existing 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 decreasing from 71% in 2011 to 59% in 2015 then increasing to 82% by the end of the forecast period. As a result, annual surplus grows from approximately \$557,384 in 2011 to \$1.1 million in 2015 before decreasing to approximately \$528,653 by 2020. The decrease from 2015 to 2020 is as a result of increased interest payments on anticipated in 2015 debt. 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 \$6.8 million to a 2010 accumulated surplus of approximately \$11.4 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 forecasted tangible capital asset acquisitions (net of amortization for the year) exceeds the forecasted annual surplus for 2012, 2013, 2015, and 2016 resulting in decreases in net financial assets. This is due to the planned purchase or construction of significant water capital assets in these years. In each of the other forecast years (i.e. 2011, 2014, and 2017 to 2020), forecasted annual surplus exceeds forecasted tangible capital asset acquisitions (net of amortization for the year) resulting in increases in net financial assets. A net financial asset position allows for a long term plan of funding capital through accumulated surplus (i.e. reserves and reserve funds). Progression to this approach is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions improving from 0.47 in 2015 to 0.69 by 2020¹.

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

¹ A desirable ratio is 1:1 or better.

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 balance of approximately \$1.3 million at the beginning of 2011 to approximately \$1.8 million by the end of 2020. For further discussions, on projected cash balances please refer to the Notes to the Financial Plan.

TABLE 4-1
Town of Petrolia
Statement of Financial Position (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2011 - 2020

	Notes	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Financial Assets											
Cash	1	1,563,425	457,911	39,727	131,349	248,825	214,825	645,626	1,058,926	1,487,771	1,810,466
Accounts Receivable	1	136,805	146,328	159,802	174,797	190,747	192,842	195,226	197,636	200,062	202,508
Total Financial Assets		1,700,230	604,239	199,529	306,146	439,572	407,667	840,852	1,256,562	1,687,833	2,012,974
Liabilities											
Accounts Payable & Accrued Liabilities	1	161,104	166,135	171,151	176,275	181,524	186,915	192,503	198,233	204,178	210,284
Debt (Principal only)	2	2,483,501	1,925,461	1,643,598	1,722,991	9,043,349	11,613,414	11,023,043	10,403,243	9,752,546	9,069,413
Total Liabilities		2,644,605	2,091,596	1,814,749	1,899,266	9,224,873	11,800,329	11,215,546	10,601,476	9,956,724	9,279,697
Net Financial Assets/(Debt)		(944,375)	(1,487,357)	(1,615,220)	(1,593,120)	(8,785,301)	(11,392,662)	(10,374,694)	(9,344,914)	(8,268,891)	(7,266,723)
Non-Financial Assets											
Tangible Capital Assets	4	12,916,603	14,156,893	15,139,080	16,137,002	24,439,702	27,651,839	27,073,125	26,511,996	25,934,561	25,461,046
Total Non-Financial Assets		12,916,603	14,156,893	15,139,080	16,137,002	24,439,702	27,651,839	27,073,125	26,511,996	25,934,561	25,461,046
Accumulated Surplus/(Deficit)	5	11,972,228	12,669,536	13,523,860	14,543,882	15,654,401	16,259,177	16,698,431	17,167,082	17,665,670	18,194,323
Financial Indicators											
Total Change											
1) Increase/(Decrease) in Net Financial Assets		(5,500,522)	821,826	(542,982)	(127,863)	(7,192,181)	(2,607,361)	1,017,968	1,029,780	1,076,023	1,002,168
2) Increase/(Decrease) in Tangible Capital Assets		12,808,885	264,442	1,240,290	982,187	8,302,700	3,212,137	(578,714)	(581,129)	(577,435)	(473,515)
3) Increase/(Decrease) in Accumulated Surplus		6,779,479	557,384	697,308	854,324	1,110,519	604,776	439,254	468,651	498,588	528,653

TABLE 4-2
Town of Petrolia
Statement of Operations (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2011 - 2020

	Notes	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Water Revenue											
Fixed Charge Revenue		242,720	243,835	252,737	262,310	272,592	283,838	296,186	308,797	321,671	334,808
Rate Based Revenue		742,593	796,981	886,262	987,187	1,096,360	1,114,444	1,135,516	1,156,588	1,177,660	1,198,732
Other Revenue	6	950,000	1,029,223	1,121,636	1,223,260	1,329,628	1,329,745	1,330,043	1,330,444	1,330,845	1,331,245
Total Revenues		1,935,313	2,070,039	2,260,635	2,472,757	2,698,580	2,728,027	2,761,745	2,795,829	2,830,176	2,864,785
Water Expenses											
Operating Expenses		925,418	930,600	958,700	987,400	1,016,800	1,047,000	1,078,300	1,110,400	1,143,700	1,177,900
Interest on Debt	Sched. 4-1	116,069	93,221	69,398	59,557	67,961	450,988	579,577	550,149	519,253	486,816
Amortization	2	336,442	348,910	378,213	405,778	503,300	625,263	664,614	666,629	668,635	671,416
Total Expenses	4	1,377,929	1,372,731	1,406,311	1,452,735	1,588,061	2,123,251	2,322,491	2,327,178	2,331,588	2,336,132
Annual Surplus/(Deficit)		557,384	697,308	854,324	1,020,022	1,110,519	604,776	439,254	468,651	498,588	528,653
Accumulated Surplus/(Deficit), beginning of year		11,414,844	11,972,228	12,669,536	13,523,860	14,543,882	15,654,401	16,259,177	16,698,431	17,167,082	17,665,670
Accumulated Surplus/(Deficit), end of year	5	11,972,228	12,669,536	13,523,860	14,543,882	15,654,401	16,259,177	16,698,431	17,167,082	17,665,670	18,194,323
Note 5:											
Accumulated Surplus/(Deficit) is made up of:											
Reserve Balances											
Reserves: Capital/Other		1,539,126	438,104	28,378	129,871	258,048	220,752	648,349	1,058,329	1,483,655	1,802,690
Total Reserves Balance		1,539,126	438,104	28,378	129,871	258,048	220,752	648,349	1,058,329	1,483,655	1,802,690
Less: Debt Obligations and Deferred Revenue		(2,483,501)	(1,925,461)	(1,643,598)	(1,722,991)	(9,043,349)	(11,613,414)	(11,023,043)	(10,403,243)	(9,752,546)	(9,069,413)
Add: Tangible Capital Assets	4	12,916,603	14,156,893	15,139,080	16,137,002	24,439,702	27,651,839	27,073,125	26,511,996	25,934,561	25,461,046
Total Ending Balance		11,972,228	12,669,536	13,523,860	14,543,882	15,654,401	16,259,177	16,698,431	17,167,082	17,665,670	18,194,323
Financial Indicators											
1) Expense to Revenue Ratio		71%	66%	62%	59%	59%	78%	84%	83%	82%	82%
2) Increase/(Decrease) in Accumulated Surplus		557,384	697,308	854,324	1,020,022	1,110,519	604,776	439,254	468,651	498,588	528,653

Schedule 4-1
Town of Petrolia
Schedule of Operating Expenses
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2011 - 2020

	Notes	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Expenditures											
Operating Costs											
Water Administration		43,227	44,500	45,800	47,200	48,600	50,100	51,600	53,100	54,700	56,300
Special Projects		25,000	26,800	27,600	28,400	29,300	30,200	31,100	32,000	33,000	34,000
Water Billing/Collection		61,870	63,700	65,600	67,600	69,600	71,700	73,900	76,100	78,400	80,800
Small Tools Expense		500	500	500	500	500	500	500	500	500	500
Petrolia Distribution		213,349	220,000	226,700	233,500	240,400	247,400	254,900	262,500	270,400	278,500
Water Treatment Plant		512,468	527,800	543,800	560,100	576,800	594,000	611,700	630,000	648,900	668,300
Booster Station		46,004	47,300	48,700	50,100	51,600	53,100	54,600	56,200	57,800	59,500
Non TCA - Expenses from Capital Budget	7	23,000	-	-	-	-	-	-	-	-	-
TOTAL OPERATING EXPENSES		925,418	930,600	958,700	987,400	1,016,800	1,047,000	1,078,300	1,110,400	1,143,700	1,177,900

TABLE 4-3
Town of Petrolia
Statement of Changes in Net Financial Assets/Debt (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2011 - 2020

	Notes	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Annual Surplus/(Deficit)		557,394	697,308	854,324	1,020,022	1,110,519	604,776	439,254	468,651	488,588	528,653
Less: Acquisition of Tangible Capital Assets	4	(72,000)	(1,589,200)	(1,360,400)	(1,403,700)	(8,806,000)	(3,837,400)	(85,900)	(105,500)	(91,200)	(197,900)
Add: Amortization of Tangible Capital Assets	4	336,442	348,910	378,213	405,778	503,300	625,263	664,614	666,629	668,635	671,416
(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		821,826	(542,982)	(127,863)	22,100	(7,192,181)	(2,607,361)	1,017,968	1,029,780	1,076,023	1,002,168
Less: Acquisition of Prepaid Expenses		-	-	-	-	-	-	-	-	-	-
Add: Consumption of Supplies Inventory		-	-	-	-	-	-	-	-	-	-
Add: Use of Prepaid Expenses		-	-	-	-	-	-	-	-	-	-
Increase/(Decrease) in Net Financial Assets/(Net Debt)		821,826	(542,982)	(127,863)	22,100	(7,192,181)	(2,607,361)	1,017,968	1,029,780	1,076,023	1,002,168
Net Financial Assets/(Net Debt), beginning of year		(1,766,201)	(944,375)	(1,487,357)	(1,615,220)	(1,593,120)	(8,785,301)	(11,392,662)	(10,374,694)	(9,344,914)	(8,268,891)
Net Financial Assets/(Net Debt), end of year		(944,375)	(1,487,357)	(1,615,220)	(1,593,120)	(8,785,301)	(11,392,662)	(10,374,694)	(9,344,914)	(8,268,891)	(7,266,723)
Financial Indicators											
1) Acquisition of Tangible Capital Assets (Cumulative)		72,000	1,661,200	3,021,600	4,425,300	13,231,300	17,068,700	17,154,600	17,260,100	17,351,300	17,549,200
2) Annual Surplus/Deficit before Amortization (Cumulative)		893,826	1,940,044	3,172,581	4,598,381	6,212,200	7,442,239	8,546,107	9,681,387	10,848,610	12,048,679
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		12.41	1.17	1.05	1.04	0.47	0.44	0.50	0.56	0.63	0.69

TABLE 4-4
Town of Petrolia
Statement of Cash Flow - Indirect Method (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2011 - 2020

	Notes	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Transactions											
Annual Surplus/Deficit		557,384	697,308	854,324							
Add: Amortization of TCA's	4	336,442	348,910	378,213	1,020,022	1,110,519	604,776	439,254	468,651	498,588	528,653
Change in A/R (Increase)/Decrease		(1,795)	(9,523)	(13,473)	(14,995)	(15,950)	(2,095)	(2,383)	(2,410)	(2,427)	(2,447)
Change in A/P Increase/(Decrease)		11,246	5,031	5,016	5,124	5,249	5,391	5,588	5,730	5,945	6,106
Cash Provided by Operating Transactions		903,277	1,041,726	1,224,080	1,415,929	1,603,118	1,233,335	1,107,073	1,138,600	1,170,741	1,203,728
Capital Transactions											
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(72,000)	(1,589,200)	(1,360,400)	(1,403,700)	(8,806,000)	(3,837,400)	(85,900)	(105,500)	(91,200)	(197,900)
Cash Applied to Capital Transactions		(72,000)	(1,589,200)	(1,360,400)	(1,403,700)	(8,806,000)	(3,837,400)	(85,900)	(105,500)	(91,200)	(197,900)
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	-	-	300,000	700,000	8,000,000	3,000,000	-	-	-	-
Less: Debt Repayment (principal only)	2	(535,189)	(558,040)	(581,864)	(620,607)	(679,642)	(429,935)	(590,372)	(619,800)	(650,696)	(683,133)
Cash Applied to Financing Transactions		(535,189)	(558,040)	(581,864)	(620,607)	(679,642)	(429,935)	(590,372)	(619,800)	(650,696)	(683,133)
Increase in Cash and Cash Equivalents		296,088	(1,105,514)	(418,184)	91,622	117,476	2,570,065	430,801	413,300	428,845	322,695
Cash and Cash Equivalents, beginning of year	1	1,267,337	1,563,425	457,911	39,727	131,349	248,825	214,825	645,626	1,058,926	1,487,771
Cash and Cash Equivalents, end of year	1	1,563,425	457,911	39,727	131,349	248,825	214,825	645,626	1,058,926	1,487,771	1,810,466

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 Petrolia, 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 water receivables as a percentage of annual water revenue earned (source: provided by staff); and
- b. Payables: Based on the proportionate share of 2009 and 2010 Town-wide payables (source: prior years audited financial statements).

2. Debt

Outstanding water related debt at the end of 2010 was \$3,018,691, with additional debt proceeds anticipated throughout the forecast period. Principal repayments for existing and new debt over the forecast period are scheduled as follows:

Year	Principal Payments
2011	\$ 535,189
2012	\$ 558,040
2013	\$ 581,864
2014	\$ 620,607
2015	\$ 679,642
2016	\$ 429,935
2017	\$ 590,372
2018	\$ 619,800
2019	\$ 650,696
2020	\$ 683,133
Total	\$ 5,949,278

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 typically 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 emplace the works for which they have been collected.

The Town of Petrolia does not collect water development charges, therefore deferred revenue is assumed to be zero over the forecast period.

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. Hydrants
 - iv. Machinery & Equipment
- Amortization is calculated based on using the straight-line approach with one-half (1/2) annual amortization in the year of acquisition or construction.
- Given the planned asset replacement forecast in the 2012 Rate Study, 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Opening TCA Balance (Historical Cost)	16,716,790	16,780,359	18,255,104	19,599,101	20,984,496	29,766,606	33,593,270	33,667,558	33,758,974	33,836,121
Acquisitions	72,000	1,589,200	1,360,400	1,403,700	8,806,000	3,837,400	85,900	105,500	91,200	197,900
Disposals	8,431	114,455	16,403	18,305	23,890	10,736	11,612	14,084	14,053	23,921
Closing TCA Balance (Historical Cost)	16,780,359	18,255,104	19,599,101	20,984,496	29,766,606	33,593,270	33,667,558	33,758,974	33,836,121	34,010,100
Opening Accumulated Amortization	3,535,745	3,863,756	4,098,211	4,460,021	4,847,494	5,326,904	5,941,431	6,594,433	7,246,978	7,901,559
Amortization Expense	336,442	348,910	378,213	405,778	503,300	625,263	664,614	666,629	668,635	671,416
Amortization on Disposal	8,431	114,455	16,403	18,305	23,890	10,736	11,612	14,084	14,053	23,921
Ending Accumulated Amortization	3,863,766	4,098,211	4,460,021	4,847,494	5,326,904	5,941,431	6,594,433	7,246,978	7,901,560	8,549,054
Net Book Value	12,916,603	14,166,893	15,139,080	16,137,002	24,439,702	27,651,839	27,073,125	26,511,996	25,934,561	25,461,046

5. Accumulated Surplus

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

Water	2011 Opening Accumulated Surplus
Reserve Balances	
Reserves: Development Charges	-
Reserves: Capital/Other	1,252,490
Total Reserves Balance	1,252,490
Less: Debt Obligations and Deferred Revenue	(3,018,691)
Add: Tangible Capital Assets	13,181,045
Total Opening Balance	11,414,844

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

6. Other revenue

Other revenue includes water revenue from other municipalities, services and meter revenue, and other 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 Petrolia 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 2012 Rate Study. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Town of Petrolia Water Financial Plan prepared by Watson & Associates Economists Ltd. dated February 15, 2012 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. Submit the Financial Plan, the Council Resolution approving the Financial Plan, and the Water and Wastewater Rate Study underpinning 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
2012 WATER AND WASTEWATER RATE STUDY –
WATER SUMMARY TABLES
(0% GRANT FUNDING SCENARIO)

Table A-1
Town of Petrolia - Water Service
Capital Budget Forecast
0% - Grant Funding
Inflated \$

Description	Total	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Capital Expenditures:											
New Intake	4,871,000	-	-	-	-	4,871,000	-	-	-	-	-
Water Tower Rehabilitation - 2012	1,020,000	-	1,020,000	-	-	-	-	-	-	-	-
Water Tower Inspection - 2011	10,000	10,000	-	-	-	-	-	-	-	-	-
Mandaumin Reservoir Expansion & PS Upgrade											
Phase 1	2,666,000	-	260,000	1,191,000	1,215,000	-	-	-	-	-	-
Phase 2	7,434,000	-	-	-	-	3,680,000	3,754,000	-	-	-	-
Studies:											
Water and Wastewater Rate Study (50% Water)	13,000	13,000	-	-	-	-	-	-	-	-	-
Lifecycle:											
Hydrants	-	-	-	-	-	-	-	-	-	-	-
Watermains	98,000	-	29,000	7,000	-	45,000	-	-	8,000	-	9,000
	635,000	-	206,000	86,000	110,000	129,000	-	-	9,000	-	95,000
Total Capital Expenditures	16,747,000	23,000	1,515,000	1,284,000	1,325,000	8,725,000	3,754,000	-	17,000	-	104,000
Capital Funding:											
Provincial/Federal Grants	-	-	-	-	-	-	-	-	-	-	-
Debtenture Requirements	12,000,000	-	-	300,000	700,000	8,000,000	3,000,000	-	-	-	-
Water Reserve	4,747,000	23,000	1,515,000	984,000	625,000	725,000	754,000	-	17,000	-	104,000
Total Capital Financing	16,747,000	23,000	1,515,000	1,284,000	1,325,000	8,725,000	3,754,000	-	17,000	-	104,000

Table A-2
Town of Petrolia - Water Service
0% - Grant Funding
Schedule of Debtenture Repayments
Inflated \$

Debtenture Year	Principal (Inflated)	Forecast										Initiated \$
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
2011	-		-	-	-	-	-	-	-	-	-	
2012	-			-	-	-	-	-	-	-	-	
2013	300,000				28,903	28,903	28,903	28,903	28,903	28,903	28,903	28,903
2014	700,000					67,440	67,440	67,440	67,440	67,440	67,440	67,440
2015	8,000,000						770,738	770,738	770,738	770,738	770,738	770,738
2016	3,000,000							289,027	289,027	289,027	289,027	289,027
2017	-								-	-	-	-
2018	-									-	-	-
2019	-											-
2020	-											-
Total Annual Debt Charges	12,000,000	-	-	-	28,903	96,342	867,081	1,156,107	1,156,107	1,156,107	1,156,107	1,156,107
Financing Rate	5%											
Borrowing Term-Water	15											

Table A-3

Town of Petrolia - Water Service

0% - Grant Funding

Water Reserves/ Reserve Funds Continuity

Inflated \$

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Opening Balance	921,623	1,252,490	1,539,126	438,104	28,377	129,871	311,166	273,870	701,467	1,111,448	1,536,774
Transfer from Operating	330,867	309,636	413,978	574,274	726,493	906,295	716,704	427,597	426,980	425,326	423,035
Transfer to Capital	-	23,000	1,515,000	984,000	625,000	725,000	754,000	-	17,000	-	104,000
Transfer to Operating	-	-	-	-	-	-	-	-	-	-	-
Closing Balance	1,252,490	1,539,126	438,104	28,377	129,871	311,166	273,870	701,467	1,111,448	1,536,774	1,855,808
Interest	-	-	-	-	-	-	-	-	-	-	-

Table A-4

Town of Petrolia - Water Service

0% - Grant Funding

Water Lifecycle Reserve Fund Continuity

Inflated \$

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Opening Balance	-	-	-	-	-	-	-	-	-	-	-
Transfer from Operating	-	-	-	-	-	-	-	-	-	-	-
Transfer to Capital	-	-	-	-	-	-	-	-	-	-	-
Transfer to Operating	-	-	-	-	-	-	-	-	-	-	-
Closing Balance	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-

Table A-5
Town of Petrolia - Water Service
0% - Grant Funding
Operating Budget Forecast
Inflated \$

Description	Actual 2010	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Costs											
Water Administration	36,395	43,227	44,500	45,800	47,200	48,600	50,100	51,600	53,100	54,700	56,300
Special Projects	41,575	25,000	26,800	27,600	28,400	29,300	30,200	31,100	32,000	33,000	34,000
Water Billing/Collection	56,918	61,870	63,700	65,600	67,600	69,600	71,700	73,900	76,100	78,400	80,800
Small Tools Expense	7,291	500	500	500	500	500	500	500	500	500	500
Petrolia Distribution											
Salaries	84,614	110,000	113,300	116,700	120,200	123,800	127,500	131,300	135,200	139,300	143,500
Benefits	13,227	16,000	16,500	17,000	17,500	18,000	18,500	19,100	19,700	20,300	20,900
Equip Usage	3	-	-	-	-	-	-	-	-	-	-
Insurance	1,004	1,149	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Travel & Training	465	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Line Maint/Bs To Pet	2,677	2,000	2,100	2,200	2,300	2,400	2,500	2,600	2,700	2,800	2,900
Water Testing Moe	272	2,000	2,100	2,200	2,300	2,400	2,500	2,600	2,700	2,800	2,900
Stand Pipe & Water Tower	4,661	15,000	15,500	16,000	16,500	17,000	17,500	18,000	18,500	19,100	19,700
Distribution Mains	17,915	25,000	25,800	26,600	27,400	28,200	29,000	29,900	30,800	31,700	32,700
Services Maintenance	26,196	16,000	16,500	17,000	17,500	18,000	18,500	19,100	19,700	20,300	20,900
Meter Maintenance	10,043	16,000	16,500	17,000	17,500	18,000	18,500	19,100	19,700	20,300	20,900
Utility Hydrant Maint	4,916	5,000	5,200	5,400	5,600	5,800	6,000	6,200	6,400	6,600	6,800
Utilities	2,766	4,000	4,100	4,200	4,300	4,400	4,500	4,600	4,700	4,800	4,900
Water Treatment Plant											
Salaries	1,523	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Benefits	409	250	300	300	300	300	300	300	300	300	300
Plant Contractors	118,078	300,000	309,000	318,300	327,800	337,600	347,700	358,100	368,800	379,900	391,300
Office Supplies	2,432	-	-	-	-	-	-	-	-	-	-
Telephone & Fax	5,051	2,100	2,200	2,300	2,400	2,500	2,600	2,700	2,800	2,900	3,000
Equip Repair & Maint	76,697	25,000	25,800	26,600	27,400	28,200	29,000	29,900	30,800	31,700	32,700
Legal	39,839	-	-	-	-	-	-	-	-	-	-
Insurance	11,876	5,183	5,300	5,500	5,700	5,900	6,100	6,300	6,500	6,700	6,900
DWQMS Requirements	15,898	-	-	-	-	-	-	-	-	-	-
Water Treatment Supplies	38,888	38,000	39,100	40,300	41,500	42,700	44,000	45,300	46,700	48,100	49,500
Analytical Services	20,466	6,000	6,200	6,400	6,600	6,800	7,000	7,200	7,400	7,600	7,800
Property Taxes	10,917	11,500	11,800	12,200	12,600	13,000	13,400	13,800	14,200	14,600	15,000
Radio Maintenance	1,336	136	100	100	100	100	100	100	100	100	100
Intake Maintenance	2,327	2,000	2,100	2,200	2,300	2,400	2,500	2,600	2,700	2,800	2,900
Utilities	7,495	-	-	-	-	-	-	-	-	-	-
Bldg Repair & Maint	17,146	10,000	10,300	10,600	10,900	11,200	11,500	11,800	12,200	12,600	13,000
Power Purchased	103,101	110,000	113,300	116,700	120,200	123,800	127,500	131,300	135,200	139,300	143,500
Auxiliary Power Fuel	714	800	800	800	800	800	800	800	800	800	800
Booster Station											
Salaries and Benefits	7,018	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Plant Contractors	1,142	-	-	-	-	-	-	-	-	-	-
Telephone & Fax	1,084	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Repairs & Maintenance	5,937	2,068	2,100	2,200	2,300	2,400	2,500	2,600	2,700	2,800	2,900
Insurance	852	976	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Property Taxes	2,255	2,400	2,500	2,600	2,700	2,800	2,900	3,000	3,100	3,200	3,300
Power Purchased	36,007	38,160	39,300	40,500	41,700	43,000	44,300	45,600	47,000	48,400	49,900
Sub Total Operating	839,429	902,419	930,600	958,700	987,400	1,016,800	1,047,000	1,078,300	1,110,400	1,143,700	1,177,900

Description	Actual 2010	Forecast									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Capital-Related											
Capital - Water Equipment	18,229	37,000	38,100	39,200	40,400	41,600	42,800	44,100	45,400	46,800	48,200
Capital - Distribution	2,300	-	-	-	-	-	-	-	-	-	-
Capital - Booster	62,413	35,000	36,100	37,200	38,300	39,400	40,600	41,800	43,100	44,400	45,700
Booster Station Capital	5,445	-	-	-	-	-	-	-	-	-	-
WTP Debenture (Principal)	507,347	529,018	551,614	575,176	599,744	572,058	-	-	-	-	-
WTP Debenture (Interest)	130,073	108,402	85,805	62,244	37,676	12,058	-	-	-	-	-
Water Distribution System Debenture (Principal)	7,695	8,012	8,345	8,689	9,047	9,419	9,807	10,211	10,631	11,069	11,525
Water Distribution System Debenture (Interest)	6,143	5,826	5,496	5,153	4,795	4,422	4,035	3,631	3,210	2,773	2,317
New Debt (Principal)	-	-	-	-	13,903	47,037	420,128	580,161	609,169	639,627	671,609
New Debt (Interest)	-	-	-	-	15,000	49,305	446,953	575,947	546,939	516,480	484,499
Transfer to Capital	-	-	-	-	-	-	-	-	-	-	-
Transfer to Capital Reserve	330,867	309,636	413,978	574,274	726,493	906,295	716,704	427,597	426,980	425,326	423,035
Sub Total Capital Related	1,070,511	1,032,894	1,139,439	1,301,935	1,485,357	1,681,596	1,681,026	1,683,446	1,685,429	1,686,475	1,686,884
Total Expenditures	1,909,940	1,935,313	2,070,039	2,260,635	2,472,757	2,698,396	2,728,026	2,761,746	2,795,829	2,830,175	2,864,784
Revenues											
Water - Fixed Charges	245,217	242,720	243,835	252,737	262,310	272,592	283,838	296,186	308,797	321,671	334,808
Water - Other Municipalities	935,084	940,000	1,018,823	1,110,936	1,212,260	1,318,144	1,318,144	1,318,144	1,318,144	1,318,144	1,318,144
Water - Services & Meters	6,692	10,000	10,300	10,600	10,900	11,200	11,500	11,800	12,200	12,600	13,000
Water - Service Charges	100	-	100	100	100	100	100	100	100	100	100
Total Operating Revenue	1,187,093	1,192,720	1,273,058	1,374,373	1,485,570	1,602,036	1,613,582	1,626,230	1,639,241	1,652,515	1,666,051
Water Billing Recovery - Total	\$722,847	\$742,593	\$796,981	\$886,262	\$987,187	\$1,096,360	\$1,114,444	\$1,135,516	\$1,156,588	\$1,177,660	\$1,198,732

Table A-6
Town of Petrolia - Water Service
0% - Grant Funding
Water Rate Forecast
Inflated \$

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Water Billing Recovery	722,847	742,593	796,981	886,262	987,187	1,096,360	1,114,444	1,135,516	1,156,588	1,177,660	1,198,732
Total Volume (m3)	602,373	618,828	603,773	610,373	618,073	626,873	637,213	649,262	661,310	673,359	685,407
Petrolia Rate	\$1.20	\$1.20	\$1.32	\$1.45	\$1.60	\$1.75	\$1.75	\$1.75	\$1.75	\$1.75	\$1.75
Enniskillen Rate	\$1.34	\$1.34	\$1.46	\$1.59	\$1.74	\$1.89	\$1.89	\$1.89	\$1.89	\$1.89	\$1.89