1
DRINKING WATER SYSTEM - FINANCIAL PLAN #013-301A

The Environmental Services Committee recommends:

1. **Receipt of the presentation by Lucas Cugalj, Director, Strategy and Business Planning, Environmental Services; and**

2. **Adoption of the recommendations contained in the following report dated May 13, 2010, from the Commissioner of Environmental Services and the Commissioner of Finance.**

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council approve the Water Financial Plan prepared by Watson & Associates Economists Ltd., dated April 29, 2010.

2. Regional staff submit the Water Financial Plan to the Ministry of the Environment and the Ministry of Municipal Affairs and Housing in accordance with the *Safe Drinking Water Act*.

3. Regional staff publish notice of the availability of the Financial Plan, as prescribed by Ontario Regulation 453/07, in the local press and on the Region's website.

2. PURPOSE

The purpose of this report is to obtain approval of the Water Financial Plan, as required under the *Safe Drinking Water Act*.

3. BACKGROUND

Council approval of the Water Financial Plan required under the *Safe Drinking Water Act*

As part of the province's commitment to fulfill all of Justice O'Connor's Walkerton Inquiry recommendations, the Ministry of the Environment (MOE) is implementing a new approvals framework under the *Safe Drinking Water Act* for municipal residential drinking water systems called the Municipal Drinking Water Licence Program.

Justice O'Connor recommended that owners of municipal water systems obtain a licence for the operation of their drinking water systems. The licence will be issued to owners by the MOE under the *Safe Drinking Water Act* if the owner demonstrates it has the following five elements in place:

1. Drinking-water works permit
2. Accepted operational plan
3. Accredited operating authority
4. Financial Plan
5. Permit to take water

All these components, with the exception of item four, are now complete. Preparation of the financial plan is a key requirement for licensing and must be undertaken by all water providers.

Financial plan prepared in accordance with new statutory requirements

Watson & Associates Economists Ltd. (Watson) was retained in accordance with the Region's purchasing by-law to produce the financial plan. The detailed report completed by Watson has been included as Attachment 1 to this report.

Financial plan requirements regulated by the *Safe Drinking Water Act*

Ontario Regulation 453/07 details the following requirements with regards to s.30 (1) part b of the *Safe Drinking Water Act* for existing water systems:

- 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
- 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 Public Sector Accounting Board) for each year in which the financial plans apply
- Financial plans are to be made available to the public upon request 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, and
- Notice of the availability of the financial plans is to be given to the public

New regulations necessitate changes to financial reporting requirements

New regulations require municipalities to report financial statements on a full accrual accounting basis for 2009 and 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. Historically, municipalities reported financial results on a modified cash basis of accounting whereby revenues and expenses are recognized when cash is paid or received. The difference has impacted the presentation of the statements in that various accounts have been added or deleted to properly report transactions. Examples of changes in reporting are detailed in Attachment 1 (Figures 1-1 to 1-4).

The main differences in reporting include:

- Reporting tangible capital assets on the Statement of Financial Position
- Reporting accumulated surplus/deficit on the Statement of Financial Position
- Reporting amortization expense on the Statement of Operations
- Expensing any non-tangible capital assets on the Statement of Operations
- New report detailing the change in net financial assets/debt

Previously, capital assets were expensed; the new requirements stipulate that tangible capital assets must be capitalized and amortized as an expense over the estimated useful life of the asset.

Safe Drinking Water Act requires a declaration of the financial plan's sustainability

The *Safe Drinking Water Act* requires a declaration of the financial plan's sustainability but it does not give a clear definition of what is considered sustainable. The Ministry of the Environment released a guideline ("Towards Financially Sustainable Drinking Water and Wastewater Systems") that provides possible approaches to achieving sustainability. Listed below are nine Principles of Financially Sustainable for Water and Wastewater Services developed by the Province:

1. Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate
2. An integrated approach to planning among water, wastewater, and storm water management is desirable given the inherent relationship among these services
3. Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services
4. Life-cycle planning with mid-course corrections is preferable to planning over the short-term or not planning at all
5. An asset management plan is a key input to the development of a financial plan
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
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.
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

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

The Region has included these principles of sustainability into the water financial plan as discussed in the following section.

4. ANALYSIS AND OPTIONS

Financial plan prepared in accordance with MOE Financial Plans Regulation

Municipalities have historically reported financial results on a modified cash basis of accounting. In 2009 and onwards, municipalities are required to report using full accrual accounting and capitalize assets that are owned and provide future benefits.

Accounting principles require York Region to expense yearly capital investments to the City of Toronto and the Region of Peel. As a result, the Statement of Operations in the financial plan shows yearly accounting deficits until 2017. The future water supply benefit received from these investments is not reflected in the financial statements of the financial plan.

Appendix B of the financial plan was completed for illustration purposes to capitalize investments with the City of Toronto and the Region of Peel. Under this scenario, the Region produces yearly accounting surpluses.

Financial plan was prepared using the Region’s 2007 Development Charge By-law

On April 21, 2010, the Region issued a Development Charge By-law amendment draft background study. The financial plan was prepared using the existing 2007 Development Charge By-law and related rates. As a result, any future increase in development charge revenue will offset additional debt needed from 2013 onwards to cover development charge reserve shortfalls. This will also reduce additional interest expenses in the same years.

Financial plan was prepared using a preliminary draft rate study

In December 2009, Regional Council approved a water rate study that included increases of 10% in 2009 to 2011 and 5% in 2012 to 2013 and 2% thereafter. The financial plan for water was prepared using the approved rate study increases up to 2013 and for subsequent years assumed yearly rate increases of 3%. Going forward, a comprehensive draft water and wastewater rate study will be completed for Council review.

Water financial plan is due on July 29, 2010

York Region is required under the *Safe Drinking Water Act* to submit a Council endorsed water financial plan by July 29, 2010, six months after the first sets of licenses were issued to the Region.

Under the *Safe Drinking Water Act*, financial plans can be amended to reflect additional information

Regional Council's decisions regarding the Development Charge By-law amendment draft background study and the future water rate study will affect the water financial plan. Under the *Safe Drinking Water Act*, the water financial plan needs to be submitted every five years. However, the option exists to amend the financial plan to reflect Council direction. Staff will review the financial plan after approval of the Development Charge By-law amendment and revised rate study that is to be brought forward within the next twelve months. York Region staff are also currently working with external financial auditors to determine if cost-shared capital paid to the City of Toronto and the Region of Peel can be recorded as an asset on the balance sheet. An amended financial plan will be brought forward if there are material differences in the final calculations.

York Region's water financial plan built on MOE guideline for sustainability

The water financial plan is built on the principles of sustainability noted earlier in the report. The Region's current water rate strategy and draft rate strategy have been derived using the following processes:

- A detailed assessment of current and future capital needs including an analysis of potential funding sources
- An analysis of fixed and variable operating costs in order to determine how the costs will be impacted by evolving infrastructure needs and system growth
- A review and recommendation on rate structures that ensures revenues are equitable and sufficient to meet system needs
- A public process that involves consultation with stakeholders including Region staff, Council and the public.

York Region's water financial plan is viable over the long-term

The existing water rate strategy is designed to ensure the necessary funding is in place to meet operating costs and long-term rehabilitation and replacement needs. The strategy also includes a phase-in approach to rate increases over the long-term. As a result of phasing rate increases, the system is currently using all available revenue, including reserves to meet operating and capital obligations. The situation will improve as rates reach their full value and proportionately more of the rate is focused on contribution to reserves. Staff will be reviewing rates to ensure the existing strategy is meeting required funding levels and will report back to Council when the updated rate study has been completed.

Net debt position rises from 2011 to 2016 and declines thereafter

Section 4 of Attachment 1 contains the detailed financial plan information. Due to the level of existing debt, anticipated issuance of new debt, and significant level of deferred revenue balances, the Region's water system will be in a net debt position of $475.1 million in 2010. The Statement of Financial Position developed for the Region forecasts an increasing net financial debt position in the 2011 to 2016 forecast period as debt levels continue to rise. However, in 2017 to 2019, the estimated net financial debt position improves each year as debt levels decrease. The Statement of Financial Position is adversely affected by the treatment of the cost shared capital with Peel and Toronto. The new accounting rules require the amounts paid to Peel and Toronto be expensed as an operating expense and not recorded as an asset. Appendix A in Attachment 1 was prepared to illustrate the Region's financial position if the Peel and Toronto cost shared capital was recorded as an asset.

Toronto and Peel cost-shared capital now shown as operating expense

The Statement of Operations developed for the Region forecasts deficits until the end of 2017. The 2010 budget forecasted the water system would be in a surplus position by the end of 2011. The difference is primarily due to the unique agreements between the Region and the City of Toronto and the Region of Peel for cost shared capital works. The new accounting regulations require that the amounts paid to Peel and Toronto for capital works be expensed as an operating expense because the Region does not own a share of these assets. The Region does receive a future benefit from the capital works through capacity increase entitlements detailed in the previously approved agreements with Toronto and Peel.

Although the short-term forecast does not have annual surpluses, the Statement of Operations improves each year from 2011 to 2019 and proves to be financially viable over the long-term. The Region maintains an accumulated surplus throughout the financial plan.

Planned use of debt to construct capital and fund development charge shortfall

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 of Attachment 1 indicates that forecasted capital expenditures exceed forecasted net revenues in each year between 2010 and 2016, resulting in a decrease in net financial assets. However, in 2017 to 2019, forecasted revenues exceed forecasted expenditures resulting in an increase in net financial assets. The overall net debt position is due to the planned use of debt to construct capital assets and fund development charge shortfalls.

The Statement of Cash Flow summarizes how the water system is expected to generate and use cash resources during the planning period. Transactions that provide/use cash are classified as operating, capital, investing, and financing activities as shown in Table 4-4 of Attachment 1. This statement focuses on the cash aspect of these transactions and thus is the link between cash and accrual based reporting. Table 4-4 of Attachment 1 indicates that debt, investment income, and cash on hand will be used to fund operating deficits and tangible capital asset acquisitions over the forecast period. The financial plan anticipates the cash position of the Region's water system improving from approximately $153.5 million at the beginning of 2010, to $257.6 million by the end of 2019.

5. FINANCIAL IMPLICATIONS

There is no financial impact directly associated with this report. By approving the financial plan, Regional Council is committing that the Region's drinking water system is financially viable.

6. LOCAL MUNICIPAL IMPACT

With Council approval of the water financial plan, York Region's Drinking Water System meets all regulatory compliance prescribed through applicable Federal and Provincial legislation, Certificates of Approval, and Permits to Take Water, enabling the Region to deliver safe drinking water to the local municipalities. Local municipalities will be required to submit water financial plans in accordance with the *Safe Drinking Water Act* regulations.

7. CONCLUSION

It is recommended that Regional Council endorse the water financial plan *(Attachment 1)* and authorize its submission to the Ministry of the Environment and the Ministry of Municipal Affairs and Housing as required under the *Safe Drinking Water Act* Ontario Regulation 453/07. Staff will advertise the availability of the financial plan in local newspapers and on the Region's website.

For more information on this report, please contact Lucas Cugalj, Director of Strategy and Business Planning for Environmental Services at (905) 830-4444 Ext. 5041.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause is attached to this report.)

ENVIRONMENTAL SERVICES
Drinking Water – Financial Plan

Presentation to
Environmental Services Committee

Lucas Cugalj, Director, Strategy and Business Planning

June 9, 2010

Agenda

- Overview of New Financial Regulations
- Water Financial Plan
- Recommendation
- Moving Forward

Financial Plans Regulation

Safe Drinking Water Act – "Requirement for approval of permit and license"

↓

Safe Drinking Water Act– s.32(4) "License Renewal"

↓

Ontario Regulation 453/07– s.3 "Financial Plan Requirements…"

↓

Provincial Guideline – "Towards Financially Sustainable Drinking-Water and Wastewater Systems"

5 Requirements for Municipal Drinking Water License

1. Drinking Water Works Permit (DWWP)
2. Accepted Operational Plan, based on the Drinking Water Quality Management Standard (DWQMS)
3. Accreditation of the Operating Authority
4. **Financial Plan**
5. Permit to Take Water (PTTW)

4 Other Requirements Already Complete

Financial Plan Requirements for existing systems

- Financial plans must be approved by Council resolution (or governing body)
- Financial plans must include a statement that financial impacts have been considered and apply for a minimum six year period
- 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 Public Sector Accounting Board) for each year in which the financial plans apply

Financial Plan Requirements for existing systems (cont'd)

- Financial plans are to be made available to the public upon request 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

Meeting the Province's Principles of Sustainability for Water and Wastewater Systems

Guidelines	York's Procedures
1. Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate	1. Rate review studies include key stakeholders. Annual budgets are approved by Council and posted on Region's website.
2. An integrated approach to planning among water, wastewater, and storm water management is desirable given the inherent relationship among these services	2. Water and Wastewater Master Plans are key to planning growth projects and Infrastructure Improvement Program is key to identifying rehabilitation and replacement projects
3. Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services	3. Rate review studies include recommendations on rate structures to ensure revenues are equitable and sufficient to meet system needs over the long-term

Region meets Province's Principles of Sustainability

Meeting the Province's Principles of Sustainability for Water and Wastewater Systems (cont'd)

Guidelines	York's Procedures
4. 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.	4. Water is billed on actual usage per municipality
5. 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.	5. Budget to Actual variance reports are monitored and reported to council periodically throughout the year
6. Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff and municipal council	6. Business plans and rate reviews involve consultation with key stakeholders to collaboratively develop sustainable plans

Region meets Province's Principles of Sustainability

Meeting the Province's Principles of Sustainability for Water and Wastewater Systems (cont'd)

Guidelines	York's Procedures
7. Life-cycle planning with mid-course corrections is preferable to planning over the short-term or not planning at all	7. Rate reviews cover a 25 year period and are reviewed every 3 to 5 years depending on changes to assumptions
8. An asset management plan is a key input to the development of a financial plan	8. Infrastructure Improvement Program identifies rehabilitation and replacement projects to be included in the Capital Plan
9. 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	9. Rate review studies include recommendations on rate structures to ensure revenues are equitable and sufficient to meet system needs over the long-term

Region meets Province's Principles of Sustainability

Budget vs New Requirements

The main differences in reporting include:

- Reporting tangible capital assets on the Statement of Financial Position
- Reporting accumulated surplus/deficit on the Statement of Financial Position
- Reporting amortization expense on the Statement of Operations
- Expensing any non-tangible capital assets on the Statement of Operations
- New report detailing the change in net financial assets/debt

Cost Shared Capital with Peel and Toronto Treated as an Operating Expense Under New Requirements

Budget vs New Requirements (cont'd)

Operating Budget

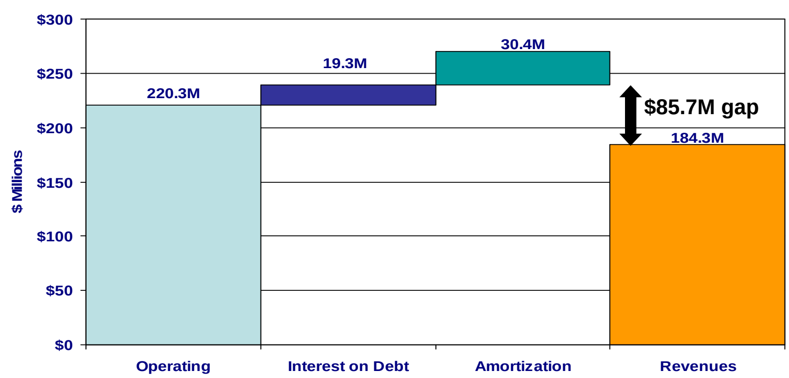
Add:

- Non Tangible Capital Asset Expenditures
- Amortization

Remove:

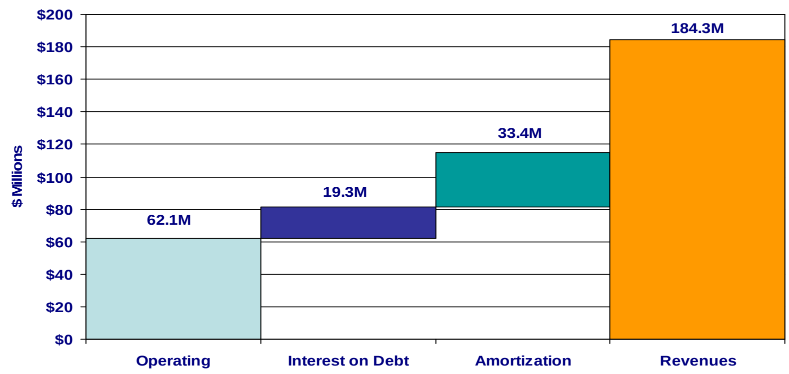
- Debt payments (principle portion)
- Transfers to/from Reserves

2010 Financial Summary



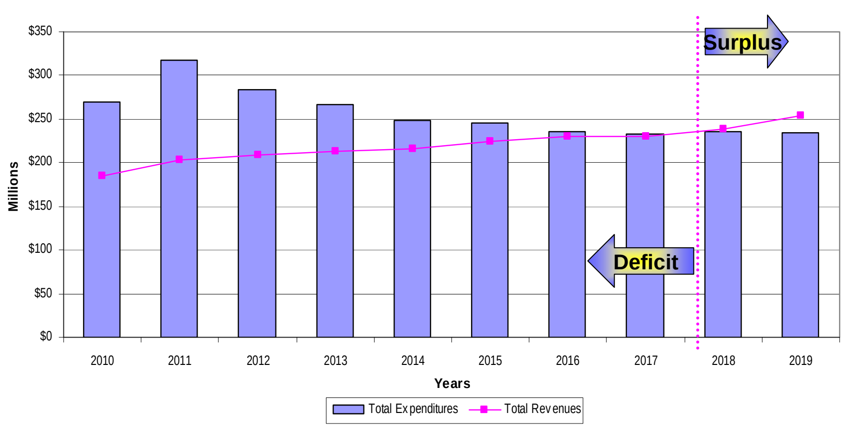
$85.7M Water Funding Gap Closes by 2018 with Sustainable Water Rate and DC Increases

2010 Financial Summary
(excluding Peel and Toronto capital)



$85.7M Water Funding Gap Entirely Due to Accounting Treatment of Peel and Toronto Cost Shared Capital

Water Financial Plan to 2019



Annual Surplus 2018 & Beyond

Recommendations

It is recommended that:

1. Regional Council approve the Water Financial Plan prepared by Watson & Associates Economists Ltd., dated April 29, 2010.
2. Regional Staff submit the Water Financial Plan to the Ministry of the Environment and the Ministry of Municipal Affairs and Housing in accordance with the *Safe Drinking Water Act*.
3. Regional staff publish notice of availability of the Financial Plan, as prescribed by Ontario Regulation 453/07, in the local press and on the Region's website.

Moving Forward

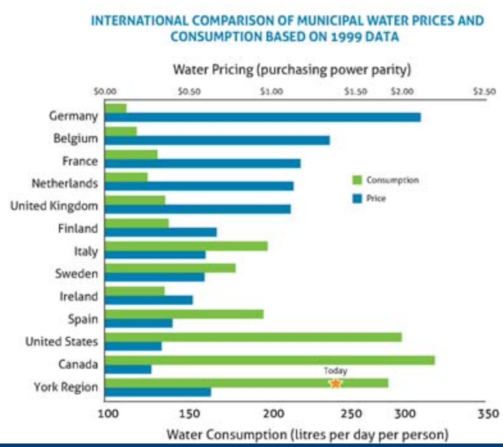
- Rate Study Review
- Development Charge Update
- Review of Peel/Toronto Capital Treatment
- Potential future requirement to prepare similar financial plan for wastewater system

Council has Charted a Course of Sustainable Water Rate and DC Increases to Ensure Long Term Viability

Thank you!

York Region

Water Use and Rates Comparison



Water rates vary across developed countries – higher rates appear to drive conservation

York Region

COUNCIL ATTACHMENT 1

YORK REGION

WATER
ONTARIO REGULATION 453/07
FINANCIAL PLAN

Financial Plan #013-301A

APRIL 29, 2010

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Planning for growth

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1. INTRODUCTION

1. INTRODUCTION

1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by York Region (the Region) 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 Region 's water systems has already been analyzed and documented by Watson for the process of drafting a "Region of York Water and Wastewater Rate Study" to be issued at a later date (2010 Draft Rate Study). The objective of the report provided herein is to convert the findings of the 2010 Draft 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 41 (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 yet in force 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 the Public Sector Accounting Board) for each year in which the financial plans apply;
- 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; and
- Notice of the availability of the financial plans is to be given to the public.

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 Public Sector Accounting Board) 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.

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.

1.2.5 Public Sector Accounting Board (PSAB) Requirements

The components of the financial plans indicated by the regulation are congruent 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 recent reporting years. However, the format has changed to conform to the new requirements of PS1200 and PS3150 (see Figures 1-1 and 1-2). For example, the financial statements are to be reported on a full accrual accounting basis for 2009 and 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. Historically, municipalities have 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, effective for the 2009 fiscal year, municipalities are required to report additional information relating to the accounting treatment of tangible capital assets as indicated by the new 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 Region's infrastructure.

The Statement of Cash Flow and the Statement of Change in Net Financial Assets/Debt (which is a new statement) 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 regulations. 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)	NEW FORMAT
Assets	**Financial Assets**
Financial Assets	
Cash	Cash
Accounts Receivable	Accounts Receivable
Investments	Investments
Inventory for resale	Inventory for resale
Other Assets	Other Assets
Total Financial Assets	Total Financial Assets
Non-Financial Assets	
Prepaid Expenses	
Liabilities	**Liabilities**
Accounts Payable & Accrued Liabilities	Accounts Payable & Accrued Liabilities
Debt (Principal only)	Debt (Principal only)
Other (DC Reserves-Deferred Revenue)	Other (DC Reserves-Deferred Revenue)
Total Liabilities	Total Liabilities
NET ASSETS	**NET FINANCIAL ASSETS/(DEBT)**
Municipal Position	**Non-Financial Assets**
Fund Balances	Tangible Capital Assets
Current Fund	Inventory of Supplies
Capital Fund	Prepaid Expenses
Reserves and Reserve Funds	Total Non-Financial Assets
Accounts to be Recovered	
From Future Revenues	
From Reserves & Reserve Funds	
TOTAL MUNICIPAL POSITION	**ACCUMULATED SURPLUS/(DEFICIT)**

FIGURE 1-2
STATEMENT OF OPERATIONS

OLD FORMAT (PRE-2009)	NEW FORMAT
Revenues	**Revenue**
Base Charge Revenue	Base Charge Revenue
Rate Based Revenue	Rate Based Revenue
Transfers from Reserves	Earned DC Revenue
Other Revenue	Other Revenue
Total Revenues	**Total Revenue**
Expenditures	**Expenses**
	Operating Expenses
Operating Expenses	Interest on Debt
	Amortization
Capital	Other
Total Expenditures	**Total Expenses**
Net Revenues for the year	**Annual Surplus/(Deficit)**
Increase (decrease) in amounts to be recovered	**Accum. Surplus/(Deficit), beg. of year**
Change in fund balances	**Accum. Surplus/(Deficit), end of year**

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

NEW STATEMENT

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 FLOW[1]

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

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

2. SUSTAINABLE FINANCIAL PLANNING

2. SUSTAINABLE FINANCIAL PLANNING

2.1 Introduction

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

Principle #1: Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.

Principle #2: An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.

Principle #3: Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.

Principle #4: Life-cycle planning with mid-course corrections is preferable to planning over the short-term, or not planning at all.

Principle #5: An asset management plan is a key input to the development of a financial plan.

Principle #6: A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.

Principle #7: Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.

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

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

The principles help form the framework for a sustainable financial plan. The substance of the financial plan may be derived from SWSSA which will require, once in force, municipalities to assess the "full cost" of providing water and wastewater services. Full cost as defined in subsections 3(7) and 4(7) includes:

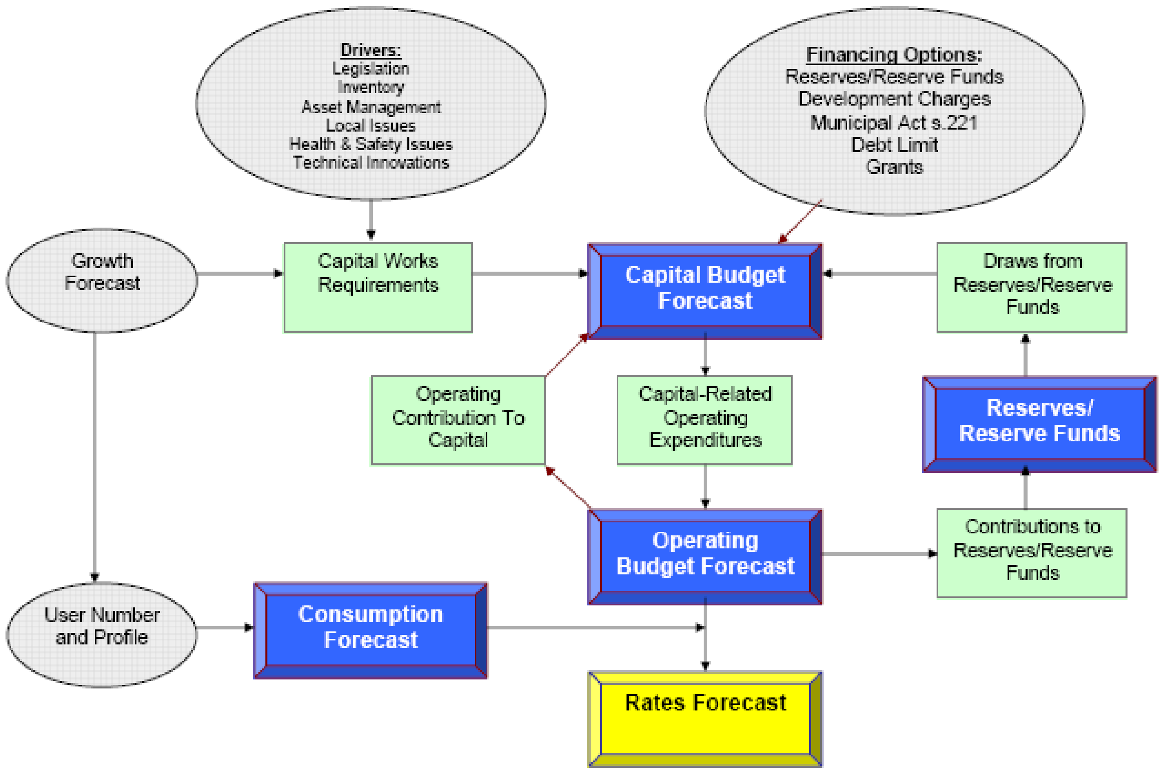
> *"source protection, operating costs, financing costs, renewal and replacement costs and improvement costs associated with extracting, treating or distributing water to the public and collecting, treating or discharging waste water, and such other costs which may be specified by regulation."*

Furthermore, municipalities will be required to inventory and report their current infrastructure and how it will be maintained and managed going forward. Municipalities will then be required to report on the full cost of services and how these costs will be recovered and paid for. The principles of SWSSA ensure that a long-term plan for sustainable asset management is developed and that all costs for providing water and wastewater services are assessed so that there is sufficient funding for system needs.

2.2 Draft Water and Wastewater Rate Study

As noted above, Watson has already completed extensive financial planning as documented in the 2010 Draft Rate Study (to be released at a later date) conducted on behalf of the Region. The study process was designed to address the 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 2010 Draft Rate Study provides a sound financial plan for the Region's water and wastewater 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 Region staff, Council, the general public (specifically the users of the system) and others with the aim of gaining input and collaboration on the sustainability of the financial plan *(Principles 1, 9).*

A summary of the draft water rates for the Region are as follows:

Water:

Uniform Rate:

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Water Billing Recovery	77,600,500	87,097,155	94,998,173	104,169,053	110,431,180	116,979,111	123,612,802	130,225,678	137,131,310	144,322,007
Total Consumption (m^3)	123,967,838	128,055,140	132,030,498	136,005,856	139,981,214	143,956,572	147,685,546	151,056,348	154,427,150	157,797,952
Uniform Rate	**0.62597**	**0.68015**	**0.71952**	**0.76592**	**0.78890**	**0.81260**	**0.83700**	**0.86210**	**0.88800**	**0.91460**

Note:

The rate for 2010 has been approved by Council. The rates for 2011-2019 are in draft form (as at April 29, 2010) and have not been approved by Council at this time.

3. APPROACH

3. APPROACH

3.1 Introduction

The 2010 Draft Rate Study has been prepared on a modified cash basis and the resulting financial plan has been converted to a full accrual basis for the purposes of this report. The conversion process used will help to establish the structure of the year-end financial statements along with the opening balances that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the financial plan. It is noted that the financial plan has been prepared for water only.

3.2 Conversion Process

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

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

3.2.1 Calculate Tangible Capital Asset Balances

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water assets, an inventory has already been compiled and summarized within the 2010 Draft Rate Study as well as part of the Region's efforts to become compliant with PSAB 3150. Given the prospective nature of the 2010 Draft 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. Common approaches to determining historical cost include consulting Region records (i.e. invoices) or, if that information is not readily available, by "deflating" the replacement cost data already in hand. Once historical cost is established, the following calculations are made to determine net book value:

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

Future water capital needs have also been determined and summarized within the 2010 Draft Rate Study. However, these estimates only represent future assets that the Region anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to the Region). These contributed assets could form a significant part of the infrastructure going forward in terms of the sustainability of the systems 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 are to be reported differently by municipalities starting in 2009 (see Figure 3-1). A wide range of adjustments will be considered and will depend on the size and complexity of the systems. 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 new 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

FIGURE 3-1
CONVERSION ADJUSTMENTS
STATEMENT OF OPERATIONS

Modified Cash Basis	Budget 2010	Adjustments to Remove Non-Accrual Accounts Dr	Adjustments to Remove Non-Accrual Accounts Cr	Transition Budget Balances 2010	Adjustments to add Accrual Accounts Dr	Adjustments to add Accrual Accounts Cr	Budget 2010	Accrual Basis	Notes on Adjustments
Revenues								**Revenues**	
Base Charge Revenue	481,400			481,400			481,400	Base Charge Revenue	No change
Rate Based Revenue	77,600,500			77,600,500			77,600,500	Rate Based Revenue	No change
Transfers from Reserves	48,753,000	48,753,000		-			-		Removes non-accrual reserve account
				-		99,984,250	99,984,250	Earned DC Revenue	New Account to reflect earned DC Revenue
Other Revenue	-			-		6,255,676	6,255,676	Other Revenue	To Account for Interest Revenue
Total Revenues	126,834,900			78,081,900			184,321,826	Total Revenues	
Expenditures								**Expenses**	
Operating	54,596,000			54,596,000	165,268,000		219,864,000	Operating Expenses	To include various expenses previously classified as capital expenditures
Capital									
Transfers to Reserves	4,977,950		4,977,950	-			-		Removes non-accrual reserve account
Transfers to Capital	9,078,550		9,078,550	-			-		Removes TCA related balances which are now captured in statement of financial position
Debt Repayment (Principal & Interest)	57,657,400			57,657,400		38,398,139	19,259,261	Interest on Debt	Removes principal portion of debt - now reflected on statement of cash flow. Also Adds debt previously captured within capital budget
					30,379,255		30,379,255	Amortization	New account created as a result of PSAB 3150 - reflects cost of using TCA
Other	525,000			525,000			525,000	Other	No Change
Total Expenditures	126,834,900			**112,778,400**			**270,027,516**	Total Expenses	
Net Expenditures	-						**(85,705,690)**	**Annual Surplus/(Deficit)**	Represents difference between Revenues and Expenditures
Increase (decrease) in amounts to be recovered	-						969,148,048	Accumulated Surplus/(Deficit), beginning of year	
Change in fund balances	-					85,705,690	**969,148,048**	**Accumulated Surplus/(Deficit), end of year**	To transfer annual surplus to accumulated surplus
TOTAL ADJUSTMENTS		**48,753,000**	**14,056,500**		**195,647,255**	**230,343,755**			

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

Figure 3-1 illustrates the conversions required to the revise the Statement of Operations as per section 1.2.5 above. Some of these conversions are noted as follows:

- Including the revenues and expenses associated with the now obsolete Statement of Capital and Statement of Reserves and Reserve Funds
- Including all non tangible capital asset costs previously included in the capital statement (i.e. expenses related to various studies)
- Eliminating all expenditures incurred to acquire tangible capital assets which will now form part of the tangible capital asset balance
- Removing transfers to and from reserves (these transactions are now represented by changes in cash and accumulated surplus)
- Removing debt repayment costs relating to the principal payment portion only (now reported as a decrease in debt liability on the Statement of Financial Position)
- Including new expenses relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets (in order to capture the allocation of the cost of these assets to operating activities over their useful lives).

discussed in section 3.2.1. 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, new expenses relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets will be reported via 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 new 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 Region and as such, will be difficult to isolate the information that is relevant to Water services. 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 Region 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
CONVERSION ADJUSTMENTS
STATEMENT OF FINANCIAL POSITION

Modified Cash Basis	Budget 2010	Adjustments to Remove Non-Accrual Accounts		Transition Budget Balances 2010	Adjustments to add Accrual Accounts		Budget 2010	Accrual Basis	Notes on Adjustments
		Dr	Cr		Dr	Cr			
Financial Assets								**Financial Assets**	
Cash	116,811,863			116,811,863			116,811,863	Cash	No change
Accounts Receivable	31,173,940			31,173,940			31,173,940	Accounts Receivable	No change
				-			-	Investments	
				-			-	Inventory for resale	
				-			-	Other Assets	
Total Financial Assets	147,985,803			147,985,803			147,985,803	Total Financial Assets	
Liabilities								**Liabilities**	
Accounts Payable & Accrued Liabilities	4,225,407			4,225,407			4,225,407	Accounts Payable & Accrued Liabilities	No Change
Gross Long-term Liabilities	510,456,597			510,456,597			510,456,597	Debt (Principal only)	No Change
Other (DC Reserves-Deferred Revenue)	108,399,924			108,399,924			108,399,924	Other (DC Reserves-Deferred Revenue)	No Change
Total Liabilities	623,081,928			623,081,928			623,081,928	Total Liabilities	
Other Assets									
Prepaid Expenses	-			-					Account reclassified as Non-Financial asset
Net Financial Assets/(Debt)	**(475,096,125)**			**(475,096,125)**			**(475,096,125)**	**Net Financial Assets/(Debt)**	
Municipal Position								**Non-Financial Assets**	
					1,358,538,483		1,358,538,483	Tangible Capital Assets	Adds NBV of Tangible Capital Assets - offset entry is to accumulated surplus
Water Capital Reserve Fund	35,360,471	35,360,471		-					Removes non-accrual reserve account - balance to be transferred to accumulated surplus
Development Charge Reserve	108,399,924	108,399,924		-					Removes non-accrual reserve account - balance to be transferred to accumulated surplus
Amounts to be Recovered	(618,856,520)		618,856,520	-					Removes account - balance to be transferred to accumulated surplus
								Inventory of Supplies	
								Prepaid Expenses	
				-			1,358,538,483	Total Non-Financial Assets	
Total Municipal Position	**(475,096,125)**	**-**	**-**			883,442,358	**883,442,358**	**Accumulated Surplus/(Deficit)**	Represents offset entry for TCA's and existing reserve fund balances
TOTAL ADJUSTMENTS		**143,760,395**	**618,856,520**		**1,358,538,483**	**883,442,358**			

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

Figure 3-2 illustrates the conversions required to the revise the Statement of Financial Position as per section 1.2.5 above. Some of these conversions are noted as follows:

- Transfer the applicable balances from the Statement of Capital and the Statement of Reserve and Reserve Funds
- Record and classify the opening/actual balances for the remaining accounts such as accounts receivable, inventory, accounts payable, outstanding debt (principal only) according to the new structure of the Statement of Financial Position
- Eliminate the Municipal Position with offset to “Accumulated Surplus
- Record the Net Book Value of Tangible Capital Assets and with offset to accumulated surplus

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 Region 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 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. <u>Opening cash balances</u> 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 within the Region's ledgers. However, it may not be possible to extract this information from the ledgers for Water services 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:

Ending Reserve/Reserve Fund Balance
Plus: Ending Accounts Payable Balance
Less: Ending Accounts Receivable Balance
Equals: Approximate Ending Cash Balance

b. Amortization Expense The method and timing of amortization should be based on the Region'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 obtained from the 2010 Draft Rate Study.

d. Contributed Assets As noted earlier, contributed assets could represent a significant part of the Region'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 Region's water systems. 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 Region's water systems. It is not an audited document[1] 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 Region's water systems. 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 occurs when 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 systems will be needed to finance past transactions as well as future operations. Table 4-1 indicates that in 2010, due to the level of existing debt, anticipated issuance of new debt, and significant level of deferred revenue balances, the Region's water system will be in a net debt position of $475.1 million. The financial plan developed for the Region forecasts an increasing net financial debt position in the 2011 to 2016 forecast period as debt levels continue to rise. However in 2017 to 2019, the estimated net financial debt position improves each year as debt levels decrease. It is noted that debt includes "Inter-fund Transfers" which represent internal borrowings from non-water reserves to supplement future cash requirements as anticipated development charge proceeds will not be sufficient to fund future growth-related capital expenditures. As a result, net financial debt is projected to grow to approximately $1.0 billion by the end of 2019. As mentioned above,

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

this net debt position indicates that the Region's water systems will need to generate future revenue in order to finance past transactions.

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

- Tangible capital assets such as water mains and treatment plants 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/construction by the Region 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 $322 million over the 10-year forecast period. This indicates that the Region 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 systems for a given period. The annual surplus/deficit measures whether the revenues generated were sufficient to cover the expenses incurred and in turn, whether net financial assets have been maintained or depleted. Table 4-2 illustrates the ratio of expenses to revenues increasing from 146% to 156% between 2010 and 2011 and then decreasing to 92% by 2019. Correspondingly, annual deficits improve from a high of $114.5 million in 2011 to a surplus position of $3.6 and $20.6 million by 2018 and 2019 respectively. It is important to note that an annual surplus is required to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments. The deficits are partially due to a unique agreement between the Region and the City of Toronto and the Region of Peel. Through this agreement, the Region is required to make significant capital investments in water distribution assets without taking an ownership stake. The financial implication is that the Region is not classifying these assets as TCA's and must therefore expense the related costs on the Statement of Operations in the year that they are incurred (rather than capitalize them on the Statement of Financial Position and amortize them over their useful life). Consequently, annual operating expenditures include significant capital related costs. Another reason for the annual deficits is due to a significant use of debt financing for capital projects (as debt financing does not qualify as a revenue source for reporting purposes). Through discussions with Region staff, the use of debt financing will be reviewed internally by the Region at a later date.

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. As indicated in Table 4-2, the Region's accumulated surplus is predominately made up of reserve and reserve fund balances as well as historic investments in tangible capital assets. The financial plan anticipates that accumulated surplus will decrease from a 2009 surplus of $969.1 million to $603.9 million by 2019. This is due to the annual deficits incurred between 2010 and 2017 as described above.

Provided as a sensitivity analysis, if the Region were to have an ownership stake in the assets purchased through the Toronto and Peel agreements noted above, the assets would be included within the TCA balance on the Statement of Financial Position. As a result, operating expenses would be decreased such that the financial plan would result in surpluses averaging $37.8 million over the forecast period. Consequently, accumulated surplus would improve from a revised 2009 value of $1.2 billion to $1.6 billion over the forecast period. The resulting Statement of Financial Position and Statement of Operations are included in Appendix A.

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 capital expenditures exceed forecasted net revenues in each year between 2010 and 2016, resulting in a decrease in net financial assets. However, in 2017 to 2019, forecasted revenues exceed forecasted expenditures resulting in an increase in net financial assets. The overall trend of a net financial debt position is due to the planned use of debt to construct tangible capital assets and fund development charge shortfalls. This is evidenced by the negative ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions of (0.52) in 2010 improving to (0.06) in 2019[1].

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how the water system is expected to generate and use cash resources during the planning period. The transactions that provide/use cash are classified as operating, capital, investing, and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash and accrual based reporting. Table 4-4 indicates that debt, investment income, and cash on hand will be used to fund operating deficits and tangible capital asset acquisitions over the forecast period. The financial plan anticipates the cash position of the Region's water system improving from approximately $153.5 million at the beginning of 2010, to $257.6 million by the end of 2019.

[1] A desirable ratio is 1:1 or better.

Table 4-1
Region of York
Statement of Financial Position (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Forecast									
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Financial Assets											
Cash	1	116,811,863	50,804,257	(5,262,877)	32,440,245	63,486,591	97,499,119	135,963,666	173,382,895	212,018,863	257,550,398
Accounts Receivable	1	31,173,940	34,973,113	38,135,553	41,805,341	44,309,787	46,928,418	49,581,409	52,226,169	54,987,891	57,863,544
Investments		-	-	-	-	-	-	-	-	-	-
Inventory for Resale		-	-	-	-	-	-	-	-	-	-
Other Assets		-	-	-	-	-	-	-	-	-	-
Total Financial Assets		147,985,803	85,777,370	32,872,676	74,245,586	107,796,378	144,427,537	185,545,075	225,609,064	267,006,754	315,413,942
Liabilities											
Accounts Payable & Accrued Liabilities	1	4,225,407	4,563,294	4,950,759	5,380,830	5,686,823	6,012,234	6,392,905	6,797,955	7,231,779	7,696,492
Debt (Principal only)	2	510,456,597	671,183,117	763,337,171	866,411,283	982,738,993	1,025,864,129	1,028,268,417	1,014,274,618	993,906,203	954,962,702
Debt: Inter-fund Transfers (Including Accrued Interest)	7	-	-	-	42,790,184	86,885,024	134,526,262	185,752,231	236,385,624	290,102,661	353,515,819
Deferred Revenue	3	108,399,924	56,011,959	3,754,181	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-
Total Liabilities		623,081,928	731,758,369	772,042,111	914,582,298	1,075,310,841	1,166,402,625	1,220,413,554	1,257,458,197	1,291,240,643	1,316,175,013
Net Financial Assets/(Debt)		(475,096,125)	(645,980,999)	(739,169,435)	(840,336,712)	(967,514,463)	(1,021,975,088)	(1,034,868,479)	(1,031,849,133)	(1,024,233,889)	(1,000,761,071)
Non-Financial Assets											
Tangible Capital Assets	4	1,358,538,483	1,414,908,651	1,432,960,831	1,481,197,293	1,575,521,000	1,609,625,238	1,616,921,650	1,611,589,959	1,607,590,595	1,604,704,608
Inventory of Supplies		-									
Prepaid Expenses		-									
Total Non-Financial Assets		1,358,538,483	1,414,908,651	1,432,960,831	1,481,197,293	1,575,521,000	1,609,625,238	1,616,921,650	1,611,589,959	1,607,590,595	1,604,704,608
Accumulated Surplus/(Deficit)	5	883,442,358	768,927,652	693,791,396	640,860,581	608,006,537	587,650,150	582,053,171	579,740,826	583,356,706	603,943,537

Financial Indicators	**Total Change**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
1) Increase/(Decrease) in Net Financial Assets	(687,514,381)	(161,849,435)	(170,884,874)	(93,188,436)	(101,167,277)	(127,177,751)	(54,460,625)	(12,893,391)	3,019,346	7,615,244	23,472,818
2) Increase/(Decrease) in Tangible Capital Assets	322,309,870	76,143,745	56,370,168	18,052,180	48,236,463	94,323,707	34,104,238	7,296,412	(5,331,692)	(3,999,364)	(2,885,988)
3) Increase/(Decrease) in Accumulated Surplus	(365,204,511)	(85,705,690)	(114,514,706)	(75,136,256)	(52,930,815)	(32,854,044)	(20,356,387)	(5,596,979)	(2,312,345)	3,615,880	20,586,831

Note: This Water Financial Plan was prepared using the Region's 2010 Draft Rate Study. This Rate Study has not been approved by Council.

Table 4-2
Region of York
Statement of Operations (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Forecast									
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Water Revenue											
Base Charge Revenue		481,400	500,600	520,600	541,500	552,300	563,300	574,600	586,100	597,800	609,800
Rate Based Revenue		77,600,500	87,097,155	94,998,173	104,169,053	110,431,180	116,979,111	123,612,802	130,225,678	137,131,310	144,322,007
Earned DC Revenue (Includes Capital Recovery)	3	99,984,250	114,664,187	112,827,200	108,295,600	104,502,278	106,764,253	105,238,468	99,070,696	100,851,673	109,232,068
Other Revenue	6	6,255,676	494,840	474,918	512,682	350,654	227,965	171,970	157,770	156,226	149,709
Total Revenues		184,321,826	202,756,781	208,820,891	213,518,834	215,836,412	224,534,628	229,597,841	230,040,243	238,737,009	254,313,585
Water Expenses											
Operating Expenses		219,864,000	254,445,800	211,571,200	186,652,100	157,030,800	144,450,400	131,388,000	128,205,600	129,532,000	127,159,500
Interest on Debt	2	19,259,261	30,918,854	40,369,127	46,993,011	57,325,364	65,868,852	70,517,233	70,999,297	72,390,765	73,190,268
Amortization	4	30,379,255	31,381,832	31,491,820	32,279,538	33,809,293	34,046,762	32,764,588	32,622,691	32,673,364	32,851,987
Other		525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000
Total Expenses		270,027,516	317,271,487	283,957,147	266,449,649	248,690,456	244,891,015	235,194,820	232,352,588	235,121,129	233,726,754
Annual Surplus/(Deficit)		(85,705,690)	(114,514,706)	(75,136,256)	(52,930,815)	(32,854,044)	(20,356,387)	(5,596,979)	(2,312,345)	3,615,880	20,586,831
Accumulated Surplus/(Deficit), beginning of year		969,148,048	883,442,358	768,927,652	693,791,396	640,860,581	608,006,537	587,650,150	582,053,171	579,740,826	583,356,706
Accumulated Surplus/(Deficit), end of year	5	883,442,358	768,927,652	693,791,396	640,860,581	608,006,537	587,650,150	582,053,171	579,740,826	583,356,706	603,943,537

Note 5:
Accumulated Surplus/(Deficit) is made up of:

Opening Reserve Balances	Notes	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Reserves: DC		146,484,751									
Reserves: Capital		31,814,045									
Reserves: Lifecycle		-									
Total Reserves Balance		**178,298,797**									
Less: Debt Obligations and Deferred Revenue		(491,545,487)									
Add: Adjustment for TCA **(Year of Implementation Only)**	4	1,282,394,738									
Total Opening Balance		**969,148,048**	**883,442,358**	**768,927,652**	**693,791,396**	**640,860,581**	**608,006,537**	**587,650,150**	**582,053,171**	**579,740,826**	**583,356,706**
Add: Contributions to/(from) Reserves (excl. DC reserves)											
Reserves: Capital		3,546,426	(10,158,353)	(1,034,382)	1,906,836	(8,282,630)	(6,276,433)	(2,875,115)	(743,747)	(98,304)	(352,084)
Reserves: Lifecycle											
Interfund Transfers (Accrued Interest)		-	-	-	-	(2,567,411)	(5,059,057)	(7,613,988)	(10,230,707)	(12,654,868)	(15,118,598)
Total Change in Reserves		**3,546,426**	**(10,158,353)**	**(1,034,382)**	**1,906,836**	**(8,282,630)**	**(6,276,433)**	**(2,875,115)**	**(743,747)**	**(98,304)**	**(352,084)**
Add: Changes in TCA During the Year											
Capital Assets Purchased (net of disposals)	4	106,523,000	87,752,000	49,544,000	80,516,000	128,133,000	68,151,000	40,061,000	27,291,000	28,674,000	29,966,000
Amortization of Capital Assets	4	(30,379,255)	(31,381,832)	(31,491,820)	(32,279,538)	(33,809,293)	(34,046,762)	(32,764,588)	(32,622,691)	(32,673,364)	(32,851,987)
Total Changes in TCA		**76,143,745**	**56,370,168**	**18,052,180**	**48,236,462**	**94,323,707**	**34,104,238**	**7,296,412**	**(5,331,691)**	**(3,999,364)**	**(2,885,987)**
Subtract Changes in Debt Position											
New Debt	2	(203,794,000)	(206,566,320)	(145,667,000)	(160,426,000)	(175,948,000)	(97,668,000)	(51,597,000)	(29,120,000)	(25,144,000)	(16,927,000)
Debt Repayment	2	38,398,139	45,839,800	53,512,946	57,351,888	59,620,290	54,542,865	49,192,711	43,113,799	45,512,416	55,870,500
Total Change in Debt		**(165,395,861)**	**(160,726,520)**	**(92,154,054)**	**(103,074,112)**	**(116,327,710)**	**(43,125,135)**	**(2,404,289)**	**13,993,799**	**20,368,416**	**38,943,500**
Total Ending Balance		**883,442,358**	**768,927,652**	**693,791,396**	**640,860,581**	**608,006,537**	**587,650,150**	**582,053,171**	**579,740,826**	**583,356,706**	**603,943,537**

Financial Indicators	**Total Change**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
1) Expense to Revenue Ratio		146%	156%	136%	125%	115%	109%	102%	101%	98%	92%
2) Increase/(Decrease) in Accumulated Surplus	(365,204,511)	(85,705,690)	(114,514,706)	(75,136,256)	(52,930,815)	(32,854,044)	(20,356,387)	(5,596,979)	(2,312,345)	3,615,880	20,586,831

Note: This Water Financial Plan was prepared using the Region's 2010 Draft Rate Study. This Rate Study has not been approved by Council.

Table 4-3
Region of York
Statement of Changes in Net Financial Assets/Debt (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Forecast									
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Annual Surplus/(Deficit)		(85,705,690)	(114,514,706)	(75,136,256)	(52,930,815)	(32,854,044)	(20,356,387)	(5,596,979)	(2,312,345)	3,615,880	20,586,831
Less: Acquisition of Tangible Capital Assets	4	(106,523,000)	(87,752,000)	(49,544,000)	(80,516,000)	(128,133,000)	(68,151,000)	(40,061,000)	(27,291,000)	(28,674,000)	(29,966,000)
Add: Amortization of Tangible Capital Assets	4	30,379,255	31,381,832	31,491,820	32,279,538	33,809,293	34,046,762	32,764,588	32,622,691	32,673,364	32,851,987
(Gain)/Loss on disposal of Tangible Capital Assets											
Add: Proceeds on Sale of Tangible Capital Assets											
Add: Write-downs of Tangible Capital Assets											
		(161,849,435)	(170,884,874)	(93,188,436)	(101,167,277)	(127,177,751)	(54,460,625)	(12,893,391)	3,019,346	7,615,244	23,472,818
Less: Acquisition of Supplies Inventory											
Less: Acquisition of Prepaid Expenses											
Add: Consumption of Supplies Inventory											
Add: Use of Prepaid Expenses											
		-	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in Net Financial Assets/Net Debt		(161,849,435)	(170,884,874)	(93,188,436)	(101,167,277)	(127,177,751)	(54,460,625)	(12,893,391)	3,019,346	7,615,244	23,472,818
Net Financial Assets/(Net Debt), beginning of year		(313,246,690)	(475,096,125)	(645,980,999)	(739,169,435)	(840,336,712)	(967,514,463)	(1,021,975,088)	(1,034,868,479)	(1,031,849,133)	(1,024,233,889)
Net Financial Assets/(Net Debt), end of year		(475,096,125)	(645,980,999)	(739,169,435)	(840,336,712)	(967,514,463)	(1,021,975,088)	(1,034,868,479)	(1,031,849,133)	(1,024,233,889)	(1,000,761,071)

Financial Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1) Acquisition of Tangible Capital Assets (Cumulative)	106,523,000	194,275,000	243,819,000	324,335,000	452,468,000	520,619,000	560,680,000	587,971,000	616,645,000	646,611,000
2) Annual Surplus/Deficit before Amortization (Cumulative)	(55,326,435)	(138,459,309)	(182,103,745)	(202,755,021)	(201,799,772)	(188,109,397)	(160,941,788)	(130,631,443)	(94,342,199)	(40,903,382)
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)	(0.52)	(0.71)	(0.75)	(0.63)	(0.45)	(0.36)	(0.29)	(0.22)	(0.15)	(0.06)

Note: This Water Financial Plan was prepared using the Region's 2010 Draft Rate Study. This Rate Study has not been approved by Council.

Table 4-4
Region of York
Statement of Cash Flow - Indirect Method (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Forecast									
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating Transactions											
Annual Surplus/Deficit		(85,705,690)	(114,514,706)	(75,136,256)	(52,930,815)	(32,854,044)	(20,356,387)	(5,596,979)	(2,312,345)	3,615,880	20,586,831
Add: Amortization of TCA's	4	30,379,255	31,381,832	31,491,820	32,279,538	33,809,293	34,046,762	32,764,588	32,622,691	32,673,364	32,851,987
Less: DC Revenue	3	(99,984,250)	(114,664,187)	(112,827,200)	(108,295,600)	(104,502,278)	(106,764,253)	(105,238,468)	(99,070,696)	(100,851,673)	(109,232,068)
Add: Development Charge Proceeds		61,899,423	62,276,222	60,569,421	147,331,603	146,029,707	149,346,435	148,850,449	139,473,382	141,913,842	157,526,628
Change in A/R (Increase)/Decrease		(2,310,519)	(3,799,174)	(3,162,438)	(3,669,789)	(2,504,445)	(2,618,632)	(2,652,992)	(2,644,762)	(2,761,722)	(2,875,652)
Change in A/P Increase/(Decrease)		115,789	337,887	387,466	430,072	2,873,404	5,384,469	7,994,659	10,635,757	13,088,692	15,583,310
Less: Interest Proceeds		(693,676)	(494,840)	(474,918)	(512,682)	(350,654)	(227,965)	(171,970)	(157,770)	(156,226)	(149,709)
Cash Provided by Operating Transactions		(96,299,668)	(139,476,966)	(99,152,106)	14,632,328	42,500,982	58,810,428	75,949,288	78,546,258	87,522,158	114,291,326
Capital Transactions											
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(106,523,000)	(87,752,000)	(49,544,000)	(80,516,000)	(128,133,000)	(68,151,000)	(40,061,000)	(27,291,000)	(28,674,000)	(29,966,000)
Cash Applied to Capital Transactions		(106,523,000)	(87,752,000)	(49,544,000)	(80,516,000)	(128,133,000)	(68,151,000)	(40,061,000)	(27,291,000)	(28,674,000)	(29,966,000)
Investing Transactions		-	-	-	-	-	-	-	-	-	-
Proceeds from Investments		693,676	494,840	474,918	512,682	350,654	227,965	171,970	157,770	156,226	149,709
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		693,676	494,840	474,918	512,682	350,654	227,965	171,970	157,770	156,226	149,709
Financing Transactions		-	-	-	-	-	-	-	-	-	-
Proceeds from Debt Issue	2	203,794,000	206,566,320	145,667,000	160,426,000	175,948,000	97,668,000	51,597,000	29,120,000	25,144,000	16,927,000
Less: Debt Repayment (principle only)	2	(38,398,139)	(45,839,800)	(53,512,946)	(57,351,888)	(59,620,290)	(54,542,865)	(49,192,711)	(43,113,799)	(45,512,416)	(55,870,500)
Cash Applied to Financing Transactions		165,395,861	160,726,520	92,154,054	103,074,112	116,327,710	43,125,135	2,404,289	(13,993,799)	(20,368,416)	(38,943,500)
Increase in Cash and Cash Equivalents		(36,733,131)	(66,007,606)	(56,067,134)	37,703,122	31,046,346	34,012,528	38,464,547	37,419,229	38,635,968	45,531,535
Cash and Cash Equivalents, beginning of year	1	153,544,994	116,811,863	50,804,257	(5,262,877)	32,440,245	63,486,591	97,499,119	135,963,666	173,382,895	212,018,863
Cash and Cash Equivalents, end of year	1	116,811,863	50,804,257	(5,262,877)	32,440,245	63,486,591	97,499,119	135,963,666	173,382,895	212,018,863	257,550,398

Note: This Water Financial Plan was prepared using the Region's 2010 Draft Rate Study. This Rate Study has not been approved by Council.

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 York Region, some of the items listed above have been estimated given that the Region does not maintain all financial asset and liability data separately for Water services. 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 Balances
   Plus: Ending Accounts Payable Balances
   Less: Ending Accounts Receivable Balances
   Equals: Approximate Ending Cash Balance

   For York Region, water receivables of $28.9 million and payables (including accruals) of $4.1 million were provided for the year ending 2009. These amounts were used to adjust ending reserve balances of $178.3 million as per the formula above resulting in an estimated opening cash balance of $153.5 million.

2. Debt

   Outstanding debt at the end of 2009 was $345.1 million and is anticipated to increase over the forecast period. *Principal* repayments for existing and new debt over the forecast period scheduled as follows:

2010	$ 38,398,139
2011	$ 45,839,800
2012	$ 53,512,946
2013	$ 57,351,888
2014	$ 59,620,290
2015	$ 54,542,865
2016	$ 49,192,711
2017	$ 43,113,799
2018	$ 45,512,416
2019	$ 55,870,500
	$ 502,955,353

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

3. Deferred Revenue

   Deferred revenue is made up of development charge reserve fund and gas tax 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.

4. <u>Tangible Capital Assets</u>

- Opening 2010 net book value of tangible capital assets includes water related assets in the following categories:
  i. Infrastructure (linear)
  ii. Buildings (facilities) and Building Improvements
  iii. Vehicles
  iv. Equipment
  v. Land and Land Improvements

- Amortization is calculated monthly based on using the straight-line approach with no amortization in the month of acquisition or construction.
- Given the planned asset replacement forecast in the 2010 Draft Rate Study, useful life on acquisitions is assumed to be equal to the weighted average useful life for all assets on hand in the 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. To calculate the value of each asset disposal, the replacement value (of each new asset that has been identified as a “replacement”) has been deflated (by weighted average useful life for all assets on hand in the respective asset category) to an estimated historical cost. This figure was used to calculate disposals only.
- 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 balance of tangible capital assets is summarized below as follows:

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Opening TCA Balance (Historical Cost)	1,597,890,243	1,703,348,819	1,786,666,349	1,832,888,900	1,910,647,589	2,035,212,855	2,100,042,119	2,136,219,521	2,158,894,306	2,182,315,117
Acquisitions	106,523,000	87,752,000	49,544,000	80,516,000	128,133,000	68,151,000	40,061,000	27,291,000	28,674,000	29,966,000
Disposals	1,064,424	4,434,470	3,321,449	2,757,311	3,567,734	3,321,736	3,883,598	4,616,216	5,253,188	5,648,550
Closing TCA Balance (Historical Cost)	**1,703,348,819**	**1,786,666,349**	**1,832,888,900**	**1,910,647,589**	**2,035,212,855**	**2,100,042,119**	**2,136,219,521**	**2,158,894,306**	**2,182,315,117**	**2,206,632,568**
Opening Accumulated Amortization	315,495,505	344,810,336	371,757,698	399,928,069	429,450,296	459,691,855	490,416,881	519,297,871	547,304,347	574,724,522
Amortization Expense	30,379,255	31,381,832	31,491,820	32,279,537	33,809,293	34,046,762	32,764,588	32,622,692	32,673,364	32,851,988
Amortization on Disposal	1,064,424	4,434,470	3,321,449	2,757,311	3,567,734	3,321,736	3,883,598	4,616,216	5,253,188	5,648,550
Ending Accumulated Amortization	**344,810,336**	**371,757,698**	**399,928,069**	**429,450,296**	**459,691,855**	**490,416,881**	**519,297,871**	**547,304,347**	**574,724,522**	**601,927,960**
Net Book Value	**1,358,538,483**	**1,414,908,651**	**1,432,960,831**	**1,481,197,293**	**1,575,521,000**	**1,609,625,238**	**1,616,921,650**	**1,611,589,959**	**1,607,590,595**	**1,604,704,608**

5. Accumulated Surplus

Accumulated Surplus for the initial year of the forecast period is reconciled as follows:

Water	**2010 Opening Balance**
Opening Reserve Balances	
Reserves: DC	146,484,751
Reserves: Capital	31,814,045
Reserves: Lifecycle	-
Total Reserves Balance	**178,298,797**
Less: Debt Obligations and Deferred Revenue	(491,545,487)
Add: Adjustment for TCA (Year of Implementation Only)	1,282,394,738
Total Opening Balance	**969,148,048**
Add: Contributions to/(from) Reserves (excl. DC reserves)	
Reserves: Capital	3,546,426
Reserves: Lifecycle	-
Total Change in Reserves	**3,546,426**
Add: Changes in TCA During the Year	
Capital Assets Purchased (net of disposals)	106,523,000
Amortization of Capital Assets	(30,379,255)
Total Changes in TCA	**76,143,745**
Subtract Changes in Debt Position	
New Debt	(203,794,000)
Debt Repayment	38,398,139
Total Change in Debt	**(165,395,861)**
Total Ending Balance	**883,442,358**

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

6. Other revenue

Other revenue includes interest revenue, developer up-front financing, and other recoveries.

7. <u>Debt: Inter-fund Transfers (Including Accrued Interest)</u>

   It is assumed that deficits occurring in the development charge reserve fund will be supplemented by a transfer of funds from other development charge and/or non-water reserve accounts. These funds will be treated as borrowings with an anticipation of repayment at some point in the future. Furthermore, it is assumed that borrowed funds will accrue interest at a rate of 6% per year. Interest costs will be expensed annually and added to the outstanding Inter-Fund Transfer balance.

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. The 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 financial plan shall be submitted to the Ministry of the Environment as part of the application for a municipal drinking water license (Safe Drinking Water Act, Section 32 (5) 2 ii)

For reference purposes, the submission information for the Ministry of the Environment and Ministry of Municipal Affairs and Housing are as follows:

- Region of York Water Financial Plan, April 26, 2010.
- Council Resolution.

6. RECOMMENDATIONS

6. RECOMMENDATIONS

This report presents the water financial plan for York Region in accordance with the mandatory reporting formats for water systems as detailed in O.Reg. 453/07. It is important to note that while mandatory, the financial plan is provided for Council's interest and approval however, for decision making purposes, it may be more informative to rely on the information contained within the 2010 Rate Study. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. York Region Water Financial Plan prepared by Watson & Associates Economists Ltd. dated April 26, 2010 be approved.

2. Notice of availability of the Financial Plan be advertised.

3. A copy of York Region Water Financial Plan dated April 26, 2010 is to be submitted to the Ministry of the Environment as part of the Region's municipal drinking water license application.

4. A copy of York Region Water Financial Plan dated April 26, 2010 is to be submitted to the Director of Policy Branch, Ministry of Municipal Affairs and Housing as part of the Region's municipal drinking water license application.

APPENDIX A
SENSITIVITY ANALYSIS – STATEMENT OF FINANCIAL POSITION & STATEMENT OF OPERATIONS

Table A-1
Region of York
Statement of Financial Position (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Forecast									
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Financial Assets											
Cash	1	116,811,863	50,804,258	(5,262,876)	32,440,246	63,486,592	97,499,121	135,963,667	173,382,896	212,018,864	257,550,398
Accounts Receivable	1	31,173,940	34,973,113	38,135,553	41,805,341	44,309,787	46,928,418	49,581,409	52,226,169	54,987,891	57,863,544
Investments		-	-	-	-	-	-	-	-	-	-
Inventory for Resale		-	-	-	-	-	-	-	-	-	-
Other Assets		-	-	-	-	-	-	-	-	-	-
Total Financial Assets		147,985,803	85,777,371	32,872,677	74,245,587	107,796,379	144,427,539	185,545,076	225,609,065	267,006,755	315,413,942
Liabilities											
Accounts Payable & Accrued Liabilities	1	4,225,407	4,563,294	4,950,759	5,380,830	5,686,823	6,012,234	6,392,905	6,797,955	7,231,779	7,696,492
Debt (Principal only)	2	510,456,597	671,183,117	763,337,171	866,411,283	982,738,993	1,025,864,129	1,028,268,417	1,014,274,618	993,906,203	954,962,702
Debt: Inter-fund Transfers (Including Accrued Interest)	7	-	-	-	42,790,184	86,885,024	134,526,262	185,752,231	236,385,624	290,102,661	353,515,819
Deferred Revenue	3	108,399,924	56,011,959	3,754,181	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-
Total Liabilities		623,081,928	731,758,369	772,042,111	914,582,298	1,075,310,841	1,166,402,625	1,220,413,554	1,257,458,197	1,291,240,643	1,316,175,013
Net Financial Assets/(Debt)		(475,096,125)	(645,980,998)	(739,169,434)	(840,336,711)	(967,514,462)	(1,021,975,086)	(1,034,868,478)	(1,031,849,132)	(1,024,233,888)	(1,000,761,071)
Non-Financial Assets											
Tangible Capital Assets	4	1,771,107,161	2,008,553,767	2,158,589,673	2,303,433,673	2,462,665,652	2,544,167,138	2,579,794,144	2,593,422,101	2,603,338,697	2,605,036,258
Inventory of Supplies		-	-	-	-	-	-	-	-	-	-
Prepaid Expenses		-	-	-	-	-	-	-	-	-	-
Total Non-Financial Assets		1,771,107,161	2,008,553,767	2,158,589,673	2,303,433,673	2,462,665,652	2,544,167,138	2,579,794,144	2,593,422,101	2,603,338,697	2,605,036,258
Accumulated Surplus/(Deficit)	5	1,296,011,036	1,362,572,769	1,419,420,239	1,463,096,962	1,495,151,190	1,522,192,052	1,544,925,666	1,561,572,969	1,579,104,809	1,604,275,187

Financial Indicators	Total Change	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1) Increase/(Decrease) in Net Financial Assets	(687,514,381)	(161,849,435)	(170,884,873)	(93,188,436)	(101,167,277)	(127,177,751)	(54,460,624)	(12,893,392)	3,019,346	7,615,244	23,472,817
2) Increase/(Decrease) in Tangible Capital Assets	1,065,288,102	231,359,005	237,446,605	150,035,907	144,844,000	159,231,978	81,501,486	35,627,006	13,627,957	9,916,596	1,697,561
3) Increase/(Decrease) in Accumulated Surplus	377,773,721	69,509,570	66,561,733	56,847,470	43,676,723	32,054,228	27,040,862	22,733,614	16,647,303	17,531,840	25,170,378

Note: This Water Financial Plan was prepared using the Region's 2010 Draft Rate Study. This Rate Study has not been approved by Council.

Table A-2
Region of York
Statement of Operations (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019

	Notes	Forecast									
		2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Water Revenue											
Base Charge Revenue		481,400	500,600	520,600	541,500	552,300	563,300	574,600	586,100	597,800	609,800
Rate Based Revenue		77,600,500	87,097,155	94,998,173	104,169,053	110,431,180	116,979,111	123,612,802	130,225,678	137,131,310	144,322,007
Earned DC Revenue (Includes Capital Recovery)	**3**	99,984,250	114,664,187	112,827,200	108,295,600	104,502,278	106,764,253	105,238,468	99,070,696	100,851,673	109,232,068
Other Revenue	**6**	6,255,676	494,840	474,918	512,682	350,654	227,965	171,970	157,770	156,226	149,709
Total Revenues		184,321,826	202,756,781	208,820,891	213,518,834	215,836,412	224,534,628	229,597,841	230,040,243	238,737,009	254,313,585
Water Expenses											
Operating Expenses		61,570,000	68,531,800	72,684,200	81,598,100	82,508,800	86,611,400	91,973,000	97,723,600	103,755,000	110,428,500
Interest on Debt	**2**	19,259,261	30,918,854	40,369,127	46,993,011	57,325,364	65,868,852	70,517,233	70,999,297	72,390,765	73,190,268
Amortization	**4**	33,457,995	36,219,394	38,395,094	40,726,000	43,423,021	44,488,514	43,848,994	44,145,043	44,534,404	44,999,439
Other		525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000
Total Expenses		114,812,256	136,195,048	151,973,421	169,842,111	183,782,184	197,493,766	206,864,227	213,392,940	221,205,169	229,143,207
Annual Surplus/(Deficit)		69,509,570	66,561,733	56,847,470	43,676,723	32,054,228	27,040,862	22,733,614	16,647,303	17,531,840	25,170,378
Accumulated Surplus/(Deficit), beginning of year		1,226,501,466	1,296,011,036	1,362,572,769	1,419,420,239	1,463,096,962	1,495,151,190	1,522,192,052	1,544,925,666	1,561,572,969	1,579,104,809
Accumulated Surplus/(Deficit), end of year	**5**	1,296,011,036	1,362,572,769	1,419,420,239	1,463,096,962	1,495,151,190	1,522,192,052	1,544,925,666	1,561,572,969	1,579,104,809	1,604,275,187
Note 5:											
Accumulated Surplus/(Deficit) is made up of:											
Opening Reserve Balances	**Notes**										
Reserves: DC		146,484,751									
Reserves: Capital		31,814,045									
Reserves: Lifecycle		-									
Total Reserves Balance		**178,298,797**									
Less: Debt Obligations and Deferred Revenue		(491,545,487)									
Add: Adjustment for TCA **(Year of Implementation Only)**	**4**	1,539,748,156									
Total Opening Balance		**1,226,501,466**	**1,296,011,036**	**1,362,572,769**	**1,419,420,239**	**1,463,096,962**	**1,495,151,190**	**1,522,192,052**	**1,544,925,666**	**1,561,572,969**	**1,579,104,809**
Add: Contributions to/(from) Reserves (excl. DC reserves)											
Reserves: Capital		3,546,426	(10,158,353)	(1,034,382)	1,906,835	(8,282,631)	(6,276,432)	(2,875,115)	(743,747)	(98,304)	(352,085)
Reserves: Lifecycle											
Interfund Transfers (Accrued Interest)		-	-	-	-	(2,567,411)	(5,059,057)	(7,613,988)	(10,230,707)	(12,654,868)	(15,118,598)
Total Change in Reserves		**3,546,426**	**(10,158,353)**	**(1,034,382)**	**1,906,835**	**(8,282,631)**	**(6,276,432)**	**(2,875,115)**	**(743,747)**	**(98,304)**	**(352,085)**
Add: Changes in TCA During the Year											
Capital Assets Purchased (net of disposals)	**4**	264,817,000	273,666,000	188,431,000	185,570,000	202,655,000	125,990,000	79,476,000	57,773,000	54,451,000	46,697,000
Amortization of Capital Assets	**4**	(33,457,995)	(36,219,394)	(38,395,094)	(40,726,000)	(43,423,021)	(44,488,514)	(43,848,994)	(44,145,043)	(44,534,404)	(44,999,439)
Total Changes in TCA		**231,359,005**	**237,446,606**	**150,035,906**	**144,844,000**	**159,231,979**	**81,501,486**	**35,627,006**	**13,627,957**	**9,916,596**	**1,697,561**
Subtract Changes in Debt Position											
New Debt	**2**	(203,794,000)	(206,566,320)	(145,667,000)	(160,426,000)	(175,948,000)	(97,668,000)	(51,597,000)	(29,120,000)	(25,144,000)	(16,927,000)
Debt Repayment	**2**	38,398,139	45,839,800	53,512,946	57,351,888	59,620,290	54,542,865	49,192,711	43,113,799	45,512,416	55,870,500
Total Change in Debt		**(165,395,861)**	**(160,726,520)**	**(92,154,054)**	**(103,074,112)**	**(116,327,710)**	**(43,125,135)**	**(2,404,289)**	**13,993,799**	**20,368,416**	**38,943,500**
Total Ending Balance		**1,296,011,036**	**1,362,572,769**	**1,419,420,239**	**1,463,096,962**	**1,495,151,190**	**1,522,192,052**	**1,544,925,666**	**1,561,572,969**	**1,579,104,809**	**1,604,275,187**

Financial Indicators	**Total Change**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
1) Expense to Revenue Ratio		62%	67%	73%	80%	85%	88%	90%	93%	93%	90%
2) Increase/(Decrease) in Accumulated Surplus	377,773,721	69,509,570	66,561,733	56,847,470	43,676,723	32,054,228	27,040,862	22,733,614	16,647,303	17,531,840	25,170,378

Note: This Water Financial Plan was prepared using the Region's 2010 Draft Rate Study. This Rate Study has not been approved by Council.