

CITY OF STRATFORD

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

FINANCIAL PLAN # 074-301

DECEMBER 3, 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 the City of Stratford (the City) 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 City's water system was completed by City staff and documented as part of the 2011 water budgeting and long-term forecasting preparations (2011 Water Budget). The objective of the report provided herein is to convert the findings of the 2011 Water Budget into the prescribed reporting requirements for a water financial plan as defined by Ontario Regulation 453/07 (O.Reg. 453/07).

1.2 Background

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

“No person shall,

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

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

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

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

1.2.1 Financial Plan Defined

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

"financial plans" means,

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

As of time of writing, the Sustainable Water and Sewage Systems Act, 2002 (SWSSA) cited above is not 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 Public Sector Accounting Board (PSAB)) for each year in which the financial plans apply;
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system.
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public, and
- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.3 Financial Plan Requirements – Existing System

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

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

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

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

1.2.4 Financial Plan Requirements - General

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

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

1.2.5 Public Sector Accounting Board (PSAB) Requirements

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

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

Both the Statement of Financial Position and the Statement of Operations were required for financial reporting purposes in 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 and wastewater assets as they represent a significant portion of the City'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 reporting format. The balances and transactions that make up these two statements have been transferred to either the Statement of Operations or the Statement of Financial Position depending on the nature of the account.

FIGURE 1-1 STATEMENT OF FINANCIAL POSITION

OLD FORMAT (PRE-2009)

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

NEW FORMAT

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

FIGURE 1-2 STATEMENT OF OPERATIONS

OLD FORMAT (PRE-2009)

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

NEW FORMAT

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

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

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 FLOW¹

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

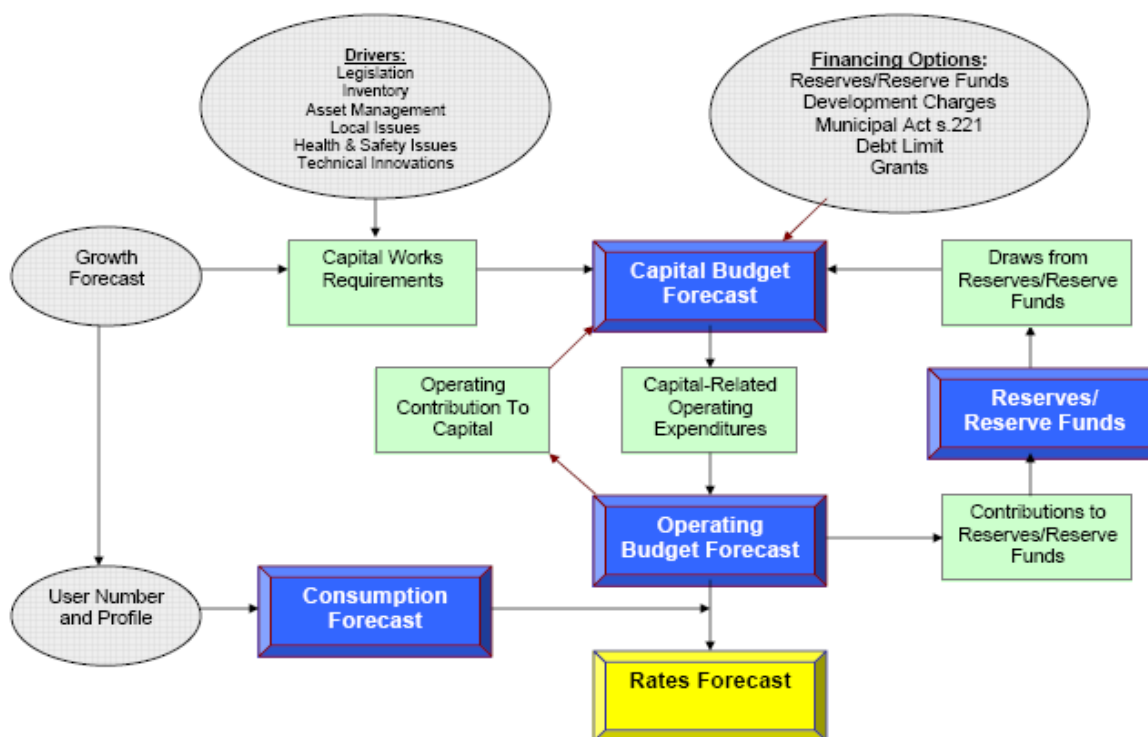
“source protection, operating costs, financing costs, renewal and replacement costs and improvement costs associated with extracting, treating or distributing water to the public and collecting, treating or discharging waste water, and such other costs which may be specified by regulation.”

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 2011 Water Budget

As noted above, City staff have already completed financial planning as documented in the City’s 2011 Water Budget. The budget process was designed to address the “full cost” principles within SWSSA and does so in a manner that also reflects the guiding principles toward sustainable financial planning. Figure 2-1 below summarizes the process.

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



As a result of employing this process, the 2011 Water Budget provides a sound financial plan for the City'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 the City staff, Council, the general public (specifically the users of the system) and others with the aim of gaining input and collaboration on the sustainability of the financial plan (*Principles 1, 9*).

The details of the financial plan arising from the 2011 Water Budget are contained in Appendix A.

3. APPROACH

3. APPROACH

3.1 Introduction

The 2011 Water Budget has been prepared on a modified cash basis; therefore a conversion was required in order to present a full accrual financial plan for the purposes of this report. The conversion process used will help to establish the structure of the financial plan along with the opening balances that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the financial plan. It is noted that the financial plan has been prepared for water only.

3.2 Conversion Process

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

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

3.2.1 Calculate Tangible Capital Asset Balances

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water assets, an inventory has already been compiled and summarized within the City's efforts to become compliant with PSAB 3150. Given these water assets, 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 City 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 2011 Water Budget. However, these estimates only represent future assets that the City anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to the City). These contributed assets could form a significant part of the infrastructure going forward in terms of the sustainability of the system as a whole and despite their non-monetary nature; the financial plan may need to be adjusted in order to properly account for these transactions. Once the sequence and total asset acquisition has been determined for the forecast period, annual amortization of these assets for each year is calculated in a similar manner as that used for existing assets.

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

3.2.2 Convert Statement of Operations

As per section 1.2.5 above, the new Statement of Operations eliminates and/or adds certain transactions that 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 system. For example, the revenues and expenses associated with the now obsolete Statement of Capital and Statement of Reserves and Reserve Funds (see Section 1.2.5) will need to be adjusted for and included within the 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
WATER ONLY**

Modified Cash Basis	Budget 2010	Adjustments to Remove Non-Accrual Accounts		Transition Budget Balances 2010	Adjustments to add Accrual Accounts		Full Accrual Budget 2010	Accrual Basis	Notes on Adjustments
		Dr	Cr		Dr	Cr			
Revenues								Revenues	
Rate Based Revenue	4,001,298			4,001,298			4,001,298	Rate Based Revenue	No change
							219,674	Earned Development Charges Revenue	New Account to reflect earned DC Revenue
							49,326	Developer Contributions	New Account to reflect the contribution toward Tangible Capital Assets by developers
Other Revenue	180,000			180,000			180,000	Other Revenue	No change
Total Revenues	4,181,298			4,181,298			4,450,298	Total Revenues	
Expenditures								Expenses	
Operating	3,036,306			3,036,306			3,036,306	Operating Expenses	No change
Capital								Amortization	Removes non-accrual reserve account
Transfers to Reserves	1,144,992		1,144,992	-			446,550	Total Expenses	New account created as a result of PSAB 3150 - reflects cost of using TCA
Total Expenditures	4,181,298			3,036,306			3,482,856	Annual Surplus/(Deficit)	Represents difference between Revenues and Expenditures
Net Expenditures							967,442	Accumulated Surplus/(Deficit), beginning of year	
(Increase) (decrease) in amounts to be recovered							13,076,966	Accumulated Surplus/(Deficit), end of year	To transfer annual surplus to accumulated surplus
Change in fund balances							14,044,408		
TOTAL ADJUSTMENTS			1,144,992			1,413,992	269,000		

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

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

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

The Statement of Cash Flow summarizes how the City 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
WATER ONLY

Modified Cash Basis	Budget 2010	Adjustments to Remove Non-Accrual Accounts		Transition Budget Balances 2010	Adjustments to add Accrual Accounts		Full Accrual Budget 2010	Accrual Basis	Notes on Adjustments
		Dr	Cr		Dr	Cr			
Assets									
Financial Assets									
Cash	664,130			664,130			664,130	Cash	No change
Accounts Receivable	400,210			400,210			400,210	Accounts Receivable	No change
Total Financial Assets	1,064,340			1,064,340			1,064,340	Total Financial Assets	
Liabilities									
Accounts Payable & Accrued Liabilities	509,552			509,552			509,552	Accounts Payable & Accrued Liabilities	No Change
Deferred Revenue	(125,340)			(125,340)			(125,340)	Deferred Revenue	No Change
Total Liabilities	384,212			384,212			384,212	Total Liabilities	
Net Assets/(Debt)	680,128			680,128			680,128	Net Financial Assets/(Debt)	
Municipal Position									
Water Reserves	680,128	680,128		-			13,364,280	Non-Financial Assets	Adds NBV of Tangible Capital Assets - offset entry is to accumulated surplus
Development Charge Reserve Fund	(125,340)			-				Tangible Capital Assets	
Amounts to be Recovered	125,340	125,340		-				Total Non-Financial Assets	
Total Municipal Position	680,128	-	125,340	-			14,044,408	Accumulated Surplus/(Deficit)	Removes non-accrual reserve account - balance to be transferred to accumulated surplus Removes non-accrual reserve account - balance to be transferred to accumulated surplus Removes account - balance to be transferred to accumulated surplus Represents offset entry for TCA's and existing reserve fund balances
TOTAL ADJUSTMENTS		805,468	125,340		13,364,280	14,044,408			

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

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

3.2.5 Verification and Note Preparation

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

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

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

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

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

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

- b. Amortization Expense The method and timing of amortization should be based on the City's amortization policy. Otherwise, an assumption will need to be made and applied consistently throughout the financial plan.
- c. Accumulated Amortization Will be based on the culmination of accumulated amortization expenses throughout the life of each asset however derived, along with information on construction/acquisition date and useful life obtained from the 2011 Water Budget.
- d. Contributed Assets As noted earlier, contributed assets could represent a significant part of the City'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 City's water system. A brief description and analysis of each table is provided below. It is important to note that the financial plan that follows is a forward look at the financial position of the City's water system. It is not an audited document¹ and contains various estimates as detailed in the "Notes to the Financial Plan" section below.

4.2 Water Financial Plan

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

The Statement of Financial Position provides information that describes the assets, liabilities, and accumulated surplus of the City's water system. The first important indicator is net financial assets/(debt), which is defined as the difference between financial assets and liabilities. This indicator provides an indication of the system's "future revenue requirement". A net financial asset position is where financial assets are greater than liabilities and implies that the system has the resources to finance future operations. Conversely, a net debt position implies that the future revenues generated by the system will be needed to finance past transactions, as well as future operations. Table 4-1 indicates that in 2010, the City's water system will be in a net financial asset position of approximately \$680,000. What's more, each additional year of the forecast (2011 to 2016) are also showing net financial asset positions of between \$830,000 and \$1.2 million. This continued net financial asset position is predominantly due to having healthy cash (reserve) balances along with no long-term debt obligations. Net financial assets are projected to grow by approximately \$1.0 million by the end of 2016.

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

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

- Tangible capital assets such as water mains 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 by the City 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 over \$4.6 million over the forecast period. This indicates that the City has plans to invest in tangible capital assets in excess of the anticipated use of existing assets over the forecast period.

4.2.2 Statement of Operations (Table 4-2)

The Statement of Operations summarizes the revenues and expenses generated by the water system for a given period. The annual surplus/deficit measures whether the revenues generated were sufficient to cover the expenses incurred and in turn, whether net financial assets have been maintained or depleted. Table 4-2 illustrates the ratio of expenses to revenues increasing from 78% to 93% over the forecast period and as a result, annual surplus fluctuates from a low of just over \$500,000 in 2014 to a high of approximately \$1.3 million in 2015. It is important to note that an annual surplus is beneficial to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and any potential future debt principal payments.

Another important indicator on this statement is accumulated surplus/deficit. An accumulated surplus indicates that the available net resources are sufficient to provide future water services. An accumulated deficit indicates that resources are insufficient to provide future services and that borrowing or rate increases are required to finance annual deficits. From Table 4-2, the financial plan proposes to add approximately \$5.6 million to a 2009 accumulated surplus of

\$13.1 million over the forecast period. This accumulated surplus, as indicated in Table 4-2, is predominately made up of reserve and reserve fund balances as well as historical investments in tangible capital assets.

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

The Statement of Change in Net Financial Assets/Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (i.e. inventory supplies, prepaid expenses, tangible capital assets, etc.) and in so doing, explains the difference between the annual surplus/deficit and the change in net financial assets/debt for the period. Table 4-3 indicates that forecasted annual surplus for each year exceeds the forecasted tangible capital asset acquisitions (net of amortization) in the 2010 to 2014 period, resulting in an increase in net financial assets each year. In the two concluding years of the forecast (2015 and 2016), forecasted tangible capital asset acquisitions (net of amortization) exceed the forecasted annual surplus for each year, resulting in decreases in net financial assets. This trend is mainly due to the timing of significant capital projects in 2015 and 2016 along with the increasing expense to revenue ratio described in section 4.2.2. The overall increase in net financial assets allows for a long term plan of funding capital through accumulated surplus (i.e. reserves and reserve funds). This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions ranging from 1.12 to 1.48 over the forecast period¹.

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how the water system is expected to generate and use cash resources during the planning period. The transactions that provide/use cash are classified as operating, capital, investing, and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash and accrual based reporting. Table 4-4 indicates that cash from operations will be used to fund capital transactions (i.e. tangible capital asset acquisitions) and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the City's water system to improve from a balance of approximately \$372,000 at the beginning of 2010, to approximately \$660,000 by the end of 2016. For further discussions, on projected cash balances please refer to the Notes to the Financial Plan.

¹ A desirable ratio is 1:1 or better.

Table 4-1
City of Stratford
Statement of Financial Position (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2016

	Notes	Forecast						
		2010	2011	2012	2013	2014	2015	2016
Financial Assets								
Cash	1	664,130	705,706	1,094,344	1,390,479	1,658,718	656,140	659,384
Accounts Receivable	1	400,210	415,117	415,117	415,117	415,117	415,117	415,117
Total Financial Assets		1,064,340	1,120,823	1,509,461	1,805,596	2,073,835	1,071,257	1,074,501
Liabilities								
Accounts Payable & Accrued Liabilities	1	509,552	520,394	533,828	544,969	557,666	569,551	581,758
Deferred Revenue	3	(125,340)	(230,839)	(191,723)	(151,433)	(109,936)	(747,614)	(727,056)
Total Liabilities		384,212	289,555	342,105	393,536	447,731	(178,063)	(145,298)
Net Financial Assets/(Debt)		680,128	831,268	1,167,356	1,412,060	1,626,104	1,249,320	1,219,799
Non-Financial Assets								
Tangible Capital Assets	4	13,364,280	14,480,856	14,815,224	15,164,373	15,456,354	17,152,228	17,500,655
Total Non-Financial Assets		13,364,280	14,480,856	14,815,224	15,164,373	15,456,354	17,152,228	17,500,655
Accumulated Surplus/(Deficit)	5	14,044,408	15,312,124	15,982,580	16,576,433	17,082,458	18,401,548	18,720,454
Financial Indicators								
1) Increase/(Decrease) in Net Financial Assets		999,663	151,140	336,088	244,704	214,044	(376,784)	(29,521)
2) Increase/(Decrease) in Tangible Capital Assets		507,450	1,116,576	334,368	349,149	291,981	1,695,874	348,427
3) Increase/(Decrease) in Accumulated Surplus		967,442	1,267,716	670,456	593,853	506,025	1,319,090	318,906

Table 4-2
City of Stratford
Statement of Operations (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2016

	Notes	Forecast						
		2010	2011	2012	2013	2014	2015	2016
Water Revenue								
Base Charge Revenue		-	-	-	-	-	-	-
Rate Based Revenue		4,001,298	4,157,044	4,157,044	4,157,044	4,157,044	4,157,044	4,157,044
Earned Development Charges Revenue	3	219,674	143,475	-	-	-	660,605	-
Developer Contributions	4	49,326	403,525	-	-	-	241,395	-
Other Revenue	6	180,000	180,000	180,000	180,000	180,000	180,000	180,000
Total Revenues		4,450,298	4,884,044	4,337,044	4,337,044	4,337,044	5,239,044	4,337,044
Water Expenses								
Operating Expenses		3,036,306	3,150,904	3,180,956	3,247,340	3,323,000	3,393,828	3,472,753
Amortization	4	446,550	465,424	485,632	495,851	508,019	526,126	545,385
Total Expenses		3,482,856	3,616,328	3,666,588	3,743,191	3,831,019	3,919,954	4,018,138
Annual Surplus/(Deficit)		967,442	1,267,716	670,456	593,853	506,025	1,319,090	318,906
Accumulated Surplus/(Deficit), beginning of year		13,076,966	14,044,408	15,312,124	15,982,580	16,576,433	17,082,458	18,401,548
Accumulated Surplus/(Deficit), end of year	5	14,044,408	15,312,124	15,982,580	16,576,433	17,082,458	18,401,548	18,720,454
Note 5:								
Accumulated Surplus/(Deficit) is made up of:								
Opening Reserve Balances	Notes	53,284						
Reserves: Development Charges		-						
Reserves: Gas Tax		220,136						
Reserves: Other		273,420						
Total Reserves Balance		526,840						
Less: Debt Obligations and Deferred Revenue		(53,284)						
Add: Adjustment for TCA (Year of Implementation Only)	4	12,856,830						
Total Opening Balance		13,076,966	14,044,408	15,312,124	15,982,580	16,576,433	17,082,458	18,401,548
Add: Contributions to/from Reserves (excl. DC reserves)								
Contributions to Reserves and Interest		1,144,992	1,236,140	1,156,088	1,089,704	1,014,044	943,216	870,478
Transfers from Reserves		(685,000)	(1,085,000)	(820,000)	(845,000)	(800,000)	(1,320,000)	(900,000)
Total Change in Reserves		459,992	151,140	336,088	244,704	214,044	(376,784)	(29,522)
Add: Changes in TCA During the Year								
Capital Assets Purchased (net of disposals)	4	954,000	1,582,000	820,000	845,000	800,000	2,222,000	893,813
Amortization of Capital Assets	4	(446,550)	(465,424)	(485,632)	(495,851)	(508,019)	(526,126)	(545,385)
Total Changes in TCA		507,450	1,116,576	334,368	349,149	291,981	1,695,874	348,428
Subtract Changes in Debt Position								
New Debt	2	-	-	-	-	-	-	-
Debt Repayment	2	-	-	-	-	-	-	-
Total Change in Debt		-	-	-	-	-	-	-
Total Ending Balance		14,044,408	15,312,124	15,982,580	16,576,433	17,082,458	18,401,548	18,720,454

Financial Indicators	2010	2011	2012	2013	2014	2015	2016
(1) Expense to Revenue Ratio	78%	74%	85%	86%	88%	75%	93%
(2) Increase/(Decrease) in Accumulated Surplus	967,442	1,267,716	670,456	593,853	506,025	1,319,090	318,906

Schedule 4-1
City of Stratford
Schedule of Operating Expenses
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2016

	Notes	Forecast							
		2010	2011	2012	2013	2014	2015	2016	
Expenditures									
Operating Costs									
<i>Water Administration</i>									
F.T. Salaries & Wages		250,820	257,712	262,867	268,804	274,881	281,100	287,465	
F.T. Benefits		170,411	179,853	183,450	187,296	191,224	195,236	199,334	
Materials		8,000	8,000	8,000	8,000	8,000	8,000	8,000	
Services - Other		56,279	56,279	56,710	56,965	57,040	57,040	57,040	
City Owned Rental Expense		1,110	1,110	1,110	1,110	1,110	1,110	1,110	
Interfunctional Transfers		644,544	663,880	683,796	704,310	725,440	747,203	769,619	
Office Equipment And Furnishings		2,000	2,000	2,000	2,000	2,000	2,000	2,000	
Small Tools & Equipment		5,000	5,000	5,000	5,000	5,000	5,000	5,000	
<i>Water Supply</i>									
F.T. Salaries & Wages		171,613	175,046	178,546	182,117	185,760	189,475	193,264	
F.T. Benefits		41,187	45,512	46,422	47,351	48,298	49,263	50,249	
Materials		144,803	144,803	152,074	155,782	160,108	162,400	164,761	
Services - Other		646,992	646,992	669,007	680,239	697,454	715,185	733,449	
City Owned Rental Expense		30,300	30,300	30,300	30,300	30,300	30,300	30,300	
<i>Water Distribution</i>									
F.T. Salaries & Wages		357,759	364,914	372,345	379,928	387,668	395,566	403,627	
Parent Time Salaries & Wages		9,000	9,000	9,000	9,000	9,000	9,000	9,000	
F.T. Benefits		85,862	99,878	96,810	98,781	100,794	102,847	104,943	
P.T. Benefits		1,260	1,260	1,260	1,260	1,260	1,260	1,260	
Materials		117,174	117,174	121,531	123,969	126,722	127,977	129,271	
Services - Other		181,192	181,192	189,728	194,127	199,944	202,866	205,875	
City Own Rental Expense		111,000	111,000	111,000	111,000	111,000	111,000	111,000	
Non TCA - Expenses from Capital Budget	7	-	50,000	-	-	-	-	6,187	
TOTAL OPERATING EXPENSES		3,036,306	3,150,904	3,180,956	3,247,340	3,323,000	3,393,828	3,472,753	

Table 4-3
City of Stratford
Statement of Changes in Net Financial Assets/Debt (Water)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2016

	Notes	Forecast						
		2010	2011	2012	2013	2014	2015	2016
Annual Surplus/(Deficit)		967,442	1,287,716	670,456	593,853	506,025	1,319,090	318,906
Less: Acquisition of Tangible Capital Assets	4	(954,000)	(1,582,000)	(820,000)	(845,000)	(800,000)	(2,222,000)	(893,813)
Add: Amortization of Tangible Capital Assets	4	446,550	465,424	485,632	495,851	508,019	526,126	545,385
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-
		459,992	151,140	336,088	244,704	214,044	(376,784)	(29,522)
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)		459,992	151,140	336,088	244,704	214,044	(376,784)	(29,522)
Net Financial Assets/(Net Debt), beginning of year		220,136	680,128	831,268	1,167,356	1,412,060	1,626,104	1,249,320
Net Financial Assets/(Net Debt), end of year		680,128	831,268	1,167,356	1,412,060	1,626,104	1,249,320	1,219,799
Financial Indicators		2010	2011	2012	2013	2014	2015	2016
1) Acquisition of Tangible Capital Assets (Cumulative)		954,000	2,536,000	3,356,000	4,201,000	5,001,000	7,223,000	8,116,813
2) Annual Surplus/Deficit before Amortization (Cumulative)		1,413,992	3,147,132	4,303,220	5,392,924	6,406,968	8,252,184	9,116,475
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		1.48	1.24	1.28	1.28	1.28	1.14	1.12

Table 4-4
 City of Stratford
 Statement of Cash Flow - Indirect Method (Water)
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2016

	Notes	Forecast						
		2010	2011	2012	2013	2014	2015	2016
Operating Transactions								
Annual Surplus/Deficit		967,442	1,267,716	670,456	593,853	506,025	1,319,090	318,906
Add: Amortization of TCAs	4	446,550	465,424	485,632	495,851	508,019	526,126	545,385
Less: Earned Deferred Revenue	3	(219,674)	(143,475)	-	-	-	(660,605)	-
Less: Developer Contributions		(49,326)	(403,525)	-	-	-	(241,395)	-
Add: Development Charge and Gas Tax Proceeds		41,050	37,977	39,116	40,290	41,498	22,925	20,559
Change in A/R (Increase)/Decrease		(6)	(14,907)	-	-	-	-	-
Change in A/P Increase/(Decrease)		10,943	10,842	13,434	11,141	12,697	11,886	12,207
Cash Provided by Operating Transactions		1,196,979	1,220,052	1,208,638	1,141,135	1,068,239	978,027	897,057
Capital Transactions								
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(904,674)	(1,178,475)	(820,000)	(845,000)	(800,000)	(1,980,605)	(893,813)
Cash Applied to Capital Transactions		(904,674)	(1,178,475)	(820,000)	(845,000)	(800,000)	(1,980,605)	(893,813)
Investing Transactions								
Proceeds from Investments		-	-	-	-	-	-	-
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		-	-	-	-	-	-	-
Financing Transactions								
Proceeds from Debt Issue	2	292,305	41,576	388,638	296,135	268,239	(1,002,578)	3,244
Less: Debt Repayment (principal only)	2	371,825	664,130	705,706	1,094,344	1,390,479	1,658,718	656,140
Cash Applied to Financing Transactions		-	-	-	-	-	-	-
Increase in Cash and Cash Equivalents		664,130	705,706	1,094,344	1,390,479	1,658,718	656,140	659,384
Cash and Cash Equivalents, beginning of year	1							
Cash and Cash Equivalents, end of year	1							

NOTES TO FINANCIAL PLAN

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

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

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

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

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

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

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

In order to show a balanced financial plan in a full accrual format for the City of Stratford, some of the items listed above have been estimated given that the City does not maintain all financial asset and liability data separately for water. Usually, this type of data is combined with the financial assets and liabilities of other departments and services given that there is not a current obligation to disclose this data separately (as there is with revenue and expenses). The assumptions used have been documented below:

1. Cash, Receivables and Payables

It is assumed that the opening cash balances required to complete the financial plan are equal to:

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

For the City of Stratford, receivable and payable balances were estimated for each year of the forecast based on the following factors:

- a. Receivables: Based on historic levels of receivables (from 2008 and 2009) as a percentage of annual revenue earned (source: prior audited financial statements); and
- b. Payables: Based on historic levels of payables (from 2008 and 2009) as a percentage of annual expenses incurred (source: prior audited financial statements).

2. Debt

There was no outstanding water related debt at the end of 2009, with no additional debt proceeds anticipated throughout the forecast period. For financial reporting purposes, debt principal payments represent a decrease in debt liability and the interest payments represent a current year operating expense.

3. Deferred Revenue

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

For the City of Stratford, some significant growth related water capital projects occur throughout the forecast period, resulting in a negative water development charges balance. It is expected that future water development charge proceeds will gradually offset this negative balance.

4. Tangible Capital Assets

- Opening 2010 net book value of tangible capital assets includes water related assets in the following categories:
 - i. Infrastructure
 - ii. Facilities (storage)
 - iii. Vehicles
 - iv. Equipment
 - v. Land
- Amortization is calculated based on using the straight-line approach starting the first day of the month following the month the asset is placed in service.
- Given the planned asset replacement forecast in the 2011 Water Budget, unless actual useful life of new assets is known, useful life on acquisitions is assumed to be equal to the weighted average useful life for all assets on hand in each respective asset category.
- Write-offs are assumed to equal \$0 for each year in the forecast period.
- Tangible capital assets are shown on a net basis. It is assumed that disposals occur when the asset is being replaced. To calculate the value of each asset disposal (when actual disposal information was not provided), 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 City is unaware of any specific lead service piping in the municipal water system. However when older portions of the water main system are replaced as part of the ongoing replacement program, any lead service pipes will be replaced if and when found.

The balance of tangible capital assets is summarized as follows:

Description	2009	2010	2011	2012	2013	2014	2015	2016
Opening TCA Balance (Historical Cost)		22,625,079	23,408,718	24,760,247	25,414,485	26,027,311	26,605,163	28,452,806
Acquisitions		954,000	1,582,000	820,000	845,000	800,000	2,222,000	893,813
Disposals		170,361	230,471	165,763	232,174	222,148	374,357	189,933
Closing TCA Balance (Historical Cost)	22,625,079	23,408,718	24,760,247	25,414,485	26,027,311	26,605,163	28,452,806	29,156,685
Opening Accumulated Amortization		9,768,249	10,044,438	10,279,392	10,599,261	10,862,938	11,148,809	11,300,578
Amortization Expense		446,550	465,424	485,632	495,851	508,019	526,126	545,385
Amortization on Disposal		170,361	230,471	165,763	232,174	222,148	374,357	189,933
Ending Accumulated Amortization	9,768,249	10,044,438	10,279,392	10,599,261	10,862,938	11,148,809	11,300,578	11,656,030
Net Book Value	12,856,830	13,364,280	14,480,856	14,815,224	15,164,373	15,456,354	17,152,228	17,500,655

5. Accumulated Surplus

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

Water	2010
Opening Reserve Balances	
Reserves: Development Charges	53,284
Reserves: Other	220,136
Total Reserves Balance	273,420
Less: Debt Obligations and Deferred Revenue	(53,284)
Add: Adjustment for TCA (Year of Implementation Only)	12,856,830
Total Opening Balance	13,076,966
Add: Contributions to/(from) Reserves (excl. DC reserves)	
Contributions to Reserves and Interest	1,144,992
Transfers from Reserves	(685,000)
Total Change in Reserves	459,992
Add: Changes in TCA During the Year	
Capital Assets Purchased (net of disposals)	954,000
Amortization of Capital Assets	(446,550)
Total Changes in TCA	507,450
Subtract Changes in Debt Position	
New Debt	-
Debt Repayment	-
Total Change in Debt	-
Total Ending Balance	14,044,408

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

6. Other revenue

Other revenue includes interest, rental revenue and other non-operating general revenues/recoverables.

7. Operating Expenses

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

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

5. PROCESS FOR APPROVAL AND SUBMISSION TO THE PROVINCE

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

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

6. RECOMMENDATIONS

6. RECOMMENDATIONS

This report presents the water financial plan for the City of Stratford 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 2011 Water Budget. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The City of Stratford Water Financial Plan prepared by Watson & Associates Economists Ltd. dated December 3, 2010 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. Submit the Financial Plan, the Council Resolution approving the Financial Plan to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3 (1) 6)
4. Submit the Council Resolution approving the Financial Plan, to the Ministry of the Environment, satisfying the requirements under the Safe Drinking Water Act. (SDWA Section 32 (5) 2 ii))

APPENDIX A
2011 WATER BUDGET - SUMMARY TABLES

Table A-1
City of Stratford
Water Service
Capital Budget Forecast
Inflated \$

Description	Budget 2009	Forecast						
		2010	2011	2012	2013	2014	2015	2016
Capital Expenditures	990,000	-	-	-	-	-	-	-
Capital Expenditures	-	50,000	50,000	50,000	50,000	50,000	50,000	900,000
Meter Replacements	-	50,000	50,000	50,000	50,000	50,000	50,000	-
Service Replacements	-	20,000	20,000	20,000	20,000	20,000	20,000	-
Chlorine Equipment	-	-	-	-	75,000	20,000	20,000	-
Vehicles & Equipment Purchase	-	-	-	-	30,000	30,000	30,000	-
SCADA	-	30,000	30,000	30,000	30,000	30,000	30,000	-
DWQMS	-	20,000	20,000	20,000	20,000	20,000	20,000	-
Norman - Douglas to John	-	350,000	-	-	-	-	-	-
Parkview - Ontario to Water	-	65,000	-	-	-	-	-	-
St. Patrick St.	-	50,000	-	-	-	-	-	-
Lakeside	-	50,000	-	-	-	-	-	-
Douglas St St Vicent to John	-	-	235,000	-	-	-	-	-
Stage 6 Railway/Chestnut/Erie	-	-	630,000	-	-	-	-	-
Dufferin Water Tower Improvements - Study	-	-	50,000	500,000	-	-	-	-
Dufferin Water Tower Improvements - Paint	-	-	-	150,000	-	-	-	-
Strachan St Bydges to Whitelock	-	-	-	-	600,000	-	-	-
Forman Water Tower	-	-	-	-	-	20,000	-	-
Queen St Lakeside Dr to Ontario	-	-	-	-	-	300,000	-	-
Queen St Ontario to Trinity	-	-	-	-	-	250,000	-	-
Nile St. Milton to Douro	-	-	-	-	-	-	75,000	-
John St. Charles to Churchill Circle	-	-	-	-	-	-	65,000	-
Church St Cambria to West Gore	-	-	-	-	-	-	250,000	-
Nile St. Milton to Douro	-	-	-	-	-	-	700,000	-
Albert St Nile to King	-	-	-	-	-	-	-	-
Growth Related:								
McCarthy Road - Romeo to 400 m East/limit of Riverbend	-	269,000	-	-	-	-	-	-
McCarthy Rd - Forman to Rotary Complex	-	-	547,000	-	-	-	-	-
O'Loane Ave - Galt to Quinlan	-	-	-	-	-	-	902,000	-
Total Capital Expenditures	990,000	954,000	1,632,000	820,000	845,000	800,000	2,222,000	900,000
Capital Financing								
Provincial/Federal Grants	-	219,674	143,475	-	-	-	660,605	-
Development Charges	-	-	-	-	-	-	-	-
Non-Growth Related Debenture Requirements	-	-	-	-	-	-	-	-
Growth Related Debenture Requirements	-	-	-	-	-	-	-	-
Operating Contributions	-	49,326	403,525	-	-	-	-	-
Developer Contributions	-	-	-	-	-	-	241,395	-
Vehicle Reserve	-	-	-	-	75,000	20,000	20,000	-
Reserves and Reserve Funds	990,000	685,000	1,085,000	820,000	770,000	780,000	1,300,000	900,000
Total Capital Financing	990,000	954,000	1,632,000	820,000	845,000	800,000	2,222,000	900,000

Table A-2
City of Stratford
Water Service
Water Reserves/ Reserve Funds Continuity
 Inflated \$

Description	2009	2010	2011	2012	2013	2014	2015	2016
Opening Balance	-	118,636	477,128	526,768	761,356	979,560	1,112,104	653,820
Transfer from Operating	1,108,636	1,043,492	1,134,640	1,054,588	988,204	912,544	841,716	768,978
Transfer to Capital	990,000	685,000	1,085,000	820,000	770,000	780,000	1,300,000	900,000
Transfer to Operating	-	-	-	-	-	-	-	-
Closing Balance	118,636	477,128	526,768	761,356	979,560	1,112,104	653,820	522,798
Interest								

Table A-3
City of Stratford
Water Service
Water Vehicle Reserves/ Reserve Funds Continuity
 Inflated \$

Description	2009	2010	2011	2012	2013	2014	2015	2016
Opening Balance	-	101,500	203,000	304,500	406,000	432,500	514,000	595,500
Transfer from Operating	101,500	101,500	101,500	101,500	101,500	101,500	101,500	101,500
Transfer to Capital	-	-	-	-	75,000	20,000	20,000	-
Transfer to Operating	-	-	-	-	-	-	-	-
Closing Balance	101,500	203,000	304,500	406,000	432,500	514,000	595,500	697,000
Interest								

Table A-4
City of Stratford
Water Service
Water Development Charges Reserve Fund Continuity
 Inflated \$

Description	2009	2010	2011	2012	2013	2014	2015	2016
Opening Balance	34,056	53,284	(125,340)	(230,839)	(191,723)	(151,433)	(109,935)	(747,614)
Development Charge Proceeds	17,694	44,700	44,700	44,700	44,700	44,700	44,700	41,735
Transfer to Capital	-	219,674	143,475	-	-	-	660,605	-
Transfer to Operating	-	-	-	-	-	-	-	-
Closing Balance	51,750	(121,689)	(224,115)	(186,139)	(147,022)	(106,733)	(725,839)	(705,879)
Interest	1,534	(3,651)	(6,723)	(5,584)	(4,411)	(3,202)	(21,775)	(21,176)
Required from Development Charges	-	219,674	143,475	-	-	-	660,605	-

Table A-5
City of Stratford
Water Services
Operating Budget Forecast
Inflated \$

Description	Forecast						
	2010	2011	2012	2013	2014	2015	2016
Expenditures							
<i>Operating Costs</i>							
<i>Water Administration</i>							
F.T. Salaries & Wages	239,483	257,712	262,867	268,804	274,881	281,100	287,465
F.T. Benefits	157,476	179,853	183,450	187,296	191,224	195,236	199,334
Materials	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Services - Other	56,204	56,279	56,710	56,965	57,040	57,040	57,040
City Owned Rental Expense	1,110	1,110	1,110	1,110	1,110	1,110	1,110
Interfunctional Transfers	625,770	663,880	683,796	704,310	725,440	747,203	769,619
Office Equipment And Furnishings	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Small Tools & Equipment	5,000	5,000	5,000	5,000	5,000	5,000	5,000
<i>Water Supply</i>							
F.T. Salaries & Wages	165,970	175,046	178,546	182,117	185,760	189,475	193,264
F.T. Benefits	39,683	45,512	46,422	47,351	48,298	49,263	50,249
Materials	144,803	144,803	152,074	155,782	160,108	162,400	164,761
Services - Other	646,992	646,992	669,007	680,239	697,454	715,185	733,449
City Owned Rental Expense	30,300	30,300	30,300	30,300	30,300	30,300	30,300
<i>Water Distribution</i>							
F.T. Salaries & Wages	345,887	364,914	372,345	379,928	387,668	395,566	403,627
Paret Time Salaries & Wages	9,000	9,000	9,000	9,000	9,000	9,000	9,000
F.T. Benefits	82,863	99,878	96,810	98,781	100,794	102,847	104,943
P.T. Benefits	1,260	1,260	1,260	1,260	1,260	1,260	1,260
Materials	117,107	117,174	121,531	123,969	126,722	127,977	129,271
Services - Other	181,192	181,192	189,728	194,127	199,944	202,866	205,875
City Own Rental Expense	111,000	111,000	111,000	111,000	111,000	111,000	111,000
Sub Total Operating	2,971,100	3,100,904	3,180,956	3,247,340	3,323,000	3,393,828	3,466,566
Capital-Related							
Transfer to Vehicle Reserve	101,500	101,500	101,500	101,500	101,500	101,500	101,500
Transfer to Reserves and Reserve Funds	1,108,636	1,134,640	1,054,588	988,204	912,544	841,716	768,978
Sub Total Capital Related	1,210,136	1,236,140	1,156,088	1,089,704	1,014,044	943,216	870,478
Total Expenditures	4,181,236	4,337,044	4,337,044	4,337,044	4,337,044	4,337,044	4,337,044
Revenues							
Base Charge	-	-	-	-	-	-	-
Water Revenue	-	-	-	-	-	-	-
Recoverables	34,000	30,000	30,000	30,000	30,000	30,000	30,000
City Own Rental Revenue	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Contributions from Development Charges Reserve Fund	-	-	-	-	-	-	-
Contributions from Reserves / Reserve Funds	-	-	-	-	-	-	-
Total Operating Revenue	184,000	180,000	180,000	180,000	180,000	180,000	180,000
Water Billing Recovery - Operating	3,997,236	4,157,044	4,157,044	4,157,044	4,157,044	4,157,044	4,157,044
Lifecycle Reserve Contribution (\$)	-	-	-	-	-	-	-
Water Billing Recovery - Total	3,997,236	4,157,044	4,157,044	4,157,044	4,157,044	4,157,044	4,157,044

