



101-16183-00

August 22, 2011

Scott McLeod  
Water and Sewer Foreman  
Municipality of Arran-Elderslie  
P.O.Box 70, 1925 Bruce Rd 10  
Chesley, ON N0G 1L0

**Re: Paisley Drinking Water System Financial Plan  
Final Report**

Dear Mr. McLeod:

We are pleased to submit our final report on the Financial Plan for the Paisley Drinking Water System for compliance with the requirements set out in the Safe Drinking Water Act, Regulation 453/07.

We trust that this report meets your requirements and we look forward to any comments you may have.

Yours truly,  
**GENIVAR Inc.**

Rakesh Sharma, P. Eng., Designated Consulting Engineer  
Director – Linear Infrastructure

/fk /vm

Cc: Jim Gordon, Minister of Municipal Affairs and Housing

# Table of Contents

Transmittal Letter  
Table of Contents

1.	INTRODUCTION .....	1
1.1	Background.....	1
1.2	Study Area .....	1
1.3	Study Objective.....	1
2.	FINANCIAL PLAN REQUIREMENTS AND GUIDELINES.....	3
2.1	Financial Plan Regulation .....	3
2.1.1	General Requirements .....	3
2.1.2	New System Requirements.....	3
2.1.3	Existing System Requirements .....	3
2.2	Financial Plan Guidelines .....	4
2.3	Public Sector Accounting Board (PSAB) Requirements.....	5
3.	APPROACH.....	6
4.	EXPENSES .....	7
4.1	Data Sources and Assumptions .....	7
4.2	Operating Expenses .....	7
4.3	Amortization Expenses.....	8
4.3.1	Total Expenses.....	9
5.	CAPITAL EXPENDITURE .....	10
5.1	Data Sources and Assumptions .....	10
5.2	Future Capital Needs .....	10
6.	REVENUES .....	11
6.1	Data Sources and Assumptions .....	11
6.2	Operating Revenues .....	11
6.3	Projected Revenues Based on 3% Revenues Increase.....	11
7.	EVALUATION OF PROPOSED 3% REVENUES INCREASE.....	13
7.1	Introduction .....	13
7.2	Operating Cash Flow .....	13
7.3	Capital Expenditure Balance .....	14
7.4	Annual Surplus/Deficit.....	15
7.5	Discussion.....	16
8.	FINANCIAL PLAN.....	17
8.1	Introduction .....	17
8.2	Statement of Operations.....	17
8.3	Statement of Cash Flow.....	18
8.4	Statement of Financial Position .....	20
9.	CONCLUSIONS .....	21
10.	COUNCIL RESOLUTION .....	22
11.	NEXT STEPS .....	23

## List of Tables

Table 5-1	Planned Capital Expenditure .....	10
Table 6-1	2009 – 2011 Revenues .....	11
Table 8-1	Statement of Operations .....	17
Table 8-2	Statement of Cash Flow .....	19
Table 8-3	Statement of Financial Position .....	20

## List of Figures

Figure 1.1	Study Area .....	2
Figure 4.1	Projected Operating Expenses .....	8
Figure 4.2	Projected Amortization Expenses .....	8
Figure 4.3	Projected Total Expenses .....	9
Figure 5.1	Future Capital Expenditure .....	10
Figure 6.1	Projected Revenues .....	11
Figure 7.1	Operating Cash Flow .....	14
Figure 7.2	Capital Expenditure .....	15
Figure 7.3	Annual Surplus/Deficit .....	16

## Appendices

Appendix A	Expenses, Revenues, and Budget Details
Appendix B	List of Assets
Appendix C	Council Resolution

# 1. Introduction

## 1.1 Background

As a result of the Justice O'Connor's Part II Walkerton Inquiry Report (2000) and the passing of Ontario's Safe Drinking Water Act (2002), the Province has introduced and is implementing a new Municipal Drinking Water Licensing Program. The Ministry has established the following licensing requirements:

- Certificate of Approval for their Drinking Water Facilities – which will be referred to in the future as a Drinking Water Works Permit
- A Permit to Take Water - mandated under the Ontario Water Resources Act
- An approved Operational Plan - in compliance with the Drinking Water Quality Management Standard (DWQMS)
- An approved Financial Plan – as required under the Financial Plans Regulation (O. Reg. 453/07)
- Accreditation as an Operating Authority – which requires the auditing of the Operational Plan by a third party Accreditation Body

The preparation of a Financial Plan is one of the elements which must be put in place for a licence to be issued. However, in the case of the first licence for an existing drinking water system, the Financial Plan will be required through a condition of the licence. The Municipality of Arran-Elderslie's licence was issued on May 27, 2010 and received on July 19, 2010.

## 1.2 Study Area

Paisley is located within the Municipality of Arran-Elderslie, which is in Bruce County in Southwestern Ontario. A map of the study area is included as Figure 1.1.

The components within the Paisley Drinking Water System can be generally summarized as follows:

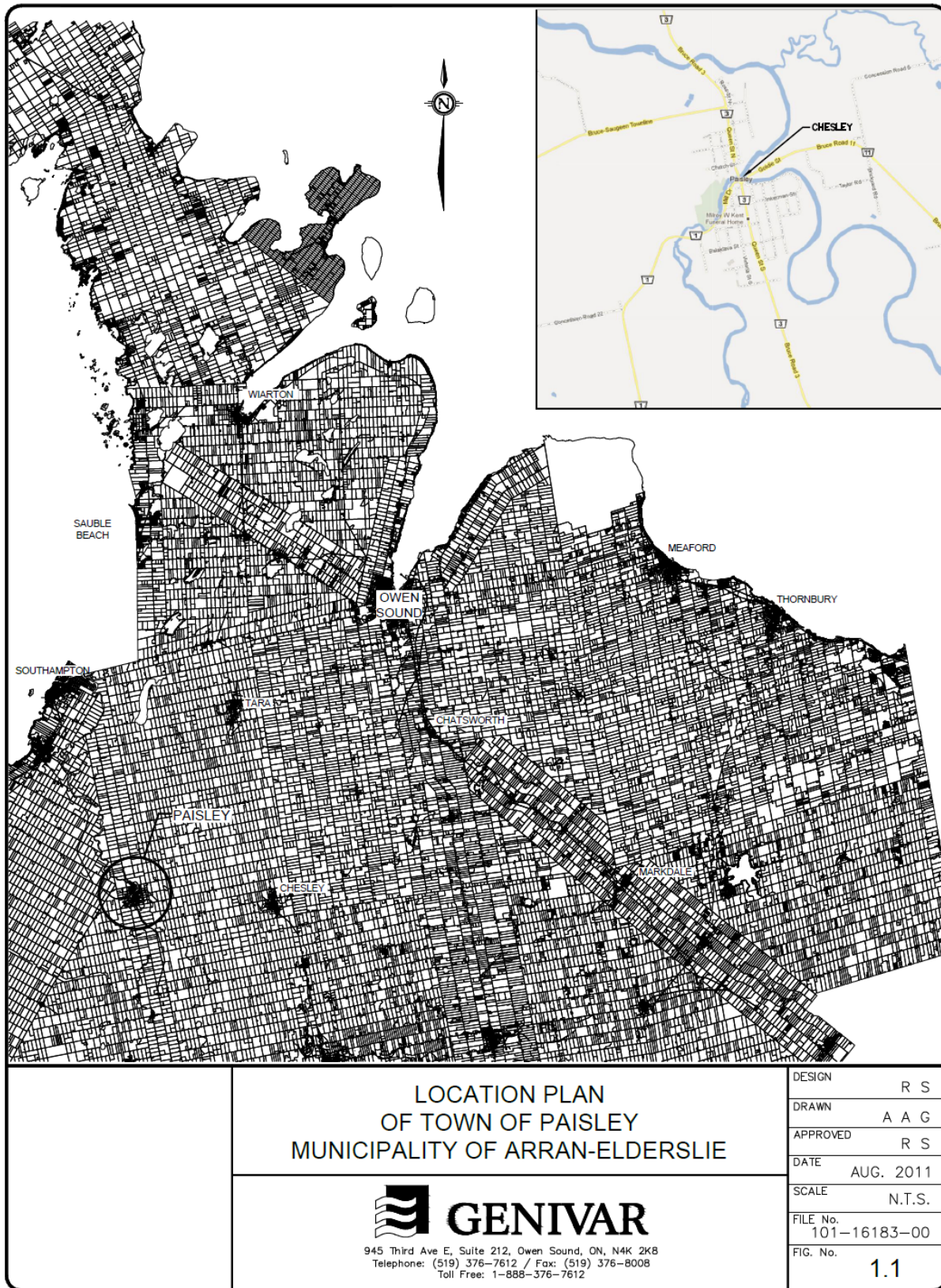
- A large diameter transmission main between Chesley and Paisley providing water to Paisley
- The Paisley Water Tower and rechlorination facility
- The water distribution system within Paisley

## 1.3 Study Objective

The Municipality of Arran-Elderslie owns and operates the Paisley Drinking Water System. GENIVAR was retained by the Municipality to prepare a Financial Plan for its drinking water system to fulfill the requirements of the municipal drinking water licence.

The objective of this report is therefore to present the Financial Plan for the Paisley Drinking Water System, which meets the requirements of the Financial Plan Regulation (O. Reg. 453/07) under the Safe Drinking Water Act (2002).

Figure 1.1 Study Area



LOCATION PLAN  
OF TOWN OF PAISLEY  
MUNICIPALITY OF ARRAN-ELDERSLIE



**GENIVAR**

945 Third Ave E, Suite 212, Owen Sound, ON, N4K 2K8  
Telephone: (519) 376-7612 / Fax: (519) 376-8008  
Toll Free: 1-888-376-7612

DESIGN	R S
DRAWN	A A G
APPROVED	R S
DATE	AUG. 2011
SCALE	N.T.S.
FILE No.	101-16183-00
FIG. No.	1.1

## 2. Financial Plan Requirements and Guidelines

### 2.1 Financial Plan Regulation

The key points of the Financial Plan Regulation (O. Reg. 453/07) are described in the following subsections.

#### 2.1.1 General Requirements

The following general requirements are outlined in O. Reg. 453/07 and apply to both new and existing systems:

- Declaration: The Financial Plan must include a statement that the financial impacts of the drinking water system have been considered.
- Projection Length: The Financial Plan shall be for a period of at least six years.
- Public Transparency: The Financial Plan must be made available, on request and without charge, to the members of the public that are served by the water system. If the system owner maintains a website, then the Financial Plan must be made available on the website without charge. The owner must provide a notice informing the public of the availability of the Financial Plan, in a manner that the Owner deems fit to bring the notice to the attention of the members of the public that are served by the water system.
- Approval: The Financial Plan must be approved by a council resolution that indicates that the drinking water system is financially viable.
- Submission: A copy of the Financial Plan, along with the resolution must be submitted to the Ministry of Municipal Affairs and Housing.
- Update: The Financial Plan should be updated and approved prior to applying for a licence renewal (i.e. every five years). However, the Regulation does not prevent the Plan from being amended more regularly.

#### 2.1.2 New System Requirements

In addition to the general requirements, the Financial Plan must include details of the projected financial operations, itemized by:

- Total revenues (water rates, user charges, and other revenues)
- Total expenses (amortization expenses, interest expenses, and other expenses)
- Annual surplus or deficit
- Accumulated surplus or deficit

#### 2.1.3 Existing System Requirements

In addition to the above requirements, the Financial Plan of an existing system must include the following details:

- Details of the projected financial position, itemized by:
  - a. Total financial assets
  - b. Total liabilities
  - c. Net debt

- d. Non-financial assets that are tangible capital assets, tangible capital assets under construction, inventories of supplies, and prepaid expenses
- e. Changes in tangible capital assets that are additions, donations, write downs, and disposals

Items a, b, and c apply only if the information is known to the owner at the time when the Financial Plan is prepared.

→ Details of the projected gross cash receipts and payments, itemized by:

- a. Operating transactions that are cash received from revenues and paid for operating expenses and finance charges
- b. Capital transactions that are proceeds on the sale of tangible capital assets and cash used to acquire capital assets
- c. Investing transactions that are acquisitions and disposal of investments
- d. Financing transactions that are proceeds from the issuance of debt and debt repayment
- e. Changes in cash and cash equivalents during the year
- f. Cash and cash equivalents at the beginning and end of the year

Items a, c, e, and f apply only if the information is known to the owner at the time when the Financial Plan is prepared.

The first year to which the Financial Plan must apply is the year in which the existing licence expires, or in the case of a condition to licence, the first year is the latest of 2011 and the year in which the first licence was issued.

If two or more drinking water systems are solely owned by the same owner, then the Financial Plan can be prepared by treating those systems together as if they were one drinking water system.

## 2.2 Financial Plan Guidelines

To assist municipalities in preparing the Financial Plan under O. Reg. 453/07, the Ministry of Environment released a document titled "Toward Financially Sustainable Drinking-Water and Wastewater Systems" (August, 2007). This document applies to wastewater systems as well. However, a Financial Plan for a wastewater system is only encouraged and not mandatory.

These guidelines set out the following nine principles to help develop this Financial Plan:

1. Ongoing public engagement and transparency can build support for, and confidence in the Financial Plans and their corresponding system(s).
2. An integrated approach to planning among water, wastewater, and stormwater systems is encouraged considering the inherent relationship among these systems.
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 short-term planning or no 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 ensuring 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 documents that require continuous updates and improvement. Improved planning for the future can be achieved by comparing the accuracy of financial projections with actual results.
9. Financial Plans can benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal council.

## 2.3 Public Sector Accounting Board (PSAB) Requirements

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) approved new municipal financial accounting and reporting standards in June 2006. The new standards require full accrual accounting for 2009 and future years, as well as accounting of tangible capital assets in the financial statements.

The accrual accounting method recognizes revenues and expenses in the same period as the activities that give rise to them regardless of when the payment was actually made. Since the exchange of cash is not necessary to report a financial transaction, the accrual method provides a more accurate picture of the municipality's financial position. 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.

### 3. Approach

The Financial Plan guidelines were used to select the approach for preparing the Paisley Drinking Water System Financial Plan.

The following steps summarize the general approach:

- Determine current period expenses and forecast future period expenses
- Determine and forecast capital expenditure needs
- Identify all sources of current revenues and forecast revenues with a minimal increase of 3% to show some growth
- Assess the suitability of the existing revenues (with an increase of 3%)
- Identify funding requirements and determine the required (new) revenues
- Prepare the following statements based on the required (new) revenues:
  - Statement of Operations
  - Statement of Cash Flow
  - Statement of Financial Position

## 4. Expenses

### 4.1 Data Sources and Assumptions

Expenses were divided into three categories: operating, interest, and amortization.

The current period operating expenses were determined from the Municipality's 2011 budget, which also included expense details for the years 2009 and 2010. The list of operating expenses and the budget details provided by the Municipality is available in Appendix A.

Some expenses listed in the Municipality's budget were common to the Municipality's water and wastewater systems. It was assumed that 50% of these expenses would be applied to the water systems. The Municipality owns and operates three water systems: Chesley, Paisley, and Tara. Operating expenses that are common to all three of these water systems were apportioned to each one of them as per the dollar amounts provided by the Municipality in the 2011 operating budget.

The future period operating expenses were assumed to increase by the assumed rate of inflation, which is 3% per annum.

Since there are no current loans or debts, it was assumed that no debt would be incurred in the future and thus there would be no interest expenses for future periods.

The annual amortization expenses were based on the historic cost of assets, which was apportioned over the useful life of the asset using the straight-line depreciation method. The historic costs of assets were determined by deflating the 2008 cost estimates provided in the PSAB tables, at an assumed rate of 3%. The useful lives of the assets were also based on the PSAB tables. A list of all assets and their estimated historic costs and useful lives are provided in Appendix B.

### 4.2 Operating Expenses

Operating expenses are generally ongoing expenses related with providing service. These are items that need to keep the operation running on a day-to-day basis. Items included in operating expenses typically include wages, benefits, materials, supplies, maintenance, pagers, equipment fuel, utilities, mileage, etc. A list of the operating expenses is provided in Appendix A.

The projected operating expenses are shown in Figure 4.1. As previously mentioned, the operating expenses have been projected based on 3% inflation per year.

**Figure 4.1 Projected Operating Expenses**

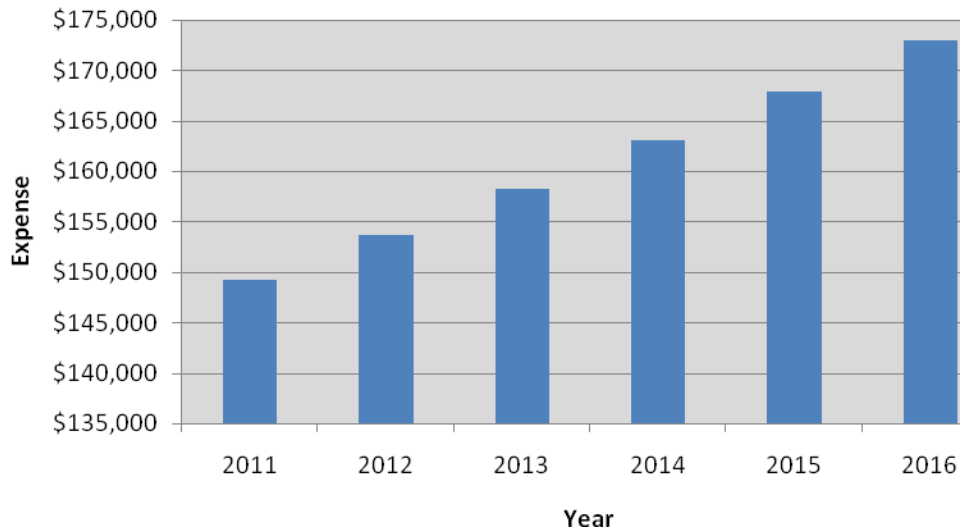


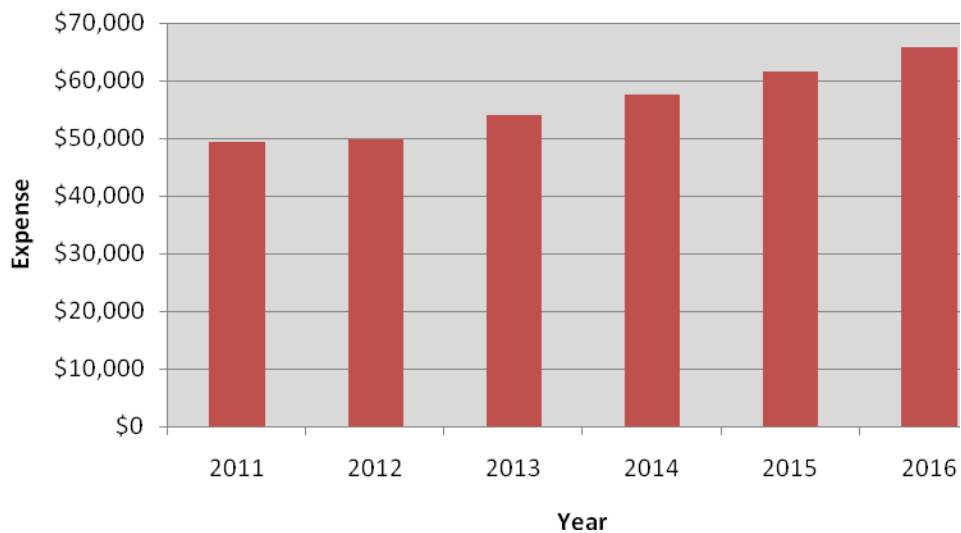
Figure 4.1 shows that the operating expenses are projected to increase from approximately \$149,195/yr in 2011 to \$172,958/yr in 2016, based on an increase of 3% per year due to inflation.

### 4.3 Amortization Expenses

Amortization is a non-cash expense, which indicates the gradual wear of tangible capital assets (TCAs). The annual expense is based on the asset's historic cost, and apportioned over the useful life of the asset using a straight-line depreciation method. It is important to note that the old municipal accounting practice was different, as it recorded expenditures on TCAs as current period expenditures, and then disappeared from subsequent financial statements.

The projected amortization expenses are shown in Figure 4.2.

**Figure 4.2 Projected Amortization Expenses**



The yearly variations in amortization expenses shown in Figure 4.2 are due to the replacement of assets or acquisitions of new assets. In the year in which an asset is replaced, there is no amortization expense

for that asset for that year. With regards to acquisitions of new assets, there is an increase of amortization expense following the year in which a new asset is acquired. There is an overall increasing trend for the projection horizon, and this is mainly due to the watermain replacements scheduled in the first few years of the projection horizon.

### 4.3.1 Total Expenses

The total expenses are the sum of the operating, amortization, and interest expenses. At this time, there are no interest expenses. However, after the evaluation of existing rates, which is presented in Section 7, if a debt is decided to be incurred, then the total expenses will be revised to include interest expenses.

The projected total expenses i.e. including operating, amortization, and interest are shown in Figure 4.3.

**Figure 4.3 Projected Total Expenses**

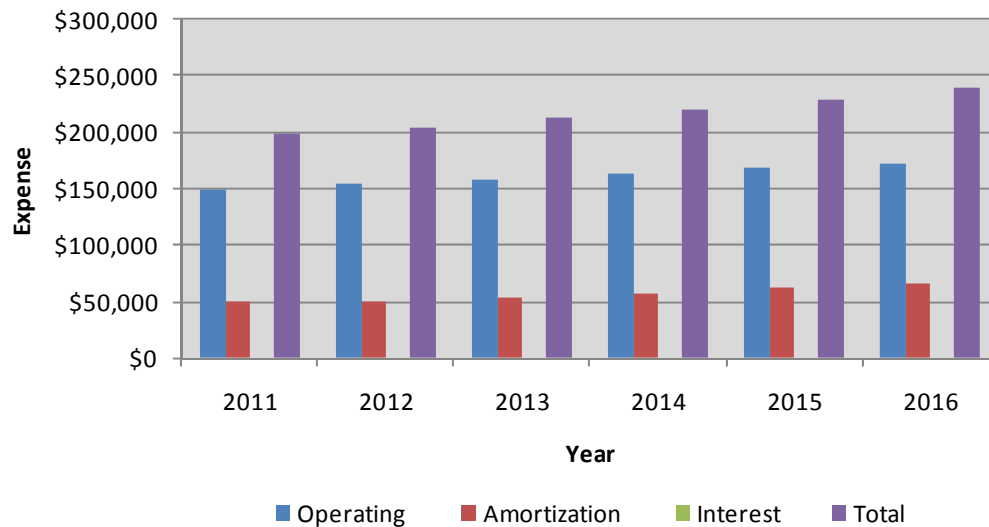


Figure 4.3 shows that the total expenses, which include the operating expenses and the amortization expenses, increase to almost \$238,766/yr by the end of the projection period in the year 2016. This is due to the increasing operating costs due to inflation, and the generally increasing amortization expenses due to the acquisitions of new assets.

## 5. Capital Expenditure

### 5.1 Data Sources and Assumptions

The PSAB tables included estimates of each asset’s expected useful life and replacement cost. Inflation was assumed to be 3%.

Capital expenditures associated with Chesley water treatment are shared between Chesley and Paisley, based on the water usage. It has been assumed that 40% of the Chesley water treatment capital expenditures are paid by Paisley.

At the time the Financial Plan was prepared, there were no assets under construction, and it was assumed that there are no significant inventories of supplies and no pre-paid expenses.

### 5.2 Future Capital Needs

The future capital needs of the Paisley Drinking Water System for the entire projection horizon period are shown in Figure 5.1.

**Figure 5.1 Future Capital Expenditure**

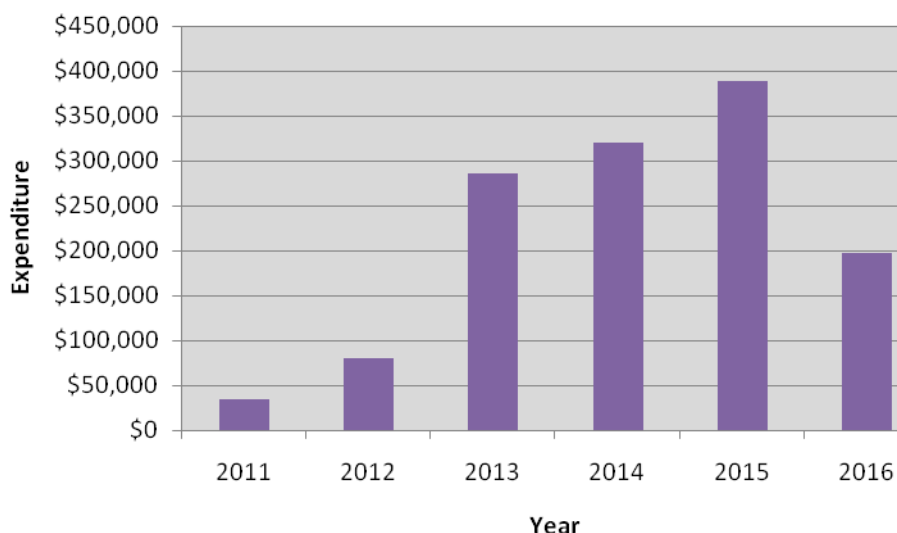


Table 5-1 provides general details on the main assets anticipated to be acquired or replaced in the capital expenditure plan shown in Figure 5.1. The estimated amounts shown in Table 5-1 are in current dollars adjusted for inflation for the proposed year.

**Table 5-1 Planned Capital Expenditure**

Year	Asset	Amount
2011	Replacement of watermains and Chesley WTP Scada upgrades	\$33,800
2012	Replacement of watermains	\$79,313
2013	Replacement of watermains	\$286,391
2014	Replacement of watermains	\$319,782
2015	Replacement of watermains and Chesley water treatment assets	\$389,057
2016	Replacement of watermains	\$197,022

## 6. Revenues

### 6.1 Data Sources and Assumptions

Information on revenues was obtained from the Municipality's 2011 budget, which also included actual details for the 2009-2010 periods. The budget details are provided in Appendix A.

Some revenues listed in the Municipality's budget were common to the Municipality's water and wastewater systems. It was assumed that 50% of these revenues would be applied to the water systems. Revenues that are common to all three of the water systems owned by the Municipality were apportioned to each one of them as per the dollar amounts provided by the Municipality in the 2011 operating budget.

### 6.2 Operating Revenues

A list of the revenues for 2009, 2010 and the budgeted revenues for 2011 are provided in Appendix A. The total revenue amounts for the 2009 – 2011 periods are summarized in Table 6-1.

**Table 6-1 2009 – 2011 Revenues**

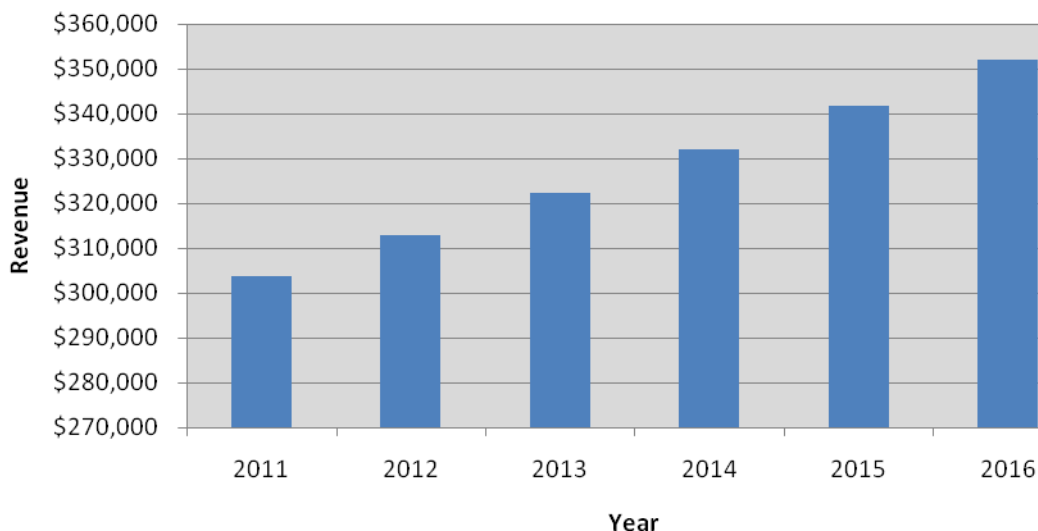
Item	Amount
Actual 2009	\$324,904
Actual 2010	\$337,692
Budget 2011	\$303,703

### 6.3 Projected Revenues Based on 3% Revenues Increase

Initially, a 3% increase in operating revenues per year has been considered for the projection horizon. The projected operating revenues based on the 3% growth will be assessed in Section 7 to determine if the revenues generated will be sufficient to cover planned capital projects, future operating expenses, inflation, and amortization expenses.

The projected revenues for the Paisley Drinking Water System are shown in Figure 6.1 and a breakdown of the projected revenues is provided in Appendix A.

**Figure 6.1 Projected Revenues**



At an assumed rate of 3%, the revenues are projected to increase to over \$350,000 by the end of the horizon period in the year 2016.

## 7. Evaluation of Proposed 3% Revenues Increase

### 7.1 Introduction

The proposed 3% increase in revenues needs to be evaluated to determine if they are sufficient to cover the operating expenses and capital expenditures. In this section, the following will be determined to evaluate whether existing revenues are sufficient:

- Operating Cash Flow: This is an important identity that determines whether the revenues from the existing rates are sufficient to cover operating costs, from a cash perspective. This is explained further in Section 7.2.
- Capital Expenditure Balance: This identity determines the amount of cash available for the planned capital expenditures. This is further described in Section 7.3.
- Annual Surplus/Deficit: This identity measures whether the revenues generated were sufficient to cover the expenses incurred and in turn, whether net financial assets have been maintained or depleted. Section 7.3 provides further details on this identity.

### 7.2 Operating Cash Flow

The operating cash flow shows that current period operations can generate either a surplus or deficit from a cash perspective, depending on the balance between revenues and cash expenses. The operating cash flow equation is as follows:

$$\text{Operating Cash Flow} = \text{Revenues} - \text{Operating expenses} - \text{Debt Service}$$

The revenues in the equation above are the projected revenues based on existing rates, as described in Section 6.4 and shown in Figure 6.1. The operating expenses are the expenses described in Section 4.2 and shown in Figure 4.1. It is important to note that the amortization expenses are not included in the equation above, since the operating cash flow offers a cash perspective and the amortization expenses are non-cash expenses. At this time, there is no debt service.

The operating cash flow for 2012 can be calculated as follows:

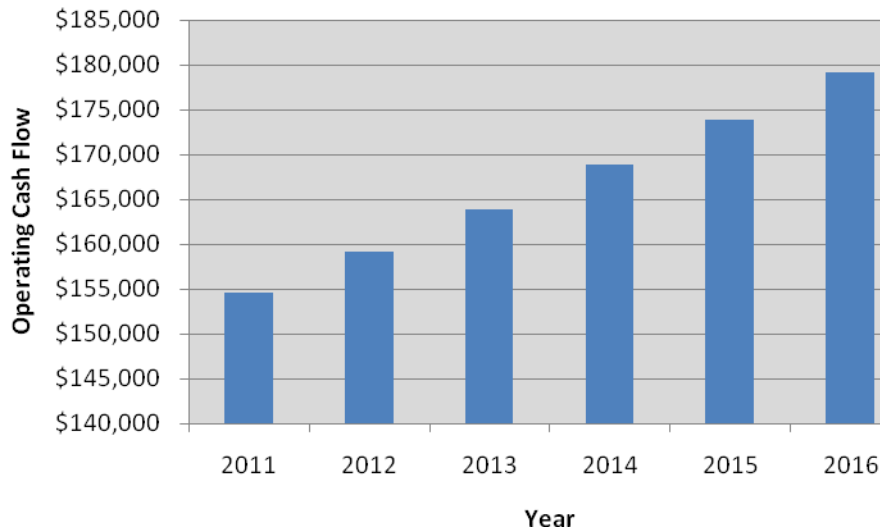
$$\text{Revenues} = \$312,814 \text{ (also shown in Figure 6.1)}$$

$$\text{Operating Expenses} = \$153,671 \text{ (also shown in Figure 4.1)}$$

$$\text{Operating Cash Flow} = \$312,814 - \$153,671 = \$159,143$$

The operating cash flow, based on the existing rates, for the projection horizon is shown in Figures 7.1.

**Figure 7.1 Operating Cash Flow**



It can be seen from Figure 7.1 that the operating cash flow remains positive for the projection horizon and follows an increasing trend.

### 7.3 Capital Expenditure Balance

Another important calculation is the amount of cash available for capital expenditures. This amount is called the cash expenditure balance. The cash expenditure balance is the sum of operating cash flow, new debt, and net contributions from reserve funds.

At this time, it is assumed that there is no new debt. Hence, the cash expenditure balance is the sum of the operating cash flow (from Section 7.2) and the reserve fund balances.

Figure 7.2 shows a comparison of the amount of cash available for capital expenditure (capital expenditure balance) and the amount of cash required for the planned capital expenditure. As mentioned previously, the amount of cash available (capital expenditure balance) is the sum of the operating cash flow and the reserve balance. The planned capital expenditure is based on the future capital needs, previously discussed in Section 5.2 and presented in Table 5-1 and Figure 5.1.

In 2012, the capital expenditure balance can be calculated as follows:

Operating Cash Flow = \$159,143 (also shown in Figure 7.1)

Reserve Fund Balance = \$1,640,205

Capital Expenditure Balance = \$159,143 + \$1,640,205 = \$1,799,348

The planned capital expenditure is provided in Table 5-1.

**Figure 7.2 Capital Expenditure**

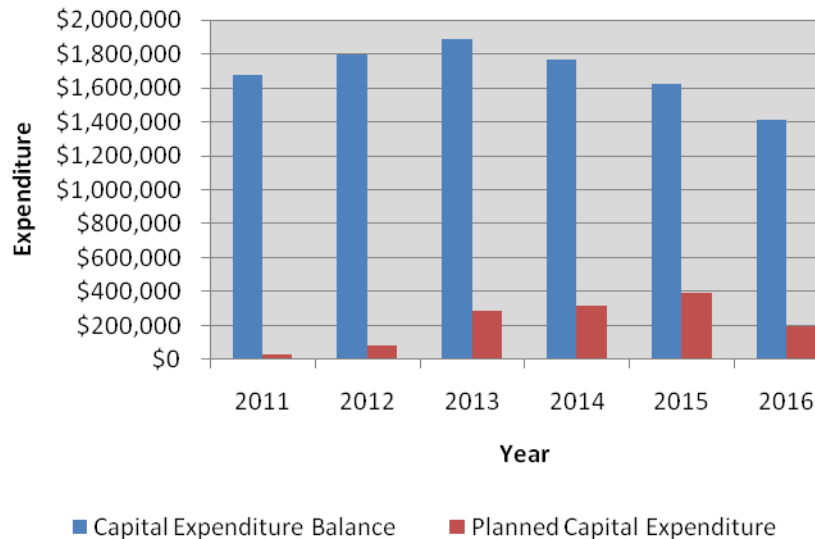


Figure 7.2 show that Paisley will have sufficient cash available for the planned capital expenditure and maintain a positive reserve fund balance every year. Although the new revenues will decrease the reserve fund balance to \$1.2 million at the end of 2016 from its current balance of over \$1.5 million, the projected revenues will maintain a reasonable reserve fund balance for the entire projection period.

## 7.4 Annual Surplus/Deficit

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. An annual surplus is required to ensure that there is sufficient funding available for non-expense costs such as tangible capital asset acquisitions, reserve funds, and debt principal payments.

The annual surplus is equal to the revenues minus total expenses. It is important to note that the annual surplus is different from the operating cash flow, which did not take into account the amortization expenses. The annual surplus takes into account total expenses, which include amortization expenses. The annual surplus for 2012 is calculated as follows:

Revenues = \$312,814 (also shown in Figure 6.1)

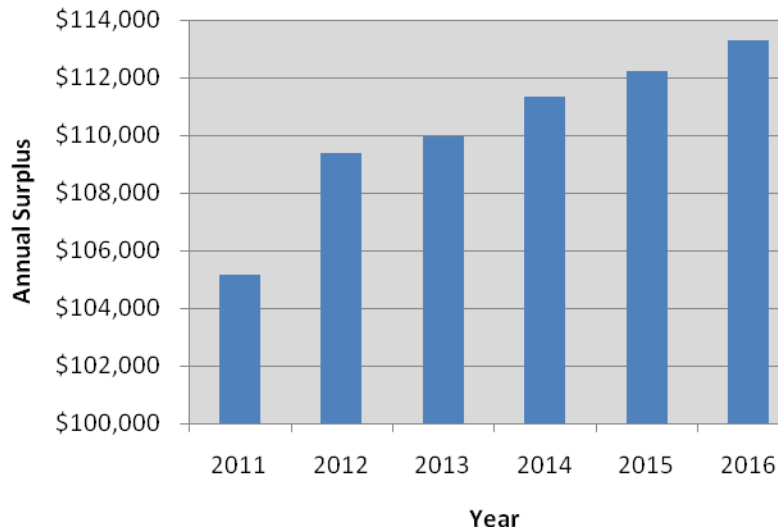
Total Expenses = \$203,428 (also shown in Figure 4.3)

Annual Surplus = \$312,814 - \$203,428 = \$109,385

Because the annual surplus takes into account the amortization expenses, it is much lower than the operating cash flow. For example, the 2012 annual surplus of \$109,385 is much lower than the operating cash flow of \$159,143, from Section 7.2.

Figure 7.3 shows the annual surplus/deficit for the projection horizon.

**Figure 7.3 Annual Surplus/Deficit**



It can be seen from Figure 7.3 that there is an annual surplus for the entire projection horizon period as a result of the proposed revenue rate.

## 7.5 Discussion

The information presented in Section 7 highlights the following:

- Operating Cash Flow: As observed in Figure 7.1, the operating cash flow remains positive for the projection horizon.
- Capital Expenditure Balance: As shown in Figure 7.2, Paisley will have sufficient cash available for the planned capital expenditure. Furthermore, the proposed revenues will maintain the reserve fund balance at the end of 2016 to over \$1.2 million.
- Annual Surplus/Deficit: As shown in Figure 7.3, there is an annual surplus for the entire projection horizon. The revenues fully cover the operating expenses plus amortization expenses.

Therefore, the proposed operating revenue rate of 3% for the projection horizon is sufficient to provide for total expenses and planned capital expenditures.

## 8. Financial Plan

### 8.1 Introduction

The Financial Plan, as required by Regulation, consists of the following statements:

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

These statements are based on the proposed operating revenue rates described in Section 7. It considers the following:

- An increase in operating revenues at a rate of 3% per year beginning 2011 for the entire projection period.

The following subsections present the statements mentioned above.

### 8.2 Statement of Operations

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. Annual surplus is required to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve fund transfers, and debt principal payments.

The Statement of Operations for the entire projection horizon until 2016 is provided in Table 8-1.

Line	Item	2011	2012	2013	2014	2015	2016
1	Revenue	\$303,703	\$312,814	\$322,198	\$331,864	\$341,820	\$352,075
2	Expenses						
a	Operating	\$149,195	\$153,671	\$158,281	\$163,029	\$167,920	\$172,958
b	Amortization	\$49,357	\$49,758	\$53,967	\$57,500	\$61,658	\$65,809
c	Interest	\$0	\$0	\$0	\$0	\$0	\$0
d	Total Expenses	\$198,552	\$203,428	\$212,248	\$220,529	\$229,578	\$238,766
3	Annual surplus (deficit)	\$105,151	\$109,385	\$109,950	\$111,335	\$112,242	\$113,308
4	Accumulated surplus, beginning of period	\$4,492,288	\$4,597,439	\$4,706,825	\$4,816,775	\$4,928,110	\$5,040,352
5	Accumulated surplus, end of period	\$4,597,439	\$4,706,825	\$4,816,775	\$4,928,110	\$5,040,352	\$5,153,660

Line 1: Revenues includes operating revenues and capital revenues i.e. capital cost recovery charges and government funding for capital projects.

Line 2: Includes a) operating, b) amortization, and c) interest expenses; the sum of which is shown on Line 2d.

Line 3: Annual Surplus (Deficit) = Revenues (Line 1) – Total Expenses (Line 2d)

Line 4: Accumulated surplus, beginning of period = Accumulated surplus, end of the previous period; For the first year i.e. 2011 it was calculated as the sum of 2011 Fixed Assets i.e. \$2,972,791 and the 2010 Reserve Balance i.e. \$1,519,497.

Line 5: Accumulated surplus, end of period = Accumulated surplus, beginning of period (Line 4) + Annual Surplus/Deficit (Line 3)

Line 3 in Table 8-1 shows that there is an annual surplus for the entire projection horizon period until 2016. The accumulated surplus at the end of the projection period is \$113,308.

### 8.3 Statement of Cash Flow

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.

The Statement of Cash Flow for the entire projection horizon period is provided in Table 8-2.

<b>Table 8-2 Statement of Cash Flow</b>		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>Operating Transactions</b>						
	<i>Cash received from:</i>						
1	Revenues	\$303,703	\$312,814	\$322,198	\$331,864	\$341,820	\$352,075
	<i>Cash paid for:</i>						
2	Operating Costs	(\$149,195)	(\$153,671)	(\$158,281)	(\$163,029)	(\$167,920)	(\$172,958)
3	Finance Charges	\$0	\$0	\$0	\$0	\$0	\$0
4	Total Costs	(\$149,195)	(\$153,671)	(\$158,281)	(\$163,029)	(\$167,920)	(\$172,958)
	<i>Cash provided from:</i>						
5	Operating Transactions	\$154,508	\$159,143	\$163,917	\$168,835	\$173,900	\$179,117
	<b>Capital Transactions</b>						
6	Acquisition of tangible capital assets	(\$33,800)	(\$79,313)	(\$286,391)	(\$319,782)	(\$389,057)	(\$197,022)
7	Cash applied to capital transactions	(\$33,800)	(\$79,313)	(\$286,391)	(\$319,782)	(\$389,057)	(\$197,022)
	<b>Finance Transactions</b>						
8	Proceeds from debt issues	\$0	\$0	\$0	\$0	\$0	\$0
9	Debt repayment	\$0	\$0	\$0	\$0	\$0	\$0
10	Cash applied to financing transactions	\$0	\$0	\$0	\$0	\$0	\$0
11	Increase/ (decrease) in cash and cash equivalents	\$120,708	\$79,830	(\$122,474)	(\$150,947)	(\$215,157)	(\$17,905)
12	Cash and cash equivalents, beginning of period	\$1,519,497	\$1,640,205	\$1,720,035	\$1,597,561	\$1,446,614	\$1,231,456
13	Cash and cash equivalents, end of period	\$1,640,205	\$1,720,035	\$1,597,561	\$1,446,614	\$1,231,456	\$1,213,551
14	Cash as percentage of net fixed assets	55.6%	58.0%	50.9%	43.3%	34.3%	33.0%

Line 1: Revenues increase at a rate of 3% per year

Line 2: Operating expenses increase at a rate of 3% per year

Line 3: There are no finance charges

Line 4: Total costs = Line 2 + Line 3

Line 5: Operating transactions is the operating cash flow i.e. Line 1 + Line 4

Line 6: The value of the assets acquired

Line 7: Cash used for the capital expenditure

Line 8: There are no debts

Line 9: No debt repayments

Line 10: Cash applied to financing transactions = Line 8 + Line 9

Line 11: Increase (decrease) in cash = Line 5 + Line 7 + Line 10

Line 12: Cash beginning of period is the reserve fund balance

Line 13: Cash end of period = Line 11 + Line 12

Line 14: Cash as % net fixed assets = Line 13 / fixed assets for that year

Line 13 in Table 8-2 shows that there is a reserve fund balance of \$1,213,551 at the end of the projection horizon period in the year 2016, which is about 33% of the net fixed assets.

## 8.4 Statement of Financial Position

The Statement of Financial Position provides information that describes the assets, liabilities, net financial assets, and tangible capital assets of the Municipality's water system.

The Statement of Financial Position for the entire projection horizon until 2016 is provided in Table 8-3.

Line	Item	2011	2012	2013	2014	2015	2016
<i>Financial Assets</i>							
1	Cash	\$1,640,205	\$1,720,035	\$1,597,561	\$1,446,614	\$1,231,456	\$1,213,551
<i>Liabilities</i>							
2	Debt	\$0	\$0	\$0	\$0	\$0	\$0
3	Net Financial Assets (Debt)	\$1,640,205	\$1,720,035	\$1,597,561	\$1,446,614	\$1,231,456	\$1,213,551
<i>Non-Financial Assets</i>							
4	Tangible Capital Assets	\$2,950,474	\$2,964,167	\$3,139,313	\$3,337,639	\$3,587,227	\$3,679,036

Line 1: Cash is the reserve fund balance at the end of the year, similar to Line 13 of the Statement of Cash Flow

Line 2: The remaining debt is the total loan minus any loan repayments

Line 3: Net financial assets (debt) = Line 1 - Line 2

Line 4: Tangible capital assets are non-financial assets calculated as follows: Previous period fixed assets – amortization costs + capital expenditure. For the first year i.e. 2011: Tangible capital assets = 2010 fixed assets (minus amortization expenses) (\$2,972,791) – 2011 amortization costs (\$49,357) + 2011 capital expenditure (\$27,040) = \$2,950,474.

The net financial assets (debt) as indicated on Line 3 in Table 8-3 show that there is no net debt incurred throughout the projection horizon. This means that the system has the resources to finance future operations.

## 9. Conclusions

The financial impacts of the Paisley Drinking Water System have been considered in this Financial Plan. The main conclusions of the Financial Plan are as follows:

### 1) Evaluation of Proposed 3% Increase in Operating Revenues

- i. The revenues generated are sufficient for meeting operating expenses for the projection horizon.
- ii. With the use of the reserved funds, there is sufficient cash available for the planned capital expenditures for the projection horizon period.
- iii. There is an annual surplus for the projection period, which is sufficient to fully cover the operating expenses plus amortization expenses.
- iv. Therefore, the proposed operating revenue rate of 3% for the projection horizon is sufficient to provide for total expenses and planned capital expenditures.

### 2) Statement of Operations

- i. There is an annual surplus throughout the projection horizon.
- ii. The accumulated surplus at the end of the projection period in the year 2016 is \$113,308.

### 3) Statement of Cash Flow

- i. There is a positive reserve fund balance throughout the projection horizon.
- ii. The reserve fund balance at the end of the projection period in the year 2016 is \$1,213,551, which is about 33% of the net fixed assets.

### 4) Statement of Financial Position

- i. The net financial assets value is positive throughout the projection horizon.

## 10. Council Resolution

A council resolution was passed during a council meeting held on July 12<sup>th</sup>, 2011. A copy of the council resolution is included in Appendix C.

## 11. Next Steps

The following next steps are required in accordance with the requirements of the Financial Plan Regulation:

1. Notice of the availability of the Financial Plan be advertised
2. The Financial Plan be made available, on request and without charge, to the members of the public that are served by the water system
3. The Financial Plan be made available on the Municipality of Arran-Elderslie's website without charge
4. A copy of the Financial Plan, along with the council resolution be submitted to the Ministry of Municipal Affairs and Housing
5. The Financial Plan be updated and approved prior to applying for a licence renewal (i.e. every five years); A copy of the Council resolution will have to be submitted to the Ministry of the Environment with the licence renewal application.