

**THE TOWNSHIP OF ENNISKILLEN
DRINKING WATER SYSTEM**

FINANCIAL PLAN

December 2011

TABLE OF CONTENTS

1. INTRODUCTION	1
1.1 LEGISLATIVE CONTEXT TO FINANCIAL PLANNING	1-2
1.2 ADDITIONAL LEGISLATIVE CONTEXT TO FINANCIAL PLANNING	3
1.3 TOWNSHIP OF ENNISKILLEN WATER SYSTEM.	3
2. OPERATING PLAN	4
2.1 OPERATING EXPENSES	4
2.2 CAPITAL EXPENSES	4
2.3 DEBT	4
2.4 LEAD REPLACEMENT COSTS	4
2.5 SOURCE WATER PROTECTION COSTS	4
3. FUNDING PLAN	5
3.1 GOVERNMENT GRANT	5
3.2 DEBT	5
3.3 REQUIRED USER FEE	5
4. CONTINUOUS IMPROVEMENT	6
5. FINANCIAL PLAN SUMMARY	6
5.1 FINANCIAL PLAN SUMMARY	7
5.2 Tangible Capital Assets.....	8
5.3 Accumulated Surplus.....	9
6. FINANCIAL PLAN STATEMENTS	10
6.1 Notes.....	11
Financial Statements.....	12-15

1. Introduction

The Township of Enniskillen has authorized the development of a Financial Plan for the Township's drinking water system. The Financial Plan was prepared in accordance with the Financial Plan regulation (o. Reg. 453/07) made under the Safe Drinking Water Act, as well as the provisions of the financial planning guidelines published by the Ministry of Environment (MOE) in August, 2007 entitled "Toward Financially Sustainable Drinking Water and Wastewater Systems".

The report estimates the operating expenses and capital costs from the year 2010 to the year 2016 in an operating plan. The revenue needed to support the operating plan is laid out in a funding plan which relies on user fees along with government grants. User fees are set so that adequate reserves are developed in order to fund capital expenses.

The Financial Plan was developed for the Township's drinking water system, as well as tangible capital asset information that the Township generated in accordance with the Public Sector Accounting Board (PSAB) standard requirements. The Financial Plan includes a projection of financial statements over six years from the year 2011 to the year 2016.

1.1 Legislative Context to Financial Planning

There have been legislative initiatives affecting water system management and operations over the past decade. These initiatives were precipitated as a result of the water borne illness tragedy in Walkerton in 2000 and the subsequent public inquiry chaired by the Honourable Dennis O'Connor. The Inquiry Report recommended a comprehensive approach to the delivery of safe drinking water in Ontario.

The MOE has responded to the Inquiry recommendations by making legislative changes. One change directly related to the development of the Financial Plan was the passage of the Safe Drinking Water Act, 2002 (SDWA). It requires owners of municipal drinking water systems to apply for and obtain a Municipal Drinking Water Licence. There are five elements that must be in place in order for the owner of a drinking water system to obtain a licence:

- 1) A Drinking Water Works Permit to establish or alter a drinking water system.
- 2) An accepted Operational Plan. The Drinking Water Quality Management Standard (DWQMS) is the standard upon which operational plans are based. The plan documents an operating authority's quality management system (QMS)
- 3) An Accredited Operating Authority. A third party audit of an operating authority's QMS will be the basis for accreditation.

- 4) A Permit to Take Water.
- 5) A Financial Plan that must be prepared and approved in accordance with the prescribed requirements in the Financial Plans Regulation.

Under section 30 of the SDWA, the Financial Plan element of the licence program must be prepared in accordance with the requirements set by the Minister of the Environment. Accordingly, the requirements set by the Minister of Environment apply as per the 2007 MOE guidelines.

Regulation 453/07 of the Safe Drinking Water Act was passed in 2007 and contains two key provisions that apply to existing water systems:

1. A person who makes an application under the Act for a municipal drinking water licence, shall, before making the application, prepare and approve financial plans for the system that satisfy the requirements of Reg. 453/07 (O. Reg. 453/07, S.1(1)).
2. As a condition in a municipal drinking water licence that is issued in response to an application made under section 33 of the Act for a municipal drinking water licence, the Director shall include a requirement that the owner of the drinking water system, by the later of July 1, 2011 and the date that is six months after the date the first licence for the system is issued, prepare and approve financial plans for the system that satisfy the requirements prescribed Reg. 453/07 (O. Reg. 453, S. 1(3)).

Several other provisions are also set out in the regulation that must be met by a municipality operating a water system:

- The Financial Plan must be approved by a resolution that is passed by the Council of the municipality.
- The Financial Plan must apply to a period of at least six years.
- The first year to which the Financial Plan must apply must be the later of July 1, 2011 or six months after the first licence for the system was issued.

Once a system is licensed, the municipality's Financial Plan is required to be updated every 5 years, in conjunction with every application for license renewal.

1.2 Additional Legislative Context to Financial Planning

In June 2006, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants approved new municipal financial accounting and reporting standards requiring that tangible capital assets (TCA), including components of water and wastewater systems, be included in municipal financial statements. The new accounting standard PS 3150 came into effect on January 1, 2009. This provides for a sharper focus on the depreciation of the capital asset base of the water and wastewater systems and the need to plan for renewal and replacement on a timely basis. This data is an integral component of the financial statements included in the Financial Plan.

The Clean Water Act 2006 targets the protection of drinking water supplies through the development of collaborative, locally driven, science and watershed based source protection plans. According to the MOE financial planning guidelines, Financial Plans should include source water protection costs related to the provision of water services.

In June 2007, the government of Ontario proposed a lead action plan. The Financial Plans regulation contains requirements for municipalities to include in their Financial Plans, the costs associated with replacing lead service pipes that are part of the drinking water system.

1.3 Township of Enniskillen Water Systems

The Township of Enniskillen operates one drinking water system. Potable water is purchased from the Town of Petrolia and is resold to the ratepayers in the Enniskillen distribution system as well as the Township of Dawn Euphemia and the Village of Oil Springs. There are approximately 1260 farm and residential users within the Enniskillen distribution system. All water users are metered. It is anticipated that growth in the water system will be very small during the period of the financial plan.

2. Operating Plan

2.1 Operations Expenses

Over the 2010 to 2016 period, operating costs such as labour, chemicals, insurance and other costs are projected to increase at 3% per annum. Energy cost is projected to increase to 5% per annum over the same period.

2.2 Capital Expenses

Capital renewal and replacement costs have been projected to the year 2016 and funding needs have been included in the rates for the 2010-2016 period. The intent is to ensure that funding will be available for the projected capital costs when needed. Capital needs beyond 2016 should be considered in the next Financial Plan report due in 2015. The 2015 report will roll the time horizon forward at least five years to the year 2021.

2.3 Debt

There is no long-term debt on the system at present and no multi-year debt is forecasted in the 2010-2016 period.

2.4 Lead replacement Costs

There is no lead present in the system and as a result, no funds have been set aside for lead abatement.

2.5 Source Water Protection Costs

Studies related to source protection are underway however no specific protection costs have been identified at this time. Until such time as the source water protection initiative is better defined, we have not ventured to guess what such costs might be. This should be revisited at the time the Financial Plan is next updated in the year 2015.

3. Funding Plan

3.1 Government Grant

The Township currently receives an Ontario Small Water Works Assistance Program (OSWAP) operating grant provided through a provincial program that helps reduce the cost of operating water systems with small number of users. The grant is provided for the system and is projected to continue throughout the 2010-2012 period. The grant will end at the end of 2012. The balance of the funding will be required to be raised through user fees or other revenues.

3.2 Debt

No future long term debt is projected at this time.

3.3 Required User Fee

Based on the current results, the water rates are projected to remain stable for the 2010-2016 period. All users are charged on a meter basis and charged for the water going through the meter. The rates are based on a \$40 administration charge three times per year. This money is to offset the operating expenses. In addition each user is charged \$1.74 per cubic meter. \$1.34 is to offset the cost of the purchase of water, .20 for water loss and .20 for capital replacement.

Township of Enniskillen

Proposed Water rates

	2010	2011	2012	2013	2014	2015	2016
Water User Fees	776,589	784,355	784,355	798,758	798,758	798,758	798,758
Number of users	1,260	1,260	1,260	1,260	1,260	1,260	1,260
Cost per User (Household)	616	622	622	633	633	633	633

4. Continuous Improvement

The Financial Plan regulation requires that the Financial Plans be updated every 5 years, along with the request for application for the renewal of the Drinking Water Licence. This on-going update will assist in revisiting the assumptions made to develop the operating and funding plans as well as re-assessing the need for capital expenses.

5. Financial Plan Summary

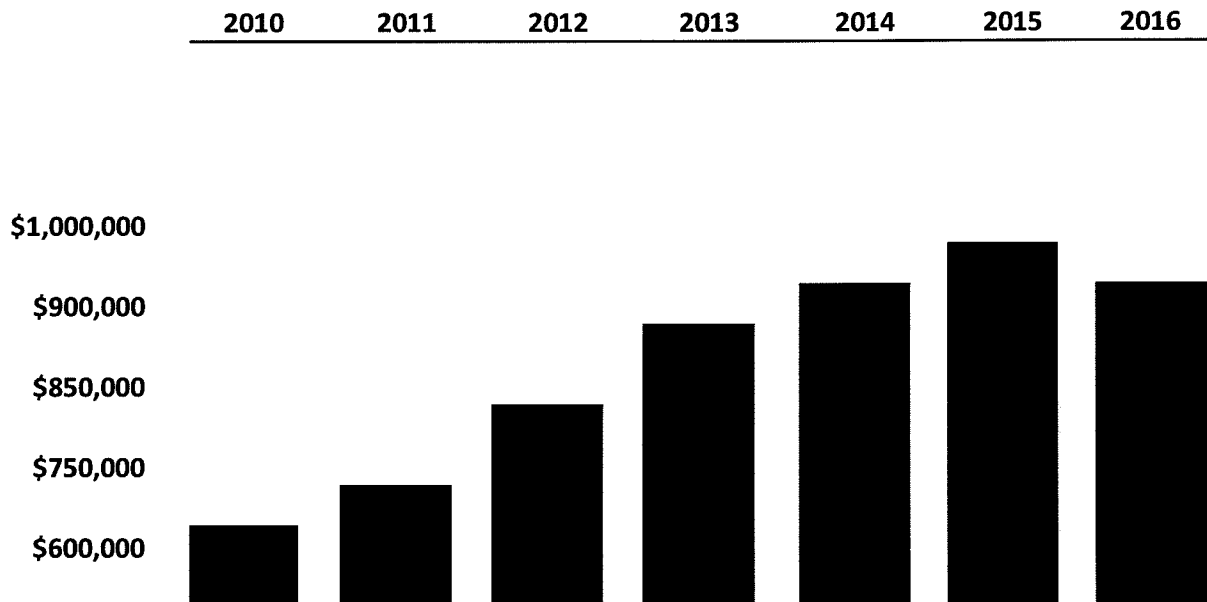
This section provides a summary of principal features contained in the projected financial statements over six years (2011-2016) in compliance with O. Reg. 453. The detailed financial statements are set out in section 6. The notes regarding the Financial Plan are presented at the end of the financial statement section.

5.1 Financial Plan Summary

One important marker of the financial position of a water system is the net financial assets. A positive number indicates that the system has the resources to deal with future capital and other needs. A negative number indicates that past capital and other investments must be financed from future revenues. The Enniskillen water system net financial assets are summarized below:

Township of Enniskillen

Water Net Financial Assets



The Enniskillen water system has a working capital surplus in 2010.

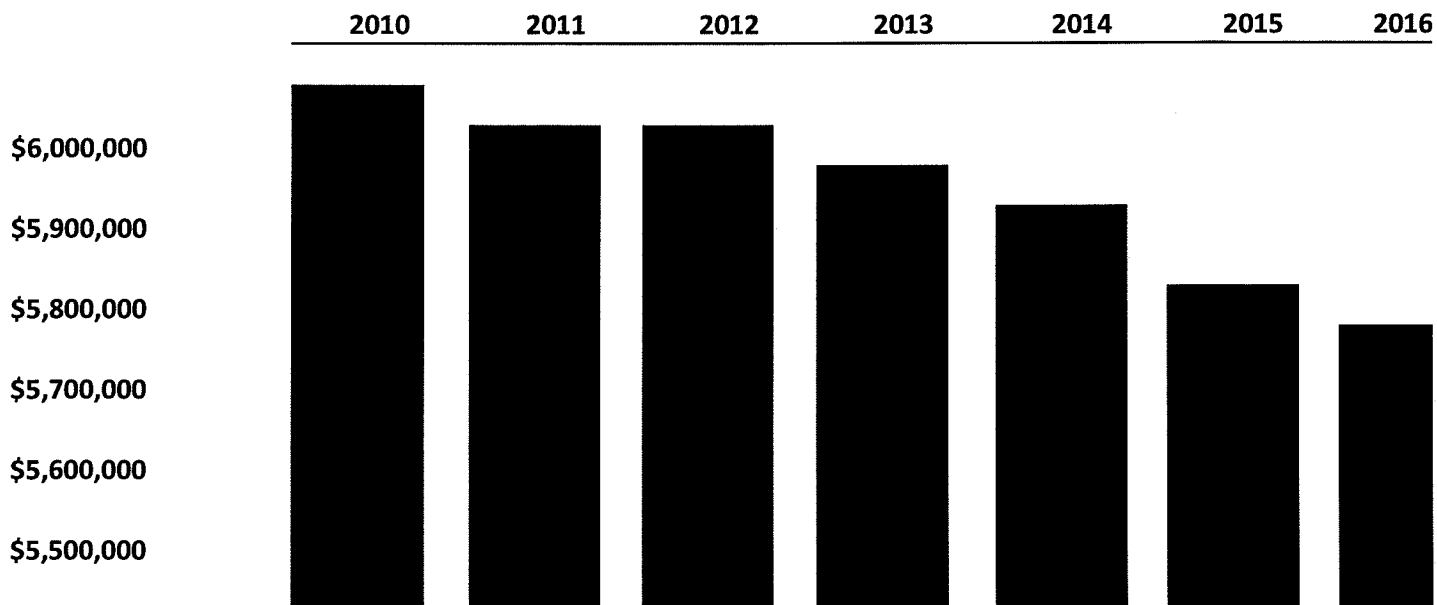
The Enniskillen water system has a strong positive cash position throughout the 2010 to 2016 period with the highest cash position in the year 2015.

5.2 Tangible Capital Assets

A second important marker is the total value of the water system assets such as reservoirs and water lines. Consideration of the value of tangible capital assets is part of PSAB compliance. Water systems have a great deal of resources tied up in tangible capital assets and managing these assets is critical to maintaining current levels of service. Tangible capital assets are constantly decreasing in value as the assets age. This is termed amortization. An increase in tangible capital assets is an indication that new assets have been added to the water system.

Township of Enniskillen

Tangible Capital Assets



Graphs indicate that assets were added to the Enniskillen water system in 2009, with further additions forecasted for 2011 through 2015. The value of assets in 2016 is slightly lower than 2010 indicating that the system is not being maintained. The declines from 2014 to 2016 indicate that assets are being used and thus depreciate in value over time. The illustrations above indicate the need to maintain vigilance in managing the system's tangible capital assets.

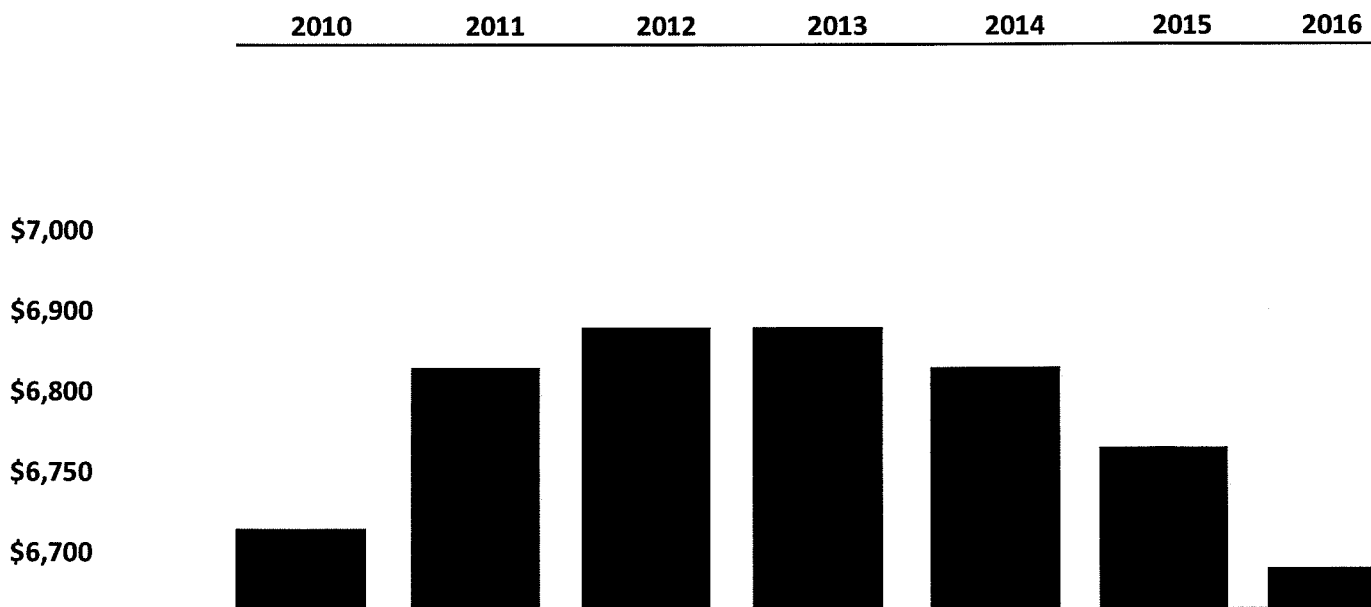
5.3 Accumulated Surplus

A third important marker is the accumulated surplus chart shown below. It represents cash on hand plus the book value of capital assets less debt. A surplus indicates that the proposed rates are generating revenues to fund future operating and capital renewal requirements.

The water system is showing positive numbers with the surplus in 2016 being slightly higher than 2010.

Township of Enniskillen

Accumulated
surplus
(000's)



Conclusion

The financial statements reveal that the Enniskillen water system is being properly renewed, from an accounting perspective. In addition, the water system is being maintained with substantial cash available to fund future capital requirements. The detailed financial statements that were the basis for the above summary follow in Section 6.

6. Financial Plan Statements

The detailed financial plan statements are set out in the following tables.

6.1 Notes

Enniskillen Water System

1. Cash equivalent is a reserve set aside for future capital renewal to 2021.
2. These are working capital surplus
3. Tangible capital assets acquired in the past were valued in 2010 cost and deflated to historic cost using the construction price index.
4. All new construction assumed to have taken place on July 1.
5. User fee revenues are geared to providing a sustainable water service based on capital renewal projections to 2021.
6. The system is assisted by an OSWAP provincial government grant intended to assist water users in small systems. This grant will cease at the end of 2012.
7. This revenue is represented by the interest at 2.5% per annum
8. Operating costs are projected to increase at 2% for most items.
9. Amortization was determined using the straight line method. Capital works are assumed to have no residual value when they have reached the end of their projected life. All new construction assumed to have taken place on July 1 and amortization for that year was 50% of the annual rate.
10. These operating revenues are user fees plus government grants.
11. No amortization was included in the expense total and therefore none was deducted.
12. This amount is earned on reserve balances.

Township of Enniskillen

Statement of Financial Position - Water system

	2010	2011	2012	2013	2014	2015	2016
Financial Assets							
Cash and cash Equivalents	612,896	746,736	833,518	896,456	918,566	939,080	922,205
Total Financial Assets	612,896	746,736	833,518	896,456	918,566	939,080	922,205
Accounts payable	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Total Liabilities	3,000	3,000	3,000	3,000	3,000	3,000	3,000
TCA under construction	0	0	0	0	0	0	0
Net Financial asset	609,896	743,736	830,518	893,456	915,566	936,080	919,205
Non Financial Assets							
Tangible Capital asset cost	8,176,733	8,176,733	8,210,733	8,265,733	8,285,733	8,315,733	8,315,733
Additions to TCA -cost		34,000	55,000	20,000	30,000	0	5,000
TCA under construction	8,176,733	8,210,733	8,265,733	8,285,733	8,315,733	8,315,733	8,320,733
	0	0	0	0	0	0	0
Accumulated amortization incl addition	(2,042,848)	(2,135,348)	(2,226,848)	(2,316,848)	(2,405,348)	(2,492,848)	(2,578,848)
Total non financial assets	6,133,885	6,075,385	6,038,885	5,968,885	5,910,385	5,822,885	5,741,885
Accum surplus	6,743,781	6,819,121	6,869,403	6,862,341	6,825,951	6,758,965	6,661,090

Note: Unaudited for Planning Purposes only - Actual results will differ from the above and these differences could be material

Township of Enniskillen

Statement of Operations - Water system

	2010	2011	2012	2013	2014	2015	2016
REVENUES							
User fees	776,589	784,355	784,355	798,758	798,758	798,758	798,758
admin fee	158,436	163,189	163,189	163,189	163,189	163,189	163,189
Dawn Euphemia	173,240	173,240	173,240	173,240	173,240	173,240	173,240
Oil Springs	107,766	113,154	113,154	113,154	113,154	113,154	113,154
Penalty	5,489	5,763	5,800	5,800	5,800	5,800	5,800
meter sales	2,124	2,230	2,253	2,275	2,298	2,321	2,344
Late water connections	20,500	20,500	20,500	20,500	20,500	20,500	20,500
Interest income	26,231	15,000	15,000	15,000	15,000	15,000	15,000
other	61,835	64,927	68,173	25,000	25,000	25,000	25,000
	1,332,210	1,342,359	1,345,664	1,316,916	1,316,939	1,316,962	1,316,985
EXPENSES							
Operating	1,145,872	1,174,519	1,203,882	1,233,979	1,264,828	1,296,449	1,328,860
Debt interest	0	0	0	0	0	0	0
Amortization	120,934	92,500	91,500	90,000	88,500	87,500	86,000
Total expenses	1,266,806	1,267,019	1,295,382	1,323,979	1,353,328	1,383,949	1,414,860
Excess, revenue over expense	65,404	75,340	50,282	(7,062)	(36,389)	(66,987)	(97,875)
Accumulated surplus, Beginning	6,678,377	6,743,781	6,819,121	6,869,403	6,862,341	6,825,951	6,758,965
Accumulated surplus, end of year	6,743,781	6,819,121	6,869,403	6,862,341	6,825,951	6,758,965	6,661,090

Township of Enniskillen

Statement of Change in cashflow

Operating Transactions	2010	2011	2012	2013	2014	2015	2016
Total operating revenues	1,332,210	1,342,359	1,345,664	1,316,916	1,316,939	1,316,962	1,316,985
Cash paid for operating	1,145,872	1,174,519	1,203,882	1,233,979	1,264,828	1,296,449	1,328,860
Cash paid for financing							
Excess of revenue over expenses	186,338	167,840	141,782	82,937	52,111	20,513	(11,875)
Capital Transactions							
Acquisition of TCA		34,000	55,000	20,000	30,000	0	5,000
Increase (decrease) in cash equivalents	186,338	133,840	86,782	62,937	22,111	20,513	(16,875)
Cash and equivalents, beginning of year	426,558	612,896	746,736	833,518	896,456	918,566	939,079
Cash and equivalents, end of year	612,896	746,736	833,518	896,456	918,566	939,079	922,204

Note: Unaudited for Planning Purposes only - Actual results will differ from the above and these differences could be material

Township of Enniskillen

Statement of Change in Net Financial Assets

	2010	2011	2012	2013	2014	2015	2016
Excess revenue over expenses	65,404	75,340	50,282	(7,062)	(36,389)	(66,987)	(97,875)
Amortization of tangible cap assets	120,934	92,500	91,500	90,000	88,500	87,500	86,000
Proceeds on disposal of TCA	0	0	0	0	0	0	0
Change in inventories. Prepaids etc	0	0	0	0	0	0	0
Loss (gain) on sale of TCA	0	0	0	0	0	0	0
Acquisition of TCA		34,000	55,000	20,000	30,000	0	5,000
Increase in net financial assets	186,338	133,840	86,782	62,938	22,111	20,513	(16,875)
Net Financial assets , beginning of year	423,558	609,896	743,736	830,518	893,456	915,567	936,080
Net Financial assets, end of year	609,896	743,736	830,518	893,456	915,567	936,080	919,205

Note: Unaudited for Planning Purposes only - Actual results will differ from the above and these differences could be material