

**THE TOWNSHIP OF ENNISKILLEN
DRINKING WATER SYSTEM**

FINANCIAL PLAN

August 2020

Executive Summary

This Financial Plan satisfies the requirements of O. Reg. 453/07 (Financial Plans). One component of the Plan is to provide information on the operating and capital expenditures required to ensure reliability and long term sustainability of the Township of Enniskillen Drinking Water System.

This plan outlines the Township of Enniskillen Drinking Water System's financial status, discusses current and future pressures, outlines the funding structure and provides a financial forecast for the water system. The financial impacts have been considered and applied for a 6 year period (2021-2026), in yearly detail from 2021-2026.

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1. INTRODUCTION

The Township of Enniskillen has authorized Bailey Kearney Ferguson LLP to develop the 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 2021 to the year 2026 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 2021 to the year 2026. The location and extent of the drinking water service area is shown in Figure 1.1 below.

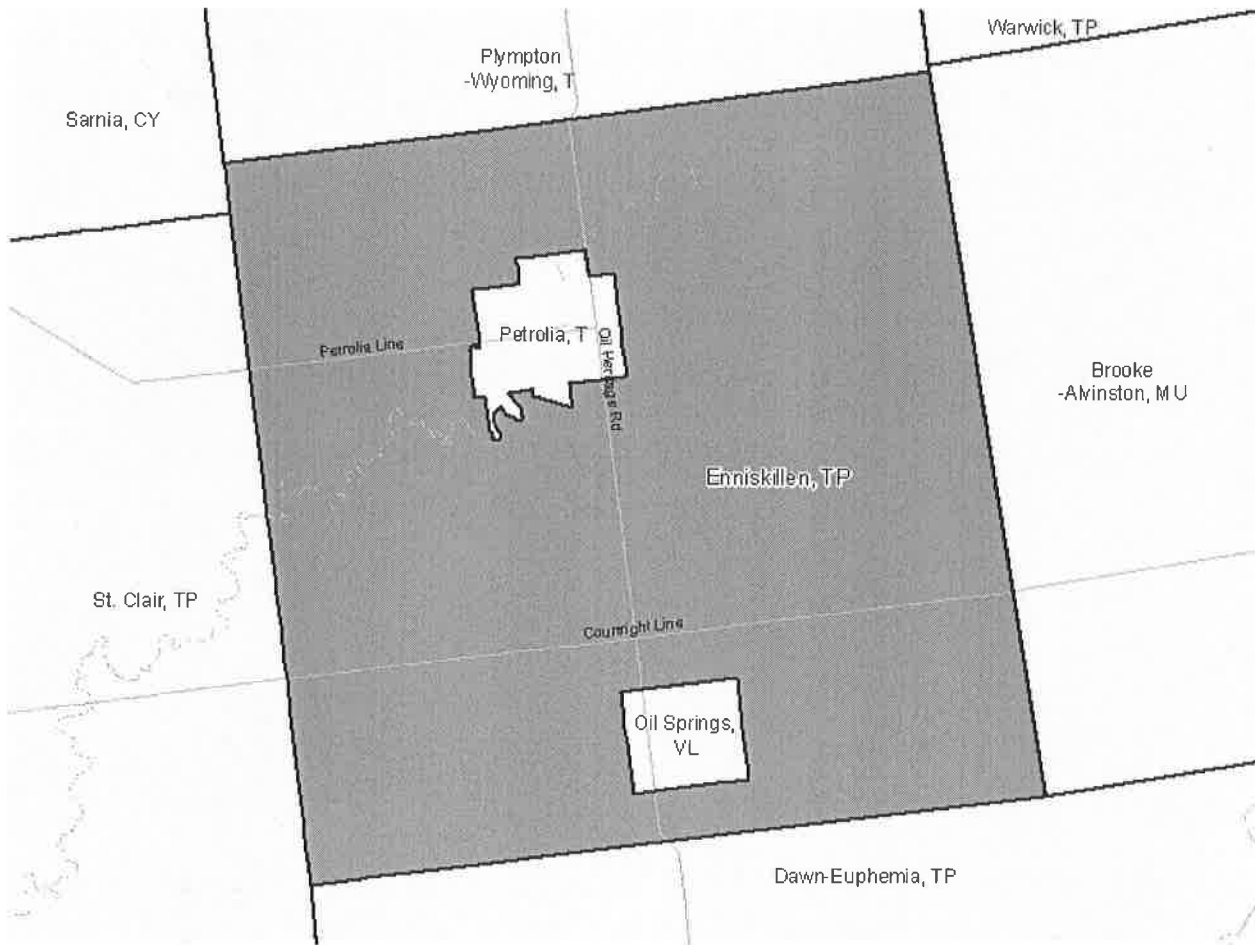


Figure 1.1 Boundaries of Township of Enniskillen drinking water system

The Township of Enniskillen received its Municipal Drinking Water Licence (MDWL) on June 24, 2011. One of the conditions of receiving the licence is that a Financial Plan that satisfies the conditions of Ontario Regulation 453/07 (O. Reg. 453/07) must be approved by Council within six months of the date of Enniskillen's MDWL. This Plan has been created to comply with the requirements of O. Reg. 453/07 and covers the public portion of the Township of Enniskillen's distribution system which includes all pipes, valves, hydrants, pumping stations and reservoirs. The financial statements included in this report project 6 years into the future.

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:

- A Drinking Water Works Permit to establish or alter a drinking water system.
- 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)
- An Accredited Operating Authority. A third party audit of an operating authority's QMS will be the basis for accreditation.
- A Permit to Take Water.
- 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 either be prepared in accordance with the Sustainable Water and Sewage System Act, 2002 (SWSSA) or in accordance with the requirements set by the Minister of the Environment. SWSSA regulations have not been published. 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:

- 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)).

- 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 May 12, 2021, 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 year in which the drinking water system's existing license would otherwise expire.

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. Utilities are encouraged to have, at a minimum, estimates of any current source protection costs as a separate cost item by the time that their Financial Plans are required in order to effectively align with the anticipated approval timelines for source protection plans.

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 1400 farm and residential accounts 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. APPROACH

The methodology that has been used to prepare the financial plan is as follow:

1. Determine overall assumptions regarding projected revenue growth, capital expenditures and inflationary rates used to forecast future expenses.
2. Determine current expenses and forecast future expenses based on determined assumptions.
3. Determine current and future capital expenditures based on determined assumptions.
4. Determine current and future revenues based on determined assumptions.
5. Assess the feasibility of the drinking water system based on the determined assumptions and make any necessary changes to the plan based on the feasibility.

3. EXPENSES

3.1 DATA SOURCES AND ASSUMPTIONS

Expenses are required by Ontario Regulation 453/07 to be itemized by amortization expenses, interest expenses and operating expenses.

The base year from which future period expenses were forecasted was 2019 which is the most recent complete year at the time of preparation of this financial plan. The base year's expenses were determined from the audited financial information from that period.

The future period operating expenses were forecasted to increase by the assumed rate of inflation, which is 2% per annum. The exceptions to this 2% rate are as follows:

- Labour and benefits: 3%
- Energy: 5%

Since there are no current loans or debts and there is no forecasted deficiencies in the water system's cash position, no interest expense has been forecasted for the future periods.

The forecasted amortization expense is based on the historical cost of the assets purchased. This amount is amortized over the expected useful life of the corresponding assets. The historical costs and useful life of existing assets is based on the information disclosed in the audited financial statements and the useful life of forecasted capital expenditures is based on the accounting policies disclosed in the audited financial statements.

3.2 OPERATING EXPENSES

Operating expenses are the costs incurred to provide drinking water to the users of the water system and to keep the system operating on a day-to-day basis. Operating expenses typically

include labour, benefits, materials, supplies, insurance, utilities, etc. The projected operating expenses are shown in Figure 3.1 below.

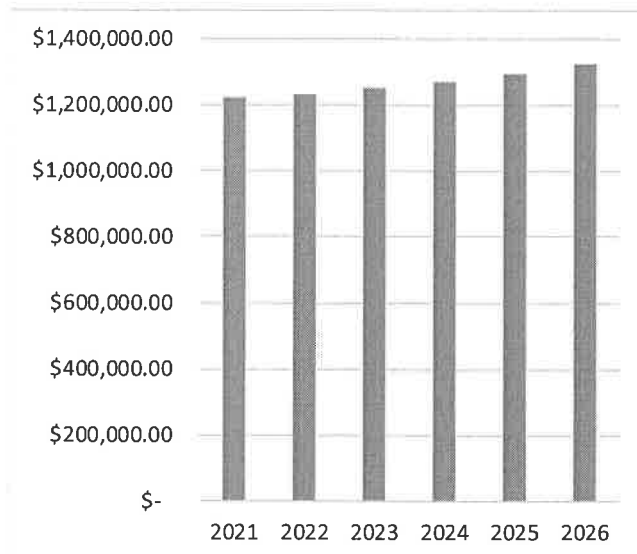


Figure 3.1 Forecasted Operating Expenses 2021-2026

3.3 INTEREST EXPENSES

As was previously mentioned in section 3.1, there is currently no debt related to the water system and there is no projected need for debt and as such there is no projected interest expenses in relation to the water system.

3.4 AMORTIZATION EXPENSES

Amortization is a non-cash expenses which represents the gradual wear and tear of tangible capital assets (TCAs). The annual expense is based on the historical cost of the assets and the timeframe that the asset is expected to be useful for.

The projected amortization expenses are presented in Figure 3.2 below.

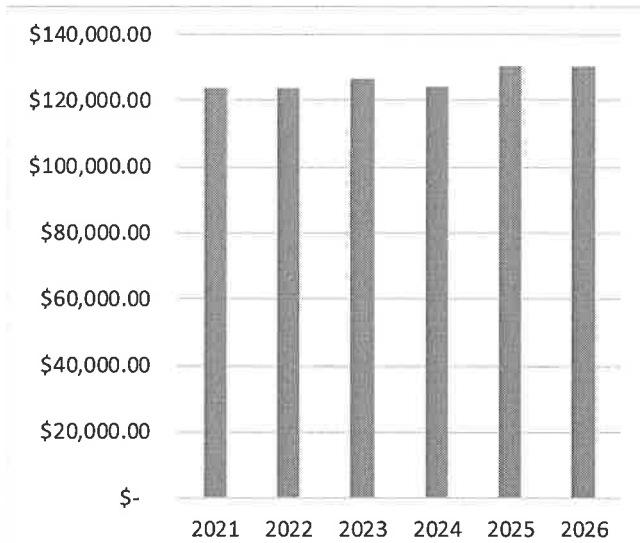


Figure 3.2 Forecasted Amortization Expenses 2021-2026

3.5 TOTAL EXPENSES

The total expenses are the culmination of operating, interest and amortization expenses. The projected total expenses are shown in Figure 3.3 below.

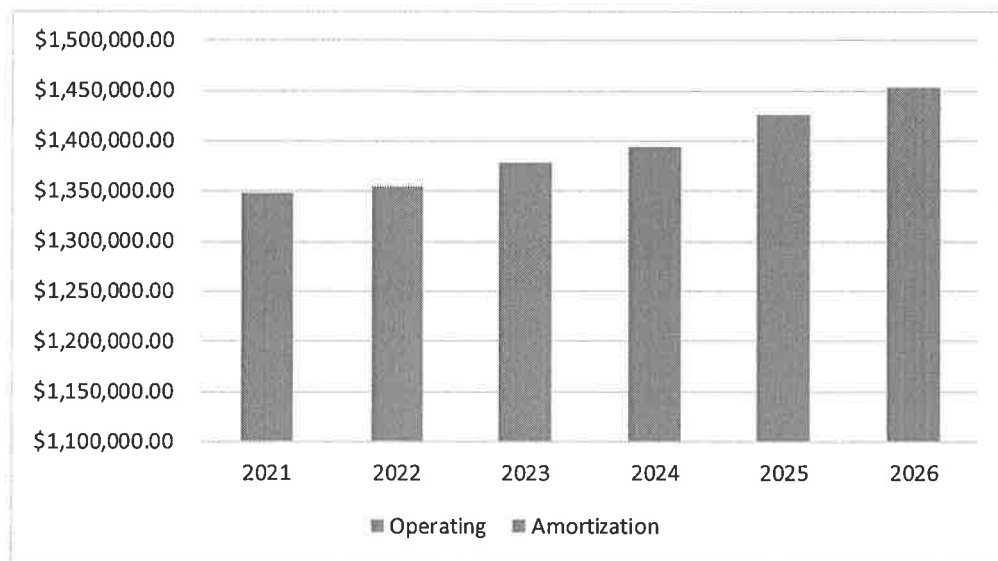


Figure 3.3 Forecasted Total Expenses 2021-2026

4. CAPITAL EXPENDITURES

4.1 DATA SOURCES AND ASSUMPTIONS

Projected capital expenditures have been provided by the Township and includes estimates of future capital needs for the period of 2021-2026. Capital needs beyond 2026 will be considered in the next Financial Plan report due in 2025.

4.2 LEAD REPLACEMENT COSTS

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

4.3 FORECASTED CAPITAL REQUIREMENTS

Figure 4.1 shows the projected capital needs from 2021-2026.

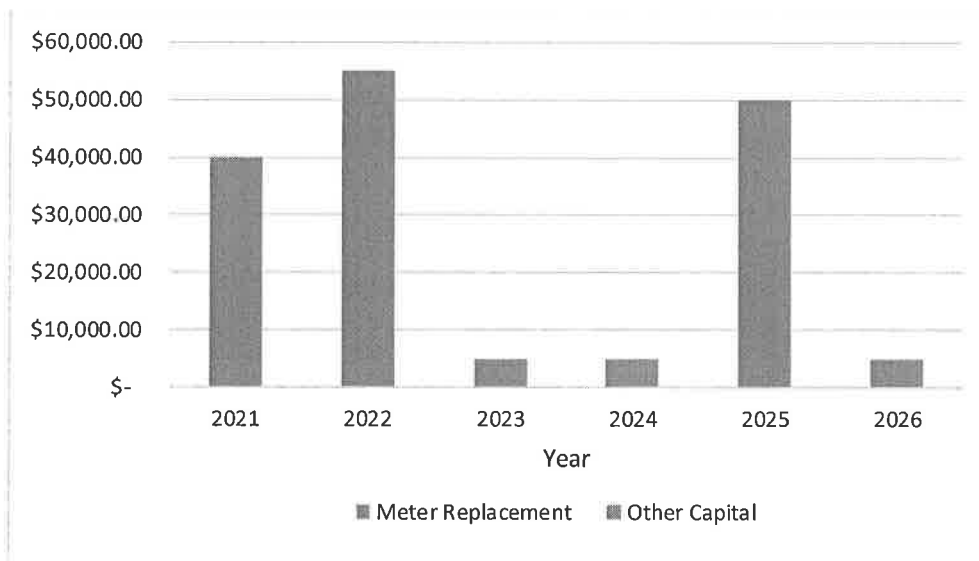


Figure 4.1 Forecasted Capital Requirements 2021-2026

5. REVENUES

5.1 DATA SOURCES AND ASSUMPTIONS

Information on revenues was obtained from the Township's 2019 audited financial information, as well as the current price at which the Township purchases water from the Town of Petrolia which is \$1.45/cubic metre. This price is increased by \$0.20/m³ to offset the cost of water loss and \$0.20 to assist with capital expenditures for a total charge to users of \$1.85 per cubic metre. In addition, users are charged for administration of \$50 three times a year to offset the expenses required to operate the water system.

Revenues from water usage and administration charges are forecasted to grow at 2% per year, which is consistent with the overall expected increase in cost of water as well as the majority of

operating expenses. As discussed previously, the Township currently provides water to 1,400 accounts and very little growth is expected in relation to water consumption and as such, no increase has been forecasted. Interest income, which is included in Other income, is forecasted to grow proportionately to the increases in cash and cash equivalents of the water system.

5.2 PROJECTED REVENUE

Based on the requirement of Ontario Regulation 453/07 revenue is to be itemized by water rates, user charges and other revenues. Based on this distinction, revenue forecasted for 2021-2026 is as follows in the Figure 5.1 below.

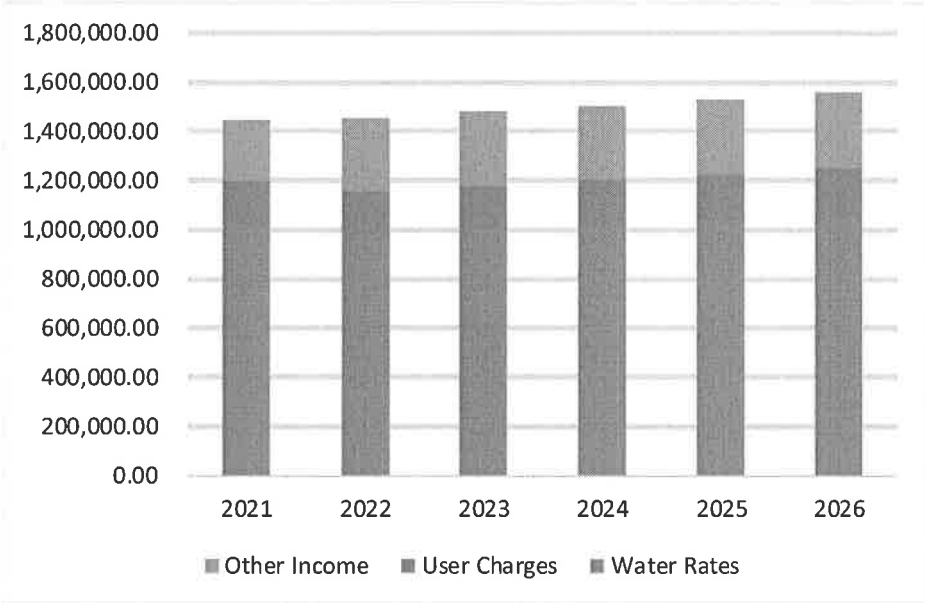


Figure 5.1 Forecasted Revenues 2021-2026

6. EVALUATION OF SUSTAINABILITY

6.1 INTRODUCTION

The projected revenue needs to be evaluated to determine if it will sufficiently be able to maintain the drinking water system as proposed. For this Financial Plan, Net Financial Assets, Tangible Capital Assets, the Annual Net Surplus/Deficit, and the Accumulated Surplus will be used to evaluate the sustainability of the water system.

6.2 NET FINANCIAL ASSETS

The Figure 6.1 shows the projected net financial assets for 2021-2026

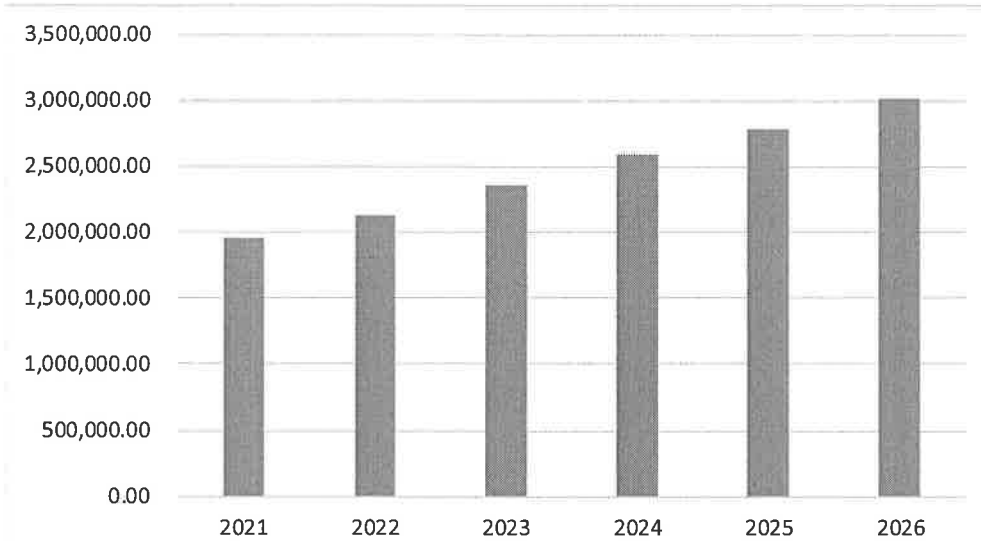


Figure 6.1 Projected Net Financial Assets 2021-2026

As can be seen from the prior figure, net financial assets continue to grow as the projection continues. This indicates that the system will continue to be able to meet its financial obligations.

6.3 TANGIBLE CAPITAL ASSETS

Figure 6.2 shows the projected value of the tangible capital assets for 2021-2026

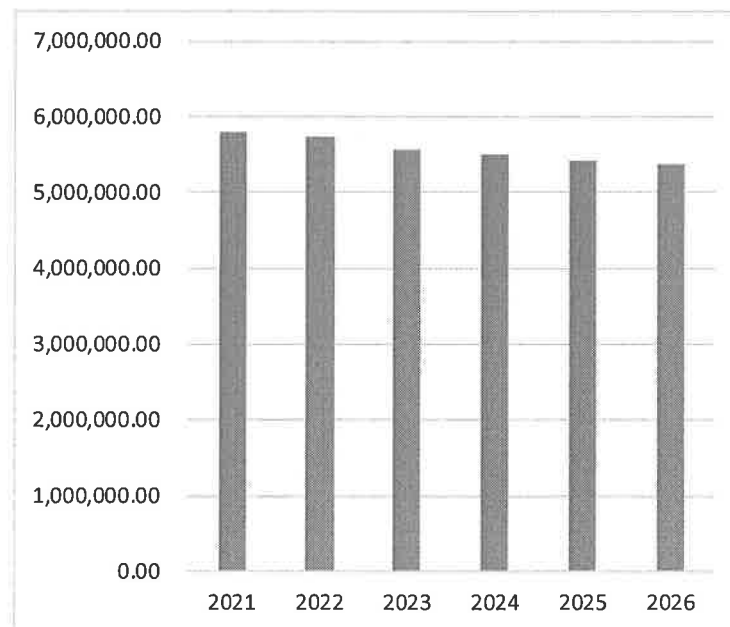


Figure 6.2 Projected Tangible Capital Assets 2021-2026

As can be seen in the above figure, the value of the tangible capital assets is declining. This indicates that the tangible capital assets are deteriorating at a faster rate than they are being replenished. This indicates that at some point in the future we should expect that there will be the

need for higher amounts of tangible capital asset additions. When comparing this decrease to the net financial assets increase, we see that net financial assets are increasing at a more rapid pace than the tangible capital assets are decreasing. This indicates that when additional capital asset additions are needed, the water system should have the financial resources available to pay for them.

6.4 ANNUAL NET SURPLUS/DEFICIT

Figure 6.3 shows the projected annual net surplus/deficit for 2021-2026

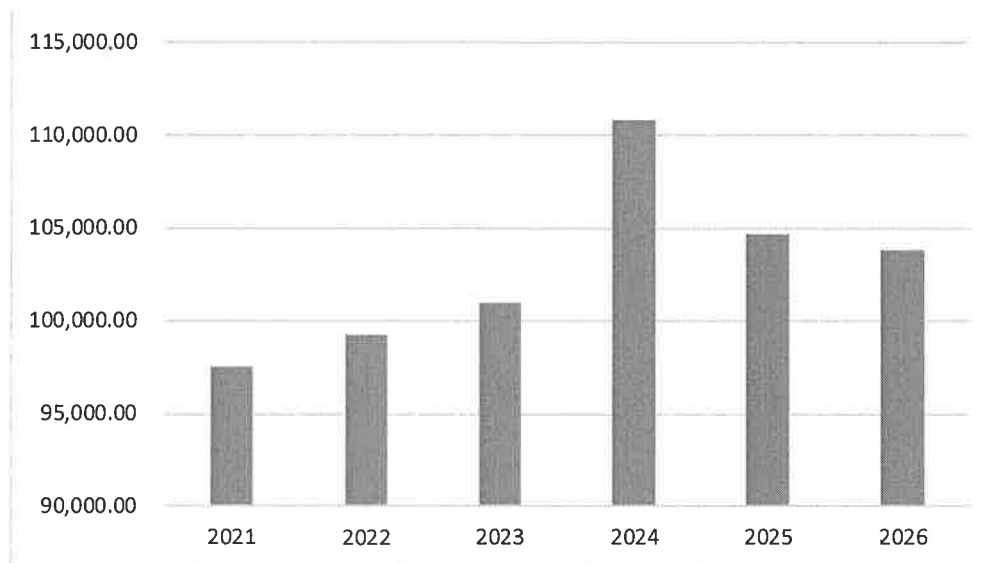


Figure 6.3 Projected Annual Net Surplus/Deficit 2021-2026

As can be seen in the preceding figure, this shows that the annual net surplus/deficit increases as the projection continues. This shows that the water system will continue to generate enough revenue to offset the amortization that is being recorded in the tangible capital asset accounts.

6.5 ACCUMULATED SURPLUS/DEFICIT

Figure 6.4 shows the projected accumulated surplus/deficit for 2021-2026.

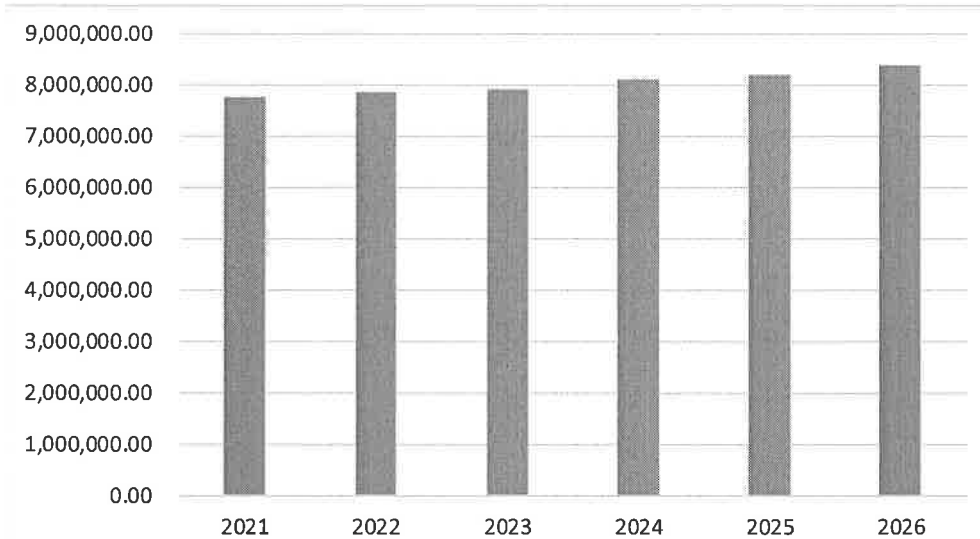


Figure 6.4 Projected Accumulated Surplus/Deficit 2021-2026

As can be seen in the above figure, the accumulated surplus continues to grow. This shows that the water system is generating enough cash to be able to meet its obligations for capital purchases as the tangible capital assets deteriorate.

6.6 DISCUSSION

The information presented in Section 6 highlights the following:

- **Net Financial Assets:** As shown in Section 6.2 the water system's ability to meet its financial obligations will continue to grow stronger.
- **Tangible Capital Assets:** As shown in Section 6.3 the water system's tangible capital assets are deteriorating faster than they are being replaced indicating that there will be a greater need for additional expenditures in the future.
- **Annual Net Surplus/Deficit:** As shown in Section 6.4, the water system will continue to generate enough revenue to cover its operating expenses as well as the deterioration of its capital assets.
- **Accumulated Surplus/Deficit:** As shown in Section 6.5, the water system continues to grow in financial strength and should be able to meet its obligations to replace tangible capital assets as they deteriorate.
- Therefore the forecasted increases to operating revenue based on the increases in the cost of water is sufficient to provide for total expenses and planned capital expenditures.

7. 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.

8. FINANCIAL PLAN

The Financial Plan, as required by Regulation consists of the Statement of Financial Position, Statement of Operations and Statement of Cash Flows. These statements are based on the proposed assumptions that are outlined in sections 3-5. The financial plan statements are set out in the tables below.

8.1 INTRODUCTION

Ontario Regulation 453/07 requires that the Financial Plan includes the following items:

1. Details of the proposed or projected financial position of the drinking water system itemized by,
 - a. Total financial assets
 - b. Total liabilities
 - c. Net financial assets
 - d. Non-financial assets that are tangible capital assets, tangible capital assets under construction, inventories of supplies and prepaid expenses, and
 - e. Changes in tangible capital assets that are additions, donations write downs and disposals.
2. Details of the proposed or projected financial operations of the drinking water system itemized by,
 - a. Total revenues, further itemized by water rates, user charges and other revenues,
 - b. Total expenses, further itemized by amortization expenses, interest expenses and other expenses,
 - c. Annual surplus or deficit, and
 - d. Accumulated surplus or deficit.
3. Details of the drinking water system's proposed or projected gross cash receipts and gross cash payments itemized by,
 - a. Operating transactions that are cash received from revenues, cash 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, and
 - f. Cash and cash equivalents at the beginning and end of the year.

The statements that were described above are discussed in greater detail below.

8.2 FORECASTED STATEMENTS OF FINANCIAL POSITION

The purpose of the Statement of Financial Position is to present the Drinking Water System's economic resources, obligations and net assets. The Forecasted Statement of Financial position is provided in Table 8-1.

8.3 FORECASTED STATEMENT OF OPERATIONS

The purpose of the Statement of Operations is to communicate information about changes in the organization's economic resources and obligations for the period. The Forecasted Statement of Operations is provided in Table 8-2.

8.4 FORECASTED STATEMENT OF CASH FLOW

The purpose of the Statement of Cash Flow is to depict from what sources management receives cash and how it is disbursed. The Forecasted Statement of Cash Flow is provided in Table 8-3.

Table 8-1
Township of Enniskillen
Forecasted Statement of Financial Position - Water System
For the year ended December 31

	2021	2022	2023	2024	2025	2026
Financial Assets						
Cash and cash equivalents	1,964,064.15	2,137,030.91	2,364,988.44	2,600,325.84	2,790,478.29	3,024,995.11
Total Financial Assets	1,964,064.15	2,137,030.91	2,364,988.44	2,600,325.84	2,790,478.29	3,024,995.11
Financial Liabilities						
Accounts payable	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Total Liabilities	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Net Financial Assets	1,959,064.15	2,132,030.91	2,359,988.44	2,595,325.84	2,785,478.29	3,019,995.11
Non Financial Assets						
Tangible capital assets						
- Cost	8,691,217.64	8,691,217.64	8,741,217.64	8,741,217.64	8,741,217.64	8,786,217.64
Additions to TCA	0.00	50,000.00	0.00	0.00	45,000.00	0.00
Accumulated amortization	(2,881,319.34)	(3,005,028.85)	(3,131,988.36)	(3,256,518.88)	(3,386,984.93)	(3,517,700.98)
Total Non Financial Assets	5,809,898.30	5,736,188.79	5,609,229.28	5,484,698.76	5,399,232.71	5,268,516.66
Accumulated Surplus	7,768,962.45	7,868,219.70	7,969,217.72	8,080,024.60	8,184,711.00	8,288,511.77

Table 8-2
Township of Enniskillen
Forecasted Statement of Operations - Water System
For the year ended December 31

	2021	2022	2023	2024	2025	2026
Revenues						
Water rates	1,025,788.05	979,627.59	999,220.14	1,019,204.54	1,039,588.63	1,060,380.41
User charges	173,166.04	176,629.36	180,161.95	183,765.19	187,440.49	191,189.30
Other income	246,701.69	298,231.36	299,651.90	301,524.08	303,456.87	305,018.56
	<u>1,445,655.78</u>	<u>1,454,488.31</u>	<u>1,479,033.99</u>	<u>1,504,493.81</u>	<u>1,530,485.99</u>	<u>1,556,588.26</u>
Expenses						
Operating	1,224,402.51	1,231,521.55	1,251,076.46	1,269,156.41	1,295,333.54	1,322,071.44
Interest	0.00	0.00	0.00	0.00	0.00	0.00
Amortization	123,709.51	123,709.51	126,959.51	124,530.52	130,466.05	130,716.05
	<u>1,348,112.02</u>	<u>1,355,231.06</u>	<u>1,378,035.97</u>	<u>1,393,686.93</u>	<u>1,425,799.59</u>	<u>1,452,787.49</u>
Net Surplus	97,543.76	99,257.25	100,998.02	110,806.88	104,686.40	103,800.77
Opening, accumulated surplus	<u>7,671,418.69</u>	<u>7,768,962.45</u>	<u>7,868,219.70</u>	<u>7,969,217.72</u>	<u>8,080,024.60</u>	<u>8,184,711.00</u>
Closing, accumulated surplus	<u>7,768,962.45</u>	<u>7,868,219.70</u>	<u>7,969,217.72</u>	<u>8,080,024.60</u>	<u>8,184,711.00</u>	<u>8,288,511.77</u>

Table 8-3
Township of Enniskillen
Forecasted Statement of Cash Flow - Water System
For the year ended December 31

	2021	2022	2023	2024	2025	2026
Operating Transactions						
Annual surplus	97,543.76	99,257.25	100,998.02	110,806.88	104,686.40	103,800.77
Amortization	123,709.51	123,709.51	126,959.51	124,530.52	130,466.05	130,716.05
Cash provided by operations	221,253.27	222,966.76	227,957.53	235,337.40	235,152.45	234,516.82
Capital Transactions						
Acquisition of tangible capital assets	(35,000.00)	(50,000.00)	0.00	0.00	(45,000.00)	0.00
Cash used in capital activities	(35,000.00)	(50,000.00)	0.00	0.00	(45,000.00)	0.00
Increase in cash and cash equivalents	186,253.27	172,966.76	227,957.53	235,337.40	190,152.45	234,516.82
Cash and cash equivalents, beginning of year	1,777,810.88	1,964,064.15	2,137,030.91	2,364,988.44	2,600,325.84	2,790,478.29
Cash and cash equivalents, end of year	1,964,064.15	2,137,030.91	2,364,988.44	2,600,325.84	2,790,478.29	3,024,995.11