

CORPORATION OF THE
TOWNSHIP OF ORO-MEDONTE

Communal Tile Financial Plan

February 21, 2020

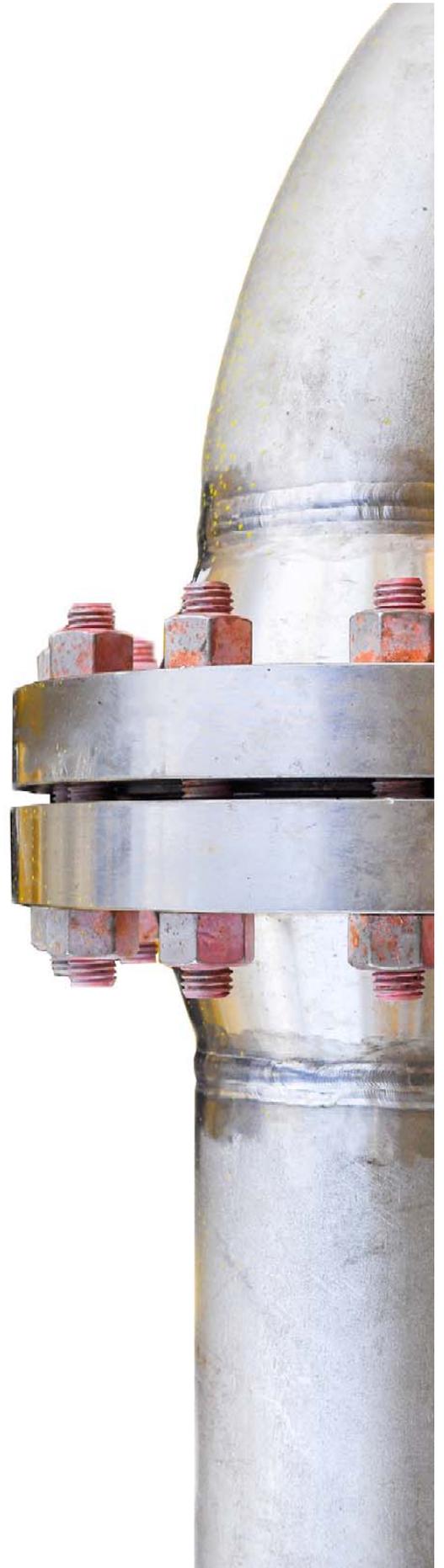


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Introduction

PROVINCIAL REPORTING REQUIREMENTS

The Province of Ontario, through Regulation 453/07, requires Municipalities to prepare Financial Plans for Drinking Water Systems. In 2019, the Township of Oro-Medonte Council endorsed the Drinking Water Financial Plan pursuant to the Regulation and Section 31(1) of the *Safe Drinking Water Act, 2002* (the “SDWA”). Currently, there are no Provincial financial reporting requirements for communal tile systems.

However, as a best management practice, the Township of Oro-Medonte has elected to complete a Financial Plan for Communal Tile Services. In this regard, the preparation of the Communal Tile Financial Plan mirrors the form and content of financial plans as prescribed under Ontario Regulation 453/07 (the “Regulation”) for drinking water systems. More specifically, the plan includes the following terms:

- i. Is approved through a Council resolution that indicates that the communal tile system is financially viable
- ii. Extends over a minimum of six years and include a statement that the financial impacts of the communal tile system have been considered
- iii. For each year of the financial plan, includes details of the proposed or projected financial operations of the system itemized by:
 - Total revenues, further broken down into water rates, user charges and other revenues
 - Total expenses, further broken down into amortization expenses, interest expenses and other expenses
 - Annual surplus or deficit
 - Accumulated surplus or deficit
- iv. Includes details of the proposed or projected financial position of the system, itemized by:
 - Total financial assets
 - Total liabilities
 - Net debt
 - Non-financial assets
 - Changes in tangible capital assets
- v. Details the proposed or projected gross cash receipts and cash payments itemized by:
 - Operating transactions
 - Capital transactions
 - Investing transactions
 - Financing transactions
 - Changes in cash and cash equivalents during the year
 - Cash and cash equivalents at the beginning and end of year

The disclosure requirements prescribed in the Regulation are consistent with financial statement requirements as outlined in the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants, which comprise:

- A statement of operating results
- A statement of financial position
- A statement of cash flows
- A statement of changes in net financial assets

In connection with its financial plan, the Township is also required to ensure an appropriate level of public communication by:

- Making the financial plan available, on request, to members of the public at no charge
- Making the financial plan available to members of the public at no charge through the internet (if the municipality maintains a website)
- Providing notice as deemed appropriate to advise the public of the availability of the financial plan

FINANCIAL PLAN METHODOLOGY

In order to assist municipalities with the preparation of financial plans, the Ministry of the Environment released a document entitled *Toward Financially Sustainable Drinking-Water and Wastewater Systems* (the “Ministry Document”) that outlines suggested principles of financial sustainability for water and wastewater systems as well as possible approaches to implementing these principles.

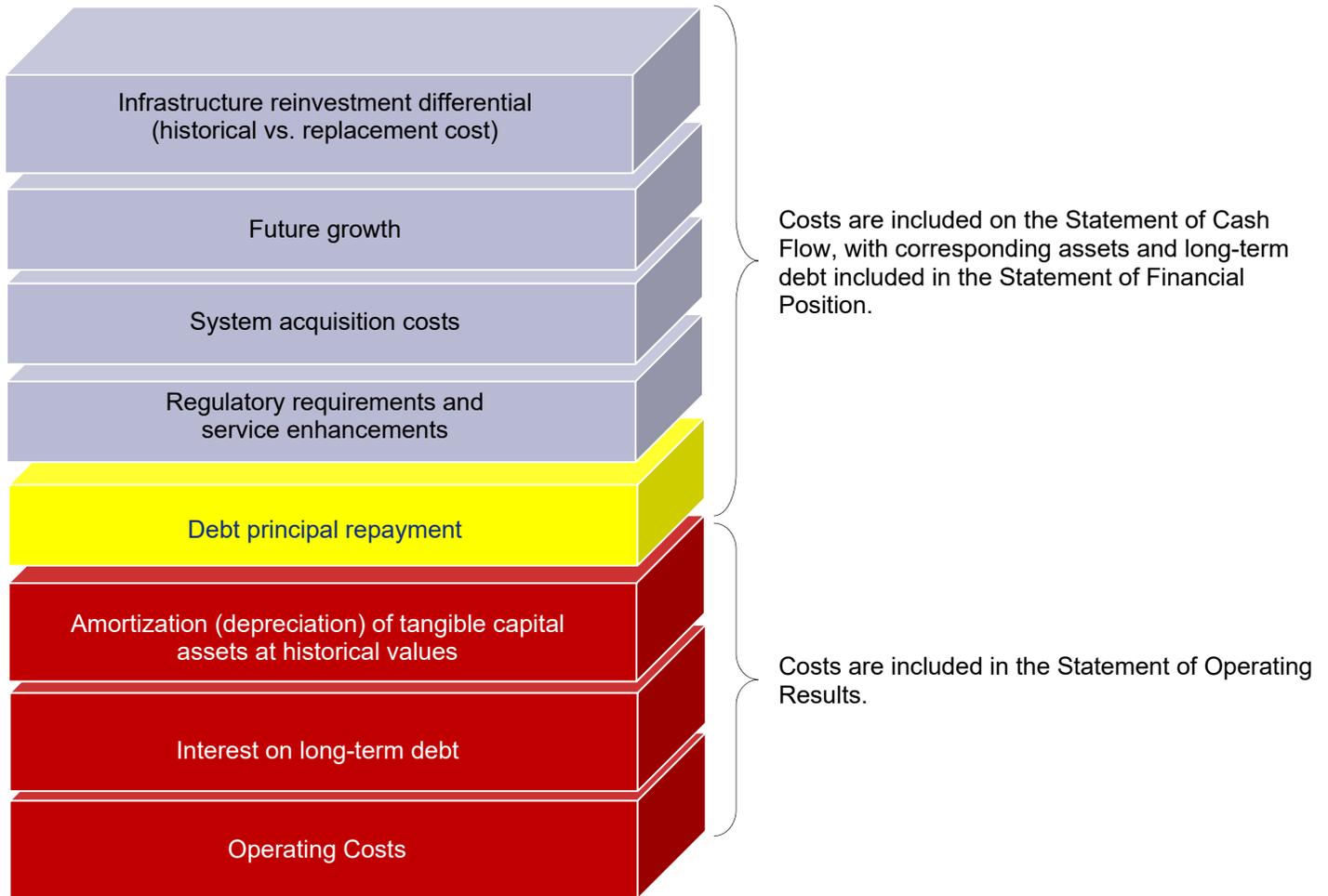
SUSTAINABILITY PRINCIPLES

As outlined in the Ministry Document, financial sustainability for water and wastewater systems is intended to ensure that residents enjoy safe drinking water that is provided on a reliable basis over the long-term in a manner that maintains environmental protection. The attainment of financial sustainability, which the Ministry Document recognizes does not necessarily need to occur at once but rather can involve a transition, can be supported by the adoption of nine principles that can be used to inform financial plans.

1. Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.
2. An integrated approach to planning among water, wastewater and storm water systems is desirable given the inherent relationship among these services.
3. Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.
4. Life-cycle planning with mid-course corrections is preferable to planning over the short-term, or not planning at all.
5. An asset management plan is a key input to the development of a financial plan.
6. A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.
7. Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.
8. Financial plans are “living” documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.
9. Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff and municipal council.

APPROACH TO THE FINANCIAL PLAN

In developing the financial plan, the Township has adopted the so-called “building-block” approach outlined in the Ministry Document, which considers both the current and anticipated operating and capital funding requirements for communal tile services. A graphical depiction of the building-block approach utilized in the development of the Township’s plan is provided below.



NOTICE TO READER

The financial plan outlined in this report represents a forecast of the financial performance of the Township's communal tile services under a series of assumptions that are documented within the plan. The financial plan does not represent a formal, multi-year budget for communal tile services. The approval of operating and capital budgets for communal tile services is undertaken as part of the Township's overall annual budgeting process. Accordingly, the financial performance outlined in this document is subject to change based on future decisions of Council with respect to operating and capital costs, rate increases and unforeseen revenues and expenses.

The information contained in this report has been compiled from information provided by the Township. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that this information may not be appropriate for their purposes.

We reserve the right (but will be under no obligation) to amend this report and advise accordingly in the event that, in our opinion, new material information comes to our attention that may be contrary to or different from that which is set out in this document. Comments in this report should not be interpreted to be legal advice or opinion. The contents of this report reflect our understanding of the facts derived from the examination of documents provided to us.

This report includes or makes reference to future oriented financial information. We have not audited or otherwise reviewed the financial information or supporting assumptions and as such, express no opinion as to the reasonableness of the information provided.

The individuals that prepared this report did so to the best of their knowledge, acting independently and objectively. KPMG LLP's compensation is not contingent on any action or event resulting from the use of this report.

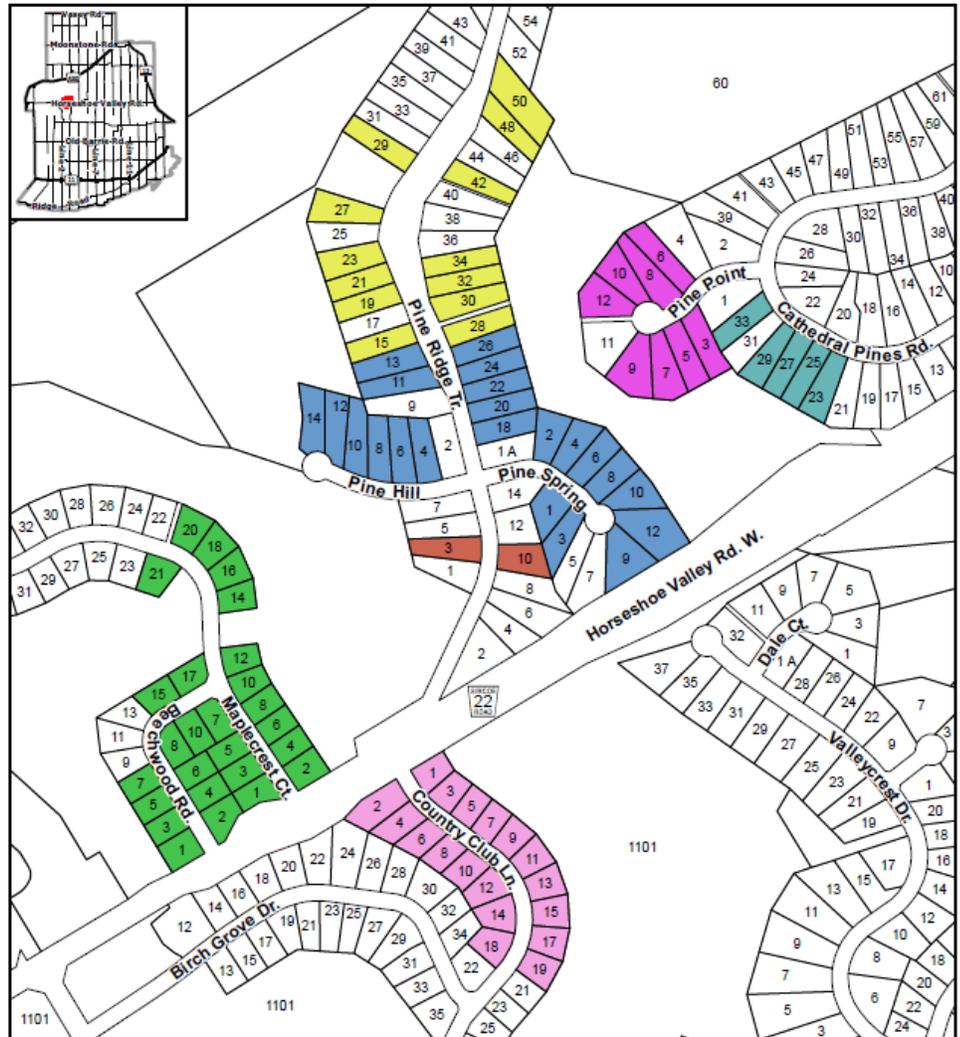
This report, including the attached appendices, must be considered in its entirety by the reader.

Overview of the Oro-Medonte Communal Tile System

The Township currently maintains seven communal tile fields (septic tanks and associated field beds), which provide wastewater service to less than 100 households in the community. The communal tile fields are operated in accordance with Environmental Compliance Approvals obtained from the Ministry of the Environment, Conservation and Parks.

The annual cost for communal tile customers is \$225 for operating costs and \$115 for capital. These fees, which have not increased over a number of years, are invoiced quarterly.

The Township does not anticipate additional connections in the future.



Lots Served By Communal Tile Fields

Tile Field	
1	3
2	4
5	6
7	



April 2018

Key Assumptions

The preparation of the financial plan for communal tile services requires the use of assumptions concerning future events, with the more salient assumptions listed below.

SYSTEMS IN OPERATION

The financial plan assumes that the Township will continue to operate seven communal tile fields, with no expansion of the system during the projection period.

CUSTOMER LEVELS

Customer levels are expected to remain constant over the projection period, with no significant connections anticipated during the projection period. At the same time, it is also assumed that there will be no disconnections of current customers.

OPERATING COSTS

Projected operating costs relate to the ongoing maintenance of the communal tile fields. For the purposes of the financial plan:

- Wages and benefits and ground maintenance costs are projected to increase at a rate of 2% per year due to inflation; and
- Field bed maintenance and repairs are projected to increase at a rate of 8% per year due to a higher level of maintenance standard required under the recent Environmental Compliance Approvals.

CAPITAL INVESTMENT REQUIREMENTS

The long-term financial plan considers an annual commitment to capital that would be sufficient to fund the eventual replacement of six of the seven communal tile fields (one field has already been replaced during 2019/2020) at the end of their 35-year useful life.

CONTINGENCIES

In addition to the key assumptions noted above, there are a number of other variables that have not been reflected in the financial plan which, in the event that these materialize (whether in whole or in part), may have a significant impact (either positive or negative) on the projected financial plan.

Contingencies that were identified but not incorporated into the financial plan due to uncertainty as to quantum or probability of occurrence include:

- The increase in capacity of the current communal tile system through the additional of new field beds.
- The potential for amalgamation.
- The potential discontinuance of existing communal tile systems by the Township.
- Government grant revenues for operating and/or capital purposes above the level of grant revenue noted in the financial plan.
- Unforeseen capital expenditure.
- New Ministry regulations that would have a significant impact on operating costs.

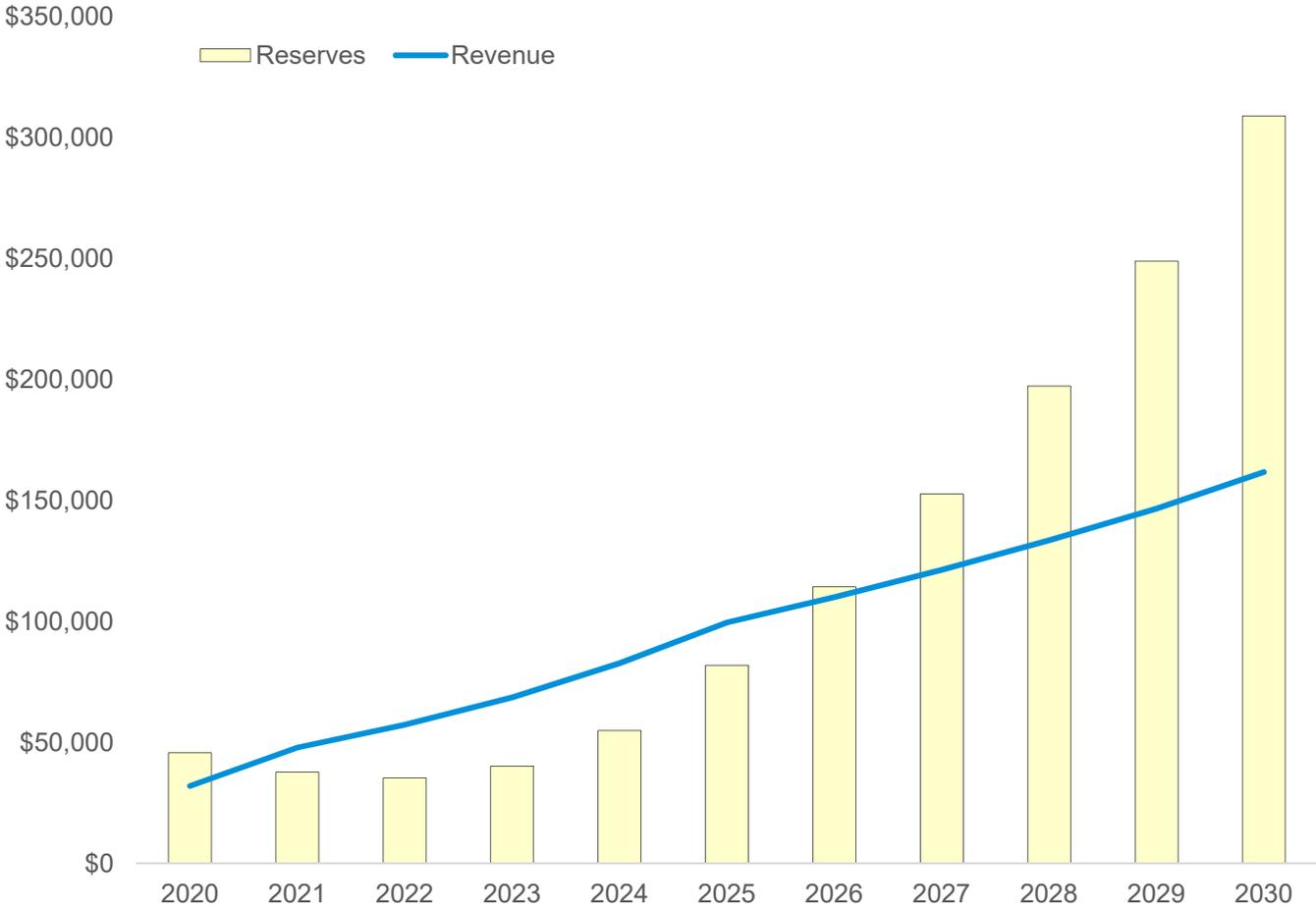
Financial Plan Highlights

Included as Appendix A is the financial plan for communal tile services, which provides a financial forecast of communal tile revenues and expenditures for the period 2020 to 2030. The financial plan is comprised of:

- A Statement of Projected Operations and Accumulated Surplus
- A Statement of Projected Financial Position
- A Statement of Changes in Net Financial Assets
- A Statement of Cash Flow

As noted in the financial plan, total revenues are projected to increase from the 2020 budget of \$32,000 to \$161,700 in 2030, reflecting the combined effects of inflationary increases, higher maintenance requirements and the implementation of sustainable capital financing.

Projected Financial Performance (in thousands)



PROJECTED COMMUNAL TILE RATES

Based on the financial plan, we have summarized below the Township's calculated communal tile rates for each of the years 2020 to 2030.

	Operating	Capital	Total	Percentage Increase From Prior Year
2020	\$225	\$115	\$340	50%
2021	\$340	\$170	\$510	20%
2022	\$405	\$205	\$610	20%
2023	\$485	\$245	\$730	20%
2024	\$585	\$295	\$880	20%
2025	\$700	\$360	\$1,060	10%
2026	\$775	\$395	\$1,170	10%
2027	\$855	\$435	\$1,290	10%
2028	\$940	\$480	\$1,420	10%
2029	\$1,030	\$530	\$1,560	10%
2030	\$1,135	\$585	\$1,720	10%

As indicated earlier in the document, the financial plan does not represent a formal, multi-year budget for communal tile services. The approval of operating and capital budgets for communal tile services is undertaken as part of the Township's overall annual budgeting process. Accordingly, the financial performance outlined in this document is subject to change based on future decisions of Council with respect to operating and capital costs, rate increases, consumption changes and unforeseen revenues and expenses.

Congruence With Sustainability Principles

Principle	How Addressed	Conclusion
1. Public engagement and transparency	<ul style="list-style-type: none"> Financial plan will be presented at public council meeting Public access to financial plan will be provided consistent with drinking water services 	Achieved
2. Integrated approach to planning	<ul style="list-style-type: none"> Financial planning for water services has been completed 	Achieved
3. Revenues should be used to meet water and wastewater needs	<ul style="list-style-type: none"> Financial model is full user pay with no excess cash flow beyond infrastructure renewal reserve 	Achieved
4. Life cycle planning with mid-course corrections is preferable	<ul style="list-style-type: none"> Planning considers ongoing infrastructure replacement 	Achieved
5. Asset management plan is a key input	<ul style="list-style-type: none"> The Township is commencing asset management planning with consideration given to the useful life of assets 	Achieved
6. Sustainable level of revenue considers operating and capital requirements	<ul style="list-style-type: none"> Revenue is sufficient to fund all operating costs as well as ongoing capital asset replacement, growth and regulatory changes 	Achieved
7. Users pay for services they receive	<ul style="list-style-type: none"> No subsidization of communal tile services by non-users 	Achieved
8. Financial plans are living documents	<ul style="list-style-type: none"> Township intends to update financial plan to reflect major changes to operations 	Achieved
9. Financial plans benefit from close collaboration	<ul style="list-style-type: none"> Preparation included involvement from financedepartment , as well as senior staff advisors 	Achieved

**TOWNSHIP OF ORO-MEDONTE
COMMUNAL TILE BED FINANCIAL PLAN**

Statement of Projected Financial Position
For the Years Ending December 31

	January 1	December 31										
	2020	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Financial assets:												
Intra-Township balance	\$ 66,100	45,700	37,700	35,300	40,200	54,900	81,900	114,300	152,600	197,300	248,900	308,900
Financial liabilities:												
Long-term debt	-	-	-	-	-	-	-	-	-	-	-	-
Net financial assets (debt)	66,100	45,700	37,700	35,300	40,200	54,900	81,900	114,300	152,600	197,300	248,900	308,900
Non-financial assets:												
Tangible capital assets	256,700	249,700	242,700	235,700	228,700	221,700	215,700	209,700	203,700	197,700	191,700	186,700
Accumulated surplus	\$ 322,800	295,400	280,400	271,000	268,900	276,600	297,600	324,000	356,300	395,000	440,600	495,600
Accumulated surplus is comprised of:												
Investment in tangible capital assets	\$ 256,700	249,700	242,700	235,700	228,700	221,700	215,700	209,700	203,700	197,700	191,700	186,700
Amounts to be recovered in future periods	-	-	-	-	-	-	-	-	-	-	-	-
Communal tile bed capital reserves	28,500	8,100	100	(2,300)	2,600	17,300	44,300	76,700	115,000	159,700	211,300	271,300
Communal tile bed operating reserve	37,600	37,600	37,600	37,600	37,600	37,600	37,600	37,600	37,600	37,600	37,600	37,600
	\$ 322,800	295,400	280,400	271,000	268,900	276,600	297,600	324,000	356,300	395,000	440,600	495,600

**TOWNSHIP OF ORO-MEDONTE
COMMUNAL TILE BED FINANCIAL PLAN**

Statement of Projected Operations and Accumulated Surplus
For the Years Ending December 31

	Budget	Projected									
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue:											
User fee revenues	32,000	47,900	57,300	68,600	82,700	99,600	110,000	121,300	133,500	146,600	161,700
	32,000	47,900	57,300	68,600	82,700	99,600	110,000	121,300	133,500	146,600	161,700
Expenses:											
Wages and benefits	9,900	10,100	10,300	10,500	10,700	10,900	11,100	11,300	11,500	11,700	11,900
Grounds maintenance	2,500	2,600	2,700	2,800	2,900	3,000	3,100	3,200	3,300	3,400	3,500
Maintenance	25,000	27,000	29,200	31,500	34,000	36,700	39,600	42,800	46,200	49,900	53,900
Repairs	15,000	16,200	17,500	18,900	20,400	22,000	23,800	25,700	27,800	30,000	32,400
Amortization expense	7,000	7,000	7,000	7,000	7,000	6,000	6,000	6,000	6,000	6,000	5,000
	59,400	62,900	66,700	70,700	75,000	78,600	83,600	89,000	94,800	101,000	106,700
Annual surplus (deficit)	(27,400)	(15,000)	(9,400)	(2,100)	7,700	21,000	26,400	32,300	38,700	45,600	55,000
Accumulated surplus, beginning of year	322,800	295,400	280,400	271,000	268,900	276,600	297,600	324,000	356,300	395,000	440,600
Accumulated surplus, end of year	\$ 295,400	280,400	271,000	268,900	276,600	297,600	324,000	356,300	395,000	440,600	495,600

**TOWNSHIP OF ORO-MEDONTE
COMMUNAL TILE BED FINANCIAL PLAN**

**Statement of Projected Changes in Net Financial Assets (Debt)
For the Years Ending December 31**

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Annual surplus (deficit):	\$ (27,400)	(15,000)	(9,400)	(2,100)	7,700	21,000	26,400	32,300	38,700	45,600	55,000
Acquisition of tangible capital assets	-	-	-	-	-	-	-	-	-	-	-
Amortization of tangible capital assets	7,000	7,000	7,000	7,000	7,000	6,000	6,000	6,000	6,000	6,000	5,000
	7,000	7,000	7,000	7,000	7,000	6,000	6,000	6,000	6,000	6,000	5,000
Change in net financial assets (debt)	(20,400)	(8,000)	(2,400)	4,900	14,700	27,000	32,400	38,300	44,700	51,600	60,000
Net financial assets (debt), beginning of year	66,100	45,700	37,700	35,300	40,200	54,900	81,900	114,300	152,600	197,300	248,900
Net financial assets (debt), end of year	\$ 45,700	37,700	35,300	40,200	54,900	81,900	114,300	152,600	197,300	248,900	308,900

**TOWNSHIP OF ORO-MEDONTE
COMMUNAL TILE BED FINANCIAL PLAN**

**Statement of Projected Cash Flows
For the Years Ending December 31**

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Cash provided by (used in):											
Operating activities:											
Annual surplus (deficit)	\$ (27,400)	(15,000)	(9,400)	(2,100)	7,700	21,000	26,400	32,300	38,700	45,600	55,000
Amortization of tangible capital assets	7,000	7,000	7,000	7,000	7,000	6,000	6,000	6,000	6,000	6,000	5,000
Net change in cash from operating activities	(20,400)	(8,000)	(2,400)	4,900	14,700	27,000	32,400	38,300	44,700	51,600	60,000
Capital activities:											
Acquisition of tangible capital assets	-	-	-	-	-	-	-	-	-	-	-
Financing activities:											
Proceeds on issuance of long-term debt	-	-	-	-	-	-	-	-	-	-	-
Repayment of long-term debt	-	-	-	-	-	-	-	-	-	-	-
Net change in cash and cash equivalents	(20,400)	(8,000)	(2,400)	4,900	14,700	27,000	32,400	38,300	44,700	51,600	60,000
Cash and cash equivalents, beginning of year	66,100	45,700	37,700	35,300	40,200	54,900	81,900	114,300	152,600	197,300	248,900
Cash and cash equivalents, end of year	\$ 45,700	37,700	35,300	40,200	54,900	81,900	114,300	152,600	197,300	248,900	308,900
Net change in cash and cash equivalents consists of:											
Change in investment in net tangible assets	\$ (7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(5,000)
Change in capital reserve	\$ (20,400)	(8,000)	(2,400)	4,900	14,700	27,000	32,400	38,300	44,700	51,600	60,000
Change in operating reserve	-	-	-	-	-	-	-	-	-	-	-
	\$ (20,400)	(8,000)	(2,400)	4,900	14,700	27,000	32,400	38,300	44,700	51,600	60,000

Cash and cash equivalents consist of funds held by the Township in connection with water services (Intra-Township balance).

