York Region

Clause No. 4 in Report No. 10 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on May 15, 2014.

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MUNICIPAL REQUIREMENT OF *SAFE DRINKING WATER ACT, 2002* - WATER FINANCIAL PLAN

Committee of the Whole recommends adoption of the following recommendations contained in the report dated May 8, 2014 from the Commissioner of Environmental Services:

1. RECOMMENDATIONS

It is recommended that:

1. Council approve the Water Financial Plan (*Attachment 1*) prepared for York Region's Municipal Drinking Water System (License number 013-301A), in accordance with Ontario Regulation 453/07.

2. Environmental Services staff submit the Water Financial Plan to the Ministry of the Environment and Ministry of Municipal Affairs and Housing in accordance with the *Safe Drinking Water Act, 2002*.

3. Environmental Services staff issue notice of the Water Financial Plan availability, as prescribed by Ontario Regulation 453/07, in the local media and on the Region's website.

2. PURPOSE

This report seeks Council authorization of the Municipal Drinking Water System Financial Plan prepared as a requirement under the *Safe Drinking Water Act, 2002*.

The Water Financial Plan outlines the processes in place within York Region to ensure the long-term financial sustainability of the drinking water system, as well as funding for new infrastructure and existing infrastructure maintenance. The Water Financial Plan documents financial commitments and funding sources for the current budget year, commencing with York Region's 2014 budget, and projections for the subsequent six years, including both capital and operating expenditures.

The 2013 State of Infrastructure Update report (also on this agenda) provides a snapshot of the Region's assets with a short-term outlook. The financial grades in the 2013 State of Infrastructure Report represent the current reserve balances for capital replacement only, whereas York Region's Water Financial plan provides a long-term view of the financial sustainability of the water system.

3. BACKGROUND

Water Financial Plan required under the *Safe Drinking Water Act, 2002*

As part of the Province's commitment to fulfill Justice O'Connor's Walkerton Inquiry recommendations, the Ministry of the Environment (MOE) implemented an approvals framework under the *Safe Drinking Water Act, 2002* for municipal residential drinking water systems called the Municipal Drinking Water License Program. All municipal residential systems must be licensed under the municipal drinking water licensing program.

Justice O'Connor recommended that owners of municipal water systems obtain a license for the operation of their drinking water systems. The license is issued to owners by the MOE under the *Safe Drinking Water Act, 2002* once the owner demonstrates it has the following five elements in place:

1. Drinking-water works permit
2. Permit to take water
3. Approved operational plan
4. Accredited operating authority
5. Approved financial plan

Having met all of the necessary prerequisites, the Ontario Ministry of the Environment issued York Region a Municipal Drinking Water License for its drinking water system on January 29, 2010. As of September 2011, all existing municipal residential drinking water systems in Ontario had received a license and a drinking water works permit.

York Region required to submit a renewal application for Municipal Drinking Water License every five years

Municipal drinking water licenses are valid for five years; however, the *Safe Drinking Water Act, 2002* requires an expiry date and renewal application deadline to be included in every license. To ensure that a license remains valid, municipalities are required to submit a renewal application on or before the date listed in Schedule A of their license; for York Region this date is July 29, 2014.

Council endorsement of York Region's Water Financial Plan required before submission due date of July 29, 2014

The information to be submitted for a license renewal is essentially the same as the information required for the issuance of the first license except updated Financial Plans are required to be prepared and approved by Council resolution, in addition to assurance that the system has been and will continue to be operated in accordance with the requirements under the *Safe Drinking Water Act, 2002* and the license.

Work is currently underway to prepare and/or update the required five elements (mentioned above) to support the July 2014 submission of the license renewal application. The Region's Drinking Water Works Permit, Permits to Take Water, and Drinking Water Quality Management Standard (DWQMS) operating accreditations are current and up-to-date. The DWQMS Operational Plan was last endorsed by the Commissioner of Environmental Services in December 2008. Updates to the Operational Plan are in progress and will be submitted to the Commissioner of Environmental Services for endorsement at the end of May 2014.

Regulatory requirements include making Financial Plan available to those served by the drinking water system

The detailed Water Financial Plan, completed by staff in accordance with the regulatory requirements (as listed below), is included as *Attachment 1* to this report.

Ontario Regulation 453/07 s.30(1) Part b of the *Safe Drinking Water Act, 2002* details the requirements for drinking water license renewals, including the need to prepare a financial plan that:

- Is approved by Council resolution (or governing body)
- Applies to a period of at least six years
- Begins with the year that the licence expires
- Provides notice to the public on its availability
- Is made available, upon request, to members of public served by the drinking water system without charge
- Is made available through publication on the Internet at no charge
- Ensures copies are given to the Ministry of Municipal Affairs and Housing

In addition to the above requirements, financial plans must include the following details which are summarized in Table 1:

Table 1
Detailed Financial Plan Requirements

Summary of Required Details	Detailed Breakdown
Proposed or projected financial position of drinking water system	• Total financial assets and liabilities • Net debt • Non-financial assets that are tangible capital assets • Tangible capital assets under construction • Inventories of supplies and prepaid expenses • Changes in tangible capital assets that are additions, donations, write downs and disposals
Proposed or projected financial operations of drinking water system	• Total revenues (further itemized by water rates, user charges and other revenues) • Total expenses (further itemized by amortization expenses, interest expenses and other expenses) • Annual and accumulated surplus or deficit
Proposed or projected gross cash receipts and gross cash payments	• Operating transactions (cash received from revenues, cash paid for operating expenses and finance charges) • Capital transactions (proceeds on the sale of tangible capital assets and cash used to acquire capital assets) • Investing transactions (acquisition and disposal of investments) • Financing transactions (proceeds from the issuance of debt and debt repayment) • Changes in cash and cash equivalents during year • Cash and cash equivalents (beginning and end of year)

4. ANALYSIS AND OPTIONS

York Region’s Water Financial Plan prepared in accordance with Ministry of the Environment financial plan regulations

York Region’s Water Financial Plan has been prepared in accordance with Ministry of the Environment requirements to report using full accrual accounting, which recognizes revenues and expenditures in the same period as the activities that give rise to them regardless of when they are actually paid for. Since an exchange of cash is not necessary to report a financial transaction, the accrual method is meant to provide a more accurate picture of a municipality’s financial position.

In May 2011, Council approved a combined 10 per cent annual rate increase for water and wastewater for 2012 to 2015. The Water Financial Plan was prepared using these approved rate increases up to 2015. For subsequent years, a nine per cent yearly water rate increase was assumed.

Throughout the balance of 2014 and 2015, a comprehensive water and wastewater rate study will be completed that will address requirements for rate stability while maintaining a balance that encourages wise use of water. This study will inform the rates and rate structure that will be presented to Council for endorsement in 2015 for the time period beginning April 2016.

Pricing structures that support conservation and full cost recovery will achieve benefits over the long-term

The Value of Water initiative is a comprehensive approach to increase public awareness on the importance and value of water in coordination with a financial review of water cost models. These initiatives have built, and continue to build, on the success of the *Water for Tomorrow* program and the Long Term Water Conservation Strategy by driving conservation efforts while ensuring adequate funding is available for rehabilitation and replacement of water and wastewater infrastructure. This initiative will also provide input to wholesale water and wastewater rate recommendations in 2015.

Full cost recovery involves thorough life-cycle analysis of costs

Full cost recovery is the first step in the analysis of a water conservation-oriented price structure. Determining full cost recovery involves a thorough life-cycle analysis of costs for the operation of the water supply and treatment system. Subsequent to determining the threshold for full cost recovery, an evaluation of conservation-based pricing structures including tiered block rates, seasonal rates and water budgeting will be conducted. Alternative pricing structures will be evaluated to determine ability to:

- Reduce water consumption without negative impacts on municipal revenues
- Recognize the efforts of customers in choosing water efficient products and practices
- Target inefficient and discretionary potable water uses, such as landscape irrigation
- Delay costly water supply expansion projects
- Avoid financial burdens on industrial, commercial, institutional and low income customers
- Ensure revenue stability that is consistent with forecasts

Safe Drinking Water Act, 2002 **requires a declaration of the financial plan's sustainability**

The *Safe Drinking Water Act, 2002* requires a declaration of the financial plan's sustainability but it does not give a clear definition of what would be considered sustainable. The Ministry of the Environment released a guideline entitled "Towards Financially Sustainable Drinking-Water and Wastewater Systems" that provides principles for achieving sustainability. Listed below are nine principles developed by the Province, which York Region has included in preparing its Water Financial Plan.

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 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.

York Region's Water Financial Plan built on Ministry of the Environment guidelines for sustainability

The Water Financial Plan is built on the principles of sustainability mentioned above. The Region's water rate strategy has been derived using the following processes which correspond to the Principles identified by the Province as listed below:

- A detailed assessment of current and future capital needs including an analysis of potential funding sources (Principles 2, 4, 5, 6, 9)
- An analysis of fixed and variable operating costs to determine how the costs will be impacted by evolving infrastructure needs and system growth (Principles 2, 3, 6, 7, 9)

- Ongoing review of actual expenditures and establishment of forecasts in an effort to identify cost saving opportunities and enable enhanced planning of operating and capital expenditures (Principle 8)
- Review and recommendation(s) on rate structures that ensure revenues are equitable and sufficient to meet system needs (Principles 2, 3, 6, 7, 9)
- A process that involves consultation with stakeholders including staff, Council and local municipalities with the aim of gaining input and collaboration on the sustainability of the financial plan (Principles 1, 9)

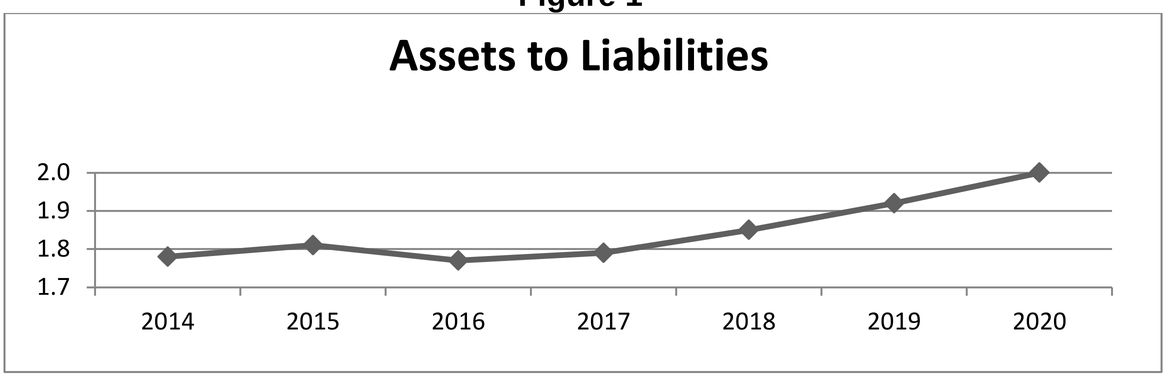
York Region's Drinking Water Financial Plan is sustainable

Good fiscal planning strives to balance revenues, expenses and asset/liability management. Main Indicators of Government Financial Condition, as outlined by the Canadian Institute of Chartered Accountants, 1997, include sustainability indicators, which focus on whether or not the Region can maintain service levels without additional debt or deterioration of the current financial position and these indicators can be used to demonstrate the sustainability of this water financial plan.[1]

Assets to liabilities ratio indicates accumulated surplus through 2020

An asset to liabilities ratio indicates the extent to which operations are financed by debt. Anything above 1.00 indicates accumulated surplus. A ratio under 1.00 indicates a weak financial position to repay debt. Results for this sustainability ratio indicate an asset to liability ratio of 1.78 in 2014 with an overall increase through 2020 where the ratio is 2.00 (Figure 1).

Figure 1



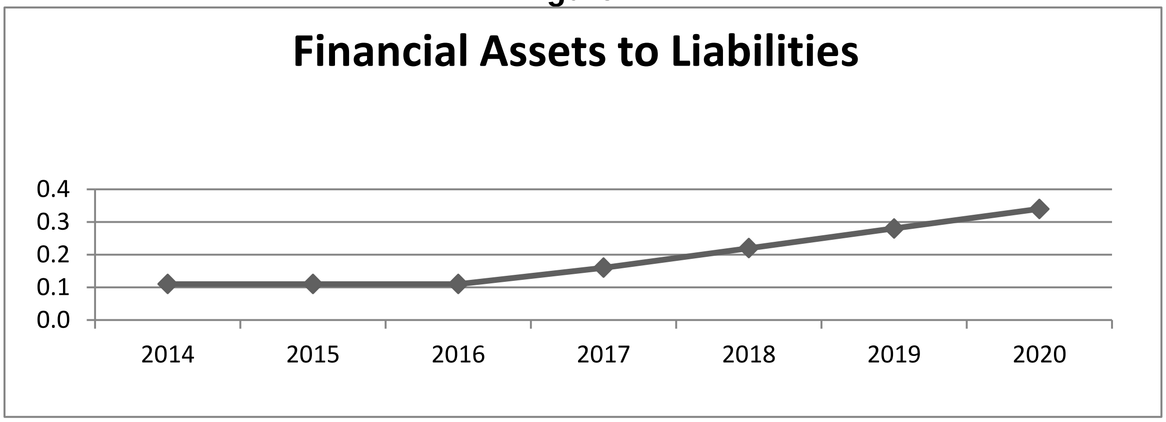
Financial assets to liabilities ratio indicates improvement through 2020

A financial assets to liabilities ratio indicates the extent to which financial assets can fund future operations. Financial assets are defined as non-tangible assets, such as cash and accounts receivable. Anything above 1.00 indicates that financial assets exceed liabilities.

[1]Statement of Recommended Practices (SORP)

Due to existing high levels of debt to fund the capital plan, this ratio is not above 1.00 for the time period of this financial plan; however, it does show substantial improvement from 2014 to 2020 as the ratio increases from 0.11 in 2014 to 0.34 in 2020 (Figure 2).

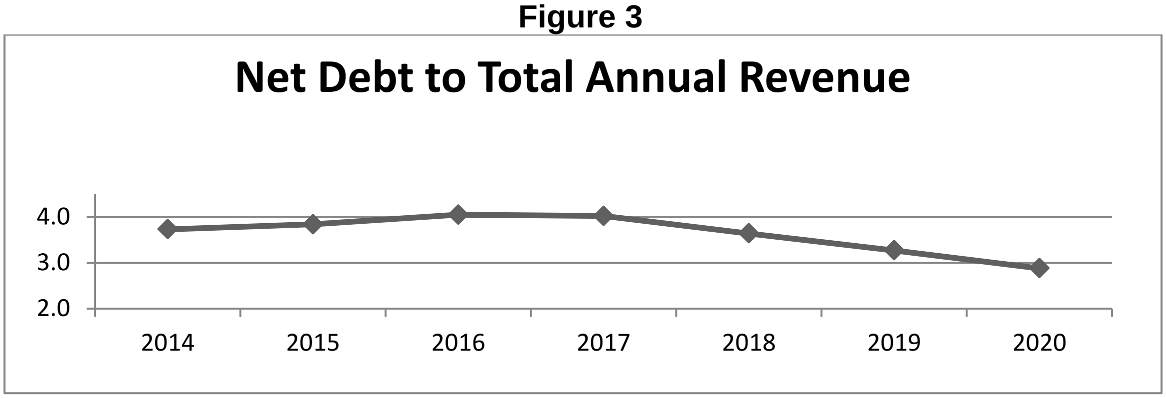
Figure 2



Net debt to total revenue ratio indicates improvement after 2017

Net debt to total revenue ratio is a measure of the amount of future revenue that is required to pay for past transactions. Net debt is calculated as total liabilities and debt less financial assets. A decreasing ratio indicates less time is needed to eliminate net debt. Although this ratio increases for the years 2015 and 2016, there is an overall decrease during the term of this financial plan with a ratio of 3.73 in 2014 decreasing to 2.88 by 2020 (Figure 3).

Figure 3



Net debt position rises from 2015 to 2017 and declines thereafter

Section 4 of *Attachment 1* contains the detailed financial plan information. Due to the level of existing debt and anticipated issuance of new debt predominantly for growth-related capital expenditures, the Region's water system will be in a net debt position of $759 million in 2014. The Statement of Financial Position developed for the Region forecasts an increasing net financial debt position in the 2015 to 2017 forecast period as debt levels continue to rise. However, in 2018 to 2020, the estimated net financial debt position improves each year as debt levels decrease.

Statement of operations proves to be financially viable over the long term

The Statement of Operations developed for the Region forecasts annual surpluses throughout the term of this financial plan indicating financial viability. This annual surplus is required to ensure funding is available to non-expense costs, such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments. The Region also maintains an accumulated surplus throughout the period of this financial plan indicating that available net resources are sufficient to provide future water services.

Planned use of debt to construct capital and fund development charge shortfall resulting from timing

The Statement of Changes in Net Financial Assets/Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (i.e. inventory supplies, prepaid expenses, tangible capital assets, etc.) and in so doing, explains the difference between the annual surplus/deficit and the change in net financial assets/debt for the period. Table 4.3 of *Attachment 1* indicates that forecasted capital expenditures exceed forecasted net revenues in each year between 2014 and 2017, resulting in a decrease in net financial assets. However, in 2018 to 2020, forecasted revenues exceed forecasted expenditures resulting in an increase in net financial assets. The overall net debt position is due to the planned use of debt to construct capital assets and fund development charge timing shortfalls. Water and wastewater infrastructure is required to be built in advance of growth, with debt used as a tool to fund projects until the development charges can be recovered.

Cash position of water system indicates consistent increases through 2020

The Statement of Cash Flow summarizes how the water system is expected to generate and use cash resources during the planning period. Transactions that provide/use cash are classified as operating, capital, investing, and financial activities as shown in Table 4.4 of *Attachment 1*. This statement focuses on the cash aspect of these transactions, and thus, is the link between cash and accrual based reporting. Table 4.4 of *Attachment 1* indicates that debt, investment income and cash on hand will be used to fund tangible capital asset acquisitions over the forecast period. The financial plan anticipates the cash position of the Region's water system improving from approximately $36.4 million at the beginning of 2014, to $281.8 million by the end of 2020.

Significant changes from previously approved financial plan

In the previous financial plan, accounting principles required York Region to expense yearly capital investments to the City of Toronto and the Region of Peel rather than record them as assets. As a result, the Statement of Operations indicated yearly accounting deficits through 2017. Since presenting the previous financial plan, auditors have recognized the long-term benefit of cost shared capital, allowing cost shared capital with City of Toronto and Region of Peel to be recognized as a component of tangible capital assets (work in process) on the Statement of Financial Position and to be amortized over the life of the assets. This change has created a positive effect on the Statement of Operations as surpluses are now reflected over the entire period of this financial plan.

The current financial plan incorporates the Region's integrated fiscal strategy which considers project prioritization and optimizes timing of capital expenditures while maintaining desired service levels. As a result, the capital plan has been realigned since approval of the previous financial plan, resulting in several projects being deferred, without compromising service levels. This realignment has resulted in reduced debt levels and payments for the time period covered by this current financial plan improving the Region's financial position and ensuring the long-term sustainability of York Region's water operations.

Link to key Council-approved plans

York Region's Water Financial Plan, presented in *Attachment 1*, has been prepared drawing on financial information and details contained in the approved 2014 Operating and Capital budgets, 2014-2023 10-year Capital Plan and the 2011Council approved rate study. The financial plan aligns with the Region's 2011 to 2015 Strategic Plan objective of managing the Region's finances prudently.

5. FINANCIAL IMPLICATIONS

There are no direct financial impacts as a result of the preparation of the Water Financial Plan. By approving the Plan, Council endorses the financial viability of the Region's drinking water system. This Financial Plan, along with the rate structure review and upcoming rate study, will be used to inform rate proposals that will be presented to Council in late 2015.

6. LOCAL MUNICIPAL IMPACT

With Council approval of the Water Financial Plan, Environmental Services staff will be in a position to submit the renewal application for York Region's Municipal Drinking Water License. Local municipalities will also be required to submit new water financial plans in accordance with the *Safe Drinking Water Act*, *2002* regulations to renew their current licenses.

7. CONCLUSION

It is recommended that Council endorse the Water Financial Plan *(Attachment 1)* and authorize its submission to the Ministry of the Environment and the Ministry of Municipal Affairs and Housing as required under the *Safe Drinking Water Act, 2002* (Ontario Regulation 453/07). Once endorsed, staff will advertise the availability of the Financial Plan in local newspapers and on the Region's website.

For more information on this report, please contact Lucas Cugalj, Director of Strategy and Business Planning for Environmental Services at (905) 830-4444 Ext. 75041.

The Senior Management Group has reviewed this report.

Attachment (1)

ATTACHMENT 1

Water Financial Plan #013-301A
ONTARIO REGULATION 453/07

May 8, 2014

www.york.ca

York Region

Keeping our drinking water safe

CONTENTS

1. INTRODUCTION

1.1 Study Purpose

The Regional Municipality of York ("York Region") is required to prepare a water financial plan as part of submission requirements necessary for the purpose of renewing a municipal drinking water license as per the *Safe Drinking Water Act, 2002*. The financial plan outlines the processes in place within York Region to ensure the financial sustainability of the drinking water systems, as well as funding for new infrastructure and existing infrastructure maintenance. The financial plan documents financial commitments and funding sources for the current budget year, commencing with York Region's 2014 budget, and projections for the subsequent six years, including both capital and operating expenditures. This report details all prescribed reporting requirements for a financial plan as defined by Ontario Regulation 453/07 (O.Reg. 453/07).

1.2 Background

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

"No person shall,

a) establish a new municipal drinking water system or replace or carry out an alteration to a municipal drinking water system except under the authority of and in accordance with an approval under this Part or a drinking water works permit;

or

b) use or operate a municipal drinking water system that was established before or after this section comes into force except under the authority of and in accordance with an approval under this Part or municipal drinking water license"

A municipality must satisfy five key requirements as per section 41(1) to become licensed:

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

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

1.2.1 Financial Plan Defined

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

"financial plans" means,

(a) financial plans that satisfy the requirements of subsection (2), but only if,

(i) Bill 175 (Sustainable Water and Sewage Systems Act, 2002, introduced on September 23, 2002) receives Royal Assent, and

(ii) Sections 3 and 9 of Bill 175 (Sustainable Water and Sewage Systems Act, 2002) are in force, or

(b) Financial plans that satisfy the requirements prescribed by the Minister, in any other case. 2002, c. 32, s. 30(1).

The *Sustainable Water and Sewage Systems Act, 2002* (SWSSA) was passed in December 2002 and was subsequently repealed in 2012. However, the standards that it directs underpin the specific requirements of s. 30(1) part b as outlined in O.Reg. 453/07 and which will be examined in detail below.

1.2.2 Financial Plan Requirements – Existing System

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

- Financial plans must be approved by Council resolution (or governing body);
- Financial plans must include a statement that financial impacts have been considered and apply for a minimum six year period (beginning in year which license expires);
- Financial plans must include detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and accumulated surplus/deficit (i.e. the components of a "Statement of Operations" as per the Public Sector Accounting Board (PSAB)) for each year in which the financial plans apply;
- Financial plans must present a financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets (i.e. components of a "Statement of Financial Position" per PSAB) for each year in which financial plans apply; and
- Gross cash receipts/payments itemized by operating transactions, capital transactions, investing transactions and financial transactions (i.e. components of a "Statement of Cash Flow" as per PSAB) for each year in which financial plans apply.
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system.

1.2.3 Financial Plan Requirements - General

Given that the legislation falls under the SDWA, a financial plan is *mandatory* for water systems and *encouraged* for wastewater systems. Financial plans shall be for a period of at least six years but longer planning horizons are encouraged.

Having met all of the necessary prerequisites, the Ontario Ministry of the Environment issued York Region a Municipal Drinking Water License for its Drinking Water System on January 29, 2010. As of September 2011, all existing municipal residential drinking water systems in Ontario had received a license and a drinking water works permit.

The Region is required to submit a renewal application for Municipal Drinking Water License every 5 years.

Municipal drinking water licenses are valid for five years however, the *Safe Drinking Water Act* (SDWA) requires an expiry date and renewal application deadline to be included in every Municipal Drinking Water License. To ensure that a license remains valid, municipalities are required to submit a renewal application on or before the date listed in Schedule A of their license; for York Region this date is July 29, 2014.

Information to be submitted for a license renewal is essentially the same as information required for issuance of the initial license except that updated Financial Plans are required to be prepared and approved prior to submitting the license renewal application. The license will be renewed if the Ministry is satisfied that:

1. The system will continue to be operated by an accredited operating authority;
2. The drinking water works permit remains in force;
3. Operational plans for the system satisfy stipulated requirements;
4. Financial plans satisfy the requirements of the *Safe Drinking Water Act*;
5. The system has been and will continue to be operated in accordance with the requirements under the *Safe Drinking Water Act* and the license; and
6. Any required permits to take water remain in force.

1.2.4 Public Sector Accounting Board (PSAB) Requirements

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

> *"Financial statements should include a Statement of Financial Position, a Statement of Operations, a Statement of Change in Net Debt, and a Statement of Cash Flow."*

The accrual accounting method recognizes revenues and expenses in the same period as the activities that give rise to them regardless of when they are actually paid for. Since an exchange of cash is not necessary to report a financial transaction, the accrual method is meant to provide a more accurate picture of a municipality's financial position. Historically, municipalities have reported their financial results on a modified cash basis of accounting whereby revenues and expenses are recognized when cash is paid or received and only certain accrual-type items such as payables and receivables are recognized at year-end. The difference between the methods is in the timing of when transactions are reported. This timing difference has impacted the presentation of the statements in that various accounts have been added or deleted to properly report transactions.

The Statement of Changes in Net Financial Assets/Debt reports on whether enough revenue was generated in a period to cover the expenses in the period and whether sufficient resources have been generated to support current and future activities. The Statement of Cash Flow reports on how activities were financed for a given period which provides a measure of the changes in cash for that period.

2. SUSTAINABLE FINANCIAL PLANNING

2.1 Introduction

In general, sustainability refers to the ability to maintain a certain position over time. While the SDWA requires a declaration of the financial plan's sustainability, it does not give a clear definition of what would be considered sustainable. Instead, the Ministry of the Environment released a guideline ("Towards Financially Sustainable Drinking-Water and Wastewater Systems") that provides possible approaches to achieving sustainability. The Province's Principles of Financially Sustainable Water and Wastewater Services are provided below:

Principle #1: Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.

Principle #2: An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.

Principle #3: Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.

Principle #4: Life-cycle planning with mid-course corrections is preferable to planning over the short-term, or not planning at all.

Principle #5: An asset management plan is a key input to the development of a financial plan.

Principle #6: A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.

Principle #7: Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.

Principle #8: Financial plans are "living" documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.

Principle #9: Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal council.

The principles help form the framework for a sustainable financial plan. The substance of the financial plan may be derived from SWSSA which will require, once in force, municipalities to assess the "full cost" of providing water and wastewater services. Full cost as defined in subsections 3(7) and 4(7) includes:

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

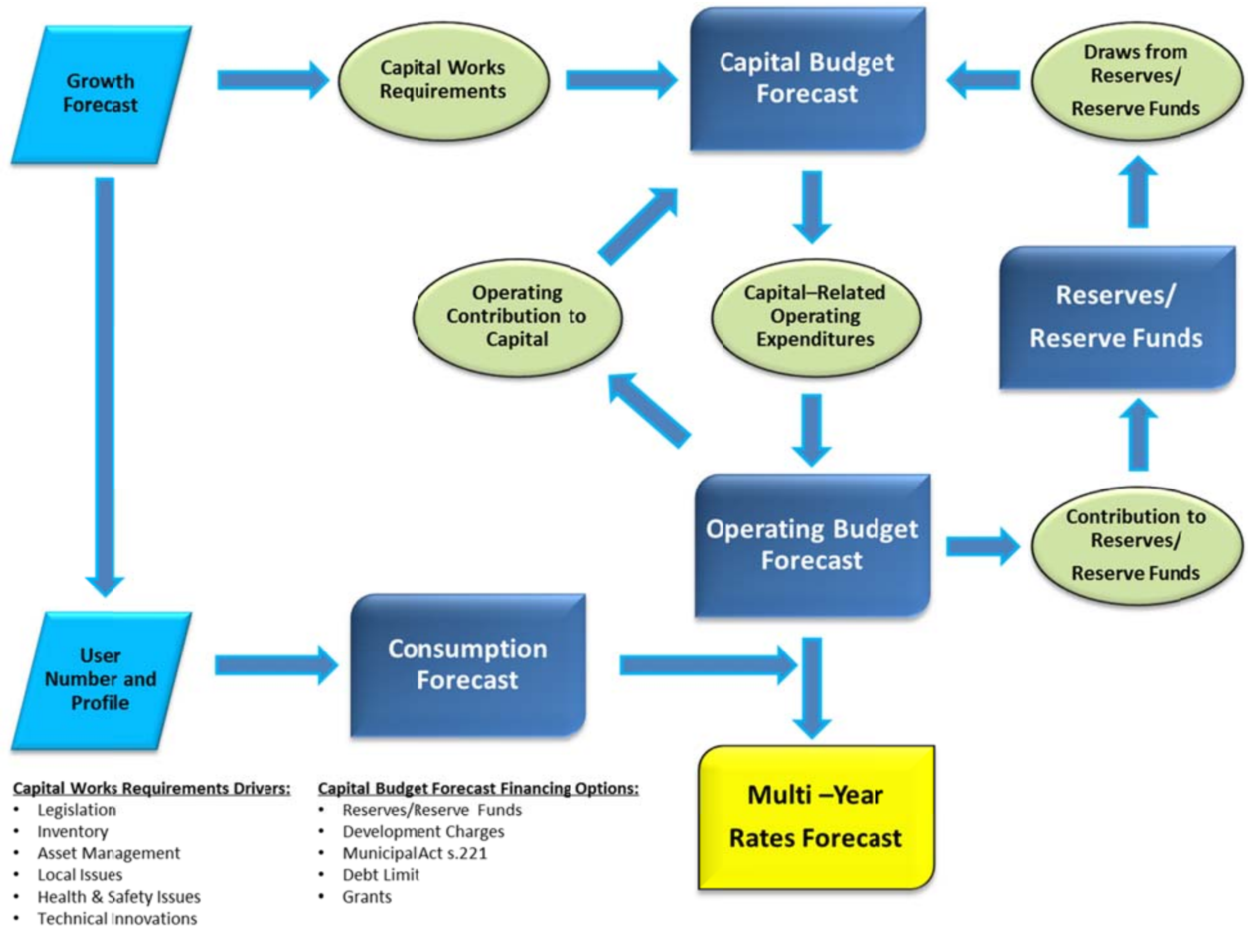
Furthermore, municipalities will be required to inventory and report their current infrastructure and how it will be maintained and managed going forward. Municipalities will then be required to report on the full cost of services and how these costs will be recovered and paid for. The principles of SWSSA ensure that a long-term plan for sustainable asset management is developed and that all costs for providing water and wastewater services are assessed so that there is sufficient funding for system needs.

2.2 Water and Wastewater Rate Study

In 2011, Council approved 10 per cent blended water and wastewater rate increases from 2012 to 2015. Staff will be conducting a full rate review designed to address the principles within SWSSA and it will also reflect guiding principles toward sustainable financial planning. Results of this study will be presented to Council next year with a recommendation on future rates. Figure 2-1 summarizes the process.

FIGURE 2-1

WATER AND WASTEWATER RATE CALCULATION PROCESS



As a result of employing this process, the Rate Study approved in 2011 and to be updated in 2015 will provide a sound financial plan for the Region's water and wastewater system by providing:

- A detailed assessment of current and future capital needs including an analysis of potential funding sources (Principles 2, 4, 5, 6, 9);
- An analysis of fixed and variable operating costs to determine how they will be impacted by evolving infrastructure needs and system growth (Principles 2, 3, 6, 7, 9);

- Ongoing review of actual expenditures and establishment of forecasts in an effort to identify cost saving opportunities and enable enhanced planning of operating and capital expenditures (Principle 8);
- A review and recommendation on rate structures that ensure revenues are equitable and sufficient to meet system needs (Principles 2, 3, 6, 7, 9); and
- A public process that involves ongoing consultation with the main stakeholders including Region staff, Council, the general public (specifically the users of the system) and others with the aim of gaining input and collaboration on the sustainability of the financial plan (Principles 1, 9).

3. APPROACH

3.1 Introduction

The Region's financial statements have been prepared on a modified cash basis and the resulting financial plan has been converted to a full accrual basis for the purposes of this report. The conversion process used will help to establish the structure of the year-end financial statements along with the opening balances that will underpin the forecast. This section outlines the conversion process used and summarizes the adjustments made to prepare the financial plan. It is noted that the financial plan has been prepared for water only.

3.2 Conversion Process

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

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

3.2.1 Calculate Tangible Capital Asset Balances

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water assets, an inventory has already been compiled and summarized. However, historical cost (which is the original cost to purchase, develop, or construct each asset) is required for financial reporting purposes.

Once historical cost is established, the following calculations are made to determine net book value:

- Accumulated amortization up to the year prior to the first forecast year.
- Amortization expense on existing assets for each year of the forecast period.
- Acquisition of new assets for each year of the forecast period.
- Disposals and related gains or losses for each year of forecast period.

Future water capital needs have also been determined and summarized. However, these estimates only represent future assets that the Region anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to the Region). These contributed assets could form a significant part of the infrastructure going forward in terms of the sustainability of the systems as a whole and despite their non-monetary nature; the financial plan may need to be adjusted to properly account for these transactions. Once the sequence and total asset acquisition has been determined for the forecast period, annual amortization of these assets for each year is calculated in a similar manner as that used for existing assets.

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

FIGURE 3-1
CONVERSION ADJUSTMENTS
STATEMENT OF OPERATIONS

Modified Cash Basis	Budget 2014	Adjustments to Remove Non-Accrual Accounts Dr	Adjustments to Remove Non-Accrual Accounts Cr	Transition Budget Balances 2014	Adjustments to add Accrual Accounts Dr	Adjustments to add Accrual Accounts Cr	Budget 2014	Accrual Basis	Notes on Adjustments
Revenues								**Revenues**	
Base Charge Revenue	(888,800)			(888,800)			(888,800)	Base Charge Revenue	No change
Rate Based Revenue	110,601,366			110,601,366			110,601,366	Rate Based Revenue	No change
Transfers from Reserves	89,739,830	89,739,830		-			-		Removes non-accrual reserve account
						-	-		
				-		92,784,830	92,784,830	Earned DC Revenue	New Account to reflect earned DC Revenue
Other Revenue (includes CWIP Tsf)	-			-		1,013,456	1,013,456	Other Revenue	To Account for Interest Revenue
Total Revenues	199,452,397			109,712,566			203,510,853	Total Revenues	
Expenditures								**Expenses**	
Operating	82,646,950			82,646,950	10,059,200		92,706,150	Operating Expenses	Various Expenses previously classified as capital expenditures
Capital									
Transfers to Reserves (Incl. Lifecycle)	(1,367,078)	1,367,078		-	-		0		Removes non-accrual reserve account
Transfers to Capital	18,473,000		18,473,000	-			0		Removes TCA related balances which are now captured in statement of financial position
Debt Repayment (Principal & Interest)	98,657,215			98,657,215		60,688,610	37,968,605	Interest on Debt	Removes principal portion of debt - now reflected on statement of cash flow. Also Adds debt previously captured within capital budget
					25,190,100		25,190,100	Amortization	New account created as a result of PSAB 3150 - reflects cost of using TCA
Other	1,042,310			1,042,310	-	-	1,042,310	Other	No Change
Total Expenditures	199,452,397			**182,346,475**			**156,907,165**	Total Expenses	
Net Expenditures	-						**46,603,688**	**Annual Surplus/(Deficit)**	Represents difference between Revenues and Expenditures
Increase (decrease) in amounts to be recovered	-						549,680,077	Accumulated Surplus/(Deficit), beginning of year	
Change in fund balances	-				46,603,688		**596,283,765**	**Accumulated Surplus/(Deficit), end of year**	To transfer annual surplus to accumulated surplus
TOTAL ADJUSTMENTS		**91,106,908**	**18,473,000**		**81,852,988**	**154,486,896**			

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

Figure 3-1 illustrates the conversions required to the revise the Statement of Operations. Some of these conversions are noted as follows:

- Including the revenues and expenses associated with the now obsolete Statement of Capital and Statement of Reserves and Reserve Funds
- Including all non-tangible capital asset costs previously included in the capital statement (i.e. expenses related to various studies)
- Eliminating all expenditures incurred to acquire tangible capital assets which will now form part of the tangible capital asset balance
- Removing transfers to and from reserves (these transactions are now represented by changes in cash and accumulated surplus)
- Removing debt repayment costs relating to the principal payment portion only (now reported as a decrease in debt liability on the Statement of Financial Position)
- Including new expenses relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets (in order to capture the allocation of the cost of these assets to operating activities over their useful lives).

3.2.2 Convert Statement of Operations

As per section 1.2.4 above, the Statement of Operations eliminates and/or adds certain transactions that are to be reported differently by municipalities (see Figure 3-1). A wide range of adjustments will be considered and will depend on the size and complexity of the systems. For example, the revenues and expenses will need to be adjusted for and included within the Statement of Operations. This includes all non-tangible capital asset costs previously included in the capital statement (i.e. expenses related to various studies) while at the same time eliminating all expenditures incurred to acquire tangible capital assets which will now form part of the tangible capital asset balance discussed in section 3.2.1. Transfers to and from reserves are no longer explicitly reported on the Statement of Operations. Instead, these transactions are represented by changes in cash and accumulated surplus. Also, debt repayment costs relating to the principal payment portion only need to be removed, as they no longer qualify as an expense for reporting purposes. Principal payments will now be reported as a decrease in debt liability on the Statement of Financial Position. Finally, new expenses relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets will be reported via the Statement of Operations to capture allocation of the cost of these assets to operating activities over their useful lives.

3.2.3 Convert Statement of Financial Position

Once the Statement of Operations has been converted and the net book value of tangible capital assets has been recorded, balances for remaining items on the Statement of Financial Position are determined and recorded (see Figure 3-2). As noted earlier, applicable balances from the Statement of Capital and the Statement of Reserve and Reserve Funds will need to be transferred to this statement. Opening/actual balances for remaining accounts such as accounts receivable, inventory, accounts payable, outstanding debt (principal only), are recorded and classified according to the new structure of the Statement of Financial Position as outlined in PS1200.

It is acknowledged that some balances required on the Statement of Financial Position will be consolidated across the Region and as such, it will be difficult to isolate information relevant to Water services. An example of this is accounts receivable which is administered centrally by the Finance Department. O.Reg. 453/07 allows for the exclusion of these numbers if they are not known at the time of preparing the financial plan. Please refer to the Financial Plan Notes in Section 4 for more details.

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

The Statement of Cash Flow summarizes how the Region finances its activities or in other words, how the costs of providing services are recovered. The statement is derived using the comparative Statement of Financial Position, the current Statement of Operations and other available transaction data.

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

FIGURE 3-2
CONVERSION ADJUSTMENTS
STATEMENT OF FINANCIAL POSITION

Modified Cash Basis	Budget 2014	Adjustments to Remove Non-Accrual Accounts Dr	Adjustments to Remove Non-Accrual Accounts Cr	Transition Budget Balances 2014	Adjustments to add Accrual Accounts Dr	Adjustments to add Accrual Accounts Cr	Budget 2014	Accrual Basis	Notes on Adjustments
Financial Assets								**Financial Assets**	
Cash	43,052,041			43,052,041			43,052,041	Cash	No change
Accounts Receivable	46,919,698			46,919,698			46,919,698	Accounts Receivable	No change
				-			-	Investments	No change
				-				Inventory for resale	New Account
				-				Other Assets	New Account
Total Financial Assets	89,971,739			89,971,739			89,971,739	Total Financial Assets	
Liabilities								**Liabilities**	
Accounts Payable & Accrued Liabilities	6,396,384			6,396,384			6,396,384	Accounts Payable & Accrued Liabilities	No Change
Gross Long-term Liabilities	810,701,952			810,701,952			810,701,952	Debt (Principal only)	No Change
Other (DC Reserves-Deferred Revenue)	31,889,111			31,889,111			31,889,111	Other (DC Reserves-Deferred Revenue)	No Change
Total Liabilities	848,987,447			848,987,447			848,987,447	Total Liabilities	
Other Assets									
Prepaid Expenses	-			-					Account reclassified as Non-Financial asset
Net Financial Assets/(Debt)	**(759,015,709)**			**(759,015,709)**			**(759,015,709)**	**Net Financial Assets/(Debt)**	
Municipal Position								**Non-Financial Assets**	
					1,355,299,473		1,355,299,473	Tangible Capital Assets	Adds NBV of Tangible Capital Assets - offset entry is to accumulated surplus
Water Capital Reserve Fund	51,686,245	51,686,245		-	-		-	Prepaid Expenses	Removes non-accrual reserve account - balance to be transferred to accumulated surplus
Amounts to be Recovered	(810,701,952)		810,701,952	-					Removes account - balance to be transferred to accumulated surplus
								Inventory of Supplies	New Account
								Prepaid Expenses	Account reclassified as Non-Financial Asset
				-			1,355,299,473	Total Non-Financial Assets	
Total Municipal Position	**(759,015,707)**	-	-			596,283,767	**596,283,765**	**Accumulated Surplus/(Deficit)**	Represents offset entry for TCA's and existing reserve fund balances
TOTAL ADJUSTMENTS		**51,686,245**	**810,701,952**		**1,355,299,473**	**596,283,767**			

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

Figure 3-2 illustrates the conversions required to the revise the Statement of Financial Position as per section 1.2.5 above. Some of these conversions are noted as follows:

- Transfer the applicable balances from the Statement of Capital and the Statement of Reserve and Reserve Funds
- Record and classify the opening/actual balances for the remaining accounts such as accounts receivable, inventory, accounts payable, outstanding debt (principal only) according to the new structure of the Statement of Financial Position
- Eliminate the Municipal Position with offset to "Accumulated Surplus
- Record the Net Book Value of Tangible Capital Assets and with offset to accumulated

3.2.5 Verification and Note Preparation

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

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

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

a. Opening cash balances- Opening cash balances are necessary to complete the Statement of Cash Flows and balance the Statement of Financial Position. Preferably, opening cash balances should be derived from actual information contained within the Region's ledgers. However, it may not be possible to extract this information from the ledgers for Water services alone; therefore a reasonable proxy will be needed. One approach is to assume opening cash balances equal ending reserve and reserve fund balances from the previous year adjusted for accrual-based transactions reflected by accounts receivable/payable balances. The following equation outlines this approach:

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

b. Amortization Expense- The method and timing of amortization should be based on the Region’s amortization policy. Otherwise, an assumption will need to be made and applied consistently throughout the financial plan.

c. Accumulated Amortization- Will be based on the culmination of accumulated amortization expenses throughout the life of each asset.

d. Contributed Assets- As noted earlier, contributed assets could represent a significant part of the Region’s infrastructure acquisitions. As such, a reasonable estimate of value and timing of acquisition/donation may be required to adequately capture these assets. In the case where contributed assets are deemed to be insignificant or unknown, an assumption of “no contributed assets within the forecast period” will be made.

e. Accumulated Surplus- The magnitude of the surplus in this area may precipitate the need for additional explanation especially in the first year of reporting. This Accumulated Surplus captures the historical infrastructure investment which has not been reported in the past but has accumulated to significant levels. It also includes all water reserve and reserve fund balances.

f. Other Revenues- Will represent the recognition of revenues previously deferred (i.e. development charge revenues) and/or accrued revenues (developer contributions), and/or other minor miscellaneous revenues.

4. FINANCIAL PLAN

4.1 Introduction

The following tables provide the complete financial plan for the Region's water system. A brief description and analysis of each table is provided below. It is important to note that the financial plan that follows is a forward look at the financial position of the Region's water systems. It is not an audited document and contains various estimates as detailed in the "Notes to the Financial Plan" section below.

4.2 Water Financial Plan

4.2.1 Statement of Financial Position (Table 4-1)

The Statement of Financial Position provides information that describes the assets, liabilities, and accumulated surplus of the Region's water system. The first important indicator is net financial assets/(debt), which is defined as the difference between financial assets and liabilities. This serves as an indicator of the system's "future revenue requirement". A net financial asset position occurs when financial assets are greater than liabilities and implies that the system has the resources to finance future operations. Conversely, a net debt position implies that the future revenues generated by the systems will be needed to finance past transactions, as well as future operations. Below are the key elements in Table 4-1:

- In 2014, the net debt position is forecasted at $759 million primarily due to the level of existing debt, anticipated issuance of new debt, and significant level of deferred revenue.
- The financial plan developed for the Region forecasts an increasing net financial debt position in the 2014 to 2017 forecast period as debt levels continue to rise. However in 2018 to 2020, the estimated net financial debt position improves each year as debt levels decrease.

- It is noted that debt included “Inter-fund Transfers” in the 2010 Financial Plan representing internal borrowings from non-water reserves to supplement future cash requirements as anticipated development charge proceeds would not be sufficient to fund future growth-related capital expenditures. The last DC Bylaw study was done in 2012 which updated DC rates based on a full review of all growth related projects. Based on the review, we no longer require Inter-fund transfers in the 2014 Financial Plan as forecasted in the 2010 Plan.
- As a result, net financial debt is projected to grow to approximately $878.5 million by the end of 2020.
- As mentioned above, this net debt position indicates that the Region’s water systems will need to generate future revenue to finance past transactions.

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

- Tangible capital assets such as watermains and treatment plants are imperative to water service delivery.
- These assets represent significant economic resources in terms of their historical and replacement costs. Therefore, ongoing capital asset management is essential to managing significant replacements and repairs.
- The annual maintenance required by these assets has an enduring impact on water operational budgets.

In general terms, an increase in the tangible capital asset balance indicates that assets may have been acquired either through purchase/construction by the Region or donation/contribution by a third party. A decrease in the tangible capital asset balance can indicate a disposal, write down, or use of assets. A use of asset is usually represented by an increase in accumulated amortization due to annual amortization expenses arising as a result of allocating the cost of the asset to operations over the asset’s useful life. Table 4-1 shows tangible capital assets are expected to grow by over

$405.6 million over the 6-year forecast period. This indicates that the Region has plans to invest in tangible capital assets in excess of the anticipated use of existing assets over the forecast period.

Another key change from 2010 Plan is the addition of York Region's investment in Toronto and Peel's capital assets. The Region makes significant contributions to Toronto and Peel's assets as they supply 88 per cent of the water distributed to York residents. These costs have historically been expensed as the Region does not own any of these assets however, change in accounting methodology was implemented in 2011 and these costs are now reflected as a component of tangible capital assets (work in process) and are being amortized over their useful life. The majority of these cost shared assets were recognized from 2009 to 2013 for a total of $527 million and are forecast to decline to a total of $243 million over the 2014 to 2020 period as Toronto and Peel complete investment in their infrastructure.

4.2.2 Statement of Operations (Table 4-2)

The Statement of Operations summarizes revenues and expenses generated by the water systems for a given period. The annual surplus/deficit measures whether revenues generated were sufficient to cover expenses incurred and in turn, whether net financial assets have been maintained or depleted. Table 4-2 illustrates the ratio of expenses to revenues increasing from 77 per cent to 81 per cent between 2014 and 2015 and then decreasing to 76 per cent by 2020. Correspondingly, annual surpluses are forecast every year and increase by 59 per cent from $46.6 million in 2014 to $74.2 million by 2020. It is important to note that an annual surplus is required to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments.

The change in methodology to classify Toronto and Peel capital costs as a work in process component of tangible capital asset balances on the Statement of Financial Position resulted in a reduction of operating expenses by $64 million in 2014.

Another important indicator on this statement is accumulated surplus/deficit. An accumulated surplus indicates that the available net resources are sufficient to provide future water services. An accumulated deficit indicates that resources are insufficient to provide future services and that borrowing or rate increases are required to finance annual deficits. The surplus forecast is better than the 2010 Financial Plan due to reduced debt issue and change in accounting treatment of Toronto and Peel's capital costs. As indicated in Table 4- 2, the Region's accumulated surplus is predominately made up of reserve and reserve fund balances as well as historic investments in tangible capital assets. The financial plan anticipates that accumulated surplus will increase from 2014 surplus of $549.7 million to $882.4 million by 2020. This is due to the annual surpluses forecast over the timeframe of the financial plan as described above.

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

The Statement of Changes in Net Financial Assets/Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (i.e. inventory supplies, prepaid expenses, tangible capital assets, etc.) and in so doing, explains the difference between the annual surplus/deficit and the changes in net financial assets/debt for the period. Table 4-3 indicates that forecasted capital expenditures exceed forecasted net revenues in each year between 2014 and 2017, resulting in a decrease in net financial assets. However, in 2018 to 2020, forecasted revenues exceed forecasted expenditures resulting in an increase in net financial assets. The overall trend of net financial debt position is attributed to planned use of debt to construct tangible capital assets. This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions of 0.44 in 2014 improving to 0.59 by 2020[1].

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[1] A desirable ratio is 1:1 or better.

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how the water system is expected to generate and use cash resources during the planning period. Transactions that provide/use cash are classified as operating, capital, investing, and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash and accrual based reporting. Table 4-4 indicates that debt, investment income, and cash on hand will be used to fund tangible capital asset acquisitions over the forecast period. The financial plan anticipates the cash position of the Region's water system improving from $36.4 million at the beginning of 2014 to $281.8 million by the end of 2020.

Table 4-1
York Region
Statement of Financial Position (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2014 - 2020

	Notes	2014	2015	2016	2017	2018	2019	2020
Financial Assets								
Cash	1	43,052,041	43,529,621	44,480,797	101,668,433	152,617,083	212,625,757	281,826,742
Accounts Receivable	1	46,919,698	51,230,705	56,543,230	62,587,765	69,262,834	76,648,963	84,822,280
Investments		-	-	-	-	-	-	-
Inventory for Resale		-	-	-	-	-	-	-
Other Assets		-	-	-	-	-	-	-
Total Financial Assets		89,971,739	94,760,326	101,024,027	164,256,198	221,879,917	289,274,720	366,649,022
Liabilities								
Accounts Payable & Accrued Liabilities	1	6,396,384	7,011,706	7,678,758	8,449,958	9,275,184	9,828,985	10,420,616
Debt (Principal only)	2	810,701,952	849,585,413	938,567,420	1,005,082,557	1,024,973,387	1,048,544,827	1,065,690,039
Deferred Revenue	3	31,889,111	43,999,878	44,946,860	87,669,302	118,892,560	144,950,936	169,009,806
Other		-	-	-	-	-	-	-
Total Liabilities		848,987,447	900,596,998	991,193,038	1,101,201,817	1,153,141,130	1,203,324,748	1,245,120,461
Net Financial Assets/(Debt)		(759,015,709)	(805,836,672)	(890,169,011)	(936,945,618)	(931,261,214)	(914,050,027)	(878,471,440)
Non-Financial Assets								
Tangible Capital Assets	4	1,355,299,473	1,441,166,810	1,559,120,537	1,638,516,621	1,679,344,009	1,722,238,257	1,760,846,591
Inventory of Supplies								
Prepaid Expenses								
Total Non-Financial Assets		1,355,299,473	1,441,166,810	1,559,120,537	1,638,516,621	1,679,344,009	1,722,238,257	1,760,846,591
Accumulated Surplus/(Deficit)	5	596,283,765	635,330,138	668,951,527	701,571,003	748,082,796	808,188,230	882,375,151

Financial Indicators	Total Change	2014	2015	2016	2017	2018	2019	2020
1) Increase/(Decrease) in Net Financial Assets	(628,816,785)	(36,083,212)	(46,820,963)	(84,332,339)	(46,776,608)	5,684,405	17,211,186	35,578,588
2) Increase/(Decrease) in Tangible Capital Assets	1,118,919,638	168,175,900	85,867,336	117,953,727	79,396,084	40,827,388	42,894,248	38,608,334
3) Increase/(Decrease) in Accumulated Surplus	490,102,854	46,603,688	39,046,374	33,621,388	32,619,476	46,511,793	60,105,434	74,186,921

Table 4-2
York Region
Statement of Operations (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2014 - 2020

	Notes	2014	2015	2016	2017	2018	2019	2020
Water Revenue								
Base Charge Revenue		(888,800)	(856,188)	(815,257)	(831,563)	(874,011)	(917,308)	(961,471)
Rate Based Revenue		110,601,366	120,649,205	133,030,579	147,180,851	162,831,645	180,145,967	199,301,837
Earned DC Revenue	3	92,784,830	89,422,065	86,638,235	85,409,749	91,901,523	97,366,945	102,649,165
Other Revenue	6	1,013,456	857,818	948,988	1,336,018	1,837,494	2,637,153	3,670,953
Total Revenues		203,510,853	210,072,901	219,802,545	233,095,055	255,696,651	279,232,756	304,660,483
Water Expenses								
Operating Expenses		92,706,150	101,772,264	106,404,885	116,539,375	120,741,001	128,090,860	136,601,693
Interest on Debt	2	37,968,605	41,191,378	45,047,687	48,532,146	52,536,058	54,159,111	55,707,671
Amortization	4	25,190,100	27,092,446	33,377,544	34,362,968	35,222,120	36,177,950	37,450,798
Other		1,042,310	970,440	1,351,040	1,041,090	685,680	699,400	713,400
Total Expenses		156,907,165	171,026,527	186,181,156	200,475,578	209,184,860	219,127,322	230,473,563
Annual Surplus/(Deficit)		46,603,688	39,046,374	33,621,388	32,619,477	46,511,791	60,105,435	74,186,921
Accumulated Surplus/(Deficit), beginning of year		549,680,077	596,283,765	635,330,139	668,951,528	701,571,005	748,082,796	808,188,230
Accumulated Surplus/(Deficit), end of year	5	596,283,765	635,330,139	668,951,528	701,571,005	748,082,796	808,188,230	882,375,151

Note 5:
Accumulated Surplus/(Deficit) is made up of:

Opening Reserve Balances	Notes	2014	2015	2016	2017	2018	2019	2020
Reserves: DC								
Reserves: Capital		44,227,066						
Reserves: Lifecycle								
Total Reserves Balance		**44,227,066**						
Less: Debt Obligations and Deferred Revenue		(767,159,562)						
Add: Adjustment for TCA **(Year of Implementation Only)**	4	1,272,612,573						
Total Opening Balance		**549,680,077**	**596,283,765**	**635,330,139**	**668,951,527**	**701,571,004**	**748,082,795**	**808,188,230**
Add: Contributions to/(from) Reserves (excl. DC reserves)								
Reserves: Capital		(963,891)	(17,055,654)	(5,036,626)	9,428,887	14,655,142	28,441,022	39,918,853
Reserves: Lifecycle		8,423,069	9,118,153	9,686,294	10,309,644	10,920,090	12,341,604	12,804,947
Total Change in Reserves		**7,459,178**	**(7,937,501)**	**4,649,668**	**19,738,531**	**25,575,232**	**40,782,626**	**52,723,800**
Add: Changes in TCA During the Year								
Capital Assets Purchased (net of disposals)	4	107,877,000	112,959,782	151,331,271	113,759,052	76,049,508	79,072,198	76,059,132
Amortization of Capital Assets	4	(25,190,100)	(27,092,446)	(33,377,544)	(34,362,968)	(35,222,120)	(36,177,950)	(37,450,798)
Total Changes in TCA		**82,686,900**	**85,867,336**	**117,953,727**	**79,396,084**	**40,827,388**	**42,894,248**	**38,608,334**
Subtract Changes in Debt Position								
New Debt	2	(104,231,000)	(91,504,735)	(134,571,789)	(106,452,311)	(62,799,350)	(69,244,010)	(66,517,952)
Debt Repayment	2	60,688,610	52,621,274	45,589,783	39,937,174	42,908,520	45,672,571	49,372,740
Total Change in Debt		**(43,542,390)**	**(38,883,461)**	**(88,982,007)**	**(66,515,138)**	**(19,890,830)**	**(23,571,439)**	**(17,145,213)**
Total Ending Balance		**596,283,765**	**635,330,139**	**668,951,527**	**701,571,004**	**748,082,795**	**808,188,230**	**882,375,151**

Financial Indicators	**Total Change**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
1) Expense to Revenue Ratio		77%	81%	85%	86%	82%	78%	76%
2) Increase/(Decrease) in Accumulated Surplus	490,102,855	46,603,688	39,046,374	33,621,388	32,619,477	46,511,791	60,105,435	74,186,921

Table 4-3
York Region
Statement of Changes in Net Financial Assets/Debt (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2014 - 2020

	Notes	2014	2015	2016	2017	2018	2019	2020
Annual Surplus/(Deficit)		46,603,688	39,046,374	33,621,388	32,619,477	46,511,791	60,105,435	74,186,921
Less: Acquisition of Tangible Capital Assets	4	(107,877,000)	(112,959,782)	(151,331,271)	(113,759,052)	(76,049,508)	(79,072,198)	(76,059,132)
Add: Amortization of Tangible Capital Assets	4	25,190,100	27,092,446	33,377,544	34,362,968	35,222,120	36,177,950	37,450,798
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets								
Add: Write-downs of Tangible Capital Assets								
		(36,083,212)	(46,820,962)	(84,332,339)	(46,776,607)	5,684,403	17,211,186	35,578,587
Less: Acquisition of Supplies Inventory								
Less: Acquisition of Prepaid Expenses								
Add: Consumption of Supplies Inventory								
Add: Use of Prepaid Expenses								
		-	-	-	-	-	-	-
(Increase)/Decrease in Net Financial Assets/Net Debt		(36,083,212)	(46,820,962)	(84,332,339)	(46,776,607)	5,684,403	17,211,186	35,578,587
Net Financial Assets/(Net Debt), beginning of year		(722,932,496)	(759,015,708)	(805,836,670)	(890,169,009)	(936,945,616)	(931,261,214)	(914,050,027)
Net Financial Assets/(Net Debt), end of year		(759,015,708)	(805,836,670)	(890,169,009)	(936,945,616)	(931,261,214)	(914,050,027)	(878,471,440)

Financial Indicators	2014	2015	2016	2017	2018	2019	2020
1) Acquisition of Tangible Capital Assets (Cumulative)	858,292,229	971,252,011	1,122,583,282	1,236,342,334	1,312,391,842	1,391,464,040	1,467,523,172
2) Annual Surplus/Deficit before Amortization (Cumulative)	380,635,142	446,773,962	513,772,894	580,755,339	662,489,250	758,772,635	870,410,354
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)	0.44	0.46	0.46	0.47	0.50	0.55	0.59

Table 4-4
York Region
Statement of Cash Flow - Indirect Method (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2014 - 2020

	Notes	2014	2015	2016	2017	2018	2019	2020
Operating Transactions								
Annual Surplus/Deficit		46,603,688	39,046,374	33,621,388	32,619,477	46,511,791	60,105,435	74,186,921
Add: Amortization of TCA's	4	25,190,100	27,092,446	33,377,544	34,362,968	35,222,120	36,177,950	37,450,798
Less: DC Revenue	3	(92,784,830)	(89,422,065)	(86,638,235)	(85,409,749)	(91,901,523)	(97,366,945)	(102,649,165)
Add: Development Charge Proceeds		93,821,223	101,532,833	87,585,217	128,132,190	123,124,781	123,425,321	126,708,035
Change in A/R (Increase)/Decrease		(2,956,877)	(4,311,009)	(5,312,525)	(6,044,536)	(6,675,069)	(7,386,130)	(8,173,316)
Change in A/P Increase/(Decrease)		1,126,241	615,322	667,051	771,200	825,226	553,801	591,631
Less: Interest Proceeds		(1,013,456)	(857,818)	(948,988)	(1,336,018)	(1,837,494)	(2,637,153)	(3,670,953)
Cash Provided by Operating Transactions		69,986,089	73,696,083	62,351,453	103,095,532	105,269,832	112,872,280	124,443,951
Capital Transactions								
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	4	(107,877,000)	(112,959,782)	(151,331,271)	(113,759,052)	(76,049,508)	(79,072,198)	(76,059,132)
Cash Applied to Capital Transactions		(107,877,000)	(112,959,782)	(151,331,271)	(113,759,052)	(76,049,508)	(79,072,198)	(76,059,132)
Investing Transactions		-	-	-	-	-	-	-
Proceeds from Investments		1,013,456	857,818	948,988	1,336,018	1,837,494	2,637,153	3,670,953
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		1,013,456	857,818	948,988	1,336,018	1,837,494	2,637,153	3,670,953
Financing Transactions		-	-	-	-	-	-	-
Proceeds from Debt Issue	2	104,231,000	91,504,735	134,571,789	106,452,311	62,799,350	69,244,010	66,517,952
Less: Debt Repayment (principle only)	2	(60,688,610)	(52,621,274)	(45,589,783)	(39,937,174)	(42,908,520)	(45,672,571)	(49,372,740)
Cash Applied to Financing Transactions		43,542,390	38,883,461	88,982,007	66,515,138	19,890,830	23,571,439	17,145,213
Increase in Cash and Cash Equivalents		6,664,935	477,580	951,176	57,187,636	50,948,650	60,008,674	69,200,985
Cash and Cash Equivalents, beginning of year	1	36,387,106	43,052,041	43,529,621	44,480,797	101,668,433	152,617,083	212,625,757
Cash and Cash Equivalents, end of year	1	43,052,041	43,529,621	44,480,797	101,668,433	152,617,083	212,625,757	281,826,742

NOTES TO FINANCIAL PLAN

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

> "Each of the following sub-subparagraphs applies only if the information referred to in the sub-subparagraph is known to the owner at the time the financial plans are prepared:
>
> 1. Sub-subparagraphs 4 i A, B and C of subsection (1)
> 2. Sub-subparagraphs 4 iii A, C, E and F of subsection (1)."

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

A. Total financial assets (i.e. cash and receivables);

B. Total liabilities (i.e. payables, debt and deferred revenue);

C. Net debt (i.e. the difference between A and B above).

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

A. Operating transactions that are cash received from revenues, cash paid for operating expenses and finance charges;

C. Investing transactions that are acquisitions and disposal of investments;

E. Change in cash and cash equivalents during the year;

F. Cash and cash equivalents at the beginning and end of the year.

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

1. Cash, Receivables and Payables

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

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

2. Debt

Outstanding debt at the end of 2013 was $767.2 million and is anticipated to increase over the forecast period. Principal repayments for existing and new debt over the forecast period scheduled as follows:

2014	$ 60,688,610
2015	$ 52,621,274
2016	$ 45,589,783
2017	$ 39,937,174
2018	$ 42,908,520
2019	$ 45,672,571
2020	$ 49,372,740
	$ 336,790,670

For financial reporting purposes, debt principal payments represent a decrease in debt liability and the interest payments represent a current year operating expense.

3. Deferred Revenue

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

4. Tangible Capital Assets

- Opening 2014 net book value of tangible capital assets includes water related assets in the following categories:

  i. Infrastructure (linear)

  ii. Buildings (facilities) and Building Improvements

iii. Vehicles

iv. Equipment

v. Land and Land Improvements

- The ending asset balance includes Toronto and Peel shared assets which are recorded as Work in Process and are being amortized over their useful life.
- Amortization is calculated monthly based on using the straight-line approach with no amortization in the month of acquisition or construction.
- The useful life on acquisitions is assumed to be equal to the weighted average useful life for all assets on hand in the respective asset category.
- Write-offs are assumed to equal $0 for each year in the forecast period.
- Tangible capital assets are shown on a net basis. It is assumed that disposals occur when the asset is being replaced. To calculate the value of each asset disposal, the replacement value (of each new asset that has been identified as a “replacement”) has been deflated (by weighted average useful life for all assets on hand in the respective asset category) to an estimated historical cost. This figure was used to calculate disposals only.
- Gains/losses on disposal are assumed to be $0 (it is assumed that historical cost is equal to accumulated amortization for all disposals).
- Residual value is assumed to be $0 for all assets contained within forecast period.
- The ending asset balance includes Work in Process (WIP) for non-shared assets.
- Contributed Assets, as described in Section 3.2.1, are deemed to be insignificant/ unknown during the forecast period and are therefore assumed to be $0.

The balance of tangible capital assets is summarized as follows:

Description	2014	2015	2016	2017	2018	2019	2020
Opening TCA Balance (Historical Cost)	1,495,583,320	1,603,460,320	1,716,420,102	1,867,751,373	1,981,510,425	2,057,559,933	2,136,632,132
Acquisitions	107,877,000	112,959,782	151,331,271	113,759,052	76,049,508	79,072,198	76,059,132
Disposals							
Closing TCA Balance (Historical Cost)	**1,603,460,320**	**1,716,420,102**	**1,867,751,373**	**1,981,510,425**	**2,057,559,933**	**2,136,632,132**	**2,212,691,263**
Opening Accumulated Amortization	222,970,747	248,160,847	275,253,292	308,630,836	342,993,804	378,215,924	414,393,874
Amortization Expense	25,190,100	27,092,446	33,377,544	34,362,968	35,222,120	36,177,950	37,450,798
Amortization on Disposal							
Ending Accumulated Amortization	**248,160,847**	**275,253,292**	**308,630,836**	**342,993,804**	**378,215,924**	**414,393,874**	**451,844,672**
Net Book Value	**1,355,299,473**	**1,441,166,810**	**1,559,120,537**	**1,638,516,621**	**1,679,344,009**	**1,722,238,257**	**1,760,846,591**

5. Accumulated Surplus

Accumulated Surplus for 2014 is reconciled as follows:

Opening Reserve Balances	**Notes**	
Reserves: DC		
Reserves: Capital		44,227,066
Reserves: Lifecycle		
Total Reserves Balance		**44,227,066**
Less: Debt Obligations and Deferred Revenue		(767,159,562)
Add: Adjustment for TCA **(Year of Implementation Only)**	**4**	1,272,612,573
Total Opening Balance		**549,680,077**
Add: Contributions to/(from) Reserves (excl. DC reserves)		
Reserves: Capital		(963,891)
Reserves: Lifecycle		8,423,069
Total Change in Reserves		**7,459,178**
Add: Changes in TCA During the Year		
Capital Assets Purchased (net of disposals)	**4**	107,877,000
Amortization of Capital Assets	**4**	(25,190,100)
Total Changes in TCA		**82,686,900**
Subtract Changes in Debt Position		
New Debt	**2**	(104,231,000)
Debt Repayment	**2**	60,688,610
Total Change in Debt		**(43,542,390)**
Total Ending Balance		**596,283,765**

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

6. Other revenue

Other revenue includes interest revenue, developer up-front financing, and other recoveries.

5. PROCESS FOR APPROVAL AND SUBMISSION

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

1. Financial plan must be approved by resolution of municipality who owns the drinking water system or the governing body of the owner. (O.Reg. 453/07, Section 3(1) 1)

2. Owner of the drinking water system must provide notice advertising the availability of the financial plan. The plans will be made available to the public upon request and without charge. The plans must also be made available to the public on the municipality's website. (O.Reg. 453/07, Section 3(1) 5)

3. Owner of the drinking water system must provide a copy of the financial plan to the Director of Policy Branch, Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3(1) 6)

4. Financial plan shall be submitted to the Ministry of the Environment as part of the application for a municipal drinking water license (*Safe Drinking Water Act*, Section 32(5) 2 ii)

For reference purposes, the submission information for the Ministry of the Environment and Ministry of Municipal Affairs and Housing are as follows:

- York Region Water Financial Plan, May 8, 2014.
- Council Resolution.

6. CONCLUSIONS AND RECOMMENDATIONS

This report presents the water financial plan for York Region in accordance with all requirements detailed in O.Reg. 453/07. Based on the Province's nine Principles of Financially Sustainable Water and Wastewater Services, York Region's Water Financial Plan presented in this report is sustainable. Council approval of the Water Financial Plan is required to renew York Region's drinking water license. It is recommended that:

1. Council approve the Water Financial Plan prepared for York Region's Municipal Drinking Water System, in accordance with Ontario Regulation 453/07.
2. Environmental Services staff submit the Water Financial Plan to the Ministry of the Environment and Ministry of Municipal Affairs and Housing in accordance with the *Safe Drinking Water Act*.
3. Environmental Services staff issue notice of the Water Financial Plan availability, as prescribed by Ontario Regulation 453/07, in the local media and on the Region's website.