

UNION WATER SUPPLY SYSTEM

WATER ONTARIO REGULATION 453/07 FINANCIAL PLAN

FINANCIAL PLAN 041-301

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 **Planning for growth**

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1. INTRODUCTION

1. INTRODUCTION

1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by the Union Water Supply System (UWSS) to prepare a water financial plan as part of the five submission requirements for the purposes of obtaining a municipal drinking water license as per the *Safe Drinking Water Act, 2002*. In general, a financial plan requires an in-depth analysis of capital and operating needs, a review of current and future demand versus supply, and consideration of available funding sources. This detailed financial planning and forecasting in regards to UWSS water system was completed and documented by Watson within the “Union Water Supply System Reserves, Rates and Financial Planning Presentation, August 11, 2009” (2009 Rates Analysis/2010 Budget) as summarized in Appendix A. This information formed the basis for the 2010 budget process on which the Board established the 2010 rates. The objective of the report provided herein is to convert these findings into the 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 in order to address some of the recommendations made by the Walkerton Inquiry Part II report. One of the main requirements of the Act is the 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 licence”

In order to become licensed, a municipality or local service board (hereafter referred to as municipality) must satisfy five key requirements as per section 44 (1):

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.

The 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).

As of time of writing, the Sustainable Water and Sewage Systems Act, 2002 (SWSSA) cited above is not yet in force however, the standards that it directs will underpin the specific requirements of s.30 (1) part b as they are outlined in O.Reg. 453/07 and which will be examined in detail below.

1.2.2 Financial Plan Requirements – New System

O.Reg. 453/07 provides the following parameters with regards to s.30 (1) part b of the SDWA for new water systems:

- Financial plans must be approved by Council resolution (or governing body) indicating that the drinking water system is financially viable;
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six year period (commencing when the system first serves the public);
- 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 Public Sector Accounting Board (PSAB)) for each year in which the 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.
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public, and
- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.3 Financial Plan Requirements – Existing System

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

- Financial plans must be approved by Council resolution (or governing body);
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six year period (commencing when the system first serves the public);
- 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 PSAB) for each year in which the financial plans apply;

- Financial plans must present financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets (i.e. the components of a “Statement of Financial Position” as per PSAB) for each year in which the financial plans apply; and
- gross cash receipts/payments itemized by operating transactions, capital transactions, investing transactions and financial transactions (i.e. the components of a “Statement of Cash Flow” as per PSAB) for each year in which the 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.
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and
- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.4 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. The financial plans shall be for a period of at least six years but longer planning horizons are encouraged. The financial plan is to be completed and approved by the later of July 1, 2010 and the date that is six months after the first license is issued. Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary.

1.2.5 Public Sector Accounting Board (PSAB) Requirements

The components of the financial plans indicated by the regulation are consistent with the 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.”

Both the Statement of Financial Position and the Statement of Operations were required for financial reporting purposes in recent reporting years. However, the format has changed to conform to the new requirements of PS1200 and PS3150 (see Figures 1-1 and 1-2). For example, the financial statements are to be reported on a full accrual accounting basis for 2009 and future years. 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 in order to properly report the transactions.

Moreover, effective for the 2009 fiscal year, municipalities are required to report additional information relating to the accounting treatment of tangible capital assets as indicated by the new requirements under section PS3150. Pre-2009, the costs to acquire, develop and/or construct capital assets were expensed in the year in which they occur. Going forward, tangible capital assets will be capitalized so as to create an inventory of the assets owned and to account for their ability to provide future benefits. The reporting of tangible capital assets requires further changes to the format of existing financial statements. From a financial planning perspective, this change is significant for water and wastewater assets as they represent a significant portion of UWSS infrastructure.

The Statement of Cash Flow and the Statement of Change in Net Financial Assets/Debt (which is a new statement) are required statements going forward. The Statement of Change 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 (see Figure 1-3). 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 (see Figure 1-4).

It should be noted that the Statement of Reserves and Reserve Funds and the Statement of Capital as used by municipalities pre-2009 have now been eliminated by the new reporting format. The balances and transactions that make up these two statements have been transferred to either the Statement of Operations or the Statement of Financial Position depending on the nature of the account.

FIGURE 1-1 STATEMENT OF FINANCIAL POSITION

OLD FORMAT (PRE-2009)

<u>Assets</u>
Financial Assets
Cash
Accounts Receivable
Investments
Inventory for resale
Other Assets
Total Financial Assets
<u>Non-Financial Assets</u>
Inventory of Supplies
Prepaid Expenses
Total Non-Financial Assets
<u>Liabilities</u>
Accounts Payable & Accrued Liabilities
Debt (Principal only)
Other (DC Reserves-Deferred Revenue)
Total Liabilities
NET ASSETS
<u>Municipal Position</u>
Fund Balances
Current Fund
Capital Fund
Reserves and Reserve Funds
Accounts to be Recovered
From Future Revenues
From Reserves & Reserve Funds
TOTAL MUNICIPAL POSITION

NEW FORMAT

<u>Financial Assets</u>
Cash
Accounts Receivable
Investments
Inventory for resale
Other Assets
Total Financial Assets
<u>Liabilities</u>
Accounts Payable & Accrued Liabilities
Debt (Principal only)
Other (DC Reserves-Deferred Revenue)
Total Liabilities
NET FINANCIAL ASSETS/(DEBT)
<u>Non-Financial Assets</u>
Tangible Capital Assets
Inventory of Supplies
Prepaid Expenses
Total Non-Financial Assets
ACCUMULATED SURPLUS/(DEFICIT)

FIGURE 1-2 STATEMENT OF OPERATIONS

OLD FORMAT (PRE-2009)

<u>Revenues</u>
Base Charge Revenue
Rate Based Revenue
Transfers from Reserves
Other Revenue
Total Revenues
<u>Expenditures</u>
Operating Expenses
Capital
Total Expenditures
Net Revenues for the year
Increase (decrease) in amounts to be recovered
Change in fund balances

NEW FORMAT

<u>Revenue</u>
Base Charge Revenue
Rate Based Revenue
Earned DC Revenue
Other Revenue
Total Revenue
<u>Expenses</u>
Operating Expenses
Interest on Debt
Amortization
Other
Total Expenses
Annual Surplus/(Deficit)
Accum. Surplus/(Deficit), beg. of year
Accum. Surplus/(Deficit), end of year

FIGURE 1-3
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS/DEBT

NEW STATEMENT

Annual Surplus/(Deficit)
Less: Acquisition of tangible capital assets
Add: Amortization of tangible capital assets
(Gain)/Loss on disposal of tangible capital assets
Add: Proceeds on sale of tangible capital assets
Add: Write-downs of tangible capital assets
Sub-total
Less: Acquisition of supplies inventory
Less: Acquisition of prepaid expenses
Add: Consumption of supplies inventory
Add: Use of prepaid expenses
Sub-total
(Increase)/Decrease in net financial assets/net debt
Net financial assets/(net debt), beginning of year
Net financial assets/(net debt), end of year

FIGURE 1-4 STATEMENT OF CASH FLOW¹

DIRECT METHOD	INDIRECT METHOD
<p><u>Operating Transactions</u> Cash received from: Water Operations Less: Cash paid for: Operating expenses Finance charges</p>	<p><u>Operating Transactions</u> Annual Surplus/(Deficit) Add: Amortization of Tangible Capital Assets Loss/(Gain) on sale of Tangible Capital Assets Decrease/(Increase) in Accounts Receivable Increase/(Decrease) in Accounts Payable Decrease/(Increase) in Inventories for sale Other items</p>
Cash provided by operating transactions	Cash provided by operating transactions
<p><u>Capital Transactions</u> Proceeds on sale of tangible capital assets Less: Cash used to acquire tangible capital assets</p>	<p><u>Capital Transactions</u> Proceeds on sale of tangible capital assets Less: Cash used to acquire tangible capital assets</p>
Cash applied to capital transactions	Cash applied to capital transactions
<p><u>Investing Transactions</u> Proceeds from investments Less: Cash used to acquire investments</p>	<p><u>Investing Transactions</u> Proceeds from investments Less: Cash used to acquire investments</p>
Cash provided by (applied to) investing transactions	Cash provided by (applied to) investing transactions
<p><u>Financing Transactions</u> Proceeds from debt issue Less: Debt repayment (principal only)</p>	<p><u>Financing Transactions</u> Proceeds from debt issue Less: Debt repayment (principal only)</p>
Cash applied to financing transactions	Cash applied to financing transactions
Increase in cash and cash equivalents	Increase in cash and cash equivalents
Cash and cash equivalents, beginning of year	Cash and cash equivalents, beginning of year
Cash and cash equivalents, end of year	Cash and cash equivalents, end of year

¹ The statement of cash flow can be prepared using either the direct or indirect methods. The indirect method derives cash flow by making adjustments to the net surplus/deficit reported on the statement of operations. The direct method calculates cash flow identifying the direct sources and uses of cash.

2. SUSTAINABLE FINANCIAL PLANNING

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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:

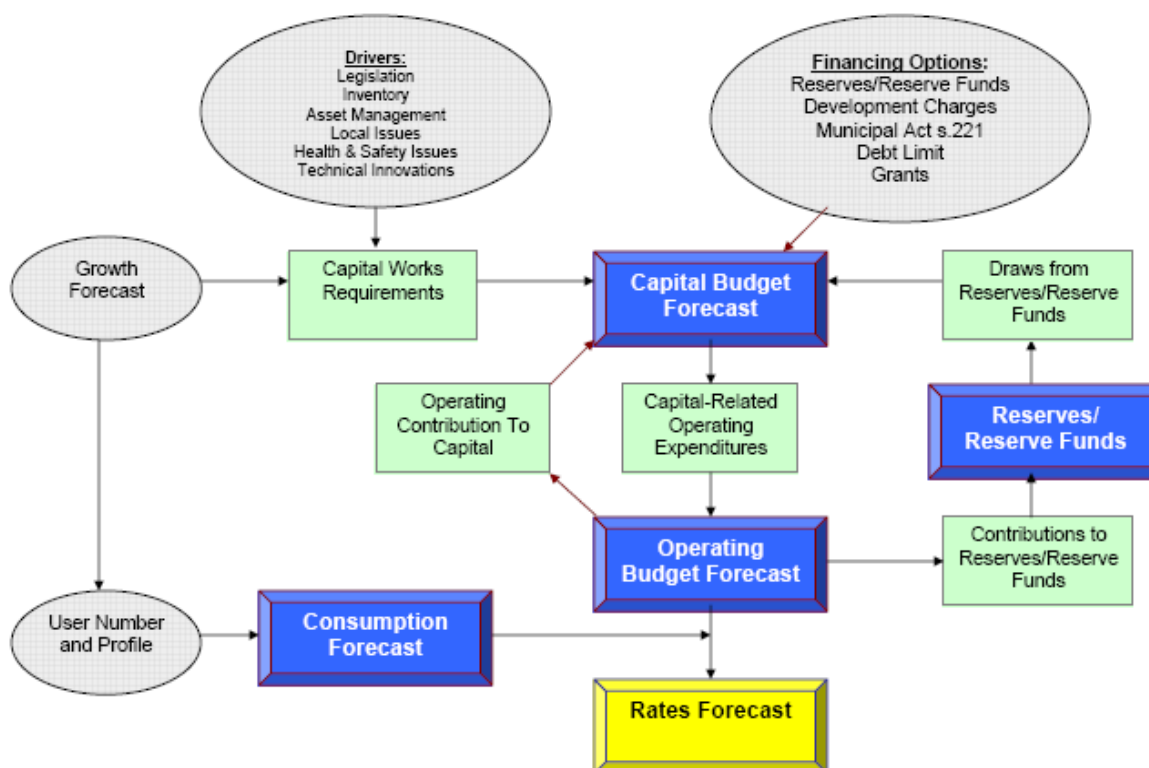
“source protection, operating costs, financing costs, renewal and replacement costs and improvement costs associated with extracting, treating or distributing water to the public and collecting, treating or discharging waste water, and such other costs which may be specified by regulation.”

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 Reserves, Rates and Financial Planning Presentation

As noted above, Watson has already completed extensive financial planning as documented in the 2009 Rates Analysis/2010 Budget conducted on behalf of UWSS. The process was designed to address the “full cost” principles within SWSSA and does so in a manner that also reflects the guiding principles toward sustainable financial planning. Figure 2-1 below summarizes the process.

FIGURE 2-1 WATER AND WASTEWATER RATE CALCULATION PROCESS



As a result of employing this process, the 2009 Rates Analysis/2010 Budget provides a sound financial plan for the UWSS' water 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 in order to determine how they will be impacted by evolving infrastructure needs and system growth (*Principles 2, 3, 6, 7, 9*);
- 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 UWSS 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. APPROACH

3.1 Introduction

The 2009 Rates Analysis/2010 Budget was prepared on a modified cash basis; therefore a conversion was required in order to present a full accrual financial plan for the purposes of this report. The conversion process used will help to establish the structure of the financial plan along with the opening balances that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the financial plan.

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 Financial 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 was compiled and summarized within the 2009 Rates Analysis/2010 Budget as well as part of the UWSS efforts to become compliant with PSAB 3150. Given the prospective nature of the 2009 Rates Analysis/2010 Budget information, replacement cost was provided for each asset. However, historical cost (which is the original cost to purchase, develop, or construct each asset) is required for financial reporting purposes. Common approaches to determining historical cost include consulting UWSS records (i.e. invoices) or, if that information is not

readily available, by “deflating” the replacement cost data already in hand. 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 within the 2009 Rates Analysis/2010 Budget. However, these estimates only represent future assets that UWSS anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to UWSS). These contributed assets could form a significant part of the infrastructure going forward in terms of the sustainability of the system as a whole and despite their non-monetary nature; the financial plan may need to be adjusted in order 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.

3.2.2 Convert Statement of Operations

As per section 1.2.5 above, the new Statement of Operations eliminates and/or adds certain transactions that are to be reported differently by municipalities starting in 2009 (see Figure 3-1). A wide range of adjustments will be considered and will depend on the size and complexity of the system. For example, the revenues and expenses associated with the now obsolete Statement of Capital and Statement of Reserves and Reserve Funds (see Section 1.2.5) will need to be adjusted for and included within the new 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

**FIGURE 3-1
CONVERSION ADJUSTMENTS
STATEMENT OF OPERATIONS**

Modified Cash Basis	Budget 2010	Adjustments to Remove Non-Accrual Accounts		Transition Budget Balances 2010	Adjustments to add Accrual Accounts		Full Accrual Budget 2010	Accrual Basis	Notes on Adjustments
		Dr	Cr		Dr	Cr			
Revenues									
Revenues	9,048,300			9,048,300			9,048,300	Revenues	No Change
Transfers from Reserves	629,578	629,578		-			-	Revenues	Removes non-accrual reserve account
Other Revenue	-			-			384,811	Earned Deferred Revenue	New Account to reflect earned DC and Gas Tax Revenue
Total Revenues	9,677,878			9,048,300			9,433,111	Total Revenues	To Account for Interest Revenue
Expenditures									
Operating	3,683,709			3,683,709	1,412,800		5,096,509	Operating Expenses	Various Expenses previously classified as capital expenditures
Capital	1,614,286			-			-	Transfers to Reserves	Removes non-accrual reserve account
Transfers to Capital	716,800		716,800	-			-	Interest on Debt	Removes TCA related balances which are now captured in statement of financial position
Debt Repayment (Principal & Interest)	3,663,083		3,663,083	-	2,198,986		2,198,986	Amortization	Removes principal portion of debt - now reflected on statement of cash flow.
Other					2,969,911		2,969,911	Other	New account created as a result of PSAB 3150 - reflects cost of using TCA
Total Expenditures	9,677,878			3,683,709			10,265,406	Total Expenses	No Change
Net Expenditures	-						(832,295)	Annual Surplus/(Deficit)	Represents difference between Revenues and Expenditures
(Increase /decrease) in amounts to be recovered	-						29,997,449	Accumulated Surplus/(Deficit), beginning of year	
Change in fund balances	-						29,165,154	Accumulated Surplus/(Deficit), end of year	To transfer annual surplus to accumulated surplus
TOTAL ADJUSTMENTS		629,578	5,994,169		6,581,697	1,217,106			

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

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 in order to capture the 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 the remaining items on the Statement of Financial Position are determined and recorded (see Figure 3-2). As noted earlier, the applicable balances from the Statement of Capital and the Statement of Reserve and Reserve Funds will need to be transferred to this statement. The opening/actual balances for the 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.

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

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

The Statement of Change in Net Financial Assets/Debt is a new statement which reconciles the difference between the surplus or deficit from current operations and the change in net financial assets/debt for the year. This is significant as net debt provides an indication of future revenue requirements. In order 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 Change 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.

3.2.5 Verification and Note Preparation

The final step in the conversion process is to ensure that all of the statements created by the previous steps are in balance. The Statement of Financial Position summarizes the resources and obligations of UWSS at a set point in time. The Statement of Operations summarizes how these resources and obligations changed over the reporting period. To this end, 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 Change 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 financial 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 the assumptions and estimates made in preparing the financial plan. Some of the 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 with the UWSS ledgers. However, it may not be possible to extract this information from the ledgers for water 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 UWSS 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, however derived along with information on construction/acquisition date and useful life obtained from the from UWSS staff.
- d. Contributed Assets As noted earlier, contributed assets could represent a significant part of UWSS infrastructure acquisitions. As such, a reasonable estimate of value and timing of acquisition/donation may be required in order 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. FINANCIAL PLAN

4.1 Introduction

The following tables provide the complete financial plan for the UWSS 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 UWSS water system. It is not an audited document¹ 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 UWSS water system. The first important indicator is net financial assets/(debt), which is defined as the difference between financial assets and liabilities. This indicator provides an indication of the system’s “future revenue requirement”. A net financial asset position is where 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 system will be needed to finance past transactions as well as future operations. Table 4-1 indicates that in 2010, due to the anticipated issuance of new debt and existing debt as well as planned capital expenditures, the UWSS water system will be in a net financial debt position of \$12.4 million. However, after 2010, the financial plan forecasts an improving net financial debt position in each subsequent year of the forecast period such that the UWSS will be in a net financial asset position of approximately \$4.9 million by the end of 2015.

Another important indicator on the Statement of Financial Position is the tangible capital asset 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:

¹ O.Reg. 453/07 does not require an audited financial plan.

- Tangible capital assets such as water mains 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 by UWSS 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 assets 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 decrease by \$8.3 million over the 6-year forecast period. This indicates that UWSS is currently using existing TCA's in excess of acquiring new assets over the forecast period. It is noted that the 2009 Rate Analysis/2010 Budget indicated approximately \$6.4 million in TCA related works to be completed in 2009. However, draft 2009 statements provided by staff indicate approximately \$0.3 million was actually undertaken throughout the year. As such, it is assumed that the works undertaken are included in the 2009 TCA balance (i.e. \$34.5 million) and that the remainder of the 2009 works identified in the 2009 Rate Analysis/2010 Budget have been deferred to 2010.

4.2.2 Statement of Operations (Table 4-2)

The Statement of Operations summarizes the revenues and expenses generated by the water system for a given period. The annual surplus/deficit measures whether the revenues generated were sufficient to cover the expenses incurred and in turn, whether net financial assets have been maintained or depleted. Table 4-2 illustrates the ratio of expenses to revenues decreasing over the forecast period from 109% in 2010 to 92% in 2015. The high ratio in 2010 is partly due to the inclusion of "non-TCA" expenses carried over from the 2009 capital plan. As a result, the financial plan forecasts a deficit for 2010 but then shows a surplus in each subsequent year from 2011 to 2015.

It is important to note that an annual surplus is beneficial to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments.

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. From Table 4-2, the financial plan proposes to add approximately \$2.1 million to a 2009 accumulated surplus of approximately \$29 million over the forecast period. This accumulated surplus, as indicated in Table 4-2, is predominately made up of reserve and reserve fund balances as well as historic investments in tangible capital assets.

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

The Statement of Change 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 indicates that TCA-related expenditures (net of amortization) exceed forecasted annual surplus for 2010. However, annual surplus exceeds TCA-related expenditures (net of amortization) in each of the subsequent years (2011 – 2015). This allows for a long term plan of funding capital through accumulated surplus (i.e. revenues and reserve funds). This is evidenced by the ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions improving from 0.24 to 2.04 over the forecast period¹.

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. The 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 cash from operations will be used to fund capital transactions (i.e. tangible capital asset acquisitions), repay long-term debt, and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the UWSS water system to drop from \$19.3 million at the end of 2009 to \$12.7 million at the end of 2010 due to the inclusion of capital transactions carried over from 2009. Thereafter, the financial plan projects the cash position improving back up to \$20.6 million by the end of 2015.

¹ A desirable ratio is 1:1 or better.

Table 4-1
 Union Water System
 Statement of Financial Position
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2015

	Notes	Forecast					
		2010	2011	2012	2013	2014	2015
Financial Assets							
Cash	1	12,738,295	14,211,691	15,791,461	17,314,883	18,778,529	20,563,980
Accounts Receivable	1	677,732	672,480	672,480	672,480	672,480	672,480
Investments		-	-	-	-	-	-
Inventory for resale		-	-	-	-	-	-
Total Financial Assets		13,416,027	14,884,171	16,463,941	17,987,363	19,451,009	21,236,460
Liabilities							
Accounts Payable & Accrued Liabilities	1	204,186	208,365	212,633	216,992	221,443	225,989
Due to Related Party	2	1,540,335	1,260,177	966,711	659,306	337,299	-
Debt (Principal only)	2	24,060,145	22,632,405	21,101,689	19,459,500	17,697,601	16,124,262
Other (Deferred Revenue)	3	-	-	-	-	-	-
Total Liabilities		25,804,666	24,100,946	22,281,034	20,335,798	18,256,343	16,350,251
Net Financial Assets/(Debt)		(12,388,639)	(9,216,775)	(5,817,093)	(2,348,435)	1,194,666	4,886,209
Non-Financial Assets							
Tangible Capital Assets	4	40,553,793	37,842,777	34,948,464	32,053,075	29,134,390	26,191,981
Inventory of Supplies		-	-	-	-	-	-
Prepaid Expenses		-	-	-	-	-	-
Total Non-Financial Assets		40,553,793	37,842,777	34,948,464	32,053,075	29,134,390	26,191,981
Accumulated Surplus/(Deficit)	5	28,165,154	28,626,002	29,131,371	29,704,640	30,329,056	31,078,190
Financial Indicators							
Total Change		2010	2011	2012	2013	2014	2015
1) Increase/(Decrease) in Net Financial Assets		(6,904,104)	3,171,864	3,399,682	3,468,658	3,543,101	3,691,543
2) Increase/(Decrease) in Tangible Capital Assets		6,071,810	(2,711,016)	(2,894,313)	(2,895,389)	(2,918,685)	(2,942,409)
3) Increase/(Decrease) in Accumulated Surplus		(832,295)	460,848	505,369	573,269	624,416	749,134

Table 4-2
 Union Water System
 Statement of Operations
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2015

	Notes	Forecast					
		2010	2011	2012	2013	2014	2015
Water Revenue							
Revenues		9,048,300	9,048,300	9,048,300	9,048,300	9,048,300	9,048,300
Earned Deferred Revenue	3	-	-	-	-	-	-
Other Revenue	6	384,811	427,451	473,339	517,584	560,084	611,955
Total Revenues		9,433,111	9,475,751	9,521,639	9,565,884	9,608,384	9,660,255
Water Expenses							
Operating Expenses	Sched. 4-1	5,096,509	3,790,319	3,867,924	3,947,261	4,028,165	4,110,877
Interest on Debt	2	2,198,986	2,193,086	2,094,833	1,987,565	1,871,518	1,688,935
Amortization	4	2,969,911	3,031,498	3,053,513	3,057,789	3,084,285	3,111,309
Other		-	-	-	-	-	-
Total Expenses		10,265,406	9,014,903	9,016,270	8,992,615	8,983,968	8,911,121
Annual Surplus/(Deficit)		(832,295)	460,848	505,369	573,269	624,416	749,134
Accumulated Surplus/(Deficit), beginning of year		28,997,449	28,165,154	28,626,002	29,131,371	29,704,640	30,329,056
Accumulated Surplus/(Deficit), end of year	5	28,165,154	28,626,002	29,131,371	29,704,640	30,329,056	31,078,190
Note 5:							
Accumulated Surplus/(Deficit) is made up of:							
Opening Reserve Balances	Notes						
Reserves: Other		19,881,323					
Total Reserves Balance		19,881,323					
Less: Debt Obligations and Deferred Revenue		(25,365,857)					
Add: Adjustment for TCA (Year of Implementation Only)	4	34,481,983					
Total Opening Balance		28,997,449	28,165,154	28,626,002	29,131,371	29,704,640	30,329,056
Add: Contributions to/(from) Reserves (excl. DC reserves)							
Contributions to Reserves + Interest		1,999,098	2,339,017	2,289,271	2,236,033	2,179,365	2,504,375
Transfers from Reserves		(8,668,578)	(875,053)	(713,770)	(716,970)	(720,170)	(723,470)
Total Change in Reserves		(6,669,480)	1,463,964	1,575,501	1,519,063	1,459,195	1,780,905
Add: Changes in TCA During the Year							
Capital Assets Purchased (net of disposals)	4	9,041,720	320,483	159,200	162,400	165,600	168,900
Amortization of Capital Assets	4	(2,969,911)	(3,031,498)	(3,053,513)	(3,057,789)	(3,084,285)	(3,111,309)
Total Changes in TCA		6,071,809	(2,711,015)	(2,894,313)	(2,895,389)	(2,918,685)	(2,942,409)
Subtract Changes in Debt Position							
New Debt	2	(1,698,720)	-	-	-	-	-
Debt Repayment	2	1,464,097	1,707,899	1,824,181	1,949,595	2,083,906	1,910,638
Total Change in Debt		(234,623)	1,707,899	1,824,181	1,949,595	2,083,906	1,910,638
Total Ending Balance		28,165,154	28,626,002	29,131,371	29,704,640	30,329,056	31,078,190
Financial Indicators							
1) Expense to Revenue Ratio		109%	95%	95%	94%	94%	92%
2) Increase/(Decrease) in Accumulated Surplus		(832,295)	460,848	505,369	573,269	624,416	749,134

Schedule 4-1
Union Water System
Schedule of Operating Expenses
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2015

	Notes	Forecast					
		2010	2011	2012	2013	2014	2015
Expenditures							
Operating Costs							
Rate 1							
OCWA Operating Management Fee		2,980,560	3,040,172	3,100,975	3,162,994	3,226,254	3,290,779
Wages & Benefits		163,200	166,464	169,793	173,189	176,653	180,186
Office Supplies		2,040	2,081	2,122	2,165	2,208	2,252
Board Expenses		510	520	531	541	552	563
Dues, Memberships, Subsc.		2,040	2,081	2,122	2,165	2,208	2,252
Mileage		1,530	1,561	1,592	1,624	1,656	1,689
Training		10,200	10,404	10,612	10,824	11,041	11,262
Conferences		30,600	31,212	31,836	32,473	33,122	33,785
Uniforms/Clothing		102	104	106	108	110	113
Legal/Professional fees		102,000	104,040	106,121	108,243	110,408	112,616
Property Taxes		163,200	166,464	169,793	173,189	176,653	180,186
Small capital items		10,200	10,404	10,612	10,824	11,041	11,262
Sundry		1,020	1,040	1,061	1,082	1,104	1,126
Leamington Assistance		10,200	10,404	10,612	10,824	11,041	11,262
Communications		1,020	1,040	1,061	1,082	1,104	1,126
Postage & Courier		2,040	2,081	2,122	2,165	2,208	2,252
Advertising & Promotion		3,060	3,121	3,184	3,247	3,312	3,378
Insurance		15,300	15,606	15,918	16,236	16,561	16,892
Donations & Grants		3,060	3,121	3,184	3,247	3,312	3,378
Rate 2 & 4							
Salaries Wages & Benefits		72,348	73,795	75,271	76,776	78,312	79,878
Utilities		56,805	59,645	62,627	65,768	69,046	72,498
Chemicals		1,050	1,103	1,158	1,216	1,277	1,341
Vehicles		2,448	2,497	2,547	2,598	2,650	2,703
Machinery Repair & Maintenance		9,690	9,884	10,082	10,284	10,490	10,700
Supplies		1,530	1,561	1,592	1,624	1,656	1,689
Office Equipment		816	832	849	866	883	901
Other Supplies		816	832	849	866	883	901
Insurance		2,659	2,712	2,766	2,821	2,877	2,935
Telecommunications		15,810	16,126	16,449	16,778	17,114	17,456
Management Fee		17,855	18,212	18,576	18,948	19,327	19,714
Non TCA - Expenses from Capital Budget	7	1,412,800	31,200	31,800	32,500	33,100	33,800
TOTAL OPERATING EXPENSES		5,096,509	3,790,319	3,867,924	3,947,261	4,028,165	4,110,877

Table 4-3
Union Water System
Statement of Changes in Net Financial Assets/Debt
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2015

	Notes	Forecast					
		2010	2011	2012	2013	2014	2015
Annual Surplus/(Deficit)		(832,295)	460,848	505,369	573,269	624,416	749,134
Less: Acquisition of Tangible Capital Assets	4	(9,041,720)	(320,482)	(159,200)	(162,400)	(165,600)	(168,900)
Add: Amortization of Tangible Capital Assets	4	2,969,911	3,031,498	3,053,513	3,057,789	3,084,285	3,111,309
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-
		(6,904,104)	3,171,864	3,399,682	3,468,658	3,543,101	3,691,543
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)		(6,904,104)	3,171,864	3,399,682	3,468,658	3,543,101	3,691,543
Net Financial Assets/(Net Debt), beginning of year		(5,484,535)	(12,388,639)	(9,216,775)	(5,817,093)	(2,348,435)	1,194,666
Net Financial Assets/(Net Debt), end of year		(12,388,639)	(9,216,775)	(5,817,093)	(2,348,435)	1,194,666	4,886,209
Financial Indicators		2010	2011	2012	2013	2014	2015
1) Acquisition of Tangible Capital Assets (Cumulative)		9,041,720	9,362,202	9,521,402	9,683,802	9,849,402	10,018,302
2) Annual Surplus/Deficit before Amortization (Cumulative)		2,137,616	5,629,962	9,188,844	12,819,902	16,528,603	20,389,046
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		0.24	0.60	0.97	1.32	1.68	2.04

Table 4-4
Union Water System
Statement of Cash Flow - Direct Method
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2015

	Notes	Forecast						
		2010	2011	2012	2013	2014	2015	
Operating Transactions								
Cash Received From:								
Water Operations		8,907,748	9,053,551	9,048,301	9,048,300	9,048,300	9,048,300	9,048,300
Less: Cash paid for:								
Operating Expenses		(4,892,323)	(3,786,139)	(3,863,656)	(3,942,902)	(4,023,714)	(4,106,331)	
Other		-	-	-	-	-	-	
Finance Charges	2	(2,198,986)	(2,193,086)	(2,094,833)	(1,987,565)	(1,871,518)	(1,688,935)	
Cash Provided by Operating Transactions		1,816,439	3,074,326	3,089,812	3,117,833	3,153,068	3,253,034	
Capital Transactions								
Proceeds on sale of Tangible Capital Assets		-	-	-	-	-	-	
Less: Cash Used to acquire Tangible Capital Assets	4	(9,041,720)	(320,482)	(159,200)	(162,400)	(165,600)	(168,900)	
Cash Applied to Capital Transactions		(9,041,720)	(320,482)	(159,200)	(162,400)	(165,600)	(168,900)	
Investing Transactions								
Proceeds from Investments		384,811	427,451	473,339	517,584	560,084	611,955	
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	
Cash Provided by (applied to) Investing Transactions		384,811	427,451	473,339	517,584	560,084	611,955	
Financing Transactions								
Proceeds from Debt Issue	2	1,698,720	-	-	-	-	-	
Less: Repayment of Due to Related Party	2	(267,454)	(280,158)	(293,466)	(307,405)	(322,007)	(337,299)	
Less: Debt Repayment (principal only)	2	(1,196,643)	(1,427,741)	(1,530,715)	(1,642,189)	(1,761,899)	(1,873,339)	
Cash Applied to Financing Transactions		234,623	(1,707,899)	(1,824,181)	(1,949,595)	(2,083,906)	(2,210,638)	
Increase in Cash and Cash Equivalents		(6,605,847)	1,473,396	1,579,770	1,523,422	1,463,646	1,785,451	
Cash and Cash Equivalents, beginning of year	1	19,344,142	12,738,295	14,211,691	15,791,461	17,314,883	18,778,529	
Cash and Cash Equivalents, end of year	1	12,738,295	14,211,691	15,791,461	17,314,883	18,778,529	20,563,980	

NOTES TO FINANCIAL PLAN

The financial plan format as outlined in Chapter 4 closely approximates the full accrual format used by municipalities (2009 onward) on their 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).”

The 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

In order to show a balanced financial plan in a full accrual format for UWSS, some of the items listed above have been estimated based on the draft 2009 financial statements provided by UWSS. The assumptions used have been documented below:

1. Cash, Receivables and Payables

Year-end cash balances from the draft 2009 year-end financial statements were used as the 2010 opening cash balance required to complete the financial plan.

Projected water accounts receivable were estimated based on a multiplier equal to the average 2008 and 2009 ending A/R balances as a percentage of 2009 wholesale billings calculated as follows: $[(\$594,518 + \$537,180)/2] / \$8,080,206 = 7.0\%$. This multiplier was then applied to projected revenues in each year of the forecast period.

Similar to the projection of water accounts receivable, projected water accounts payable were estimated based on a multiplier equal to the average 2008 and 2009 ending A/P balances as a percentage of 2009 expenditures calculated as follows: $[(\$381,480 + \$0)/2] / \$3,441,128 = 5.5\%$. This multiplier was then applied to projected operating expenses in each year of the forecast period.

2. Debt

Outstanding water related debt at the end of 2009 was \$23,558,068, with additional debt proceeds anticipated throughout the forecast period. Principal repayments for existing and new debt over the forecast period are scheduled as follows:

2010	\$	1,196,643
2011	\$	1,427,741
2012	\$	1,530,715
2013	\$	1,642,189
2014	\$	1,761,899
2015	\$	<u>1,573,339</u>
	\$	<u>9,132,526</u>

Due to Related Party outstanding as at the end of 2009 was \$1,807,789 and is due to the Municipality of Leamington. 'Deemed Principal' repayments over the forecast period are scheduled as follows:

2010	\$	267,454
2011	\$	280,158
2012	\$	293,466
2013	\$	307,405
2014	\$	322,007
2015	\$	<u>337,299</u>
	\$	<u>1,807,789</u>

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 water development charge reserve fund balances which are considered to be a liability for financial reporting purposes until the funds are used to emplace the works for which they have been collected. UWSS does not collect development charges therefore no deferred revenue balances are forecasted.

4. Tangible Capital Assets

- Opening 2010 net book value of tangible capital assets includes water related assets in the following categories:
 - i. Infrastructure
 - ii. Facilities
 - iii. Equipment
 - iv. Land
- Amortization is calculated based on using the straight-line approach applied monthly over the useful life of the asset. For all assets acquired prior to 2010, amortization is calculated monthly starting in the first month that the asset is put into service. It is assumed that all assets projected to be purchased/constructed/added in 2010 and beyond as per the financial plan, are purchased/constructed/added on January 1.
- 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. Planned asset acquisitions as summarized below represent upgrades to existing assets and as such, no replacements are anticipated within the forecast period therefore disposals are assumed to be \$0.
- Residual value is assumed to be \$0 for all assets contained within the forecast period.
- 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	2010	2011	2012	2013	2014	2015
Opening TCA Balance (Historical Cost)	44,765,480	53,807,200	54,127,683	54,286,883	54,449,283	54,614,883
Acquisitions	9,041,720	320,483	159,200	162,400	165,600	168,900
Disposals	-	-	-	-	-	-
Closing TCA Balance (Historical Cost)	53,807,200	54,127,683	54,286,883	54,449,283	54,614,883	54,783,783
Opening Accumulated Amortization	10,283,497	13,253,408	16,284,906	19,338,419	22,396,208	25,480,493
Amortization Expense	2,969,911	3,031,498	3,053,513	3,057,789	3,084,285	3,111,309
Amortization on Disposal	-	-	-	-	-	-
Ending Accumulated Amortization	13,253,408	16,284,906	19,338,419	22,396,208	25,480,493	28,591,802
Net Book Value	40,553,792	37,842,777	34,948,464	32,053,075	29,134,390	26,191,981

5. Accumulated Surplus

Accumulated Surplus for the initial year of the forecast period is reconciled as follows:

Water	2010
Opening Reserve Balances	
Reserves: Other	19,881,323
Total Reserves Balance	19,881,323
Less: Debt Obligations and Deferred Revenue	(25,365,857)
Add: Adjustment for TCA (Year of Implementation Only)	34,481,983
Total Opening Balance	28,997,449
Add: Contributions to/(from) Reserves (excl. DC reserves)	
Contributions to Reserves + Interest	1,999,098
Transfers from Reserves	(8,668,578)
Total Change in Reserves	(6,669,480)
Add: Changes in TCA During the Year	
Capital Assets Purchased (net of disposals)	9,041,720
Amortization of Capital Assets	(2,969,911)
Total Changes in TCA	6,071,809
Subtract Changes in Debt Position	
New Debt	(1,698,720)
Debt Repayment	1,464,097
Total Change in Debt	(234,623)
Total Ending Balance	28,165,154

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

6. Other Revenue

Other revenue includes interest earned on reserve balances and other non-operating general revenues.

7. Operating Expenses

Capital expenditures for items not meeting the definition of tangible capital assets have been reclassified as operating expenses and have been expense in the year in which they occur.

5. PROCESS FOR FINANCIAL PLAN APPROVAL AND SUBMISSION TO THE PROVINCE

5. PROCESS FOR APPROVAL AND SUBMISSION TO THE PROVINCE

As provided in section 1.2, the requirement to prepare the financial plan is provided in Section 32 (5) 2 ii of the SDWA. Proof of the preparation of a 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. The financial plan must be approved by resolution of the municipality who owns the drinking water system or the governing body of the owner. (O.Reg. 453/07, Section 3 (1) 1)
2. The 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/owner's website. (O.Reg. 453/07, Section 3 (1) 5)
3. The 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. The Board Resolution approving the 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)

6. RECOMMENDATIONS

6. RECOMMENDATIONS

This report presents the water for the UWSS in accordance with the mandatory reporting formats for water systems as detailed in O.Reg. 453/07. It is important to note that while mandatory, the financial plan is provided for the Board's interest and approval however, for decision making purposes, it may be more informative to rely on the information contained within the 2009 Rates Analysis/2010 Budget. Nevertheless, the Board is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Union Water Supply System Water Financial Plan prepared by Watson & Associates Economists Ltd. dated June 16, 2010 be approved.
2. Notice of availability of the Financial Plan be advertised.
3. That the Board Authorize Union Water Supply System management to forward a copy of the Union Water Supply System Water Financial Plan dated June 16, 2010 and copy of the Board resolution approving the Financial Plan to the Ministry of Municipal Affairs and Housing and the Ministry of the Environment.

**APPENDIX A
UNION WATER SUPPLY SYSTEM RESERVES, RATES
AND FINANCIAL PLANNING PRESENTATION
(2009 RATES ANALYSIS/2010 BUDGET)**

Table A1
 Union Water System
 Water Service - Common - Rate 1
 Capital Budget Forecast
 Inflated \$

Description	Forecast					
	2010	2011	2012	2013	2014	2015
Capital Expenditures						
Conservation Programs	0	0	0	0	0	0
Managerial Office	0	0	0	0	0	0
Hydraulic Modelling	10,000	0	0	0	0	0
Rate Study	10,200	0	0	0	0	0
Common Assets	0	0	0	0	0	0
Water Use Study	131,000	0	0	0	0	0
Operational Study (Sustainable Water and Sewage Systems Act)	100,400	0	0	0	0	0
Financial Study (Sustainable Water and Sewage Systems Act)	110,400	0	0	0	0	0
Drinking Water Works Permit	30,200	0	0	0	0	0
PSAB Requirements	100,000	0	0	0	0	0
Leakage Study	10,000	0	0	0	0	0
Power Optimization Study	400,000	0	0	0	0	0
Governance	0	0	0	0	0	0
Filter Rating	0	0	0	0	0	0
Install Fence at Essex Elevated Tower	0	0	0	0	0	0
Adjust Fence at Leamington Elevated Tower	0	0	0	0	0	0
Install Fence at Ruthven Plant	0	0	0	0	0	0
Adjust Fence at Kingsville Elevated Tower	100,000	0	0	0	0	0
Clean Settling Lagoons at WTP	0	0	0	0	0	0
Filter Wall Repairs	0	0	0	0	0	0
Water Quality Investigations	0	0	0	0	0	0
Watermain Repairs	300,000	0	0	0	0	0
SCADA Communication System	0	0	0	0	0	0
Travelling Screen No 1	30,000	0	0	0	0	0
Miscellaneous Consulting Services	180,600	31,200	31,800	32,500	33,100	33,800
Miscellaneous Capital Works	153,000	156,100	159,200	162,400	165,600	168,900
Filter Backwash System Upgrade	0	0	0	0	0	0
Filter Backwash System Upgrade - Engineering	250,000	0	0	0	0	0
Standby Power	100,000	0	0	0	0	0
Standby Power - Engineering	1,100,000	0	0	0	0	0
Lifecycle:						
Elevated Water Tanks	0	0	0	0	0	0
Reservoir and Pumping Station	0	0	0	0	0	0
Water Treatment Plant	0	0	0	0	0	0
Watermains	0	0	0	0	0	0
Total Capital Expenditures	3,115,800	187,300	191,000	194,900	198,700	202,700
Capital Financing						
Provincial/Federal Grants	0	0	0	0	0	0
Debtenture Requirements	686,800	31,200	31,800	32,500	33,100	33,800
Operating Contributions	0	0	0	0	0	0
Lifecycle Reserve Fund	0	0	0	0	0	0
Reserves and Reserve Funds	2,429,000	156,100	159,200	162,400	165,600	168,900
Total Capital Financing	3,115,800	187,300	191,000	194,900	198,700	202,700

Table A2
Union Water System
Water Service - Common - Rate 1
Water Reserves/ Reserve Funds Continuity
 Inflated \$

Description	2010	2011	2012	2013	2014	2015
Opening Balance	1,954,348	955,592	1,091,717	1,250,759	1,400,901	1,555,894
Transfer from Operating	98,411	104,328	122,613	109,338	109,676	103,396
Transfer to Capital	1,125,000	0	0	0	0	0
Transfer to Operating	0	0	0	0	0	0
Closing Balance	927,759	1,059,919	1,214,330	1,360,098	1,510,577	1,659,290
Interest	27,833	31,798	36,430	40,803	45,317	49,779

Table A3
Water Service - Common - Rate 1
Wholesale Reserve
 Inflated \$

Description	2010	2011	2012	2013	2014	2015
Opening Balance	1,143,109	333,833	816,515	1,315,634	1,347,481	1,294,588
Transfer from Operating	485,000	615,000	620,000	155,000	75,000	0
Transfer to Capital	1,304,000	156,100	159,200	162,400	165,600	168,900
Transfer to Operating	0	0	0	0	0	0
Closing Balance	324,109	792,733	1,277,315	1,308,234	1,256,881	1,125,688
Interest	9,723	23,782	38,319	39,247	37,706	33,771

Table A4
Water Service - Common - Rate 1
MFP Settlement Reserve Fund Continuity
 Inflated \$

Description	2010	2011	2012	2013	2014	2015
Opening Balance	2,740,593	2,740,593	2,740,593	2,740,593	2,740,593	2,740,593
Transfer from Operating	0	0	0	0	0	0
Transfer to Capital	79,823	79,823	79,823	79,823	79,823	79,823
Transfer to Operating	2,660,770	2,660,770	2,660,770	2,660,770	2,660,770	2,660,770
Closing Balance	79,823	79,823	79,823	79,823	79,823	79,823
Interest	79,823	79,823	79,823	79,823	79,823	79,823

Table A5
Union Water System
Water Service - Common - Rate 1
Water Lifecycle Reserve Fund Continuity
 Inflated \$

Description	2010	2011	2012	2013	2014	2015
Opening Balance	2,430,531	2,199,597	2,420,085	2,544,188	3,084,013	3,640,034
Transfer from Operating	0	150,000	50,000	450,000	450,000	450,000
Transfer to Capital	0	0	0	0	0	0
Transfer to Operating	295,000	0	0	0	0	0
Closing Balance	2,135,531	2,349,597	2,470,085	2,994,188	3,534,013	4,090,034
Interest	64,066	70,488	74,103	89,826	106,020	122,701

Table A6
 Union Water System
 Water Service - Common - Rate 1
 Operating Budget Forecast
 Inflated \$

Description	Forecast					
	2010	2011	2012	2013	2014	2015
Expenditures						
OCWA Operating Management Fee	2,980,560	3,040,172	3,100,975	3,162,994	3,226,254	3,290,779
Total OCWA Operating	2,980,560	3,040,172	3,100,975	3,162,994	3,226,254	3,290,779
Office Overhead, Rents & Services						
Wages & Benefits	163,200	166,464	169,793	173,189	176,653	180,186
Office Supplies	2,040	2,081	2,122	2,165	2,208	2,252
Board Expenses	510	520	531	541	552	563
Dues, Memberships, Subsc.	2,040	2,081	2,122	2,165	2,208	2,252
Mileage	1,530	1,561	1,592	1,624	1,656	1,689
Training	10,200	10,404	10,612	10,824	11,041	11,262
Conferences	30,600	31,212	31,836	32,473	33,122	33,785
Uniforms/Clothing	102	104	106	108	110	113
Legal/Professional fees	102,000	104,040	106,121	108,243	110,408	112,616
Property Taxes	163,200	166,464	169,793	173,189	176,653	180,186
Small capital items	10,200	10,404	10,612	10,824	11,041	11,262
Sundry	1,020	1,040	1,061	1,082	1,104	1,126
Leamington Assistance	10,200	10,404	10,612	10,824	11,041	11,262
Communications	1,020	1,040	1,061	1,082	1,104	1,126
Postage & Courier	2,040	2,081	2,122	2,165	2,208	2,252
Advertising & Promotion	3,060	3,121	3,184	3,247	3,312	3,378
Insurance	15,300	15,606	15,918	16,236	16,561	16,892
Donations & Grants	3,060	3,121	3,184	3,247	3,312	3,378
Total Office Overhead, Rents & Services	521,322	531,748	542,383	553,231	564,296	575,582
Sub Total Operating	3,501,882	3,571,920	3,643,358	3,716,226	3,790,550	3,866,361
Capital-Related						
MFP Repayment	562,080	566,726	571,402	576,109	580,847	585,616
New Debt	0	0	0	0	0	0
Capital From Current	686,800	31,200	31,800	32,500	33,100	33,800
Transfer to Wholesale Reserve Fund	485,000	615,000	620,000	155,000	75,000	0
Transfer to Reserves and Reserve Fund	98,411	104,328	122,613	109,338	109,676	103,396
Sub Total Capital Related	1,832,291	1,317,253	1,345,815	872,948	798,623	722,812
Total Expenditures	5,334,173	4,889,173	4,989,173	4,589,173	4,589,173	4,589,173
Revenues						
Sundry Revenue						
Investment Income - Earnings on MFP Settlement Reserve	79,823	79,823	79,823	79,823	79,823	79,823
Contributions from Development Charges Reserve Fund	0	0	0	0	0	0
Contributions from Reserves / Reserve Funds	295,000	0	0	0	0	0
Total Operating Revenue	374,823	79,823	79,823	79,823	79,823	79,823
Water Billing Recovery - Operating	4,959,350	4,809,350	4,909,350	4,509,350	4,509,350	4,509,350
Lifecycle Reserve Contribution (\$)	0	150,000	50,000	450,000	450,000	450,000
Water Billing Recovery - Total	4,959,350	4,959,350	4,959,350	4,959,350	4,959,350	4,959,350

Table A7
 Union Water System
 Water Service - Common - Rate 1
 Water Rate Forecast
 Inflated \$

Description	2010	2011	2012	2013	2014	2015
Total Water Billing Recovery	4,959,350	4,959,350	4,959,350	4,959,350	4,959,350	4,959,350
Total Consumption (gallons)	3,905,000,000	3,905,000,000	3,905,000,000	3,905,000,000	3,905,000,000	3,905,000,000
Constant Rate (per 1,000 gallons)	1.27	1.27	1.27	1.27	1.27	1.27

Table A8
Union Water System
Water Service - Expansion and Northwest (Rate 2 & 4)
Capital Budget Forecast
Inflated \$

Description	Forecast					
	2010	2011	2012	2013	2014	2015
Capital Expenditures						
Dechlorination	0	0	0	0	0	0
Development Charge Study	15,000	0	0	0	0	0
Greenhouse Study	15,000	0	0	0	0	0
Master Plan	300,000	0	0	0	0	0
2nd Concession Trunk Watermain	0	0	0	0	0	0
Chemical Storage & Feed System Engineering	160,000	0	0	0	0	0
Elevated Storage Tank	4,280,000	0	0	0	0	0
Elevated Storage Tank Engineering	556,000	0	0	0	0	0
Cottam Trunk Watermain	0	0	0	0	0	0
Cottam Trunk Watermain Engineering	0	0	0	0	0	0
Cottam Booster Station Modifications	0	0	0	0	0	0
Cottam Booster Station Modifications Engineering	0	0	0	0	0	0
Low Lift Pumping Station Upgrade	1,185,240	0	0	0	0	0
Low Lift Pumping Station Upgrade Engineering	527,480	0	0	0	0	0
High Lift Pumping Station Upgrade	0	0	0	0	0	0
High Lift Pumping Station Upgrade Engineering	0	39,535	0	0	0	0
Membrane Filtration Satellite Plant	0	0	0	0	0	0
Membrane Filtration Satellite Plant Engineering	0	0	0	0	0	0
1.5 MG Underground Reservoir	0	0	0	0	0	0
1.5 MG Underground Reservoir Engineering	0	104,040	0	0	0	0
Waste Treatment Facility Upgrades	260,000	0	0	0	0	0
Waste Treatment Facility Upgrades Engineering	40,000	0	0	0	0	0
Miscellaneous Building and Site Work	0	0	0	0	0	0
Miscellaneous Building and Site Work Engineering	0	20,808	0	0	0	0
Total Capital Expenditures	7,338,720	164,383	0	0	0	0
Capital Financing						
Provincial/Federal Grants						
Development Charges	0	0	0	0	0	0
Non-Growth Related Debtenture Requirements	1,698,720	0	0	0	0	0
Operating Contributions	30,000	0	0	0	0	0
Reserves and Reserve Funds	5,610,000	164,383	0	0	0	0
Total Capital Financing	7,338,720	164,383	0	0	0	0

Table A9
Union Water System
Water Service - Expansion and Northwest (Rate 2 & 4)
Schedule of Debenture Repayments

Debenture Year	Forecast				
	2010	2011	2012	2013	2014
2009	0	0	0	0	0
2010	219,992	219,992	219,992	219,992	219,992
2011	0	0	0	0	0
2012	0	0	0	0	0
2013	0	0	0	0	0
2014	0	0	0	0	0
2015	0	0	0	0	0
Total Annual Debt Charges	0	219,992	219,992	219,992	219,992

Table A10
Union Water System
Water Service - Expansion and Northwest (Rate 2 & 4)
Water Reserves/ Reserve Funds Continuity

Description	Inflated \$				
	2010	2011	2012	2013	2014
Opening Balance	64,594	66,532	68,528	70,584	72,702
Transfer from Operating	0	0	0	0	0
Transfer to Capital	0	0	0	0	0
Transfer to Operating	0	0	0	0	0
Closing Balance	64,594	66,532	68,528	70,584	72,702
Interest	1,938	1,996	2,056	2,118	2,181
					2,246

Table A11
Water Service - Expansion and Northwest (Rate 2 & 4)
MFP Settlement Reserve Fund Continuity

Description	Inflated \$				
	2010	2011	2012	2013	2014
Opening Balance	7,026,863	7,026,863	7,026,863	7,026,863	7,026,863
Transfer from Operating	0	0	0	0	0
Transfer to Capital	0	0	0	0	0
Transfer to Operating	204,666	204,666	204,666	204,666	204,666
Closing Balance	6,822,197	6,822,197	6,822,197	6,822,197	6,822,197
Interest	204,666	204,666	204,666	204,666	204,666
Interest Transferred to Operating	204,666	204,666	204,666	204,666	204,666

Table A12
Water Service - Expansion and Northwest (Rate 2 & 4)
Wholesale Reserve

Description	Inflated \$				
	2010	2011	2012	2013	2014
Opening Balance	4,866,038	251,753	894,531	1,707,822	2,527,138
Transfer from Operating	988,383	1,001,098	983,541	965,703	947,575
Transfer to Capital	5,610,000	164,383	0	0	0
Transfer to Operating	0	219,992	219,992	219,992	219,992
Closing Balance	244,420	868,476	1,658,079	2,453,532	3,254,721
Interest	7,333	26,054	49,742	73,606	97,642
					133,073

Table A13
Union Water System
Water Service - Expansion and Northwest (Rate 2 & 4)
Operating Budget Forecast
 Inflated \$

Description	Forecast					
	2010	2011	2012	2013	2014	2015
Expenditures						
Operating Costs						
Salaries Wages & Benefits	72,348	73,795	75,271	76,776	78,312	79,878
Utilities	56,805	59,645	62,627	65,758	69,046	72,498
Chemicals	1,050	1,103	1,158	1,216	1,277	1,341
Vehicles	2,448	2,497	2,547	2,598	2,650	2,703
Machinery Repair & Maintenance	9,690	9,884	10,082	10,284	10,490	10,700
Supplies	1,530	1,561	1,592	1,624	1,656	1,689
Office Equipment	816	832	849	866	883	901
Other Supplies	816	832	849	866	883	901
Insurance	2,659	2,712	2,766	2,821	2,877	2,935
Telecommunications	15,810	16,126	16,449	16,778	17,114	17,456
Management Fee	17,855	18,212	18,576	18,948	19,327	19,714
Sub Total Operating	181,827	187,199	192,766	198,535	204,515	210,716
Capital-Related						
Woodslee Credit Union	754,904	754,904	754,904	754,904	754,904	380,672
OSIFA	388,010	388,010	388,010	388,010	388,010	388,010
MFP Repayment	1,441,168	1,453,081	1,465,071	1,477,140	1,489,288	1,501,515
Payment to Leamington - Common Asset Adjustment	353,324	353,324	353,324	353,324	353,324	353,321
New Debt	0	219,992	219,992	219,992	219,992	219,992
Capital From Current	30,000	0	0	0	0	0
Transfer to Reserves and Reserve Funds	988,383	1,001,098	983,541	965,703	947,575	1,303,382
Sub Total Capital Related	3,955,789	4,170,409	4,164,842	4,159,073	4,153,093	4,146,892
Total Expenditures	4,137,616	4,357,608	4,357,608	4,357,608	4,357,608	4,357,608
Revenues						
Investment Income - From MFP Settlement Reserves	204,666	204,666	204,666	204,666	204,666	204,666
Contributions from Development Charges Reserve Fund	0	0	0	0	0	0
Contributions from Reserves / Reserve Funds	0	219,992	219,992	219,992	219,992	219,992
Total Operating Revenue	204,666	424,658	424,658	424,658	424,658	424,658
Water Billing Recovery - Total	3,932,950	3,932,950	3,932,950	3,932,950	3,932,950	3,932,950

Table A14
Union Water System
Water Service - Expansion and Northwest (Rate 2 & 4)
Water Rate Forecast

Inflated \$

Description	2010	2011	2012	2013	2014	2015
Total Water Billing Recovery	3,932,950	3,932,950	3,932,950	3,932,950	3,932,950	3,932,950
Total Consumption (gallons)	3,305,000,000	3,305,000,000	3,305,000,000	3,305,000,000	3,305,000,000	3,305,000,000
Constant Rate (per 1,000 gallons)	1.19	1.19	1.19	1.19	1.19	1.19

Table A15
Union Water System
Water Service - Upgrade - Heinz Only - Rate 3
MFP Water Settlement Reserve Fund Continuity
 Inflated \$

Description	2010	2011	2012	2013	2014	2015
Opening Balance	657,511	669,411	680,276	690,065	698,736	706,248
Transfer from Operating	42,492	41,140	39,779	38,409	37,030	35,642
Transfer to Capital	0	0	0	0	0	0
Transfer to Heinz	50,089	50,089	50,089	50,089	50,089	50,089
Transfer to Operating	649,914	660,462	669,966	678,385	685,677	691,800
Closing Balance	19,497	19,814	20,099	20,352	20,570	20,754
Interest						

Table A16
Union Water System
Water Service - Upgrade - Heinz Only - Rate 3
Operating Budget Forecast
 Inflated \$

Description	Forecast					
	2010	2011	2012	2013	2014	2015
Expenditures						
<u>Operating Costs</u>						
Sub Total Operating	0	0	0	0	0	0
<u>Capital-Related</u>						
Existing Debt	163,597	164,949	166,310	167,680	169,059	170,447
New Debt	0	0	0	0	0	0
Capital From Current	0	0	0	0	0	0
Transfer to Reserves and Reserve Funds	42,492	41,140	39,779	38,409	37,030	35,642
Sub Total Capital Related	206,089	206,089	206,089	206,089	206,089	206,089
Total Expenditures	206,089	206,089	206,089	206,089	206,089	206,089
Revenues						
Contributions from Development Charges Reserve Fund	0	0	0	0	0	0
Contributions from Reserves / Reserve Funds	50,089	50,089	50,089	50,089	50,089	50,089
Total Operating Revenue	50,089	50,089	50,089	50,089	50,089	50,089
Water Billing Recovery - Operating	156,000	156,000	156,000	156,000	156,000	156,000
Water Billing Recovery - Total	156,000	156,000	156,000	156,000	156,000	156,000

Table A17
Union Water System
Water Service - Upgrade - Heinz Only - Rate 3
Water Rate Forecast
 Inflated \$

Description	2010	2011	2012	2013	2014	2015
Total Water Billing Recovery	156,000	156,000	156,000	156,000	156,000	156,000
Total Consumption (gallons)	600,000,000	600,000,000	600,000,000	600,000,000	600,000,000	600,000,000
Constant Rate (per 1,000 gallons)	0.26	0.26	0.26	0.26	0.26	0.26