

## **Purpose**

The purpose of this report is to seek Council's approval of the Financial Plan for The Village of Oil Springs' drinking water system in compliance with the Ministry of the Environment's Municipal Drinking Water Licence Program under O. Reg. 453/07 made under the *Safe Drinking Water Act, 2002*, as a condition of the Village's Municipal Drinking Water Licence.

## **Background**

The Ontario Ministry of the Environment introduced a new Municipal Drinking Water Licensing Program under the *Safe Drinking Water Act, 2002*. This legislation was created as a result of a recommendation by Justice O'Connor's Part II Report of the Walkerton Inquiry. Report PPW84-08, re: "New Drinking Water Licensing Program and Drinking Water Quality Management Standard", Council was advised that the preparation of a financial plan for the water system was a new licensing requirement. The Inquiry Report recommended a comprehensive approach to the delivery of safe drinking water in Ontario. It should be noted that the legislation does not currently require a financial plan for the wastewater system.

There are five elements that must be in place in order for the owner of a drinking water system to obtain a licence:

1. A Drinking Water Works Permit to establish or alter a drinking water system.
2. An accepted operational plan. The Drinking Water Quality Management Standard (DWQMS) is the standard upon which operational plans are based. The plan documents an operating authority's quality management system (QMS)
3. An accredited operating authority. A third party audit of an operating authority's QMS will be the basis for accreditation.
4. A Permit to take water.
5. A Financial Plan that must be prepared and approved in accordance with the prescribed requirements in the Financial Plans Regulation.

In addition, each licence contains the following common condition:

The owner of the drinking water system, by the latter of July 1, 2010 and the date that is six months after the date the first licence is issued, shall prepare and approve financial plans for the system that satisfy the requirements prescribed under section 3 of O. Reg.453/07.

Section 3 of O. Reg 453/07 sets out a number of requirements for the water financial plan, such as:

- The plan must be approved by a resolution of Council;
- The plan must apply to a period of at least six years;
- Details of the projected financial position and operations must be itemized; and
- The financial plans must be made available to the public without charge.

Once a system is licensed Financial Plans are required every 5 years with the licence renewal application.

Attached to this report is the financial plan that meets the requirements of the drinking water licence and O. Reg. 453/07. The Financial Plan required under the legislation consists of the following:

- Statement of Financial Position;
- Statement of Operations; and
- Statement of Cash Flow.

The plan required under the legislation was prepared based on the Village's 2011 financial statements and capital assets ledger.

### **Tangible Capital Assets**

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

The preparation of the required Water System Financial Plan also requires the allocation of asset and liability account balances which are maintained at an overall municipality level and not normally attributed to individual services, such as water. The legislation also requires a 6 year projection of the Statement of Financial Position which is not a common financial reporting practice.

Upon Council approval of the report, a copy of the approved plan will be sent to the Ministry of the Environment, satisfying the Village's permit and regulatory requirements.

### **The Financial Plan**

The "Statement of Financial Position" is the balance sheet in Municipal reporting and provides information that describes the assets, liabilities, and accumulated surplus of the Village water system. Debt increases in 2012 due to a new OCIFA debenture that was received in 2012, due to the burden that was put on financial resources from waterline replacement in 2010 and 2011. This debenture is steadily paid down in the 2012 to 2016 forecast period. Net financial assets are in a negative, or debt position, again due mainly to resources required for waterline replacement. There is an improvement, however, in the 2012 to 2016 forecast period, going from a net debt of \$165,000 in 2012 to a net debt of \$95,000 in 2016.

Another important indicator on the "Statement of Financial Position" is the tangible capital asset balance. As indicated above, providing this information is a new requirement beginning in 2009 for municipalities by the Canadian Institute of Chartered Accountants, Public Sector Accounting Handbook as part of PS3150 compliance. The "Statement of Financial Position" shows Oil Springs' tangible capital water assets are expected to decrease by approximately \$250,000 over the 2012 to 2016 forecast period, going from \$1.75M to \$1.5M. This reflects the fact that all waterlines were replaced during 2010 and 2011, and therefore, no capital asset additions are expected during the 2012 to 2016 period.

The "Statement of Operations" summarizes the revenues and operating expenses of the water systems for a given period. 'Net revenues' measure whether the revenues generated were sufficient to cover the operating expenses incurred and are used to fund tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments. The "Statement of Operations" shows negative net revenues in the 2013 to 2016 period, due to an increase in operating expenses as a result of a projected rate increase from the Township of Enniskillen on water purchases.

The "Statement of Cash Flow" summarizes how the water systems are expected to generate and use cash resources during the planning period. This statement shows a steady increase in cash during the 2012 to 2016 forecast period, even as the debt for large water-related capital projects undertaken in 2010 and 2011 is paid down.

Respectfully submitted,

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Christine Poland,  
Clerk Treasurer

Approved by,

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Ian Veen,  
Mayor