

Municipality of Southwest Middlesex

Water System
Projected Financial Statements

Financial Plan #038-301

For The Years Ending December 31
2014, 2015, 2016, 2017, 2018, 2019

(Unaudited – See Notice to Reader)

**NOTICE TO READER ON THE COMPILATION
OF A FINANCIAL PROJECTION**

**To the Members of Council, Inhabitants and Ratepayers of the Municipality of
Southwest Middlesex**

I have compiled the financial projection for the Water System of the Municipality of Southwest Middlesex consisting of a statement of financial position as at December 31, 2014, 2015, 2016, 2017, 2018 and 2019 and statements of operations and accumulated surplus, changes in net financial assets and cash flows for the years then ending using assumptions, including the hypothesis set out in Note #2, with an effective date of September 24, 2013, and other information provided by management. My engagement was performed in accordance with the applicable guidance on compilation of a financial projection issued by The Canadian Institute of Chartered Accountants.

A compilation is limited to presenting, in the form of a financial projection, information provided by management and does not include evaluating the support for the assumptions, including the hypothesis, or other information underlying the projection. Accordingly, I do not express an opinion or any other form of assurance on the financial projection or assumptions, including the hypothesis. Further, since this financial projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothesis occurs, and the variations may be material. I have no responsibility to update this communication for events and circumstances occurring after the date of this communication.

**London, Ontario
September 24, 2013**

Scrimgeour Company
LICENCED PUBLIC ACCOUNTANT

**Municipality of Southwest Middlesex
Water System
Projected Statement of Financial Position
As at December 31**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Financial Assets | | | | | | |
| Current assets | \$ 534,629 | \$ 553,569 | \$ 697,062 | \$ 885,757 | \$ 1,151,434 | \$ 1,418,384 |
| Total Assets | <u>534,629</u> | <u>553,569</u> | <u>697,062</u> | <u>885,757</u> | <u>1,151,434</u> | <u>1,418,384</u> |
| Liabilities | | | | | | |
| Debt | 1,009,848 | 840,365 | 670,658 | 504,673 | 378,741 | 252,783 |
| Total Liabilities | <u>1,009,848</u> | <u>840,365</u> | <u>670,658</u> | <u>504,673</u> | <u>378,741</u> | <u>252,783</u> |
| Net Financial Assets/(Debt) | (475,219) | (286,796) | 26,404 | 381,084 | 772,692 | 1,165,601 |
| Non-Financial Assets | | | | | | |
| Tangible Capital Assets | 13,384,563 | 13,234,163 | 13,039,075 | 12,842,154 | 12,643,399 | 12,442,812 |
| Accumulated Surplus | <u>\$ 12,909,344</u> | <u>\$ 12,947,367</u> | <u>\$ 13,065,479</u> | <u>\$ 13,223,238</u> | <u>\$ 13,416,092</u> | <u>\$ 13,608,413</u> |

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**Municipality of Southwest Middlesex
Water System
Projected Statement of Operations and Accumulated Surplus
For the years ending December 31**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenue | | | | | | |
| Water Sales | \$ 1,199,368 | \$ 1,235,489 | \$ 1,293,712 | \$ 1,311,274 | \$ 1,376,496 | \$ 1,408,546 |
| Capital Surcharge | 49,896 | 100,590 | 152,093 | 204,412 | 206,048 | 207,696 |
| Capital Grant | 667,558 | | | | | |
| Total Revenue | 1,916,822 | 1,336,079 | 1,445,805 | 1,515,686 | 1,582,544 | 1,616,242 |
| Expenditures | | | | | | |
| Amortization Expense | 275,485 | 302,900 | 305,088 | 306,921 | 308,754 | 310,588 |
| Interest on Debt Expense | 8,677 | 6,079 | 3,856 | 1,694 | 145 | 118 |
| Operating Expenses | 960,269 | 989,077 | 1,018,749 | 1,049,312 | 1,080,791 | 1,113,215 |
| Total Expenditures | 1,244,431 | 1,298,056 | 1,327,693 | 1,357,927 | 1,389,690 | 1,423,921 |
| Annual Surplus | 672,391 | 38,023 | 118,112 | 157,759 | 192,854 | 192,321 |
| Annual Surplus | 672,391 | 38,023 | 118,112 | 157,759 | 192,854 | 192,321 |
| Accumulated Surplus, Beginning of Period | 12,236,953 | 12,909,344 | 12,947,367 | 13,065,479 | 13,223,238 | 13,416,092 |
| Accumulated Surplus, End of Period | \$ 12,909,344 | \$ 12,947,367 | \$ 13,065,479 | \$ 13,223,238 | \$ 13,416,092 | \$ 13,608,413 |

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**Municipality of Southwest Middlesex
Water
Projected Statement of Change in Net Financial Assets/(Debt)
For the Years Ending December 31**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|--------------|--------------|------------|------------|------------|--------------|
| Annual Surplus/(Deficit) | \$ 672,391 | \$ 38,023 | \$ 118,112 | \$ 157,759 | \$ 192,854 | \$ 192,321 |
| Amortization of Tangible Capital Assets | 275,485 | 302,900 | 305,088 | 306,921 | 308,754 | 310,588 |
| Less: Acquisition of Tangible Capital Assets | (1,237,245) | (152,500) | (110,000) | (110,000) | (110,000) | (110,000) |
| Change in Net Financial Assets/(Debt) | (289,369) | 188,423 | 313,199 | 354,680 | 391,608 | 392,909 |
| Net Financial Assets/(Debt) | | | | | | |
| Beginning of Period | (185,850) | (475,219) | (286,796) | 26,404 | 381,084 | 772,692 |
| Increase/(Decrease) | (289,369) | 188,423 | 313,199 | 354,680 | 391,608 | 392,909 |
| End of Period | \$ (475,219) | \$ (286,796) | \$ 26,404 | \$ 381,084 | \$ 772,692 | \$ 1,165,601 |

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**Municipality of Southwest Middlesex
Water System
Projected Statement of Cash Flows
For the Years Ending December 31**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|--------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| Operating Transactions | | | | | | |
| Annual Surplus | \$ 672,391 | \$ 38,023 | \$ 118,112 | \$ 157,759 | \$ 192,854 | \$ 192,321 |
| Add: Amortization of Tangible Capital Assets | 275,485 | 302,900 | 305,088 | 306,921 | 308,754 | 310,588 |
| Cash Provided by Operating: | <u>947,876</u> | <u>340,923</u> | <u>423,200</u> | <u>464,680</u> | <u>501,608</u> | <u>502,908</u> |
| Capital Transactions | | | | | | |
| Less: Cash Used to Acquire Tangible Capital Assets | (1,237,245) | (152,500) | (110,000) | (110,000) | (110,000) | (110,000) |
| Cash Applied to Capital | <u>(1,237,245)</u> | <u>(152,500)</u> | <u>(110,000)</u> | <u>(110,000)</u> | <u>(110,000)</u> | <u>(110,000)</u> |
| Financial Transactions | | | | | | |
| Proceeds from Debt Issues | - | - | - | - | - | - |
| Less: Debt Repayment | (176,306) | (169,483) | (169,707) | (165,986) | (125,931) | (125,958) |
| Cash Applied to Financing | <u>(176,306)</u> | <u>(169,483)</u> | <u>(169,707)</u> | <u>(165,986)</u> | <u>(125,931)</u> | <u>(125,958)</u> |
| Increase/(Decrease) in Cash and Cash Equivalents | <u>(465,675)</u> | <u>18,940</u> | <u>143,494</u> | <u>188,695</u> | <u>265,677</u> | <u>266,950</u> |
| Cash and Cash Equivalents | | | | | | |
| Beginning of Period | 1,000,304 | 534,629 | 553,569 | 697,062 | 885,757 | 1,151,434 |
| Increase/(Decrease) | (465,675) | 18,940 | 143,494 | 188,695 | 265,677 | 266,950 |
| End of Period | <u>\$ 534,629</u> | <u>\$ 553,569</u> | <u>\$ 697,062</u> | <u>\$ 885,757</u> | <u>\$ 1,151,434</u> | <u>\$ 1,418,384</u> |

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**Municipality of Southwest Middlesex
Water System
Notes to Financial Projections
December 31, 2014 to 2019
(Unaudited — see Notice to Reader)**

1. Purpose and limitation of the projections

The purpose of these financial projections is to satisfy one of the submission requirements necessary in obtaining a municipal drinking water license under the Safe Drinking Water Act, 2002 (SDWA). The financial projections may not be appropriate for any other purpose.

The financial projections have been prepared using assumptions developed on September 24, 2013, that reflect the Municipality's planned course of action for the period covered, based on management's judgment as to the most probable set of economic conditions together with the hypothesis which is consistent with the purpose of the financial projection. Management does not intend to update these projections subsequent to issue.

The actual results achieved during the financial projection period will vary from the information presented, and the variations may be material.

2. Summary of the hypothesis

The projected cash flows and operations results during the period have been projected based on the Municipality being licensed under the SDWA.

3. Summary of significant assumptions

Revenue

Revenue during the projection period is based on the following proposed annual rate increases and user growth assumptions:

- Water rate assumptions
 - 5% annual increase to the flat charge for five years and 2% annual increase thereafter.
 - 5% annual increase to the cubic meter rate for five years and 2 % annual increase thereafter.
 - Capital surcharge as follows:
 - \$ 2.50 per month – 2014
 - \$ 5.00 per month – 2015
 - \$ 7.50 per month – 2016
 - \$10.00 per month – 2017 and thereafter

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Water System
Notes to Financial Projections
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3. Summary of significant assumptions –continued

Revenue – water rate assumptions

- Growth projected at .8% per year
- The current customer base of approximately 1,700 meters has been used to calculate the capital surcharge.

Operating expenses

Operating expenses during the projection period are based on the following assumptions;

- OCWA contract

The current contract with OCWA (Ontario Clean Water Agency) is in effect until the end of the 2017 operating year. The contract has an additional five year renewal term. It has been assumed that a new contract will be negotiated under similar terms and conditions to the current contract for 2018 and 2019.

- An administration fee is paid by the Water System to the Municipality of Southwest Middlesex. This fee covers wages, benefits and administrative costs attributed to the System. The fee projection for 2014 is \$275,000 with inflationary increases in subsequent years. This fee is included in the operating costs.
- Other operating costs projected for 2014 to 2019 were projected by the Public Works Manager and OCWA.
- Inflation has been estimated at 2.5% per annum.

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(Unaudited — see Notice to Reader)**

3. Summary of significant assumptions –continued

Capital asset acquisition

Capital asset acquisitions are projected for the years ending December 31, 2014 to 2019 as follows:

- 2014 – Hydrogen Peroxide – projection of \$ 950,045
- 2014 – Melbourne Water Tower – projection of \$250,000
- 2014 – Lovell Road – projection of \$37,200
- 2015 – McKellar Street – projection of \$152,500
- 2016 – projection of \$110,000 – projects to be determined
- 2017 – projection of \$110,000 – projects to be determined
- 2018 – projection of \$110,000 – projects to be determined
- 2019 – projection of \$110,000 – projects to be determined

Capital asset funding

Funding of tangible capital assets has been calculated based on the following assumptions:

- Approved funding for the 2014 Hydrogen Peroxide project from Showcasing Water Innovation of \$427,558 and MIII of \$240,000 for a total of \$667,558.
- No other government funding is currently projected.
- No new debt will be incurred.
- At the end of December 31, 2013, there were negligible reserve funds for water capital projects.

Debt

As at December 31, 2013, the outstanding debt of the System is \$1,186,155. Of this amount, \$1,002,100 is an interest free loan from the County of Middlesex with principal repayments of \$125,262 per year for eight years. In addition, the System has serial debentures with varying principal and interest payments over the next six years.

**Municipality of Southwest Middlesex
Water System
Notes to Financial Projections
December 31, 2014 to 2019
(Unaudited — see Notice to Reader)**

4. Summary of significant accounting policies

The financial projections have been prepared in accordance with the accounting policies expected to be used in presenting historical financial statements for the future period, which are consistent with prior periods. These policies, as they relate to the water system of the Municipality's operations, are as follows:

Nature of Business

The financial statements of the Municipality of Southwest Middlesex are the representation of management prepared in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

Accounting Policies

- **Accrual Accounting**

The accrual basis of accounting recognizes revenues as they become available and measurable, expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

- **Non-Financial Assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenditures, provides the change in net financial assets for the year.

The Municipality's non-financial assets consist of tangible capital assets and work in progress. Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over 60 years.

Amortization is charged for a half year in the year of acquisition and in the year of disposal. The Municipality has a capitalization threshold of \$5,000.

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Water System
Notes to Financial Projections
December 31, 2014 to 2019
(Unaudited — see Notice to Reader)**

4. Summary of significant accounting policies - continued

- **Government Transfers**

Government transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable projections of the amounts can be determined.

- **Measurement Uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make projections and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period. Such projections are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these projections.