

Audit of the Financial Affairs of the City of Windsor and the Windsor Utilities Commission

**Report to Ministry of Municipal Affairs and
Housing**

January 2008

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EXECUTIVE SUMMARY

Grant Thornton LLP was engaged October 10, 2007 by the Ministry of Municipal Affairs and Housing (“the Ministry”) to conduct an examination of the financial affairs of the City of Windsor (“the City”) and the Windsor Utilities Commission (“WUC”) in connection with the setting of rates for water, wastewater and sewage services.

The objectives of the examination were set as follows:

For the years 2003, 2004, 2005, 2006 and the nine months ended September 30, 2007:

- Assess the adequacy of the financial analysis used to determine water, wastewater and sewer rates and increases to these rates and the adequacy of financing and billing to support those rates and increases; and
- Determine how the water, wastewater and sewer rates were accounted for in WUC’s and the City’s financial statements.

To meet the objectives of the examination we carried out detailed audit procedures at both the City and WUC. These procedures are outlined in detail in Appendices 1 and 2.

Our methodology involved reviewing and performing detailed procedures at both the City and WUC for each of the 2003 to 2006 years, and the nine months ended September 30, 2007.

Summary of Findings

For the periods ended 2003 to September 30, 2007:

1. The financial analysis and budgeting processes implemented by the City and WUC followed many of the “Recommended Budgeting Practices” (Appendix 8). The analysis including all relevant budgets and capital plans was adequate for the purposes of determining water and sewer rates, the recommended increases in those rates and the financing and billing to support those rates and increases.
2. Capital expenditures by WUC on watermain infrastructure projects for each of the periods ended 2003 to September 30, 2007 exceeded the Watermain Replacement Levy revenues in each of these periods. (Appendix 10).
3. Sewer surcharge revenues collected by the City were allocated 100% to capital infrastructure replacements and repairs and/or sewer operations.
4. The accounting policies followed by management of the City and WUC as disclosed in their audited external financial statements were in accordance with Canadian generally accepted accounting policies.
5. The accounting policies and internal financial records of WUC and the City appropriately “track” revenues and expenditures, including capital expenditures, by source for all water and sewer related activities.

6. Expenditures allocated to the Water Treatment and Distribution Division at WUC including the Management Services Agreement expense were reasonable, in accordance with contracts and agreements and supported by invoices or other supporting documentation.
7. The policies and accounting procedures followed by WUC for the period 2003-2006 regarding installation of water meters by third party contractors were deficient in that monthly fixed meter charges may not have been recorded in many instances for the period from the time of installation by the third party contractors to time of sale of the property by the developer. The new policy implemented beginning in 2007 has corrected this deficiency. The potential unrecorded fixed meter charge revenue for the period 2003 to 2006 is not estimated to be significant.

As an observation we would comment that the communication strategy to keep ratepayers informed of the state of the water infrastructure and the implications of the water rate decisions was generally ineffective, and indeed contributed to the confusion and misunderstanding of the circumstances faced by WUC and the City.

We wish to confirm that during our audit we received the full cooperation of staff at both the City and WUC. We had complete and unfettered access to all information, documents and records that we required.

INTRODUCTION AND BACKGROUND

In accepting this engagement, in accordance with professional standards, we have confirmed our independence as attached in the last Appendix of this report.

At a regular Council meeting of the City on August 13, 2007, the Council passed a resolution requesting the Ministry to direct an audit of WUC.

Scope of the Audit

The request for an audit by Council was made in connection with:

1. Complaints about the magnitude of the increase in water rates accompanied by an increase in sewer rates.
2. Concerns voiced by some Councilors and citizens including:
 - Fees received by WUC for “capital replacement reserves” were used for general revenue and/or operations,
 - WUC’s actions in combining capital projects with the City and keeping pace with the City’s capital replacement plan has resulted in an operating and capital deficit,
 - Billing errors resulting in inaccurate and/or incomplete billing in relation to meters that were installed for WUC by third party contractors.

Audit Procedures and Methodology

Our procedures included:

- a) Conducting interviews with senior management and senior accounting staff.
- b) Performing “walkthrough tests” of the revenue/billings, operating expenditures, payroll and capital expenditures cycles.
- c) Performing extensive detailed audit tests of transactions and reconciliations for the relevant transaction cycles at both the City and WUC.
- d) Reading annual reports and financial statements for years 2003 – 2006, including reviewing internal financial information for the period 2003 to September 30, 2007.
- e) Review of minutes of Council and WUC including relevant sub-committees for the period 2003 to September 2007.
- f) Review of contracts, agreements and reports (internal and external) relevant to water and sewer operations.
- g) Performing financial analysis including cash flows, analytical review and trend analysis for period 2003 to September 30, 2007 and corroborating to relevant data.

BACKGROUND, FINANCIAL INFORMATION AND RATE HISTORY

Corporate Structure

The City of Windsor is a single-tier municipality. The City shares responsibility for water and sewer services with Windsor Utilities Corporation. WUC is essentially owned by the City and operates as a local board of the City. WUC Board includes a number of members of Council of the City. WUC also receives managed services from Enwin Utilities Ltd. (“Enwin”) including billing, credit and collection, financial and customer service support services. The corporate structure of the various entities is contained in Appendix 3.

Water and Sewer Rate History

Water rates charged by WUC include a bundle of separate charges; a charge based on consumption, a fixed charge and certain other levies. The revenue generated is used to maintain and operate the water supply and infrastructure of the water distribution system.

The City imposes a sewer surcharge to fund the sewer related operations of the City. The sewer surcharge is billed to customers as part of a combined hydro, water and sewer bill.

A history of water and sewer rates is contained in Appendix 4.

Water rate and sewer rate adjustments approved over the last five years are as follows:

(a) Water rates:

- In 2002 the monthly fixed meter charge increased to \$8.75 from \$7.94 and a fire protection levy was introduced at a monthly rate of \$0.88
- Effective January 1, 2003 a watermain replacement levy (“WRL”) was introduced at a rate of 5% of water billing
- Effective January 1, 2004 the WRL rate was increased to 13% and the monthly fixed meter charge increased to \$9.63 and the fire protection levy eliminated
- Effective August 1, 2007 the WRL rate was increased to 45% and the monthly fixed meter charge increased to \$16.84

(b) Sewer rates:

The general sewer surcharge levy rate is applied to specific components of the water bill as follows:

- August 1, 2002 the general sewer surcharge rate was set at 140%
- May 19, 2004 the general sewer surcharge rate increased to 180%
- August 1, 2007 the general sewer surcharge rate was reduced to 130%

(c) The City also collects an additional surcharge for the Lou Romano Water Reclamation Plant (“LRWRP”) upgrade and expansion as is applied to the water bill as follows:

- Effective May 1, 2003 this rate was 10%
- Effective August 1, 2007 this rate increased to 20% and the general sewer surcharge rate and the LRWRP rate were combined to show as one sewer surcharge on the water bill at a rate of 150%

Agreements with Other Municipalities

The City of Windsor has entered into agreements with the following municipalities for providing sewage services:

1. The Town of Tecumseh

An agreement was entered into by the City with the Town of Tecumseh (“Tecumseh”) in March 1970 for the use by Tecumseh of the City’s sewage treatment facilities and the sharing of operating costs. In the period to December 31, 2002, this agreement has been amended four times.

As a result of an agreement effective January 1, 2003, certain lands (“annexed lands”) formerly located in Tecumseh are now located in the City. A new agreement was signed in November 2004 regarding the conveyance and treatment of sewage, existing and future, from Tecumseh and the annexed lands to the treatment plants. This agreement replaced the original agreement signed in 1970 and its subsequent amending agreements.

The City, WUC, Tecumseh and the Windsor-Tecumseh Joint Waterworks Board entered into an agreement in October 1988 for meeting the water needs of Tecumseh. A new agreement was signed in November 2004 regarding the supply of water to Tecumseh by utilizing the excess treatment capacity of the City’s water treatment plants. The supply of water commenced in April 2006. The bulk rate specified in the agreement is to be adjusted on January 1 of each year, based on the “Consumer Price Index”. Every ten years, the bulk rate is to be adjusted to reflect the Non-regulatory Improvements Price Changes made by WUC to its customers other than Tecumseh during the immediately preceding ten year period.

2. The Town of LaSalle

An agreement was entered into by the City with the Town of LaSalle (“LaSalle”), formerly the Township of Sandwich West in April 1974 for the use by LaSalle of a capacity of 2 MGD at LRWRP. The agreement was amended in June 1981.

A new agreement with LaSalle was signed on April 22, 2003 whereby

- LaSalle agreed to purchase an additional 3 MGD capacity at LRWRP for a cost of approximately \$25 million. To September 30, 2007, LaSalle has paid \$24.1 million. The balance is to be paid on, completion of the capacity enhancement project.
- LaSalle to pay its proportion of annual operating cost of LRWRP in accordance with the formula specified in the agreement.

WUC and LaSalle entered into an agreement in July 1987 for meeting the water needs of LaSalle. The agreement was amended in March 1991. The rate specified in the agreement is to be based on the operating costs of WUC as per the annual report plus 20% plus 1.5 cents per 1,000 gallons for improvement of water treatment facilities.

Cash Flow and Net Debt - WUC

Our review confirmed that over the period 2002 to September 2007 the cash position of WUC declined by \$13.481 million (Appendix 5). Over this same period WUC’s Net Debt also increased to \$35.145 million from \$18.257 million (Appendix 6). This use of cash resources and increased debt can be largely attributed to the increase in capital expenditures on watermain replacements.

In looking back we can see that in 2003 WUC accelerated the level of capital spending on watermain capital replacement as part of the Watermain Infrastructure Renewal Plan and introduced a 5% watermain replacement levy in that year and further increased this levy to 13% in 2004. Toward the end of 2004 it became apparent from the declining cash position and increase in net debt that even these rate increases were insufficient to stem the cash drain and WUC undertook a review of “rates design”. The process of “rates design” continued for a number of months through 2005 and into 2006 and culminated with the engagement of external consultants to assist in the development of a rates design strategy. In the meantime rates remained unchanged for all of 2005 and 2006. At the same time capital spending required on the aging infrastructure continued.

Excerpts from Commission minutes over the four and one half years detailing these events have been reproduced in the following section to provide a context for the decisions that were being made at the time.

SIGNIFICANT EVENTS

The 2002 *Watermain Infrastructure Renewal Needs Report* was a significant milestone in that it recommended that WUC increase spending to an average of \$6.4 million per year over the next 50 years as part of a proactive pipe renewal program because the watermain infrastructure was nearing the end of its service life. It became clear that a detailed review of rates design going forward would be required to fund these expenditures and culminated with engaging consultants in the latter part of 2006 to assist WUC in developing its long term rate strategy consistent with the infrastructure renewal needs.

Watermain Infrastructure Renewal Needs Report

In September 2002, WUC engineering department released their *Watermain Infrastructure Renewal Needs Report* (Appendix 7) outlining the composition of the Windsor water distribution system, the current state of repair and pipe life expectancy estimates used to assess long range renewal planning needs. Excerpts of this report include:

“Older municipalities such as ours, with pipe infrastructure older than 80 years, are now faced with the need to replace their water distribution system that are now approaching the end of their service life; consequently, many municipalities are now preparing long term financing and infrastructure renewal plans...presently, WUC operates the distribution system in a reactive mode, [emphasis added] responding to watermain failures and adverse water quality events. Capital dollars are spent on problematic segments of pipeline based on available maintenance data.”

“Within the next 10 years, systems maintenance requirements will exceed WUC’s present operational resources. Current breakage trends, when extrapolated over the next 10 years will reach frequencies of 600 breaks per year.”

“It is essential that WUC establish a proactive pipe renewal program...”

“Conclusion

...an average renewal rate of \$6.4 million over the next 50 years is required to recover the lifecycle costs of the iron pipe system. This budget amount equates to an annual renewal rate of 1.3%...it is anticipated that higher renewal rates in the range of 1.8% to 2% will be necessary in the initial 10 years, representing similar increases to that experienced by Toronto and Hamilton studies.”

“Recommendation

It is essential that WUC remain vigilant on the issue of watermain renewal. Until further studies are completed the Commission should implement a proactive annual renewal program of at least [emphasis added] \$6.4 million as outlined in this report. In order to accurately forecast annual renewal needs, further study is required to assess the amount and timing of yearly rates of

replacement/rehabilitation for the initial 10 years. [emphasis added] This rate is anticipated to be higher than the proposed 1.3%. This initial study should be followed by a detailed model study to determine the deterioration rate of specific pipe segments and subsequently plan their renewal.”

Rates Design

WUC Chief Operating Officer (“COO”) reported in February 2005:

“it was determined that the Management of WUC conduct further reviews of both capital and operational plans and procedures ensuring all is being done to protect the ratepayer as possible before making recommendations regarding rates.”

“Further, it is important that a Communication Strategy be developed which will be used to educate the Commission and the public about the current state of the water infrastructure, and what will be required in the future including the implication on future rates while at the same time protecting the ratepayer.”

WUC COO reported in May 2005:

“...April 13, 2005, it was agreed that WUC would continue its Watermain Replacement Program for the year 2005 based on the \$6.8 million originally budgeted. It was also agreed that this amount could require increased water rates.”

“To that end, management has met to review and redesign the current water rates used at WUC. At a future meeting of WUC, a new rate structure plan will be tabled for approval, with the new rates expected to be implemented in the fall of 2005.”

“The steps to be taken are as follows:

- 1. A historical analysis and unbundling of today’s rates.*
- 2. Further delineation between production and distribution.*
- 3. Determine actual costs by delineation.*
- 4. Conduct a cost allocation of shared services.*
- 5. Compare the allocated rate portion to actual costs.*
- 6. Set rates via full cost recovery basis by delineation*
- 7. Determine the rate of debt repayment.*
- 8. Determine the level of desired surplus.*
- 9. Determine the effect on the waste water rate; and*
- 10. Establish customer classes based on consumption.*

“It is intended to address both past, present and future financial requirements to ensure integrity of both the water system and water quality”.

WUC COO reported in July 2005:

“Rates design work has continued at a feverish pace, with much of the data now being compiled. Options regarding strategic direction regarding rates will be made in the near future and in time for fall implementation.”

In September 2005 he added further regarding rates design

“the principles set out have been based on the objectives of:

a) stopping the bleeding, b) covering the costs and c) decreasing debt... principles have come right from the Swain Report.”

Consultants Engaged

In June 2006 the COO of WUC, who was part of the “Rates Design Team” resigned. As part of the restructuring a new position of VP Water Operations was created. At an August 2006 meeting of the Board the new VP reported:

“...in order for WUC to meet, its near, mid and long term financial obligations and challenges, it is critical that WUC proceed with the development of the strategy now... WUC administration has invited a proposal from the partnered CN Watson & Associates, and Earth Tech Consulting.”

FINDINGS

Our findings and conclusions are presented separately for the City and WUC in the following sections under three separate headings consistent with the objectives of our examination:

1. Assess the adequacy of the financial analysis used to determine water, wastewater, and sewer rates and increases to these rates and the adequacy of financing and billing to support those rates and increases:
 - (i) Windsor Utilities Commission – Water Rates
 - (ii) City of Windsor – Sewer Surcharge Rates

2. Determine how the water, wastewater, and sewer rates were accounted for in the financial statements:
 - (i) Accounting for the water rates of Windsor Utilities Commission
 - (ii) Accounting for the sewer surcharge rates at the City

3. Results of audit procedures:
 - (i) Completeness of water and sewer surcharge revenue
 - (ii) Appropriateness of expenses charged to “Water Treatment and Distribution” at WUC and sewer related capital and operating funds at the City

To assess the adequacy of the financial analysis used to determine water and sewer rates at WUC and the City respectively as outlined above we used the following approach:

- (a) **Budgeting Best Practices:** Summarize the generally recognized budgeting “best practices” for publicly accountable entities.

- (b) **Budgeting, Analysis and Rate Setting Process:** Document and summarize the budgeting, analysis and rate setting process at the City and WUC over the periods 2003 to September 2007.

- (c) **Analysis of the Budget and Rate Setting Process:** Analyze and compare the process used by the City and WUC to “best” practices.

- (d) **Conclusion:** Conclude on the adequacy of the financial analysis used to determine water and sewer rates.

FINDINGS

1. Assess the adequacy of the financial analysis used to determine water, wastewater, and sewer rates and increases to these rates and the adequacy of financing and billing to support those rates and increase.

i) Windsor Utilities Commission – Water Rates.

(a) Budgeting Best Practices

In assessing the adequacy of the financial analysis, including all relevant budgets and capital plans used to determine water rates, it is relevant to assess WUC's process and procedures for the years 2003 to 2007 against a reasonable benchmark. We have used "Recommended Budgeting Best Practices". (Appendix 8)

It is recognized that "*Practices are recommendations not requirements*" and that there are "*numerous issues affecting the successful implementation of budget practices including: adjusting for organizational structure and issues ..., the organizational culture with regard to the budget process ..., election campaign issues ..., the desire to have change, the level of stakeholder understanding and the accuracy of projections and assumptions.*"¹

Appendix 8 summarizes Recommended Budgeting Best Practices under four broad principles:

1. Establish broad goals to guide decision making
2. Develop approaches to achieve goals
3. Develop a budget consistent with approaches to achieve goals
4. Evaluate performance and make adjustments

(b) Budgeting, Analysis and Rate Setting Process - WUC

The Manager of Engineering at WUC stated in his September 2002 report: "Watermain Infrastructure Renewal Report" presented to the commission board:

"...presently, WUC operates the distribution system in a reactive mode, responding to watermain failures and adverse water quality events. Capital dollars are spent on problematic segments of pipeline based on available maintenance data."

Operating the distribution system in "reactive mode" provided for low water rates to the residents of the City. Appendix 4 summarizes a history of water rates for the City. This summary confirms there were minimal water rate increases for the period 1997 to 2001. The CFO emphasized in her report to the commission in May 2007 that "*...previously (to 2007) Windsor enjoyed the lowest water rate in the province...it is still among the lowest*" The data compiled by Earth Tech Canada

¹ Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting

Ltd. and Watson & Associates Economist Ltd. presented to Council August 13, 2007 confirms this statement. (Appendix 9)

New 2002 legislation, the Sustainable Water and Sewage Systems Act, 2002, (“SWSSA”) would, if proclaimed in force, mandate municipalities to address their aging water and sewer infrastructure. Consequently, operating the distribution system in “reactive mode” going forward would no longer be an option.

Our review of the budgeting, analysis and rate setting process at WUC for the period 2003 to 2007 revealed the process was evolving in response to SWSSA and by 2007 the rigor, quality and depth of this process had broadened and improved significantly. In addition to SWSSA there were a number of other factors which impacted this process over this time period including deregulation, staff changes and restructuring.

We have summarized the budgeting, analysis and rate setting process at WUC for each of the periods 2003 to 2007. Excerpts from Commission minutes have again been reproduced in the following sections to provide clarity and detail.

2003 WUC Budgets and Water Rates

In preparing the 2003 operating and capital budgets the Controller would meet with other management including the Acting General Manager and Chief Engineer to develop assumptions underlying the budgets. The Controller presented the financial statements monthly throughout 2002 together with variance analysis. A review of actual revenues and water consumption together with a review of production and general administrative expenditures, and other economic factors was completed to develop the 2003 budget assumptions. The Chief Engineer maintained a detailed list of on-going capital projects by department, including department 40 detailing watermain expenditures, including 2002 projects approved in 2002 but not yet completed, for carry over to the 2003 WUC capital budget. High priority projects were identified. Based upon the Watermain Infrastructure Renewal Needs Report the 2003 capital budget was revised to provide for \$6.45 million watermain capital expenditures in accordance with recommendations from the Report.

In his January 2003 memorandum the Chief Engineer reported:

“Re: Water Rate Increase”

At the last Commission meeting we were requested to provide a recommendation for a method to introduce an increase in water revenue to cover the additional cost of capital improvements to the infrastructure. This request is the result of a study conducted by the Engineering Dept of the condition and needs for rehabilitation and replacement of the water infrastructure citywide. As previously indicated, there is a need to begin the systematic replacement of the older cast iron watermains. This program is anticipated to extend over the next 45 to 50 years and will require rehabilitation or replacement of watermains with an annual cost of \$6.5 million based on 2002 dollars. Failure to initiate this program will within a very few years result in watermain failures

(breaks) that will exceed our ability to reliably maintain the system without the introduction of significant additional resources.

It has been determined a new Capital Levy of 5% of each customers water bill will be required to provide the additional funding (\$1.2 to \$1.5 million) to allow this program to proceed. It must be noted that this additional Capital will be over and above the previous years approved capital spending of \$5.0 million bringing it to a total of \$6.2 to \$6.5 million. No increase in per unit consumption charges for water is anticipated to be required for the year 2003.

As requested by the Commission, an evaluation of the possibility of removing the current capital budget spending portion from the rate structure and creating a single Capital Levy to cover the entire \$6.5 million was undertaken. This change would result in a number of potential problems and/or issues. The issues identified include:

- The Tecumseh/Sandwich South agreement is based on a charge of 150% of the Windsor consumption charge. We would have a potential legal issue if we now attempted to charge the current rates for these customers.*
- The City of Windsor Sewer Surcharge is based on a percentage of the Water consumption charge. The move to reduce the consumption rate by an equivalent amount to the capital costs would potentially introduce conflicts with the public and could negatively impact on City revenue. As is the case with any changes in the forms of utility billing, public perception would be impacted. Any change is always looked at cynically for “hidden motives”*
- The initial pricing discussions with Tecumseh and Lakeshore are based on consumption rate charges any modifications to this proposal would raise a number of issues with these municipalities.*
- The impact of the proposed 5% Capital Levy on our customers is approximately \$1.2 million to \$1.4 million annually. The average household would pay approximately \$1.50/month (\$18.00/year) for this new capital levy.”*

At a Commission meeting in January 2003:

“It was moved:

- a) a new Capital Levy of 5% of each customers water bill required to provide the additional funding (\$1.2 to \$1.5 million annually) to allow for capital improvements to infrastructure be confirmed as per the recommendation submitted and attached hereto ... and*
- b) said levy be indicated as a separate line on customer bill;*
- c) Administration be directed not to impose any increase on per unit consumption charges for water in 2003.*

CARRIED

The Commissioners noted that: *“the capital levy funds can only be used solely and exclusively on watermain infrastructure.”*

The Chief Engineer reported that watermain breaks have been high with 88 watermain breaks in November and a total of 279 in 2002 reflecting a break frequency increase. He noted those numbers have only been exceeded once before, that being in 1999.

The revised 2003 Budget was presented to WUC Board and subsequently approved. The supporting documents included revised capital expenditures detail by project, a monthly Budgeted Pro Forma Statement of Earnings, a 2003 Budgeted Pro Forma Balance Sheet and a 2003 Budgeted Pro Forma Cash Flow Statement. In presenting the package it was noted that:

“Cash of \$5.0 m for 2003 represents a \$4.4 m decrease from 2002. The reduction in cash is caused primarily by capital expenditures of \$11.1 m offset by cash generated from operations of \$5.9 m...Note that there is a loan receivable from Enwin Utilities of \$4.1 m. Payment will be made to WUC in June of 2004.”

Long term cash flow and financing analysis does not appear to have been presented. The 2003 water rate increase creating a new Capital Levy of 5% was a short term approach. It was intended, as the motion stated, *“to provide the additional funding (\$1.2 to \$1.5 million annually) to allow for capital improvements to infrastructure...”* in excess of the \$5 million previously approved in the 2003 capital budget.

2004 WUC Budgets and Water Rates

Monthly financial statements including Statement of Earnings, Balance Sheet and Cash Flow Statements with variance analysis were presented to the Commission Board regularly throughout 2003. These provided a basis for the 2004 budget process which commenced in the fourth quarter of 2003. The September 30, 2003 Statement of Cash Flows showed a net decrease in cash of \$4.857 million for the period.

The 2004 budgeting exercise followed essentially the same process as in 2003.

The Acting General Manager reported in November 2003

“As part of the preliminary budget process, a review of the cash flow of the organization has been undertaken to the end of 2004...With the remaining 2003 capital program and the seasonal loss anticipated for the remainder of the year (2003) we are projecting that the net cash balance at December 31, 2003 will be approximately \$4.1 million.”

*“With the increasing capital spending on watermains required in the next 30 years which should be paid for through increased billings and not simply debt financed, **there will continue to be a cash flow shortfall on the capital side of at least \$4 million [emphasis added]**. Should the east end reservoir be required sooner than the currently anticipated 2006 due to requirements of the Ministry of Environment, the anticipated \$18 million construction cost will be debenture financed through the City. **With these two factors in mind, there needs to be an increase in the capital***

levy of roughly \$2 million this coming year, with further increases required thereafter depending on whether additional suburban customers are added to the system.” [emphasis added]

“In comparison to other jurisdictions, Windsor rates are close to being the lowest in the country. Even with the increase in the WRL, which most municipalities have to deal with due to aging water mains, Windsor rates continue to be significantly lower than the countrywide average.”

In November 2003, the Commission approved an increase in the watermain levy from 5% to 13% of the consumption and fixed meter charge effective January 1, 2004.

The 2004 rate setting process and discussion took one further step from the 2003 process to recognize the long term cash flow implications of the future watermain replacement requirements, the long term financing and debt repayment implications and the impact on future water rates.

The Acting General Manager stated further:

“As a model for determining rates in the future, there should be a split between the capital costs plus debenture repayment amounts, which should be financed through the WRL, and the operating costs which should be covered through consumption, fixed and summer levy charges. As there is a shortfall currently in the capital side, all future water rate increases should be related to the WRL until the deficiency is eliminated.” [emphasis added]

The 2004 budgets were presented in early 2004 by the VP Finance. The budgets were revised to reflect the 2004 increase in the watermain replacement levy to 13% from 5%. Similar supporting documents were presented as in the prior year including: a one year pro forma financial statement for 2004 (including monthly statement of earnings, balance sheet and a statement of cash flows) and detailed budgeted capital expenditures by project.

A long term cash flow and financing analysis was not presented.

For the first quarter ended March 31, 2004 the VP Finance presented similar financial information to the Board as was presented in 2003, however, recognition was made of the fact that the negative “Cash Flow before debt repayments and retirement liability” of (\$1.010 million) that: *“This cash flow number should be \$0 in order for operations of WUC to be operating on a self-sustaining pay as you go basis.”*

This was noted for each monthly and quarterly negative cash flow statement presented thereafter for 2004.

The Chief Water Engineer reported in October 2004:

“As part of the upgrade to the water infrastructure in the City of Windsor following the release of Watermain Infrastructure Renewal Needs Report, the Windsor Utilities Commission in 2002 approved the development of a long-range capital infrastructure renewal program...For the calendar year 2004 a total of \$6.8 million was approved for this program. This is to report that this

program is essentially on track and effective Oct 1, 2004 projects totalling \$6.168 million have been completed or are in progress...

2005 WUC Budgets and Water Rates

In a January 2005 submission the VP Administration reported:

“The 2005 Budget was developed in November, December 2004 and January 2005. Meetings were held with the Chief Operating Officer, the Chief Engineer and the Directors.”

“The 2005 capital budget totals \$19,551,684. This is a 152% increase from the estimated capital expenditures of \$7,758,020 in 2004. The significant increases are the first phase of the design and construction of an additional reservoir. This represents \$9,400,000. The watermain renewal program will proceed in 2005 with \$6,500,000 budgeted...The rate increase recommendation will be presented at a future commission meeting. No increase in rates has been reflected...” [in this budget].

An appendix was presented projecting \$5.715 million shortfall in 2005 water revenues and a net decrease in cash position projected for 2005 of \$12.157 million before accounting for any water rate adjustment.

A long term cash flow and financing analysis was not presented.

At a January 2005 Commission meeting the 2005 Capital and Operating budgets as presented were approved *“on approval of funds for the reservoir”*.

In reply to Commissioners’ queries, Management indicated that:

“It is too early to estimate the amount of increases in rates...that rate adjustments will be subsequent to a comprehensive review of all current fees in order to clarify how the rates are calculated.”

WUC COO reported in September 2005:

“The Swain Report was finally issued this summer...There are 700 water systems in Ontario. Most are operated as municipal departments. Swain calls for sweeping changes...”

“...the Rates Design Team has been working under the following principles:

- 1. Rates based on full cost recovery.*
- 2. Separation of production and delivery.*
- 3. Current operating costs are covered through rates.*
- 4. Current capital costs are covered through rates.*
- 5. Future capital costs are covered through rates.*
- 6. Past capital costs (debts) are covered through rates to retire debt on maturity.*
- 7. Three year approval – 2006, 2007 and 2008.*

8. A return on asset component based on the Swain Report recommendations to be introduced over the following four years.

The application of the first five principles to our current financial state indicates the following:

	<u>Production</u>	<u>Delivery</u>	
Current operating costs variance	\$0	\$-2m	(2005)
Current capital costs variance	\$0	\$-4m	(2005)
Future capital costs variance	\$0	\$0	(2006)
“” “”	\$0	\$-5m	(2007)
“” “”	\$0	\$-2.5m	(2008)
“” “”	\$0	\$-2.5m	(2009)

Also to be considered in the three year approval design will be a debt recovery plan.”

Various rate options and the impact on the average residential bill over the next six years were presented for review by the Chair and Commissioners of WUC.

The 2005 rate setting process undertaken by the Commission represented a significant change in the processes followed in prior years in that, for the first time, a long term approach to cash flow and financing was taken and, even more significantly, the rate design team was operating under the principle of “full cost recovery”.

It became apparent that this would be a significant and time consuming process.

The 2005 rate setting exercise under the “new principles” was the beginning of a much more comprehensive approach to rate setting. A long term view was taken analyzing various rate options with projections out to 2012 with consideration to long term financing, capital expenditures and cash flow.

2006 WUC Budgets and Water Rates

The acting General Manager commented on the draft 2006 Budget making it very clear to the Board that the 2006 Budget “*doesn’t work.*”

He stated: “WUC has five options for water rates:

1. If they are increased by 10% this year it will give WUC 3 million per year starting in 2006.
2. Get the City to help – give some of its gas tax money to WUC for water infrastructure.
3. Increase the debt.
4. Wait until 2007 (do nothing).

5. *Super rate increase in 2007 – increasing the rate by 37%, which would equal \$8.00 per month per customer...*

At a June 2006 Audit and Finance Committee meeting the Controller outlined the current status of watermain projects and that:

“...it is evident that there is a (cash) shortfall in the existing capital budget”.

“In the attached analysis there are five options to consider for the current year. These range from completing all WUC priority and City of Windsor projects that would require additional financing (Option 5) versus committing to only the approved \$5 m capital budget which would result only in completion of the 2005 carryover projects.”

The 2006 budgeting process was much more comprehensive and detailed than the 2005 budgeting process. A detailed analysis outlining 5 specific “options” of financing requirements for the capital budget was presented. The CFO appropriately recognized the urgency to deal with the immediate financing needs for the 2006 priority capital projects identified in the budget. It was apparent the rate setting exercise would not be resolved on a timely basis.

WUC CFO presented five year cash flow projections updated to include projected additional external financing of \$7.2 million as a result of the amended 2006 capital budget and projected carry over to 2007 using various rate increase scenarios to cover the significant cash shortfall projected as part of the 2007 budgeting process.

2007 WUC Budget and Water Rates

The VP Finance/CFO for WUC reported in December 2006 regarding the Budget for 2007:

“(Controller) has done extensive work on rate structure and departmental budgets. We are hoping that we can start to implement some of these changes prior to receipt of the CN Watson Report.”

“There are a number of issues that we are currently dealing with. The major issue is the funding of the infrastructure work that must be completed every year. We have traditionally tried to replace our mains at the same time as the City is replacing roads in order to achieve cost synergies...during the past few years we have been unable to keep pace with City...due to monetary constraints...With regulation of the industry on the horizon and the legislative push towards full cost recovery , it is timely that we deal with the financial issues at WUC...We are awaiting the final report from CN Watson...Our budget presentation is based upon funding for capital and operating budgets for the next five years. Their report will address the need to establish reserves and retire debt...”

The 2007 Budget package including 21 enclosures of supporting documents including detailed capital budgets by department with 2005/2006 carryover projects, five year capital and operating forecasts, pumpage and consumption history reports and pro forma financial statements, details of budgeted water rate revenues for 2007 and proposed water rate summary. The capital budget

identified over \$15 million in new 2007 priority water projects in addition to nearly \$2 million priority projects carried over from 2005/2006.

The extensive work completed by the Controller on “2007 Water Rate Design” is evident in his submission to the Audit and Finance Committee of December 15, 2006.

In his submission he states:

“...it is imperative that existing operating costs and expected future capital expenditures on new and existing infrastructure be recovered within the water rate structure...The historical pressure has involved maintaining the existing water rates with little adjustment for inflationary increases in operating costs or considering the increasing needs to replace an aging water system infrastructure. In the future there will be increasing pressure by regulatory authorities to move towards a full cost recovery structure with water rates. As a result of the changing landscape there is a need to revisit past practices to ensure all costs incurred are recovered in the rate structure to ensure that WUC is financially sustainable in the future.”

In his detailed analysis he cites 3 main problems with the current situation:

1. *“...it is very difficult to understand for the customer”*
2. rates do not *“sufficiently cover all the costs of water operations, specifically capital costs...the watermain replacement levy raises approximately \$3m in funds each year...capital requirements for watermains...will average over the next five years approximately \$19m annually...”*
3. *“...various types of water rate charges do not match the appropriate related costs...The ideal structure would involve fixed revenues covering fixed costs and consumption revenues covering variable costs only.”*

His analysis is supported by eight enclosure documents which include five year operating and capital budgets, detailed review of variable and fixed costs, and an analysis of future debenture payments and capital additions supporting the recommended capital and debt retirement levy.

To summarize, WUC Management had an established process for the period 2003 – 2007 for preparing and adopting their operating and capital budgets. Monthly and quarterly financial statements, including cash flows together with variance analysis from budget and prior periods and detailed reports on the status of approved capital projects (including watermain infrastructure) were reviewed at regular monthly meetings of the Board. Beginning in March of 2006, a WUC Audit and Finance Committee was established and was intricately involved in this process. Generally, later in the year senior management including finance department and engineering staff would meet to develop assumptions and share input for the purpose of developing one year financial projections broken down monthly for operating revenues and expenditures. Priority capital projects together with the status of projects approved but incomplete from prior years would be outlined in detail. Cash flow projections for the upcoming year would be reviewed as a basis for discussion in assessing the need for additional cash flow sources either by way of issue of debt or water rate increases. Longer range financial planning was undertaken beginning in 2005 culminating in the “extensive” work completed by the Controller on “2007 Water Rate Design” as reported in his submission to the Audit and Finance Committee in December 2006. After a number of meetings and discussion the draft budgets would be presented to Board for adoption.

(c) Analysis of the Budget and Rate Setting Process - WUC

In reviewing the records of meetings and budget documents for the period 2003-2007 it is apparent that WUC Management had followed many of the recommended budget procedures outlined in Appendix 8 in establishing broad goals and analyzing the many issues, challenges and opportunities that were facing the organization. It is clear that the major challenge facing the organization was the shift in the broad goals of the organization adopting a proactive infrastructure renewal strategy replacing the previous “reactive” strategy of responding to watermain breaks.

It should be noted that there were a number of other significant factors that were negatively impacting operations and cash flow at WUC over this time period. The most recent “Master Plan” for water operations was completed in 1988. This Plan had projected significant growth in the City which did not materialize. Contractions in the housing market and the auto sector also contributed negatively. Most importantly, the rate of watermain breaks was increasing steadily.

The budgeting and rate setting process clearly recognized the shift in the broad goals of the organization. The presentation of the Watermain Infrastructure Renewal Needs Report in 2002 was the basis for establishing the required level of infrastructure reinvestment over the next fifty years. This report was the basis for amendment of the 2003 and subsequent capital budgets. Cash flow analysis showing a projected deficiency was the basis for establishing the Watermain Replacement Levy in 2003 and its subsequent increase in 2004. WUC management discussed alternatives and opted to take a short term approach utilizing existing cash reserves rather than increasing debt in keeping with the established goals of “debt reduction” and “most economical

rates”. This short term approach deferred the need to deal with cash drain, debt repayment issues and rate increase issues to future years.

The 2004 rate setting process and discussion took one step further from the 2003 process to recognize: the long term cash flow implications of the future watermain replacement requirements, long term financing and debt repayment implications and the impact on future water rates.

The Acting General Manager stated further in 2004:

“As a model for determining rates in the future, there should be a split between the capital costs plus debenture repayment amounts, which should be financed through the WRL, and the operating costs which should be covered through consumption, fixed and summer levy charges. As there is a shortfall currently in the capital side, all future water rate increases should be related to the WRL until the deficiency is eliminated.” [emphasis added]

It should be noted the 2004 cash position had been assisted as a result of a \$4.8 million payment on the sale of MaXess Network assets. This provided a short term cash flow “injection”.

It was apparent that a further water rate increase would be necessary as a result of cash flow analysis completed late in 2004. It was also apparent that the rate design process would be a significant undertaking based on a new set of principles differing from the past. The “rates design” initiative culminated with the “extensive” work completed by the Controller on “2007 Water Rate Design” in submission to the Audit and Finance Committee in December 2006. The extent of the rate increases required over the long term would be confirmed by the external consultants hired. The Commissioners at WUC had discussed various options and the projected results of each option based upon detailed financial analysis presented to them. The majority vote by the Commissioners was to defer any water rate increases in 2005 and 2006 and to implement a “significant” rate increase effective August 1, 2007.

(d) Conclusion

Based on our review, the financial analysis (including all relevant budgets and capital plans) was adequate for the purposes of determining water rates and recommended increases in those rates. Further, the financing and billing to support those rates and increases was adequate.

FINDINGS

1. Assess the adequacy of the financial analysis used to determine water, wastewater, and sewer rates and increases to these rates and the adequacy of financing and billing to support those rates and increase.

ii) City of Windsor-Sewer Surcharge Rates:

(a) Budgeting Best Practices

As with WUC, our review and evaluation of the operating and capital budgeting processes used to set sewer surcharge rates at the City was carried out in the context of recommended best practices as the most appropriate method of assessing the adequacy of the financial analysis. (Appendix 8).

(b) Budgeting, Analysis and Rate Setting Process - City

Our review of budget documents and minutes of Council and other sub-committee meetings over the period 2003 to September 2007 revealed the following:

As noted in the minutes:

“The 2004 “People Based Budget”...consisted of an open consultation with rate payers and various stakeholders in the budget process.”

“Based on public feedback...the common theme was wastewater treatment, road construction and rehabilitation, and sewer construction and repair should be a priority for the 2004 capital budget.”

Operating and Capital Budget Committees of Council were in place to review and make recommendations regarding the budgets.

The Budget Committee meetings involved appropriate discussion between Councilors, financial and other resource personnel. The process involved long range financial planning and detailed revenue and expenditure projections.

With regard to the setting of the sewer surcharge rates the process involved a review of detailed analysis including “Sewer Surcharge Forecasts” (Appendix 12) and detailed capital priorities by project. Various options would be presented and the financial impact of various sewer surcharge rates reviewed before putting forth a recommendation.

Quarterly and Year end Budget Variance Reports would be provided by Corporate Services for review including status of the sewer surcharge revenues/expenditures surplus deficit position. These Quarterly and Year-end Operating Budget Variance Reports were presented throughout the period reported included updates on the status of the sewer surcharge fund.

(c) Analysis of Budgeting and Rate Setting Process - City

Our review of the budgeting process over the period 2003 to 2007 (including the process used to set sewer surcharge rates) indicates that many of the recommended “Budgeting Best Practices” had been implemented by the City.

- (i) Stakeholders concerns, needs and priorities were clearly considered and used to “establish broad goals to guide decision making.”
- (ii) Clear goals and targets regarding tax rates were established as a result of an “open consultation” process. Also, an established process was in place for preparing and adopting the budgets including procedures for appropriate review, discussion, modification and adoption.

The budgeting process involved developing options supported by financial projections. The process also included long range financial planning.

- (iii) The process also provided for on-going monitoring and evaluation to provide for timely adjustments as necessary.

(d) Conclusion

Based on our review, the financial analysis (including all relevant budgets and capital plans) was adequate for the purposes of determining sewer surcharge rates and recommended increases in those rates. Further, the financing and billing to support those rates and increases was adequate.

FINDINGS

2. Determine how the water, wastewater and sewer rates were accounted for in WUC's and the City's financial statements.

i) Accounting for the Water Rates at WUC

Water Rates

The water rates and their effective dates for the years 2003 to 2007 are outlined in Appendix 4.

The water rates are billed to customers as part of a combined hydro and water bill. The billing and collection of the water charges is carried out by Enwin.

Appendix 13 provides a summary statement of earnings for the Water Treatment and Distribution Division.

Accounting For Revenues and Expenditures

For the years 2003-2007 the various sources of water rates revenue collected by WUC are recorded in separate general ledger revenue accounts detailing the revenue by source including separate accounts for fixed charges, consumption charges, summer levy charges, watermain replacement levy charges and revenues from the sale of water to LaSalle and Tecumseh. The internal financial statements presented to the Commission Board and the Finance and Audit Committee groups these general ledger accounts into three categories of "Revenue from Water Rates": Retail, Sale of Water-LaSalle and Tecumseh and Watermain Levy. Any increase in these rate categories, such as the 2004 watermain levy rate increase, are accounted for in the same manner as the original rate.

Capital expenditures are recorded in separate general ledger accounts by department. Department 40 summarizing various watermain renewal capital expenditures. WUC is then able to track and compare watermain replacement levy revenues collected to watermain capital expenditures for any given period. Appendix 10 shows an excess of watermain levy expenditures over watermain levy revenues for each of the years 2003 – 2007.

The audited external financial statements for each of the years 2003 to 2006 groups the three categories of revenue disclosed in the internal financial statements under the heading "Revenue from the distribution of water" on the Statement of Income. As noted in Note 1 to the audited financial statements "The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles."

FINDINGS

2. Determine how the water, wastewater and sewer rates were accounted for in WUC's and the City's financial statements.

ii) Accounting for the Waste Water and Sewer Rates at the City

Sewer Surcharge Rates

The City collects sewer surcharge revenue for wastewater and sewer as a percentage of the water rates. The sewer surcharge rates and their effective dates including the years 2003 to 2007 are outlined in Appendix 4.

The sewer surcharge is billed to customers as part of a combined hydro and water bill. The billing and collection of the sewer surcharge is carried out by Enwin.

Accounting For Revenues and Expenditures

The revenue from general sewer surcharge is recorded in the City's general ledger in Fund 28 and the LRWRP levy is recorded in Fund 171. The accounting for revenue and expenditures for these funds is summarized in Appendix 11.

Conclusion

The accounting policies followed by Management of WUC and the City in preparing the audited external financial statements are in accordance with Canadian generally accepted accounting principles.

We have determined that the transactions related to water and sewer operations, both revenue and expenditures are appropriately accounted for in the books and records of WUC and the City.

FINDINGS

3. *Results of audit procedures:*

Our detailed audit procedures as outlined in Appendices 1 and 2 included significant analysis and review of water and sewer revenue and expenditures. Appendices 14-30 are provided as a component of this analysis.

i) Completeness of water and sewer surcharge revenue

Our audit procedures included detailed analytical review, corroboration and recalculations to verify the completeness of water and sewer surcharge revenue.

Conclusion:

Based upon completion of our audit procedures as outlined in Appendices 1 and 2, water and sewer surcharge revenue as recorded in the accounts of WUC and the City respectfully, were not materially misstated.

ii) Appropriateness of expenses charged to “Water Treatment and Distribution” at WUC and charged to sewer related capital and operating funds at the City

Our audit procedures also included detailed testing of a significant sample of all expenditures charged to “Water Treatment and Distribution” operations at WUC and all expenses charged to sewer related capital and operating funds at the City. This included allocations from payroll and a detailed review of the fees charged by Enwin under the Management Services Agreement. Our audit procedures also included testing a significant sample of capital additions including watermain replacement and capital repairs expenditures.

Conclusion:

Based upon our audit procedures as outlined in Appendices 1 and 2, the expenditures charged to “Water Treatment and Distribution” at WUC and charged to sewer related capital and operating funds at the City were reasonable and were in accordance with relevant agreements and were not materially misstated.

OTHER MATTER

Concerns have been voiced by some Councilors and citizens relating to possible billing errors resulting in inaccurate and/or incomplete billing, either initially or retroactively, in relation to meters that were installed for WUC by third party contractors.

To gain an understanding of this matter we interviewed several senior management personnel at WUC including the Acting President & CEO, VP Finance & CFO and the VP Water Operations. We also performed “walkthroughs” of the billing cycle and accounting procedures. As well we reviewed all Board and sub-committee minutes pertaining to this matter.

The “old” water billing system, as it applied to new sub-division developments, was as follows:

When a developer started developing a new sub-division, they would pay a flat fee of \$27.50 per dwelling for water usage during construction. Prior to January 1, 2007, on nearing completion, the developer would acquire the required meters from WUC and install them at the new dwellings. On closing the sale of the property being developed, the buyer would be put into the water database. The time period between the installation of the meter and the closing of the sale would average approximately 30 days. If the developer did not inform WUC of the meter installation date, the “fixed meter charge” would not have been charged until the sale of the property, which could result in the monthly fixed meter charge not being charged for this time period. However, all water consumption would be recorded and eventually billed. Subsequent to January 1, 2007, all water meter installation is being carried out by WUC with appropriate billings to the contractor for the installation. WUC has been billing the “Fixed meter charge” from the day of installation.

WUC also installed the 311 software with Enwin work order software to replace an inefficient manual billing system. The new software alerted staff that several hundred customers were not being billed for water, which has since been remedied. This more modern system will ensure that all customers receive timely billing for water usage.

To address the potential of unrecorded water revenue we completed specific procedures as part of our audit program with the objective of verifying the completeness of water revenue.

To assess the maximum potential error using a “worst case scenario” we quantified the maximum estimated unrecorded revenue. Assuming all new residences coming onto the tax roll for each of the years 2003 to 2006 were not billed a fixed meter charge for one month the maximum estimated unrecorded fixed meter charge revenue is estimated at approximately \$10K for each of these years. We determined that the error was most likely significantly less.

Conclusion

Water revenue recorded in the financial statements for each of the years 2003 to 2006 for WUC is not significantly understated.

To meet the objectives of the examination the following audit procedures were completed at WUC:

Windsor Utilities Commission (“WUC”):

Objective

Gain a detailed understanding of operations, accounting systems and obtain corroborating evidence.

Procedures:

- a) Conduct interviews with senior management.
- b) Interview senior accounting staff and perform “walkthroughs” of the revenue/billings, expenditures, payroll and capital expenditure cycles.
- c) Read annual reports and financial statements for years 2002 – 2006.
- d) Compile and read relevant newspaper articles in local media.
- e) Obtain and read minutes of the Commission and Finance and Audit Committee meetings 2003 to September 2007.
- f) Obtain and read contracts and agreements relevant to water operations.
- g) Perform financial analysis including cash flows, analytical review and trend analysis for period 2003 to September 30, 2007 and corroborate to relevant data.

Objective

Assess the adequacy of the financial analysis (including all relevant budgets operating and capital) used to determine water rates and increase to these rates and the adequacy of financing and billing to support those rates and increases.

Procedures:

- a) Review internal engineering and external consultants reports or other supporting documents supporting annual operating and capital budgets.
- b) Review minutes of board of directors and its committees and consider their impact on the “Water Treatment and Distribution” Division.
- c) Obtain copies of reports/presentations made to the City Council and consider their impact on the “Water Treatment and Distribution” Division

- d) Document management's operating and capital budgeting preparation procedures and methodology including variance analysis and follow up procedures.

Objective

Determine how the water rate levies billed were accounted for in WUC's financial statements.

Ensure that the internal "Water Treatment and Distribution" financial statements are an integral part of the audited financial statements.

Procedures:

- a) Agree the internal "Water Treatment and Distribution" financial statements to the trial balance at December 31, 2003 to 2006 and September 30, 2007.
- b) Agree the internal "Water Treatment and Distribution" financial statements to Annual Reports including audited financial statements for the years ended December 31, 2003 to 2006 and to the internal financial statements.
- c) Determine if accounting procedures used in the audited external financial statements are in accordance with Canadian generally accepted auditing procedures.
- d) Summarize Watermain Replacement Levy revenue and Watermain Capital replacement expenditures by year.

Objective

Verification of the completeness of water revenue.

Procedures:

- a) CUSTOMER BASE
Ascertain the customer base growth trend. Perform analytical review and financial analysis and corroborate findings.
- b) FIXED METER CHARGES
 - (i) Obtain a schedule listing the rates for "Meter Fixed Charges" and the effective dates of rate changes during the period from January 1, 2003 to September 30, 2007 and agree to approval in the minutes.
 - (ii) Obtain a schedule listing the number of customers at each month-end for each of the categories recorded separately on the Detailed Statement of Earnings for "Water Treatment and Distribution".
 - (iii) Compute the Fixed Meter Charges revenue by multiplying (i) by (ii) and reconcile the amount so arrived at with the amounts appearing on the Detailed Statement of Earnings for "Water Treatment and Distribution".

c) FIRE PROTECTION CHARGES

- (i) Obtain a schedule listing the rates for “Fire Protection Charges” and the effective dates of rate changes during the period from January 1, 2003 to September 30, 2007 and agree to approval in the minutes.
- (ii) Obtain a schedule listing the number of customers at each month-end for each of the categories recorded separately on the Detailed Statement of Earnings for “Water Treatment and Distribution”.
- (iii) Compute the Fire Protection Charges revenue by multiplying (i) by (ii) and reconcile the amount so arrived at with the amounts appearing on the Detailed Statement of Earnings for “Water Treatment and Distribution”.
- (iv) Summarize water revenue by source for the period 2003 – September 30, 2007.

d) CONSUMPTION

- (i) Obtain a schedule listing the rates for “Consumption” and the effective dates of rate changes during the period from January 1, 2003 to September 30, 2007 and agree to approval in the minutes.
- (ii) Obtain a schedule listing the quantity billed by month for each of the categories recorded separately on the Detailed Statement of Earnings for “Water Treatment and Distribution”.
- (iii) Compute the consumption revenue by multiplying (i) by (ii) and reconcile the amount so arrived at with the amounts appearing on the Detailed Statement of Earnings for “Water Treatment and Distribution”.

e) SUMMER LEVY

- (i) Obtain a schedule listing the rates for “Summer Levy” and the effective dates of rate changes during the period from January 1, 2003 to September 30, 2007 and agree to approval in the minutes.
- (ii) Obtain a schedule listing the quantity billed by month for each of the categories recorded separately on the Detailed Statement of Earnings for “Water Treatment and Distribution”.
- (iii) Compute the summer levy revenue by multiplying (i) by (ii) and reconcile the amount so arrived at with the amounts appearing on the Detailed Statement of Earnings for “Water Treatment and Distribution”.

f) WATERMAIN LEVY

- (i) Obtain a schedule listing the rates for “Watermain Levy” and the effective dates of rate changes during the period from January 1, 2003 to September 30, 2007 and agree to approval in the minutes.
- (ii) Compute of the “Watermain Levy” revenue by multiplying the revenue from fixed charges, consumption and summer levy by (i) and reconcile the amount so arrived

at with the amounts appearing on the Detailed Statement of Earnings for “Water Treatment and Distribution”.

- (iii) Obtain documentation specifying the purpose of the levy and verify that the amounts collected have been spent on the specified purposes.
- g) SALE OF WATER – TECUMSEH & LASALLE, ETC
- (i) Obtain copies of agreement specifying the quantities and rates to be charged for “Sale of Water” on wholesale basis covering the period from January 1, 2003 to September 30, 2007.
 - (ii) Obtain a schedule listing the quantity billed by month to each wholesale buyer recorded separately on the Detailed Statement of Earnings for “Water Treatment and Distribution”.
 - (iii) Compute the “Sale of Water” by multiplying (i) by (ii) and reconcile the amount so arrived at with the amounts appearing on the Detailed Statement of Earnings for “Water Treatment and Distribution”.

OTHER:

- h) Reconcile the water billings as per CIS system to the amount shown in Detailed Statement of Earnings for “Water Treatment and Distribution” detailing all adjustments e.g. opening / closing accruals for unbilled consumption etc.
- i) Obtain a schedule of “Treated Water Pumpage” and compare, on a monthly basis, the quantity pumped to quantity billed for actuals as well as budget. Obtain explanations for significant variances.
- j) Obtain a schedule of adjustments made, if any, for unbilled water revenue and obtain explanations for significant amounts.
- k) Obtain a list of accounts receivable written off during the year and obtain explanations for any significant write offs.
- l) Verify the completeness of the customer listing in the CIS files by obtaining the year-wise list of new taxpayers added as a result of new sub-divisions (if, any) being developed in the each of the years 2003 to 2007 and tracing them to the CIS list on a test basis. Select a random sample of names and addresses for each year 2003 - 2007, being new dwelling, from the City's supplementary tax rolls for the year and trace the addresses online to the WUC water CIS records, noting the date of first billing for water.
- m) Obtain a list of customers who are billed for hydro but not for water and verifying their non-consumption of water on a test basis.
- n) Obtain a list, as of November 7, 2007, of all hydro customers with no water charge on the bills. For every 5th such customer, checked to water CIS records and found that there were valid reasons for the exclusion of water charge (eg: water was being billed to landlord, bulk billing, account suspended).
- o) Selecting, at random, a sample of names and addresses from independent data base and tracing them to the CIS customer data bank.

- p) Discuss with senior management the comments in the 2006 annual report that “WUC also installed the 311 software with Enwin work order software to replace an inefficient manual billing system. The new software alerted staff that several hundred customers were not being billed for water, which has since been remedied. This more modern system will ensure that all customers receive timely billing for water usage.” Investigate.
- q) SEWER SURCHARGE REMITTANCE
 - (i) Obtain copies of bills for each category of customer and verify that the sewer charge is properly calculated i.e. in accordance with the applicable percentage of the water component.
 - (ii) Obtain a category-wise (Sewer Surcharge, Lou Romano Levy, etc) monthly schedule of amounts collected and remitted to the City of Windsor.

Objective

Verification of appropriateness of the expenses other than payroll charged to “Water Treatment and Distribution”.

Procedures:

- a) Obtain details of all general ledger expense accounts with total expense for the year greater than \$100,000 and vouch to supporting documents / invoices for expenses greater than \$100,000.
- b) Obtain copies of agreements for all debentures outstanding at end of each year and compute debenture interest expense for the year.

Objective

Verification of appropriateness of the payroll expenses charged to “Water Treatment and Distribution”.

Procedures:

- a) Reconcile the payroll expense for the year as per general ledger accounts to
 - (i) T4 summary
 - (ii) Payroll records
- b) Obtain the payroll journal entries for the following months giving employee wise details and for a randomly selected sample of employees from each year, verify by reviewing the personnel records, that the payroll has been properly allocated to the Water Treatment and Distribution.

Objective

Verification of appropriateness of accounting for capital additions including watermain replacements and capital repairs.

Procedures:

- a) Obtain the capital assets continuity schedule for all capital asset accounts, and ensure that the opening cost and accumulated amortization balances agree to closing balances at the end of the previous year.
- b) Obtain detailed listings of capital asset additions during the year and for significant additions, vouch to invoices / supporting documents such as invoices and board resolutions to ensure that the additions are appropriately allocated to “Water Treatment and Distribution”.
- c) Obtain detailed listings of capital asset disposals during the year indicating original cost, proceeds, book value, and gain or loss and for significant additions and disposals, vouch to invoices / supporting documents such as invoices and board resolutions to ensure that the additions / disposals are appropriately allocated to “Water Treatment and Distribution”.
- d) Obtain a schedule of amortization and reconcile the amortization charge for the year to the general ledger.
- e) Document the policies for tendering of capital projects including watermain replacements and on a sample basis determine that these were adhered to.

To meet the objectives of the examination the following audit procedures were completed at the City:

The City of Windsor (“the City”):

Objective

Gain a detailed understanding of operations, accounting systems and obtain corroborating evidence.

Procedures:

- a) Conduct interviews with senior management.
- b) Interview senior accounting staff and perform “walkthroughs” of the accounting cycles and funds related to waste water and sewage operations and capital expenditures.
- c) Read annual reports and financial statements for years 2002 – 2006.
- d) Compile and read relevant newspaper articles in local media.
- e) Obtain and read minutes of Council and related Committee meetings 2003 to September 2007.
- f) Obtain and read agreements and contracts relevant to waste water and sewer operations.
- g) Perform financial, including cash flows, analytical review and trend analysis for period 2003 to September 30, 2007 and corroborate to relevant data.

Objective

Assess the adequacy of the financial analysis (including all relevant budgets operating and capital) used to determine sewer surcharge rates and increase to these rates and the adequacy of financing and billing to support those rates and increases.

Procedures:

- a) Review reports and other supporting documents supporting the annual operating and capital budgets including:
 - (i) Presentations made to Council
 - (ii) Capital Budget Committee minutes
 - (iii) Operating Budget Committee minutes
 - (iv) Operating Budget Variance Reports

Objective

Determine how the sewer surcharge rates were accounted for in the City's financial statements. Ensure that the "Fund 28 – Segregated Sewer Surcharge Expenditures and Revenues" and "Fund 171 – Lou Romano Upgrade" are an integral part of the audited financial statements:

Procedures:

- a) Agree the "Fund 28 – Segregated Sewer Surcharge Expenditures and Revenues" and "Fund 171 – Lou Romano Upgrade" to the trial balance at December 31, 2003 to 2006 and September 30, 2007. Agree the "Fund 28 – Segregated Sewer Surcharge Expenditures and Revenues" and "Fund 171 – Lou Romano Upgrade" to audited financial statements for the years ended December 31, 2003 to 2006 and to the internal financial statements.
- b) Agree the "Fund 28 – Segregated Sewer Surcharge Expenditures and Revenues" and "Fund 171 – Lou Romano Upgrade" to audited financial statements for the years ended December 31, 2003 to 2006 and to the internal financial statements.

Objective

Verification of the completeness of sewer surcharge revenue:

Procedures:

- a) SEWER SURCHARGE – FUND 28
 - (i) Obtain a schedule listing the rates for "Sewer Surcharge" and the effective dates of rate changes during the period from January 1, 2003 to September 30, 2007 and agree to approval in the minutes.
 - (ii) Obtain, from WUC, a schedule of sewer revenue collected and payments made to the City during the period from January 1, 2003 to September 30, 2007.
 - (iii) Agree the amounts per WUC to the City's general ledger.
- b) LOU ROMANO LEVY – FUND 171
 - (i) Obtain a schedule listing the rates for "Lou Romano Levy" and the effective dates of rate changes during the period from January 1, 2003 to September 30, 2007 and agree to approval in the minutes.
 - (ii) Obtain from WUC, a schedule of sewer revenue collected and payments made to the City during the period from January 1, 2003 to September 30, 2007.
 - (iii) Agree the amounts per WUC to the City's general ledger.

c) AGREEMENTS with TECUMSEH and LASALLE.

Obtain copies of agreements specifying the quantities and rates to be charged for “Sewage Treatment” covering the period from January 1, 2003 to September 30, 2007 and summarize.

d) Obtain explanations for refunds, compute their percentage of sewer revenue and compare the percentage over the years for consistency and reasonability.

Objective

Verification of appropriateness of the expenses other than payroll charged to sewer related capital and operating funds.

Procedures:

- a) For all expenses 100% allocated to the sewer related funds, obtain details of all general ledger expense accounts with total expense for the year greater than \$100,000 and vouch to supporting documents / invoices for expenses greater than \$100,000, verifying that the expense is related to sewer operations.
- b) For all expenses allocated to sewer related funds at less than 100%,
 - (i) Obtain the basis of allocation, assess its reasonability, and compare it over the years 2003 to 2007 for consistency of the rates.
 - (ii) For all expenses greater than \$100,000 in general fund (Fund # 1) vouch to supporting documents / invoices for expenses greater than \$100,000, verifying that the expense is related to the Works Department.
- c) Obtain copies of agreements for all debentures outstanding at end of each year and compute debenture interest expense for the year.
- d) Verify the continuity of the transfers from Fund 28 (Sewer Surcharge Fund) to the sewer related capital asset replacement funds. For each of these sewer related capital replacement funds vouch expenditures to supporting documentation (> \$100,000) to ensure these relate to sewer projects.

Objective

Verification of appropriateness of the payroll charged to sewer related funds.

Procedures:

- a) Obtain the payroll journal entries for one pay period from random months and randomly select a sample of employees from each year, verify by reviewing the time cards or other supporting documents that the employee had worked on sewer related operations.

Objective

Ensure the impact of any significant adjusting entries or significant unadjusted errors identified by external auditors relevant to “Water Treatment Operations” are appropriate and taken into consideration.

Procedures:

- a) Obtain copies of management letters from the external auditors which includes the summary of unadjusted errors and consider impact of any weaknesses / unadjusted errors relating to “Water Treatment” operations.
- b) Obtain copies of adjusting journal entries made by auditors, if any, and consider impact of any adjustments relating to “Water Distribution and Treatment”.

Objective

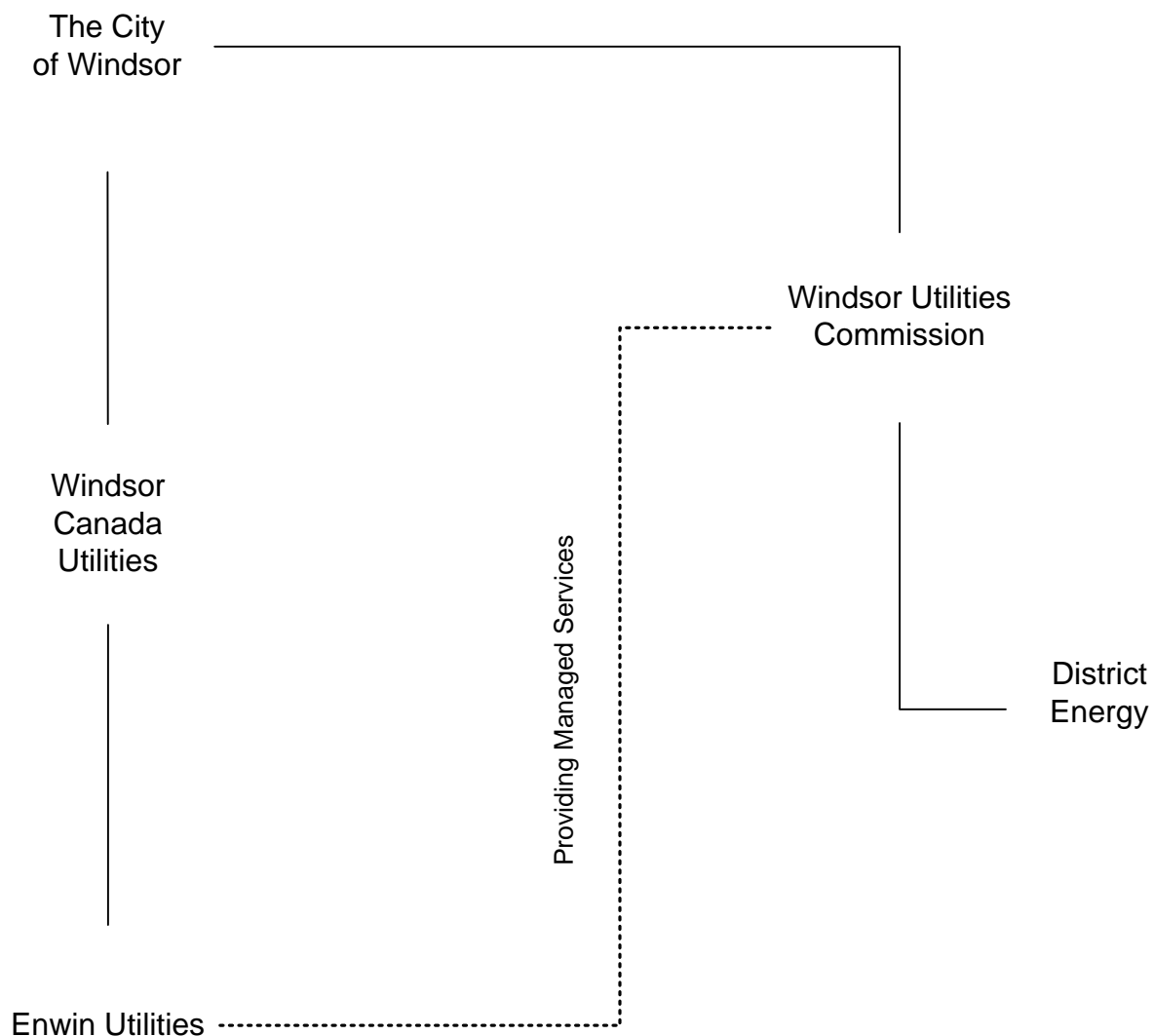
Determine if the fee charged by Enwin to the City for billing and collection of sewer revenues on behalf of the City is in accordance with the agreement and agrees to Enwin’s records.

Procedure:

- a) Obtain copy of the Management Services Agreement with Enwin and a copy of the Cost Allocation Study prepared by KPMG and submitted and approved by the OEB on which fee is based. Determine if the fee charged by Enwin is in accordance with the agreement and expense allocations are reasonable and consistent.

Corporate Structure

September 30, 2007



WINDSOR UTILITIES COMMISSION manages and controls the treatment and distribution of water to the City of Windsor and surrounding regions.

DISTRICT ENERGY's infrastructure consists of a 4-pipe system delivering both heating and cooling services to customer sites.

ENWIN UTILITIES LTD is a managed services company providing billing, credit, financial and customer service, and Help Desk support.

Year	WATER MONTHLY RATES				MONTHLY WATER BILL TO CUSTOMER						SEWER RATES	
	Water Consumption Charge	Fixed Meter Charges (5/8")	Fire Protection Levy	Watermain Replacement Levy	Total Fixed Charges	Total Usage Charges (based on 294 cm annual)	Subtotal	Watermain Replacement Levy	Total Water Bill	% change from prior year	Sewer Rate	Lou Romano Surcharge
1990	\$0.174	\$5.65			\$5.65	\$4.35	\$10.00	-	\$10.00			
1991	\$0.194	\$6.09			\$6.09	\$4.85	\$10.94	-	\$10.94	9.38%		
1992	\$0.213	\$6.68			\$6.68	\$5.33	\$12.01	-	\$12.01	9.79%		
1993	\$0.216	\$6.78			\$6.78	\$5.40	\$12.18	-	\$12.18	1.41%		
1994	\$0.222	\$6.97			\$6.97	\$5.55	\$12.52	-	\$12.52	2.78%		
1995	\$0.224	\$7.03			\$7.03	\$5.60	\$12.63	-	\$12.63	0.90%		
1996	\$0.230	\$7.22			\$7.22	\$5.75	\$12.97	-	\$12.97	2.68%	100%	
1997	\$0.234	\$7.46			\$7.46	\$5.85	\$13.31	-	\$13.31	2.64%	100%	
1998	\$0.241	\$7.56			\$7.56	\$5.90	\$13.47	-	\$13.47	1.00%	100%	
1999	\$0.241	\$7.56			\$7.56	\$5.90	\$13.47	-	\$13.47	0.00%	125%	
2000	\$0.241	\$7.56			\$7.56	\$5.90	\$13.47	-	\$13.47	0.00%	125%	
2001	\$0.253	\$7.94			\$7.94	\$6.20	\$14.14	-	\$14.14	5.00%	125%	
2002	\$0.266	\$8.75	\$0.88		\$9.63	\$6.52	\$16.15	-	\$16.15	14.00%	140%	
2003	\$0.266	\$8.75	\$0.88	5%	\$9.63	\$6.52	\$16.15	\$0.81	\$16.95	5.00%	140%	
2004	\$0.266	\$9.63		13%	\$9.63	\$6.52	\$16.15	\$2.10	\$18.25	8.00%	180%	
2005	\$0.266	\$9.63		13%	\$9.63	\$6.52	\$16.15	\$2.10	\$18.25	0.00%	180%	
2006	\$0.266	\$9.63		13%	\$9.63	\$6.52	\$16.15	\$2.10	\$18.25	0.00%	180%	10%
2007	\$0.266	\$16.84		45%	\$16.84	\$6.52	\$23.36	\$10.51	\$33.87	86.00%	130%	20%

- NOTES -FIRE PROTECTION CHARGE TRANSFERRED FROM THE CITY TO WUC IN 2002
 -IMPLEMENTATION OF WATERMAIN REPLACEMENT LEVY (WRL) IN 2003 @ 5%
 -FIRE PROTECTION LEVY MERGED INTO FIXED METER CHARGES FROM JANUARY 1, 2004
 -INCREASED THE WATERMAIN REPLACEMENT LEVY IN 2004 TO 13% FROM 5% JANUARY 1, 2004
 -FIXED METER CHARGE FOR 1998 TO 2006 INCLUDED WATER SERVICE REPAIR LEVY OF \$0.25
 -WRL INCREASE TO 45% AUGUST 1, 2007
 -GENERAL SEWER SURCHARGE INCREASED TO 180% MAY 19, 2004
 -GENERAL SEWER SURCHARGE DECREASE TO 130% AUGUST 1, 2007
 -LOU ROMANO WATER RECLAMATION PLAN LEVY (LRWRP) SET AT 10% MAY 1, 2003
 -AUGUST 1 THE 130% GENERAL SEWER LEVY AND 20% LRWRP LEVY WERE COMBINED TO APPEAR AS ONE 150% LEVY ON WATER BILLS

Windsor Utilities Commission

Appendix 5

Statement of Cash Flows

(\$' millions)
Year ended December 31

9 months
ended
30-Sep
(unaudited)

	2002	2003	2004	2005	2006	2007
Cash provided by (used in):						
Operations:						
Net cash from operations as reported (Note 1)	(0.746)	1.586	14.362	4.009	5.143	7.429
Financing:						
Repayment of debentures	(1.386)	(1.458)	(1.274)	(1.381)	(1.420)	(1.464)
Issuance of debentures	14.235	-	-	-	-	-
Cost of issuing debentures	(0.334)	-	-	-	-	-
Due from (to) related parties	-	-	-	1.286	1.101	-
Deferred revenue	(1.801)	-	-	-	-	-
Contributions from developers	1.691	2.764	2.530	1.045	0.973	-
	12.405	1.306	1.256	0.950	0.654	(1.464)
Investing:						
Capital asset additions	(6.185)	(12.341)	(10.804)	(10.501)	(10.595)	(4.471)
Proceeds on disposition of capital assets	11.796	-	-	-	-	-
	5.611	(12.341)	(10.804)	(10.501)	(10.595)	(4.471)
Increase (decrease) in cash for the year	17.270	(9.449)	4.814	(5.542)	(4.798)	1.494
Cash (bank indebtedness), beginning of year	(7.844)	9.426	(0.023)	4.791	(0.751)	(5.549)
Cash (bank indebtedness), end of year	9.426	(0.023)	4.791	(0.751)	(5.549)	(4.055)

Note 1: Includes Watermain Replacement Levy revenue of: 0.984 2.811 2.886 2.784 3.923

Windsor Utilities Commission

Appendix 6

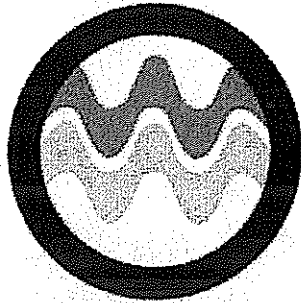
Schedule of Net Debt

(\$' millions)

Year ended December 31

9 months
ended
30-Sep
(unaudited)

	2002	2003	2004	2005	2006	2007
Short term debt:						
Bank indebtedness (cash)	(9.426)	0.023	(4.791)	0.751	5.549	4.055
Due from Enwin Utilities-MaXess Network	(4.145)	(4.145)	-	-	-	-
Due to (from) Enwin Utilities Ltd.	(1.645)	(4.301)	(2.224)	(1.360)	0.849	3.156
Due to Enwin Powerlines Ltd.	-	-	-	0.121	-	-
Long term debt:						
Debentures	33.473	32.199	31.899	30.819	29.399	27.934
Net debt	18.257	23.776	24.884	30.331	35.797	35.145



**WINDSOR
UTILITIES
COMMISSION**

**Water Distribution Network
Watermain Infrastructure Renewal Needs Report**

Norbert Poggio P. Eng.
Manager of Water Engineering
September 16, 2002

6. CONCLUSION

Data compiled by the AWWA Research Foundation, comparing North American distribution system renewal programs show a current average watermain renewal rate of 0.4% for a system similar to Windsor's. This translates into an annual budget of approximately \$2.0 million, which coincides with WUC's approved budget of several years ago. Increases in WUC's capital budget in 2001 and 2002 to \$4.4 million and \$5.0 million respectively, have elevated the renewal rate to 1.0%.

Recent results of KANEW model studies of large municipal systems like Toronto and Hamilton have shown that their annual watermain renewal rates need to increase from the current 0.5% to 2.5% in the first 10 years and maintain a 2.0% renewal rate over subsequent years. The higher renewal rates over the first 10 years reflect the back-log of aging pipes which have already reached the end of their expected service life.

Figures 12 and 13 illustrate an average renewal rate of \$6.4 million over the next 50 years which is required to cover the life cycle costs of the iron pipe system. This budget amount equates to an annual renewal rate of 1.3%. When an analysis of the Windsor system is undertaken using the KANEW model, it is anticipated that higher renewal rates in the range of 1.8 to 2.0% will be necessary in the initial 10 years, representing similar increases to that experienced in the Toronto and Hamilton studies.

7. RECOMMENDATION

It is essential that WUC remain vigilant on the issue of watermain renewal. Until further studies are completed, the Commission should implement a proactive annual renewal program of at least \$6.4 million as outlined in this report. In order to accurately forecast annual renewal needs, further study is required to assess the amount and timing of yearly rates of replacement/rehabilitation for the initial 10 years. This rate is anticipated to be higher than the proposed 1.3%. This initial study should be followed by a detailed model study to determine the deterioration rate of specific pipe segments and subsequently plan their renewal.

Recommended Budgeting Best Practices

An outline of recommended best practices for publicly accountable entities:
(National Advisory Council on State and Local Budgeting 1998)

Four Guiding Principles:

1. ESTABLISH BROAD GOALS TO GUIDE DECISION MAKING

- A. Assess community needs and priorities and identify opportunities and challenges for government services, capital assets and management

Best practices:

- i. Identify stakeholders concerns, needs and priorities
- ii. Evaluate external factors, opportunities and challenges
- iii. Assess capital assets, management systems, services and programs and identify issues and opportunities
- iv. Develop broad goals and review with stakeholders

2. DEVELOP APPROACHES TO ACHIEVE GOALS

- A. Develop a comprehensive set of financial policies including Operating and Capital policies and plans consistent with the broad goals resulting from sound financial analysis
 - i. Develop policy on fees and charges
 - ii. Develop policy on debt issue and management including debt level and capacity
 - iii. Develop policy on balancing the operating budgets including revenue diversification
 - iv. Prepare policies and plans for capital asset acquisition, maintenance, replacement and retirement including options for meeting capital needs
 - v. Develop performance measures
 - vi. Develop mechanisms for budgetary compliance

3. DEVELOP A BUDGET CONSISTENT WITH APPROACHES TO ACHIEVE GOALS

- A. Develop a process for preparing and adopting the budget
 - i. Develop mechanisms for coordinating budget preparation and review including discussion, modification and adoption
 - ii. Identify opportunities for stakeholder input
- B. Develop and Evaluate Financial Options
 - i. Conduct long range financial planning
 - ii. Prepare revenue and expenditure projections and evaluate revenue and expenditure options
 - iii. Develop a capital improvement plan
 - iv. Prepare and present budget for adoption presenting a budget summary identifying key issues, financial overview and basis of accounting in a clear easy-to-understand format

4. EVALUATE PERFORMANCE AND MAKE ADJUSTMENTS

- A. Monitor and evaluation performance
- B. Monitor, measure and evaluate budgetary performance, financial condition, external factors and capital program implementation
- C. Make adjustments as necessary
 - i. Adjust the budget
 - ii. Adjust policies and strategies as necessary
 - iii. Adjust broad goals if appropriate

Study Purpose

- ❑ Comply with Emerging Water Legislative changes
- ❑ Identify all current and future water system capital needs
- ❑ Identify cost recovery options for capital
- ❑ Estimate future operating costs over next 10 years
- ❑ Recommend new rates to recover the cost of the water system

Annual Cost of Water by Area (based on 294 m³ annual consumption)

Appendix 9

Annual Cost of Water by Area
(Based on 294 m³ annual consumption)

2007				
Area	# of Municipalities	Low	High	Median
Central	34	\$168	\$1,109	\$385
South East	42	180	852	340
South West	56	116	890	392
North East	32	146	745	353
North West	9	334	750	433
Total	173	-	-	-

Annual Cost of Water by Municipality Size (based on 294 m³ annual consumption)

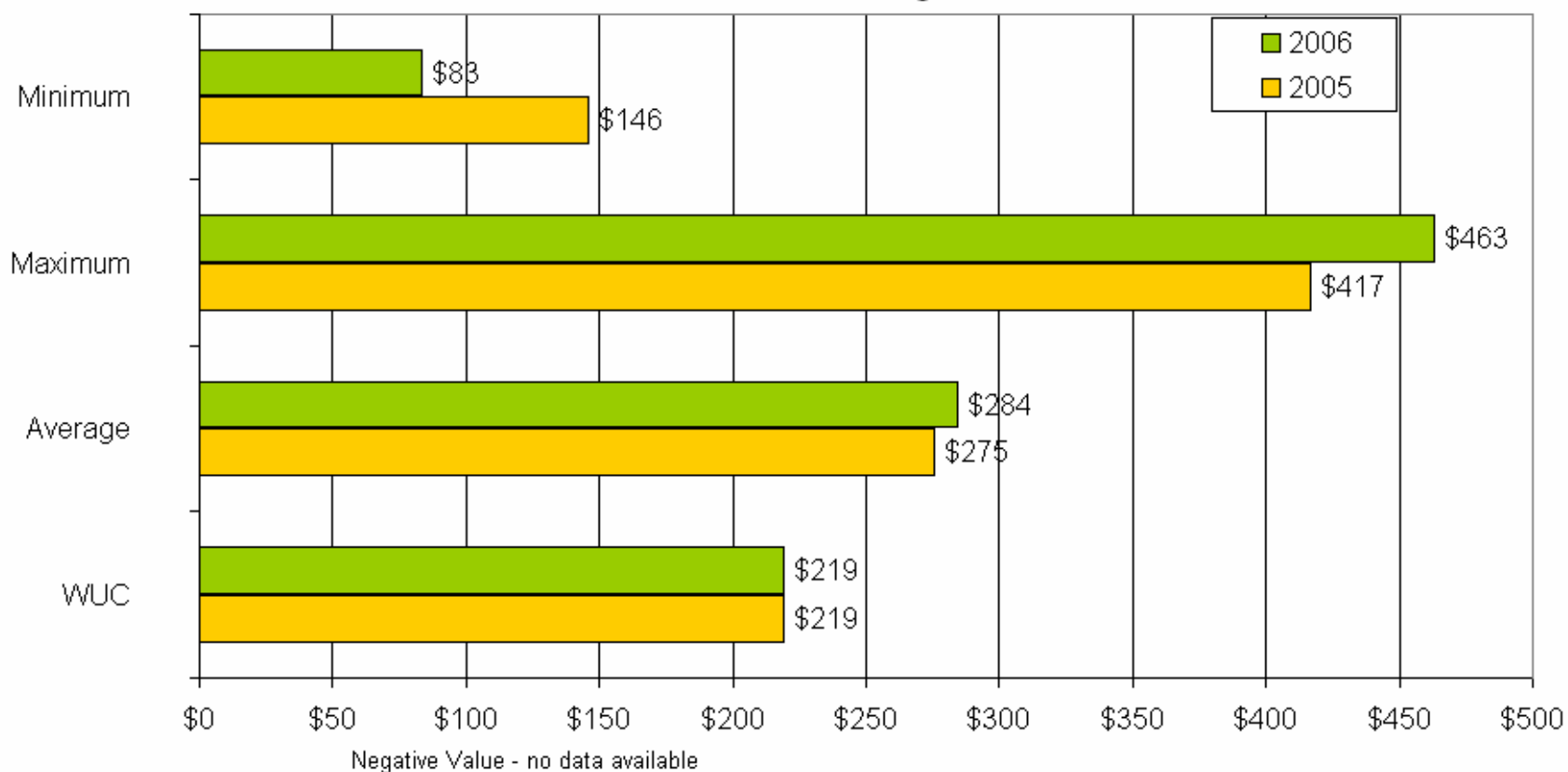
Appendix 9

Annual Cost of Water by Municipality Size (Based on 294 m³ annual consumption)

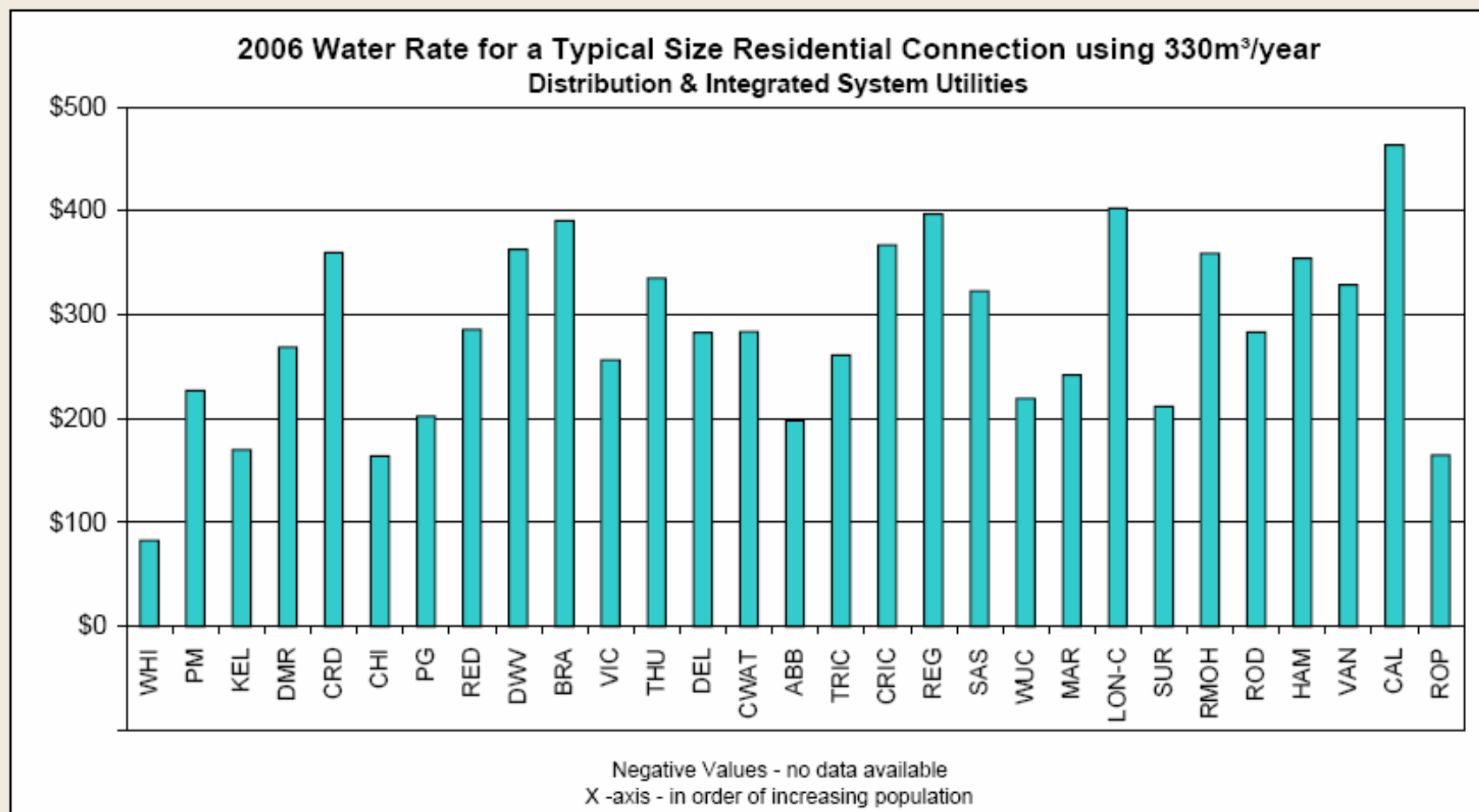
2007				
Size	# of Municipalities	Low	High	Median
< 5,000	39	\$146	\$1,109	\$447
5,000 - 10,000	41	180	858	397
10,000 - 50,000	63	147	641	358
50,000 - 100,000	9	250	636	388
100,000 +	21	116	524	292
Total	173	-	-	-

WUC 2006 Results

Water Rate for a Typical Size Residential Connection using 330 m³/year
Water Distribution and Integrated Utilities



WUC 2006 Results



Windsor Utilities Commission
 Breakdown of Watermain Levies
 (\$ millions)
 2003-2007

Appendix 10

9 months
 ended
 30-Sep
 (unaudited)

	<u>TOTAL</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Watermain Levy Budget	10.870	-	2.921	3.140	3.101	1.708
Watermain Levy Revenue Actual	<u>13.390</u>	<u>0.985</u>	<u>2.812</u>	<u>2.886</u>	<u>2.784</u>	<u>3.923</u>
Watermain Expenditures - Capital Budget	48.207	6.450	6.800	9.500	10.718	14.739
Watermain Expenditures - Actual	36.575	5.664	9.579	8.324	9.030	3.978
less: Developer Contributed Capital (Note 1)	7.311	2.764	2.530	1.045	0.972	-
Expenditures incurred by WUC	<u>29.264</u>	<u>2.900</u>	<u>7.049</u>	<u>7.279</u>	<u>8.058</u>	<u>3.978</u>
Excess of Expenditures over Levy	<u>15.874</u>	<u>1.915</u>	<u>4.237</u>	<u>4.393</u>	<u>5.274</u>	<u>0.055</u>
Average Budgeted Expenditures:	9.641					
Average Annual Expenditures:	6.161					
Average required*	6.400					

* as per Watermain Infrastructure Renewal Needs Report, September 16, 2002.

Note 1: Developers incur costs of watermains in new developments, then turn over to WUC who records fixed asset and contributed capital. Watermain "expenditures" above include new developments contributed by developers.

Statements of Revenue and Expenditures

\$'millions

Fund 28 - Segregated Sewer Surcharge Fund

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
					(to Sep 30)	
Revenue	26.379	33.039	37.084	36.211	18.962	151.676
Expenditures						
Treatment plants & Pump Stations	8.669	8.372	10.273	10.777	5.927	44.018
Sewer Maintenance & Repairs	4.962	5.384	6.330	6.510	4.001	27.187
Operating Expenditures	13.631	13.756	16.602	17.287	9.928	71.205
Other Expenditure						
Debt servicing	1.632	1.616	1.051	0.483	-	4.782
Billing & Collection Fee	1.286	1.322	2.029	1.565	1.125	7.327
Alloc. Of Corp Admin expenses	1.726	1.800	2.161	2.491	-	8.178
Refunds to businesses not discharging water to sewers	0.480	0.355	0.467	0.458	0.392	2.152
Other Expenditure	5.125	5.093	5.708	4.997	1.517	22.439
Reserves for equipment replacement	2.474	2.541	2.640	2.719	2.744	13.119
Direct Funding of Capital Projects	7.107	11.259	15.370	15.000	16.400	65.136
Total Expenditures	28.337	32.650	40.320	40.003	30.590	171.899
Surplus / (Deficit) transferred to Fund 153	(1.958)	0.389	(3.236)	(3.792)	n/a	

Fund 171 - Lou Romano Water Reclamation Plant (LRWRP) - Upgrade & Expansion Reserve Fund

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
					(to Sep 30)	
Revenues						
Investment Income	0.190	0.256	0.140	0.067	0.072	0.725
Lou Romano Sewer Surcharge	0.986	2.171	2.061	2.012	1.075	8.306
LaSalle Downpayment	8.000	-	-	-	16.057	24.057
Total Revenue	9.176	2.428	2.201	2.080	17.205	33.089
Expenses						
Funding - Lou Romano Upgrade project	-	8.001	4.302	-	4.452	16.755
Surplus / (Deficit)	9.176	(5.573)	(2.101)	2.080	12.752	16.334
Balance, beginning of year	-	9.176	3.603	1.502	3.581	-
Balance, end of year	9.176	3.603	1.502	3.581	16.334	16.334

Note - The surcharge for LRWRP Upgrade & Expansion Reserve Fund was initiated in May 2003

CITY OF WINDSOR
SEWER SURCHARGE FORECAST (2005 - 2009)
(Does not include Lou Romano Water Reclamation Plant Upgrade & Expansion Reserve)

	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$
PUBLIC WORKS EXPENDITURES					
POLLUTION CONTROL					
Treatment Plants & Pump Stations	10,288,670	11,154,104	13,406,836	13,745,900	14,281,893
Depreciation (Transfer To Reserve)	2,639,460	2,718,560	4,251,810	4,286,310	4,318,210
	<u>12,928,130</u>	<u>13,872,664</u>	<u>17,658,646</u>	<u>18,032,210</u>	<u>18,600,103</u>
SEWER MAINTENANCE & REPAIR					
PW - Operations	4,589,490	4,704,227	4,821,833	4,942,379	5,065,938
PW - Building & Development	606,936	622,112	637,665	653,606	669,946
PW - Engineering & Corporate Projects	205,883	211,030	216,306	221,713	227,256
PW - Administration	89,355	91,589	93,879	95,226	98,631
PW - Environmental Services	1,116,364	1,144,273	1,172,880	1,202,202	1,232,257
A	<u>6,608,030</u>	<u>6,773,231</u>	<u>6,942,562</u>	<u>7,116,126</u>	<u>7,294,029</u>
Total Public Works Operating Budget Expenditures	<u>19,536,160</u>	<u>20,645,895</u>	<u>24,601,208</u>	<u>25,148,336</u>	<u>25,894,132</u>
SEWER CAPITAL BUDGET					
Base Capital	7,100,000	7,000,000	7,000,000	7,000,000	7,000,000
Additional Capital	3,470,000	3,000,000	3,000,000	3,000,000	3,000,000
Additional Capital (Town of Tecumseh Agreement)	4,800,000	-	-	-	-
	<u>15,370,000</u>	<u>15,000,000</u>	<u>15,000,000</u>	<u>15,000,000</u>	<u>15,000,000</u>
Total Public Works Capital Expenditures	<u>15,370,000</u>	<u>15,000,000</u>	<u>15,000,000</u>	<u>15,000,000</u>	<u>15,000,000</u>
TOTAL PUBLIC WORKS EXPENDITURES	<u>34,906,160</u>	<u>35,645,895</u>	<u>39,601,208</u>	<u>40,148,336</u>	<u>40,894,132</u>
OTHER EXPENDITURES					
Debt Servicing Costs - Remaining 5 Year Debt	1,052,000	483,000	-	-	-
W.U.C. Administration Fee	1,488,477	1,523,639	1,561,730	1,600,773	1,640,792
Overhead (Transfer to Current)	2,161,317	2,495,213	2,772,085	2,810,384	2,862,589
B	<u>417,360</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
Appeal Refunds & General Expenses	5,117,154	4,751,852	4,583,814	4,661,157	4,753,382
TOTAL OTHER EXPENDITURES	<u>9,236,298</u>	<u>9,004,704</u>	<u>8,917,629</u>	<u>9,022,314</u>	<u>9,206,763</u>
TOTAL OF ALL EXPENDITURES	<u>44,142,458</u>	<u>44,650,600</u>	<u>48,518,837</u>	<u>49,170,650</u>	<u>50,100,895</u>
PROJECTED SURCHARGE REVENUES					
C	41,757,886	40,956,833	41,980,753	43,030,272	44,108,029
NET CHANGE IN FUND	1,734,571	559,086	(2,204,269)	(1,779,220)	(1,541,484)
Projected Balance of Sewer Surcharge Fund	<u>3,197,017</u>	<u>3,756,103</u>	<u>1,551,834</u>	<u>(227,386)</u>	<u>(1,768,870)</u>

NOTES:

A - Assumes most expenditures increase at a rate of 2.6% per annum for inflation.

B - Overhead expenditures based on 7% (MOT rate) of expenditures.

C - Based on forecasted 2005 revenues, increased annually thereafter by 2.5% for inflation. The 2005 revenue includes \$1.8m in funding yet to be received from Tecumseh Water/Waste Water Agreement.

*** It should be stressed that both the Windsor Utility Commission's revenue and Public Work's expenditure figures are projections. As with all projections, they are based on a number of variables and assumptions that, if not achieved, may materially impact the results of this model.

City of Windsor
2007 Recommended Budget

Sewer Surcharge Forecast for 2007

	2005	2006	2007
	Actuals (\$)	Actuals (\$)	Forecast (\$)
PUBLIC WORKS EXPENDITURES			
POLLUTION CONTROL			
Treatment Plants & Pump Stations (2007 includes increased costs due to operationalization of the LRWRP)	10,272,692	10,777,226	13,251,622
Depreciation	2,639,960	2,718,560	1,452,550
	<u>12,912,652</u>	<u>13,495,786</u>	<u>14,704,212</u>
SEWER MAINTENANCE & REPAIR			
PW - Operations	4,632,183	4,818,497	4,938,959
PW - Building & Development	376,700	356,953	365,877
PW - Engineering & Corporate Projects	230,700	248,486	-
PW - Administration	89,355	89,355	91,589
PW - Environmental Services	1,000,798	982,573	1,007,138
	<u>6,329,736</u>	<u>6,495,864</u>	<u>6,403,563</u>
Total Public Works Operating Budget Expenditures	<u>19,242,388</u>	<u>19,991,650</u>	<u>21,107,775</u>
SEWER CAPITAL BUDGET			
Base Capital	7,100,000	7,000,000	13,698,000
Additional Capital	3,470,000	8,000,000	-
Additional One Time Capital (Town of Tecumseh Agreement)	4,800,000	1,300,000	-
Additional One Time Capital Variance Surplus	-	4,800,000	-
Total Public Works Capital Expenditures	<u>15,370,000</u>	<u>21,100,000</u>	<u>13,698,000</u>
TOTAL PUBLIC WORKS EXPENDITURES	<u>34,612,388</u>	<u>41,091,650</u>	<u>34,805,775</u>
OTHER EXPENDITURES			
Debt Servicing Costs - Remaining 5 Year Debt (payments on new LRWRP debt to start in 2008)	1,051,108	483,000	-
W.U.C. Administration Fee	2,028,536	1,497,283	1,534,715
Overhead (Transfer to Current)	2,161,310	2,491,034	2,670,793
Appeal Refunds & General Expenses	466,769	525,938	500,000
TOTAL OTHER EXPENDITURES	<u>5,707,723</u>	<u>4,997,255</u>	<u>4,705,508</u>
TOTAL OF ALL EXPENDITURES	<u>40,320,110</u>	<u>46,088,905</u>	<u>39,511,283</u>
PROJECTED REVENUES			
Projected Revenue (WUC) - Sewer Surcharge 180% Levy	37,083,977	36,211,283	36,211,283
Projected Revenue (WUC) - LRWRP 10% Levy (2005 & 2006 revenue funded LRWRP capital project)	-	-	2,000,000
PROJECTED SURCHARGE REVENUES	<u>37,083,977</u>	<u>36,211,283</u>	<u>38,211,283</u>
NET CHANGE IN SEWER SURCHARGE FUND #28	<u>(3,236,133)</u>	<u>(9,892,638)</u>	<u>(1,299,999)</u>
ONE TIME ADJUSTMENTS			
Capital Variance Surplus Revenue - Mid Year	4,000,000	800,000	-
Capital Variance Surplus Revenue - Year-end	-	307,728	-
Town of Tecumseh Wastewater Agreement Revenue	-	1,800,000	1,300,000
LRWRP General Impr. Capital Project Surplus Transfer (CR494/2006)	-	1,500,000	-
Revenue From Close out of Reserve #130	-	459,169	-
Interest/Administrative	-	99,985	-
Additional Expenditures as per Council Resolutions	-	(527,083)	-
Ending Balance from LRWRP 10% Surcharge	-	-	380,000
BALANCE OF SEWER SURCHARGE RESERVE (2007 PROJECTION)	<u>2,675,549</u>	<u>(2,276,209)</u>	<u>(1,096,289)</u>

NOTES:

A - Overhead expenditures based on 7% (MOT rate) of expenditures.

B - 2007 projected revenue based on actual 2006 revenues without a water rate increase.

It should be stressed that both the Windsor Utility Commission's revenue and Public Work's expenditure figures are projections. As with all projections, they are based on a number of variables and assumptions that, if not achieved, may materially impact the results of this model.

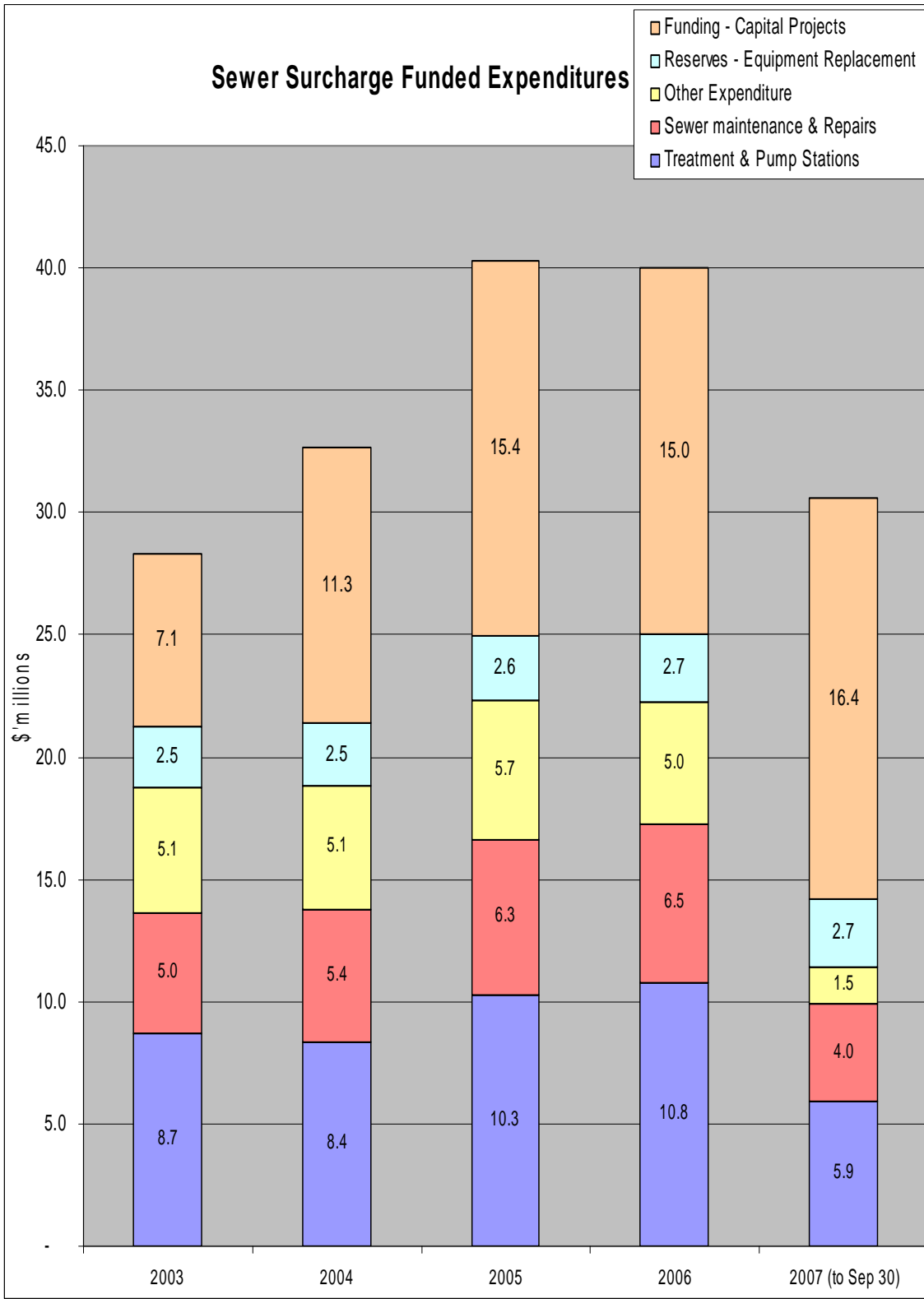
WINDSOR UTILITIES COMMISSION
WATER TREATMENT AND DISTRIBUTION
STATEMENT OF EARNINGS
(\$'millions)
Years Ended December 31

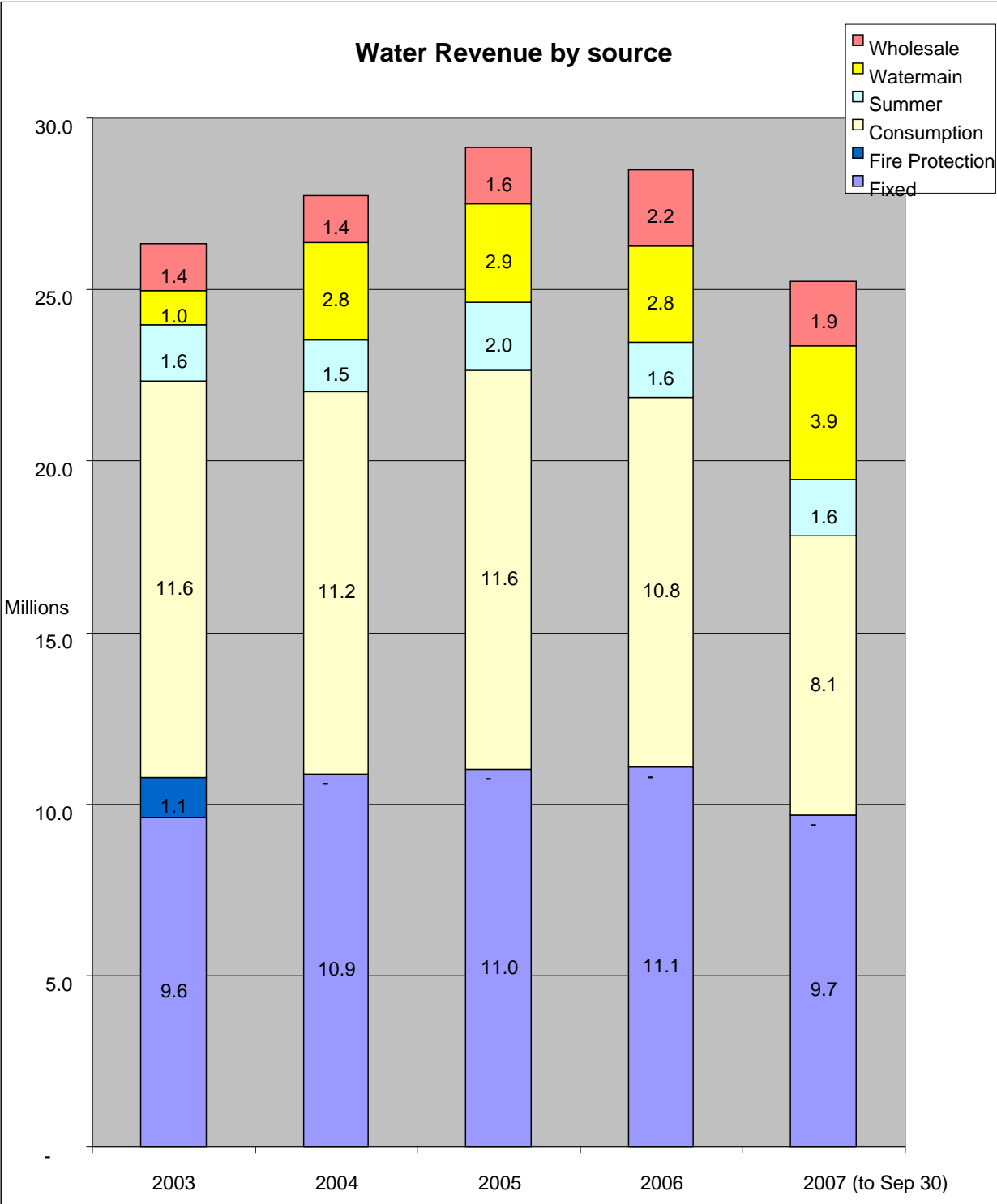
Appendix 13

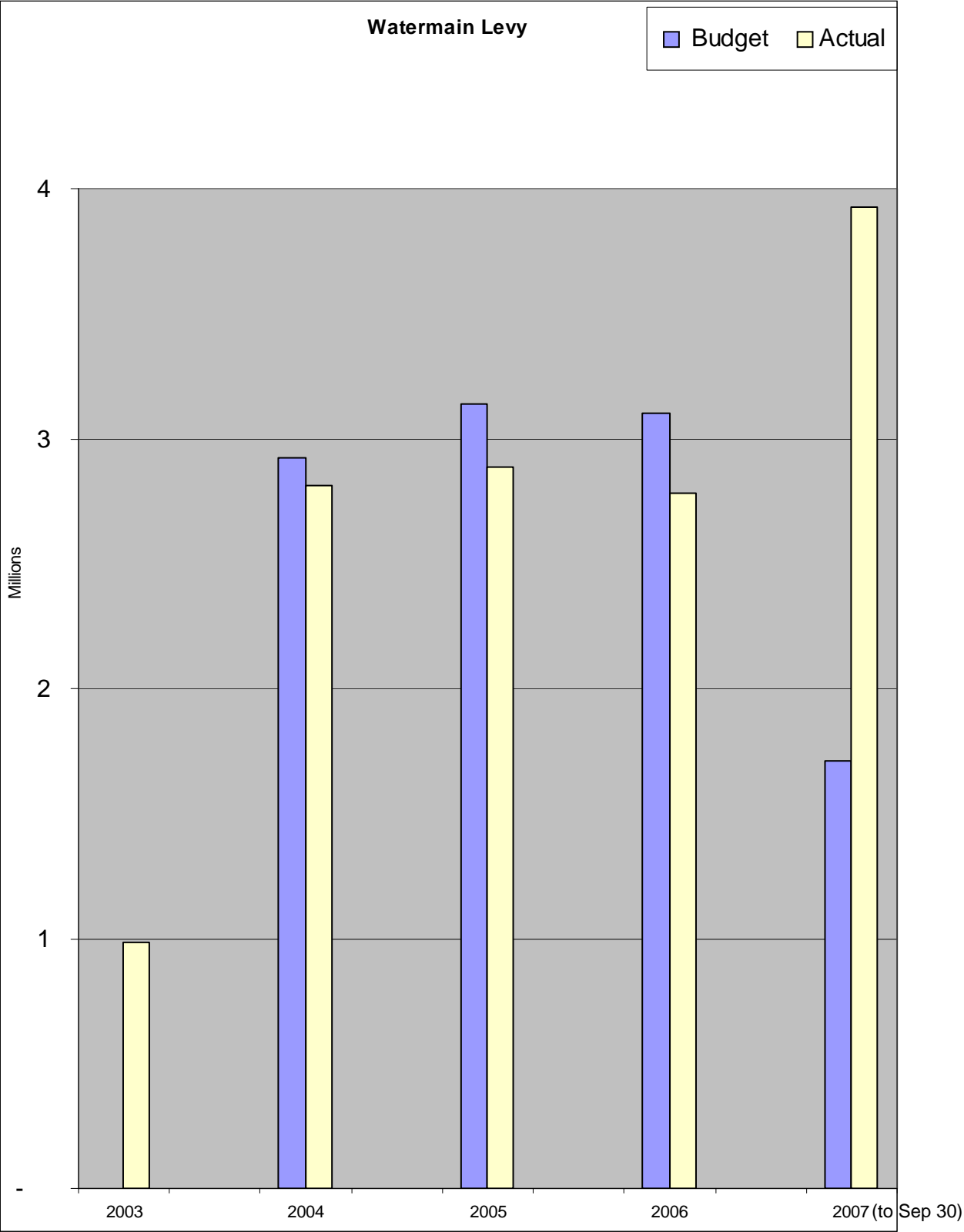
9 months
ended
30-Sep

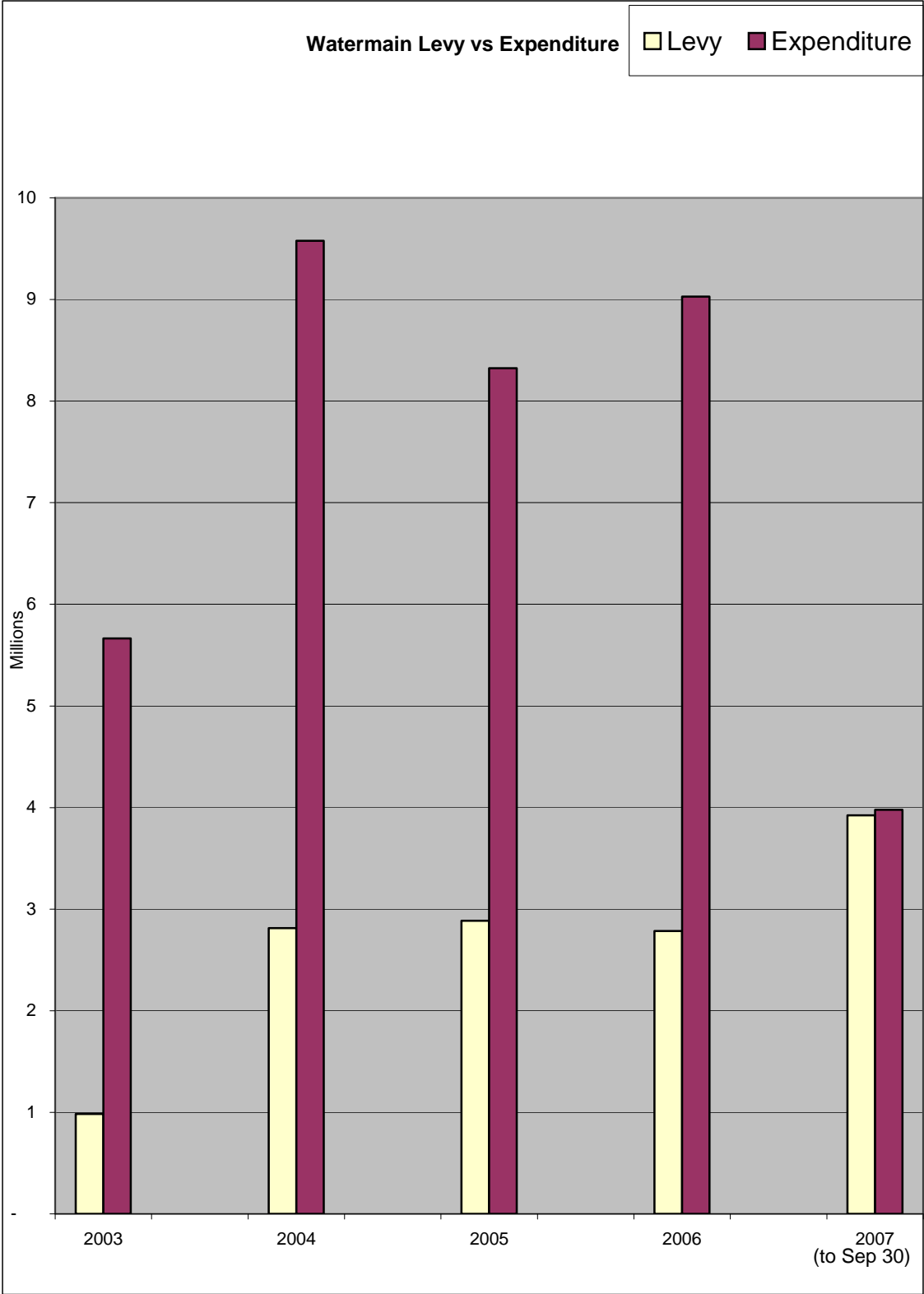
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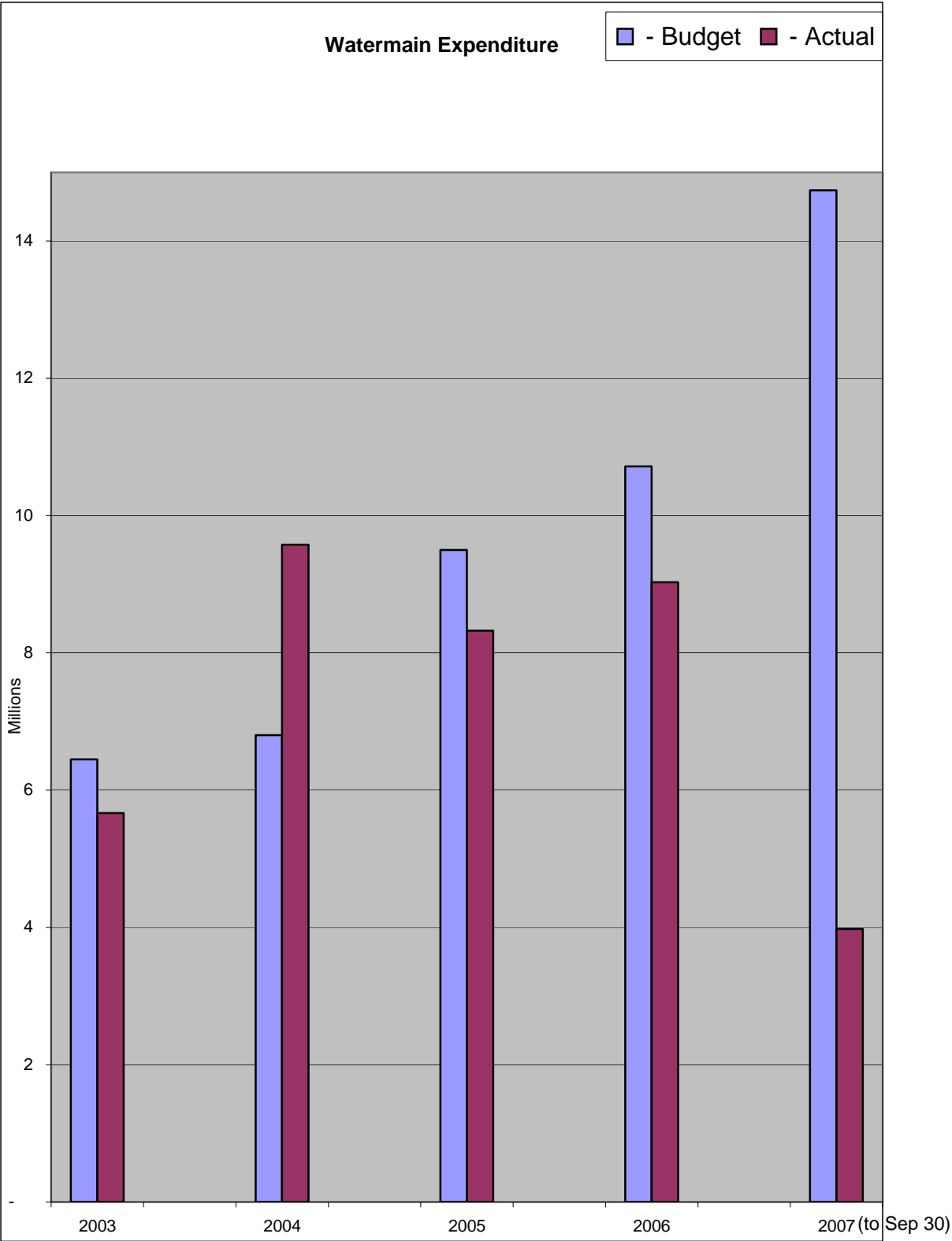
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
REVENUE FROM WATER RATES					
Fixed meter Charges	9.624	10.872	11.014	11.086	9.674
Consumption	11.580	11.160	11.630	10.785	8.143
Summer levy	1.625	1.517	1.973	1.599	1.637
Watermain Levy	0.985	2.812	2.886	2.784	3.923
Suburban Wholesale	1.383	1.376	1.641	2.227	1.877
Fire Protection	1.141	-	-	-	-
Total revenue	26.338	27.737	29.144	28.482	25.254
COST OF PRODUCTION	4.696	4.959	5.155	5.149	3.803
GROSS INCOME	21.642	22.778	23.989	23.333	21.451
OPERATING EXPENSES (INCOME)					
Transmission & Distribution Maintenance	4.378	4.569	3.776	3.968	3.312
Administration & General	4.508	4.772	4.262	4.950	3.479
Management Services Agreement	7.161	6.669	8.239	7.318	6.255
Post Employment Retirement Benefits	1.630	0.983	1.094	1.172	0.879
Change of Occupancy	(0.100)	(0.096)	(0.094)	(0.151)	(0.131)
Late Payment Charges	(0.107)	(0.125)	(0.158)	(0.300)	(0.277)
Sewer Surcharge Billing & Collecting	(0.733)	-	-	-	-
Other	(0.835)	(0.677)	(0.457)	(0.525)	(0.362)
Total Operating expenses (income)	15.903	16.095	16.661	16.434	13.155
OPERATING INCOME	5.738	6.682	7.328	6.900	8.296
Depreciation	3.767	4.149	4.370	4.575	3.644
Debenture Interest Expense	2.609	2.572	2.532	2.487	1.832
Interest Income	(0.463)	(0.255)	(0.225)	(0.034)	0.088
	5.912	6.465	6.677	7.028	5.565
NET EARNINGS (LOSS)	(0.174)	0.217	0.651	(0.128)	2.731

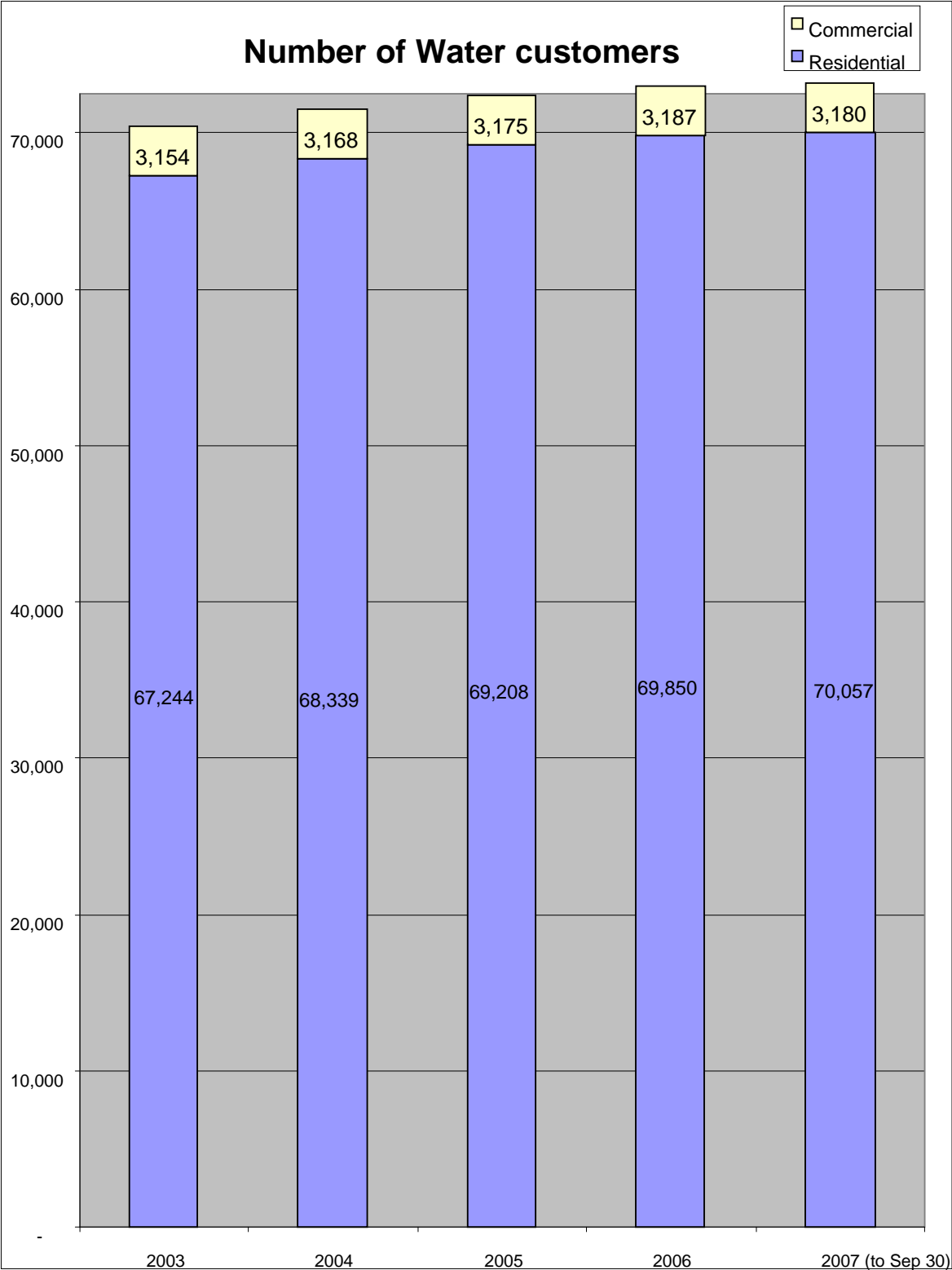












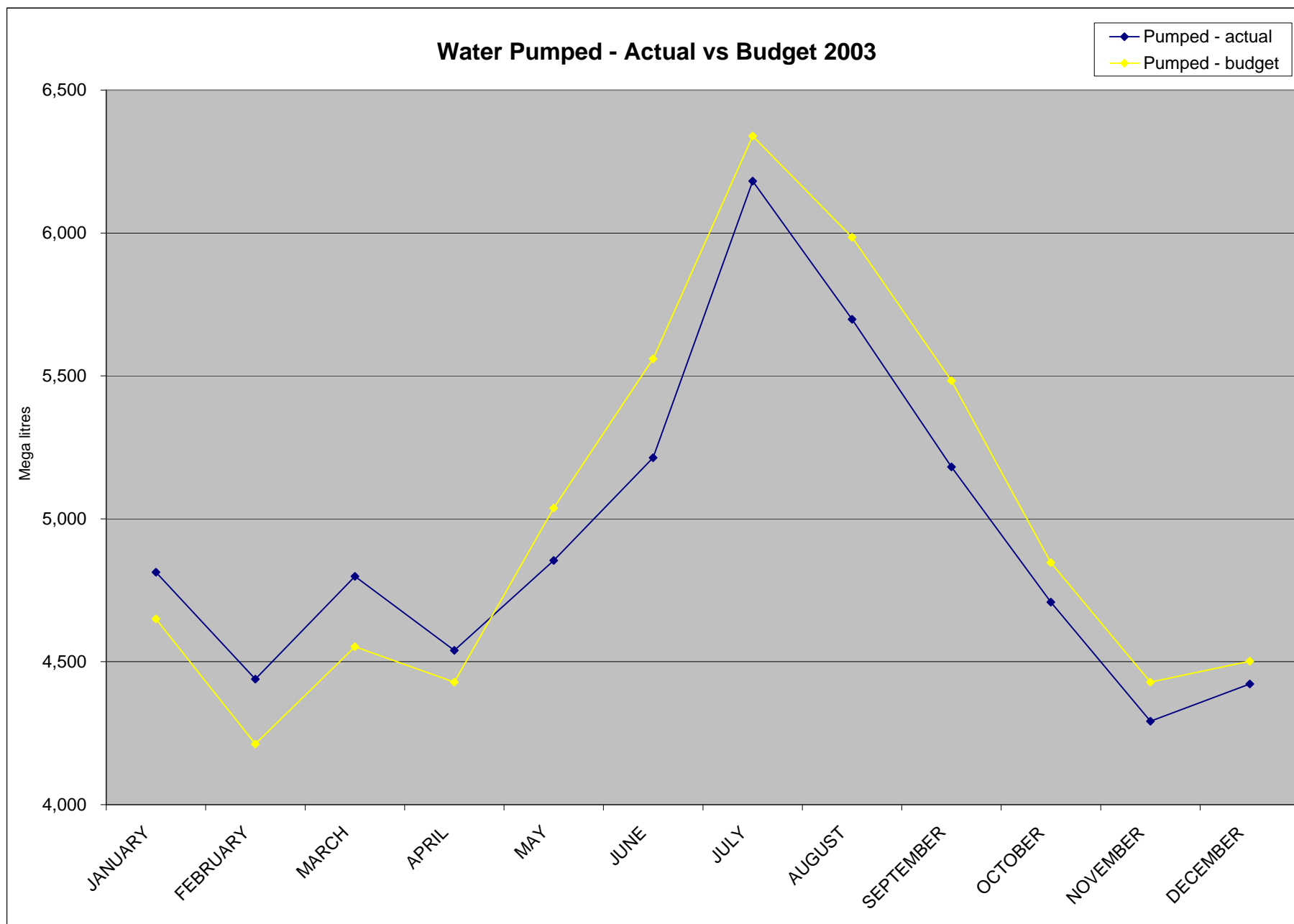
	Number of customers for Water						Property Count per Tax Roll				Water customers as % of Tax Roll	
	Residential	Increase over py	Commercial	Increase over py	Total	Increase over py	Number of Residential Properties	Increase over py	Number of Commercial Properties	Increase over py	Commercial	Residential
2003	67,244		3,154		70,398		69,484		3,421		96.8%	92.2%
2004	68,339	1.6%	3,168	0.4%	71,507	1.6%	70,787	1.9%	3,422	0.0%	96.5%	92.6%
2005	69,208	1.3%	3,175	0.2%	72,383	1.2%	72,456	2.4%	3,450	0.8%	95.5%	92.0%
2006	69,850	0.9%	3,187	0.4%	73,037	0.9%	73,422	1.3%	3,467	0.5%	95.1%	91.9%
2007	70,057	0.3%	3,180	-0.2%	73,237	0.3%	73,803	0.5%	3,476	0.3%	94.9%	91.5%

TREATED WATER PUMPAGE - 2003

MONTH	TOTAL PUMPED M.L. (Windsor / Las)	BUDGET TOTAL M.L. (Windsor / Las)	TOTAL BILLED M.L. (Windsor / Las)	BUDGET BILLED M.L. (Windsor / Las)	LASALLE UTILITY M.L.	TECUMSEH UTILITY M.L.	WINDSOR TOTAL M.L.
JANUARY	4,813.389	4,650.000	4,195.000	3,720.000	245.932	-	4,567.457
FEBRUARY	4,439.249	4,212.000	3,623.000	3,369.600	256.348	-	4,182.901
MARCH	4,798.533	4,553.000	4,540.000	3,642.400	274.192	-	4,524.341
APRIL	4,539.450	4,429.000	3,081.000	3,543.200	253.211	-	4,286.239
MAY	4,854.380	5,038.000	4,171.000	4,030.400	275.711	-	4,578.669
JUNE	5,213.564	5,560.000	3,669.000	4,448.000	352.152	-	4,861.412
JULY	6,181.722	6,339.000	4,958.000	5,071.200	423.652	-	5,758.070
AUGUST	5,698.077	5,985.000	4,869.000	4,788.000	360.400	-	5,337.677
SEPTEMBER	5,181.587	5,483.000	4,585.000	4,386.400	281.744	-	4,899.843
OCTOBER	4,709.040	4,847.000	3,997.000	3,877.600	241.368	-	4,467.672
NOVEMBER	4,291.820	4,429.000	3,051.000	3,543.200	237.582	-	4,054.238
DECEMBER	4,422.410	4,502.000	3,144.000	3,601.600	277.968	-	4,144.442
TOTAL	59,143.221	60,027.000	47,883.000	48,021.600	3,480.260	-	55,662.961
AVERAGE	4,928.602				290.022	-	4,638.580

Actual as % of budget			Billed as % of pumped		
Pumped	Billed	Var %	Budget	Actuals	Var %
98.5%	99.7%	-1.2%	80.0%	81.0%	-1.2%

M.L. = MEGA LITRES



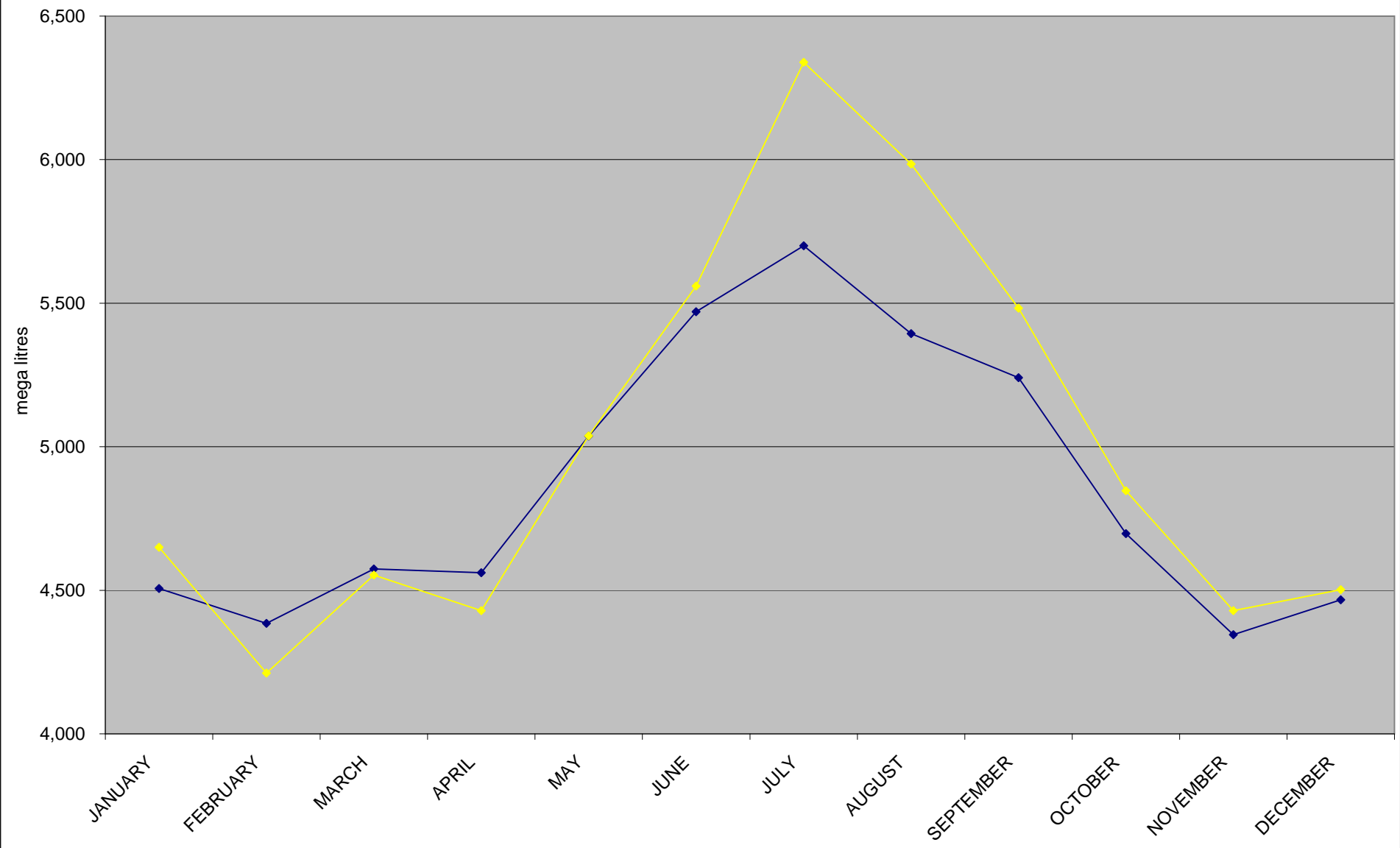
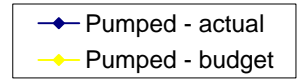
TREATED WATER PUMPAGE - 2004

MONTH	TOTAL PUMPED M.L. (Windsor / Las)	BUDGET TOTAL M.L. (Windsor / Las)	TOTAL BILLED M.L. (Windsor / Las)	BUDGET BILLED M.L. (Windsor / Las)	LASALLE UTILITY M.L.	TECUMSEH UTILITY M.L.	WINDSOR TOTAL M.L.
JANUARY	4,506.169	4,650.000	4,077.429	3,720.000	208.696	-	4,297.473
FEBRUARY	4,384.474	4,212.000	2,895.072	3,369.600	274.850	-	4,109.624
MARCH	4,574.247	4,553.000	3,472.624	3,642.400	249.559	-	4,324.688
APRIL	4,561.461	4,429.000	3,390.356	3,543.200	268.681	-	4,292.780
MAY	5,037.240	5,038.000	3,741.570	4,030.400	249.786	-	4,787.454
JUNE	5,470.141	5,560.000	4,090.984	4,448.000	316.478	-	5,153.663
JULY	5,699.778	6,339.000	4,576.688	5,071.200	376.152	-	5,323.626
AUGUST	5,394.350	5,985.000	4,393.343	4,788.000	323.177	-	5,071.173
SEPTEMBER	5,240.419	5,483.000	4,613.234	4,386.400	366.092	-	4,874.327
OCTOBER	4,697.614	4,847.000	3,431.867	3,877.600	200.633	-	4,496.981
NOVEMBER	4,345.555	4,429.000	4,177.505	3,543.200	271.819	-	4,073.736
DECEMBER	4,467.090	4,502.000	2,835.044	3,601.600	247.074	-	4,220.016
TOTAL	58,378.538	60,027.000	45,695.716	48,021.600	3,352.997	-	55,025.541
AVERAGE	4,864.878				279.416	-	4,585.462

Actual as % of budget			Billed as % of pumped		
Pumped	Billed	Var %	Budget	Actuals	Var %
97.3%	95.2%	2.2%	80.0%	78.3%	2.2%

M.L. = MEGA LITRES

Water Pumped - Actual vs Budget 2004



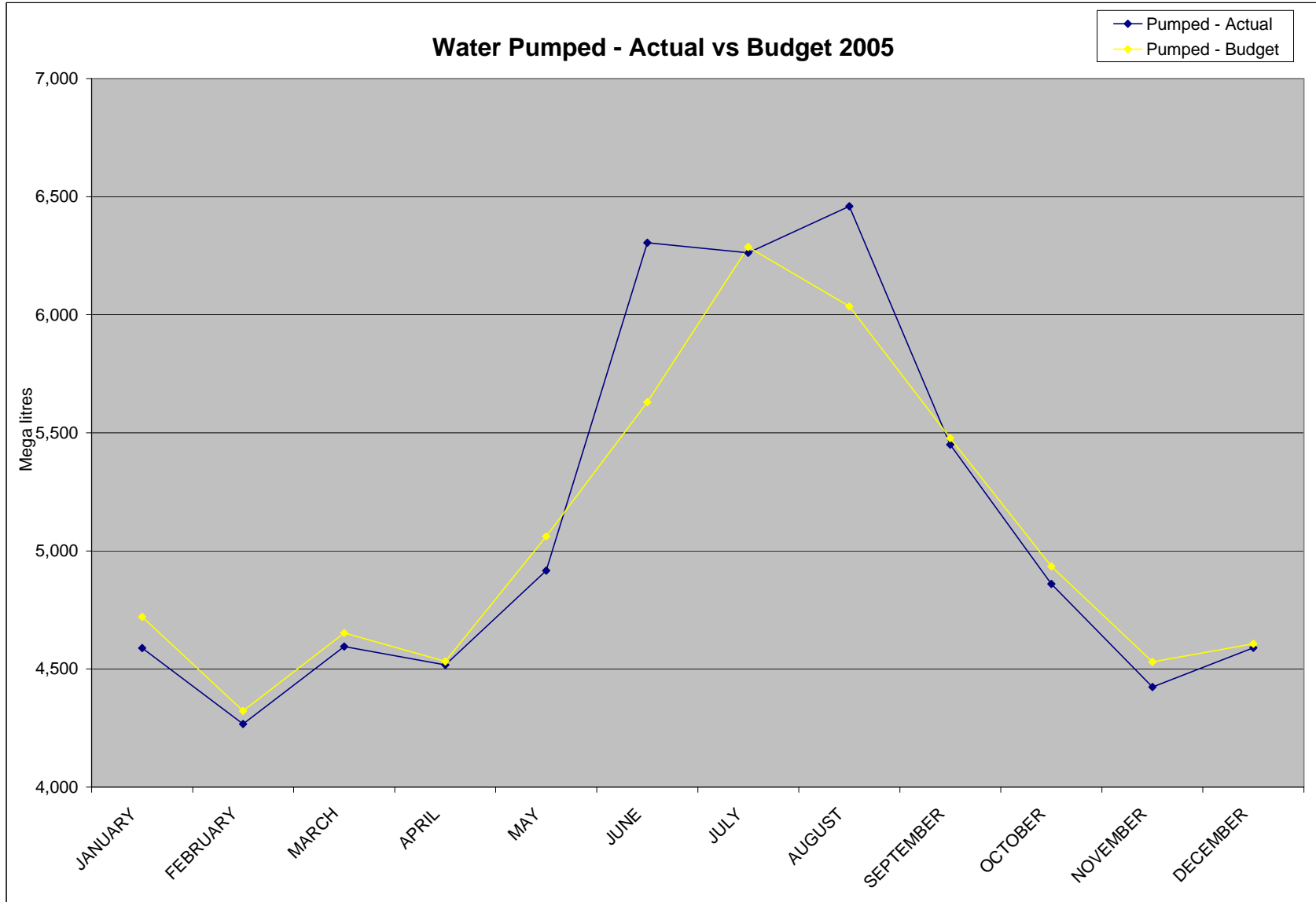
TREATED WATER PUMPAGE - 2005

Appendix 25

MONTH	TOTAL PUMPED M.L. (Windsor / Las)	BUDGET TOTAL M.L. (Windsor / Las)	TOTAL BILLED M.L. (Windsor / Las)	BUDGET BILLED M.L. (Windsor / Las)	LASALLE UTILITY M.L.	TECUMSEH UTILITY M.L.	WINDSOR TOTAL M.L.
JANUARY	4,589.095	4,720.880	3,633.120	3,776.704	263.631	-	4,325.464
FEBRUARY	4,267.486	4,322.225	2,730.850	3,457.780	247.745	-	4,019.741
MARCH	4,595.320	4,652.526	3,380.510	3,722.021	265.344	-	4,329.976
APRIL	4,517.920	4,532.612	3,615.280	3,626.090	262.268	-	4,255.652
MAY	4,916.927	5,061.700	3,479.820	4,049.360	330.198	-	4,586.729
JUNE	6,305.020	5,629.720	4,774.330	4,503.776	365.825	-	5,939.195
JULY	6,262.150	6,287.156	5,255.965	5,029.725	476.589	-	5,785.561
AUGUST	6,458.716	6,035.750	6,064.854	4,828.600	440.895	-	6,017.821
SEPTEMBER	5,449.452	5,477.200	3,973.193	4,381.760	346.514	-	5,102.938
OCTOBER	4,860.181	4,934.432	4,025.933	3,947.546	345.632	-	4,514.549
NOVEMBER	4,423.192	4,530.490	3,760.071	3,624.392	251.154	-	4,172.038
DECEMBER	4,590.088	4,607.290	2,796.839	3,685.832	278.553	-	4,311.535
TOTAL	61,235.547	60,791.981	47,490.765	48,633.585	3,874.348	-	57,361.199
AVERAGE	5,102.962				322.862	-	4,780.100

M.L. = MEGA LITRES

Actual as % of budget			Billed as % of pumped		
Pumped	Billed	Var %	Budget	Actuals	Var %
100.7%	97.7%	3.2%	80.0%	77.6%	3.2%



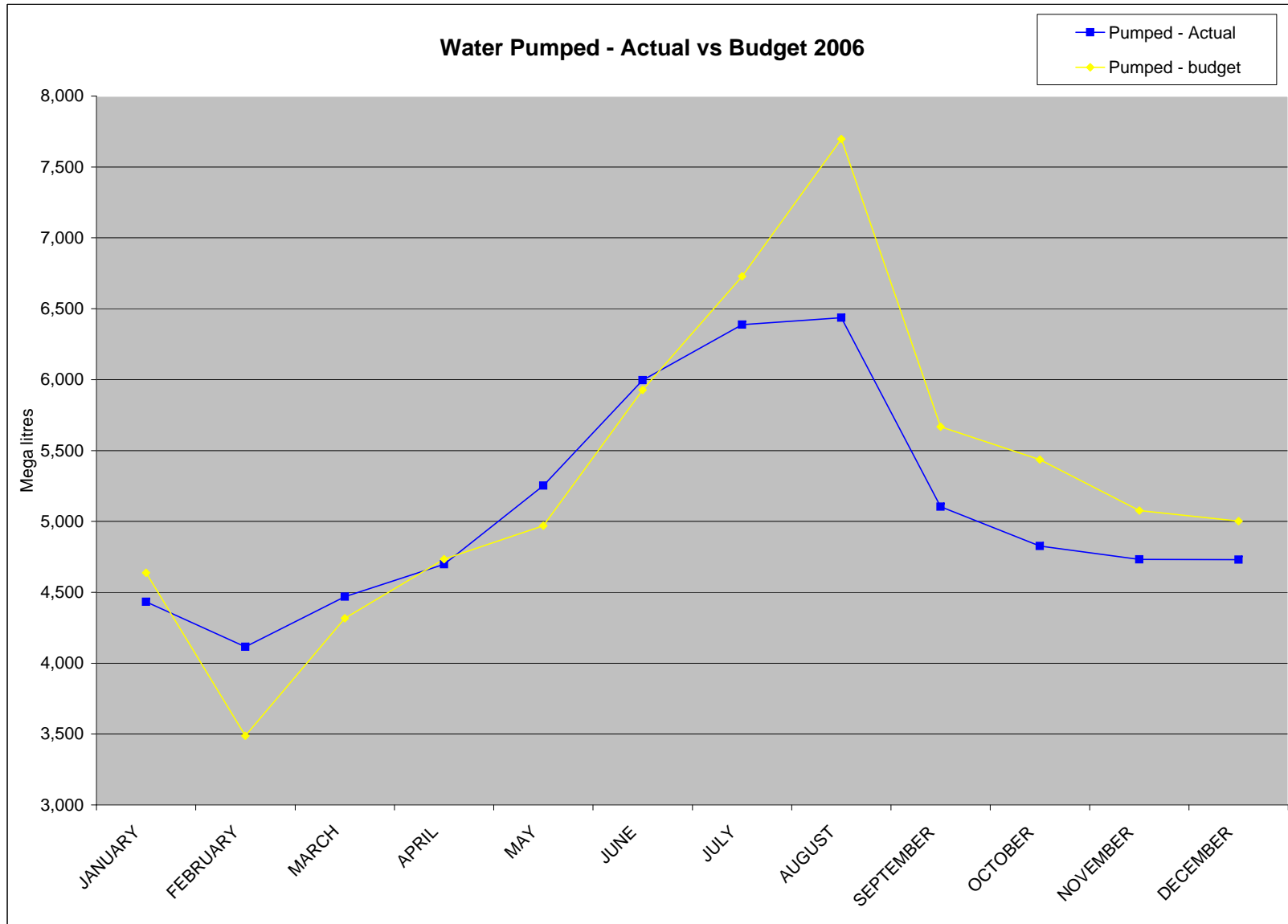
TREATED WATER PUMPAGE - 2006

Appendix 27

MONTH	ACTUALS PUMPED M.L. (Windsor / Las/Tec)	BUDGET PUMPED M.L. (Windsor / Las/Tec)	ACTUAL BILLED M.L. (Windsor / Las/Tec)	BUDGET BILLED M.L. (Windsor / Las/Tec)	LASALLE UTILITY M.L.	TECUMSEH UTILITY M.L.	WINDSOR TOTAL M.L.
JANUARY	4,432.270	4,638.000	3,331.088	3,641.744	238.085	-	4,194.185
FEBRUARY	4,115.240	3,487.000	2,969.678	2,744.546	233.218	-	3,882.022
MARCH	4,469.521	4,316.000	3,089.454	3,402.461	236.542	-	4,232.979
APRIL	4,698.270	4,734.000	3,715.409	3,734.558	257.935	292.500	4,147.835
MAY	5,253.000	4,970.000	3,926.901	3,925.803	290.000	350.998	4,612.002
JUNE	5,996.412	5,927.000	3,716.070	4,682.403	271.576	436.894	5,287.942
JULY	6,388.358	6,728.000	6,040.062	5,316.392	298.656	490.820	5,598.882
AUGUST	6,436.268	7,697.000	4,761.482	6,080.630	370.008	503.693	5,562.567
SEPTEMBER	5,103.739	5,668.000	4,383.235	4,496.991	201.798	361.120	4,540.821
OCTOBER	4,826.311	5,435.000	3,828.844	4,320.282	209.726	323.915	4,292.670
NOVEMBER	4,732.678	5,076.000	3,859.867	3,994.304	174.700	276.245	4,281.733
DECEMBER	4,730.119	5,003.000	2,440.290	3,986.891	175.058	265.161	4,289.900
TOTAL	61,182.186	63,679.000	46,062.380	50,327.004	2,957.302	3,301.346	54,923.538
AVERAGE	5,098.516				246.442	275.112	4,576.962

M.L. = MEGA LITRES

Actual as % of budget			Billed as % of pumped		
Pumped	Billed	Var %	Budget	Actuals	Var %
96.1%	91.5%	5.0%	79.0%	75.3%	5.0%

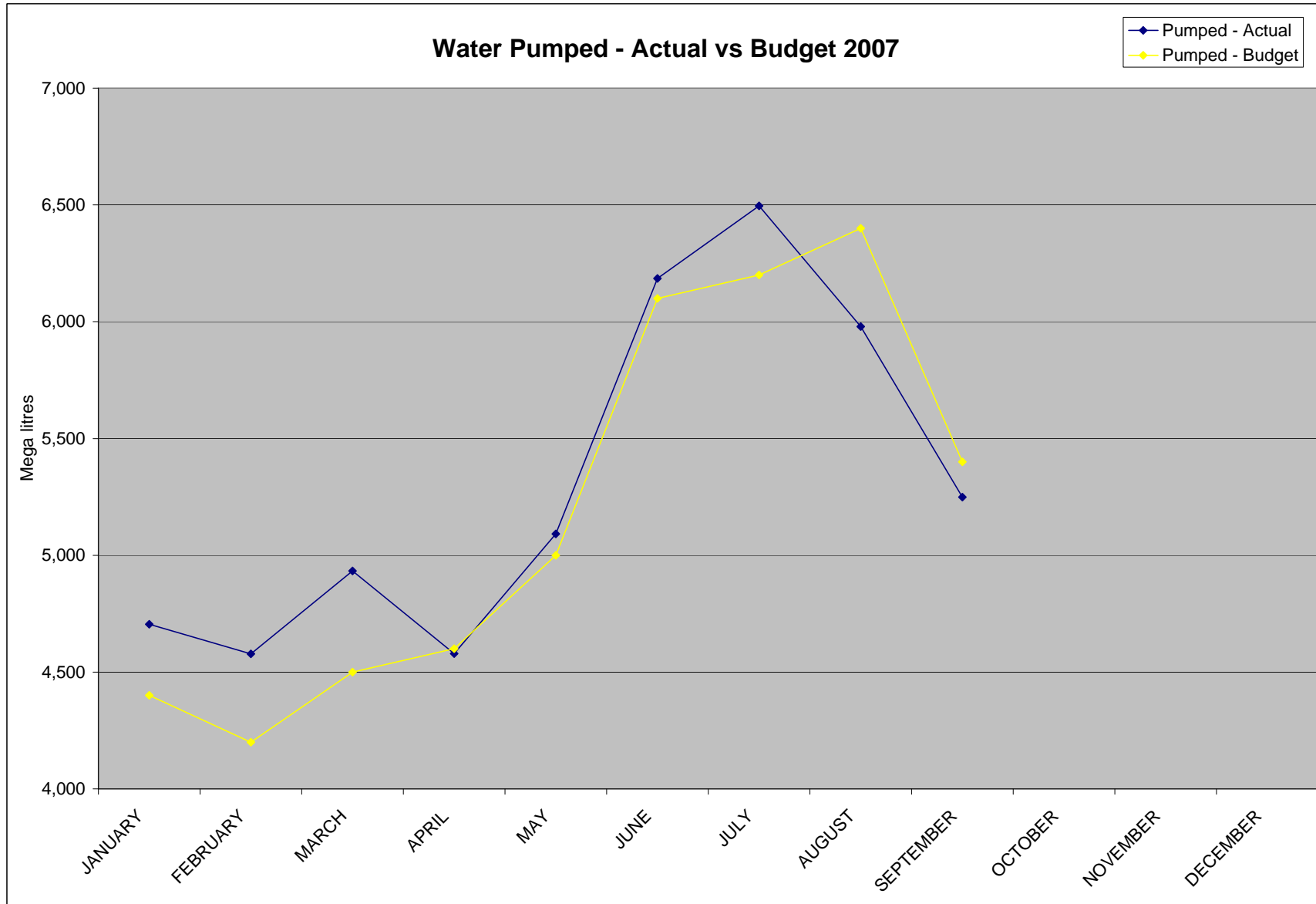


TREATED WATER PUMPAGE - 2007

MONTH	TOTAL PUMPED ACTUALS (Windsor / Las/Tec)	TOTAL PUMPED BUDGET (Windsor / Las/Tec)	TOTAL BILLED M.L. (Windsor / Las/Tec)	BUDGET BILLED M.L. (Windsor / Las/Tec)	LASALLE UTILITY M.L.	TECUMSEH UTILITY M.L.	WINDSOR TOTAL M.L.
JANUARY	4,705.219	4,400.000	3,759.541	3,153.000	207.079	288.727	4,209.413
FEBRUARY	4,578.203	4,200.000	3,199.844	3,010.140	186.857	233.528	4,157.818
MARCH	4,932.656	4,500.000	3,244.156	3,225.150	185.000	249.000	4,498.656
APRIL	4,579.338	4,600.000	3,550.876	3,434.820	193.021	263.374	4,122.943
MAY	5,092.034	5,000.000	3,750.339	3,732.500	231.989	329.938	4,530.107
JUNE	6,185.000	6,100.000	4,275.321	4,554.870	313.000	316.000	5,555.000
JULY	6,496.000	6,200.000	4,831.028	5,270.000	354.000	328.000	5,814.000
AUGUST	5,979.000	6,400.000	4,635.889	5,440.000	303.000	363.000	5,314.000
SEPTEMBER	5,248.974	5,400.000	4,953.465	4,590.000	314.940	386.003	4,548.031
OCTOBER							
NOVEMBER							
DECEMBER							
TOTAL	47,796.424	46,800.000	36,200.458	36,410.480	2,288.886	2,757.570	42,749.968
AVERAGE	5,310.714				254.321	306.397	4,749.996

Actual as % of budget			Billed as % of pumped		
Pumped	Billed	Var %	Budget	Actuals	Var %
102.1%	99.4%	2.7%	77.8%	75.7%	2.7%

M.L. = MEGA LITRES



December 21, 2007

Ministry of Municipal Affairs and Housing (“Ministry”)
659 Exeter Road, 2nd floor
London, Ontario
N6E 1L3

Dear Members of the Ministry:

We have been engaged to conduct an examination of the financial affairs of the City of Windsor (“the City”) and the Windsor Utilities Commission in connection with the adequacy of the analysis used in determining rates for water, wastewater and sewage services.

Canadian generally accepted auditing standards (GAAS) require that we communicate with you regarding all relationships between the Ministry, the City and Grant Thornton LLP that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute and/or applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the examination.

We are not aware of any relationships between the Ministry, the City and Grant Thornton LLP that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from October 10, 2007 to December 21, 2007.

GAAS requires that we confirm our independence to you in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Ministry and the City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of December 21, 2007.

This report is intended solely for the use of the Ministry and the City and should not be used for any other purposes.

Yours truly,

GRANT THORNTON LLP

Allister Byrne, FCA
Partner