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**MUNICIPALITY OF THE DISTRICT OF EAST HANTS**

**EAST HANTS WATER UTILITY**

**FINANCIAL REPORT**

March 31, 2017

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**Municipality of the District of East Hants**  
**East Hants Water Utility**  
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**March 31, 2017**

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Deloitte LLP  
Purdy's Wharf Tower II  
1969 Upper Water Street  
Suite 1500  
Halifax NS B3J 3R7  
Canada

Tel: 902-422-8541  
Fax: 902-423-5820  
[www.deloitte.ca](http://www.deloitte.ca)

# Independent Auditor's Report

To the Municipal Council of the  
Municipality of the District of East Hants

We have audited the accompanying financial statements of East Hants Water Utility, which comprise the statement of financial position as at March 31, 2017, and the statements of financial activities for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of the Municipality of the District of East Hants based on the accounting principles prescribed for Nova Scotia water utilities by the Nova Scotia Utility and Review Board.

## **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles prescribed for Nova Scotia water utilities by the Nova Scotia Utility and Review Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

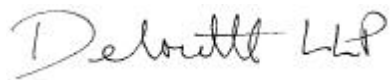
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of East Hants Water Utility as at March 31, 2017, and the results of its financial activities for the year then ended in accordance with the accounting principles prescribed for Nova Scotia water utilities by the Nova Scotia Utility and Review Board.

## **Basis for Accounting and Restrictions on Distribution and Use**

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared for the information and use of Council of the Municipality of the District of East Hants, Service Nova Scotia Municipal Affairs, and the Nova Scotia Utility and Review Board. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Council of the Municipality of the District of East Hants, Service Nova Scotia Municipal Affairs, and the Nova Scotia Utility and Review Board and should not be distributed to or used by other parties.

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Professional Accountants  
August 3, 2017  
Halifax, Nova Scotia

**Municipality of the District of East Hants  
 East Hants Water Utility Operating Fund  
 Statement of Financial Position  
 As at March 31, 2017**

	<u>2017</u>	<u>2016</u>
<b>FINANCIAL ASSETS</b>		
Cash - bank	\$ 980,188	\$ 846,240
Rates receivable (less allowance for doubtful accounts - \$6,510; 2017 - \$4,598; 2016 - Note 1b)	587,527	548,215
Accounts receivable	36,540	74,402
Inventory, at cost	5,123	6,657
Prepaid expenses	9,534	10,898
	<u>\$ 1,618,912</u>	<u>\$ 1,486,412</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 88,815	\$ 97,897
Deferred revenue - general	35,447	37,854
	<u>124,262</u>	<u>135,751</u>
<b>SURPLUS</b>	<u>1,494,650</u>	<u>1,350,661</u>
	<u>\$ 1,618,912</u>	<u>\$ 1,486,412</u>

Approved on Behalf of the Municipality  
 of the District of East Hants



Warden



Clerk

**Municipality of the District of East Hants  
 East Hants Water Utility Operating Fund  
 Statement of Financial Activities  
 Year Ended March 31, 2017**

	Budget <u>2017</u> (Unaudited)	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUE</b>			
Metered sales	\$ 1,648,700	\$ 1,678,696	\$ 1,617,722
Public fire protection	577,158	557,852	516,897
Coin meter	33,000	64,825	32,146
Miscellaneous income	14,625	17,467	21,544
<b>TOTAL OPERATING REVENUE</b>	<u>2,273,483</u>	<u>2,318,840</u>	<u>2,188,309</u>
<b>OPERATING EXPENDITURES</b>			
Source of Supply	28,000	9,715	10,477
Pumping	254,240	231,737	234,470
Water treatment	458,162	434,821	426,112
Transmission and distribution	723,067	656,005	681,920
Administrative and general	349,240	285,630	269,089
Depreciation	353,833	236,630	231,847
<b>TOTAL OPERATING EXPENDITURES</b>	<u>2,166,542</u>	<u>1,854,538</u>	<u>1,853,915</u>
<b>NET OPERATING REVENUE</b>	<u>106,941</u>	<u>464,302</u>	<u>334,394</u>
<b>NON-OPERATING REVENUE</b>			
Interest	5,760	4,588	5,955
Provincial PCAP Funding	-	-	74,022
Transfer from operating	175,000	105,295	-
	<u>180,760</u>	<u>109,883</u>	<u>79,977</u>
<b>NON-OPERATING EXPENDITURES</b>			
Interest	218,082	218,082	227,531
Principal	212,115	212,114	204,210
Capital out of revenue	-	-	27,853
	<u>430,197</u>	<u>430,196</u>	<u>459,594</u>
<b>NET NON-OPERATING EXPENDITURES</b>	<u>(249,437)</u>	<u>(320,313)</u>	<u>(379,617)</u>
<b>NET REVENUE (EXPENSE)</b>	<u>(142,496)</u>	<u>143,989</u>	<u>(45,223)</u>
<b>SURPLUS, BEGINNING OF YEAR</b>	1,350,661	1,350,661	1,395,884
<b>SURPLUS, END OF YEAR</b>	<u>\$ 1,208,165</u>	<u>\$ 1,494,650</u>	<u>\$ 1,350,661</u>

**Municipality of the District of East Hants  
 East Hants Water Utility Capital Fund  
 Statement of Financial Position  
 As at March 31, 2017**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash - bank	\$ -	\$ 10,282
Cash - Depreciation (Note 2)	1,843,015	1,709,272
Accounts receivable	79,724	106
Utility plant and equipment (schedule)	22,741,625	22,531,417
	<u>\$ 24,664,364</u>	<u>\$ 24,251,077</u>
<b>LIABILITIES</b>		
Bank indebtedness	\$ 50,053	\$ -
Accounts payable	19,284	-
Term debt (Note 3)	4,529,545	4,741,659
Deferred contributions	6,994,629	7,046,627
Accumulated depreciation	5,287,830	4,933,502
	<u>16,881,341</u>	<u>16,721,788</u>
<b>INVESTMENT IN CAPITAL ASSETS</b>	<u>7,783,023</u>	<u>7,529,289</u>
	<u>\$ 24,664,364</u>	<u>\$ 24,251,077</u>

Approved on Behalf of the Municipality  
 of the District of East Hants



Warden



Clerk

**Municipality of the District of East Hants  
 East Hants Water Utility Capital Fund  
 Statement of Financial Activities  
 Year Ended March 31, 2017**

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	<u>2017</u>	<u>2016</u>
<b>REVENUE</b>		
Investment income	\$ 19,720	\$ 17,826
<b>FINANCING AND TRANSFERS</b>		
Transfers from operations	-	27,853
Transfers from special reserves (capital)	21,900	23,501
Term debt retired	212,114	204,210
	<u>234,014</u>	<u>255,564</u>
<b>CHANGE IN FUND BALANCE</b>	<u>253,734</u>	<u>273,390</u>
<b>BEGINNING FUND BALANCE</b>	7,529,289	7,255,899
<b>ENDING FUND BALANCE</b>	<u>\$ 7,783,023</u>	<u>\$ 7,529,289</u>



**MUNICIPALITY OF THE DISTRICT OF EAST HANTS**  
**EAST HANTS WATER UTILITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

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**1. ACCOUNTING POLICIES**

The East Hants Water Utility financial statements have been prepared in accordance with the accounting principles prescribed for Nova Scotia water utilities by the Nova Scotia Utility and Review Board (NSUARB) and are intended for the use of Council, Nova Scotia Municipal Affairs and the NSUARB.

The basis of accounting used in these financial statements differs materially from Canadian generally accepted accounting principles (GAAP) as prescribed in the Canadian Public Sector accounting standards established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). The significant differences from GAAP are described below. GAAP requires that:

- Principal payments on debt should not be reported on the Statement of Financial Activities.
- A Statement of Cash Flows should be presented
- Accumulated depreciation be netted against Utility Plant and Equipment and presented within assets.

Other significant accounting policies are as follows:

**a) Revenue and Expenditure**

Revenue and expenditure items are recorded on an accrual basis.

Certain sources of revenue, including forfeited discounts, are recorded on a cash basis.

Principal and interest payments relating to long-term debt are recorded as an expense when paid.

Interest earned on amortization funds is recorded as an addition to the Depreciation Fund.

The Municipal Water Utility receives donated capital assets and grants to cover capital expenditures. These are recorded as deferred contributions and amortized into revenue at a rate corresponding with the depreciation rate for the related capital assets.

**b) Allowance for Doubtful Accounts**

A valuation allowance is provided for estimated losses that will be incurred in collecting rates receivable outstanding.

**MUNICIPALITY OF THE DISTRICT OF EAST HANTS  
EAST HANTS WATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2017**

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**c) Utility Plant and Equipment**

Utility plant and equipment and projects in progress are recorded at the Utility's gross cost. Funds received through capital assistance programs or cost-sharing arrangements are treated as deferred contributions in the capital fund. Interest incurred during construction on significant water capital projects is capitalized. Interest is calculated at the prevailing rates for projects temporarily funded by general or water utility operations. Utility plant and equipment donated by external parties, generally developers, have been recorded at their estimated value.

**d) Depreciation**

Depreciation of donated Utility plant and equipment and depreciation of other capital assets is recorded in the Water Capital Fund calculated on a formula prescribed by the Utility Review Board. An amount of cash equal to the deprecation claimed is set aside annually out of earnings and transferred to a Depreciation Fund.

**e) Allocation of Municipal Costs to Water Utility Funds**

Where identifiable, costs incurred by the Municipality of East Hants on behalf of the water utility are charged to the utility funds. The salaries and overtime of Public Works staff is allocated in proportion to time spent working for the utility. A portion of administrative salaries and other expense of the Municipality are allocated to sewer and water operations.

**2. DEPRECIATION FUND**

	<b>2017</b>	<b>2016</b>
Cash, beginning of year	\$1,709,272	\$1,519,508
Add:		
Depreciation	236,630	231,847
Interest earned	19,720	17,826
Deduct :		
Appropriations to Capital Fund	(122,607)	(59,909)
Cash, end of year	<u>\$1,843,015</u>	<u>\$1,709,272</u>

**3. TERM DEBT**

All term debt has been issued in the name of the Municipality of East Hants and has been properly authorized by Nova Scotia Municipal Affairs. See schedule of Capital Debt Charges and Term Debt.

**MUNICIPALITY OF THE DISTRICT OF EAST HANTS  
 EAST HANTS WATER UTILITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 MARCH 31, 2017**

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**4. RATE BASE & RATE OF RETURN**

	<b>2017</b>	<b>2016</b>
Net operating revenue		
Operating revenue	\$2,318,840	\$2,188,309
Operating expenditures	(1,854,538)	(1,853,915)
Net operating revenue	\$464,302	\$334,394
Rate base		
Utility plant and equipment	22,741,625	22,531,417
Less: Accumulated depreciation	5,287,830	4,933,502
Less: contributed assets	7,580,791	7,515,090
Rate Base	\$9,873,004	\$10,082,825
<b>Rate of return on rate base</b>	<b>4.70%</b>	<b>3.32%</b>

Rate of return on rate base:  $\frac{\text{Net operating revenue}}{\text{Rate Base}} \times 100$

**5. BUDGET FIGURES**

The East Hants Water Utility's annual budget is approved by Council. The budget figures is not subject to audit procedures.

**6. PROPERTY TAX EXEMPTION**

The property assets held by the East Hants Water Utility are exempt for property taxes by the Municipality of East Hants.

**Municipality of the District of East Hants  
 East Hants Water Utility  
 Schedule of Investment in Water Utility Plant and Equipment  
 As at March 31, 2017**

	<u>2017</u>	<u>2016</u>
<b>Land and Land rights</b>		
Coin meter	\$ 7,500	\$ 7,500
Other	17,533	17,533
Fence	13,540	13,540
Source of supply	<u>204,432</u>	<u>204,432</u>
	<u>243,005</u>	<u>243,005</u>
<b>Structures and improvements</b>		
Source of supply	260,667	260,667
Pumping	118,280	118,280
Water treatment	12,046,866	11,984,060
Distribution reservoirs	<u>2,145,054</u>	<u>2,145,054</u>
	<u>14,570,867</u>	<u>14,508,061</u>
<b>Equipment</b>		
Pumping	378,504	378,504
Water treatment	742,988	742,988
Transportation	29,488	29,488
Tools and work equipment	40,471	40,471
Other	<u>296,794</u>	<u>296,794</u>
	<u>1,488,245</u>	<u>1,488,245</u>
<b>Water Utilities Contributed Buried Services</b>	1,234,334	1,234,334
<b>Mains</b>		
Transmission	3,942,428	3,942,428
Distribution	<u>118,776</u>	<u>118,776</u>
	<u>4,061,204</u>	<u>4,061,204</u>
<b>Services</b>	294,879	294,879
<b>Meters</b>	96,373	96,373
<b>Hydrants</b>	665,116	605,316
<b>Work In Progress</b>	87,602	-
	<u>\$ 22,741,625</u>	<u>\$ 22,531,417</u>

**Municipality of the District of East Hants  
 East Hants Water Utility Operating Fund  
 Schedule to Statement of Financial Activities  
 Year Ended March 31, 2017**

	<u>2017</u>	<u>2016</u>
<b>Source of Supply</b>		
Supplies and expenses	<u>\$ 9,715</u>	<u>\$ 10,477</u>
<b>Pumping</b>		
Power	\$ 130,748	\$ 129,648
Maintenance	<u>100,989</u>	<u>104,822</u>
	<u>\$ 231,737</u>	<u>\$ 234,470</u>
<b>Water Treatment</b>		
Supervision and engineering	\$ 20,526	\$ 20,335
Labour	165,472	168,187
Supplies and expenses	168,426	180,158
Maintenance of structures and improvements	<u>80,397</u>	<u>57,432</u>
	<u>\$ 434,821</u>	<u>\$ 426,112</u>
<b>Transmission and distribution</b>		
Supervision and engineering	\$ 24,631	\$ 24,404
Labour	179,838	187,217
Maintenance of mains	403,793	424,893
Maintenance of other distribution plant	2,971	2,847
Store expenses	34,570	34,942
Transportation expenses	<u>10,202</u>	<u>7,617</u>
	<u>\$ 656,005</u>	<u>\$ 681,920</u>
<b>Administration and general</b>		
Supervision	\$ 90,799	\$ 79,430
Consumer billing and accounting	96,006	86,296
Uncollectible accounts	3,066	(538)
General office expenses	84,901	95,575
Audit	8,299	5,831
Regulatory expenses	<u>2,559</u>	<u>2,495</u>
	<u>\$ 285,630</u>	<u>\$ 269,089</u>

**Municipality of the District of East Hants  
 East Hants Water Utility Capital Fund  
 Schedule of Capital Debt Charges and Term Debt  
 Year Ended March 31, 2017**

<b>Date</b>	<b>Balance March 31/2016</b>	<b>Issued 2016/2017</b>	<b>Redeemed 2016/2017</b>	<b>Balance March 31/2017</b>	<b>Interest 2016/2017</b>	<b>Interest Rate</b>
2006	\$ 420,005	\$ -	\$ 28,279	\$ 391,726	\$ 20,023	4.285-5.08%
2006	\$ 1,547,260	\$ -	\$ 64,295	\$ 1,482,965	\$ 69,460	4.095-4.59%
2007	\$ 1,587,812	\$ -	\$ 63,026	\$ 1,524,786	\$ 72,980	4.385-4.77%
2007	\$ 680,000	\$ -	\$ 40,000	\$ 640,000	\$ 34,218	4.385-4.77%
2008	\$ 197,310	\$ -	\$ 7,028	\$ 190,282	\$ 9,693	3.75-5.088%
2011	\$ 309,272	\$ -	\$ 9,486	\$ 299,786	\$ 11,708	1.219-4.026%
	<b>\$ 4,741,659</b>	<b>\$ -</b>	<b>\$ 212,114</b>	<b>\$ 4,529,545</b>	<b>\$ 218,082</b>	