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**MUNICIPALITY OF THE DISTRICT OF EAST HANTS**

**EAST HANTS WATER UTILITY**

**FINANCIAL REPORT**

March 31, 2018

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**Municipality of the District of East Hants**  
**East Hants Water Utility**  
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**March 31, 2018**

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# 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, 2018, 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.

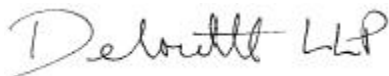
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **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, 2018, 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 black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants  
July 31, 2018  
Halifax, Nova Scotia

**East Hants Water Utility Operating Fund  
Statement of Financial Position  
As at March 31, 2018**

	<u>2018</u>	<u>2017</u>
<b>FINANCIAL ASSETS</b>		
Cash - bank	\$ 1,086,645	\$ 980,188
Rates receivable (less allowance for doubtful accounts - \$2,660; 2018 - \$6,510; 2017 - Note 1b)	630,313	587,527
Accounts receivable	25,974	36,540
Inventory, at cost	3,628	5,123
Prepaid expenses	11,714	9,534
	<u>\$ 1,758,274</u>	<u>\$ 1,618,912</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 50,492	\$ 88,815
Deferred revenue - general	40,070	35,447
	<u>90,562</u>	<u>124,262</u>
<b>SURPLUS</b>	<u>1,667,712</u>	<u>1,494,650</u>
	<u>\$ 1,758,274</u>	<u>\$ 1,618,912</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, 2018**

	Budget <u>2018</u> (Unaudited)	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUE</b>			
Metered sales	\$ 1,787,600	\$ 1,760,781	\$ 1,678,696
Public fire protection	510,359	510,359	557,852
Coin meter	52,423	64,018	64,825
Miscellaneous income	16,336	19,292	17,467
<b>TOTAL OPERATING REVENUE</b>	<u>2,366,718</u>	<u>2,354,450</u>	<u>2,318,840</u>
<b>OPERATING EXPENDITURES</b>			
Source of Supply	18,500	11,600	9,715
Pumping	222,464	205,406	231,737
Water treatment	452,033	460,168	434,821
Transmission and distribution	989,365	536,620	656,005
Administrative and general	356,253	276,801	285,630
Depreciation	363,896	237,448	236,630
<b>TOTAL OPERATING EXPENDITURES</b>	<u>2,402,511</u>	<u>1,728,043</u>	<u>1,854,538</u>
<b>NET OPERATING REVENUE</b>	<u>(35,793)</u>	<u>626,407</u>	<u>464,302</u>
<b>NON-OPERATING REVENUE</b>			
Interest	5,760	5,948	4,588
Student Employment Funding	1,469	-	-
Obligatory Reserves - Water	425,000	-	105,295
	<u>432,229</u>	<u>5,948</u>	<u>109,883</u>
<b>NON-OPERATING EXPENDITURES</b>			
Interest	208,128	208,127	218,082
Principal	220,424	220,424	212,114
Capital out of revenue	30,500	30,742	-
	<u>459,052</u>	<u>459,293</u>	<u>430,196</u>
<b>NET NON-OPERATING EXPENDITURES</b>	<u>(26,823)</u>	<u>(453,345)</u>	<u>(320,313)</u>
<b>NET REVENUE (EXPENSE)</b>	(62,616)	173,062	143,989
<b>SURPLUS, BEGINNING OF YEAR</b>	1,494,650	1,494,650	1,350,661
<b>SURPLUS, END OF YEAR</b>	<u>\$ 1,432,034</u>	<u>\$ 1,667,712</u>	<u>\$ 1,494,650</u>

**Municipality of the District of East Hants  
 East Hants Water Utility Capital Fund  
 Statement of Financial Position  
 As at March 31, 2018**

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash - bank	\$ 426,444	\$ -
Cash - Depreciation (Note 2)	1,909,838	1,843,015
Accounts receivable	351,415	79,724
Utility plant and equipment (schedule)	27,040,655	22,741,625
	<u>\$ 29,728,352</u>	<u>\$ 24,664,364</u>
<b>LIABILITIES</b>		
Bank indebtedness	\$ -	\$ 50,053
Accounts payable	767,471	19,284
Term debt (Note 3)	4,309,121	4,529,545
Deferred contributions	9,385,763	6,994,629
Accumulated depreciation	5,601,886	5,287,830
	<u>20,064,241</u>	<u>16,881,341</u>
<b>INVESTMENT IN CAPITAL ASSETS</b>	<u>9,664,111</u>	<u>7,783,023</u>
	<u>\$ 29,728,352</u>	<u>\$ 24,664,364</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, 2018**

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	<u>2018</u>	<u>2017</u>
<b>REVENUE</b>		
Investment income	\$ 33,980	\$ 19,720
Development & other contributions applied	388,971	-
	<u>422,951</u>	<u>19,720</u>
<b>EXPENSE</b>		
Loss on disposal of TCA - Environmental Health	46,541	-
<b>FINANCING AND TRANSFERS</b>		
Transfers from operations	30,742	-
Transfers from special reserves (capital)	1,253,512	21,900
Term debt retired	220,424	212,114
	<u>1,504,678</u>	<u>234,014</u>
<b>CHANGE IN FUND BALANCE</b>	<u>1,881,088</u>	<u>253,734</u>
<b>BEGINNING FUND BALANCE</b>	7,783,023	7,529,289
<b>ENDING FUND BALANCE</b>	<u>\$ 9,664,111</u>	<u>\$ 7,783,023</u>



**MUNICIPALITY OF THE DISTRICT OF EAST HANTS**  
**EAST HANTS WATER UTILITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

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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, 2018**

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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>2018</b>	<b>2017</b>
Cash, beginning of year	\$1,843,015	\$1,709,272
Add:		
Depreciation	237,448	236,630
Interest earned	33,980	19,720
Deduct :		
Appropriations to Capital Fund	(204,605)	(122,607)
Cash, end of year	<u>\$1,909,838</u>	<u>\$1,843,015</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, 2018**

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

	<b>2018</b>	<b>2017</b>
Net operating revenue		
Operating revenue	\$2,354,450	\$2,318,840
Operating expenditures	(1,718,072)	(1,854,538)
	\$626,407	\$464,302
Rate base		
Utility plant and equipment	27,040,655	22,741,625
Less: Accumulated depreciation	5,601,886	5,287,830
Less: contributed assets	10,090,500	7,580,791
Rate Base	\$11,348,269	\$9,873,004
 <b>Rate of return on rate base</b>	 <b>5.60%</b>	 <b>4.70%</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, 2018**

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	<u>2018</u>	<u>2017</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	212,931	260,667
Pumping	118,280	118,280
Water treatment	12,006,094	12,046,866
Distribution reservoirs	<u>2,145,054</u>	<u>2,145,054</u>
	<u>14,482,359</u>	<u>14,570,867</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>306,118</u>	<u>296,794</u>
	<u>1,497,569</u>	<u>1,488,245</u>
<b>Water Utilities Contributed Buried Services</b>	<b>1,234,334</b>	<b>1,234,334</b>
<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>	<b>294,879</b>	<b>294,879</b>
<b>Meters</b>	<b>96,373</b>	<b>96,373</b>
<b>Hydrants</b>	<b>726,097</b>	<b>665,116</b>
<b>Work In Progress</b>	<b>4,404,835</b>	<b>87,602</b>
	<u>\$ 27,040,655</u>	<u>\$ 22,741,625</u>

**Municipality of the District of East Hants  
 East Hants Water Utility Operating Fund  
 Schedule to Statement of Financial Activities  
 Year Ended March 31, 2018**

	<u>2018</u>	<u>2017</u>
<b>Source of Supply</b>		
Supplies and expenses	\$ 11,600	\$ 9,715
<b>Pumping</b>		
Power	\$ 117,477	\$ 130,748
Maintenance	87,929	100,989
	<u>\$ 205,406</u>	<u>\$ 231,737</u>
<b>Water Treatment</b>		
Supervision and engineering	\$ 20,653	\$ 20,526
Labour	169,333	165,472
Supplies and expenses	190,975	168,426
Maintenance of structures and improvements	69,235	80,397
	<u>\$ 460,168</u>	<u>\$ 434,821</u>
<b>Transmission and distribution</b>		
Supervision and engineering	\$ 24,781	\$ 24,631
Labour	180,702	179,838
Maintenance of mains	267,703	403,793
Maintenance of other distribution plant	22,726	2,971
Store expenses	32,221	34,570
Transportation expenses	8,487	10,202
	<u>\$ 536,620</u>	<u>\$ 656,005</u>
<b>Administration and general</b>		
Supervision	\$ 84,763	\$ 90,799
Consumer billing and accounting	94,308	96,006
Uncollectible accounts	4,043	3,066
General office expenses	85,138	84,901
Audit	5,888	8,299
Regulatory expenses	2,660	2,559
	<u>\$ 276,801</u>	<u>\$ 285,630</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, 2018**

<b>Date</b>	<b>Balance March 31/2017</b>	<b>Issued 2017/2018</b>	<b>Redeemed 2017/2018</b>	<b>Balance March 31/2018</b>	<b>Interest 2017/2018</b>	<b>Interest Rate</b>
<b>2006</b>	\$ 391,726	\$ -	\$ 29,627	\$ 362,099	\$ 18,578	4.285 - 5.08%
<b>2006</b>	\$ 1,482,965	\$ -	\$ 67,645	\$ 1,415,320	\$ 66,549	4.095 - 4.59%
<b>2007</b>	\$ 1,524,786	\$ -	\$ 65,993	\$ 1,458,793	\$ 69,958	4.385 - 4.77%
<b>2007</b>	\$ 640,000	\$ -	\$ 40,000	\$ 600,000	\$ 32,226	4.385 - 4.77%
<b>2008</b>	\$ 190,282	\$ -	\$ 7,377	\$ 182,905	\$ 9,348	3.75 - 5.088%
<b>2011</b>	\$ 299,786	\$ -	\$ 9,782	\$ 290,004	\$ 11,469	1.219 - 4.026%
	<b>\$ 4,529,545</b>	<b>\$ -</b>	<b>\$ 220,424</b>	<b>\$ 4,309,121</b>	<b>\$ 208,128</b>	