
MUNICIPALITY OF THE DISTRICT OF EAST HANTS

EAST HANTS WATER UTILITY

FINANCIAL REPORT

March 31, 2019

Municipality of the District of East Hants
East Hants Water Utility
Table of Contents
March 31, 2019

	<u>Page</u>
Auditor's Report	
Statement of Financial Position of the Water Utility Operating Fund	1
Statement of Financial Activities of the Water Utility Operating Fund	2
Statement of Financial Position of the Water Utility Capital Fund	3
Statement of Financial Activities of the Water Utility Capital Fund	4
Notes to the Financial Statements	5 - 7
Schedule of Investment in Water Utility Plant and Equipment	8
Schedule to the Statement of Financial Activities of the Water Utility Operating Fund	9
Schedule of Capital Debt Charges and Term Debt of the Water Utility Capital Fund	10

Independent Auditor's Report

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

Report on the Audit of the Financial Statements **Opinion**

We have audited the financial statements of East Hants Water Utility (the "Utility"), which comprise the statement of financial position as at March 31, 2019, and the statements of financial activities for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements"). 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Utility as at March 31, 2019, and the results of its financial activities in accordance with accounting principals for Nova Scotia water utilities by the Nova Scotia Utility and Review Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Utility in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principals 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.

In preparing the financial statements, management is responsible for assessing the Utility's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Utility or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Utility's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Utility's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Utility to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Halifax, Nova Scotia
August 6, 2019

**Municipality of the District of East Hants
 East Hants Water Utility Operating Fund
 Statement of Financial Position
 As at March 31, 2019**

	<u>2019</u>	<u>2018</u>
FINANCIAL ASSETS		
Cash - bank	\$ 1,482,777	\$ 1,086,645
Rates receivable (less allowance for doubtful accounts - \$2,743; 2019 - \$2,660; 2018 - Note 1b)	657,988	630,313
Accounts receivable	30,172	25,974
Inventory, at cost	4,565	3,628
Prepaid expenses	12,792	11,714
	<u>\$ 2,188,294</u>	<u>\$ 1,758,274</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 48,528	\$ 50,492
Deferred revenue - general	49,130	40,070
	<u>97,658</u>	<u>90,562</u>
SURPLUS	<u>2,090,636</u>	<u>1,667,712</u>
	<u>\$ 2,188,294</u>	<u>\$ 1,758,274</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, 2019**

	Budget 2019 (Unaudited)	2019	2018
OPERATING REVENUE			
Metered sales	\$ 1,947,800	\$ 1,946,582	\$ 1,760,781
Public fire protection	530,474	530,474	510,359
Coin meter	58,300	100,039	64,018
Miscellaneous income	15,725	19,260	19,292
TOTAL OPERATING REVENUE	2,552,299	2,596,355	2,354,450
OPERATING EXPENDITURES			
Source of Supply	16,900	9,688	11,600
Pumping	232,327	194,129	215,377
Water treatment	460,249	422,785	450,197
Transmission and distribution	586,265	548,496	536,620
Administrative and general	348,463	284,242	276,801
Depreciation	420,145	272,435	237,448
TOTAL OPERATING EXPENDITURES	2,064,349	1,731,775	1,728,043
NET OPERATING REVENUE	487,950	864,580	626,407
NON-OPERATING REVENUE			
Interest	5,760	8,666	5,948
Student Employment Funding	1,552	-	-
	7,312	8,666	5,948
NON-OPERATING EXPENDITURES			
Interest	197,645	197,645	208,127
Principal	229,162	229,162	220,424
Capital out of revenue	31,250	23,515	30,742
	458,057	450,322	459,293
NET NON-OPERATING EXPENDITURES	(450,745)	(441,656)	(453,345)
NET REVENUE (EXPENSE)	37,205	422,924	173,062
SURPLUS, BEGINNING OF YEAR	1,667,712	1,667,712	1,494,650
SURPLUS, END OF YEAR	\$ 1,704,917	\$ 2,090,636	\$ 1,667,712

**Municipality of the District of East Hants
 East Hants Water Utility Capital Fund
 Statement of Financial Position
 As at March 31, 2019**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash - bank	\$ -	\$ 426,444
Cash - depreciation (Note 2)	1,189,556	1,909,838
Accounts receivable	14,480	351,415
Utility plant and equipment (schedule)	28,218,502	27,040,655
	<u>\$ 29,422,538</u>	<u>\$ 29,728,352</u>
LIABILITIES		
Bank indebtedness	\$ 1,235	\$ -
Accounts payable	2,857	767,471
Term debt (Note 3)	4,079,959	4,309,121
Deferred contributions	9,416,052	9,385,763
Accumulated depreciation	5,919,479	5,601,886
	<u>19,419,582</u>	<u>20,064,241</u>
INVESTMENT IN CAPITAL ASSETS	<u>10,002,956</u>	<u>9,664,111</u>
	<u>\$ 29,422,538</u>	<u>\$ 29,728,352</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, 2019**

	<u>2019</u>	<u>2018</u>
REVENUE		
Investment income	\$ 63,055	\$ 33,980
Development & other contributions applied	12,464	388,971
	<u>75,519</u>	<u>422,951</u>
EXPENSE		
Loss (Gain) on disposal of TCA - Environmental Health	(10,648)	46,541
FINANCING AND TRANSFERS		
Transfers from operations	23,516	30,742
Transfers from special reserves (capital)	-	1,253,512
Term debt retired	229,162	220,424
	<u>252,678</u>	<u>1,504,678</u>
CHANGE IN FUND BALANCE	<u>338,845</u>	<u>1,881,088</u>
BEGINNING FUND BALANCE	9,664,111	7,783,023
ENDING FUND BALANCE	<u>\$ 10,002,956</u>	<u>\$ 9,664,111</u>

MUNICIPALITY OF THE DISTRICT OF EAST HANTS
EAST HANTS WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

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, 2019**

1. ACCOUNTING POLICIES (CONTINUED)

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 depreciation 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 Infrastructure & Operations Water staff is allocated in proportion to time spent working for the Utility. A portion of administrative salaries and other expenses of the Municipality are allocated to water operations.

2. DEPRECIATION FUND

	2019	2018
Cash, beginning of year	\$1,909,838	\$1,843,015
Add:		
Depreciation	272,435	237,448
Interest earned	63,055	33,980
Deduct :		
Appropriations to Capital Fund	(1,055,770)	(204,605)
Cash, end of year	<u>\$1,189,556</u>	<u>\$1,909,838</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, 2019**

4. RATE BASE & RATE OF RETURN

	2019	2018
Net operating revenue		
Operating revenue	\$2,596,355	\$2,354,450
Operating expenditures	(1,731,775)	(1,728,043)
Net operating revenue	\$864,580	\$626,407
Rate base		
Utility plant and equipment	28,218,502	27,040,655
Less: Accumulated depreciation	5,919,479	5,601,886
Less: contributed assets	10,262,322	10,090,500
Rate base	\$12,036,701	\$11,348,269
Rate of return on rate base	7.20%	5.60%

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 are 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, 2019**

	<u>2019</u>	<u>2018</u>
Land and Land rights		
Coin meter	\$ 7,500	\$ 7,500
Other	17,533	17,533
Fence	13,540	13,540
Source of supply	204,432	204,432
	<u>243,005</u>	<u>243,005</u>
Structures and improvements		
Source of supply	212,931	212,931
Pumping	118,280	118,280
Water treatment	12,006,094	12,006,094
Distribution reservoirs	2,145,054	2,145,054
	<u>14,482,358</u>	<u>14,482,359</u>
Equipment		
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	306,118	306,118
	<u>1,497,568</u>	<u>1,497,569</u>
Water Utilities Contributed Buried Services	1,406,156	1,234,334
Mains		
Transmission	8,329,138	3,942,428
Distribution	118,776	118,776
	<u>8,447,914</u>	<u>4,061,204</u>
Services	294,879	294,879
Meters	1,117,666	96,373
Hydrants	726,100	726,097
Work In Progress	2,857	4,404,835
	<u>\$ 28,218,502</u>	<u>\$ 27,040,655</u>

**Municipality of the District of East Hants
 East Hants Water Utility Operating Fund
 Schedule to Statement of Financial Activities
 Year Ended March 31, 2019**

	<u>2019</u>	<u>2018</u>
Source of Supply		
Supplies and expenses	<u>\$ 9,688</u>	<u>\$ 11,600</u>
Pumping		
Power	\$ 126,393	\$ 127,448
Maintenance	<u>67,736</u>	<u>87,929</u>
	<u>\$ 194,129</u>	<u>\$ 215,377</u>
Water Treatment		
Supervision and engineering	\$ 15,063	\$ 20,653
Labour	171,419	169,334
Supplies and expenses	176,913	190,975
Maintenance of structures and improvements	<u>59,390</u>	<u>69,235</u>
	<u>\$ 422,785</u>	<u>\$ 450,197</u>
Transmission and distribution		
Supervision and engineering	\$ 18,074	\$ 24,781
Labour	179,042	180,703
Maintenance of mains	304,017	267,703
Maintenance of other distribution plant	8,209	22,726
Store expenses	31,259	32,221
Transportation expenses	<u>7,895</u>	<u>8,486</u>
	<u>\$ 548,496</u>	<u>\$ 536,620</u>
Administration and general		
Supervision	\$ 88,938	\$ 84,762
Consumer billing and accounting	94,489	94,308
Uncollectible accounts	312	4,047
General office expenses	91,372	85,136
Audit	6,553	5,888
Regulatory expenses	<u>2,578</u>	<u>2,660</u>
	<u>\$ 284,242</u>	<u>\$ 276,801</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, 2019**

Date	Balance March 31/2018	Issued 2018/2019	Redeemed 2018/2019	Balance March 31/2019	Interest 2018/2019	Interest Rate
2006	\$ 362,099	\$ -	\$ 31,034	\$ 331,065	\$ 17,053	4.285 - 5.08%
2006	\$ 1,415,320	\$ -	\$ 71,170	\$ 1,344,150	\$ 63,452	4.095 - 4.59%
2007	\$ 1,458,793	\$ -	\$ 69,101	\$ 1,389,692	\$ 66,760	4.385 - 4.77%
2007	\$ 600,000	\$ -	\$ 40,000	\$ 560,000	\$ 30,213	4.385 - 4.77%
2008	\$ 182,905	\$ -	\$ 7,745	\$ 175,161	\$ 8,976	3.75 - 5.088%
2011	\$ 290,004	\$ -	\$ 10,113	\$ 279,891	\$ 11,190	1.219 - 4.026%
	\$ 4,309,121	\$ -	\$ 229,162	\$ 4,079,959	\$ 197,645	