
MUNICIPALITY OF THE DISTRICT OF EAST HANTS

EAST HANTS WATER UTILITY

FINANCIAL REPORT

March 31, 2020

Independent Auditor's Report

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

Opinion

We have audited the financial statements of East Hants Water Utility (the "Utility"), which comprise the statements of financial position as at March 31, 2020 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").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Utility as at March 31, 2020, and the result of its operations 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 (the "Financial Reporting Framework").

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.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Utility in complying with the Financial Reporting Framework. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Amended Financial Statements

We draw attention to Note 2 to the financial statements, which explains that certain comparative information presented for the year ended March 31, 2019 has been restated. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Financial Reporting Framework, 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.

Those charged with governance are responsible for overseeing the Utility's financial reporting process.

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
August 24, 2020

**Municipality of the District of East Hants
East Hants Water Utility
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**Municipality of the District of East Hants
 East Hants Water Utility Operating Fund
 Statement of Financial Position
 As at March 31, 2020**

	<u>2020</u>	<u>2019</u>
FINANCIAL ASSETS		
Cash - bank (Note 2)	\$ 1,569,003	\$ 1,055,007
Rates receivable (less allowance for doubtful accounts - \$7,107; 2020 - \$2,743; 2019 - Note 1b)	704,243	657,988
Accounts receivable	31,143	30,172
Due from Municipal Operations (Note 2)	-	18,982
Inventory, at cost (Note 3)	37,364	4,565
Prepaid expenses	15,932	12,792
	<u>\$ 2,357,685</u>	<u>\$ 1,779,506</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 90,973	\$ 48,528
Due to Municipal Operations (Note 2)	148,653	-
Due to Water Utility Capital (Note 2)	531,374	437,481
Deferred revenue - general	53,436	49,130
	<u>824,436</u>	<u>535,139</u>
SURPLUS	<u>1,533,249</u>	<u>1,244,367</u>
	<u>\$ 2,357,685</u>	<u>\$ 1,779,506</u>

Subsequent events (Note 10)

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


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**Municipality of the District of East Hants
 East Hants Water Utility Operating Fund
 Statement of Financial Activities
 Year Ended March 31, 2020**

	Budget 2020 (Unaudited - Note 8)	2020	2019
OPERATING REVENUE			
Metered sales	\$ 2,031,800	\$ 2,055,204	\$ 1,946,582
Public fire protection	543,345	543,345	530,474
Coin meter	75,000	80,754	100,039
Miscellaneous income	17,400	18,720	19,260
TOTAL OPERATING REVENUE	2,667,545	2,698,023	2,596,355
OPERATING EXPENDITURES			
Source of Supply (Schedule 2)	17,550	7,207	9,688
Pumping (Schedule 2)	257,821	221,116	194,129
Water treatment (Schedule 2)	475,374	431,036	422,785
Transmission and distribution (Schedule 2)	611,123	524,922	548,496
Administrative and general (Schedule 2)	328,832	290,200	284,242
Depreciation (Note 2)	470,426	465,907	413,967
TOTAL OPERATING EXPENDITURES	2,161,126	1,940,388	1,873,307
NET OPERATING REVENUE	506,419	757,635	723,048
NON-OPERATING REVENUE			
Interest	8,190	11,979	8,666
	8,190	11,979	8,666
NON-OPERATING EXPENDITURES			
Interest (Schedule 3)	187,052	187,051	197,645
Principal (Schedule 3)	228,213	228,213	229,162
Capital out of revenue	67,750	65,468	23,515
	483,015	480,732	450,322
NET NON-OPERATING EXPENDITURES	(474,825)	(468,753)	(441,656)
NET REVENUE (EXPENSE)	31,594	288,882	281,392
SURPLUS, BEGINNING OF YEAR			
As previously reported	2,090,636	2,090,636	1,667,712
Restatement (Note 2)	(846,269)	(846,269)	(704,737)
As restated	1,244,367	1,244,367	962,975
SURPLUS, END OF YEAR	\$ 1,275,961	\$ 1,533,249	\$ 1,244,367

**Municipality of the District of East Hants
 East Hants Water Utility Capital Fund
 Statement of Financial Position
 As at March 31, 2020**

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash - depreciation (Notes 2 and 4)	\$ 1,976,331	\$ 1,606,471
Accounts receivable	1,212	14,480
Due from Water Utility operating fund (Note 2)	531,374	437,481
Due from Municipal Operations (Note 2)	10,757	27,851
Utility plant and equipment (Schedule 1)	28,425,103	28,218,502
	<u>\$ 30,944,777</u>	<u>\$ 30,304,785</u>
LIABILITIES		
Bank indebtedness (Note 2)	\$ 48,918	\$ 37,213
Accounts payable	-	2,857
Term debt (Note 5 and Schedule 3)	3,851,746	4,079,959
Deferred contributions (Note 6)	9,345,952	9,416,052
Accumulated depreciation	6,363,270	5,919,479
	<u>19,609,886</u>	<u>19,455,560</u>
INVESTMENT IN CAPITAL ASSETS	<u>11,334,891</u>	<u>10,849,225</u>
	<u>\$ 30,944,777</u>	<u>\$ 30,304,785</u>

Subsequent events (Note 10)

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


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 _____ Clerk

**Municipality of the District of East Hants
 East Hants Water Utility Capital Fund
 Statement of Financial Activities
 Year Ended March 31, 2020**

	<u>2020</u>	<u>2019</u>
REVENUE		
Investment income	\$ 47,016	\$ 63,055
Capital contributions (Note 2)	144,969	141,532
Development & other contributions applied	-	12,464
	<u>191,985</u>	<u>217,051</u>
EXPENSE		
Gain on disposal of TCA - Environmental Health	-	(10,648)
	<u>191,985</u>	<u>227,699</u>
NET REVENUE		
	<u>191,985</u>	<u>227,699</u>
FINANCING AND TRANSFERS		
Transfers from operations	65,468	23,516
Term debt retired (Schedule 3)	228,213	229,162
	<u>293,681</u>	<u>252,678</u>
CHANGE IN FUND BALANCE	<u>485,666</u>	<u>480,377</u>
BEGINNING FUND BALANCE		
As previously reported	10,002,956	9,664,111
Restatement (Note 2)	846,269	704,737
As restated	<u>10,849,225</u>	<u>10,368,848</u>
ENDING FUND BALANCE	<u>\$ 11,334,891</u>	<u>\$ 10,849,225</u>

**MUNICIPALITY OF THE DISTRICT OF EAST HANTS
EAST HANTS WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020**

1. ACCOUNTING POLICIES

The East Hants Water Utility (the "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
- Revenue and expenditures exclude inter-fund transfers

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 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, 2020

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 NSUARB. 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 the District of East Hants (the "Municipality") on behalf of the 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. RESTATEMENT

The comparative information for the year ended March 31, 2019 (the "comparative information") has been restated to properly reflect the following:

During the year ended March 31, 2019, and fiscal years prior, the depreciation of the deferred contributions on the statement of financial position of the Water Utility capital fund were improperly recognized as a reduction to depreciation expense on the statement of financial activities of the Water Utility operating fund, rather than as capital contribution revenue on the statement of financial activities of the Water Utility capital fund. For the year ended March 31, 2019, depreciation expense was understated by \$141,532 and surplus, beginning of year was overstated by \$704,737 on the statement of financial activities of the Water Utility operating fund and capital contribution revenue was understated by \$141,532 and beginning fund balance was understated by \$704,737 on the statement of financial activities of the Water Utility capital fund. As a result, the calculation of the depreciation fund cash and balances due between the operating and capital funds of the Utility (see Note 4) were also improperly performed and reflected on the statements of financial position of each respective fund.

**MUNICIPALITY OF THE DISTRICT OF EAST HANTS
EAST HANTS WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020**

2. RESTATEMENT (CONTINUED)

In addition, certain cash transfers between the Utility and the Municipality's general fund ("Municipal Operations") had been reflected in the statements of financial position prior to the effective date of the transactions. As a result, the due from Municipal Operations balance was understated by \$18,982 on the statement of financial position of the Water Utility operating fund and was understated by \$27,851 on the statement of financial position of the Water Utility capital fund, with cash being overstated in each fund, by the respective amounts.

Therefore, the comparative information has been restated as follows:

	2019 (Previously Reported)	Restatement	2019 (As restated)
Water Utility Operating Fund			
Cash - bank	\$ 1,482,777	\$ (427,770)	\$ 1,055,007
Due from Municipal Operations	-	18,982	18,982
Due to Water Utility capital fund	-	(437,481)	(437,481)
Surplus, beginning of year	(1,667,712)	704,737	(962,975)
Depreciation	272,435	141,532	413,967

Water Utility Capital Fund			
Cash - depreciation	\$ 1,189,556	\$ 416,915	\$ 1,606,471
Due from Municipal Operations		27,851	27,851
Due from Water Utility operating fund		437,481	437,481
Bank indebtedness	\$ (1,235)	\$ (35,978)	\$ (37,213)
Beginning fund balance	(9,664,111)	(704,737)	(10,368,848)
Capital contributions		(141,532)	(141,532)

Certain other comparative figures have been reclassified to conform to the current year's presentation.

3. INVENTORY, AT COST

	2020	2019
Chemical supplies	\$30,561	\$ -
Parts	5,952	4,367
Meters	851	198
	<u>\$37,364</u>	<u>\$4,565</u>

**MUNICIPALITY OF THE DISTRICT OF EAST HANTS
EAST HANTS WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020**

4. DEPRECIATION FUND

	2020	2019
Cash, beginning of year	\$1,606,471	\$2,247,526
Add:		
Depreciation	465,907	413,967
Interest earned	47,016	63,055
Proceeds on sale of capital assets	7,135	10,648
Deduct:		
Appropriations to Capital Fund	(95,752)	(1,055,770)
Outstanding transfers	(54,446)	(72,955)
Cash, end of year	<u>\$1,976,331</u>	<u>\$1,606,471</u>

5. TERM DEBT

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

6. DEFERRED CONTRIBUTIONS

	2020	2019
Balance, beginning of year	\$9,416,052	\$9,385,763
Add: contributions received	74,869	171,821
Less: depreciation of contributions	(144,969)	(141,532)
Balance, end of year	<u>\$9,345,952</u>	<u>\$9,416,052</u>

**MUNICIPALITY OF THE DISTRICT OF EAST HANTS
EAST HANTS WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020**

7. RATE BASE & RATE OF RETURN

	2020	2019
Net operating revenue		
Operating revenue	\$2,698,023	\$2,596,355
Operating expenditures	(1,940,388)	(1,873,307)
	\$757,635	\$723,048
Rate base		
Utility plant and equipment	28,425,103	28,218,502
Less: Accumulated depreciation	6,363,270	5,919,479
Less: Contributed assets	10,337,191	10,262,322
	\$11,724,642	\$12,036,701
Rate of return on rate base	6.46%	6.01%

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

8. BUDGET FIGURES

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

9. PROPERTY TAX EXEMPTION

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

10. SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a global pandemic, which continues to spread in Canada and around the world.

As at March 31, 2020, the Utility was aware of changes in its operations as a result of the COVID-19 crisis and the State of Emergency that was in place in the Province of Nova Scotia until June 28, 2020. The Utility continues to be impacted by these changes.

The Utility is uncertain of the effects of COVID-19 on its financial statements and believes that any disturbance may be temporary; however, there is uncertainty about the length and potential impact of COVID-19. As a result, the Utility is unable to estimate the potential impact on its operations and financial results in future fiscal years, as at the date of issuing these financial statements.

**Municipality of the District of East Hants
 East Hants Water Utility
 Schedule 1 - Schedule of Investment in Water Utility Plant and Equipment
 As at March 31, 2020**

	<u>2020</u>	<u>2019</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	386,409	212,931
Pumping	118,280	118,280
Water treatment	12,006,094	12,006,094
Distribution reservoirs	2,145,053	2,145,053
	<u>14,655,836</u>	<u>14,482,358</u>
Equipment		
Pumping	378,504	378,504
Water treatment	742,988	742,988
Transportation	35,298	29,488
Tools and work equipment	40,471	40,471
Other	306,117	306,117
	<u>1,503,378</u>	<u>1,497,568</u>
Water Utilities Contributed Buried Services	1,406,156	1,406,156
Mains		
Transmission	8,329,138	8,329,138
Distribution	118,776	118,776
	<u>8,447,914</u>	<u>8,447,914</u>
Services	294,879	294,879
Meters	1,147,835	1,117,665
Hydrants	726,100	726,100
Work In Progress	-	2,857
	<u>\$ 28,425,103</u>	<u>\$ 28,218,502</u>

**Municipality of the District of East Hants
 East Hants Water Utility Operating Fund
 Schedule 2 - Schedule to Statement of Financial Activities
 Year Ended March 31, 2020**

	<u>2020</u>	<u>2019</u>
Source of Supply		
Supplies and expenses	<u>\$ 7,207</u>	<u>\$ 9,688</u>
Pumping		
Power	\$ 121,991	\$ 126,393
Maintenance	99,125	67,736
	<u>\$ 221,116</u>	<u>\$ 194,129</u>
Water Treatment		
Supervision and engineering	\$ 21,865	\$ 15,063
Labour	172,375	171,419
Supplies and expenses	189,004	176,913
Maintenance of structures and improvements	47,792	59,390
	<u>\$ 431,036</u>	<u>\$ 422,785</u>
Transmission and distribution		
Supervision and engineering	\$ 26,242	\$ 18,074
Labour	185,086	179,042
Maintenance of mains	260,631	304,017
Maintenance of other distribution plant	1,668	8,209
Store expenses	42,497	31,259
Transportation expenses	8,798	7,895
	<u>\$ 524,922</u>	<u>\$ 548,496</u>
Administration and general		
Supervision	\$ 84,980	\$ 88,938
Consumer billing and accounting	91,825	94,489
Uncollectible accounts	6,702	312
General office expenses	97,591	91,372
Audit	6,268	6,553
Regulatory expenses	2,834	2,578
	<u>\$ 290,200</u>	<u>\$ 284,242</u>

**Municipality of the District of East Hants
 East Hants Water Utility Capital Fund
 Schedule 3 - Schedule of Capital Debt Charges and Term Debt
 Year Ended March 31, 2020**

Date	Balance March 31/2019	Issued 2019/2020	Redeemed 2019/2020	Balance March 31/2020	Interest 2019/2020	Interest Rate
2006	\$ 331,065	\$ -	\$ 22,374	\$ 308,691	\$ 15,862	4.285 - 5.08%
2006	\$ 1,344,150	\$ -	\$ 74,875	\$ 1,269,275	\$ 60,164	4.095 - 4.59%
2007	\$ 1,389,692	\$ -	\$ 72,354	\$ 1,317,338	\$ 63,389	4.385 - 4.77%
2007	\$ 560,000	\$ -	\$ 40,000	\$ 520,000	\$ 28,180	4.385 - 4.77%
2008	\$ 175,161	\$ -	\$ 8,130	\$ 167,031	\$ 8,583	3.75 - 5.088%
2011	\$ 279,891	\$ -	\$ 10,480	\$ 269,411	\$ 10,873	1.219 - 4.026%
	\$ 4,079,959	\$ -	\$ 228,213	\$ 3,851,746	\$ 187,051	