

Financial Statements of

**MUNICIPALITY OF THE COUNTY
OF ANTIGONISH WATER UTILITY**

Year ended March 31, 2017

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Financial Statements

Year ended March 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Warden and Council of
Municipality of the County of Antigonish Water Utility

We have audited the accompanying financial statements of Municipality of the County of Antigonish Water Utility which comprise the statements of financial position as at March 31, 2017 and the statements of operations and surplus, accumulated allowance for depreciation, investment in capital assets, depreciation fund cash and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the Accounting and Reporting Handbook for Water Utilities in Nova Scotia.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting and Reporting Handbook for Water Utilities in Nova Scotia, 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.

Auditors' 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 auditors' 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 auditors consider 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, these financial statements present fairly, in all material respects, the financial position of Municipality of the County of Antigonish Water Utility as at March 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with the Accounting and Reporting Handbook for Water Utilities in Nova Scotia.

Basis of Accounting and Restriction 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 Municipality of the County of Antigonish Water Utility to comply with the Accounting and Reporting Handbook for Water Utilities in Nova Scotia. As a result the financial statements may not be suitable for another purpose.

Chartered Professional Accountants
Licensed Public Accountants

Sydney, Canada
September 19, 2017

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Non-consolidated Statement of Financial Position – Operating Fund

March 31, 2017, with comparative figures for 2016

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2017	2016
ASSETS				
Accounts receivable	\$ 30,643	\$ 19,182	\$ 49,825	\$ 43,292
Due from (to) Municipality of the County of Antigonish, operating fund	1,031,355	(397,832)	603,523	316,057
	<u>\$ 1,031,998</u>	<u>\$ (378,650)</u>	<u>\$ 653,348</u>	<u>\$ 359,349</u>
LIABILITIES				
Accrued interest	\$ 3,890	\$ 13,423	\$ 17,313	\$ 17,313
Due to capital fund	127,354	–	127,354	–
Due to Municipality of the County of Antigonish, special reserve fund	6,331	–	6,331	6,331
Deferred revenue	84,100	–	84,100	76,044
	<u>221,675</u>	<u>13,423</u>	<u>235,078</u>	<u>99,688</u>
SURPLUS (DEFICIT)				
Surplus (deficit)	810,323	(392,073)	418,250	259,661
	<u>\$ 1,031,998</u>	<u>\$ (378,650)</u>	<u>\$ 653,348</u>	<u>\$ 359,349</u>

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Non-consolidated Statement of Operations and Surplus – Operating Fund

Year ended March 31, 2017, with comparative figures for 2016

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2017	2016
REVENUES				
Operating revenues				
Water rates	\$ 596,525	\$ 300,189	\$ 896,714	\$ 764,945
Public fire	241,249	70,522	311,771	259,836
Grant – Municipality of the County of Antigonish	–	–	–	48,518
	837,774	370,711	1,208,485	1,073,299
Non-operating revenue				
Other	–	–	–	10,703
Interest	2,373	1,615	3,988	3,580
	2,373	1,615	3,988	14,283
	840,147	372,326	1,212,473	1,087,582
EXPENDITURES				
Operating expenditures				
Source of supply	253,577	6,572	260,149	250,706
Power and pumping	–	18,473	18,473	20,043
Water treatment	10,770	33,576	44,346	56,792
Transmission and distribution	190,275	68,595	258,870	260,788
Administrative	105,087	28,556	133,643	55,454
Depreciation	94,601	44,813	139,414	139,090
Property taxes	13,523	48,788	62,311	62,328
Amortization of deferred contributions	(9,168)	(2,891)	(12,059)	(6,035)
	658,665	246,482	905,147	839,166
Non-operating expenditures				
Debt charges, principal	27,872	55,870	83,742	83,580
Debt charges, interest	21,621	43,374	64,995	67,644
Capital out of revenue	–	–	–	66,701
	49,493	99,244	148,737	217,925
	708,158	345,726	1,053,884	1,057,091
EXCESS OF REVENUES OVER EXPENDITURES				
	131,989	26,600	158,589	30,491
SURPLUS (DEFICIT), BEGINNING OF YEAR				
	678,334	(418,673)	259,661	229,170
SURPLUS (DEFICIT), END OF YEAR				
	\$ 810,323	\$ (392,073)	\$ 418,250	\$ 259,661

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Non-consolidated Statement of Financial Position – Capital Fund

March 31, 2017, with comparative figures for 2016

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2017	2016
ASSETS				
Restricted cash – depreciation reserve	\$ 949,720	\$ 88,367	\$ 1,038,087	\$ 1,023,743
Due from operating fund	127,354		127,354	–
Due from Municipality of the County of Antigonish, general operating fund	–	–	–	14,343
Tangible capital assets				
Utility plant and equipment	4,962,604	2,455,342	7,417,946	6,579,509
	\$ 6,039,678	\$ 2,543,709	\$ 8,583,387	\$ 7,617,595
LIABILITIES				
Deferred contributions	\$ 683,799	\$ 219,511	\$ 903,310	\$ 451,933
Due to Municipality of the County of Antigonish, general operating fund	366,715	–	366,715	–
Long-term debt (schedule)	531,215	989,109	1,520,324	1,604,066
	1,581,729	1,208,620	2,790,349	2,055,999
RESERVES				
Allowance for depreciation of utility plant and equipment	1,214,767	344,629	1,559,396	1,419,982
SURPLUS				
Surplus	3,243,182	990,460	4,233,642	4,141,614
	\$ 6,039,678	\$ 2,543,709	\$ 8,583,387	\$ 7,617,595

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Statement of Accumulated Allowance for Depreciation

Year ended March 31, 2017, with comparative figures for 2016

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2017	2016
BALANCE, BEGINNING OF YEAR	\$ 1,120,166	\$ 299,816	\$ 1,419,982	\$ 1,280,892
Depreciation for the year	94,601	44,813	139,414	139,090
BALANCE, END OF YEAR	\$ 1,214,767	\$ 344,629	\$ 1,559,396	\$ 1,419,982

Statement of Investment in Capital Assets

Year ended March 31, 2017, with comparative figures for 2016

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2017	2016
BALANCE, BEGINNING OF YEAR	\$ 3,207,024	\$ 934,590	\$ 4,414,614	\$ 3,987,558
Term debt retired	27,872	55,870	83,742	83,580
Interest on depreciation funds	8,286	–	8,286	3,775
Capital out of operations	–	–	–	66,701
BALANCE, END OF YEAR	\$ 3,243,182	\$ 990,460	\$ 4,233,642	\$ 4,141,614

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Statement of Depreciation Fund Cash

Year ended March 31, 2017, with comparative figures for 2016

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2017	2016
FUND, BEGINNING OF YEAR	\$ 991,641	\$ 46,445	\$ 1,038,086	\$ 905,031
Depreciation	94,601	44,813	139,414	139,090
Deferred assistance transferred	(9,168)	(2,891)	(12,059)	(6,035)
FUND, END OF YEAR	1,077,074	88,367	1,165,441	1,038,086
Amount unfunded	(127,354)	–	(127,354)	(14,343)
CASH, END OF YEAR	\$ 949,720	\$ 88,367	\$ 1,038,087	\$ 1,023,743

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Non-consolidated Statement of Cash Flows – Operating Fund

Year ended March 31, 2017, with comparative figures for 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenditures	\$ 158,589	\$ 30,491
Change in non-cash items		
Increase in accounts receivable	(6,533)	(4,886)
Increase in deferred revenue	8,056	36,641
	160,112	62,246
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due from Municipality of County of Antigonish, operating fund	(287,466)	(34,993)
Increase (decrease) in due to capital fund	127,354	(25,253)
	(160,112)	(60,246)
NET CHANGE IN CASH	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ -	\$ -

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Non-consolidated Notes to Financial Statements

Year ended March 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Regulation

In matters of administrative policy relating to rates, capital expenditures, depreciation rates and accounting matters, the Commission is subject to the jurisdiction of the Nova Scotia Utility and Review Board (NSUARB). Rates charged to and collected from customers are designed to recover costs of providing the regulated services. These statements have been prepared in accordance with the Accounting and Reporting Handbook for Water Utilities (Handbook) issued by the NSUARB. There are differences in the accounting treatment of certain transactions from Canadian generally accepted accounting principles including the accounting of principal and debt payments and gains and losses on the disposal of fixed assets.

Regulatory assets represent costs incurred that have been deferred as approved by the NSUARB and will be recovered through future rates collected from customers.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, net of bank indebtedness.

(c) Depreciation

Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for the major classifications of utility plant in service are as follows:

Structures and improvements	50 to 100 years
Pumping equipment	5 to 30 years
Purification and treatment equipment	20 to 50 years
SCADA equipment	5 to 25 years
Water, wastewater and stormwater mains	60 to 100 years
Services and laterals	50 to 60 years
Meters	20 to 25 years
Hydrants	50 to 80 years
Tools and work equipment	5 to 30 years
Office equipment and furniture and transportation equipment	3 to 10 years

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Notes to Non-consolidated Financial Statements (Continued)

Year ended March 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the year of acquisition, depreciation is calculated at 50% of the above rates unless a project is significant, in which case depreciation is prorated for the number of months the asset was in use.

(d) Revenues and expenditures

All revenues and expenditures are recorded on an accrual basis. Receivables include outstanding revenue billed by the Utility and estimated revenue not yet billed.

(e) Long-term debt

Repayment of long-term debt is recorded on an accrual basis as an expense on the statement of operations. Interest on long-term debt is recorded on an accrual basis. Debt issue costs are deferred and amortized over the term of the debt to which it relates.

(f) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include valuation of accounts receivable and carrying amount of capital assets. Actual results could differ from those estimates.

2. LONG-TERM DEBT

Principal repayments required during the next five years are as follows:

2018	\$	83,000
2019		83,000
2020		83,000
2021		83,000
2022		83,000

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Notes to Non-consolidated Financial Statements (Continued)

Year ended March 31, 2017

3. TRANSACTIONS WITH MUNICIPALITY OF THE COUNTY OF ANTIGONISH

- a) In general, and where identifiable, costs incurred by the County on behalf of the Utility are charged to the Utility.
- b) Salary and wage-related costs are allocated in proportion to time spent performing functions on behalf of the Utility.
- c) At March 31, 2017, the County owed \$230,477 to the Utility (2016 - \$324,069) with respect to this inter-fund balance, no interest has been charged to the County.
- d) The Utility provides public fire protection to the County. The charge for this service (included in operating revenues) amounted to \$311,771 (2016 - \$259,836). The charge is governed by the Nova Scotia Utility and Review Board.

4. RATE OF RETURN ON RATE BASE

For the year ended March 31, 2017, the Municipality of the County of Antigonish Water Utility had a rate of return on rate base of 6.1% (2016 – 3.9%).

5. FINANCIAL INSTRUMENTS

The carrying value of cash and accounts receivable approximate their fair value due to the relatively short terms to maturity.

The carrying value of inter-fund balances and due to/from Municipality of the County of Antigonish approximates its fair value due to special conditions attached thereto.

The fair value of capital debt approximate their carrying value because the contractual rates of interest approximate the current market rates available to the Utility.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Schedule of Capital Debt

Year ended March 31, 2017

	Source	Beginning of Year	Issued	Redeemed	End of Year
Municipal Finance Corporation					
Water, extension	Debenture	\$ 816,000	\$ -	\$ 48,000	\$ 768,000
Water, building	Debenture	159,840	-	8,880	150,960
		975,840	-	56,880	918,960
Municipality of the County of Antigonish Reserve Funds					
Water, various	Reserve section	628,226	-	26,862	601,364
		\$ 1,604,066	\$ -	\$ 83,742	\$ 1,520,324