

Financial Statements of

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

Year ended March 31, 2019

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Financial Statements

Year ended March 31, 2019

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Municipality of the County of Antigonish Water Utility which comprise the statement of financial position as at March 31, 2019 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.

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, 2019 and the results of 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 for Opinion

Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the basis of accounting. We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 Water Utility in accordance with 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.

Responsibility of Management and Those Charged with Governance 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.

In preparing financial statements, management is responsible for assessing the Water 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 Water Utility or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibility for the Audit of the Financial Statements

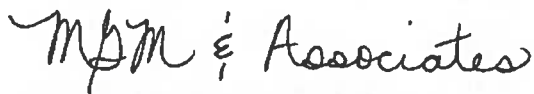
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards 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 decision of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, 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 Water 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 Water 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 Water 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.

A handwritten signature in black ink that reads 'MGM & Associates'.

Chartered Professional Accountants
Licensed Public Accountants

Sydney, Canada
October 1, 2019

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Statement of Financial Position – Operating Fund

March 31, 2019, with comparative figures for 2018

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2019	2018
ASSETS				
Accounts receivable	\$ 50,398	\$ 28,683	\$ 79,081	\$ 58,267
Due from (to) Municipality of the County of Antigonish, operating fund	1,032,001	(360,418)	671,583	580,529
	\$ 1,082,399	\$ (331,735)	\$ 750,664	\$ 638,796
LIABILITIES				
Accrued interest	\$ 3,890	\$ 13,423	\$ 17,313	\$ 17,313
Due to Municipality of the County of Antigonish, special reserve fund	6,331	–	6,331	6,331
Deferred revenue	82,126	–	82,126	81,650
	92,347	13,423	105,770	105,294
SURPLUS (DEFICIT)				
Surplus (deficit)	990,052	(345,158)	644,894	533,502
	\$ 1,082,399	(331,735)	\$ 750,644	\$ 638,796

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Statement of Operations and Surplus – Operating Fund

Year ended March 31, 2019, with comparative figures for 2018

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2019	2018
REVENUES				
Operating revenues				
Water rates	\$ 669,887	\$ 322,159	\$ 992,046	\$ 959,193
Public fire	241,716	77,480	319,196	316,863
	911,603	399,639	1,311,242	1,276,056
Non-operating revenue				
Interest	2,751	2,035	4,786	4,529
	914,354	401,674	1,316,028	1,280,585
EXPENDITURES				
Operating expenditures				
Source of supply	329,662	8,371	338,033	268,538
Power and pumping	–	17,001	17,001	18,554
Water treatment	11,081	30,729	41,810	38,200
Transmission and distribution	242,826	99,028	341,854	327,862
Administrative	126,097	46,188	172,285	172,944
Property taxes	13,523	38,484	52,007	62,200
Depreciation	76,428	41,502	117,930	149,349
Amortization of deferred contributions	(14,843)	(2,891)	(17,734)	(17,631)
	784,774	278,412	1,063,186	1,020,016
Non-operating expenditures				
Debt charges, principal	24,986	54,145	79,131	83,771
Debt charges, interest	19,147	38,445	57,592	61,546
Transfer to water capital fund	–	4,727	4,727	–
	44,133	97,317	141,450	145,317
	828,907	375,729	1,204,636	1,165,333
EXCESS OF REVENUES OVER EXPENDITURES	85,447	25,945	111,392	115,252
SURPLUS (DEFICIT), BEGINNING OF YEAR	904,605	(371,103)	533,502	418,250
SURPLUS (DEFICIT), END OF YEAR	\$ 990,052	\$ (345,158)	\$ 644,894	\$ 533,502

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Statement of Financial Position – Capital Fund

March 31, 2019, with comparative figures for 2018

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2019	2018
ASSETS				
Restricted cash – depreciation reserve	\$ 903,464	\$ 173,182	\$ 1,076,646	\$ 930,446
Due from Municipality of the County of Antigonish, general operating fund	–	–	–	10,100
Tangible capital assets				
Utility plant and equipment	5,461,564	2,460,069	7,921,633	7,852,766
	<u>\$ 6,365,028</u>	<u>\$ 2,633,251</u>	<u>\$ 8,998,279</u>	<u>\$ 8,793,312</u>
LIABILITIES				
Deferred contributions	\$ 1,089,140	\$ 221,544	\$ 1,310,684	\$ 1,320,499
Due to Municipality of the County of Antigonish, general operating fund	15,851	2,527	18,378	–
<u>Long-term debt (schedule)</u>	<u>492,942</u>	<u>864,480</u>	<u>1,357,422</u>	<u>1,436,553</u>
	1,597,933	1,088,551	2,686,484	2,757,052
RESERVES				
Accumulated allowance for depreciation	1,375,645	435,226	1,810,871	1,708,745
SURPLUS				
Surplus	3,391,450	1,109,474	4,500,924	4,327,515
	<u>\$ 6,365,028</u>	<u>\$ 2,633,251</u>	<u>\$ 8,998,279</u>	<u>\$ 8,793,312</u>

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, 2019, with comparative figures for 2018

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2019	2018
BALANCE, BEGINNING OF YEAR	\$ 1,315,021	\$ 393,724	\$ 1,708,745	\$ 1,559,396
Depreciation for the year	76,428	41,502	117,930	149,349
Assets written off	(15,804)	—	(15,804)	—
BALANCE, END OF YEAR	\$ 1,375,645	\$ 435,226	\$ 1,810,871	\$ 1,708,745

Statement of Investment in Capital Assets

Year ended March 31, 2019, with comparative figures for 2018

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2019	2018
BALANCE, BEGINNING OF YEAR	\$ 3,280,175	\$ 1,047,340	\$ 4,327,515	\$ 4,233,642
Term debt retired	24,986	54,145	79,131	83,771
Interest on depreciation funds	14,267	3,262	17,529	10,102
Capital out of water operation, water fund	—	4,727	4,727	—
Capital out of operations, general fund	72,022	—	72,022	—
BALANCE, END OF YEAR	\$ 3,391,450	\$ 1,109,474	\$ 4,500,924	\$ 4,327,515

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, 2019, with comparative figures for 2018

	Fringe Area	St. Andrew's and Lower South River	Total	Total
			2019	2018
FUND, BEGINNING OF YEAR	\$ 1,162,588	\$ 134,571	\$ 1,297,159	\$ 1,165,441
Depreciation	76,428	41,502	117,930	149,349
Deferred assistance transferred	(14,843)	(2,891)	(17,734)	(17,631)
FUND, END OF YEAR	1,224,173	173,182	1,397,355	1,297,159
Amount unfunded	(320,709)	—	(320,709)	(366,713)
CASH, END OF YEAR	\$ 903,464	\$ 173,182	\$ 1,076,646	\$ 930,446

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Statement of Cash Flows – Operating Fund

Year ended March 31, 2019, with comparative figures for 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenditures	\$ 111,392	\$ 115,252
Change in non-cash items		
Increase in accounts receivable	(20,864)	(8,442)
Increase (decrease) in deferred revenue	476	(2,450)
	91,054	104,360
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease (increase) in due from Municipality of County of Antigonish, operating fund	(91,054)	22,994
Decrease in due to capital fund	–	(127,354)
	(91,054)	(104,360)
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

Notes to Financial Statements

Year ended March 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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) Tangible capital assets

Tangible capital assets are recorded at cost.

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 Financial Statements (Continued)

Year ended March 31, 2019

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:

2020	\$	81,000
2021		81,000
2022		82,000
2023		83,000
2024		84,000

MUNICIPALITY OF THE COUNTY OF ANTIGONISH WATER UTILITY

Notes to Financial Statements (Continued)

Year ended March 31, 2019

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, 2019, the County owed \$646,874 to the Utility (2018 - \$584,298) 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 \$319,196 (2018 - \$316,863). 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, 2019, the Municipality of the County of Antigonish Water Utility had a rate of return on rate base of 5.2% (2018 – 5.3%).

5. FINANCIAL INSTRUMENTS

The carrying value of 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 Long-Term Debt

Year ended March 31, 2019

	Date of Issue	Maturity Date	Interest Rate %	Beginning of Year	Issued	Redeemed	End of Year
Municipal Finance Corporation							
Water, extension	2007	2022	4.625 - 4.770	\$ 720,000	\$ -	\$ 48,000	\$ 672,000
Water, building	2008	2023	5.010 - 5.480	142,080	-	8,880	133,200
				862,080	-	56,880	805,200
Municipality of the County of Antigonish Reserve Funds							
Water, various	2008	2033	3.000	574,473	-	22,251	552,222
				\$ 1,436,553	\$ -	\$ 79,131	\$ 1,357,422