

Consolidated Financial Statements of

TOWN OF MAHONE BAY

March 31, 2014



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Independent Auditor's Report

His Worship the Mayor and
Members of Council of the
Town of Mahone Bay

We have audited the accompanying consolidated financial statements of the Town of Mahone Bay, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards ("PSAS") and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Town of Mahone Bay as at March 31, 2014, and the results of its operations, net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants
Halifax, Nova Scotia
January 9, 2015

TOWN OF MAHONE BAY

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TOWN OF MAHONE BAY

Consolidated Statement of Changes in Net Financial Assets

Year ended March 31, 2014

	<u>2014</u>	<u>2013</u>
Annual surplus	\$ 172,673	\$ 214,213
Acquisition of tangible capital assets	(316,129)	(216,109)
Amortization of tangible capital assets	496,264	490,680
(Increase) decrease in other assets, excluding tangible capital assets	(43,124)	1,621
Increase in net assets	309,684	490,405
Net financial assets at beginning of year	936,143	445,738
Net assets at end of year	\$ 1,245,827	\$ 936,143

TOWN OF MAHONE BAY
Consolidated Statement of Cash Flows
Year ended March 31, 2014

	<u>2014</u>	<u>2013</u>
Operating activities		
Annual surplus	\$ 172,673	\$ 214,213
Amortization	496,264	490,680
Net changes in non-cash items	(208,537)	83,873
	<u>460,400</u>	<u>788,766</u>
Financing activity		
Decrease in long-term debt	(116,400)	(116,400)
Investing activity		
Purchase of tangible capital assets	(316,129)	(216,109)
INCREASE IN CASH	27,871	456,257
CASH, BEGINNING OF YEAR	2,232,450	1,776,193
CASH, END OF YEAR	\$ 2,260,321	\$ 2,232,450

TOWN OF MAHONE BAY

Notes to the Consolidated Financial Statements

March 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Mahone Bay (the “Town”) are the representations of management, prepared in accordance with Canadian public sector accounting standards for local governments as established by the Public Sector Accounting Board (“PSAB”) of the Canadian Institute of Chartered Accountants.

Reporting entity

These consolidated financial statements reflect the assets, liabilities, revenues, expenditures and changes in net financial assets and cash flows of the reporting entity. The reporting entity is comprised of all organizations and enterprises accountable to the Town for the administration of its financial affairs and resources and which are owned or controlled by the Town, namely:

- General Operating and Capital
- Water Utility and Capital
- Electric Utility and Capital
- Cemetery

Inter-departmental and inter-organizational transactions have been eliminated on consolidation.

Fund accounting

Funds within the consolidated financial statements consist of current, capital and reserve funds.

Council approves certain amounts to be set aside in reserve funds for future operating and capital purposes. Transfers between funds are recorded as adjustments to the appropriate fund balance.

Revenue and expense recognition

Revenues are recorded using the accrual basis of accounting as they are earned and measurable. Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified. Expenses are accounted for in the period the goods and services are acquired and liability is incurred or transfer is due.

Property tax revenue is based on assessments determined in accordance with Nova Scotia Legislation. Tax rates are set annually. Taxation revenues are recorded at the time tax billings are issued. Assessments are subject to appeal. Penalties on overdue taxes are recorded in the period levied.

Cash

Cash includes cash and bank overdrafts with financial institutions.

Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization.

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible capital assets (continued)

Amortization is based on the estimated useful life of the assets and is calculated using the straight line method, as follows:

Land improvements	20-25 years
Municipal buildings	25-40 years
Buildings-plants	25 years
Electronic data equipment	3 years
Small equipment	5 years
Machinery and equipment	5-15 years
Vehicles	5-15 years
Wharves	25 years
Streets, roads and curbs	25 years
Sidewalks	20 years
Sewer lines	50 years
Lagoons	50 years
Landfill	4 years
Other	5 years
Work in Progress	No Amortization

Water system and electric system As specified by the Utilities Review board

Deferred revenue

Deferred revenue consists of user charges and fees which have been collected but for which the related services have yet to be performed at which time they will be recognized as revenues.

Government transfers

Government transfers are recognized in the period in which the events giving rise to the transfer occur, providing transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

Investment income

Investment income earned on surplus current funds, capital funds and reserve funds are reported as revenue in the period earned.

Use of estimates

The preparation of financial statements in accordance with Canadian Public Sector Accounting Standards ("PSAS") requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the statement of financial position date, as well as revenue and expenditures for the year then ended. The significant accounting policies that are most

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

subject to estimation and judgment are allowance for doubtful accounts, deferred revenue, and accrued liabilities. Actual results could differ from these estimates.

2. TANGIBLE CAPITAL ASSETS

	Cost	2014 Accumulated amortization	Net book value	2013 Net book value
Land (inc cemetery)	\$ 629,298	\$ -	\$ 629,298	\$ 628,198
Land improvements	699,027	566,202	132,825	147,702
Municipal buildings	512,158	202,532	309,626	325,826
Buildings-plants	1,287,908	837,782	450,126	500,758
Electronic data equipment	25,023	18,921	6,102	9,814
Small equipment	148,777	110,541	38,236	47,453
Machinery and equipment	1,561,144	866,377	694,767	789,641
Vehicles	245,865	135,172	110,693	125,485
Wharves	170,475	113,086	57,389	63,802
Streets, roads and curbs	2,025,711	1,142,590	883,121	985,019
Sidewalks	322,509	198,256	124,253	117,603
Sewer lines	2,755,329	1,116,158	1,639,171	1,599,532
Lagoons	86,057	4,404	81,653	83,467
Landfill	92,542	57,394	35,148	92
Other	27,445	12,703	14,742	3,457
Work in progress	22,632	-	22,632	
Water system	4,712,403	658,906	4,053,497	4,055,477
Electric system	1,317,454	532,050	785,404	765,492
	\$ 16,641,757	\$ 6,573,074	\$ 10,068,683	\$ 10,248,818

3. LONG-TERM DEBT

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2014

	<u>2014</u>	<u>2013</u>
Water Utility		
4.285% to 5.08% Nova Scotia Municipal Finance Corporation loans, maturity date 2021	\$ 240,500	\$ 259,000
0% to 5.48% Nova Scotia Municipal Financial Corporation loan, maturity date 2023	397,500	424,000
Temporary financing, prime less 0.75%, no set terms of repayment	280,000	285,000
	<u>\$ 918,000</u>	<u>\$ 968,000</u>

3. LONG-TERM DEBT (continued)

	<u>2014</u>	<u>2013</u>
General		
4.285% to 6.75% Nova Scotia Municipal Finance Corporation loans, maturity dates between 2009 and 2020	\$ 22,500	\$ 30,000
3.10% to 5.48% Nova Scotia Municipal Finance Corporation loan, maturity date 2023	44,500	53,400
Temporary financing, prime less 0.75%, no set terms of repayment	311,000	361,000
	<u>\$ 378,000</u>	<u>\$ 444,400</u>

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

	<u>Town</u>	<u>Water</u>	<u>Total</u>
2014	\$ 66,400	\$ 50,000	\$ 116,400
2015	66,400	50,000	116,400
2016	66,400	50,000	116,400
2017	58,900	50,000	108,900
2018	58,900	50,000	108,900
	<u>\$ 317,000</u>	<u>\$ 250,000</u>	<u>\$ 567,000</u>

All long-term debt outstanding at year-end has been properly authorized by the Department of Municipal Affairs.

4. EMPLOYEE BENEFITS AND OTHER OBLIGATIONS

The Town provides certain employee benefits that require funding in future periods. Under the personnel policies of the Town, unused sick leave can accumulate and employees can use the credits at a future date, however, employees do not receive entitlement to a cash payment of sick leave credits when they leave the Town's employment. The Town is also liable for vacation days earned

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2014

by its employees as at March 31, but not taken until a later date. An estimate of this liability has been recorded in the consolidated statement of financial position.

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Notes to the Consolidated Financial Statements
March 31, 2014

5. ACCUMULATED SURPLUS

	<u>2014</u>	<u>2013</u>
Current funds	\$ 2,838,671	\$ 2,175,215
Reserve funds	1,365,176	1,165,270
Capital funds	8,518,890	9,325,979
Amount to be recovered from future revenue	(1,296,000)	(1,412,400)
	<u>\$ 11,426,737</u>	<u>\$ 11,254,064</u>

6. LANDFILL SITE CLOSURE COSTS

Centralized disposal site

The centralized disposal site requires the Town of Bridgewater, Town of Lunenburg, Town of Mahone Bay and the Municipality of the District of Lunenburg to recognize closure costs as a charge to expense in the year. Those funds are to be transferred into a special reserve in each period that the landfill accepts solid waste. Recognition begins on the date the landfill begins accepting solid waste. This is based on the Nova Scotia Standards and Guidelines Manual for Landfills issued by the Department of Environment.

As of March 31, 2013 the operation of the Municipal Recycling Facilities and Landfill closure at Whynott's Settlement was transferred over to the Municipality Joint Services Board of Lunenburg County.

The present value of the remaining landfill site closure cost is estimated to be \$808,619. The estimate of used capacity at March 31, 2014 is 100% and is now closed.

The future landfill site closure costs were forecast with inflation at 3% per annum and discounted back to March 31, 2007 using a discount rate of 6%. A liability (reserve) of \$29,315 has been reported in the consolidated statement of financial position of the Town. This liability for landfill site closure includes costs for the assessment of the site monitoring and treatment of leachate, monitoring of ground water and surface water, monitoring and recovery of gases, maintenance of the required drainage systems and other control systems.

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2014

7. COMMITMENTS

Solid waste facility (Joint Services Board of Lunenburg County)

As of March 31, 2013 the Towns of Bridgewater and Mahone Bay and the Municipality of Lunenburg transferred the operation of the Solid Waste site to the Joint Services Board of Lunenburg County ("JSB"). The Board establishes tipping fees and each customer of the JSB including municipalities are charged a tipping fee based on tonnage delivered to the site. The assets/liabilities of the Solid Waste site was to be assumed by the JSB as of April 1, 2013. There have been ongoing discussions on what value should be established for the capital assets as of the transfer date.

Housing authorities

During the year, the Town paid \$11,795 (2013 - \$15,530) to the Department of Community Services to fund its share of the prior year's operating deficit. At March 31, 2014, the Town's share of the 2014 operating deficit was \$11,446 (2013 - \$11,795), which must be paid by the Town in 2015. This amount has been accrued in the financial statement results for the current year.

8. INVESTMENT IN ALTERNATIVE RESOURCE ENERGY AUTHORITY ("AREA")

In July 2013, the Towns of Antigonish, Berwick and Mahone Bay created a joint municipal corporation' and inter-municipal agreement to explore alternative sources of Energy for municipal electric utilities. The share of ownership of AREA is as follows: Antigonish 63%; Berwick 27% and Mahone Bay 10%.

The first project of AREA is the development of a \$24 million Wind Farm at Eldershouse, Nova Scotia. This project will be financed through borrowing from the Municipal Finance Corporation with final borrowing approval by the Minister of Municipal Affairs pending as of March 31, 2014.

The Town agreed to operate the finances of AREA and as of March 31, 2014 a receivable from AREA appears on the financial statements of the Town in the amount of \$264,195 (2013- nil). The Town share is 10% or 29,355. This amount has been recorded as an investment in AREA.

9. REMUNERATION OF COUNCIL AND ADMINISTRATORS

The following schedule sets out the gross earnings paid to each member of Council, including the administrators and the directors of departments as reflected in the operating costs of the Town's financial statements.

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2014

9. REMUNERATION OF COUNCIL AND ADMINISTRATORS (continued)

	<u>Remuneration</u>	<u>Expenses</u>	<u>Total</u>
Mayor and Councillors			
Joe Feeney, Mayor	15,000	636	\$ 15,636
Dave Devenee, Deputy Mayor	9,000	-	9,000
John Bain, Councillor	8,000	69	8,069
Penny Carver, Councillor	8,000	-	8,000
Lynn Hennigar, Councillor	8,000	-	8,000
Karl Nauss, Councilor	8,000	227	8,227
Kelly Wilson, Councilor	8,000	-	8,000
	<u>\$ 64,000</u>	<u>932</u>	<u>\$ 64,932</u>
Administrators			
Jim Wentzell, CAO	\$ 94,578	\$ 2,276	\$ 96,854
Derrick MacKenzie, Director of Operations	60,684	1,674	62,358
	<u>\$ 155,262</u>	<u>\$ 3,950</u>	<u>\$ 159,212</u>

TOWN OF MAHONE BAY**Schedule 1****Schedule of Current Fund - General Operations**

Year ended March 31, 2014

	2014	2013
Revenues	\$ 2,425,480	\$ 2,387,662
Expenses	1,928,391	1,867,701
Annual surplus	497,089	519,961
Financing and transfers		
Debt principal repayments	(66,400)	(66,400)
Transfer from other funds	163,945	67,151
Change in fund balance	594,634	520,712
Opening fund balance	1,934,994	1,414,282
Closing fund balance	\$ 2,529,628	\$ 1,934,994

TOWN OF MAHONE BAY
Schedule of Current Fund - Water Operations
Year ended March 31, 2014

Schedule 2

	<u>2014</u>	<u>2013</u>
Revenues	\$ 435,910	\$ 431,112
Amortization	64,407	64,067
Expenses	375,365	400,647
	439,772	464,714
Annual deficit	(3,862)	(33,602)
Financing and transfers		
Debt principal repayments	(52,800)	(52,800)
Transfer from other funds	90,788	21,379
Change in amount to be recovered from future revenue	52,800	52,800
Change in fund balance	86,926	(12,223)
Opening fund balance	(239,115)	(226,892)
Closing fund balance	\$ (152,189)	\$ (239,115)

TOWN OF MAHONE BAY
Schedule of Current Fund - Electric Operations
Year ended March 31, 2014

Schedule 3

	<u>2014</u>	<u>2013</u>
Revenues	\$ 1,855,436	\$ 1,765,375
Amortization	33,130	31,721
Expenses	1,843,771	1,702,164
	1,876,901	1,733,885
Annual (deficit) surplus	(21,465)	31,490
Opening fund balance	385,109	353,619
Closing fund balance	\$ 363,644	\$ 385,109

TOWN OF MAHONE BAY
Schedule of Current Fund - Cemetery Operations
Year ended March 31, 2014

Schedule 4

	<u>2014</u>	<u>2013</u>
Park Cemetery		
Revenues	\$ 7,090	\$ 4,397
Expenses	8,431	7,149
Annual deficit	(1,341)	(2,752)
Net transfers from other funds	5,000	5,000
Change in fund balance	3,659	2,248
Opening fund balance	74,794	72,546
Closing fund balance	\$ 78,453	\$ 74,794

	<u>2014</u>	<u>2013</u>
Bayside Cemetery		
Revenues	\$ 2,753	\$ 2,283
Expenses	7,051	4,948
Annual deficit	(4,298)	(2,665)
Net transfers from other funds	4,000	4,000
Change in fund balance	(298)	1,335
Opening fund balance	19,433	18,098
Closing fund balance	\$ 19,135	\$ 19,433

TOWN OF MAHONE BAY
Schedule of Capital Fund - Municipal Operations
Year ended March 31, 2014

Schedule 5

	<u>2014</u>	<u>2013</u>
Revenues		
Capital grants and contributed tangible capital assets	\$ 94,517	\$ 85,359
Interest	2,020	1,625
	<u>96,537</u>	<u>86,984</u>
Amortization	<u>398,727</u>	<u>394,892</u>
Annual surplus	(302,190)	(307,908)
Financing and transfers		
Transfers to other funds	(454,899)	(330,131)
Change in amounts to be recovered from future revenue	(50,000)	(50,000)
Change in fund balance	(807,089)	(688,039)
Opening fund balance	<u>9,325,979</u>	<u>10,014,018</u>
Closing fund balance	<u>\$ 8,518,890</u>	<u>\$ 9,325,979</u>

TOWN OF MAHONE BAY
Schedule of Reserve Fund

Schedule 6

Year ended March 31, 2014

	<u>2014</u>	<u>2013</u>
Interest Revenue	\$ 12,000.00	\$ 9,639.00
Net transfers from other funds	182,794	227,602
Change in fund balance	194,794	237,241
Opening fund balance	1,155,781	918,540
Closing fund balance	\$ 1,350,575	\$ 1,155,781

TOWN OF MAHONE BAY
Schedule of Trust Reserve Fund
Year ended March 31, 2014

Schedule 7

	<u>2014</u>		<u>2013</u>
Revenues	\$ 112	\$	49
Net transfers from other funds	5,000		5,000
Change in fund balance	5,112		5,049
Opening fund balance	9,489		4,440
Closing fund balance	\$ 14,601	\$	9,489
