

Consolidated Financial Statements of

TOWN OF MAHONE BAY

March 31, 2012

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, 2012, and the consolidated statements of operations, changes in net 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 generally accepted accounting principles for the Public Sector 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, 2012, and the results of its operations, net debt, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the Public Sector.



Chartered Accountants
Halifax, Nova Scotia
December 3, 2012

TOWN OF MAHONE BAY

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TOWN OF MAHONE BAY
Consolidated Statement of Financial Position
March 31, 2012

	<u>2012</u>	<u>2011</u>
Financial assets		
Cash	\$ 1,776,193	\$ 1,420,392
Taxes and rates receivable	440,881	382,528
Accounts receivable	254,841	276,517
Total financial assets	2,471,915	2,079,437
Liabilities		
Payables and accruals	448,376	454,084
Deferred revenue	49,001	47,271
Long-term debt (Note 3)	1,528,800	1,650,700
Total liabilities	2,026,177	2,152,055
Net financial assets (debt)	445,738	(72,618)
Non-financial assets		
Prepaid expenses	8,950	10,746
Inventory (at cost)	61,775	54,024
Tangible capital assets (Note 2)	10,523,388	10,770,730
Total non-financial assets	10,594,113	10,835,500
Accumulated surplus (Note 5)	\$ 11,039,851	\$ 10,762,882

Commitments (Note 7)

APPROVED ON BEHALF OF COUNCIL

_____ Mayor

_____ Clerk

TOWN OF MAHONE BAY
Consolidated Statement of Operations
Year ended March 31, 2012

	<u>2012</u>	<u>2011</u>
Revenues		
Taxes and rates	\$ 1,971,125	\$ 1,909,197
Grants in lieu of taxes	21,128	20,876
Services provided to other governments	106,100	84,726
Sale of services	4,470	4,439
Other revenue from own sources	85,907	86,568
Unconditional transfer from other governments	50,019	50,019
Conditional transfers (federal and provincial)	11,000	1,388
Government grants and contributed tangible capital assets	82,340	230,929
Metered sales	336,193	327,085
Public fire protection	71,754	63,960
Domestic sales	738,633	664,639
Commercial sales	60,180	53,022
Power, demand sales	749,570	698,021
Street lighting	64,151	62,195
Other	50,609	73,132
Interest	13,809	16,846
	4,416,988	4,347,042
Expenses		
General government services	351,490	354,953
Protective services	436,848	408,434
Transportation	237,934	258,619
Environmental health	194,204	237,887
Public health and welfare services	15,390	5,516
Environmental development services	78,600	74,703
Recreation and cultural services	44,419	45,940
Loan interest	38,616	44,199
Education	331,049	327,442
Pumping	15,440	18,807
Water treatment	106,617	116,417
Transmission and distribution	68,170	68,609
Salaries	73,973	88,695
Operating and maintenance	45,298	25,754
Administrative and general	256,186	266,380
Taxes	24,764	24,911
Power purchase	1,234,023	1,120,941
Other interest charges	6,258	5,632
Improvements	3,250	15,711
Mowing and grounds upkeep	9,782	10,019
	3,572,311	3,519,569
Annual surplus before amortization	844,677	827,472
Amortization	567,708	506,002
Annual surplus	276,969	321,471
Accumulated surplus, beginning of year	10,762,882	10,441,411
Accumulated surplus, end of year (Note 5)	\$ 11,039,851	\$ 10,762,882

TOWN OF MAHONE BAY

Consolidated Statement of Changes in Net Financial Assets (Debt)

Year ended March 31, 2012

	<u>2012</u>	<u>2011</u>
Annual surplus	\$ 276,969	\$ 321,471
Acquisition of tangible capital assets	(320,366)	(743,717)
Amortization of tangible capital assets	567,708	506,002
Decrease (increase) in other assets, excluding tangible capital assets	(5,955)	26,939
Increase in net financial assets	518,356	110,695
Net debt, beginning of year	(72,618)	(183,313)
Net financial assets (debt), end of year	\$ 445,738	\$ (72,618)

TOWN OF MAHONE BAY
Consolidated Statement of Cash Flows
Year ended March 31, 2012

	<u>2012</u>	<u>2011</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating activities		
Annual surplus	\$ 276,969	\$ 321,471
Amortization	567,708	506,002
Net changes in non-cash items	(46,610)	323,485
	<u>798,067</u>	<u>1,150,958</u>
Financing activity		
Decrease in long-term debt	(121,900)	(289,900)
Investing activity		
Purchase of tangible capital assets	(320,366)	(743,717)
INCREASE IN CASH	355,801	117,341
CASH, BEGINNING OF YEAR	1,420,392	1,303,051
CASH, END OF YEAR	\$ 1,776,193	\$ 1,420,392

TOWN OF MAHONE BAY

Notes to the Consolidated Financial Statements

March 31, 2012

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 accounting principles 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 (debt) 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, 2012

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

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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, as well as revenue and expenditures for the year then ended. The significant accounting policies that are most subject to estimation and judgment are allowance for doubtful accounts, deferred revenue, and accrued liabilities. Actual results could differ from these estimates.

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2012

2. TANGIBLE CAPITAL ASSETS

	<u>Cost</u>	<u>2012 Accumulated amortization</u>	<u>Net book value</u>	<u>2011 Net book value</u> (Restated - See Note 9)
Land	\$ 771,387	\$ -	\$ 771,387	\$ 761,713
Land improvements	692,813	522,883	169,930	187,703
Municipal buildings	508,714	170,132	338,582	286,641
Buildings-plants	1,287,480	746,481	540,999	587,388
Electronic data equipment	22,937	8,354	14,583	7,031
Small equipment	113,119	75,337	37,782	45,949
Machinery and equipment	1,541,368	634,920	906,448	987,054
Vehicles	245,014	94,861	150,153	177,661
Wharves	170,475	100,260	70,215	76,629
Streets, roads and curbs	1,951,660	1,031,530	920,130	936,846
Sidewalks	304,281	176,011	128,270	66,962
Sewer lines	2,658,940	1,007,821	1,651,119	1,704,287
Lagoons	86,057	2,590	83,467	83,016
Landfill	57,486	57,394	92	53,441
Other	15,842	10,312	5,530	6,389
Water system	4,485,979	530,242	3,955,737	4,006,353
Electric system	1,247,708	468,744	778,964	795,667
	<u>\$ 16,161,260</u>	<u>\$ 5,637,872</u>	<u>\$ 10,523,388</u>	<u>\$ 10,770,730</u>

3. LONG-TERM DEBT

	<u>2012</u>	<u>2011</u>
Water Utility		
4.285% to 5.08% Nova Scotia Municipal Finance Corporation loan, maturity date 2021	\$ 277,500	\$ 296,000
0% to 5.48% Nova Scotia Municipal Financial Corporation loan, maturity date 2023	450,500	477,000
Temporary financing, prime less 0.75%	290,000	296,667
	<u>\$ 1,018,000</u>	<u>\$ 1,069,667</u>

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2012

3. LONG-TERM DEBT (continued)

	<u>2012</u>	<u>2011</u>
General		
4.285% to 6.75% Nova Scotia Municipal Finance Corporation loans, maturity dates between 2009 and 2020	\$ 37,500	\$ 45,000
3.10% to 5.48% Nova Scotia Municipal Finance Corporation loan, maturity date 2023	62,300	71,200
Temporary financing, prime less 0.75%	411,000	464,833
	<u>\$ 510,800</u>	<u>\$ 581,033</u>

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

	<u>Town</u>	<u>Water</u>	<u>Total</u>
2013	\$ 66,400	\$ 50,000	\$ 116,400
2014	66,400	50,000	116,400
2015	66,400	50,000	116,400
2016	66,400	50,000	116,400
2017	66,400	50,000	116,400
	<u>\$ 332,000</u>	<u>\$ 250,000</u>	<u>\$ 582,000</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 of Mahone Bay 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 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.

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2012

5. ACCUMULATED SURPLUS

	<u>2012</u>	<u>2011</u>
Current funds	\$ 1,159,376	\$ 867,075
Reserve funds	922,980	812,920
Capital funds	10,486,295	10,657,778
Amount to be recovered from future revenue	(1,528,800)	(1,574,891)
	<u>\$ 11,039,851</u>	<u>\$ 10,762,882</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. Based on the Nova Scotia Standards and Guidelines Manual for Landfills issued by the Department of Environment, total costs transferred to reserves (including interest earned on reserve funds) at March 31, 2012 was \$2,515,983 (2011 - \$2,382,914). This capital reserve fund represents the cumulative contribution made by these municipalities participating in the operations of the disposal site. The participating units' cumulative contribution is as follows: Municipality of the District of Lunenburg \$2,116,885; Town of Bridgewater \$267,119; Town of Lunenburg \$99,887; and Town of Mahone Bay \$32,092. These funds are administered by the Municipality of the District of Lunenburg.

The present value of the remaining landfill site closure cost is estimated to be \$2.51 million. The estimate of used capacity at March 31, 2012 is 100% and is now closed. The landfill material is shipped outside the area of the landfill partners.

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 of \$87,464 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, 2012

6. LANDFILL SITE CLOSURE COSTS (continued)

Present value of estimated landfill closure cost	\$ 2,505,762
Capacity used at March 31, 2012	100.00%
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Liability at March 31, 2012	2,505,762
Less: costs transferred to reserves administered by the Municipality of the District of Lunenburg	2,037,100
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Liability not previously expensed	468,662
Town's share of partnership liability	3.49%
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Landfill site closure liability	\$ 87,464
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The amount recorded in the Town's Capital reserve for landfill liability is \$87,464.

7. COMMITMENTS

Solid waste facility

The Town has committed to fund a portion of future operating and capital costs for the solid waste facility based upon its portion of the total tons of solid waste processed. During the year ended March 31, 2012, \$49,502 (2011 - \$42,345) was paid by the Town to fund its share 8.32% (2011 - 3.54%) of the facility's capital costs.

As of April 1, 2012 the Town of Lunenburg will no longer be a partner of the solid waste operation and the Town's share will increase to approximately 8 % of operating and capital costs at that time.

Housing authorities

During the year, the Town paid \$5,516 (2011 - \$10,473) to the Department of Community Services to fund its share of the prior year's operating deficit. At March 31, 2012, the Town's share of the 2012 operating deficit was \$15,390 (2011 - \$5,516), which must be paid by the Town in 2013. This amount has been accrued in the financial statement results for the current year. The increase is due to cost sharing changes implemented by the Province of Nova Scotia.

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2012

8. 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. There were no meeting fees and expenses paid during the year.

	<u>Remuneration</u>	<u>Expenses</u>	<u>Total</u>
Mayor and Councillors			
Joe Feeney, Mayor	\$ 13,000	\$ 902	\$ 13,902
Dave Devenee, Deputy Mayor	7,800	226	8,026
John Bain, Councillor	6,800	75	6,875
David Hennigar, Councillor	6,800	-	6,800
Karl Nauss, Councilor	6,800	16	6,816
Lila O'Connor, Councilor	6,800	-	6,800
Virginia Uhlman, Councilor	6,800	-	6,800
	<u>\$ 54,800</u>	<u>\$ 1,219</u>	<u>\$ 56,019</u>
Administrators			
Jim Wentzell, CAO	\$ 78,000	\$ 2,712	\$ 80,712
Derrick MacKenzie, Director of Operations	57,200	1,700	58,900
	<u>\$ 135,200</u>	<u>\$ 4,412</u>	<u>\$ 139,612</u>

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

Year ended March 31, 2012

	<u>2012</u>	<u>2011</u>
Revenues	\$ 2,249,749	\$ 2,157,213
Amortization	472,277	410,745
Expenses	1,689,935	1,713,496
	<u>2,162,212</u>	<u>2,124,241</u>
Annual surplus	87,537	32,972
Financing and transfers		
Debt principal repayments	(70,233)	(51,567)
Transfer from other funds	176,830	65,408
Change in fund balance	194,134	46,813
Opening fund balance	747,871	701,058
Closing fund balance	\$ 942,005	\$ 747,871

TOWN OF MAHONE BAY
Schedule of Current Fund - Water Operations
Year ended March 31, 2012

Schedule 2

	<u>2012</u>	<u>2011</u>
Revenues	\$ 422,296	\$ 399,369
Amortization	64,183	64,459
Expenses	326,092	341,913
	<u>390,275</u>	<u>406,372</u>
Annual surplus (deficit)	32,021	(7,003)
Financing and transfers		
Debt principal repayments	(54,467)	(48,333)
Transfer from other funds	4,909	28,787
Change in amount to be recovered from future revenue	54,467	48,333
Change in fund balance	36,930	21,784
Opening fund balance	(263,822)	(285,606)
Closing fund balance	\$ (226,892)	\$ (263,822)

TOWN OF MAHONE BAY
Schedule of Current Fund - Electric Operations
Year ended March 31, 2012

Schedule 3

	<u>2012</u>	<u>2011</u>
Revenues	\$ 1,641,597	\$ 1,501,519
Amortization	31,248	30,798
Expenses	1,542,347	1,436,771
	1,573,595	1,467,569
Annual surplus	68,000	33,950
Financing and transfers		
Transfer to other funds	(13,536)	(9,330)
Change in fund balance	54,464	24,620
Opening fund balance	299,155	274,535
Closing fund balance	\$ 353,619	\$ 299,155

TOWN OF MAHONE BAY
Schedule of Current Fund - Cemetery Operations
Year ended March 31, 2012

Schedule 4

	<u>2012</u>	<u>2011</u>
Park Cemetery		
Revenues	\$ 6,781	\$ 1,680
Expenses	6,628	6,894
Annual surplus (deficit)	153	(5,214)
Net transfers from other funds	5,250	6,000
Change in fund balance	5,403	786
Opening fund balance	67,143	66,357
Closing fund balance	\$ 72,546	\$ 67,143

	<u>2012</u>	<u>2011</u>
Bayside Cemetery		
Revenues	\$ 2,302	\$ 8,836
Expenses	4,682	4,784
Annual (deficit) surplus	(2,380)	4,052
Net transfers from other funds	3,750	3,000
Change in fund balance	1,370	7,052
Opening fund balance	16,728	9,676
Closing fund balance	\$ 18,098	\$ 16,728

TOWN OF MAHONE BAY**Schedule 5****Schedule of Capital Fund - Municipal Operations**

Year ended March 31, 2012

	<u>2012</u>	<u>2011</u>
Revenues		
Capital grants and contributed tangible capital assets	\$ 82,340	\$ 230,929
Interest	606	398
Annual surplus	82,946	231,327
Financing and transfers		
Transfers to other funds	(278,571)	(83,761)
Change in amounts to be recovered from future revenue	24,142	43,481
Change in fund balance	(171,483)	191,047
Opening fund balance	10,657,778	10,466,731
Closing fund balance	\$ 10,486,295	\$ 10,657,778

TOWN OF MAHONE BAY**Schedule 6****Schedule of Reserve Fund**

Year ended March 31, 2012

	<u>2012</u>	<u>2011</u>
Revenues		
Sale of assets	\$ -	\$ 26,500
Interest	8,823	5,421
<hr/>		
Annual surplus	8,823	31,921
Net transfers (to) from other funds	101,368	(10,105)
<hr/>		
Change in fund balance	110,191	21,816
Opening fund balance	808,349	786,533
<hr/>		
Closing fund balance	\$ 918,540	\$ 808,349

TOWN OF MAHONE BAY
Schedule of Trust Reserve Fund
Year ended March 31, 2012

Schedule 7

	<u>2012</u>		<u>2011</u>
Revenues	\$ 3,119	\$	15,177
Expenses	3,250		15,711
<hr/>			
Annual deficit	(131)		(534)
Opening fund balance	4,571		5,105
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Closing fund balance	\$ 4,440	\$	4,571
