

Consolidated Financial Statements of

TOWN OF MAHONE BAY

March 31, 2011

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, 2011, 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, 2011, 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
June 12, 2012

TOWN OF MAHONE BAY

Table of Contents

March 31, 2011

	<u>Page</u>
Consolidated Statement of Financial Position	1
Consolidated Statement of Operations	2
Consolidated Statement of Changes in Net (Debt) Financial Assets	3
Consolidated Statement of Cash Flows	4
Notes to the Consolidated Financial Statements	5-11
Schedule 1 - Current Fund - General Operations	12
Schedule 2 - Current Fund - Water Operations	13
Schedule 3 - Current Fund - Electric Operations	14
Schedule 4 - Current Fund - Cemetery Operations	15
Schedule 5 - Capital Fund - Municipal Operations	16
Schedule 6 - Reserve Fund	17
Schedule 7 - Trust Reserve Fund	18

TOWN OF MAHONE BAY
Consolidated Statement of Financial Position
March 31, 2011

	<u>2011</u>	<u>2010</u> (Restated - See Note 9)
Financial assets		
Cash	\$ 1,420,392	\$ 1,303,051
Taxes and rates receivable	382,528	391,291
Accounts receivable	276,517	589,571
Total financial assets	2,079,437	2,283,913
Liabilities		
Payables and accruals	454,084	483,658
Deferred revenue	47,271	42,968
Long-term debt (Note 3)	1,650,700	1,940,600
Total liabilities	2,152,055	2,467,226
Net debt	(72,618)	(183,313)
Non-financial assets		
Prepaid expenses	10,746	11,242
Inventory (at cost)	54,024	53,800
Properties acquired at tax sale	-	26,667
Tangible capital assets (Note 2)	10,770,730	10,533,015
Total non-financial assets	10,835,500	10,624,724
Accumulated surplus (Note 5)	\$ 10,762,882	\$ 10,441,411

Commitments (Note 7)

APPROVED ON BEHALF OF COUNCIL

_____ Mayor

_____ Clerk

TOWN OF MAHONE BAY
Consolidated Statement of Operations
Year ended March 31, 2011

	<u>2011</u>	<u>2010</u> (Restated - See Note 9)
Revenues		
Taxes and rates	\$ 1,909,197	\$ 1,781,872
Grants in lieu of taxes	20,876	21,480
Services provided to other governments	84,726	83,248
Sale of services	4,439	5,563
Other revenue from own sources	86,568	87,892
Unconditional transfer from other governments	50,019	50,019
Conditional transfers (federal and provincial)	1,388	26,748
Government grants and contributed tangible capital assets	230,929	622,106
Metered sales	327,085	279,076
Public fire protection	63,960	57,808
Domestic sales	664,639	663,274
Commercial sales	53,022	49,731
Power, demand sales	698,021	701,013
Street lighting	62,195	61,357
Other	73,132	59,818
Interest	16,846	6,814
	4,347,042	4,557,819
Expenses		
General government services	354,953	292,620
Protective services	408,434	435,034
Transportation	258,619	252,707
Environmental health	237,887	214,510
Public health and welfare services	5,516	10,473
Environmental development services	74,703	100,598
Recreation and cultural services	45,940	51,514
Loan interest	44,199	42,616
Education	327,442	310,248
Pumping	18,807	14,315
Water treatment	116,417	115,855
Transmission and distribution	68,609	56,737
Salaries	88,695	95,149
Operating and maintenance	25,754	23,414
Administrative and general	266,380	243,511
Taxes	24,911	9,848
Power purchase	1,120,941	1,123,839
Other interest charges	5,632	5,619
Improvements	15,711	23,120
Mowing and grounds upkeep	10,019	11,118
	3,519,569	3,432,845
Annual surplus before amortization	827,472	1,124,974
Amortization	506,002	470,955
Annual surplus	321,471	654,019
Accumulated surplus, beginning of year	10,441,411	197,336
Adjustment as at April 1, 2009 for tangible capital assets (Notes 1 and 9)	-	9,590,056
Accumulated surplus, end of year (Note 5)	\$ 10,762,882	\$ 10,441,411

TOWN OF MAHONE BAY

Consolidated Statement of Changes in Net (Debt) Financial Assets

Year ended March 31, 2011

	<u>2011</u>	<u>2010</u> (Restated - See Note 9)
Annual surplus	\$ 321,471	\$ 654,019
Acquisition of tangible capital assets	(743,717)	(1,344,370)
Amortization of tangible capital assets	506,002	470,955
Decrease (increase) in other assets, excluding tangible capital assets	26,939	(20,413)
Increase (decrease) in net assets	110,695	(239,809)
Net (debt) financial assets at beginning of year	(183,313)	56,496
Net debt assets at end of year	\$ (72,618)	\$ (183,313)

TOWN OF MAHONE BAY
Consolidated Statement of Cash Flows
Year ended March 31, 2011

	<u>2011</u>	<u>2010</u> (Restated - See Note 9)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating activities		
Annual surplus	\$ 321,471	\$ 654,019
Amortization	506,002	470,955
Net changes in non-cash items	323,485	(193,726)
	<u>1,150,958</u>	<u>931,248</u>
Financing activity		
Increase (decrease) in long-term debt	(289,900)	422,600
Investing activity		
Purchase of tangible capital assets	(743,717)	(1,344,370)
INCREASE (DECREASE) IN CASH	117,341	9,478
CASH, BEGINNING OF YEAR	1,303,051	1,293,573
CASH, END OF YEAR	\$ 1,420,392	\$ 1,303,051

TOWN OF MAHONE BAY

Notes to the Consolidated Financial Statements

March 31, 2011

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Mahone Bay 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

Effective April 1, 2009, amortization for all tangible capital assets is being recognized as an expense in the financial statements. The opening balances for tangible capital assets have been increased by \$9,590,056 as an adjustment on April 1, 2009 on the consolidated statements of financial position and amortization for the year ended March 31, 2009 has not been disclosed in the financial statements, as permitted by PSAB.

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2011

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, 2011

2. TANGIBLE CAPITAL ASSETS

	<u>Cost</u>	<u>2011 Accumulated amortization</u>	<u>Net book value</u>	<u>2010 Net book value</u> (Restated - See Note 9)
Land	\$ 761,713	\$ -	\$ 761,713	\$ 733,547
Land improvements	685,879	498,176	187,703	213,397
Municipal buildings	440,659	154,018	286,641	279,232
Buildings-plants	1,284,770	697,382	587,388	632,216
Electronic data equipment	9,900	2,869	7,031	1,063
Small equipment	102,956	57,007	45,949	28,503
Machinery and equipment	1,492,625	505,571	987,054	999,998
Vehicles	287,272	109,611	177,661	137,773
Wharves	170,475	93,846	76,629	78,844
Streets, roads and curbs	1,894,699	957,853	936,846	754,950
Sidewalks	228,857	161,895	66,962	78,405
Sewer lines	2,658,940	954,653	1,704,287	1,746,752
Lagoons	83,957	941	83,016	14,755
Landfill	56,213	2,772	53,441	912
Other	15,842	9,453	6,389	7,896
Water system	4,472,602	466,249	4,006,353	4,049,299
Electric system	1,233,359	437,692	795,667	775,473
	<u>\$ 15,880,718</u>	<u>\$ 5,109,988</u>	<u>\$ 10,770,730</u>	<u>\$ 10,533,015</u>

3. LONG-TERM DEBT

	<u>2011</u>	<u>2010</u>
Water Utility		
4.285% to 5.08% Nova Scotia Municipal Finance Corporation loan, maturity date 2021	\$ 296,000	\$ 314,500
0% to 5.48% Nova Scotia Municipal Financial Corporation loan, maturity date 2023	477,000	503,500
Temporary financing, prime less 0.75%	296,667	400,000
	<u>\$ 1,069,667</u>	<u>\$ 1,218,000</u>

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2011

3. LONG-TERM DEBT (continued)

	<u>2011</u>	<u>2010</u>
General		
4.285% to 6.75% Nova Scotia Municipal Finance Corporation loans, maturity dates between 2009 and 2020	\$ 152,333	\$ 167,500
3.10% to 5.48% Nova Scotia Municipal Finance Corporation loan, maturity date 2023	71,200	80,100
Temporary financing, prime less 0.75%	357,500	475,000
	<u>\$ 581,033</u>	<u>\$ 722,600</u>

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

	<u>Town</u>	<u>Water</u>	<u>Total</u>
2012	\$ 51,567	\$ 48,333	\$ 99,900
2013	51,567	48,333	99,900
2014	51,567	48,333	99,900
2015	51,567	48,333	99,900
2016	51,567	48,333	99,900
	<u>\$ 257,835</u>	<u>\$ 241,665</u>	<u>\$ 499,500</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, 2011

5. ACCUMULATED SURPLUS

	<u>2011</u>	<u>2010</u> (Restated - See Note 9)
Current funds	\$ 867,075	\$ 766,019
Capital funds	10,657,778	10,466,731
Reserve funds	812,920	791,638
Amount to be recovered from future revenue	(1,574,891)	(1,582,977)
	<u>\$ 10,762,882</u>	<u>\$ 10,441,411</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, 2011 was \$2,382,914 (2010 - \$1,887,544). 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 \$1,429,974; Town of Bridgewater \$306,312; Town of Lunenburg \$128,431; and Town of Mahone Bay \$38,199. 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 \$3.24 million. The estimate of used capacity at March 31, 2011 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 \$82,908 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, 2011

6. LANDFILL SITE CLOSURE COSTS (continued)

Present value of estimated landfill closure cost	\$ 3,244,047
Capacity used at March 31, 2011	100.00%
<hr/>	
Liability at March 31, 2011	3,244,047
Less: costs transferred to reserves administered by the Municipality of the District of Lunenburg	2,382,944
<hr/>	
Liability not previously expensed	861,134
Town's share of partnership liability	3.54%
<hr/>	
Landfill site closure liability	\$ 82,908
<hr/>	

The amount recorded in the Town's Capital reserve for landfill liability is \$82,908.

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, 2011, \$42,345 (2010 - \$14,509) was paid by the Town to fund its share 3.54% (2010 - (3.72%)) 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 \$10,473 (2010 - \$10,028) to the Department of Community Services to fund its share of the prior year's operating deficit. At March 31, 2011, the Town's share of the 2011 operating deficit was \$5,516 (2010 - \$10,473), which must be paid by the Town in 2011. This amount has been accrued in the financial statement results for the current year.

TOWN OF MAHONE BAY
Notes to the Consolidated Financial Statements
March 31, 2011

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>
Councilors and Mayor			
C. Joseph Feeney, Mayor	\$ 12,400	\$ 741	\$ 13,141
John Bain, Councilor	6,200	74	6,274
Dave Devenne, Deputy Mayor	7,200	448	7,648
David Hennigar, Councilor	6,200	-	6,200
Karl Nauss, Councilor	6,200	-	6,200
Lila O'Connor, Councilor	6,200	-	6,200
Virginia Uhlman, Councilor	6,200	-	6,200
	<u>\$ 50,600</u>	<u>\$ 1,263</u>	<u>\$ 51,863</u>
Administrators			
CAO	\$ 75,000	\$ 1,742	\$ 76,742
Director of Operations	55,000	1,932	56,932
	<u>\$ 130,000</u>	<u>\$ 3,674</u>	<u>\$ 133,674</u>

9. PRIOR PERIOD ADJUSTMENT

The Town has completed its determination of tangible capital assets for the general capital fund. As a result, the following adjustments have been made to the 2010 comparative balances:

	<u>Previous balance</u>	<u>Adjustment</u>	<u>Restated</u>
Government grants and contributed			
tangible capital assets	\$ 496,510	\$ 125,596	\$ 622,106
Amortization expense	94,228	376,727	470,955
Annual surplus	905,150	(251,131)	654,019
Tangible capital assets	5,864,872	4,668,143	10,533,015
Adjustment as at April 1, 2009	4,670,782	4,919,274	9,590,056
Accumulated surplus capital fund, end of year	5,798,588	4,668,143	10,466,731

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

Year ended March 31, 2011

	<u>2011</u>	<u>2010</u> (Restated - See Note 9)
Revenues	\$ 2,157,213	\$ 2,056,822
Expenses	1,713,496	1,667,701
Amortization	410,745	376,727
Annual surplus	32,972	12,394
Financing and transfers		
Debt principal repayments	(51,567)	(22,400)
Transfer (to) from other funds	65,408	28,168
Change in fund balance	46,813	18,162
Opening fund balance	701,058	682,896
Closing fund balance	\$ 747,871	\$ 701,058

TOWN OF MAHONE BAY
Schedule of Current Fund - Water Operations
Year ended March 31, 2011

SCHEDULE 2

	<u>2011</u>	<u>2010</u>
Revenues	\$ 399,369	\$ 343,596
Amortization	64,459	64,705
Expenses	341,913	321,872
	406,372	386,577
Annual deficit	(7,003)	(42,981)
Financing and transfers		
Debt principal repayments	(48,333)	(45,000)
Transfer from (to) other funds	28,787	92,096
Change in amount to be recovered from future revenue	48,333	(17,054)
Change in fund balance	21,784	(12,939)
Opening fund balance	(285,606)	(272,667)
Closing fund balance	\$ (263,822)	\$ (285,606)

TOWN OF MAHONE BAY**SCHEDULE 3****Schedule of Current Fund - Electric Operations**

Year ended March 31, 2011

	<u>2011</u>	<u>2010</u>
Revenues	\$ 1,501,519	\$ 1,503,696
Amortization	30,798	29,523
Expenses	1,436,771	1,407,933
	1,467,569	1,437,456
Annual surplus	33,950	66,240
Financing and transfers		
Transfer to other funds	(9,330)	-
Change in fund balance	24,620	66,240
Opening fund balance	274,535	208,295
Closing fund balance	\$ 299,155	\$ 274,535

TOWN OF MAHONE BAY**SCHEDULE 4****Schedule of Current Fund - Cemetery Operations**

Year ended March 31, 2011

	<u>2011</u>	<u>2010</u>
Park Cemetery		
Revenues	\$ 1,680	\$ 3,647
Expenses	6,894	6,646
Annual (deficit) surplus	(5,214)	(2,999)
Net transfers from other funds	6,000	5,000
Change in fund balance	786	2,001
Opening fund balance	66,357	64,356
Closing fund balance	\$ 67,143	\$ 66,357
	<u>2011</u>	<u>2010</u>
Bayside Cemetery		
Revenues	\$ 8,836	\$ 2,653
Expenses	4,784	5,572
Annual (deficit) surplus	4,052	(2,919)
Net transfers from other funds	3,000	4,000
Change in fund balance	7,052	1,081
Opening fund balance	9,676	8,595
Closing fund balance	\$ 16,728	\$ 9,676

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

Year ended March 31, 2011

	<u>2011</u>	<u>2010</u> (Restated - See Note 9)
Revenues		
Capital grants and contributed tangible capital assets	\$ 230,929	\$ 622,106
Interest	398	530
Annual surplus (deficit)	231,327	622,636
Financing and transfers		
Transfers from other funds	(83,761)	(72,614)
Change in amounts to be recovered from future revenue	43,481	337,375
Change in fund balance	191,047	887,397
Opening fund balance	10,466,731	(10,722)
Adjustment as at April 1, 2009 for tangible capital assets (Note 1)	-	9,590,056
Closing fund balance	\$ 10,657,778	\$ 10,466,731

TOWN OF MAHONE BAY
Schedule of Reserved Fund
Year ended March 31, 2011

SCHEDULE 6

	<u>2011</u>	<u>2010</u>
Revenues		
Sale of assets	\$ 26,500	\$ 2,030
Interest	5,421	2,090
Annual surplus	31,921	4,120
Net transfers to other funds	(10,105)	(56,648)
Change in fund balance	21,816	(52,528)
Opening fund balance	786,533	839,061
Closing fund balance	\$ 808,349	\$ 786,533

TOWN OF MAHONE BAY
Schedule of Trust Reserve Fund
Year ended March 31, 2011

SCHEDULE 7

	<u>2011</u>	<u>2010</u>
Revenues	\$ 15,177	\$ 20,648
Expenses	15,711	23,120
<hr/>		
Annual deficit	(534)	(2,472)
Opening fund balance	5,105	7,577
<hr/>		
Closing fund balance	\$ 4,571	\$ 5,105
