

Financial Statements of

**MUNICIPALITY OF THE
DISTRICT OF ST. MARY'S
SHERBROOKE WATER
UTILITY**

Year ended March 31, 2017

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

Financial Statements

Year ended March 31, 2017

	Page
Management's Responsibility for the Financial Statements	1
Independent Auditors' Report	2
Operating Fund	
Statement of Financial Position	3
Statement of Financial Activities	4
Statement of Cash Flows	5
Capital Fund	
Statement of Financial Position	6
Statement of Financial Activities	7
Notes to Financial Statements	8
Schedules	
Schedule A – Utility Plant and Equipment	11

Management's Responsibility for the Financial Statements

The accompanying financial statements of the Municipality of the District of St. Mary's Sherbrooke Water Utility (the "Water Utility") are the responsibility of the Water Utility's management and have been prepared in compliance with legislation and in accordance with the Accounting and Reporting Handbook for Water Utilities in Nova Scotia. A summary of the significant accounting policies are described in Note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Water Utility's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The audit committee meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by MGM & Associates, Chartered Accountants, independent external auditors appointed by the Water Utility. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Water Utility's financial statements.



Marvin MacDonald
Chief Administrative Officer



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INDEPENDENT AUDITORS' REPORT

To the Warden and Council of
Municipality of the District of St. Mary's Sherbrooke Water Utility

We have audited the accompanying financial statements of Municipality of the District of St. Mary's Sherbrooke Water Utility which comprise the statements of financial position as at March 31, 2017 and the statements of financial activities and statement of 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 District of St. Mary's Sherbrooke 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 District of St. Mary's Sherbrooke 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 6, 2017

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

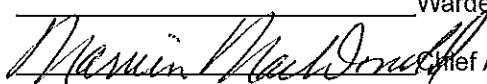
Statement of Financial Position - Operating Fund

March 31, 2017, with comparative figures for 2016

	2017	2016
ASSETS		
Cash	\$ 40,745	\$ 33,234
Receivables	47,386	42,825
Prepaid expense	2,475	-
	\$ 90,606	\$ 76,059
LIABILITIES		
Trade payables	\$ 7,085	\$ 19,472
Due to Water Capital Fund	176,868	163,193
Due to Municipality of the District of St. Mary's, operating fund	74,122	78,359
	258,075	261,024
DEFICIT	(167,469)	(184,965)
	\$ 90,606	\$ 76,059

See accompanying notes to non-consolidated financial statements.

On behalf of the Municipality of the District of St. Mary's Sherbrooke Water Utility:

Warden
 Chief Administrative Officer

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

Statement of Financial Activities - Operating Fund

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

		2017	2016
	Budget (unaudited)	Actual	Actual
OPERATING REVENUES			
Operating			
Metered rate sales	\$ 110,000	\$ 108,137	\$ 109,483
Sherbrooke Village grant	20,900	21,722	21,506
	130,900	129,859	130,989
NON-OPERATING REVENUES			
Interest	1,000	1,042	1,023
		130,901	132,012
OPERATING EXPENSES			
Source of supply	14,000	14,566	14,540
Pumping	15,705	12,650	32,854
Water treatment	36,194	19,624	20,718
Transmission and distribution	20,307	36,454	36,166
Administration and general	13,930	16,117	20,873
Depreciation	28,458	21,649	32,129
	128,594	121,060	157,280
NON-OPERATING REVENUES (EXPENDITURES)			
Capital expenditure out of operations			-
Amortization of capital contributions	-	7,655	7,655
	-	7,655	7,655
CHANGE IN FUND BALANCE	3,306	17,496	(17,613)
DEFICIT, BEGINNING OF YEAR	-	(184,965)	(167,352)
SURPLUS, END OF YEAR	\$ -	\$ (167,469)	\$ (184,965)

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

Statement of Cash Flows – Operating Fund

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

	2017	2016 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in fund balance	\$ 17,496	\$ (17,613)
Change in non-cash operating working capital		
Decrease (increase) in receivables	(4,561)	5,720
Decrease in trade payables	(12,387)	11,801
	548	(92)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due from own funds	6,963	110,514
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,511	110,422
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,234	(77,188)
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 40,745	\$ 33,234

See accompanying notes to non-consolidated financial statements.

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

Statement of Financial Position - Capital Fund

March 31, 2017, with comparative figures for 2016

	2017	2016 (Restated)
ASSETS		
Restricted cash – depreciation fund	\$ 37,849	\$ 37,530
Due from Water Operating Fund	176,868	163,193
Tangible capital assets		
Utility plant and equipment (Schedule A)	1,278,769	1,242,822
	\$ 1,493,486	\$ 1,443,545
LIABILITIES		
Deferred contributions	\$ 77,679	\$ 72,258
Due to Municipality of the District of St. Mary's, operating fund	6,958	6,960
Accumulated depreciation	323,682	302,033
	408,319	381,251
FUND BALANCE	1,085,167	1,062,294
	\$ 1,493,486	\$ 1,443,545

See accompanying notes to non-consolidated financial statements.

On behalf of the Municipality of the District of St. Mary's Sherbrooke Water Utility:

_____ Mayor

_____ Chief Administrative Officer

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

Water Utility Section
Statement of Accumulated Allowance for Depreciation

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

	2017	2016
BALANCE, BEGINNING OF YEAR	\$ 302,033	\$ 269,904
Depreciation for the year	21,649	32,129
BALANCE, END OF YEAR	\$ 323,682	\$ 302,033

Statement of Investment in Capital Assets

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

	2017	2016
FUND BALANCE, AS PREVIOUSLY REPORTED	\$ 943,178	\$ 943,178
Restatement (note 5)	119,116	119,116
As restated	1,062,294	1,062,294
Transfers from capital reserve for capital projects	22,873	-
BALANCE, END OF YEAR	\$ 1,085,167	\$ 1,062,294

Statement of Depreciation Fund Cash

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

	2017	2016
FUND, BEGINNING OF YEAR	\$ 200,723	\$ 176,249
Depreciation	21,649	32,129
Deferred assistance transferred	(7,655)	(7,655)
Assets funded out of reserve	-	-
FUND, END OF YEAR	214,717	200,723
Amount unfunded	(176,868)	(163,193)
CASH, END OF YEAR	\$ 37,849	\$ 37,530

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

Notes to Financial Statements

Year ended March 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements have been prepared in accordance with generally accepted accounting principles adopted for Water Utilities in Nova Scotia and are intended for the use of the Municipality of the District of St. Mary's Sherbrooke Water Utility (the Utility), Council and Service Nova Scotia and Municipal Relations.

The basis of accounting used in these financial statements differs materially from generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants Handbook (the CICA Handbook). The significant differences between generally accepted accounting principles for Water Utilities in Nova Scotia and the CICA Handbook are that the CICA Handbook requires the:

- Financial statements be prepared on a consolidated basis to reflect the assets, liabilities, revenues and expenses, and changes in net assets and in financial position of all organizations, commissions and agencies which are owned or controlled by the Water Utility. This would include, at a minimum, the individual funds represented in these March 31, 2016 financial statements – Operating Fund and Capital Fund. The consolidated financial statements prepared in accordance with the CICA Handbook would include a Statement of Financial Position, Statement of Financial Activities and a Statement of Changes in Financial Position;
- Revenues and expenses be recorded on a full accrual basis;
- The Utility capitalize all of its capital acquisitions rather than charging some to operations in the year acquired; and
- Principal debt repayments not be recorded as an expense of the Utility;

(b) Cash and cash equivalents

Cash and cash equivalents of the operating fund is defined as cash on hand and on deposit at banks net of outstanding cheques and deposits.

(c) Revenues and expenses

Major revenues and expenses items are recorded on an accrual basis. Resident billings of rates for subsequent periods are recorded as deferred revenues.

Certain sources of revenues, including forfeited discounts and interest on past due rates, are recorded on a cash basis.

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

Notes to Financial Statements (Continued)

Year ended March 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Allowance for doubtful accounts

A valuation allowance is provided for estimated losses that will be incurred in collecting consumer rates receivable outstanding.

(d) 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. TRANSACTIONS WITH MUNICIPALITY OF THE DISTRICT OF ST. MARY'S

- a) In general, and where identifiable, costs incurred by the Municipality 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 Utility operating fund owed \$ 74,122 to the Municipality (2016 – \$78,359) with respect to this inter-fund balance, no interest has been charged by the Municipality.
- d) At March 31, 2017, the Utility capital fund owed \$ 126,074 to the Municipality (2016 – \$126,076) with respect to this inter-fund balance, no interest has been charged by the Municipality.

3. RATE OF RETURN ON RATE BASE

For the year ended March 31, 2017, the Municipality of the District of St. Mary's Sherbrooke Water Utility had a rate of return on rate base of .74% (2016 – 1.0%).

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

Notes to Financial Statements (Continued)

Year ended March 31, 2017

4. FINANCIAL INSTRUMENTS

The carrying value of cash (bank indebtedness), rates and other receivables and trade payables 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 District of St. Mary's approximates its fair value due to special conditions attached thereto.

5. RESTATEMENT

Management has determined that the prior treatment of accounting for a prior year adjustment on capital assets was incorrectly recorded and the reporting of the Depreciation Cash Reserve was incorrect.

These financial statements have been adjusted retrospectively to record the capital asset adjustment as a contribution to the fund balance and a reduction in the Due to Municipality of the District of St. Mary's, operating fund. The financial statements have also been adjusted retrospectively to record the reduction in the Depreciation Cash Reserve fund and an offsetting increase in the Due from Water Operating Fund.

MUNICIPALITY OF THE DISTRICT OF ST. MARY'S SHERBROOKE WATER UTILITY

Schedule A – Utility Plant and Equipment

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

	2017	2016
Water system	\$ 629,526	\$ 593,579
Water treatment plant upgrade	646,570	646,570
Computer	2,673	2,673
Work in progress		–
	\$ 1,278,770	\$ 1,242,822