

**Municipality of the District of
St. Mary's Sherbrooke Water Utility
Financial Statements**

March 31, 2024

Municipality of the District of St. Mary's Sherbrooke Water Utility
Financial Statements

For the year ended March 31, 2024

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Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of Municipality of the District of St Mary's Sherbrooke Water Utility ("Water Utility") which comprise the statements of financial position as at March 31, 2024 and the statements of financial activities, cash flows, accumulated allowance for depreciation, investment in capital assets, depreciation fund cash and related schedule 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 District of St Mary's Sherbrooke Water Utility as at March 31, 2024 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 2 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.

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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.

Sydney, Nova Scotia
September 9, 2024

MNP LLP

Chartered Professional Accountants

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 2 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 MNP LLP, 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.



Douglas Patterson
Chief Administrative Officer

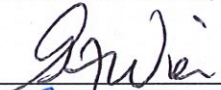
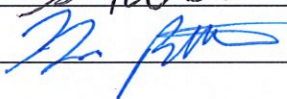
Municipality of the District of St. Mary's Sherbrooke Water Utility
Statement of Financial Position - Operating Fund

As at March 31, 2024

	2024	2023
ASSETS		
Cash	\$ 63,348	\$ 41,018
Receivables	46,701	44,564
Prepaid expense	1,350	1,350
Due from water capital fund	-	5,900
	\$ 111,399	\$ 92,832
LIABILITIES		
Trade payables	\$ 14,598	\$ 12,513
Due to water capital fund	7,093	-
Due to Municipality of the District of St. Mary's, operating fund	235,988	194,810
	257,679	207,323
DEFICIT	(146,280)	(114,491)
	\$ 111,399	\$ 92,832

See accompanying notes to 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

For the year ended March 31, 2024

	2024		2023
	Budget	Actual	Actual
OPERATING REVENUES			
Operating			
Metered rate sales	\$ 132,000	\$ 140,903	\$ 128,863
Sherbrooke Village grant	20,500	16,214	20,749
	152,500	157,117	149,612
OPERATING EXPENSES			
Source of supply	13,000	17,418	13,897
Pumping	12,000	8,200	16,956
Transmission and distribution	41,903	41,903	41,366
Water treatment	50,500	52,560	56,153
Administration and general	22,380	36,826	11,918
Depreciation	30,000	31,819	29,999
Amortization of deferred assistance	-	(18,826)	(17,383)
	169,783	169,900	152,906
Deficiency of operating revenues over expenses before the following	(17,283)	(12,783)	(3,294)
NON-OPERATING REVENUES (EXPENSE)			
Interest	1,500	2,757	2,279
Debt charges, principal	(14,073)	(14,073)	(14,073)
Debt charges, interest	(8,927)	(7,690)	(11,096)
	(21,500)	(19,006)	(22,890)
CHANGE IN FUND BALANCE	(38,783)	(31,789)	(26,184)
DEFICIT, BEGINNING OF YEAR	(114,491)	(114,491)	(88,307)
DEFICIT, END OF YEAR	\$ (153,274)	\$ (146,280)	\$ (114,491)

See accompanying notes to financial statements.

Municipality of the District of St. Mary's Sherbrooke Water Utility
Statement of Cash Flows – Operating Fund

For the year ended March 31, 2024

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in fund balance	\$ (31,789)	\$ (26,184)
Change in non-cash operating working capital		
Receivables	(2,137)	3,325
Prepaid expenses	–	1,667
Trade payables	2,085	4,190
	<u>(31,841)</u>	<u>(17,002)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due from own funds	54,171	13,241
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>22,330</u>	<u>(3,761)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	41,018	44,779
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 63,348</u>	<u>\$ 41,018</u>

See accompanying notes to financial statements.

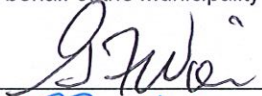
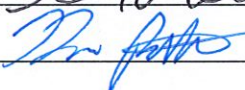
Municipality of the District of St. Mary's Sherbrooke Water Utility
Statement of Financial Position - Capital Fund

As at March 31, 2024

	2024	2023
ASSETS		
Restricted cash – depreciation fund	\$ 104,642	\$ 104,642
Due from Municipality of the District of St. Mary's, operating fund	1,367	1,367
Due from water operating fund	7,093	–
Tangible capital assets		
Utility plant and equipment (Schedule A)	2,952,309	2,846,537
	\$ 3,065,411	\$ 2,952,546
LIABILITIES		
Due to water operating fund	\$ –	\$ 5,900
Deferred contributions	1,389,217	1,335,897
Accumulated depreciation	417,346	385,527
Long-term debt (Note 3)	211,095	225,168
	2,017,658	1,952,492
FUND BALANCE	1,047,753	1,000,054
	\$ 3,065,411	\$ 2,952,546

See accompanying notes to 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
Water Utility Section**

Statement of Accumulated Allowance for Depreciation

For the year ended March 31, 2024

	2024	2023
BALANCE, BEGINNING OF YEAR	\$ 385,527	\$ 355,528
Depreciation for the year	31,819	29,999
BALANCE, END OF YEAR	\$ 417,346	\$ 385,527

Statement of Investment in Capital Assets

For the year ended March 31, 2024

	2024	2023
FUND BALANCE, BEGINNING OF YEAR	\$ 1,000,054	\$ 978,515
Long-term debt retired	14,073	14,073
Transfer from Municipality of the District of St Mary's, capital reserve	26,412	6,099
Transfer from general operating fund	7,214	-
Interest income	-	1,367
BALANCE, END OF YEAR	\$ 1,047,753	\$ 1,000,054

Statement of Depreciation Fund Cash

For the year ended March 31, 2024

	2024	2023
FUND, BEGINNING OF YEAR	\$ 98,742	\$ 86,126
Depreciation	31,819	29,999
Deferred assistance transferred	(18,826)	(17,383)
FUND, END OF YEAR	111,735	98,742
Amount in excess (unfunded)	(7,093)	5,900
CASH, END OF YEAR	\$ 104,642	\$ 104,642

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

Notes to Financial Statements

For the year ended March 31, 2024

1. CHANGE IN ACCOUNTING POLICY

Revenue

Effective April 1, 2023, the Water Utility adopted the Public Sector Accounting Board's (PSAB) new standard for the recognition, measurement and disclosure of revenue under PS 3400 Revenue. The new standard establishes when to recognize and how to measure revenue, and provides the related financial statement presentation and disclosure requirements. Pursuant to these recommendations, the change was applied prospectively, and prior periods have not been restated.

There was no material impact on the financial statements from the prospective application of the new accounting recommendations.

2. 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 "Water Utility"), Council and Service Nova Scotia and Municipal Relations.

The basis of accounting used in these financial statements differs materially from Canadian public sector accounting standards as prescribed by the Chartered Professional Accountants Handbook (the CPA Handbook). The significant differences between generally accepted accounting principles for Water Utilities in Nova Scotia and the CPA Handbook are that the CPA 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 financial statements – Operating Fund and Capital Fund. The consolidated financial statements prepared in accordance with the CPA 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 Water 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 Water 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.

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

Notes to Financial Statements

For the year ended March 31, 2024

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(d) Allowance for doubtful accounts

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

(e) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles adopted for Water Utilities in Nova Scotia 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 period.

Amortization is based on the estimated useful lives of capital assets.

Receivables are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

By their nature, these judgments are subject to measurement uncertainty, and the effect on the financial statements of changes in such estimates and assumptions in future years could be material. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in excess of revenues over expenses in the years in which they become known.

(f) Financial instruments

Initial measurement

Financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

Financial instruments consist of cash and cash equivalents, receivables, trade payables and long-term debt.

Municipality of the District of St. Mary's Sherbrooke Water Utility
Notes to Financial Statements

For the year ended March 31, 2024

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent measurement

At each reporting date, the Water Utility measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets), except for investments, which must be measured at fair value. The Water Utility uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees to the statement of financial activities. The financial instruments measured at amortized cost are cash and cash equivalents, receivables, trade payables and long-term debt.

Impairment

For financial assets measured at cost or amortized cost, the Water Utility regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Water Utility determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of financial activities. Any reversals of previously recognized impairment losses are recognized in activities in the year the reversal occurs.

Unless otherwise noted, it is management's opinion that the Water Utility is not exposed to significant interest or credit risks arising from financial instruments.

3. LONG-TERM DEBT

	2024	2023
Municipal Finance Corporation, repayable in annual principal payments of \$14,073 plus interest at 3.048 – 3.551%, maturing in 2033	\$ 211,095	\$ 225,168

Principal payments required in each of the next five years on debt held as at March 31, 2024 are as follows:

2025	\$	14,073
2026		14,073
2027		14,073
2028		14,073
2029		14,073

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

Notes to Financial Statements

For the year ended March 31, 2024

4. 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 Water Utility are charged to the Water Utility.
- b) Salary and wage-related costs are allocated in proportion to time spent performing functions on behalf of the Water Utility.
- c) At March 31, 2024, the Water Utility owed \$234,621 to the Municipality (2023 – \$193,443) with respect to this inter-fund balance, no interest has been charged by the Municipality.

5. RATE OF RETURN ON RATE BASE

For the year ended March 31, 2024, the Water Utility had a rate of return on rate base of -1.12% (2023 – -0.29%).

6. FINANCIAL INSTRUMENTS

The Water Utility as part of its operations carries a number of financial instruments. It is management's opinion that the Water Utility is not exposed to significant interest or currency risks arising from these financial instructions except as otherwise disclosed.

Credit risk

Credit risk is the risk of financial loss because a counter party to a financial instrument fails to discharge its contractual obligations. The carrying amount of the Water Utility's financial instruments best represents the maximum exposure to credit risk. The Water Utility manages its credit risk by providing allowances for potentially uncollectible accounts receivable.

Liquidity risk

Liquidity risk is the risk that the Water Utility will encounter difficulty in meeting its obligations associated with financial liabilities. The Water Utility enters into transactions to borrow funds from financial institutions or other creditors for which repayment is required at various maturity dates. The Water Utility manages liquidity risk by monitoring forecasted and actual cash flows.

Municipality of the District of St. Mary's Sherbrooke Water Utility
Notes to Financial Statements

For the year ended March 31, 2024

6. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Water Utility's interest rate risk arises from long-term borrowings at a fixed rate that creates fair value interest rate risk. Changes in market interest rates cause the fair value of these long-term debt with fixed interest rates to fluctuate but do not affect net income, as the Water Utility's long-term debt is carried at amortized cost and the carrying value does not change as the interest rate changes. The Water Utility's future obligations with respect to debt repayment are disclosed in Note 3.

7. BUDGET INFORMATION

The disclosed budget information has been approved by the Warden and Council at the council meeting on April 4, 2023.

Municipality of the District of St. Mary's Sherbrooke Water Utility
Schedule A -- Utility Plant and Equipment

For the year ended March 31, 2024 with comparative figures for 2023

	2024	2023
Water system	\$ 205,118	\$ 205,118
Water treatment plant upgrade	792,273	708,684
Computer	2,673	2,673
New waterline	1,952,245	1,930,062
	<u>\$ 2,952,309</u>	<u>\$ 2,846,537</u>