

Village of Baddeck Water Utility
Financial Statements

March 31, 2022

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Financial Statements
For the year ended March 31, 2022

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Independent Auditor's Report

To the Commissioners of Village of Baddeck Water Utility:

Qualified Opinion

We have audited the financial statements of Village of Baddeck Water Utility (the "Water Utility"), which comprise the statement of financial position - operating fund and capital fund as at March 31, 2022, and the statements of operations and surplus - operating fund, accumulated allowance for depreciation, investment in capital assets, depreciation fund cash,, cash flows - operating fund and the related schedules for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Water Utility as at March 31, 2022, and the results of its operations, 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 Qualified Opinion

We were unable to observe the counting of physical inventories at the beginning or ending of the year or satisfy ourselves concerning those inventory quantities by alternative means. Since both opening and ending inventories enter into the determination of the statement of financial position, results of operations and cash flows, we were unable to determine whether adjustments to the statement of financial position, statement of operations, or the statement of cash flows might be necessary.

The Water Utility did not have an approved budget for the year ended March 31, 2022 and therefore the financial statements do not include the required disclosure of budget information.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under Statements section of our report. We are independent of the Village in accordance with the ethical requirements that are those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial relevant to our audit of the consolidated 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 qualified opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Comparative Information

The financial statements of the Village of Baddeck Water Utility for the year ended March 31, 2021 are unaudited. The opening balances of the financial statements for the year ended March 31, 2022 have been subject to audit procedures to obtain sufficient and appropriate audit evidence over material balances that would affect the March 31, 2022 financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Those charged with governance are responsible for overseeing the Water Utility's financial reporting process.

Auditor's Responsibilities 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. 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 decisions 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Water Utility to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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
February 11, 2026

MNP LLP
Chartered Professional Accountants

Management's Responsibility for the Financial Statements

The accompanying financial statements of the Village of Baddeck 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 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.

A handwritten signature in black ink, appearing to be 'B. RA', is written over a solid horizontal line.

Chief Administrative Officer

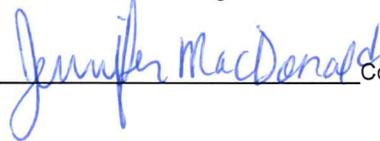
Village of Baddeck Water Utility
Statement of Financial Position - Operating Fund

As at March 31, 2022 with comparative figures for 2021

	2022	2021 (unaudited)
ASSETS		
Cash	\$ 151,755	\$ 691,231
Receivables		
Due from Village of Baddeck	259,637	-
Water and sewer rates (Note 2)	408,170	232,810
Prepaid expenses	6,027	-
	673,834	232,810
Inventory	21,429	21,429
	\$ 847,018	\$ 945,470
LIABILITIES		
Payables and accruals		
Due to Village of Baddeck	\$ -	\$ 76,252
Due to Water Capital Fund	231,036	222,331
Other payables and accruals	25,576	23,675
	256,612	322,258
SURPLUS	590,406	623,212
	\$ 847,018	\$ 945,470

See accompanying notes to non-consolidated financial statements.

On behalf of the Village of Baddeck Water Utility:

 Commissioner

Village of Baddeck Water Utility
Statement of Financial Activities - Operating Fund
For the year ended March 31, 2022 with comparative figures for 2021

	2022	2021
	Actual	Actual (Unaudited)
OPERATING REVENUES		
Water sales	\$ 211,484	\$ 231,351
Public fire protection	84,999	84,999
Other revenues	22	5,117
	<u>296,505</u>	<u>321,467</u>
OPERATING EXPENSES		
Source of supply		
Wages and benefits	25,904	21,327
Power and pumping		
Power	42,017	27,642
Wages and benefits	25,904	21,327
Water treatment and testing	15,706	18,074
Transmission and distribution		
Maintenance of mains	18,521	22,520
Wages and benefits	25,904	21,327
Administration and general		
Wages and benefits	74,664	61,471
Office and supplies and expenses	28,849	10,232
Professional fees	25,804	3,354
Regulatory	2,509	2,769
Insurance	8,971	11,843
Repairs and maintenance	18,521	22,520
Collection costs	7,332	-
Depreciation	136,595	137,079
	<u>457,201</u>	<u>381,485</u>
Deficiency of operating revenues over expenses before the following	(160,696)	(60,018)
NON-OPERATING REVENUE		
Amortization of capital contributions	127,890	127,890
ANNUAL SURPLUS (DEFICIT)	(32,806)	67,872
SURPLUS, BEGINNING OF YEAR	623,212	555,340
SURPLUS, END OF YEAR	<u>\$ 590,406</u>	<u>\$ 623,212</u>

See accompanying notes to non-consolidated financial statements.

Village of Baddeck Water Utility
Statement of Cash Flows – Operating Fund

For the year ended March 31, 2022 with comparative figures for 2021

	2022	2021 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Annual surplus (deficit)	\$ (32,806)	\$ 67,872
Change in non-cash operating working capital		
Receivables	(175,360)	(61,591)
Trade payables	1,901	14,576
Prepaid expenses	(6,027)	–
	(212,292)	20,857
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in due from own funds	(327,184)	239,346
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(539,476)	260,203
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	691,231	431,028
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 151,755	\$ 691,231

See accompanying notes to non-consolidated financial statements.

Village of Baddeck Water Utility
Statement of Financial Position - Capital Fund
As at March 31, 2022 with comparative figures for 2021

	2022	2021 (unaudited)
ASSETS		
Restricted cash – depreciation reserve	\$ 453,213	\$ 453,213
Restricted cash – reserve fund	35,856	35,838
Due from Water Operating Fund	231,036	222,331
Utility plant and equipment (schedule)	7,128,523	7,128,523
	\$ 7,848,628	\$ 7,839,905
LIABILITIES		
Deferred capital contributions	\$ 4,210,679	\$ 4,338,569
RESERVES		
Capital reserve fund	35,856	35,838
Accumulated allowance for depreciation	1,843,150	1,706,555
	1,879,006	1,742,393
FUND BALANCES		
Investment in capital assets	1,758,943	1,758,943
	\$ 7,848,628	\$ 7,839,905

See accompanying notes to non-consolidated financial statements.

On behalf of the Village of Baddeck Water Utility:


 _____ Commissioner

Village of Baddeck Water Utility
Water Utility Section
Statement of Accumulated Allowance for Depreciation
For the year ended March 31, 2022 with comparative figures for 2021

	2022	2021 (Unaudited)
BALANCE, BEGINNING OF YEAR	\$ 1,706,555	\$ 1,569,476
Depreciation for the year	136,595	137,079
BALANCE, END OF YEAR	\$ 1,843,150	\$ 1,706,555

Statement of Investment in Capital Assets
For the year ended March 31, 2022 with comparative figures for 2021

	2022	2021 (Unaudited)
BALANCE, BEGINNING OF YEAR	\$ 1,758,943	\$ 1,758,839
Interest earned	-	104
BALANCE, END OF YEAR	\$ 1,758,943	\$ 1,758,943

Statement of Change in Cash - Depreciation Reserve
For the year ended March 31, 2022 with comparative figures for 2021

	2022	2021 (Unaudited)
BALANCE, BEGINNING OF YEAR	\$ 670,709	\$ 661,416
Depreciation	136,595	137,079
Deferred assistance transferred	(127,890)	(127,890)
Interest earned	-	104
BALANCE, END OF YEAR	679,414	670,709
Amount unfunded	(226,201)	(217,496)
CASH, END OF YEAR	\$ 453,213	\$ 453,213

Village of Baddeck Water Utility
Notes to Financial Statements
For the year ended March 31, 2022

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 Village of Baddeck Water Utility (the Utility), Commissioners 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 Chartered Professional Accountants of Canada 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, Statement of Change in Net Debt and Statement of Cash Flows;
- 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) Inventories

Inventories are stated at the lower of cost and net realizable value and are measured using the first in, first out basis.

(d) Revenues and expenditures

Major revenues and expenses items are recorded on an accrual basis.

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

Capital grants and contributions are recorded using a deferral method of accounting and are amortized to revenue at a rate corresponding with the amortization of the related capital asset.

Village of Baddeck Water Utility
Notes to Financial Statements
For the year ended March 31, 2022

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Utility plant and equipment

Utility plant and equipment and projects in progress are recorded at cost. The Utility records depreciation on its utility plant and equipment in the water capital fund based on formula rates prescribed by the Utility and Review Board. The depreciation charge in the water operating fund is transferred to the depreciation reserve in the water capital fund.

(f) Allowance for doubtful accounts

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

(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 the 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 and payables and accruals.

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.

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 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.

Village of Baddeck Water Utility

Notes to Financial Statements

For the year ended March 31, 2022

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) 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. WATER AND SEWER RATES RECEIVABLE

The water and sewer rates receivable represent billings to customer for both water and sewer services to the Village. Sewer revenue included in these billings is recorded as a payable to the Village.

3. TRANSACTIONS WITH THE VILLAGE OF BADDECK

- a) In general, and where identifiable, costs incurred by the Village 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, 2022, the Utility operating fund was owed \$259,637 from the Village (2021 – owed to Village \$76,252) with respect to this inter-fund balance. No interest has been charged by/to the Village.

4. RATE OF RETURN ON RATE BASE

For the year ended March 31, 2022, the Village of Baddeck Water Utility had a rate of return on rate base of – (15.0%) (2021 – (5.5%)).

5. FINANCIAL INSTRUMENTS

The carrying value of cash, 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 Village Commissioners of Baddeck approximates its fair value due to special conditions attached thereto.

Village of Baddeck Water Utility
Schedule A – Utility Plant and Equipment

For the year ended March 31, 2022 with comparative figures for 2021

	2022	2021
		(Unaudited)
Land and land rights		
Source of supply	\$ 2,150	\$ 2,150
Reservoir	38,327	38,327
Transmission mains	3,441	3,441
Structures and improvements		
Source of supply	65,634	65,634
Reservoir	651,807	651,807
Purification	283,240	283,240
Wells	1,405,546	1,405,546
Shop/stores building	95,817	95,817
Equipment		
Electronics	128,641	128,641
Pumping	55,911	55,911
Treatment	88,717	88,717
Tools and work equipment	4,347	4,347
Transportation	6,950	6,950
Mains		
Transmission	3,368,949	3,368,949
Distribution	655,807	655,807
Services	133,796	133,796
Meters	90,337	90,337
Hydrants	49,106	49,106
	\$ 7,128,523	\$ 7,128,523