

CHARLOTTETOWN WATER AND SEWER CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2017

CONTENTS

	PAGE
MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS	
INDEPENDENT AUDITOR'S REPORT	
STATEMENT OF FINANCIAL POSITION	1
STATEMENT OF OPERATIONS	2
STATEMENT OF CHANGES IN NET DEBT	3
STATEMENT OF CASH FLOW	4
NOTES TO THE FINANCIAL STATEMENTS	5 - 16
SCHEDULES TO THE FINANCIAL STATEMENTS	17

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements are prepared by Management of the Charlottetown Water and Sewer Corporation in accordance with Canadian accounting standards for the public sector with the exception of tangible capital assets and on a basis consistent with that of the preceding year as required by the *Municipal Government Act* of Prince Edward Island.

Responsibility for the integrity and objectivity of these financial statements rests with Council and Management. These financial statements are prepared on a full accrual basis of accounting. The information included in these financial statements is based on Management's best estimates and judgement, with due consideration given to materiality.

To fulfil its accounting and reporting responsibilities, Management maintains systems of financial management and internal control which give due consideration to costs, benefits and risks. These systems are designed to provide reasonable assurance that transactions are properly authorized, are executed in accordance with prescribed bylaws, regulations and/or legislation and are properly recorded so as to maintain accountability and safeguard the assets of the Corporation. The systems are also designed and monitored to ensure reliable information is available on a timely basis.

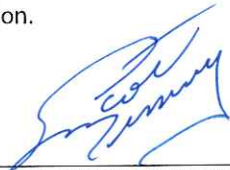
The Finance, Auditing and Tendering Committee, a sub-committee of City Council, meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The independent auditor completes an audit of these financial statements and issues an Independent Auditor's Report to Council. The accompanying Independent Auditor's Report outlines the Auditor's responsibilities, the scope of the examination, and their opinion on the financial statements of the Corporation.



Chief Administrative Officer

October 4, 2018



Deputy Chief Administrative Officer

INDEPENDENT AUDITOR'S REPORT

TO THE MAYOR AND MEMBERS OF COUNCIL

Report on the Financial Statements

We have audited the accompanying financial statements of the Charlottetown Water and Sewer Corporation, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net debt, and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information and schedules.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for the public sector 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.

Auditor's 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 auditor's 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 auditor considers 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 qualified audit opinion.

Basis for Qualified Opinion

Observations of the counting of physical inventories did not occur for the years ended December 31, 2016 and December 31, 2017. We were unable to satisfy ourselves by alternative means concerning inventory quantities and values at December 31, 2016 and December 31, 2017. Since opening and ending inventories enter into the determination of financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the net surplus for the year reported in the Statement of Operations and the net cash flows from operating activities reported in the Statement of Cash Flow.

We were unable to satisfy ourselves that tangible capital assets had been properly recognized for the years ended December 31, 2016 and December 31, 2017. Since the recognition of tangible capital assets factors into the determination of amortization expense and amounts recoverable under contribution agreements, we were unable to determine whether adjustments might have been necessary in respect of the net surplus for the year reported in the Statement of Operations and Tangible Capital Assets and funding receivable on the Statement of Financial Position.

Qualified Opinion

In our opinion, except for the matters described in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of the Charlottetown Water and Sewer Corporation as at December 31, 2017 and the results of its operations, changes in net debt and its cash flow for the year then ended in accordance with Canadian accounting standards for the public sector.

Comparative Information

The financial statements for the Charlottetown Water and Sewer Corporation as at December 31, 2016 released on June 12, 2017 were audited by another public accounting firm.

MRS Chartered Professional Accountant

CHARLOTTETOWN, P.E.I.

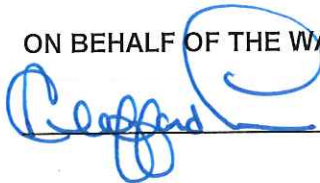
OCTOBER 4, 2018

CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

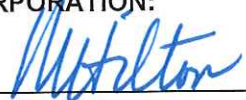
	2017	2016 <i>(Restated)</i>
Financial Assets		
Accounts receivable (Note 6)	\$ 1,682,158	\$ 1,901,142
Capital grants receivable (Note 7)	4,586,492	3,969,693
Due from City of Charlottetown	1,620,575	334,608
Other assets	17,550	20,250
Accrued pension asset (Note 8)	259,589	242,893
Total Financial Assets	<u>8,166,364</u>	<u>6,468,586</u>
Liabilities		
Bank indebtedness (Note 9)	7,213,217	103,494
Accounts payable and accrued liabilities	6,470,538	5,337,975
Deferred revenue (Note 10)	907,294	1,517,932
Due to related party (Note 11)	20,790,343	22,281,617
Total Liabilities	<u>35,381,392</u>	<u>29,241,018</u>
Net Debt	<u>27,215,028</u>	<u>22,772,432</u>
Non Financial Assets		
Inventory of supplies	1,639,500	1,865,159
Prepaid expenses	32,586	31,296
Tangible capital assets - Schedule 1	101,718,275	90,727,140
Total Non Financial Assets	<u>103,390,361</u>	<u>92,623,595</u>
Accumulated Surplus (Note 12)	<u>\$ 76,175,333</u>	<u>\$ 69,851,163</u>
Commitments (Note 13)		

The notes and schedules are an integral part of these financial statements.

ON BEHALF OF THE WATER AND SEWER CORPORATION:



Mayor



Chair, Finance, Audit and Tendering Committee

CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017

	Budget 2017 (Note 17)	Actual 2017	Actual 2016 (Restated)
Revenues			
Operating			
Metered sales	\$ 6,326,862	\$ 7,278,384	\$ 6,041,216
Municipal capital expenditure grant	-	1,119,095	-
Fire protection - City of Charlottetown	937,125	937,125	937,125
Unmetered sales	1,995,000	928,144	2,048,232
Sludge handling	180,000	212,553	179,903
Services billed	130,000	135,455	46,241
Penalties	130,000	97,959	137,002
Non operating	230,000	73,929	47,985
	<u>9,928,987</u>	<u>10,782,644</u>	<u>9,437,704</u>
Expenses			
Operating			
Amortization of tangible capital assets	1,753,273	2,751,914	2,431,943
Debt interest charges	922,614	982,861	1,011,461
Insurance and property taxes	159,356	110,382	133,757
Office and committee expenses	660,938	698,890	527,680
Pension expense - (Note 8)	-	138,336	116,663
Repairs and maintenance	2,149,251	2,271,750	1,912,173
Utilities	1,049,973	1,061,428	950,800
Wages and benefits	3,610,424	3,440,677	3,498,893
	<u>10,305,829</u>	<u>11,456,238</u>	<u>10,583,370</u>
Annual Operating Deficit	<u>(376,842)</u>	<u>(673,594)</u>	<u>(1,145,666)</u>
Other revenues (expenses)			
Government transfers for capital (Note 14)	-	7,110,969	5,377,671
Decommissioning costs (Note 15)	-	-	(455,000)
	<u>-</u>	<u>7,110,969</u>	<u>4,922,671</u>
Annual Surplus (Deficit)	<u>\$ (376,842)</u>	<u>6,437,375</u>	<u>3,777,005</u>
Accumulated Surplus - as previously reported		<u>69,851,163</u>	<u>64,794,899</u>
Accounting changes - Note 5		-	1,382,510
Accumulated Surplus - Beginning of Year		<u>69,851,163</u>	<u>66,177,409</u>
Payments from reserve		<u>(113,205)</u>	<u>(103,251)</u>
Accumulated Surplus - End of Year - Note 12		<u>\$ 76,175,333</u>	<u>\$ 69,851,163</u>

The notes and schedules are an integral part of these financial statements.

CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF CHANGES IN NET DEBT
YEAR ENDED DECEMBER 31, 2017

	Budget 2017	Actual 2017	Actual 2016 <i>(Restated)</i>
Net Debt - Beginning of Year	\$22,772,432	\$ 22,772,432	\$ 18,196,108
Annual surplus	376,842	(6,437,375)	(3,777,005)
Amortization of tangible capital assets	(1,753,273)	(2,751,914)	(2,431,943)
Purchase of tangible capital assets	-	13,743,049	10,592,184
Decrease in prepaid expenses	-	1,290	6,648
Increase (decrease) in inventory of supplies	-	(225,659)	83,189
Decrease in reserves	-	113,205	103,251
Change in Net Debt	(1,376,431)	4,442,596	4,576,324
Net Debt - End of Year	\$21,396,001	\$ 27,215,028	\$ 22,772,432

The notes and schedules are an integral part of these financial statements.

CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF CASH FLOW
YEAR ENDED DECEMBER 31, 2017

	2017	2016 <i>(Restated)</i>
Cash Flows From Operating Activities		
Annual surplus	\$ 6,437,375	\$ 3,777,005
Amortization of tangible capital assets	<u>2,751,914</u>	<u>2,431,943</u>
	<u>9,189,289</u>	<u>6,208,948</u>
Change in Non Cash Working Capital		
Increase in accounts receivable	(397,815)	(1,997,527)
Decrease in other long-term assets	2,700	2,700
Increase in prepaid expenses	(1,290)	(6,647)
Increase in due to related party	(1,285,967)	(237,400)
(Increase) decrease in inventory of supplies	225,659	(83,189)
Increase in accounts payable and accrued liabilities	1,132,564	3,610,809
Increase (decrease) in deferred revenue	(610,638)	722,284
Increase in accrued pension asset	<u>(16,696)</u>	<u>(80,267)</u>
	<u>(951,483)</u>	<u>1,930,763</u>
	<u>8,237,806</u>	<u>8,139,711</u>
Cash Flows From Capital Activities		
Purchase of tangible capital assets	<u>(13,743,049)</u>	<u>(10,592,184)</u>
Cash Flows From Financing Activities		
Repayment of long-term debt	(1,491,275)	(1,365,864)
Decrease in reserve funds	<u>(113,205)</u>	<u>(103,251)</u>
	<u>(1,604,480)</u>	<u>(1,469,115)</u>
Change in Cash (Indebtedness)	<u>(7,109,723)</u>	<u>(3,921,588)</u>
Cash (Indebtedness) - Beginning of Year	<u>(103,494)</u>	<u>3,818,094</u>
Cash (indebtedness) - End of Year	<u>\$ (7,213,217)</u>	<u>\$ (103,494)</u>
Cash (Indebtedness) Consists of:		
Unrestricted cash	\$ 395,071	\$ 1,727,879
Restricted cash	372,540	485,744
Bank indebtedness	<u>(7,980,828)</u>	<u>(2,317,117)</u>
	<u>\$ (7,213,217)</u>	<u>\$ (103,494)</u>

The notes and schedules are an integral part of these financial statements.

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. Description of Business

The Charlottetown Water and Sewer Corporation is incorporated under the *Municipal Government Act* of Prince Edward Island. The Corporation is considered a municipality under the *Income Tax Act* and is therefore exempt from income taxes. The Corporation's purpose is to construct, manage, maintain and operate the water and sewer utility in accordance with the *Water and Sewer Act*.

2. Basis of Presentation

The financial statements of the Charlottetown Water and Sewer Corporation have been prepared by management in accordance with Canadian accounting standards for the public sector and on a basis consistent with that of the preceding year as required by the *Municipal Government Act* of Prince Edward Island.

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay.

These financial statements have been prepared on a going concern basis.

3. Significant Accounting Policies

Cash

Cash comprises cash on hand and bank deposits/overdrafts and short-term indebtedness at financial institutions.

Restricted Cash

Restricted cash is comprised of cash held in a separate bank account to fund sick leave and retiring allowance benefits. These funds have been internally restricted.

Accounts and Capital Grants Receivables

Accounts receivable arise from sewer and water fees, Harmonized Sales Tax recoverable, government funding and miscellaneous receivables. An allowance for bad debts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts and using historical loss experience. Amounts deemed non-collectible are deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously determined to be uncollectible are credited to the allowance account in the period of recovery.

Deferred Revenue

Deferred revenue is recorded when funds received are restricted by external parties for a stated purpose, such as a specific program or the purchase of tangible capital assets. Deferred revenue is recognized into revenue when eligibility criteria are met.

**CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. Significant Accounting Policies (continued)

Non Financial Assets

Non financial assets are not available to discharge existing liabilities and are held for the use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non financial assets during the year, together with the annual surplus, provides the change in net debt for the year

Inventory of Supplies

Inventory of supplies are held for consumption or use by the Corporation in the course of its operations and are recorded at the lower of cost and current replacement cost.

Prepaid Expenses

Prepaid expenses are cash disbursements for goods or services, other than tangible capital assets and inventories of supplies, that will provide economic benefits in one or more future periods. The prepaid amount is recognized as an expense in the year the good or service is used or consumed.

Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development, or betterment of the asset. The cost of the tangible capital assets is amortized on a straight-line basis at the following annual rates:

Water system	2%
Sewer system	2%
Treatment plant	2%

Charlottetown Water and Sewer Corporation does not capitalize interest and labour costs associated with the acquisition or construction of tangible capital assets.

Employee Future Benefits - Sick Leave and Retiring Allowance

Employees of the Corporation are entitled to sick leave and retiring allowance with costs reflected in wages and benefit expense of the Corporation. The liability for sick leave and retiring allowance is included on the City's financial statements.

Employees who reach retirement age with at least 10 years of continuous full-time service shall receive a payment as follows:

At least 10 years	3 months salary
At least 15 years	4 months salary
At least 20 years	5 months salary
At least 25 years	6 months salary

Eligible employees earn 18 sick leave days per year or 1.5 days for every month of services. Employees may accumulate 100% of their unused sick days, up to a maximum of 350 days in a sick leave bank for use in future years. Following 90 days of illness, an employee may qualify for the City's long-term disability plan. When an employee terminates, retires or dies prior to retirement, 50% of unused accumulated sick leave days to a maximum of 75 days at date of retirement/ death/ termination will be paid to employee and following this payment, any unused accumulated days are forfeited.

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. Significant Accounting Policies (continued)

Reserves

Certain amounts approved by Council are set aside in surplus for future expenses related to sick leave and retiring allowance payments. Transfer to/from reserve are recorded as an adjustment to the reserve when approved and when payments are made.

Revenues

Revenues are recorded on the accrual basis. The main components of revenue are utility billings, which are recorded as revenue when billed and receivable and collectability is reasonably assured. Other revenues are recorded when they are earned and collectability is reasonably assured.

Government transfers are recognized as revenue in the period during which the transfer is authorized and all eligibility criteria are met, except when and to the extent that the transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers meeting the definition of a liability are recorded as deferred revenue and are recognized as revenue when the funds are used as intended.

Expenses

Expenses are recorded on an accrual basis. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay. Provisions are made for probable losses on accounts receivable and for contingent liabilities when it is likely that a liability exists and the amount can be reasonably determined. These provisions are updated as estimates are revised, at least annually.

4. Measurement Uncertainty and Use of Estimates

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material difference between the recognized amount and another reasonably possible amount.

Measurement uncertainty exists in the accruals for such items as pension, decommissioning costs for contaminated sites, allowance for doubtful accounts, and amortization of tangible capital assets. The nature of the uncertainty in the accruals for pension arises because actual results may differ significantly from the various assumptions about plan members and economic conditions in the marketplace. Uncertainty exists in the decommissioning costs for contaminated sites because the actual extent of the remediation activities and methods, and site contamination may differ significantly from the original remediation plans. Uncertainty exists in the allowance for doubtful accounts as actual collections may vary from management's estimates. Uncertainty exists in the amount recorded for amortization of tangible capital assets as actual useful lives of the tangible capital assets may vary from management's estimates.

5. Accounting Changes

A number of errors were identified in the prior period financial statements that required restatement of those figures. One error resulted from PS 3250 not being correctly applied when it came to the reporting of the pension plan benefits. In the prior year audited financial statements, the Superannuation Plan Net Assets Available for Benefits of \$9,914,811 and the Superannuation Plan Accrued Pension Plan Obligations of

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

5. Accounting Changes (continued)

\$10,315,400 were shown separately on the Statement of Financial Position, rather than being netted. Accounting valuations for the period ended December 31, 2016 also resulted in changes to the amounts reported in the prior period. As a result of these changes, Superannuation Plan Net Assets Available for Benefits were reduced by \$9,914,811, Superannuation Plan Accrued Pension Obligations were reduced by \$10,315,400, Accrued Pension Asset was increased by \$242,893, pension expense was increased by \$116,663 and actuarial pension expense was reduced by \$138,815, and the opening Accumulated Surplus balance was increased by \$242,893.

An error was also determined related to the recording of a liability for employee sick and post-employment benefits. It was determined that the liability for these benefits rests with the City of Charlottetown and not the Charlottetown Water and Sewer Corporation, therefore the liability should not have been recorded by the Corporation. As a result, Sick Leave and Post-Employment Benefits liability was reduced by \$485,764 and accumulated surplus were increased by \$485,764 and restricted cash increased by \$47,385.

Another error resulted from the inventory of supplies kept on hand not being recorded as an asset on the Statement of Financial Position in previous years. These amounts had previously been recorded as expenses in the year of purchase, rather than being recorded as an asset upon initial purchase and expensed as utilized. As a result of this change, Repairs and Maintenance expenditures were reduced by \$83,188 and Inventory of Supplies were increased by \$1,865,159 in the prior period and the opening accumulated surplus was increased by \$1,781,970.

Loans were previously reflected as long-term debt on the financial statements; however loans are in the name of the City of Charlottetown and a portion is allocated to the Water and Sewer Corporation. As a result, long-term debt has decreased by \$22,333,844 and due from related party increased by \$22,333,844 in the prior year. Debt interest charges were increased by \$59,769 to correct loan balances in the prior year.

Tangible capital assets increased by \$4,281,597, government funding receivable decreased by \$1,523,770 and government transfers for capital revenues decreased \$1,527,150 in the previous year to correct government funding previously netted to cost of assets and not reported correctly and correction of deferred revenues for government funding.

Another error resulted from the liability for the decommissioning of the East Royalty lagoon not being recorded in the year ended December 31, 2016. As a result of this error, decommissioning costs and Accounts Payable and Accrued Liabilities were both increased by \$455,000 in the prior period.

Prior figures have been adjusted for operating revenue and expenses restated including wages increase of \$57,155, operating revenues increase of \$31,645, office and committee expenses increase of \$24,274 and repairs and maintenance decrease of \$59,775.

6. Accounts Receivable

	2017	2016
Trade receivables	\$ 1,605,814	\$ 1,711,557
Harmonized sales tax receivable	253,658	245,305
Other receivables	<u>22,560</u>	<u>9,187</u>
	1,882,032	1,966,049
Allowance for doubtful accounts	<u>(199,874)</u>	<u>(64,907)</u>
Accounts receivable - End of year	<u>\$ 1,682,158</u>	<u>\$ 1,901,142</u>

**CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

7. Capital Grants Receivable

	2017	2016
Clean Water Wastewater Fund	\$ 3,238,289	\$ 2,823,085
Municipal Capital Expenditure Grant	1,119,094	-
Build Canada Fund	229,109	1,146,608
	<u>\$ 4,586,492</u>	<u>\$ 3,969,693</u>

8. Accrued Pension Asset

The Charlottetown Water and Sewer Corporation established a defined benefit pension plan for full-time permanent employees who entered the plan prior to its closing in 2000. All employees that joined the Corporation after this point in time are added to the City of Charlottetown Superannuation Plan. Employee pension contribution costs for these employees are allocated to the Corporation and recovered by the City.

Actuarial valuations of the Superannuation Plan are completed every three years with the most recent valuation provided as of the effective date of December 31, 2016 by Eckler Partners Ltd., a firm of consulting actuaries. The valuation results for 2015 and 2017 were extrapolated by the actuaries. The next valuation is scheduled to be completed as of December 31, 2019.

In determining liabilities and current service costs, the actuaries have used the projected unit credit method, prorated on service. Actuarial gains and losses are amortized over the expected average remaining service life of active employees, which has been determined to be 5 years.

The actuarial valuation was done using the following assumptions:

Assumption	December 31, 2017	December 31, 2016
Pre-retirement discount rate	5.70% per annum	5.50% per annum
Post-retirement discount rate	5.50% per annum	5.50% per annum
Expected return on plan assets	5.70% per annum	5.70% per annum
Expected inflation	2.00% per annum	2.00% per annum
Retirement age	70% at the age at which "Rule of 85" is attained 30% at age 65	70% at the age at which "Rule of 85" is attained 30% at age 65
Rate of compensation increase	3.50% per annum	3.50% per annum
Withdrawals	None	None
Maximum pension	Lesser of 2% or \$1,722.22 per year of service	Lesser of 2% or \$1,722.22 per year of service
Percentage married	100%	100%
Spouse's age	Males assumed to be 3 years older	Males assumed to be 3 years older
Pre-retirement mortality	None	None
Post-retirement mortality	CPM2014 Combined Mortality table projected with Scale CPM-B	CPM2014 Combined Mortality table projected with Scale CPM-B

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

8. Accrued Pension Asset (continued)

Information about the financial position of the Charlottetown Water and Sewer Corporation's defined benefit plan as at period end is as follows:

	2017	2016
Changes in accrued benefit obligation:		
Balance - beginning of year	\$ 9,876,300	\$ 9,545,101
Current service costs	117,544	148,677
Interest on liabilities	550,959	535,180
Actuarial gains	112,787	107,978
Benefits paid	<u>(538,261)</u>	<u>(460,636)</u>
Balance - end of year	<u>10,119,329</u>	<u>9,876,300</u>
Change in fair value of plan assets:		
Balance - beginning of year	9,914,810	9,707,726
Employer contributions	155,033	196,535
Employee contributions	16,355	21,172
Investment return (net)	1,022,121	527,071
Administrative fees	(105,369)	(77,058)
Benefits paid	<u>(538,261)</u>	<u>(460,636)</u>
Balance - end of year	<u>10,464,689</u>	<u>9,914,810</u>
Change in unamortized actuarial gains and losses:		
Balance - beginning of year	204,383	-
Experience gains and losses	(249,274)	204,383
Amortization of actuarial gains and losses	<u>(40,880)</u>	<u>-</u>
Balance - end of year	<u>(85,771)</u>	<u>204,383</u>
Accrued pension asset	<u>\$ 259,589</u>	<u>\$ 242,893</u>

The Pension expense for the Water and Sewer Corporation's defined benefit plan is as follows:

	2017	2016
Current service costs	\$ 117,544	\$ 148,677
Amortization of actuarial loss	40,876	-
Employee contributions	(16,355)	(20,777)
Interest on liabilities	550,959	535,180
Expected investment return	<u>(554,688)</u>	<u>(546,417)</u>
Pension expense	<u>\$ 138,336</u>	<u>\$ 116,663</u>

	2017	2016
Expected return on plan assets (net)	5.70 %	5.70 %
Actual rate of return (net)	9.42 %	4.66 %

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

9. Bank Indebtedness

	2017	2016
Royal Bank of Canada - prime less 0.60%; approved limit of \$10,000,000; secured by resolution approved by council; short-term financing on capital projects	<u>\$ 7,980,828</u>	<u>\$ 2,317,117</u>

10. Deferred Revenue

Deferred revenue - Beginning of year	\$ 1,517,932	\$ 795,648
Allocation received	-	1,000,000
Eligible expenditures	<u>(610,638)</u>	<u>(277,716)</u>
Deferred revenue - End of year	<u>\$ 907,294</u>	<u>\$ 1,517,932</u>

Under the New Deal Gas Tax Funding for Incorporated Communities and the New Deal for Cities & Communities, the Corporation is allocated \$1,000,000 per year from the City of Charlottetown. These funds, along with interest earned, must be used for eligible infrastructure and capacity building projects. Any funds received under this program, including interest earned, but not yet spent are recognized as deferred revenue at the end of the year. There was no allocation for the 2017 year.

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

11. Due to Related Party

The following amounts are loans that are held by the City of Charlottetown for which a portion has been allocated to the Water and Sewer Corporation. The City of Charlottetown is responsible for all payments on these loans and payment is recovered from the Water and Sewer Corporation.

	2017	2016
RBC - 4.06%; SWAP transaction maturing August 3, 2030	\$ 6,448,000	\$ 6,816,800
TD- 2.9%; SWAP transaction; renewable January 2018; maturing August 19, 2033	3,068,502	3,236,342
CDS Clearing and Depository Services Inc. - 5.79%; debenture maturing July 16, 2024	2,903,350	3,231,310
CMHC - 4.12%; matures on March 1, 2031	2,650,549	2,788,576
TD - 4.465%; SWAP transaction; renewable January 2018; maturing August 19, 2033	2,747,364	2,865,912
CMHC - 3.7%; matures on September 1, 2030	2,158,403	2,285,968
TD - 2.26%; SWAP transaction maturing January 22, 2018	319,593	386,310
RBC - 3.04%; SWAP transaction maturing May 27, 2021	248,074	314,952
TD Leasing - balance of \$20,338 at 2.33% maturing December 19, 2019; balance of \$12,879 at 2.56% maturing December 23, 2018; balance of \$108,552 at 2.002% maturing December 22, 2020; balance of \$49,812 at 2.00% maturing December 15, 2021	191,581	257,844
RBC - 2.58%; repayable in blended quarterly installments of \$11,199; maturing on January 14, 2019	54,927	97,603
	<u>\$ 20,790,343</u>	<u>\$ 22,281,617</u>

Principal expected to be repaid over the next five years and thereafter is as follows:

2018	\$ 1,558,221
2019	1,575,570
2020	1,623,461
2021	1,610,760
2022	1,601,650
Thereafter	12,820,681

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

12. Accumulated Surplus

	2017	2016
Accumulated surplus - unrestricted	\$ 75,802,794	\$ 69,365,419
Internally restricted- Sick and post employment reserve	<u>372,539</u>	<u>485,744</u>
Total Accumulated Surplus	<u>\$ 76,175,333</u>	<u>\$ 69,851,163</u>

13. Commitments and Contingencies

a) Water level and flow monitoring

Through a Memorandum of Agreement signed with Environment Canada on August 29, 2016 the City is committed to providing funding towards the water level and flow monitoring at two locations on the Winter River. The total funding committed for the December 31, 2018 fiscal year is \$43,622. The Corporation is responsible for payment.

b) Funding Agreements

There are various funding agreements between the City and other levels of government for various projects. There are various projects of the Corporation which are eligible for funding under these agreements.

c) Accident Claims

There are a number of claims which the Corporation administers with the insurer and there is insurance to cover outstanding claims.

c) Stratford Water Treatment Agreement

An agreement between the Town of Stratford, the City of Charlottetown and the Province of PEI has been signed for the transport and treatment of sewage from Town of Stratford to the Charlottetown Water and Sewer Corporation waste water treatment plant. The City of Charlottetown is the signatory to the agreement but the Charlottetown Water and Sewer Corporation will be impacted by capital costs and upgrades required to the waste water treatment plant.

14. Government Transfers For Capital

	2017	2016
Clean Water Wastewater Fund	\$ 6,271,222	\$ 3,931,677
New Deal Gas Tax	610,638	277,716
Build Canada Fund	<u>229,109</u>	<u>1,168,278</u>
	<u>\$ 7,110,969</u>	<u>\$ 5,377,671</u>

15. Decommissioning Costs

During the year ended December 31, 2016, the Corporation approved a project which included the decommissioning of the lagoon in East Royalty. A provision for this contaminated site has been recorded as it was determined that a liability exists and a reasonable estimate of the remediation costs could be determined. As at December 31, 2017, a total liability for the decommissioning of the East Royalty Lagoon of \$455,000 (2016 - \$455,000) has been recorded in Accounts Payable and Accrued Liabilities.

**CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

16. Related Party Transactions

Amounts due to/from the City of Charlottetown are non-interest bearing and have no specific terms of repayment. Amounts due to the City related to long-term debt follow the terms of the borrowing agreement between the City and the lender.

During the year, the Corporation received \$937,125 (2016 - \$937,125) in operating revenue from the City of Charlottetown for fire protection services and \$38,244 (2016 - \$36,654) for sewer and water fees. During the year, the Corporation allocated expenditures of \$205,000 (2016 - \$225,000) to the City of Charlottetown for facility and storm sewer rental and \$160,200 (2016 - \$160,200) for committee expenditures. The Corporation also contributed \$20,000 in 2017 and 2016 for election expenses.

During the year, the City of Charlottetown paid for various operating expenses on behalf of the Corporation. These expenses were allocated to the Corporation and recovered by the City of Charlottetown. All costs related to wages and benefits are paid by the City and recovered from the Corporation.

Transactions were recorded at the exchange amount which is considered to be fair market value.

The Corporation receives funding through various agreements between the City and other levels of government. The amounts are allocated to the Water and Sewer Corporation and are paid to the Corporation once received by the City from the funding partner. Amounts reflected as revenue and accounts receivable related to these agreements are received or due from the City

Certain tangible capital assets are deeded in the name of City of Charlottetown but have been allocated to Charlottetown Water and Sewer Corporation and reflected in the tangible capital assets of the Corporation.

17. Budget Figures

A reconciliation of the 2017 fiscal operating budget prepared by Council to the budget figures disclosed in the financial statements is as follows:

	2017
Charlottetown Water and Sewer Corporation budgeted annual surplus	\$ 3,153
Add: 2016 deficit	27,255
Add: Debt charges per budget	2,268,637
Less: Amortization and debt interest charges	<u>(2,675,887)</u>
	<u>\$ (376,842)</u>

The columns presented as budget on the statement of operations and the attached schedules were not subject to audit by the external auditor. The amounts were agreed to the approved budget.

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

18. Restricted Cash

Restricted cash is comprised of cash held in a separate bank account to fund sick leave and retiring allowance benefits. These funds have been internally restricted. The continuity of restricted cash is as follows:

	2017	2016
Restricted cash available for benefits - Beginning of Year	\$ 485,744	\$ 588,995
Contributions	-	-
Due to operating fund for benefit payments	<u>(113,204)</u>	<u>(103,251)</u>
Restricted cash available for benefits - End of Year	<u>\$ 372,540</u>	<u>\$ 485,744</u>

19. Risk Management and Financial Instruments

The Corporation is exposed to various risks through its financial instruments, including credit risk, interest rate risk, and liquidity risk. The Corporation employs various risk management strategies and operates within fixed risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. The following provides information about the Corporation's risk exposure as of December 31, 2017.

Credit risk

Credit risk arises from the potential that a party will fail to fulfill its obligations. The Corporation is exposed to credit risk from customers. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends, and other information. The Corporation has a significant number of customers which minimizes concentration of credit risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. In seeking to minimize the risks from interest rate fluctuations, the Corporation manages exposure through its normal operating and financing activities. The Corporation is exposed to interest rate risk primarily through its interest rates on operating loans and long-term debt that could change upon the maturity date.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to this risk mainly in respect of receipt of government funding, long-term debt and accounts payable.

**CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

20. Subsequent Events

Lawsuit settlement

The Corporation reached a settlement agreement with a contractor on April 10, 2018 to release all money held in relation to a mechanic's lien as well as to return a \$200,000 bid deposit cheque being held in relation to work that was substantially completed in December 2017.

Borrowings

The Corporation also has an approved line of credit in 2018 with National Bank for \$10,000,000 for short term financing on capital projects.

21. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation format adopted in the current period.

CHARLOTTETOWN WATER AND SEWER CORPORATION
SCHEDULE TO THE FINANCIAL STATEMENTS
TANGIBLE CAPITAL ASSETS
DECEMBER 31, 2017

	Schedule 1									
	Cost Beginning of Year	Additions	Disposals and Write Downs	Cost End of Year	Accum Amort Beginning of Year	Accum Amort in the Year	Disposals and Write Downs	Amort End of Year	Net Book Value	
2017										
Water system	\$ 47,999,030	\$ 9,137,469	-	\$ 57,136,499	\$ 18,740,656	\$ 1,142,730	-	\$ 19,883,386	\$ 37,253,113	
Sewer system	38,633,086	2,182,905	-	40,815,991	10,256,969	747,960	-	11,004,929	29,811,062	
Treatment plant	40,638,514	2,422,675	-	43,061,189	7,545,865	861,224	-	8,407,089	34,654,100	
	\$127,270,630	\$ 13,743,049	-	\$141,013,679	\$ 36,543,490	\$ 2,751,914	-	\$ 39,295,404	\$101,718,275	
2016 (restated)										
Water system	\$ 43,374,928	\$ 4,624,102	-	\$ 47,999,030	\$ 17,735,450	\$ 1,005,206	-	\$ 18,740,656	\$ 29,258,374	
Sewer system	32,942,138	5,690,948	-	38,633,086	9,441,639	815,330	-	10,256,969	28,376,117	
Treatment plant	40,361,380	277,134	-	40,638,514	6,934,458	611,407	-	7,545,865	33,092,649	
	\$116,678,446	\$ 10,592,184	-	\$127,270,630	\$ 34,111,547	\$ 2,431,943	-	\$ 36,543,490	\$ 90,727,140	