

**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

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## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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These financial statements are prepared by Management of the Charlottetown Water and Sewer Corporation 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.

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.

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**Chief Administrative Officer**

**October 25, 2019**

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## INDEPENDENT AUDITOR'S REPORT

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### TO THE MAYOR AND MEMBERS OF COUNCIL

#### Qualified Opinion

We have audited the financial statements of the Charlottetown Water and Sewer Corporation, which comprise the statement of financial position as at March 31, 2019, and the statements of operations, changes in net debt and cash flow for the 15 months then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 Charlottetown Water and Sewer Corporation as at March 31, 2019, and the results of its operations and its cash flows for the 15 months then ended in accordance with Canadian accounting standards for the public sector.

#### Basis for Qualified Opinion

Estimated net realizable value of inventory for the period ended March 31, 2019, cannot be reasonably determined due to issues with valuation. We were unable to satisfy ourselves by alternative means concerning inventory values at December 31, 2017 and March 31, 2019. 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 period reported in the Statement of Operations and the net cash flows from operating activities reported in the Statement of Cash Flows.

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 Charlottetown Water and Sewer Corporation in accordance with the 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 those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities 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 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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.

*MRSB Chartered Professional Accountants Inc.*

CHARLOTTETOWN, P.E.I.  
OCTOBER 25, 2019

**M|R|S|B**

**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2019**

	2019	December 31 2017
<b>Financial Assets</b>		
Accounts receivable (Note 5)	\$ 1,526,084	\$ 1,682,158
Capital grants receivable (Note 6)	3,424,031	4,586,492
Due from related parties (Note 7)	11,523,008	1,568,995
Other assets	14,850	17,550
Accrued pension asset (Note 8)	<u>328,624</u>	<u>259,588</u>
<b>Total Financial Assets</b>	<u>16,816,597</u>	<u>8,114,783</u>
<b>Liabilities</b>		
Bank indebtedness (Note 9)	12,323,897	7,213,217
Accounts payable and accrued liabilities	2,686,728	6,470,538
Deferred revenue (Note 10)	1,826,968	907,294
Due to related party (Note 11)	<u>28,102,211</u>	<u>20,790,343</u>
<b>Total Liabilities</b>	<u>44,939,804</u>	<u>35,381,392</u>
<b>Net Debt - Statement 3</b>	<u>(28,123,207)</u>	<u>(27,266,609)</u>
<b>Non-Financial Assets</b>		
Inventory of supplies	2,074,509	1,639,500
Prepaid expenses	52,801	32,586
Tangible capital assets - Schedule 1	<u>107,599,150</u>	<u>101,977,528</u>
<b>Total Non-Financial Assets</b>	<u>109,726,460</u>	<u>103,649,614</u>
<b>Accumulated Surplus - Statement 2</b>	<u>\$ 81,603,253</u>	<u>\$ 76,383,005</u>
<b>Commitments and Contingencies</b> (Note 12)		

ON BEHALF OF THE CHARLOTTETOWN WATER AND SEWER CORPORATION:

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Chair, Finance, Audit and Tendering Committee

The notes and schedule are an integral part of these financial statements

**M|R|S|B**

**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**STATEMENT OF OPERATIONS**  
**15 MONTHS ENDED MARCH 31, 2019**

	Budget 2019 (Note 13)	Actual 2019	Actual 2017 (12 months) (Restated)
<b>Revenues</b>			
<b>Operating</b>			
Metered sales	\$ 9,649,065	\$ 9,950,858	\$ 7,278,384
Fire protection - City of Charlottetown	1,171,406	1,171,406	937,125
Municipal capital expenditure grant	3,203,600	1,062,454	1,119,095
Unmetered sales	581,527	351,302	928,144
Sludge handling	225,000	223,649	212,553
Services billed	175,000	221,907	135,455
Penalties	137,500	115,409	97,959
Non-operating	37,500	86,802	73,929
	<u>15,180,598</u>	<u>13,183,787</u>	<u>10,782,644</u>
<b>Expenses</b>			
<b>Operating</b>			
Amortization of tangible capital assets	2,051,881	3,584,821	2,603,791
Debt interest charges	2,208,871	1,570,784	982,861
Extraordinary item (Note 15)	810,000	562,405	-
Insurance and property taxes	209,270	154,626	110,382
Office and committee expenses	712,212	721,362	673,704
Pension expense (Note 8)	-	75,551	138,337
Repairs and maintenance	3,391,803	2,099,529	2,257,389
Utilities	1,359,134	1,439,774	1,061,428
Wages and benefits	4,678,610	4,294,225	3,440,677
	<u>15,421,781</u>	<u>14,503,077</u>	<u>11,268,569</u>
<b>Annual Operating Surplus (Deficit)</b>	<b>(241,183)</b>	<b>(1,319,290)</b>	<b>(485,925)</b>
<b>Other revenues (expenses)</b>			
Government transfers for capital (Note 14)	-	6,622,757	7,110,969
<b>Annual Surplus (Deficit)</b>	<b><u>\$ (241,183)</u></b>	<b>5,303,467</b>	<b>6,625,044</b>
<b>Accumulated Surplus - As Previously Reported</b>		<b>76,383,005</b>	<b>69,751,163</b>
Accounting changes - Note 16		-	120,003
<b>Accumulated Surplus - Beginning of Period</b>		<b>76,383,005</b>	<b>69,871,166</b>
Payments from reserve		<b>(83,219)</b>	<b>(113,205)</b>
<b>Accumulated Surplus - End of Period - Note 17</b>		<b><u>\$ 81,603,253</u></b>	<b><u>\$ 76,383,005</u></b>

The notes and schedule are an integral part of these financial statements

**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**STATEMENT OF CHANGES IN NET DEBT**  
**15 MONTHS ENDED MARCH 31, 2019**

	Budget 2019	Actual 2019	Actual 2017 (12 months) (Restated)
<b>Net Debt - Beginning of Period</b>	\$ 27,266,609	\$ 27,266,609	\$ 22,772,428
Annual deficit (surplus)	241,183	(5,303,467)	(6,625,044)
Amortization of tangible capital assets	(2,051,881)	(3,584,821)	(2,603,791)
Purchase of tangible capital assets	7,356,625	9,206,443	13,834,177
Increase (decrease) in inventory of supplies	-	435,009	(225,659)
Increase in prepaid expenses	-	20,215	1,293
Decrease in reserve funds	-	83,219	113,205
<b>Change in Net Debt</b>	<b>5,545,927</b>	<b>856,598</b>	<b>4,494,181</b>
<b>Net Debt - End of Period</b>	<b>\$ 32,812,536</b>	<b>\$ 28,123,207</b>	<b>\$ 27,266,609</b>

The notes and schedule are an integral part of these financial statements



**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**STATEMENT OF CASH FLOW**  
**15 MONTHS ENDED MARCH 31, 2019**

	2019	2017 (12 months) (Restated)
<b>Cash Flows From Operating Activities</b>		
Annual surplus	\$ 5,303,467	\$ 6,625,044
Amortization of tangible capital assets	<u>3,584,821</u>	<u>2,603,791</u>
	<u>8,888,288</u>	<u>9,228,835</u>
<b>Change in Non-Cash Working Capital</b>		
(Increase) decrease in accounts receivable	1,318,537	(397,812)
Increase in due to related parties	(9,954,013)	(1,234,387)
Decrease in other assets	2,700	2,700
Increase in accrued pension asset	(69,035)	(16,696)
Increase (decrease) in accounts payable and accrued liabilities	(3,783,814)	1,132,566
Increase (decrease) in deferred revenue	919,674	(610,638)
(Increase) decrease in inventory of supplies	(435,009)	225,659
Increase in prepaid expenses	<u>(20,215)</u>	<u>(1,293)</u>
	<u>(12,021,175)</u>	<u>(899,901)</u>
	<u>(3,132,887)</u>	<u>8,328,934</u>
<b>Cash Flows From Capital Activity</b>		
Purchase of tangible capital assets	<u>(9,206,443)</u>	<u>(13,834,177)</u>
<b>Cash Flows From Financing Activities</b>		
Repayment of long term debt	(2,588,131)	(1,491,275)
Decrease in reserve funds	(83,219)	(113,205)
Proceeds from long term debt	<u>9,900,000</u>	<u>-</u>
	<u>7,228,650</u>	<u>(1,604,480)</u>
<b>Change in Cash (Bank Indebtedness)</b>	(5,110,680)	(7,109,723)
<b>Cash (Bank Indebtedness) - Beginning of Period</b>	<u>(7,213,217)</u>	<u>(103,494)</u>
<b>Cash (Bank indebtedness) - End of Period (Note 11)</b>	<u><u>\$(12,323,897)</u></u>	<u><u>\$ (7,213,217)</u></u>

The notes and schedule are an integral part of these financial statements

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**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

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### **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.

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**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

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### 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 period, together with the annual surplus, provides the change in net debt for the period.

#### 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 period the good or service is used or consumed.

#### Tangible Capital Assets

Effective April 1, 2017, the tangible capital asset policy for the Corporation was changed. Assets are recorded at cost when in excess of \$2,500 and 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 declining balance method at the following annual rates:

Land improvement	5%
Water, sewer, and treatment plant	2%
Buildings	2.5%
Equipment	20%
Computers and software	20%
Light vehicles	20%
Heavy vehicles	10%
Furniture	20%

Charlottetown Water and Sewer Corporation does not capitalize interest 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

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**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

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### **3. Significant Accounting Policies (continued)**

#### **Employee Future Benefits - Sick Leave and Retiring Allowance (continued)**

Eligible employees earn 18 sick leave days per year or 1.5 days for every month of service. 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.

#### **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 reserves 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.

**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

**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. Accounts Receivable**

	March 31 2019	December 31 2017
Trade receivables	\$ 1,621,059	\$ 1,605,814
Harmonized sales tax receivable	74,296	253,658
Other receivables	25,796	22,560
	<u>1,721,151</u>	<u>1,882,032</u>
Allowance for doubtful accounts	(195,067)	(199,874)
	<u>\$ 1,526,084</u>	<u>\$ 1,682,158</u>

**6. Capital Grants Receivable**

Municipal Capital Expenditure Grant	\$ 2,182,032	\$ 1,119,094
Clean Water Wastewater Fund	1,241,999	3,238,289
Build Canada Fund	-	229,109
	<u>\$ 3,424,031</u>	<u>\$ 4,586,492</u>

**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

**7. Due From (To) Related Parties**

	March 31 2019	December 31 2017
City of Charlottetown - Revenue Fund	\$ 11,635,308	\$ 1,676,247
City of Charlottetown - Capital Fund	(91,346)	(91,346)
Charlottetown Water and Sewer Corporation Superannuation Plan	<u>(20,954)</u>	<u>(15,906)</u>
	<u>\$ 11,523,008</u>	<u>\$ 1,568,995</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 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	March 31, 2019	December 31, 2017
Pre-retirement discount rate	5.70% per annum	5.70% 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**  
**15 MONTHS ENDED MARCH 31, 2019**

**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:

	<b>March 31</b>	December 31
	<b>2019</b>	2017
Changes in accrued benefit obligation:		
Balance - beginning of period	<b>\$10,119,329</b>	\$ 9,876,300
Current service costs	<b>117,657</b>	117,544
Interest on liabilities	<b>705,711</b>	550,959
Actuarial (gains) losses	<b>(15,094)</b>	112,787
Benefits paid	<b>(781,281)</b>	(538,261)
	<b><u>10,146,322</u></b>	<u>10,119,329</u>
Balance - end of period		
Change in fair value of plan assets:		
Balance - beginning of period	<b>10,464,689</b>	9,914,810
Employer contributions	<b>144,585</b>	155,033
Employee contributions	<b>16,857</b>	16,355
Investment return	<b>719,739</b>	1,022,121
Actuarial loss on plan assets	<b>(366,011)</b>	(105,369)
Benefits paid	<b>(781,281)</b>	(538,261)
	<b><u>10,198,578</u></b>	<u>10,464,689</u>
Balance - end of period		
Change in unamortized actuarial gains and losses:		
Balance - beginning of period	<b>(85,772)</b>	204,383
Experience gains and losses	<b>350,917</b>	(249,274)
Amortization of actuarial gains and losses	<b>11,223</b>	(40,881)
	<b><u>276,368</u></b>	<u>(85,772)</u>
Balance - end of period		
Accrued pension asset	<b><u>\$ 328,624</u></b>	<u>\$ 259,588</u>

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

Current service costs	<b>\$ 117,657</b>	\$ 117,544
Amortization of actuarial loss	<b>(11,223)</b>	40,876
Employee contributions	<b>(16,857)</b>	(16,355)
Interest on liabilities	<b>705,711</b>	550,959
Expected investment return	<b>(719,737)</b>	(554,687)
	<b><u>\$ 75,551</u></b>	<u>\$ 138,337</u>
Pension expense		

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**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

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**9. Bank Indebtedness**

	March 31 2019	December 31 2017
Unrestricted cash	\$ 8,916,958	\$ 395,071
Restricted cash (Note 20)	289,320	372,540
Bank indebtedness	<u>(21,530,175)</u>	<u>(7,980,828)</u>
	<u><u>\$(12,323,897)</u></u>	<u><u>\$ (7,213,217)</u></u>

Royal Bank of Canada has an approved limit of \$10,000,000; secured by resolution approved by council; short term financing on capital projects.

The Utility also has National Bank of Canada approved limit of \$10,000,000; secured by resolution approved by council which has not been drawn upon as of period end date.

**10. Deferred Revenue**

Deferred revenue - beginning of period	\$ 907,294	\$ 1,517,932
Allocation received	1,000,000	-
Eligible expenditures	<u>(80,326)</u>	<u>(610,638)</u>
Deferred revenue - end of period	<u><u>\$ 1,826,968</u></u>	<u><u>\$ 907,294</u></u>

Under the New Deal Gas Tax Funding for Incorporated Communities and the New Deal for Cities & Communities, the Corporation was allocated \$1,000,000 during the period 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 period. There was no allocation for the 2017 year.



**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

**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.

	<b>March 31 2019</b>	December 31 2017
RBC - 4.06%; SWAP transaction; maturing August 3, 2030	<b>\$ 5,963,200</b>	\$ 6,448,000
TD - 2.9%; SWAP transaction; renewable January, 2023; maturing August 19, 2033	<b>2,851,748</b>	3,068,502
TD - 4.465%; SWAP transaction; renewable January, 2023; maturing August 19, 2033	<b>2,591,552</b>	2,747,364
CDS Clearing and Depository Services Inc. - 5.79%; debenture maturing July 16, 2024	<b>2,374,939</b>	2,903,350
CMHC - 4.12%; matures on March 1, 2031	<b>2,360,295</b>	2,650,549
CMHC - 3.7%; matures on September 1, 2030	<b>2,025,745</b>	2,158,403
TD - 2.26%; SWAP transaction; maturing June, 2022	<b>234,049</b>	319,593
RBC - 3.04%; SWAP transaction; maturing May 27, 2021	<b>160,905</b>	248,074
TD Leasing - balance of \$7,739 at 2.33%; maturing December 19, 2019; balance of \$69,312 at 2.82%; maturing January 26, 2023; balance of \$64,110 at 2.002%; maturing December 22, 2020; RBC Leasing balance of \$34,868 at 2.00%; maturing on February 23, 2022	<b>176,029</b>	191,581
CIBC - 2.276%; SWAP transaction; maturing January, 2038	<b>9,363,749</b>	-
RBC - repaid during the period	-	54,927
	<b>\$ 28,102,211</b>	<b>\$ 20,790,343</b>

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

2020	\$ 2,102,402
2021	2,148,208
2022	2,138,333
2023	2,116,035
2024	2,159,244
Thereafter	17,437,989

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**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

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**12. 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 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.

**e) 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 transportation and treatment of sewage from Town of Stratford to the Charlottetown Water and Sewer Corporation wastewater 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 wastewater treatment plant.

**f) Capital Commitments**

The Corporation has awarded tenders totaling \$16,038,129 for capital projects to be completed over the next fiscal year.

**13. Budget Figures**

A reconciliation of the 2019 fiscal operating budget prepared by Council to the budget figures disclosed in the financial statements is as follows:

	<b>2019</b>
Charlottetown Water and Sewer Corporation budgeted annual surplus	\$ 18,725
Less: Deficit previous year	<u>(259,908)</u>
	<u>\$ (241,183)</u>

The columns presented as budget on the statements of operations and changes in net debt 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**  
**15 MONTHS ENDED MARCH 31, 2019**

**14. Government Transfers For Capital**

	March 31 2019	December 31 2017
Clean Water Wastewater Fund	\$ 6,184,873	\$ 6,271,222
Build Canada Fund	357,558	229,109
New Deal Gas Tax	80,326	610,638
	<u>\$ 6,622,757</u>	<u>\$ 7,110,969</u>

**15. Decommissioning Costs**

During the period 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 March 31, 2019, a total liability for the decommissioning of the East Royalty Lagoon of \$1,017,405 (2017 - \$455,000) has been recorded in accounts payable and accrued liabilities.

**16. Accounting Changes**

Opening surplus has been increased by \$120,003 relating to application of the new Tangible Capital Asset policy effective April 1, 2017. The threshold for capitalization for costs in excess of \$2,500 has been applied which has resulted in additional assets being capitalized rather than expensed. As well, amortization has been adjusted to reflect new amortization rates for all applicable asset classes, declining balance method and additional assets capitalized.

**17. Accumulated Surplus**

Accumulated surplus - unrestricted	\$ 81,313,933	\$ 76,010,465
Internally restricted sick and post-employment reserve	<u>289,320</u>	<u>372,540</u>
Total accumulated surplus	<u>\$ 81,603,253</u>	<u>\$ 76,383,005</u>

**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

**18. 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 period, the Corporation received \$1,171,406 (2017 - \$937,125) in operating revenue from the City of Charlottetown for fire protection services and \$95,196 (2017 - \$71,807) for sewer and water fees. During the period, the Corporation allocated expenditures of \$256,250 (2017 - \$205,000) to the City of Charlottetown for facility rental and \$201,051 (2017 - \$160,200) for committee expenditures. The Corporation also contributed \$15,852 (2017 - \$20,000) for election expenses.

During the period, 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.

**19. Non-Monetary Transactions**

During the period, City Council approved an in-kind contribution in the form of a Committee Chair for updates to wastewater guidelines. This contribution of staff time has an estimated fair value of \$29,000 over a three-year period. In fiscal 2019, \$4,028 has been recognized as donation expense and is included in office and committee expenses on the statement of operations.

**20. 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:

	<b>March 31 2019</b>	December 31 2017
Restricted cash available for benefits - beginning of period	\$ 372,540	\$ 485,744
Due to operating fund for benefit payments	<u>(83,220)</u>	<u>(113,204)</u>
Restricted cash available for benefits - end of period	<u>\$ 289,320</u>	<u>\$ 372,540</u>

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**CHARLOTTETOWN WATER AND SEWER CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**15 MONTHS ENDED MARCH 31, 2019**

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## **21. 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 March 31, 2019.

### **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.

## **22. 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**  
**15 MONTHS ENDED MARCH 31, 2019**

	Cost Beginning of Period	Additions	Disposals and Write Downs	Cost End of Period	Accum Amort Beginning of Period	Accum Amort in the Period	Disposals and Write Downs	Amort End of Period	Net Book Value
<b>March 31, 2019</b>									Schedule 1
Land	\$ 1,553,142	\$ 6,588	\$ -	\$ 1,559,730	\$ -	\$ -	\$ -	\$ -	\$ 1,559,730
Land improvement	7,829	-	-	7,829	3,481	272	-	3,753	4,076
Water, sewer, and treatment plant	126,831,838	8,238,259	-	135,070,097	33,078,373	2,446,815	-	35,525,188	99,544,909
Buildings	4,046,856	621,578	-	4,668,434	1,356,573	93,784	-	1,450,357	3,218,077
Equipment	7,228,907	307,076	-	7,535,983	3,776,037	901,602	-	4,677,639	2,858,344
Computers and software	28,949	11,232	-	40,181	22,744	11,286	-	34,030	6,151
Vehicles	1,208,966	7,003	-	1,215,969	809,108	99,885	-	908,993	306,976
Furniture	554,612	14,707	-	569,319	437,255	31,177	-	468,432	100,887
	<b>\$141,461,099</b>	<b>\$ 9,206,443</b>	<b>\$ -</b>	<b>\$150,667,542</b>	<b>\$ 39,483,571</b>	<b>\$ 3,584,821</b>	<b>\$ -</b>	<b>\$ 43,068,392</b>	<b>\$107,599,150</b>
<b>December 31, 2017 (12 months)</b>									
Land	\$ 1,551,045	\$ 2,097	\$ -	\$ 1,553,142	\$ -	\$ -	\$ -	\$ -	\$ 1,553,142
Land improvements	7,829	-	-	7,829	3,252	229	-	3,481	4,348
Water, sewer, and treatment plant	115,270,353	11,561,485	-	126,831,838	31,283,012	1,795,361	-	33,078,373	93,753,465
Buildings	3,834,465	212,391	-	4,046,856	1,290,315	66,258	-	1,356,573	2,690,283
Equipment	5,230,095	1,998,812	-	7,228,907	3,162,670	613,367	-	3,776,037	3,452,870
Computers and software	16,539	12,410	-	28,949	16,539	6,205	-	22,744	6,205
Vehicles	1,161,984	46,982	-	1,208,966	716,077	93,031	-	809,108	399,858
Furniture	554,612	-	-	554,612	407,915	29,340	-	437,255	117,357
	<b>\$127,626,922</b>	<b>\$ 13,834,177</b>	<b>\$ -</b>	<b>\$141,461,099</b>	<b>\$ 36,879,780</b>	<b>\$ 2,603,791</b>	<b>\$ -</b>	<b>\$ 39,483,571</b>	<b>\$101,977,528</b>

