

**CITY OF CHARLOTTETOWN**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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These consolidated financial statements are prepared by management of the City of Charlottetown in accordance with Canadian accounting standards for the public sector, with the exception of tangible capital assets and inventory, 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 consolidated financial statements rests with Council and management. These consolidated financial statements are prepared on a full accrual basis of accounting. The information included in these consolidated financial statements is based on management's best estimates and judgment, with due consideration given to materiality.

To fulfill 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 City. The systems are also designed and monitored to ensure reliable information is available on a timely basis.


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

The independent auditor completes an audit of these consolidated 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 consolidated financial statements of the City.



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Chief Administrative Officer



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Deputy Chief Administrative Officer

November 13, 2018

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## INDEPENDENT AUDITOR'S REPORT

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### TO THE MAYOR AND MEMBERS OF COUNCIL

#### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the City of Charlottetown, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 at December 31, 2015, 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 consolidated Statement of Operations and the net cash flows from operating activities reported in the consolidated Statement of Cash Flows.

We were unable to satisfy ourselves that tangible capital assets had been properly recognized for the years ended December 31, 2015, December 31, 2016 and December 31, 2017. Since the recognition of tangible capital assets factors into the determination of amortization expense, expenses, and amounts recoverable under contribution agreements, we were unable to determine whether adjustments might have been necessary in respect of the net operating surplus for the

year reported in the consolidated Statement of Operations and Tangible Capital Assets and funding receivable on the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the City of Charlottetown 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. In our opinion, the City of Charlottetown was in compliance with Section 37 of the *Charlottetown Area Municipalities Act* which requires the City to not present a deficit in its budget.

#### Comparative Information

The consolidated financial statements for the City of Charlottetown as at December 31, 2016 released on June 12, 2017 were audited by another public accounting firm.

*YMSB Chartered Professional Accountants*

**CHARLOTTETOWN, P.E.I.**

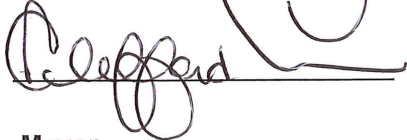
**NOVEMBER 13, 2018**

**CITY OF CHARLOTTETOWN  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017**

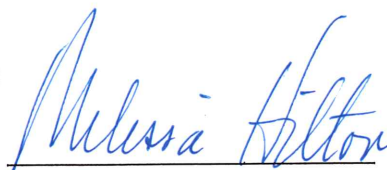
	2017	2016 (Restated)
<b>Financial Assets</b>		
Cash	\$ -	\$ 2,290,141
Accounts receivable (Note 6)	4,417,236	5,993,848
Inventory for resale	41,031	34,396
Capital grants receivable (Note 7)	6,097,147	4,587,592
Other assets	74,927	84,713
Investment in Government Business Enterprise (Note 8)	863,681	805,389
Accrued pension asset (Note 9)	259,588	242,893
	<u>11,753,610</u>	<u>14,038,972</u>
<b>Liabilities</b>		
Bank indebtedness (Note 10)	9,793,721	-
Accounts payable and accrued liabilities	20,081,286	19,862,369
Deferred revenue (Note 11)	5,163,669	5,793,752
Sick leave and post employment benefits (Note 12)	6,029,839	5,987,184
Due to related parties	217,517	197,343
Long-term debt (Note 13)	69,080,034	74,376,709
	<u>110,366,066</u>	<u>106,217,357</u>
<b>Net Debt</b>	<u>98,612,456</u>	<u>92,178,385</u>
<b>Non Financial Assets</b>		
Tangible capital assets - Schedule 2	199,997,937	182,576,934
Inventory of supplies	1,639,500	1,865,159
Prepaid expenses	670,322	738,370
	<u>202,307,759</u>	<u>185,180,463</u>
<b>Accumulated Surplus (Note 14)</b>	<u>\$103,695,303</u>	<u>\$ 93,002,078</u>
<b>Commitments and Contingencies (Note 15)</b>		

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

ON BEHALF OF THE CITY OF CHARLOTTETOWN:



Mayor



Chair, Finance, Audit and Tendering Committee

**CITY OF CHARLOTTETOWN  
CONSOLIDATED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2017**

	Budget 2017 (Note 25)	Actual 2017	Actual 2016 (Restated)
<b>Revenues - Schedule 1</b>			
Property taxes	\$ 33,348,578	\$ 32,249,052	\$ 31,896,601
Government transfers for operations (Note 19)	11,304,903	12,158,681	11,277,980
Water and sewer	8,856,862	8,688,180	8,463,925
Recreation	3,652,527	4,519,766	4,500,710
Municipal Capital Expenditure Grant	1,010,000	2,258,987	1,010,000
Parking	1,310,000	1,676,708	1,322,471
Police protection services	1,116,000	1,208,337	1,136,661
Tourism accommodation levy	-	1,166,734	1,225,572
Rentals	565,200	880,896	956,915
Licenses	538,000	652,312	460,993
Interest and other	51,000	71,745	68,938
Net income from CADC	52,170	58,292	51,473
	<b>61,805,240</b>	<b>65,589,690</b>	<b>62,372,239</b>
<b>Expenses - Schedule 1</b>			
Amortization	5,158,527	8,799,845	7,574,191
Development, heritage, and other	7,239,619	6,787,736	5,879,309
General government	5,780,993	5,877,379	5,204,343
Interest on long-term debt	3,150,155	3,791,639	3,509,152
Parks and recreation	7,862,918	7,801,835	7,852,395
Protective services	13,119,780	12,649,176	12,767,951
Street maintenance and environment	11,244,185	11,311,768	11,008,157
Tourism Accommodation Levy	-	1,166,734	1,225,572
Water and sewer	7,297,206	7,378,126	6,818,302
	<b>60,853,383</b>	<b>65,564,238</b>	<b>61,839,372</b>
<b>Operating Surplus</b>	<b>951,857</b>	<b>25,452</b>	<b>532,867</b>
<b>Transfers and other expenses</b>			
Government transfers for capital (Note 20)	36,603,950	11,639,382	7,968,549
Pension expense (Note 9)	-	(237,442)	(888,380)
Sick and post employment benefits	-	(257,990)	(123,964)
Pension valuation allowance (Note 9)	-	99,105	771,717
Decommissioning costs (Note 16)	-	-	(455,000)
	<b>36,603,950</b>	<b>11,243,055</b>	<b>7,272,922</b>
<b>Annual Surplus</b>	<b>\$ 37,555,807</b>	<b>11,268,507</b>	<b>7,805,789</b>
<b>Accumulated Surplus - As Previously Reported</b>		<b>93,002,078</b>	<b>77,355,492</b>
Accounting changes (Note 5)		-	8,337,464
<b>Accumulated Surplus - Beginning of Year</b>		<b>93,002,078</b>	<b>85,692,956</b>
Payments from reserves		(575,282)	(496,667)
<b>Accumulated Surplus - End of Year (Note 14)</b>		<b>\$103,695,303</b>	<b>\$93,002,078</b>

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

**CITY OF CHARLOTTETOWN  
CONSOLIDATED STATEMENT OF CHANGES IN NET DEBT  
YEAR ENDED DECEMBER 31, 2017**

	Budget 2017	Actual 2017	Actual 2016 <i>(Restated)</i>
<b>Net Debt - Beginning of Year</b>	<b>\$ 92,178,385</b>	<b>\$ 92,178,385</b>	<b>\$ 88,845,031</b>
Annual surplus	(37,555,807)	(11,268,507)	(7,805,789)
Amortization of tangible capital assets	(5,081,280)	(8,799,845)	(7,574,191)
Purchase of tangible capital assets	61,743,161	26,220,848	18,025,675
Increase (decrease) in prepaid expenses	-	(68,048)	107,803
Increase (decrease) in inventory of supplies	-	(225,659)	83,189
Payments from reserves	-	575,282	496,667
<b>Change in Net Debt</b>	<b>19,106,074</b>	<b>6,434,071</b>	<b>3,333,354</b>
<b>Net Debt - End of Year</b>	<b>\$ 111,284,459</b>	<b>\$ 98,612,456</b>	<b>\$ 92,178,385</b>



**CITY OF CHARLOTTETOWN  
CONSOLIDATED STATEMENT OF CASH FLOW  
YEAR ENDED DECEMBER 31, 2017**

	2017	2016 <i>(Restated)</i>
<b>Cash Flows From Operating Activities</b>		
Annual surplus	\$ 11,268,507	\$ 7,805,789
Amortization of tangible capital assets	<u>8,799,845</u>	<u>7,574,191</u>
	<u>20,068,352</u>	<u>15,379,980</u>
<b>Change in Non-Cash Working Capital</b>		
(Increase) decrease in accounts receivable	67,058	(3,013,512)
(Increase) decrease in prepaid expenses	68,046	(107,802)
Decrease in other assets	9,787	9,393
(Increase) decrease in inventory for resale	(6,635)	1,448
Increase in accrued pension asset	(16,695)	(80,267)
Increase in accounts payable and accrued liabilities	218,916	6,240,707
Increase (decrease) in deferred revenue	(630,083)	948,268
Increase in due to related parties	20,174	16,537
(Increase) decrease in inventory of supplies	225,659	(83,190)
Decrease in sick leave and post employment benefits	<u>42,655</u>	<u>19,598</u>
	<u>(1,118)</u>	<u>3,951,180</u>
	<u>20,067,234</u>	<u>19,331,160</u>
<b>Cash Flows From Capital Activities</b>		
Purchase of tangible capital assets	<u>(26,220,848)</u>	<u>(18,025,675)</u>
<b>Cash Flows From Investing Activities</b>		
Increase in government business enterprise	<u>(58,292)</u>	<u>(51,473)</u>
<b>Cash Flows From Financing Activities</b>		
Repayment of long-term debt	(5,296,674)	(4,869,929)
Payments from reserves	(575,282)	(496,667)
Proceeds from long-term debt	<u>-</u>	<u>9,000,000</u>
	<u>(5,871,956)</u>	<u>3,633,404</u>
<b>Change in Cash</b>	<u>(12,083,862)</u>	<u>4,887,416</u>
<b>Cash - Beginning of Year</b>	<u>2,290,141</u>	<u>(2,597,275)</u>
<b>Cash - End of Year</b>	<u><u>\$ (9,793,721)</u></u>	<u><u>\$ 2,290,141</u></u>
<b>Cash Consists of:</b>		
Unrestricted cash	\$12,744,480	\$14,997,054
Externally restricted cash (Note 18)	1,109,585	1,322,168
Internally restricted cash (Note 18)	3,608,187	4,183,468
Bank indebtedness	<u>(27,255,973)</u>	<u>(18,212,549)</u>
	<u><u>\$ (9,793,721)</u></u>	<u><u>\$ 2,290,141</u></u>

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

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**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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## **1. Description of Business**

The City of Charlottetown ("the City") is incorporated under the *Municipal Government Act* of Prince Edward Island. The City is a municipal organization under the *Income Tax Act*.

## **2. Basis of Presentation**

These consolidated financial statements of the City of Charlottetown 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.

These consolidated 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.

These consolidated financial statements for the City of Charlottetown reflect the assets, liabilities, revenue, expenses, change in net debt and change in financial position of the City. The City is comprised of the municipal operations, plus all of the organizations that are owned or controlled by the City and are, therefore, accountable to City Council for the administration of their financial affairs and resources. Included in the reporting entity are the following:

- Charlottetown Water and Sewer Corporation
- Capital Area Recreation Inc.
- Planning Board
- Heritage Board
- Beautification and Forestry Advisory Board
- Parks, Recreation and Leisure Activities Advisory Board
- Economic Development Advisory Board
- Seniors Advisory Board
- Youth Retention Advisory Board
- Civic Board for Persons with Disabilities Advisory Committee
- Police Community Consultative Group
- Arts Advisory Board
- Special Events Reserve Fund (SERF)

Under the consolidation method, entities are consolidated on a line by line basis, interentity transactions and balances are eliminated upon consolidation, and accounting policies are adjusted to those of the City.

A government partnership arrangement is a contractual arrangement between the City and a party or parties outside of the City's reporting entity. The partners have significant, clearly defined common goals, make a financial investment in the partnership, share control of decision making, and share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership. The City's interest in partnerships is accounted for using the proportionate consolidation method. The City's government partnership arrangements include the following:

- Charlottetown Civic Centre Management Inc. (CCCM)

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**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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## **2. Basis of Presentation (continued)**

### **Purpose of CCCMI**

In October 1998, the City of Charlottetown and the Province of Prince Edward Island entered into a joint management agreement which established the Charlottetown Civic Centre Management Inc. (CCCMI). CCCMI is a joint management company created for the purposes of overseeing and managing the operations of the Charlottetown Civic Centre/Arena Complex and the Trade Centre Complex.

A government business enterprise is a self-sustaining organization that has the financial and operating authority to sell goods and services to individuals and non-government organizations as its principal activity and source of revenue. Government business enterprises are accounted for on the modified equity basis. Their accounting principles are not adjusted to conform with those of the City. The total net assets of all government business enterprises are reported as a separate item on the Consolidated Statement of Financial Position. The total net income from all government business enterprises is reported as a separate item on the Consolidated Statement of Operations. The City's investment in government business enterprises include the following:

The Charlottetown Area Development Corporation (CADC with a year end of March 31)

## **3. 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 post-retirement benefits. These funds have been internally restricted. Also, restricted cash includes the Tourism Accommodation Levy and Gas Tax funds, which is externally restricted.

### **Accounts Receivable and Capital Grants Receivables**

Accounts receivable arise from billing of sewer and water services, 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 written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are recorded in revenue 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 as revenue over time as the recognition criteria are met.

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**CITY OF CHARLOTTETOWN**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**3. 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.

Certain items of historical value are not recognized in these financial statements.

**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 at the following annual rates and methods:

Buildings	2.5% straight line
Swimming pools	5% straight line
Rinks/arenas/parks/fields	5% straight line
Parking garages	2.5% straight line
Parking meters	14.29% straight line
Heavy equipment	20% straight line
Motor vehicles	20% straight line
Streets and sidewalks	4% straight line
Storm sewers	2% straight line
Street lights	4% straight line
Water system	2% straight line
Sewer system	2% straight line
Treatment plant	2% straight line
Leasehold improvements and equipment	20% straight line
Computer and ticketing equipment	33.33% straight line
Paving and landscaping	8% declining
Equipment	20% declining
Signage	20% declining
Computer hardware	30% declining
Computer software	100% declining
Energy audit assets	12.5% declining

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

**Inventory of Supplies**

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

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**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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**3. Accounting Policies (continued)**

**Leased Tangible Capital Assets**

Leases, which transfer substantially all of the benefits and risks incidental to ownership, are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charges to expenses as incurred.

**Contaminated Sites**

The City of Charlottetown accrues a liability to estimate the cost to remediate contaminated sites to the level necessary to allow the property to meet the environmental standard appropriate to its current use or status. The liability is based on estimates and assumptions using the best information available to management.

**Pension and Post Employment Benefits**

The costs of post employment benefits are recognized when the event that obligates the City occurs. Costs include projected future income payments and fees paid to independent administrators of these plans.

The costs of post employment benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees and salary escalation. Liabilities are actuarially determined using discount rates based on management's expectations.

**Reserves**

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

**Revenues**

Property tax billings are based on assessments prepared by the Province of PEI. Tax rates are established annually by Council and recorded at the time tax billings are due. Assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the results of the appeal process are known.

Revenues are recorded on the accrual basis and are recorded as revenue when earned and collectability is reasonably assured.

User fees relate to fees for various programs and fees imposed on specific activities. Revenue is recognized when the activity or service has been performed.

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 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

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**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

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 recorded in the consolidated 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, lawsuits, sick and post-retirement obligations, liabilities for contaminated sites, allowance for doubtful accounts, and amortization of tangible capital assets. The nature of the uncertainty in the accruals for pension, sick and post-retirement obligations arises because actual results may differ significantly from the various assumptions about plan members and economic conditions in the marketplace. Uncertainty exists in the liabilities for contaminated sites because the actual extent of the remediation activities, 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.

i) One error resulted from PS 3250 not being correctly applied when it came to the reporting of the pension plan obligations. In the prior year audited financial statements, the Superannuation Plan Net Assets Available for Benefits of \$91,603,621 and the Superannuation Plan Accrued Pension Plan Obligations of \$88,045,700 were shown separately on the Statement of Financial Position, rather than being netted. New 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 decreased by \$91,603,621, Superannuation Plan Accrued Pension Obligations were decreased by \$88,045,700, Accrued Pension Asset was increased by \$242,893, pension expense was increased by \$888,380, pension allowance was increased by \$771,717 and actuarial pension expense was decreased by \$4,601,613, and the opening Accumulated Surplus was increased by \$4,484,950.

ii) A valuation was performed for employee sick and post employment benefits. As a result, sick leave and post employment benefits liability was increased by \$1,699,334, opening accumulated surplus was increased by \$1,699,334, and restricted cash increased by \$984,299 from amounts previously reported.

iii) Another error resulted from the inventory of supplies for the water and sewer corporation that were kept on hand and were 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 expense was decreased by \$83,188, inventory of supplies was increased by \$1,865,159, inventory for resale was increased by \$34,396 in the prior period and the opening accumulated surplus was increased by \$1,816,367.

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**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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**5. Accounting Changes (continued)**

iv) 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.

v) The City approved a project which included the cost estimate of landfill closure plan for the East Royalty Landfill site. 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. For the year ended December 31, 2015, a total liability for the closure East Royalty Landfill was recorded in accounts payable and accrued liabilities and opening accumulated surplus was decreased by \$4,769,208. For the year ended December 31, 2016, a total liability for the annual monitoring of the East Royalty Landfill was recorded in accounts payable and accrued liabilities and opening accumulated surplus was decreased by \$552,250.

vi) As a result of restatement of government funding for capital projects in previous years and recording of tangible capital assets, capital grants receivable have decreased by \$905,871, government transfers for capital revenues were decreased by \$809,101 and tangible capital assets decreased by \$273,430.

vii) It was determined the presentation of the government reporting entity was not properly accounted for in previous years. As a result, adjustments were necessary to properly account for Charlottetown Civic Centre Management Inc, Charlottetown Area Development Corporation, and Capital Area Recreation Inc.

The City's interest in partnerships is accounted for using the proportionate consolidation method and includes Charlottetown Civic Centre Management Inc. and resulted in an increase in opening Accumulated Surplus of \$178,853, increase in tangible capital assets of \$195,498, increase in deferred revenue of \$164,742, increase in recreation revenues of \$815,580, increase in amortization expense of \$141,580, increase in recreation goods and services expense of \$621,368 and increase in recreation salaries expenses of \$685,193.

Government business enterprises are accounted for on the modified equity basis. The total net assets of all government business enterprises are reported as a separate item on the Consolidated Statement of Financial Position. The total net income from all government business enterprises is reported as a separate item on the Consolidated Statement of Operations. The City's investment in government business enterprises include the Charlottetown Area Development Corporation (CADC with a year end of March 31) and has resulted in an increase in opening Accumulated Surplus of \$753,916 and net income from CADC for December 31, 2016 included in operations of \$51,473.

It was determined that control exists over the Capital Area Recreation Inc and therefore should be consolidated with City of Charlottetown. As a result, assets, liabilities, revenues and expenses have been included for the year ended December 31, 2016 and December 31, 2017, and the opening accumulated surplus was decreased by \$612,851, tangible capital assets increased by \$13,824,946, recreation revenues increased by \$2,972,690, amortization expense increased by \$681,745, recreation goods and services expenses increased by \$1,294,637 and recreation salaries expenses increased by \$1,507,089.

viii) Long-term debt balances for December 31, 2016 were adjusted to correct ending balances, loans have increased by \$342,969, and interest expense decreased by \$342,969.

ix) Tourism Accommodation Levy has been determined to be an externally restricted asset from provincial legislation. As a result, Tourism Accommodation Levy surplus funds are included in deferred revenue and not included as part of operations. As a result, deferred revenue has been increased by \$364,537 and the opening accumulated surplus has been decreased by \$364,537. Revenues and expenses for 2016 for Tourism Accommodation Levy were restated to \$1,225,572.

**CITY OF CHARLOTTETOWN  
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**5. Accounting Changes (continued)**

x) Deferred revenue relating to gas tax funding has been corrected to agree to Annual Expenditure Reports filed with the Province of PEI. As a result, deferred revenues have increased by \$972,182 and opening accumulated surplus has decreased by \$972,182.

xi) Accounts payable increased by \$376,276, prepaid expenses increased by \$211,611, and accounts receivable decreased by \$29,529 as a result of changes to revenues and expenses for December 31, 2016.

**6. Accounts Receivable**

	2017	2016
Trade receivables	\$ 3,451,723	\$ 4,956,493
Harmonized sales tax receivable	764,504	561,822
Other receivables	529,309	635,033
	<u>4,745,536</u>	<u>6,153,348</u>
Allowance for doubtful accounts	<u>(328,300)</u>	<u>(159,500)</u>
Accounts receivable - End of year	<u>\$ 4,417,236</u>	<u>\$ 5,993,848</u>

**7. Capital Grants Receivable**

	2017	2016
Clean Water Wastewater Fund	\$ 3,380,029	\$ 2,843,617
Municipal Capital Expenditure Grant	2,258,987	-
Public Transit Infrastructure Fund	229,023	586,658
Build Canada Fund	229,108	1,146,608
Atlantic Canada Opportunities Agency	-	10,709
	<u>\$ 6,097,147</u>	<u>\$ 4,587,592</u>

**8. Investment in Government Business Enterprises**

The City of Charlottetown owns a 15% portion of The Charlottetown Area Development Corporation (CADC). Condensed financial information for CADC for the years ended March 31, 2017 and March 31, 2016 is as follows:

	2017	2016
<b>Consolidated Statement of Financial Position</b>		
<b>Assets</b>		
Current assets	\$ 3,802,786	\$ 3,275,529
Property inventory	3,119,972	3,003,909
Capital assets	110,101	278,291
Investment properties	56,158,567	56,828,078
Investment in leases	937,861	1,284,844
	<u>\$ 64,129,287</u>	<u>\$ 64,670,651</u>



**CITY OF CHARLOTTETOWN  
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**8. Investment in Government Business Enterprises (continued)**

	<b>2017</b>	<b>2016</b>
<b>Liabilities</b>		
Current liabilities	\$ 8,993,384	\$ 4,621,829
Long-term debt	11,778,014	16,308,817
Deferred revenues	37,600,015	38,370,743
	<u>58,371,413</u>	<u>59,301,389</u>
<b>Shareholders' Equity</b>		
Capital stock	2,500	2,500
Contributed surplus	4,526,706	4,526,706
Retained earnings	1,228,668	840,056
	<u>5,757,874</u>	<u>5,369,262</u>
	<u>\$ 64,129,287</u>	<u>\$ 64,670,651</u>
<b>Consolidated Statement of Comprehensive Income</b>		
<b>Revenue</b>		
Operating revenue	\$ 1,191,495	\$ 1,259,590
Other	272,698	328,920
	<u>1,464,193</u>	<u>1,588,510</u>
<b>Expenses</b>	<u>1,075,581</u>	<u>1,245,356</u>
<b>Net earnings for the year</b>	388,612	343,154
<b>Retained earnings - Beginning of year</b>	840,056	496,902
<b>Retained earnings - End of year</b>	<u>\$ 1,228,668</u>	<u>\$ 840,056</u>
<b>Investment - Beginning of Year</b>	<b>\$ 805,389</b>	\$ 753,916
Share of net income (15%)	<u>58,292</u>	51,473
<b>Investment - End of Year</b>	<b>\$ 863,681</b>	\$ 805,389

**Key Activities and Commitments:**

Demand loans of \$2,736,601 (2016 - \$1,536,601) are due on demand, interest at prime minus .1% and interest paid monthly.

The 6.64% debenture is unsecured. These loans are payable to the majority shareholder. During the year, the Corporation expensed interest on long-term debt of \$70,848 (2016 - \$90,613) paid to the Province of Prince Edward Island on the 6.64% debenture.

The 2.6% term loan and the 2.95%, 4.18%, 2.92% and 3.11% mortgages and the demand loans are secured by a general security agreement representing a first charge on all assets, continuing collateral mortgages representing a first charge on all real property known as Harbourside Complex and an undertaking not to

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**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**8. Investment in Government Business Enterprises (continued)**

encumber or mortgage the property at 119 Euston Street, assignment of mortgage receivable and fire insurance for Harbourside Complex, and general assignment of rents representing a first charge on rents on the Harbourside Complex.

The company's debt agreement contains certain restrictive covenants which require the maintenance of a specific ratio. As at March 31, 2017, the consolidated entity was able to maintain a total debt service ratio of 100%, and is therefore in compliance with the covenant.

The Province of Prince Edward Island is the majority shareholder of The Charlottetown Area Development Corporation and the City of Charlottetown and the Town of Stratford are minority shareholders. Included in accounts receivables was \$252,210 (2016 - \$107,894) due from City of Charlottetown and included in accounts payable was \$375,368 (2016 - \$7,236) due to City of Charlottetown.

**9. Accrued Pension Asset**

The City of Charlottetown maintains a defined benefit pension plan for its full time employees. The Charlottetown Water and Sewer Corporation maintains a defined benefit pension plan for its full time employees who entered the plan prior to its closing in 2000. Actuarial valuations of the Superannuation Plans 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 are extrapolated on an annual basis 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 to be amortized over the expected average remaining service life of active employees, which have been determined to be five years for the Water and Sewer Corporation and eleven years for City employees.

**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**9. Accrued Pension Asset (continued)**

The actuarial valuation was done using the following assumptions:

<b>Assumption</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Pre-retirement discount rate	City - 6.00% per annum Water & Sewer - 5.70% per annum	City - 5.50% per annum Water & Sewer - 5.50% per annum
Post-retirement discount rate	City - 6.00% per annum prior to age 60 5.50% per annum after age 60 Water & Sewer - 5.50% per annum	City - 6.00% per annum prior to age 60 5.50% per annum after age 60 Water & Sewer - 5.50% per annum
Expected return on plan assets	City - 6.00% per annum Water & Sewer - 5.70% per annum	City - 6.00% per annum Water & Sewer - 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	City - 3.50% per annum Water & Sewer - 3.5% per annum	City - 4.00% per annum Water & Sewer - 3.5% per annum
Withdrawals	None	None
Maximum pension	City - \$1,722.22 per year of service Water and Sewer - Lesser of 2% or \$1,722.22 per year of service	City - \$1,722.22 per year of service Water and Sewer - 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

Information about financial position of the City's defined benefit plan as at period end is as follows:

	<b>2017</b>	2016
Changes in accrued benefit obligation:		
Balance - beginning of year	<b>\$ 73,360,100</b>	\$ 69,009,849
Current service costs	<b>2,649,077</b>	2,577,926
Interest on liabilities	<b>4,390,023</b>	4,139,591
Employee past service contributions	<b>2,476</b>	110,800
Actuarial losses	<b>737,850</b>	244,000
Benefits paid	<b>(3,037,653)</b>	(2,722,066)
Balance - end of year	<b><u>78,101,873</u></b>	<u>73,360,100</u>
Change in fair value of plan assets:		
Balance - beginning of year	<b>81,688,809</b>	72,208,783
Employer contributions	<b>1,639,905</b>	1,595,859
Employee contributions	<b>1,642,831</b>	1,706,659
Investment return	<b>4,690,008</b>	9,288,109
Administrative fees	<b>(450,606)</b>	(388,534)
Benefits paid	<b>(3,037,653)</b>	(2,722,067)
Balance - end of year	<b><u>86,173,294</u></b>	<u>81,688,809</u>

**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**9. Accrued Pension Asset (continued)**

	2017	2016
Change in unamortized actuarial gains and losses:		
Balance - beginning of year	(4,305,633)	-
Experience gains and losses	1,406,667	(4,305,633)
Amortization of actuarial gains and losses	<u>391,421</u>	<u>-</u>
Balance - end of year	<u>(2,507,545)</u>	<u>(4,305,633)</u>
Pension valuation allowance	<u>(5,563,876)</u>	<u>(4,023,076)</u>
Accrued pension asset	<u>\$ -</u>	<u>\$ -</u>
The expense for the defined benefit plans is as follows:		
Current service costs	\$ 2,649,077	\$ 2,577,926
Amortization of actuarial gains and losses	(391,421)	-
Employee contributions	(1,639,905)	(1,595,859)
Interest on liabilities	4,390,023	4,139,591
Expected investment return	<u>(4,908,668)</u>	<u>(4,349,941)</u>
Pension expense	<u>\$ 99,106</u>	<u>\$ 771,717</u>
Expected return on plan assets	5.70 %	5.70 %
Actual net rate of return	9.42 %	4.66 %

The valuation allowance is required by PS 3250.050 because the City can not access the surplus and therefore does not meet the requirements for recognition as an asset in the consolidated financial statements of the City.

Information about the financial position of the Charlottetown Water and Sewer Corporation 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 losses	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	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>

**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**9. Accrued Pension Asset (continued)**

	2017	2016
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	(40,881)	-
	<u>(85,772)</u>	<u>204,383</u>
Balance - end of year	<u>(85,772)</u>	<u>204,383</u>
Accrued pension asset	<u>\$ 259,588</u>	<u>\$ 242,893</u>

The expense for the defined benefit plans is as follows:

Current service costs	\$ 117,544	\$ 148,677
Amortization of actuarial gains and losses	40,876	-
Employee contributions	(16,355)	(20,777)
Interest on liabilities	550,959	535,180
Expected investment return	(554,688)	(546,417)
	<u>\$ 138,336</u>	<u>\$ 116,663</u>
Pension expense	<u>\$ 138,336</u>	<u>\$ 116,663</u>
Consolidated Pension Expense	\$ 237,442	\$ 888,380
Consolidated Accrued Pension Asset	\$ 259,588	\$ 242,893

**Employee Future Benefits - Defined Contribution Pension Plan**

The City provides the Mayor, CAO, and Council with a defined contribution pension plan. RRSP payments are made by the City directly to the financial institution on behalf of certain individuals (self directed RRSP plans) and for others the City administers the RRSP account. This RRSP plan is in the name of the City with the CAO named as the administrator on the account. The December 31, 2017 contribution rate was 12.22% (2016 - 12.22%) and contributions for Mayor and Council for 2017 are \$48,877 (2016 - \$48,208) and CAO were \$17,207 (2016 - \$11,516).

Charlottetown Civic Centre Management Inc. maintains a defined contribution RRSP plan for certain employees. RRSP expense for these employees for the year ended December 31, 2017 is \$16,293 (2016 - \$15,354) and is included in payroll expenses.

Capital Area Recreation Inc. maintains a defined contribution RRSP plan for certain management and administration employees. RRSP plan is a 5% matching contribution plan. RRSP expense for these employees for the year ended December 31, 2017 is \$27,115 (2016 - \$27,626) and is included in payroll expenses.

**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**10. Bank Indebtedness and Overdrafts**

	2017	2016
Royal Bank of Canada - prime less 0.60%;	<u>\$ 27,255,973</u>	<u>\$ 18,212,549</u>

The City has two approved credit facilities with RBC of \$10,000,000 and \$5,500,000; secured by resolution approved by council; short-term financing on capital projects.

The City pools its various bank accounts and draws on the overdraft up to its net cash balance. Once the net cash position is exceeded, lines of credit are accessed.

The City also has two approved lines of credit in 2017 with National Bank for \$10,000,000 each for short-term financing on capital projects and have not been drawn as of year end date .

**11. Deferred Revenue**

	2017	2016
New Deal Gas Tax Funding	\$ 1,745,613	\$ 2,317,847
Tourism Accommodation Levy	522,053	464,408
Civic Centre Management Inc and CARI - deferred contributions	2,262,075	2,375,977
Parking	579,250	579,250
Other	54,678	56,270
	<u>\$ 5,163,669</u>	<u>\$ 5,793,752</u>

Under the New Deal Gas Tax Funding for Incorporated Communities and the New Deal for Cities & Communities, the City is allocated \$3,091,818 per year for fiscal years ending March 31, 2015 and 2016, \$3,291,655 for fiscal years ending March 31, 2017 and 2018. 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.

During the year, the City received Gas Tax funding of \$3,291,655, and incurred eligible expenditures of \$3,877,212.

Amounts included in deferred revenue related to parking are based on agreements whereby the City receives certain amounts which are required to be used for the creation of parking spaces within the city or are payment in lieu of the developer providing parking. The city has restricted these amounts for use on parking and related costs.

**12. Sick Leave and Post Employment Benefits**

The City of Charlottetown provides sick leave benefits allowing employees' unused sick leave to accumulate to a maximum number of days, which varies by employment agreement. The City of Charlottetown also provides for the payment of post-employment benefits to employees based on length of service and final earnings. The post-employment benefits are calculated at three months' salary upon completion of ten years of full-time continuous service as well as an additional one month for each extra five years of service, to a maximum of six months.

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

**CITY OF CHARLOTTETOWN  
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**12. Sick Leave and Post Employment Benefits (continued)**

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 service. Employees may accumulate 100% of their unused sick days, up to a maximum of 300 days for CUPE 501 WWTP, CUPE 830, and Police and 350 days for UPSE, management and Non Union and CUPE 501 Civic 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 the employee and following this payment, any unused accumulated days are forfeited.

Actuarial valuations of the accrued benefit obligations for the above benefits were completed as of the effective date of December 31, 2017 by Eckler Partners Ltd., a firm of consulting actuaries. The valuation results were extrapolated by Eckler Partners Ltd. back to December 31, 2016 and January 1, 2016 to provide comparative information.

In determining liabilities and current service costs, the actuaries have used the projected unit credit method, prorated on service. Actuarial gains and losses are to be amortized over the expected average remaining service life of active employees, which have been determined to be 11 years.

The actuarial valuation was done using the following assumptions:

<b>Assumption</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Discount rate	3.50% per annum	3.50% per annum
Retirement age	65% at the age at which "Rule of 85" is attained 35% at age 65	65% at the age at which "Rule of 85" is attained 35% at age 65
Mortality	CPM2014 Combined Mortality table projected with Scale CPM-B	CPM2014 Combined Mortality table projected with Scale CPM-B
Salary growth rate	3.50% per annum	3.50% per annum
Withdrawals	155 Service Tables	155 Service Tables
Payroll taxes	18%	18%

Information about the City's accrued benefit obligations as at period end is as follows:

	<b>2017</b>	2016
Changes in accrued benefit obligation:		
Sick leave - beginning of year	<b>\$ 3,061,434</b>	\$ 2,959,222
Current service costs	<b>284,108</b>	274,500
Interest on liabilities	<b>111,330</b>	108,270
Benefits paid	<b>(329,352)</b>	(280,558)
	<b>3,127,520</b>	3,061,434
Sick leave - end of year		

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**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**12. Sick Leave and Post Employment Benefits (continued)**

	2017	2016
Retiring allowance - beginning of year	<b>2,925,750</b>	3,008,063
Current service costs	<b>197,882</b>	191,190
Interest on liabilities	<b>103,640</b>	105,344
Benefits paid	<b>(324,953)</b>	(378,847)
	<b>2,902,319</b>	2,925,750
Retiring allowance - end of year	<b>2,902,319</b>	2,925,750
Accrued benefit obligations - end of year	<b>\$ 6,029,839</b>	\$ 5,987,184

Effective July 1, 2015, the City of Charlottetown adjusted Council's transition allowance. The transition allowance is equal to two weeks for each year served to a maximum of 26 weeks and the transition allowance is retroactive to the date that all current Members of Council were elected. The liability for 2017 was determined to be \$122,597 (2016 - \$109,679)



**CITY OF CHARLOTTETOWN  
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**13. Long-Term Debt**

	2017	2016
RBC - 4.06%; SWAP transaction maturing August 3, 2030	<b>\$ 16,120,000</b>	\$ 17,042,000
TD - 2.9%; SWAP transaction; renewable January 2018; maturing August 19, 2033	<b>5,763,527</b>	6,078,779
CDS Clearing and Depository Services Inc. - 5.79%; Debenture maturing July 16, 2024	<b>9,677,833</b>	10,793,188
CMHC - 4.12%; repayable in blended annual installments of \$633,100; and matures on March 1, 2031	<b>6,626,372</b>	6,843,351
TD - 4.465%; SWAP transaction; renewable January 2018; maturing August 19, 2033	<b>8,518,957</b>	8,886,548
CMHC - 3.7%; repayable in blended annual installments of \$530,410; and matures on September 1, 2030	<b>5,396,007</b>	5,684,699
TD - 2.26%; SWAP transaction maturing January 22, 2018	<b>1,597,963</b>	1,931,551
RBC - 3.04%; SWAP transaction maturing May 27, 2021	<b>1,736,003</b>	2,204,003
TD & RBC - Various rates 1.684%-4.08%, payments and maturity dates from 2018 through 2025.	<b>1,918,064</b>	2,203,706
RBC - 2.58%; repayable in blended quarterly installments of \$11,199; maturing on January 14, 2019	<b>54,927</b>	97,603
RBC - 2.25%; SWAP transaction maturing December 6, 2036	<b>8,656,000</b>	9,000,000
TD - 3.17%; SWAP transaction maturing November 30, 2022	<b>2,542,677</b>	3,023,576
Scotiabank - prime less 0.25%; repayable in monthly installments of \$3,208 plus interest; due June 1, 2024	<b>250,428</b>	288,924
RBC - (CARI) 3.17%; repayable in blended monthly installments of \$7,219; due August 2020	<b>221,276</b>	298,781
	<b><u>\$ 69,080,034</u></b>	<b><u>\$ 74,376,709</u></b>

Principal portion of long-term debt is expected to be repaid over the next five years and thereafter as follows:

2018	\$ 5,862,443
2019	5,941,632
2020	6,092,931
2021	5,859,173
2022	5,526,918
Thereafter	39,796,937

**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**14. Accumulated Surplus**

	2017	2016
Unrestricted surplus	\$ 100,074,286	\$ 88,805,779
Restricted surplus		
Sick and post-employment benefits reserve	3,608,186	4,183,468
Event attraction reserve	<u>12,831</u>	<u>12,831</u>
Total Accumulated Surplus	<u>\$ 103,695,303</u>	<u>\$ 93,002,078</u>

**15. Commitments and Contingencies**

**a) Property tax relief**

For development and cultural reasons, the City has agreed to reduce its portion of property taxes for the Confederation Centre of the Arts, the Charlottetown Airport Authority, Capital Area Recreation Inc. and various organizations under the Development Tax Incentive Program and the Heritage Grant Program. For the year ended December 31, 2017, this amounted to total property tax reductions of \$1,082,987 (2016 - \$1,101,169).

**b) Legal matters**

The City is involved in certain legal disputes concerning grievance and other labour disputes. No amounts have been accrued by the City as the outcomes of the disputes are uncertain. There is one claim that is being defended by the City's insurer in which the only potential expense for the City is for the policy deductible and/or any claims for punitive or exemplary damages.

**c) Capital Area Recreation Inc**

City of Charlottetown has agreed to provide 87% to the capital addition or replacement cost net of any funding from the Town of Stratford or any other private or public entities.

**d) Operating leases**

The following is a schedule of the future minimum lease payments on 7 operating leases expiring between July 2017 and January 2020:

Year ended December 31, 2017	\$ 45,359
2018	31,082
2019	9,790
2020	9,150
2021	991

**e) Transit service**

A resolution of City Council on September 14, 2015 approved renewing their agreement with Trius Tours for the purpose of providing transit service for the City of Charlottetown. The agreement was renewed for the period beginning October 1, 2015 and ending on September 30, 2025 but includes provision to end with notice given. The annual subsidy provided by the City to Trius Tours is \$820,563 for 2017. This amount will increase every year by the Consumer Price Index until the agreement expires. The agreement can be terminated by either party by providing notice.

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**15. Commitments and Contingencies (continued)**

**f) Universal Metering**

Through resolutions of City Council in 2015, the City has committed to spend \$1,204,511 for this project. At December 31, 2017, \$1,200,440 of the approved costs for this project have been incurred.

**g) Miltonvale Wellfield Development**

Through resolutions of City Council in 2016, the City has committed to spend \$7,093,507 in Miltonvale Wellfield Development. \$5,320,130 of this project will be funded by the Canada - Prince Edward Island Building Canada Fund.

At December 31, 2017, \$4,639,257 of the approved costs for this project have been incurred.

**h) 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.

**i) Parkdale Water System**

Through resolutions of City Council in 2017, the City has committed to Parkdale Water System and funding to be received through the Clean Water Wastewater Fund in the amount of \$3,300,000.

At December 31, 2017, \$2,206,172 remains to be incurred.

**j) City Contracts**

Through resolutions of City Council, the City has committed to spend \$2,420,370 for various capital projects.

At December 31, 2017, \$1,243,903 of the approved costs have been incurred.

**k) Bell Aliant Regional Communications Commitment**

The City of Charlottetown has a contract with Bell Aliant Regional Communications to acquire all local access, internet, data and long distance phone services for a period of ten years commencing January 1, 2014 and expiring December 31, 2023. Also, as part of the agreement, the City receives \$70,000 for the naming rights of CARI.

**l) Accident Claims**

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

**m) Waste Water Treatment Plant**

At December 31, 2017, \$0 of the approved costs for this project have been incurred and \$1,503,194 remains to be incurred.

**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**15. Commitments and Contingencies (continued)**

**n) 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.

**16. Decommissioning Costs**

During the year ended December 31, 2016, the City approved a project which included the decommissioning of the lagoon in East Royalty. A provision for this 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.

**17. Contaminated Site**

The City approved a project to estimate the cost of a landfill closure plan for East Royalty Landfill site. 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 closure of East Royalty Landfill of \$4,826,438 (2016 - \$4,826,438) has been recorded in accounts payable and accrued liabilities. As at December 31, 2017, a total liability for the annual monitoring for the East Royalty Landfill of \$558,877 (2016 - \$558,877) was recorded in accounts payable and accrued liabilities.

**18. Restricted Cash**

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

	<b>2017</b>	2016 (Restated)
Restricted cash available for benefits - Beginning of Year	<b>\$ 4,183,468</b>	\$ 4,690,880
Due to operating fund for benefit payments	<b>(575,281)</b>	(507,412)
Restricted cash available for benefits - End of Year	<b><u>\$ 3,608,187</u></b>	<u>\$ 4,183,468</u>

Also, restricted cash is comprised of cash held in a separate bank account to fund Tourism Accommodation Levy and Gas Tax funds. These funds have been externally restricted. The continuity of restricted cash is as follows:

Restricted cash available for benefits - Beginning of Year	<b>\$ 1,322,168</b>	\$ 778,121
Contributions	<b>(212,583)</b>	544,047
Restricted cash available for benefits - End of Year	<b><u>\$ 1,109,585</u></b>	<u>\$ 1,322,168</u>

**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**19. Government Transfers For Operations**

	Budget 2017	Actual 2017	Actual 2016
Municipal support grant	\$ 10,984,903	\$ 11,838,681	\$ 10,957,980
Transit funding	180,000	180,000	180,000
Grant in lieu of property taxes (QEH)	140,000	140,000	140,000
	<u>\$ 11,304,903</u>	<u>\$ 12,158,681</u>	<u>\$ 11,277,980</u>

**20. Government Transfers For Capital**

	Budget 2017	Actual 2017	Actual 2016
New Deal Gas Tax	\$ 3,091,571	\$ 3,260,844	\$ 1,872,829
Infrastructure Funding	33,512,379	8,378,538	6,095,720
	<u>\$ 36,603,950</u>	<u>\$ 11,639,382</u>	<u>\$ 7,968,549</u>

**21. Comparative Figures**

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

**22. Segment Disclosure**

The City is a diversified municipal unit that provides a wide range of services to its citizens. For management reporting purposes the City's operations and activities are organized and reported by segment.

The major segments are as follows:

General Government Services

This segment is responsible for the overall financial and local government administration, municipal buildings, insurance and mayor and council. Its tasks include accounts payable and receivable, budgets and financial statements, administration and maintenance of bylaws.

Protective Services

This segment is responsible for the fire department, police department, street lights and emergency preparedness program for its resident. Its tasks include maintaining the safety and security of the City's residents.

Street Maintenance and Environment

This segment is responsible for public works, urban beautification, traffic and parking. Its tasks include planning, developing and maintaining roads, traffic operations, parking and snow removal operations.

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**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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**22. Segment Disclosure (continued)**

Recreation

This segment is responsible for promoting and offering recreation opportunities and activities for its residents. Its tasks include the operations and maintenance of the City parks and recreational buildings.

Development, Heritage and Other

This segment is responsible for transit, planning, tourism, economic development, event development, heritage, arts and culture, human resources and other.

Water and Sewer

This segment is responsible for the maintenance and operations of water and sewer services provided to residents and other customers.

**23. Subsequent Events**

**CADC windup**

Based on consultations, a Provincial committee has recommended the Province of Prince Edward Island explore a process of having the shares of CADC consolidated under provincial ownership.

**Borrowings**

The City has obtained long-term financing of \$22 million in early 2018.

**24. Future Changes in Accounting Standards**

The Public Sector Accounting Board of CPA Canada has issued new standards or amendments to standards that are not in effect as of the dates of these financial statements, and they are as follows:

Effective April 1, 2017:

PS 2200 Related Party Disclosures - defines related parties and establishes disclosures for related party transactions;

PS 3210 Assets - provides guidance for applying the definition of assets and establishes general disclosure requirements;

PS 3320 Contingent Assets - defines and establishes disclosure standards on contingent assets;

PS 3380 Contractual Rights - defines and establishes disclosure standards on contractual rights;

PS 3420 Inter-entity Transactions - establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

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**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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**24. Future Changes in Accounting Standards**

Effective April 1, 2018:

PS 3430 Restructuring Transactions - establishes standards on how to account for and report restructuring transactions.

Effective April 1, 2019:

PS 1201 Financial Statement Presentation - establishes general reporting principles and standards for the disclosure of information;

PS 2601 Foreign Current Translation - establishes standards on how to account for an report transactions that are denominated in a foreign currency;

PS 3041 Portfolio Investments - establishes standards on how to account for and report portfolio investments;

PS 3450 Financial Instruments - establishes standards on how to account for an report all types of financial instruments including derivatives.

The City of Charlottetown is currently analyzing the impact of these new amended standards, and plans to adopt them on the effective dates.

**CITY OF CHARLOTTETOWN  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**25. Budget Figures**

The columns presented as budget on the statements of operations and the attached schedules were not subject to audit or review by the external auditor.

Charlottetown Area *Municipal Act* Section 37 requires that the City cannot budget for a deficit and the City is in compliance with the Act.

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

<b>Revenues</b>	<b>Per Budget Document</b>	<b>Net Adjustments</b>	<b>Consolidated Budget</b>
Property taxes	\$33,348,578	\$-	\$33,348,578
Government transfers for operations	11,124,903	180,000	11,304,903
Water and sewer	9,928,987	(1,072,125)	8,856,862
Recreation	660,100	2,992,427	3,652,527
Parking	1,310,000	-	1,310,000
Police protections services	1,116,000	-	1,116,000
Rentals	770,200	(205,000)	565,200
Licenses	538,000	-	538,000
Interest and other	51,000	-	51,000
Net income from CADC	-	52,170	52,170
Provincial Infrastructure	1,010,000	-	1,010,000
Deficit (prior year)	(557,317)	557,317	-
Parkland reserve transfer	146,227	(146,227)	-
<b>Total Revenues</b>	<b>59,446,678</b>	<b>2,358,562</b>	<b>61,805,240</b>
<b>Expenses</b>			
Amortization	-	5,158,527	5,158,527
Development, heritage and other	8,840,914	(1,601,295)	7,239,619
General government	5,815,993	(35,000)	5,780,993
Interest on long term debt	6,008,845	(2,858,690)	3,150,155
Parks and recreation	3,577,291	4,285,627	7,862,918
Protective services	14,056,905	(937,125)	13,119,780
Street maintenance	11,244,185	-	11,244,185
Water and sewer	9,898,579	(2,601,373)	7,297,206
<b>Total Expenses</b>	<b>59,442,712</b>	<b>1,410,671</b>	<b>60,853,383</b>
<b>Operating Surplus</b>	<b>\$ 3,966</b>		<b>\$951,857</b>
Government Transfers for Capital	-	-	<b>36,603,950</b>
<b>Annual Surplus</b>	<b>\$3,966</b>	<b>\$ 947,891</b>	<b>\$37,555,807</b>



**CITY OF CHARLOTTETOWN  
SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEGMENT OPERATING DISCLOSURES  
YEAR ENDED DECEMBER 31, 2017**

	General Government	Protective Services	Street Maintenance & Environment	Parks & Recreation	Development, Heritage and Other	Water and Sewer	Total
<b>Revenues</b>							
Property tax	\$32,249,052	\$ -	\$ -	\$ -	\$ -	\$ -	\$32,249,052
Government transfers for operations	12,158,681	-	-	-	-	-	12,158,681
MCEG	1,139,892	-	-	-	-	1,119,095	2,258,987
Sales of goods and services	-	-	-	-	-	8,688,180	8,688,180
Water and sewer	-	-	1,676,708	-	-	-	1,676,708
Parking (net)	-	-	-	-	-	-	1,208,337
Police Court	-	1,208,337	-	-	-	-	1,208,337
Licenses	652,312	-	-	-	-	-	652,312
Other income	-	-	-	-	-	-	-
Tourism Accommodation Levy	-	-	-	-	1,166,734	-	1,166,734
Rentals	-	-	-	-	880,896	-	880,896
Recreation	-	-	-	4,519,766	-	-	4,519,766
Net income from CADDC	-	-	-	-	58,292	-	58,292
Interest and other	-	-	-	-	71,745	-	71,745
	46,199,937	1,208,337	1,676,708	4,519,766	2,177,667	9,807,275	65,589,690
<b>Expenses</b>							
Salaries and benefits	2,521,923	10,419,647	5,239,967	4,521,540	1,673,900	3,440,677	27,817,654
Goods and services	3,355,456	2,229,529	6,071,801	3,280,295	5,113,836	3,937,449	23,988,366
Tourism Accommodation Levy	1,166,734	-	-	-	-	-	1,166,734
Interest on long-term debt	2,808,778	-	-	-	-	982,861	3,791,639
Amortization	5,224,606	-	-	823,325	-	2,751,914	8,799,845
	15,077,497	12,649,176	11,311,768	8,625,160	6,787,736	11,112,901	65,564,238
<b>Annual surplus (deficit)</b>	\$31,122,440	\$(11,440,839)	\$(9,635,060)	\$(4,105,394)	\$(4,610,069)	\$(1,305,626)	\$25,452

Schedule 1

**CITY OF CHARLOTTETOWN  
SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEGMENT OPERATING DISCLOSURES  
YEAR ENDED DECEMBER 31, 2016**

Schedule 1 (continued)

	General Government	Protective Services	Street Maintenance & Environment	Parks & Recreation	Development, Heritage and Other	Water and Sewer	Total
<b>Revenues</b>							
Property tax	\$31,896,601	\$ -	\$ -	\$ -	\$ -	\$ -	\$31,896,601
Government transfers for operations	11,277,980	-	-	-	-	-	11,277,980
Municipal Capital Expenditure Grant	1,010,000	-	-	-	-	-	1,010,000
Sales of goods and services	-	-	-	-	-	8,463,925	8,463,925
Water and sewer	-	-	-	-	-	1,322,471	1,322,471
Parking (net)-	-	1,322,471	-	-	-	1,136,661	1,136,661
Police Court-	1,136,661	-	-	-	-	-	1,136,661
Licenses	460,993	-	-	-	-	-	460,993
Other income	-	-	-	-	-	-	-
Tourism Accommodation Levy	-	-	-	-	1,225,572	-	1,225,572
Rentals	-	-	-	-	956,915	-	956,915
Recreation	-	-	-	4,500,710	-	-	4,500,710
Net income from CADC	-	-	-	-	51,473	-	51,473
Interest and other	-	-	-	-	68,938	-	68,938
	44,645,574	1,136,661	1,322,471	4,500,710	2,302,898	8,463,925	62,372,239
<b>Expenses</b>							
Salaries and benefits	2,231,626	10,198,731	4,923,805	4,364,268	1,569,713	3,498,893	26,787,036
Goods and services	2,972,717	2,569,220	6,084,352	3,488,127	4,309,596	3,319,409	22,743,421
Tourism Accommodation	1,225,572	-	-	-	-	-	1,225,572
Interest on long-term debt	2,497,691	-	-	-	-	1,011,461	3,509,152
Amortization	4,397,233	-	-	745,016	-	2,431,942	7,574,191
	13,324,839	12,767,951	11,008,157	8,597,411	5,879,309	10,261,705	61,839,372
<b>Annual surplus (deficit)</b>	\$31,320,735	\$(11,631,290)	\$(9,685,686)	\$(4,096,701)	\$(3,576,411)	\$(1,797,780)	\$532,867

**CITY OF CHARLOTTETOWN  
SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS - TANGIBLE CAPITAL ASSETS  
DECEMBER 31, 2017**

	Cost Beginning of Year	Additions	Disposals and Write Downs	Cost End of Year	Accum Amort Beginning of Year	Amort in the Year	Disposals and Write Downs	Accum Amort End of Year	Net Book Value
<b>City of Charlottetown</b>									<b>Schedule 2</b>
Land	\$ 10,743,467	\$ 961,523	-	\$ 11,704,990	\$ -	-	-	\$ -	\$ 11,704,990
Buildings	24,993,713	770,205	-	25,763,918	21,609,168	575,450	-	22,184,618	3,579,300
Assets under construction	-	222,751	-	222,751	-	-	-	-	222,751
Rinks/arenas/ parks/fields	8,971,660	526,744	-	9,498,404	5,050,665	567,345	-	5,618,010	3,880,394
Parking garages	16,707,762	359,147	-	17,066,909	7,696,434	401,085	-	8,097,519	8,969,390
Parking meters	920,498	-	-	920,498	584,906	-	-	584,906	335,592
Equipment and motor vehicles	15,916,504	1,377,002	-	17,293,506	9,938,733	1,335,607	-	11,274,340	6,019,166
Computer software	-	109,205	-	109,205	-	54,602	-	54,602	54,603
Streets/sidewalks	33,259,919	5,667,149	-	38,927,068	18,121,914	1,465,831	-	19,587,745	19,339,323
Storm sewers	33,674,296	1,444,610	-	35,118,906	5,964,570	629,251	-	6,593,821	28,525,085
Street lights	4,200,181	571,538	-	4,771,719	2,077,381	195,435	-	2,272,816	2,498,903
	149,388,000	12,009,874	-	161,397,874	71,043,771	5,224,606	-	76,268,377	85,129,497
<b>Charlottetown Water &amp; Sewer Corporation</b>									
Water system	47,999,029	9,137,470	-	57,136,499	18,740,656	1,142,730	-	19,883,386	37,253,113
Sewerage system	38,633,086	2,182,905	-	40,815,991	10,256,969	747,960	-	11,004,929	29,811,062
Treatment plant	40,638,513	2,422,676	-	43,061,189	7,545,865	861,224	-	8,407,089	34,654,100
	127,270,628	13,743,051	-	141,013,679	36,543,490	2,751,914	-	39,295,404	101,718,275
CAR/	23,630,190	342,388	-	23,972,578	10,357,768	681,745	-	11,039,513	12,933,065
CCCCMI	2,621,956	125,535	-	2,747,491	2,388,811	141,580	-	2,530,391	217,100
	153,522,774	14,210,974	-	167,733,748	49,290,069	3,575,239	-	52,865,308	114,868,440
	\$ 302,910,774	\$ 26,220,848	\$ -	\$ 329,131,622	\$ 120,333,840	\$ 8,799,845	\$ -	\$ 129,133,685	\$ 199,997,937

**CITY OF CHARLOTTETOWN  
SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
TANGIBLE CAPITAL ASSETS  
DECEMBER 31, 2016**

	Schedule 2 (continued)									
	Cost Beginning of Year	Additions	Disposals and Write Downs	Cost End of Year	Accum Amort Beginning of Year	Amort in the Year	Disposals and Write Downs	Accum Amort End of Year	Net Book Value	
<b>City of Charlottetown</b>										
Land	\$ 10,743,467	\$ -	\$ -	\$ 10,743,467	\$ -	\$ -	\$ -	\$ -	\$ 10,743,467	
Buildings	24,593,937	399,776	-	24,993,713	21,050,777	558,391	-	21,609,168	3,384,545	
Rinks/arenas/ parks/fields	8,220,507	751,153	-	8,971,660	4,548,515	502,150	-	5,050,665	3,920,995	
Parking garages	16,601,448	106,314	-	16,707,762	7,311,084	385,350	-	7,696,434	9,011,328	
Parking meters	920,498	-	-	920,498	584,906	-	-	584,906	335,592	
Equipment and Motor Vehicles	14,790,925	1,125,579	-	15,916,504	8,938,279	1,000,454	-	9,938,733	5,977,771	
Streets/sidewalks	31,068,902	2,191,017	-	33,259,919	16,916,076	1,205,838	-	18,121,914	15,138,005	
Storm sewers	31,827,164	1,847,132	-	33,674,296	5,369,347	595,223	-	5,964,570	27,709,726	
Street lights	3,417,799	782,382	-	4,200,181	1,927,554	149,827	-	2,077,381	2,122,800	
	142,184,647	7,203,353	-	149,388,000	66,646,538	4,397,233	-	71,043,771	78,344,229	
<b>Charlottetown Water &amp; Sewer Corporation</b>										
Water system	43,374,928	4,624,101	-	47,999,029	17,735,450	1,005,206	-	18,740,656	29,258,373	
Sewerage system	32,942,137	5,690,949	-	38,633,086	9,441,639	815,330	-	10,256,969	28,376,117	
Treatment plant	40,361,379	277,134	-	40,638,513	6,934,458	611,407	-	7,545,865	33,092,648	
	116,678,444	10,592,184	-	127,270,628	34,111,547	2,431,943	-	36,543,490	90,727,138	
	23,571,508	58,682	-	23,630,190	9,746,562	611,206	-	10,357,768	13,272,422	
	2,450,500	171,456	-	2,621,956	2,255,002	133,809	-	2,388,811	233,145	
<b>CARI</b>	142,700,452	10,822,322	-	153,522,774	46,113,111	3,176,958	-	49,290,069	104,232,705	
<b>CCCCMI</b>	\$ 284,885,099	\$ 18,025,675	\$ -	\$ 302,910,774	\$ 112,759,649	\$ 7,574,191	\$ -	\$ 120,333,840	\$ 182,576,934	