

CHARLOTTETOWN WATER AND SEWER CORPORATION
FINANCIAL STATEMENTS
MARCH 31, 2023

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

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



Chief Administrative Officer

November 2, 2023

INDEPENDENT AUDITOR'S REPORT

TO THE MAYOR AND MEMBERS OF COUNCIL

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, 2023, and the statements of operations, changes in net debt and cash flow for the year then ended, and accompanying schedules and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Charlottetown Water and Sewer Corporation as at March 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for the Public Sector.

Basis for Opinion

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.

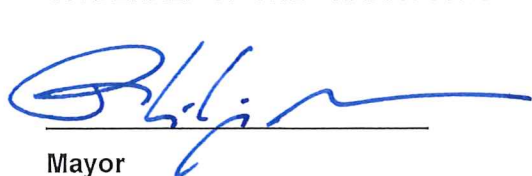
CHARLOTTETOWN, P.E.I.
NOVEMBER 2, 2023

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CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2023

	2023	2022
Financial Assets		
Cash (Note 5)	\$ 13,078,713	\$ 9,774,925
Restricted cash (Note 5)	153,308	153,308
Accounts receivable (Note 6)	1,737,560	1,893,122
Capital grants receivable (Note 7)	490,369	520,788
Due from related parties (Note 8)	1,396,744	5,917,895
Other assets	2,710	6,750
Total Financial Assets	16,859,404	18,266,788
Liabilities		
Accounts payable and accrued liabilities	3,291,850	1,888,912
Accrued pension liability (Note 9)	29,228	77,960
Deferred revenue (Note 10)	3,845,123	3,900,878
Due to related party (Note 11)	33,955,583	36,539,588
Total Liabilities	41,121,784	42,407,338
Net Debt - Statement 3	(24,262,380)	(24,140,550)
Non-Financial Assets		
Inventory of supplies	2,431,973	2,256,636
Prepaid expenses	66,754	108,773
Tangible capital assets - Schedule 1	133,579,374	130,371,602
Total Non-Financial Assets	136,078,101	132,737,011
Accumulated Surplus - Statement 2	\$111,815,721	\$108,596,461
Commitments and Contingencies (Note 12)		

ON BEHALF OF THE CHARLOTTETOWN WATER AND SEWER CORPORATION:



Mayor



Chair, Finance, Audit and Tendering Committee

Notes 1 - 21 are an integral part of these financial statements

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CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2023

	Budget 2023 (Note 13)	Actual 2023	Actual 2022
Revenues			
Operating			
Metered sales	\$11,437,290	\$ 11,551,514	\$ 10,753,759
Fire protection - City of Charlottetown	1,211,858	1,211,858	1,153,052
Wastewater treatment fees	600,000	473,103	483,643
Unmetered sales	294,550	305,219	248,524
Sludge handling	252,000	248,547	234,219
Government grants	-	211,579	119,580
Penalties	90,000	126,825	90,491
Services billed	255,000	77,032	151,247
Non-operating	38,500	58,311	66,879
	<u>14,179,198</u>	<u>14,263,988</u>	<u>13,301,240</u>
Expenditures			
Operating			
Amortization of tangible capital assets - Schedule 1	3,500,000	3,031,087	3,060,324
Debt interest charges	1,580,000	1,274,372	1,398,647
Fiona	-	299,942	-
Insurance and property taxes	189,213	156,354	140,847
Office and committee expenses	837,435	769,007	697,719
Pension expense (Note 9)	-	(15,963)	24,524
Repairs and maintenance	3,299,373	2,784,728	2,477,241
Utilities	1,343,741	1,232,489	1,216,360
Wages and benefits	4,233,456	3,859,447	3,741,361
	<u>14,983,218</u>	<u>13,391,463</u>	<u>12,757,023</u>
Operating Surplus (Deficit)	<u>(804,020)</u>	<u>872,525</u>	<u>544,217</u>
Other revenues (expenditures)			
Government transfers for capital (Note 14)	8,673,080	2,117,049	3,582,067
Municipal Capital Expenditure Grant (Note 15)	1,000,000	229,686	475,999
Extraordinary expenditures	(265,000)	-	-
Loss on disposal of tangible capital assets	-	-	(154)
	<u>9,408,080</u>	<u>2,346,735</u>	<u>4,058,066</u>
Annual Surplus	<u>\$ 8,604,060</u>	<u>3,219,260</u>	<u>4,602,283</u>
Accumulated Surplus - Beginning of Year		<u>108,596,461</u>	<u>103,994,178</u>
Accumulated Surplus - End of Year (Note 17)		<u>\$111,815,721</u>	<u>\$108,596,461</u>

Notes 1 - 21 are an integral part of these financial statements

CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF CHANGES IN NET DEBT
YEAR ENDED MARCH 31, 2023

	Budget 2023	Actual 2023	Actual 2022
Net Debt - Beginning of Year	\$ 24,140,550	\$ 24,140,550	\$ 26,781,438
Annual surplus	(8,604,060)	(3,219,260)	(4,602,283)
Amortization of tangible capital assets	(3,500,000)	(3,031,087)	(3,060,324)
Purchase of tangible capital assets	13,400,000	6,238,859	4,987,645
Proceeds from sale of tangible capital assets	-	-	(1,142)
Increase in inventory of supplies	-	175,337	11,440
Increase in prepaid expenses	-	(42,019)	23,930
Loss on disposal of tangible capital assets	-	-	(154)
Increase (Decrease) in Net Debt	1,295,940	121,830	(2,640,888)
Net Debt - End of Year	\$ 25,436,490	\$ 24,262,380	\$ 24,140,550

CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF CASH FLOW
YEAR ENDED MARCH 31, 2023

	2023	2022
Cash Flows From Operating Activities		
Annual surplus	\$ 3,219,260	\$ 4,602,283
Amortization of tangible capital assets	3,031,087	3,060,324
Loss on disposal of tangible capital assets	-	154
	<u>6,250,347</u>	<u>7,662,761</u>
Change in Non-Cash Working Capital		
Decrease in accounts receivable	185,982	1,686,828
Decrease in due to related party	4,521,151	812,767
Decrease in other assets	4,040	2,700
Increase in accrued pension liability	(48,732)	(28,081)
Increase (decrease) in accounts payable and accrued liabilities	1,402,914	(806,859)
Increase (decrease) in deferred revenue	(55,732)	989,386
Increase in inventory	(175,337)	(11,440)
(Increase) decrease in prepaid expenses	42,019	(23,933)
	<u>5,876,305</u>	<u>2,621,368</u>
	<u>12,126,652</u>	<u>10,284,129</u>
Cash Flows From Capital Activity		
Purchase of tangible capital assets	(6,238,859)	(4,987,645)
Proceeds from sale of tangible capital assets	-	1,142
	<u>(6,238,859)</u>	<u>(4,986,503)</u>
Cash Flows From Financing Activities		
Repayment to related party	(2,584,005)	(2,581,894)
Increase in cash	<u>3,303,788</u>	<u>2,715,732</u>
Cash - Beginning of Year	<u>9,928,233</u>	<u>7,212,501</u>
Cash - End of Year (Note 5)	<u>\$ 13,232,021</u>	<u>\$ 9,928,233</u>

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023

1. Description of Business

The Charlottetown Water and Sewer Corporation (the "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. Expenditures are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay.

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

3. Significant Accounting Policies

Cash

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

Restricted Cash

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

Accounts and Capital Grants Receivables

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

Deferred Revenue

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

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023

3. Significant Accounting Policies (continued)

Non-Financial Assets

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

Inventory of Supplies

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

Prepaid Expenses

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

Tangible Capital Assets

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. One-half of the annual rate is recorded in the year of acquisition; no amortization is recorded in the year of disposal.

Asset Retirement Obligations

Liabilities are recognized for statutory, contractual or legal obligations associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related tangible capital asset. In subsequent periods, the liability is adjusted for accretion and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is amortized on the same basis as the related asset and accretion expense is included in the Statement of Operations. Refer to Note 16 for the Corporation's estimated obligation for decommissioning of the lagoon in East Royalty.

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023

3. Significant Accounting Policies (continued)

Employee Future Benefits - Sick Leave and Retiring Allowance

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

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

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

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

Expenditures

Expenditures are recorded on an accrual basis. Expenditures 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
YEAR ENDED MARCH 31, 2023

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, inventory values 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 inventory values as inventory may become obsolete or unusable. 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. Cash

	2023	2022
Unrestricted cash	\$ 13,078,713	\$ 9,774,925
Restricted cash (Note 20)	153,308	153,308
	<u>\$ 13,232,021</u>	<u>\$ 9,928,233</u>

6. Accounts Receivable

	2023	2022
Trade receivables	\$ 2,078,185	\$ 2,075,604
Other receivables	25,796	28,436
Harmonized sales tax receivable	-	155,503
	<u>2,103,981</u>	<u>2,259,543</u>
Allowance for doubtful accounts	<u>(366,421)</u>	<u>(366,421)</u>
	<u>\$ 1,737,560</u>	<u>\$ 1,893,122</u>

7. Capital Grants Receivable

	2023	2022
Municipal Capital Expenditure Grant	\$ 297,588	\$ 483,265
Fiona claims	192,781	-
Investing in Canada Infrastructure Program	-	37,523
	<u>\$ 490,369</u>	<u>\$ 520,788</u>

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023

8. Due From (To) Related Parties

	2023	2022
City of Charlottetown - Capital Fund	\$ 5,100,890	\$ 4,973,408
Charlottetown Water and Sewer Corporation Superannuation Plan	(13,811)	(13,811)
City of Charlottetown - Revenue Fund	(3,690,335)	958,298
	<u>\$ 1,396,744</u>	<u>\$ 5,917,895</u>

9. Accrued Pension Liability

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, 2019 by Eckler Partners Ltd., a firm of consulting actuaries. The next valuation is scheduled to be completed for the year ending December 31, 2022.

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, 2023	March 31, 2022
Pre-retirement discount rate	5.55% per annum	5.55% per annum
Post-retirement discount rate	5.50% per annum	5.50% per annum
Expected return on plan assets	5.55% per annum	5.55% 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
YEAR ENDED MARCH 31, 2023

9. Accrued Pension Liability (continued)

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

	2023	2022
Changes in accrued benefit obligation:		
Balance - beginning of year	\$10,055,089	\$10,059,682
Current service costs	38,249	49,872
Interest on liabilities	537,924	540,443
Actuarial losses	288	98,893
Benefits paid	<u>(763,752)</u>	<u>(693,801)</u>
Balance - end of year	<u>9,867,798</u>	<u>10,055,089</u>
Change in fair value of plan assets:		
Balance - beginning of year	10,425,311	10,359,293
Employer contributions	32,769	52,605
Employee contributions	5,608	7,312
Investment return	558,476	557,351
Actuarial gain (loss) on plan assets	(553,887)	142,551
Benefits paid	<u>(763,752)</u>	<u>(693,801)</u>
Balance - end of year	<u>9,704,525</u>	<u>10,425,311</u>
Change in unamortized actuarial gains and losses:		
Balance - beginning of year	(448,182)	(405,652)
Experience gains and losses	554,175	(43,658)
Amortization of actuarial gains and losses	<u>28,052</u>	<u>1,128</u>
Balance - end of year	<u>134,045</u>	<u>(448,182)</u>
Accrued pension liability	<u>\$ (29,228)</u>	<u>\$ (77,960)</u>

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

Current service costs	\$ 38,249	\$ 49,872
Amortization of actuarial loss	(28,052)	(1,128)
Employee contributions	(5,608)	(7,312)
Interest on liabilities	537,924	540,443
Expected investment return	<u>(558,476)</u>	<u>(557,351)</u>
Pension expense	<u>\$ (15,963)</u>	<u>\$ 24,524</u>

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023

10. Deferred Revenue

	2023	2022
Deferred revenue - beginning of year	\$ 3,900,878	\$ 2,911,492
Allocation received	1,000,000	2,000,000
Eligible expenditures	<u>(1,055,755)</u>	<u>(1,010,614)</u>
Deferred revenue - end of year	<u>\$ 3,845,123</u>	<u>\$ 3,900,878</u>

Under the Canada Community Building Fund for Incorporated Communities, the Corporation was allocated \$1,000,000 (2022 - \$2,000,000) during the year from the City of Charlottetown. These funds, along with interest earned, must be used for eligible infrastructure and capacity building projects. Any funds received under this program, including interest earned, but not yet spent are recognized as deferred revenue at the end of the year.

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.

	2023	2022
TD - 2.87%; maturing February 2, 2045	\$ 14,357,889	\$ 14,822,021
CIBC - prime less 0.5%; Bankers Acceptance; maturing January 2038	7,383,750	7,878,750
RBC - 4.06%; Bankers Acceptance; maturing August 3, 2030	4,214,400	4,681,600
TD - 2.9%; Bankers Acceptance; renewable January 2023; maturing August 19, 2033	2,102,964	2,298,370
TD - 4.465%; Bankers Acceptance; renewable January 2023; maturing August 19, 2033	2,030,405	2,180,204
CMHC - 4.12%; maturing on March 1, 2031	1,696,583	1,872,668
CMHC - 3.7%; maturing on September 1, 2030	1,446,308	1,598,437
CDS Clearing and Depository Services Inc. - 5.79%; debenture maturing July 16, 2024	723,284	1,172,193
TD - 2.26%; Bankers Acceptance; repaid during the year	-	18,620

**CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023**

11. Due to Related Party (continued)

	2023	2022
TD Leasing - 2.82%; repaid during the year	-	16,725
	<u>\$ 33,955,583</u>	<u>\$ 36,539,588</u>

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

2024	\$ 2,635,689
2025	2,472,643
2026	2,289,626
2027	2,358,101
2028	2,427,981
Thereafter	21,771,543

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) 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.

d) Capital Commitments

The Corporation has awarded tenders totaling \$2,452,936 for capital projects to be completed over the next fiscal year.

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023

13. Budget Figures

A reconciliation of the 2023 fiscal operating budget prepared by Council to the budget figures disclosed in the financial statements is as follows:

	2023
Charlottetown Water and Sewer Corporation budgeted annual surplus	\$ 8,678,939
Less: Surplus from previous year	<u>(74,879)</u>
	<u>\$ 8,604,060</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.

14. Government Transfers For Capital

	2023	2022
Investing in Canada Infrastructure Program	\$ 1,061,294	\$ 2,038,624
Canada Community Building Fund	1,055,755	898,199
Clean Water Wastewater Fund	<u>-</u>	<u>645,244</u>
	<u>\$ 2,117,049</u>	<u>\$ 3,582,067</u>

15. Municipal Capital Expenditure Grant

The Municipal Capital Expenditure Grant (MCEG) is funding received from the Provincial government equivalent to 10% of the cost of capital expenditures paid by the Corporation and used to offset the Provincial portion of HST that is not recoverable by the Corporation.

16. 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, 2023, a total liability for the decommissioning of the East Royalty Lagoon of \$180,993 (2022 - \$181,323) has been recorded in accounts payable and accrued liabilities.

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023

17. Accumulated Surplus

	2023	2022
Accumulated surplus - unrestricted	\$ 12,038,622	\$ 14,611,139
Investment in Tangible Capital Assets	99,623,791	93,832,014
Internally restricted sick and post-employment reserve	<u>153,308</u>	<u>153,308</u>
Total accumulated surplus	<u>\$111,815,721</u>	<u>\$108,596,461</u>

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 year, the Corporation received \$1,211,858 (2022 - \$1,153,052) in operating revenue from the City of Charlottetown for fire protection services and \$51,886 (2022 - \$64,990) for sewer and water fees. During the year, the Corporation was allocated expenditures of \$ 205,000 (2022 - \$205,000) from the City of Charlottetown for facility rental and \$180,000 (2022 - \$180,000) for committee expenditures.

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

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

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

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

19. Non-Monetary Transactions

During the prior year, City Council approved an in-kind contribution in the form of a Committee Chair for updates to wastewater guidelines. During the year \$12,500 (2022 - \$12,500) has been recognized as donation expense and is included in office and committee expenses on the statement of operations.

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2023

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:

	2023	2022
Restricted cash available for benefits - beginning of year	\$ 153,308	\$ 153,308
Due to operating fund for benefit payments	-	-
Restricted cash available for benefits - end of year	<u>\$ 153,308</u>	<u>\$ 153,308</u>

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, 2023.

Credit risk

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

Interest rate risk

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

Liquidity risk

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

CHARLOTTETOWN WATER AND SEWER CORPORATION
SCHEDULE TO THE FINANCIAL STATEMENTS
TANGIBLE CAPITAL ASSETS
YEAR ENDED MARCH 31, 2023

	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	Schedule 1 Net Book Value
March 31, 2023									
Land	\$ 1,263,805	\$ -	\$ -	\$ 1,263,805	\$ -	\$ -	\$ -	\$ -	\$ 1,263,805
Land improvement	7,829	-	-	7,829	4,334	175	-	4,509	3,320
Water, sewer, and treatment plant	164,865,788	2,055,080	-	166,920,868	42,632,154	2,465,224	-	45,097,378	121,823,490
Buildings	4,727,309	-	-	4,727,309	1,691,581	80,143	-	1,771,724	2,955,585
Equipment	7,815,925	172,034	-	7,987,959	6,134,761	353,436	-	6,488,197	1,499,762
Computers and software	46,164	2,585	-	48,749	38,284	1,834	-	40,118	8,631
Vehicles	1,631,344	190,471	-	1,821,815	1,111,710	119,478	-	1,231,188	590,627
Furniture	572,882	-	-	572,882	518,898	10,797	-	529,695	43,187
Assets under construction	1,572,278	3,818,689	-	5,390,967	-	-	-	-	5,390,967
	\$182,503,324	\$ 6,238,859	\$ -	\$188,742,183	\$ 52,131,722	\$ 3,031,087	\$ -	\$ 55,162,809	\$133,579,374
March 31, 2022									
Land	\$ 1,263,805	\$ -	\$ -	\$ 1,263,805	\$ -	\$ -	\$ -	\$ -	\$ 1,263,805
Land improvements	7,829	-	-	7,829	4,150	184	-	4,334	3,495
Water, sewer, and treatment plant	161,770,649	3,095,139	-	164,865,788	40,153,129	2,479,025	-	42,632,154	122,233,634
Buildings	4,727,309	-	-	4,727,309	1,611,439	80,142	-	1,691,581	3,035,728
Equipment	7,691,308	124,617	-	7,815,925	5,730,048	404,713	-	6,134,761	1,681,164
Computers and software	42,726	3,438	-	46,164	36,744	1,540	-	38,284	7,880
Vehicles	1,480,942	191,315	(40,913)	1,631,344	1,069,996	81,331	(39,617)	1,111,710	519,634
Furniture	572,024	858	-	572,882	505,509	13,389	-	518,898	53,984
Assets under construction	-	1,572,278	-	1,572,278	-	-	-	-	1,572,278
	\$177,556,592	\$ 4,987,645	\$ (40,913)	\$182,503,324	\$ 49,111,015	\$ 3,060,324	\$ (39,617)	\$ 52,131,722	\$130,371,602