

CHARLOTTETOWN WATER AND SEWER CORPORATION
FINANCIAL STATEMENTS
MARCH 31, 2020

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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 18, 2020

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, 2020, and the statements of operations, changes in net debt and cash flow for the year then ended, 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, 2020, 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.

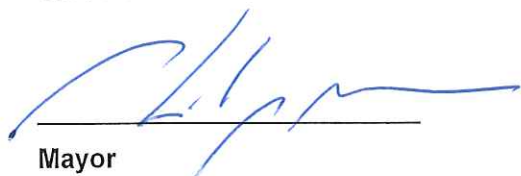
Charlottetown Professional Accountants Inc.


CHARLOTTETOWN, P.E.I.
NOVEMBER 18, 2020

CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2020

	2020	2019
Financial Assets		
Cash (Note 5)	\$ 11,414,248	\$ -
Accounts receivable (Note 6)	2,287,856	1,280,596
Capital grants receivable (Note 7)	3,776,394	3,168,656
Due from related parties (Note 8)	1,318,908	11,523,008
Other assets	12,150	14,850
Accrued pension asset (Note 9)	341,499	328,624
Total Financial Assets	19,151,055	16,315,734
Liabilities		
Bank indebtedness (Note 5)	-	12,323,897
Accounts payable and accrued liabilities	5,466,552	2,686,731
Deferred revenue (Note 10)	2,679,928	1,826,968
Due to related party (Note 11)	41,712,260	28,102,211
Total Liabilities	49,858,740	44,939,807
Net Debt - Statement 3	(30,707,685)	(28,624,073)
Non-Financial Assets		
Inventory of supplies	1,958,039	2,074,509
Prepaid expenses	74,989	52,801
Tangible capital assets - Schedule 1	125,791,826	107,599,150
Total Non-Financial Assets	127,824,854	109,726,460
Accumulated Surplus - Statement 2	\$ 97,117,169	\$ 81,102,387
Commitments and Contingencies (Note 12)		

ON BEHALF OF THE CHARLOTTETOWN WATER AND SEWER CORPORATION:


 Mayor


 Chair, Finance, Audit and Tendering Committee

Notes 1 - 24 are an integral part of these financial statements

M|R|S|B

CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2020

	Budget 2020 (Note 13)	Actual 2020	Actual 2019 (15 months) (Restated)
Revenues			
Operating			
Metered sales	\$10,607,370	\$10,606,163	\$ 9,950,858
Fire protection - City of Charlottetown	1,139,380	1,139,380	1,171,406
Unmetered sales	167,311	270,377	351,302
Sludge handling	180,000	227,558	223,649
Services billed	167,500	199,602	221,907
Penalties	90,000	95,999	115,409
Non-operating	37,500	90,949	86,802
Miscellaneous	-	6,511	-
	<u>12,389,061</u>	<u>12,636,539</u>	<u>12,121,333</u>
Expenditures			
Operating			
Amortization of tangible capital assets - Schedule 1	2,575,906	2,955,971	3,584,821
Debt interest charges	2,154,391	1,298,735	1,570,784
Extraordinary item (Note 14)	116,841	-	562,405
Insurance and property taxes	162,833	133,914	154,626
Office and committee expenses	759,585	633,649	677,705
Pension expense (Note 9)	-	77,585	75,551
Repairs and maintenance	2,383,604	2,295,337	2,099,529
Utilities	1,293,424	1,182,332	1,439,774
Wages and benefits	3,883,849	3,625,068	4,337,885
	<u>13,330,433</u>	<u>12,202,591</u>	<u>14,503,080</u>
Operating Surplus (Deficit)	<u>(941,372)</u>	<u>433,948</u>	<u>(2,381,747)</u>
Other revenues			
Government transfers for capital (Note 16)	21,169,875	13,964,244	6,622,757
Municipal Capital Expenditure Grant (Note 15)	2,150,000	1,672,698	807,079
	<u>23,319,875</u>	<u>15,636,942</u>	<u>7,429,836</u>
Annual Surplus (Deficit)	<u>\$22,378,503</u>	<u>16,070,890</u>	<u>5,048,089</u>
Accumulated Surplus - As Previously Reported		81,102,387	76,383,005
Prior period adjustment - Note 17		-	(245,488)
Accumulated Surplus - Beginning of Year		81,102,387	76,137,517
Payments from reserve		(56,108)	(83,219)
Accumulated Surplus - End of Year - Note 18		<u>\$97,117,169</u>	<u>\$81,102,387</u>

Notes 1 - 24 are an integral part of these financial statements

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CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF CHANGES IN NET DEBT
YEAR ENDED MARCH 31, 2020

	Budget 2020	Actual 2020	Actual 2019 (15 months) (Restated)
Net Debt - Beginning of Year	\$ 28,624,073	\$ 28,624,073	\$ 27,512,092
Annual deficit (surplus)	22,378,503	(16,070,890)	(5,048,089)
Amortization of tangible capital assets	(2,575,906)	(2,955,971)	(3,584,821)
Purchase of tangible capital assets	26,376,500	21,452,143	9,206,443
Proceeds from sale of tangible capital assets		(303,496)	-
Increase (decrease) in inventory of supplies	-	(116,470)	435,009
Increase in prepaid expenses	-	22,188	20,220
Decrease in reserve funds	-	56,108	83,219
Change in Net Debt	<u>46,179,097</u>	<u>2,083,612</u>	<u>1,111,981</u>
Net Debt - End of Year	<u>\$ 74,803,170</u>	<u>\$ 30,707,685</u>	<u>\$ 28,624,073</u>

Notes 1 - 24 are an integral part of these financial statements

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CHARLOTTETOWN WATER AND SEWER CORPORATION
STATEMENT OF CASH FLOW
YEAR ENDED MARCH 31, 2020

	2020	2019 (15 months) (Restated)
Cash Flows From Operating Activities		
Annual surplus	\$ 16,070,890	\$ 5,048,089
Amortization of tangible capital assets	<u>2,955,971</u>	<u>3,584,821</u>
	<u>19,026,861</u>	<u>8,632,910</u>
Change in Non-Cash Working Capital		
(Increase) decrease in accounts receivable	(1,614,998)	1,573,915
(Increase) decrease in due from related parties	10,204,100	(9,954,013)
Decrease in other assets	2,700	2,700
Increase in accrued pension asset	(12,877)	(69,035)
Increase (decrease) in accounts payable and accrued liabilities	2,779,823	(3,783,811)
Increase in deferred revenue	852,960	919,674
(Increase) decrease in inventory of supplies	116,470	(435,009)
Increase in prepaid expenses	<u>(22,188)</u>	<u>(20,218)</u>
	<u>12,305,990</u>	<u>(11,765,797)</u>
	<u>31,332,851</u>	<u>(3,132,887)</u>
Cash Flows From Capital Activity		
Purchase of tangible capital assets	(21,452,143)	(9,206,443)
Proceeds from sale of tangible capital assets	<u>303,496</u>	<u>-</u>
	<u>(21,148,647)</u>	<u>(9,206,443)</u>
Cash Flows From Financing Activities		
Proceeds from long term debt	15,750,000	9,900,000
Repayment of long term debt	(2,139,951)	(2,588,131)
Decrease in reserve funds	<u>(56,108)</u>	<u>(83,219)</u>
	<u>13,553,941</u>	<u>7,228,650</u>
Change in Cash (Bank Indebtedness)	23,738,145	(5,110,680)
Cash (Bank Indebtedness) - Beginning of Year	<u>(12,323,897)</u>	<u>(7,213,217)</u>
Cash (Bank indebtedness) - End of Year (Note 5)	<u>\$ 11,414,248</u>	<u>\$(12,323,897)</u>

Notes 1 - 24 are an integral part of these financial statements

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**CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020**

1. Description of Business

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

2. Basis of Presentation

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

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

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

3. Significant Accounting Policies

Cash

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

Restricted Cash

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

Accounts and Capital Grants Receivables

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

Deferred Revenue

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

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020

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.

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

**CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020**

3. Significant Accounting Policies (continued)

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

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

Reserves

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

Revenues

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

Government transfers are recognized as revenue in the 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

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

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020

4. Measurement Uncertainty and Use of Estimates

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

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

5. Cash (Bank Indebtedness)

	2020	2019
Unrestricted cash	\$ 20,043,692	\$ 8,916,958
Restricted cash (Note 21)	233,212	289,320
Bank indebtedness	<u>(8,862,656)</u>	<u>(21,530,175)</u>
	<u>\$ 11,414,248</u>	<u>\$ (12,323,897)</u>

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

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

6. Accounts Receivable

Trade receivables	\$ 2,151,293	\$ 1,375,572
Harmonized sales tax receivable	381,001	74,295
Other receivables	<u>26,236</u>	<u>25,796</u>
	2,558,530	1,475,663
Allowance for doubtful accounts	<u>(270,674)</u>	<u>(195,067)</u>
	<u>\$ 2,287,856</u>	<u>\$ 1,280,596</u>

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020

7. Capital Grants Receivable

	2020	2019
Clean Water Wastewater Fund	\$ 2,103,696	\$ 1,241,999
Municipal Capital Expenditure Grant	1,672,698	1,926,657
	<u>\$ 3,776,394</u>	<u>\$ 3,168,656</u>

8. Due From (To) Related Parties

City of Charlottetown - Revenue Fund	\$ 1,117,788	\$ 11,635,308
City of Charlottetown - Capital Fund	204,713	(91,346)
Charlottetown Water and Sewer Corporation Superannuation Plan	<u>(3,593)</u>	<u>(20,954)</u>
	<u>\$ 1,318,908</u>	<u>\$ 11,523,008</u>

9. Accrued Pension Asset

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

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

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

The actuarial valuation was done using the following assumptions:

Assumption	March 31, 2020	March 31, 2019
Pre-retirement discount rate	5.70% per annum	5.70% per annum
Post-retirement discount rate	5.50% per annum	5.50% per annum
Expected return on plan assets	5.70% per annum	5.70% per annum
Expected inflation	2.00% per annum	2.00% per annum
Retirement age	70% at the age at which "Rule of 85" is attained 30% at age 65	70% at the age at which "Rule of 85" is attained 30% at age 65
Rate of compensation increase	3.50% per annum	3.50% per annum
Withdrawals	None	None
Maximum pension	Lesser of 2% or \$1,722.22 per year of service	Lesser of 2% or \$1,722.22 per year of service
Percentage married	100%	100%
Spouse's age	Males assumed to be 3 years older	Males assumed to be 3 years older
Pre-retirement mortality	None	None
Post-retirement mortality	CPM2014 Combined Mortality table projected with Scale CPM-B	CPM2014 Combined Mortality table projected with Scale CPM-B

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020

9. Accrued Pension Asset (continued)

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

	2020	2019
Changes in accrued benefit obligation:		
Balance - beginning of year	\$10,146,322	\$10,119,329
Current service costs	69,256	117,657
Interest on liabilities	561,028	705,711
Actuarial (gains) losses	4,692	(15,094)
Benefits paid	(676,712)	(781,281)
Balance - end of year	<u>10,104,586</u>	<u>10,146,322</u>
Change in fair value of plan assets:		
Balance - beginning of year	10,348,273	10,464,689
Employer contributions	90,460	144,585
Employee contributions	10,522	16,857
Investment return	573,443	719,739
Actuarial loss on plan assets	(1,789,913)	(216,316)
Benefits paid	(676,712)	(781,281)
Balance - end of year	<u>8,556,073</u>	<u>10,348,273</u>
Change in unamortized actuarial gains and losses:		
Balance - beginning of year	126,673	(85,772)
Experience gains and losses	1,794,605	201,222
Amortization of actuarial gains and losses	(31,266)	11,223
Balance - end of year	<u>1,890,012</u>	<u>126,673</u>
Accrued pension asset	<u>\$ 341,499</u>	<u>\$ 328,624</u>

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

Current service costs	\$ 69,256	\$ 117,657
Amortization of actuarial loss	31,266	(11,223)
Employee contributions	(10,522)	(16,857)
Interest on liabilities	561,028	705,711
Expected investment return	(573,443)	(719,737)
Pension expense	<u>\$ 77,585</u>	<u>\$ 75,551</u>

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020

10. Deferred Revenue

	2020	2019
Deferred revenue - beginning of year	\$ 1,826,968	\$ 907,294
Allocation received	1,250,000	1,000,000
Eligible expenditures	<u>(397,040)</u>	<u>(80,326)</u>
Deferred revenue - end of year	<u>\$ 2,679,928</u>	<u>\$ 1,826,968</u>

Under the New Deal Gas Tax Funding for Incorporated Communities and the New Deal for Cities & Communities, the Corporation was allocated \$1,250,000 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.

CIBC - 2.276%; Bankers Acceptance; maturing January, 2038	\$ 8,868,747	\$ 9,363,749
RBC - 4.06%; Bankers Acceptance; maturing August 3, 2030	5,555,200	5,963,200
TD - 2.9%; Bankers Acceptance; renewable January, 2023; maturing August 19, 2033	2,672,605	2,851,748
TD - 4.465%; Bankers Acceptance; renewable January, 2023; maturing August 19, 2033	2,460,499	2,591,552
CMHC - 4.12%; matures on March 1, 2031	2,204,290	2,360,295
CDS Clearing and Depository Services Inc. - 5.79%; debenture maturing July 16, 2024	1,996,677	2,374,939
CMHC - 3.7%; matures on September 1, 2030	1,888,395	2,025,745
TD - 2.26%; Bankers Acceptance; maturing June, 2022	163,854	234,049

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020

11. Due to Related Party (cont'd)

	2020	2019
TD Leasing - balance of \$51,954 at 2.82%; maturing January 26, 2023; balance of \$27,758 at 2.002%; maturing December 22, 2020; RBC Leasing balance of \$22,913 at 2.00%; maturing on February 23, 2022	102,625	176,029
RBC - 3.04%; Bankers Acceptance; maturing May 27, 2021	88,312	160,905
TD - 2.87%; maturing February 3, 2045	15,711,056	-
	<u>\$ 41,712,260</u>	<u>\$ 28,102,211</u>

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

2021	\$ 2,587,355
2022	2,590,430
2023	2,583,017
2024	2,636,926
2025	2,473,912
Thereafter	28,840,620

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 \$8,300,949 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, 2020

13. Budget Figures

A reconciliation of the 2020 fiscal operating budget prepared by Council to the budget figures disclosed in the financial statements is as follows:

	2020
Charlottetown Water and Sewer Corporation budgeted annual surplus	\$ 8,628
Plus: Deficit from previous year	1,200,000
Less: Municipal Capital Expenditure Grant	<u>(2,150,000)</u>
	<u>\$ (941,372)</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. 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, 2020, a total liability for the decommissioning of the East Royalty Lagoon of \$1,017,405 (2019 - \$1,017,405) has been recorded in accounts payable and accrued liabilities.

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. Government Transfers For Capital

	2020	2019
Clean Water Wastewater Fund	\$13,567,204	\$ 6,184,873
New Deal Gas Tax	397,040	80,326
Build Canada Fund	<u>-</u>	<u>357,558</u>
	<u>\$13,964,244</u>	<u>\$ 6,622,757</u>

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020

17. Prior Period Adjustments

During the year, the following adjustments were identified to correct misstatements in the fiscal 2019 figures. As a result, the prior period comparative figures and opening accumulated surplus amounts have been restated from amounts previously reported on the March 31, 2019 audited financial statements as follows:

An adjustment was made to correct the variance between the Utility billing subledger account and the general ledger account that had carried forward for many years. As a result, the opening accumulated surplus and accounts receivable were decreased by \$245,488 from amounts previously reported.

An adjustment was made to decrease the Municipal capital expenditure grant and capital grants receivable by \$255,375 from amounts previously reported as claims are filed only when expenditures have been paid rather than accrued.

18. Accumulated Surplus

	2020	2019
Accumulated surplus - unrestricted	\$ 96,883,957	\$ 80,813,067
Internally restricted sick and post-employment reserve	<u>233,212</u>	<u>289,320</u>
Total accumulated surplus	<u>\$ 97,117,169</u>	<u>\$ 81,102,387</u>

19. 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 \$1,139,380 (2019 - \$1,171,406) in operating revenue from the City of Charlottetown for fire protection services and \$52,434 (2019 - \$95,196) for sewer and water fees. During the year, the Corporation allocated expenditures of \$ 205,000 (2019 - \$256,250) to the City of Charlottetown for facility rental and \$160,200 (2019 - \$201,051) for committee expenditures. The Corporation also contributed \$Nil (2019 - \$15,852) for election expenses.

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

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

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

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

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020

20. Non-Monetary Transactions

During the 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 (2019 - \$4,028) has been recognized as donation expense and is included in office and committee expenses on the statement of operations.

21. 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:

	2020	2019
Restricted cash available for benefits - beginning of year	\$ 289,320	\$ 372,540
Due to operating fund for benefit payments	<u>(56,108)</u>	<u>(83,220)</u>
Restricted cash available for benefits - end of year	<u>\$ 233,212</u>	<u>\$ 289,320</u>

22. 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, 2020.

Credit risk

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

Interest rate risk

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

Liquidity risk

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

CHARLOTTETOWN WATER AND SEWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2020

23. Comparative Figures

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

24. Subsequent Events

The recent outbreak of the Coronavirus Disease 2019, or COVID-19, has spread across the globe and is impacting worldwide economic activity. This global pandemic poses the risk that the City or its residents, employees, contractors, suppliers and other partners may be unable to conduct regular business activities for an indefinite period of time. While it is not possible at this time to estimate the impact that COVID-19 could have on the City's business, the continued spread of COVID-19 and the measures taken by the federal and provincial governments to contain its impact could adversely impact the City's business, financial condition or results of operations. The extent to which the COVID-19 outbreak impacts the City's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the spread of the virus and government actions.

CHARLOTTETOWN WATER AND SEWER CORPORATION
SCHEDULE TO THE FINANCIAL STATEMENTS
TANGIBLE CAPITAL ASSETS
YEAR ENDED MARCH 31, 2020

	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, 2020									
Land	\$ 1,559,730	7,571	(303,496)	\$ 1,263,805	\$ -	\$ -	\$ -	\$ -	\$ 1,263,805
Land improvement	7,829	-	-	7,829	3,753	204	-	3,957	3,872
Water, sewer, and treatment plant	135,070,097	21,159,458	-	156,229,555	35,525,188	2,202,493	-	37,727,681	118,501,874
Buildings	4,668,434	58,876	-	4,727,310	1,450,357	80,939	-	1,531,296	3,196,014
Equipment	7,535,983	43,736	-	7,579,719	4,677,639	576,042	-	5,253,681	2,326,038
Computers and software	40,181	1,207	-	41,388	34,030	1,386	-	35,416	5,972
Vehicles	1,215,969	178,589	-	1,394,558	908,993	74,459	-	983,452	411,106
Furniture	569,319	2,706	-	572,025	468,432	20,448	-	488,880	83,145
	\$150,667,542	\$ 21,452,143	(303,496)	\$171,816,189	\$ 43,068,392	\$ 2,955,971	\$ -	\$ 46,024,363	\$125,791,826

March 31, 2019 (15 months)

Land	\$ 1,553,142	6,588	-	\$ 1,559,730	\$ -	\$ -	\$ -	\$ -	\$ 1,559,730
Land improvements	7,829	-	-	7,829	3,481	272	-	3,753	4,076
Water, sewer, and treatment plant	126,831,838	8,238,259	-	135,070,097	33,078,373	2,446,815	-	35,525,188	99,544,909
Buildings	4,046,856	621,578	-	4,668,434	1,356,573	93,784	-	1,450,357	3,218,077
Equipment	7,228,907	307,076	-	7,535,983	3,776,037	901,602	-	4,677,639	2,858,344
Computers and software	28,949	11,232	-	40,181	22,744	11,286	-	34,030	6,151
Vehicles	1,208,966	7,003	-	1,215,969	809,108	99,885	-	908,993	306,976
Furniture	554,612	14,707	-	569,319	437,255	31,177	-	468,432	100,887
	\$141,461,099	\$ 9,206,443	-	\$150,667,542	\$ 39,483,571	\$ 3,584,821	\$ -	\$ 43,068,392	\$107,599,150

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