

CAVENDISH SEWER UTILITY
Non-Consolidated Financial Statements
March 31, 2026

CAVENDISH SEWER UTILITY
Index to Non-Consolidated Financial Statements
March 31, 2026

	Page
MANAGEMENT'S RESPONSIBILITY FOR THE NON-CONSOLIDATED FINANCIAL STATEMENTS	1
INDEPENDENT AUDITOR'S REPORT	2 - 3
NON-CONSOLIDATED FINANCIAL STATEMENTS	
Non-Consolidated Statement of Financial Position	4
Non-Consolidated Statement of Operations	5
Non-Consolidated Statement of Changes in Net Debt	6
Non-Consolidated Statement of Cash Flows	7
Notes to Non-Consolidated Financial Statements	8 - 13
Schedules to Non-Consolidated Financial Statements	14

MANAGEMENT'S RESPONSIBILITY FOR THE NON-CONSOLIDATED FINANCIAL STATEMENTS

The non-consolidated financial statements of the Cavendish Sewer Utility are the responsibility of management and have been prepared in accordance with Canadian Accounting Standards for the Public Sector. A summary of the significant accounting policies are described in the non-consolidated financial statements. The preparation of non-consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current period cannot be finalized with a certainty until future periods.

To meet its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the non-consolidated financial statements. These systems are monitored and evaluated by management.

Mayor and Council meet with management and the external auditors to review the non-consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the non-consolidated financial statements.

The non-consolidated financial statements have been audited by MRSB Chartered Professional Accountants Inc., independent external auditors appointed by the Utility. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the non-consolidated financial statements.

On behalf of the Cavendish Sewer Utility:



Mayor

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Councillors of the Cavendish Sewer Utility

Opinion

We have audited the non-consolidated financial statements of the Cavendish Sewer Utility (the Utility), which comprise the non-consolidated statement of financial position as at March 31, 2026, and the non-consolidated statements of operations, changes in net debt and cash flows for the year then ended, and notes and schedules to the non-consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the financial position of the Utility as at March 31, 2026, 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 Non-Consolidated Financial Statements section of our report. We are independent of the Utility in accordance with the ethical requirements that are relevant to our audit of the non-consolidated 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 Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the non-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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the Utility'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 Utility or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Utility's financial reporting process.

(continues)

Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated 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 non-consolidated 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 non-consolidated 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 Utility'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 Utility'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 non-consolidated 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 Utility to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated 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.

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS INC.

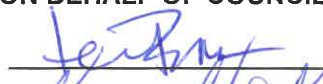
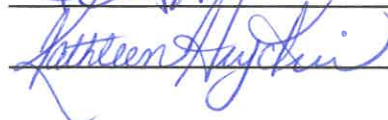
Charlottetown, PE

July 20, 2026

CAVENDISH SEWER UTILITY
Non-Consolidated Statement of Financial Position
March 31, 2026

	2026	2025
Financial assets		
Cash		
Unrestricted cash	\$ 367,152	\$ 267,827
Accounts receivable (Note 3)	133,696	126,196
Due from related party	145,244	175,609
	<u>646,092</u>	<u>569,632</u>
Liabilities		
Accounts payable and accrued liabilities	9,597	13,055
Trust fund payable (Note 4)	130,116	130,116
Long term debt (Note 5)	1,027,896	1,059,363
	<u>1,167,609</u>	<u>1,202,534</u>
Net debt (Statement 6)	<u>(521,517)</u>	<u>(632,902)</u>
Non-financial assets		
Prepaid expense	8,870	5,231
Tangible capital assets (Schedule 1)	5,336,822	5,405,298
	<u>5,345,692</u>	<u>5,410,529</u>
Accumulated surplus (Statement 5)	<u>\$ 4,824,175</u>	<u>\$ 4,777,628</u>

ON BEHALF OF COUNCIL

 _____ Mayor
 _____ Councillor

Notes 1 - 12 are an integral part of these non-consolidated financial statements

CAVENDISH SEWER UTILITY
Non-Consolidated Statement of Operations
Year Ended March 31, 2026

	Budget 2026	Actual 2026	Actual 2025
Revenues			
Sewer fees	\$ 393,000	\$ 401,843	\$ 386,478
Interest	7,000	9,085	7,798
Other	1,800	1,661	1,854
	<u>401,800</u>	<u>412,589</u>	<u>396,130</u>
Expenditures			
Administration	21,000	20,480	20,480
Amortization of tangible capital assets	80,717	85,268	85,142
Bad debts	-	2,940	-
Dues and fees	6,000	4,781	4,781
Electricity	48,000	48,576	40,500
Insurance	17,000	16,372	15,759
Interest and bank charges	-	372	544
Interest on long term debt	45,000	45,849	50,567
Maintenance	167,783	136,208	157,304
Miscellaneous	500	500	2,774
Professional fees	15,000	5,459	8,014
Property tax	800	826	751
	<u>401,800</u>	<u>367,631</u>	<u>386,616</u>
Operating surplus	-	44,958	9,514
Other revenues			
Government transfers for capital (Note 8)	-	1,589	79,239
Annual surplus	-	46,547	88,753
Accumulated surplus - beginning of year	4,777,628	4,777,628	4,688,875
Accumulated surplus - end of year (Note 6)	<u>\$ 4,777,628</u>	<u>\$ 4,824,175</u>	<u>\$ 4,777,628</u>

Notes 1 - 12 are an integral part of these non-consolidated financial statements

CAVENDISH SEWER UTILITY
Non-Consolidated Statement of Changes in Net Debt
Year Ended March 31, 2026

	Budget 2026	Actual 2026	Actual 2025
Annual surplus	\$ -	\$ 46,547	\$ 88,753
Amortization of tangible capital assets	80,717	85,268	85,142
Purchase of tangible capital assets	(200,000)	(16,791)	(175,944)
(Increase) decrease in prepaid expense	-	(3,639)	66
	(119,283)	64,838	(90,736)
(Increase) decrease in net debt	(119,283)	111,385	(1,983)
Net debt - beginning of year	(632,902)	(632,902)	(630,919)
Net debt - end of year	\$ (752,185)	\$ (521,517)	\$ (632,902)

Notes 1 - 12 are an integral part of these non-consolidated financial statements

CAVENDISH SEWER UTILITY
Non-Consolidated Statement of Cash Flows
Year Ended March 31, 2026

	2026	2025
Cash flows from operating activities		
Annual surplus	\$ 46,547	\$ 88,753
Item not affecting cash:		
Amortization of tangible capital assets	85,267	85,142
	<u>131,814</u>	<u>173,895</u>
Changes in non-cash working capital:		
Accounts receivable	(7,500)	4,585
Prepaid expense	(3,639)	66
Accounts payable and accrued liabilities	(3,457)	(2,022)
	<u>(14,596)</u>	<u>2,629</u>
	<u>117,218</u>	<u>176,524</u>
Cash flows from capital activities		
Purchase of tangible capital assets	(16,791)	(175,944)
Cash flows from financing activities		
Advances (to) from related party	30,364	(103,516)
Repayment of long term debt	(31,466)	(38,255)
Proceeds from long term debt	-	369,585
	<u>(1,102)</u>	<u>227,814</u>
Increase in cash	99,325	228,394
Cash - beginning of year	267,827	39,433
Cash - end of year	\$ 367,152	\$ 267,827
Cash consists of:		
Unrestricted cash	<u>\$ 367,152</u>	<u>\$ 267,827</u>

Notes 1 - 12 are an integral part of these non-consolidated financial statements

CAVENDISH SEWER UTILITY
Notes to Non-Consolidated Financial Statements
Year Ended March 31, 2026

1. DESCRIPTION OF BUSINESS

The Cavendish Sewer Utility (the "Utility") provides sewer and water services for the Resort Municipality of Stanley Bridge, Hope River, Bayview, Cavendish and North Rustico.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The non-consolidated financial statements of the Cavendish Sewer Utility are the representations of management prepared in accordance with Canadian Accounting Standards for the Public Sector.

The non-consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting recognizes 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.

Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used for certain programs and in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the year when the related expenditures are incurred, services are performed or the tangible capital assets are acquired.

Cash

Cash is comprised of unrestricted, internally restricted and restricted balances on deposits with banks.

Accounts receivable

Accounts receivable arise from sewer dues, government funding and Harmonized Sales Tax receivable. 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 uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

Tangible capital assets

Tangible capital assets are stated at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized over the useful life on a straight-line basis as follows:

Sewer system	83 1/3 years
Retention pond	83 1/3 years
Sewer equipment	10 years
Equipment	10 years
Signage	5 years

The Utility regularly reviews its tangible capital assets to eliminate obsolete items.

(continues)

CAVENDISH SEWER UTILITY
Notes to Non-Consolidated Financial Statements
Year Ended March 31, 2026

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long lived assets

The Utility tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent the carrying value exceeds its fair value.

Asset retirement obligation

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 Non-Consolidated Statement of Operations. As at March 31, 2026, no asset retirement obligations have been identified by management.

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 non-consolidated change in net debt for the year.

Government transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or the result of a direct financial return.

Government transfers are recognized in the non-consolidated financial statements as revenue in the year in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates on the amounts can be determined.

Financial instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in surplus. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issuance of financial instruments that are subsequently measured at amortized cost are shown as an adjustment to the carrying value of the related financial instrument.

(continues)

CAVENDISH SEWER UTILITY
Notes to Non-Consolidated Financial Statements
Year Ended March 31, 2026

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Sewer dues are charged based on rates approved by the Island Regulatory and Appeals Commission (IRAC). These charges are assessed annually and are recognized when billings come due.

Revenue from transactions with performance obligations are recognized when (or as) the Utility satisfies a performance obligation. Revenue from transactions with no performance obligations are recognized when the Utility has the authority to claim or retain an inflow of economic resources and a past transaction has given rise to an asset.

Interest revenue is recognized on a time proportion basis.

Measurement uncertainty

The presentation of the non-consolidated financial statements in conformity with Canadian Accounting Standards for the Public Sector requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the non-consolidated financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. The following are areas in which management makes significant accounting estimates:

- The amounts recorded for amortization of tangible capital assets on the non-consolidated statement of operations and schedules is subject to management's assessment of the estimated useful life of the Utility's tangible capital assets;
- The recognized amounts of potential claims and liabilities depend on management's assessment of future costs and the probability these events will occur.

3. ACCOUNTS RECEIVABLE

	<u>2026</u>	<u>2025</u>
Sewer receivables	\$ 127,714	\$ 121,537
HST receivable	4,393	4,659
Government funding	1,589	-
	<u>\$ 133,696</u>	<u>\$ 126,196</u>

4. TRUST FUND PAYABLE

In exchange for land transferred to the Utility from Parks Canada for the lagoon site, the Cavendish Sewer Utility was obligated to establish a trust fund of \$250,000 to be administered by the Utility. The proceeds of the trust fund are to be used to satisfy the original land transfer for the P.E.I. National Park. At March 31, 2026, the Utility has purchased land totaling \$110,380 and incurred \$9,504 in costs towards the satisfaction of this trust obligation.

CAVENDISH SEWER UTILITY
Notes to Non-Consolidated Financial Statements
Year Ended March 31, 2026

5. LONG TERM DEBT

	<u>2026</u>	<u>2025</u>
BMO - 5.17%; repayable in semi-annual blended installments of \$15,255. The loan matures on December 31, 2028; secured by borrowing resolution.	\$ 407,420	\$ 416,539
BMO - 5.35%; repayable in semi-annual blended installments of \$13,490. The loan matures on March 31, 2029; secured by borrowing resolution.	353,592	361,347
BMO - 2.9%; repayable in semi-annual blended installments of \$11,325. The loan matures on August 31, 2026; secured by borrowing resolution.	<u>266,884</u>	<u>281,477</u>
	<u>\$ 1,027,896</u>	<u>\$ 1,059,363</u>

Principal repayments of long term debt are expected to be repaid over the next three years as follows:

2027	\$ 284,622
2028	18,682
2029	724,625

6. ACCUMULATED SURPLUS

	<u>2026</u>	<u>2025</u>
Unrestricted surplus	\$ 515,249	\$ 431,693
Investment in tangible capital assets (Note 7)	<u>4,308,926</u>	<u>4,345,935</u>
	<u>\$ 4,824,175</u>	<u>\$ 4,777,628</u>

7. INVESTMENT IN TANGIBLE CAPITAL ASSETS

	<u>2026</u>	<u>2025</u>
Tangible capital assets (Schedule 1)	\$ 8,253,519	\$ 8,236,728
Accumulated amortization (Schedule 1)	(2,916,697)	(2,831,430)
Long term debt (Note 5)	<u>(1,027,896)</u>	<u>(1,059,363)</u>
	<u>\$ 4,308,926</u>	<u>\$ 4,345,935</u>

CAVENDISH SEWER UTILITY
Notes to Non-Consolidated Financial Statements
Year Ended March 31, 2026

8. GOVERNMENT TRANSFERS

	<u>2026</u>	<u>2025</u>
Government transfers for capital		
Municipal Capital Expenditure Grant	\$ 1,589	\$ 15,995
Canada Community Building Funding	-	63,244
	<u>\$ 1,589</u>	<u>\$ 79,239</u>

9. RATE REGULATION

The Sewer Utility is subject to rate regulation on sewer utility rates in Prince Edward Island in accordance with the Water and Sewerage Act. The purpose of this Act, which is administered by the Island Regulatory and Appeals Commission (IRAC), is to regulate the water and wastewater utility rates within the Province of Prince Edward Island.

Utility rates and charges are fixed and determined in accordance with the generally accepted public utility practices after taking into consideration local conditions and circumstances. Municipalities may apply for changes to sewer utility rates with IRAC. The commission will review these requests and adjust the rates accordingly.

10. BUDGET FIGURES

The budget figures provided on Statements 5 and 6 have not been audited or reviewed by the external auditor and are presented for information purposes only.

11. RELATED PARTY TRANSACTIONS

During the year, the Cavendish Sewer Utility paid \$20,480 (2025 - \$20,480) in administrative services and received frontage and flow charges of \$539 (2025 - \$538) from the Resort Municipality of Stanley Bridge, Hope River, Bayview, Cavendish and North Rustico, a related party.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

CAVENDISH SEWER UTILITY
Notes to Non-Consolidated Financial Statements
Year Ended March 31, 2026

12. FINANCIAL INSTRUMENTS

The Utility's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, due from related party, trust fund payable and long term debt.

The Utility is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Utility's risk exposure and concentration as of March 31, 2026.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Utility 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 Utility has a significant number of customers which minimizes concentration of credit risk.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Utility is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, long term debt, and accounts payable.

CAVENDISH SEWER UTILITY

Schedules to Non-Consolidated Financial Statements
Tangible Capital Assets
Year Ended March 31, 2026

(Schedule 1)

	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
2026									
Land	\$ 277,450	\$ -	\$ -	\$ 277,450	\$ -	\$ -	\$ -	\$ -	\$ 277,450
Sewer system	5,652,064	16,791	-	5,668,855	1,509,007	68,028	-	1,577,034	4,091,821
Retention pond	1,239,972	-	-	1,239,972	265,174	14,879	-	280,053	959,919
Sewer equipment	1,043,341	-	-	1,043,341	1,039,999	105	-	1,040,104	3,237
Equipment	22,563	-	-	22,563	15,912	2,256	-	18,168	4,395
Signage	1,338	-	-	1,338	1,338	-	-	1,338	-
	\$ 8,236,728	\$ 16,791	\$ -	\$ 8,253,519	\$ 2,831,430	\$ 85,268	\$ -	\$ 2,916,697	\$ 5,336,822

2025

	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
Land	\$ 277,450	\$ -	\$ -	\$ 277,450	\$ -	\$ -	\$ -	\$ -	\$ 277,450
Sewer system	5,477,643	174,421	-	5,652,064	1,441,183	67,824	-	1,509,007	4,143,057
Retention pond	1,239,972	-	-	1,239,972	250,294	14,880	-	265,174	974,798
Sewer equipment	1,041,818	1,523	-	1,043,341	1,039,817	182	-	1,039,999	3,342
Equipment	22,563	-	-	22,563	13,656	2,256	-	15,912	6,651
Signage	1,338	-	-	1,338	1,338	-	-	1,338	-
	\$ 8,060,784	\$ 175,944	\$ -	\$ 8,236,728	\$ 2,746,287	\$ 85,142	\$ -	\$ 2,831,430	\$ 5,405,298

Notes 1 to 12 are an integral part of these non-consolidated financial statements