

**CAVENDISH SEWER UTILITY
NON-CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019**

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MANAGEMENT'S RESPONSIBILITY FOR THE NON-CONSOLIDATED FINANCIAL STATEMENTS

The accompanying 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 notes to 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.

The council met 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 MEMBERS OF COUNCIL

Opinion

We have audited the non-consolidated financial statements of the Cavendish Sewer Utility, which comprise the non-consolidated statement of financial position as at March 31, 2019, and the non-consolidated statements of operations, changes in net debt and cash flow for the 15 months then ended, and notes to the non-consolidated 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 Cavendish Sewer Utility as at March 31, 2019, and the results of its operations and its cash flows for the 15 months then ended in accordance with Canadian accounting standards for the public sector.

Basis for 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 Cavendish Sewer 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 these 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.

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.

CHARLOTTETOWN, P.E.I.

JULY 15, 2019

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CAVENDISH SEWER UTILITY
NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MARCH 31, 2019

	2019	December 31, 2017
Financial Assets		
Cash and cash equivalents		
Unrestricted	\$ 169,469	\$ 186,741
Accounts receivable	114,179	83,331
	283,648	270,072
Liabilities		
Accounts payable and accrued liabilities	39,072	37,618
Trust fund payable - Note 3	130,116	139,620
Long term debt - Note 4	1,053,890	1,121,565
Due to Resort Municipality	201,269	241,806
	1,424,347	1,540,609
Net Debt - Statement 3	(1,140,699)	(1,270,537)
Non-Financial Assets		
Tangible capital assets - Schedule 1	5,430,815	5,555,281
Prepaid expense	2,972	5,844
	5,433,787	5,561,125
Accumulated Surplus	\$ 4,293,088	\$ 4,290,588
Municipal Position		
Accumulated surplus - Statement 2	\$ 4,293,088	\$ 4,290,588

ON BEHALF OF THE UTILITY:



Mayor



Councilor

(Notes 1 to 11 are an integral part of these non-consolidated financial statements)

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**CAVENDISH SEWER UTILITY
NON-CONSOLIDATED STATEMENT OF OPERATIONS
15 MONTHS ENDED MARCH 31, 2019**

	Budget 2019	Actual 2019	Actual 2017 (12 months)
Revenues			
Sewer fees - Note 5	\$ 304,000	\$ 396,783	\$ 316,875
Government transfers for capital - Note 6	200,000	31,160	11,656
Interest	7,000	8,239	4,172
Other	1,500	4,644	2,457
	<u>512,500</u>	<u>440,826</u>	<u>335,160</u>
Expenditures			
Administration - Note 5	20,300	23,110	21,539
Amortization of tangible capital assets	-	159,543	126,012
Bad debts	-	-	1,160
Dues and fees	3,600	3,884	3,803
Electricity	35,000	43,152	40,448
Insurance	11,100	13,446	10,077
Interest and bank charges	5,500	282	248
Interest on long term debt	-	53,814	44,092
Maintenance	108,250	118,392	108,959
Miscellaneous	2,400	2,247	657
Professional fees	15,000	19,111	8,464
Property tax	1,550	1,345	1,334
	<u>202,700</u>	<u>438,326</u>	<u>366,793</u>
Change in Fund Balance	<u>\$ 309,800</u>	2,500	(31,633)
Accumulated Surplus - Beginning of Period		<u>4,290,588</u>	4,322,221
Accumulated Surplus - End of Period - Note 7		<u>\$ 4,293,088</u>	<u>\$ 4,290,588</u>

(Notes 1 to 11 are an integral part of these non-consolidated financial statements)

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CAVENDISH SEWER UTILITY
NON-CONSOLIDATED STATEMENT OF CHANGES IN NET DEBT
15 MONTHS ENDED MARCH 31, 2019

	Budget 2019	Actual 2019	Actual 2017 (12 months)
Change in fund balance	\$ 309,800	\$ 2,500	\$ (31,633)
Amortization of tangible capital assets	-	159,543	126,012
Purchase of tangible capital assets	(200,000)	(35,077)	(18,139)
Decrease in prepaid expense	-	2,872	485
Decrease in Net Debt	<u>\$ 109,800</u>	129,838	76,725
Net Debt - Beginning of Period		<u>(1,270,537)</u>	(1,347,262)
Net Debt - End of Period		<u>\$ (1,140,699)</u>	<u>\$ (1,270,537)</u>

(Notes 1 to 11 are an integral part of these non-consolidated financial statements)

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**CAVENDISH SEWER UTILITY
NON-CONSOLIDATED STATEMENT OF CASH FLOW
15 MONTHS ENDED MARCH 31, 2019**

	2019	2017 (12 months)
Cash Flows From Operating Activities		
Change in fund balance	\$ 2,500	\$ (31,633)
Amortization of tangible capital assets	159,543	126,012
(Increase) decrease in accounts receivable	(30,848)	25,286
Decrease in prepaid expense	2,872	485
Increase (decrease) in accounts payable and accrued liabilities	1,454	(5,429)
	135,521	114,721
Cash Flows From Capital Activity		
Purchase of tangible capital assets	(35,077)	(18,139)
Cash Flows From Financing Activities		
Repayment of long term debt	(67,675)	(67,527)
Advances from (to) Resort Municipality	(40,537)	17,187
Decrease in trust fund payable	(9,504)	-
	(117,716)	(50,340)
Increase (Decrease) in Cash and Cash Equivalents	(17,272)	46,242
Cash and Cash Equivalents - Beginning of Period	186,741	140,499
Cash and Cash Equivalents - End of Period	\$ 169,469	\$ 186,741

(Notes 1 to 11 are an integral part of these non-consolidated financial statements)

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**CAVENDISH SEWER UTILITY
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
15 MONTHS ENDED MARCH 31, 2019**

1. Description of Business

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

2. Accounting Policies

Basis of Preparation

These non-consolidated financial statements for the Cavendish Sewer Utility have been prepared in accordance with Canadian accounting standards for the public sector.

These non-consolidated 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.

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 period when the related expenditures are incurred, services are performed or the tangible capital assets are acquired.

Cash and Cash Equivalents

Cash is comprised of cash in banks.

Accounts Receivable

Accounts receivable arise from trade receivables, infrastructure 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.

Non-Financial Assets

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

**CAVENDISH SEWER UTILITY
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
15 MONTHS ENDED MARCH 31, 2019**

2. Accounting Policies (cont'd)

Tangible Capital Assets

Tangible capital assets are stated at cost and amortized using the straight-line method at the following rates set out in accordance with the Island Regulatory and Appeals Commission's guidelines:

Equipment	10%
Sewer mains	1.2%
Sewer equipment	5%
Retention pond	1.2%
Signage	20%

Interest expense on capital debt incurred during the construction or renovation of an asset is included in the capitalized value.

Amortization rates were established using the estimated useful life of the asset in accordance with the Island Regulatory and Appeals Commission guidelines.

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 financial statements as revenue in the period 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.

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.

The Utility follows the deferral method of accounting for revenues. Restricted contributions are recognized as revenue in the year in which the related expenditures are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Interest revenue is recognized on a time proportion basis.

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 income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments that are subsequently measured at amortized cost are shown as an adjustment to the carrying value of the related financial instrument.

CAVENDISH SEWER UTILITY
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
15 MONTHS ENDED MARCH 31, 2019

2. Accounting Policies (cont'd)

Use of Estimates

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 those reported. The following are areas in which management makes significant accounting estimates:

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

3. Trust Fund Payable

In exchange for land transferred to the Utility from Parks Canada for the lagoon site, the 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, 2019, the Utility has purchased land totaling \$110,380 and incurred \$9,504 in costs towards the satisfaction of this trust obligation.

4. Long Term Debt

	March 31, 2019	December 31, 2017
Provincial Credit Union Limited - 3.29%; repayable in blended semi-annual installments of \$22,138; renewable November 15, 2034.	\$ 520,172	\$ 546,681
BMO - 2.90%; loan repayable in semi-annual installments of \$11,325; maturing August 31, 2041.	366,436	378,201
BMO - 3.04%; mortgage repayable in blended semi-annual installments of \$14,873; due April 30, 2023.	136,157	161,186
BMO - 2.44%; loan repayable in semi-annual installments of \$2,604; maturing August 31, 2025.	31,125	35,497
	<u>\$ 1,053,890</u>	<u>\$ 1,121,565</u>

As security for the loans, the Utility has provided demand notes and a borrowing resolution signed by directors.

CAVENDISH SEWER UTILITY
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
15 MONTHS ENDED MARCH 31, 2019

4. Long Term Debt (cont'd)

Principal portion of long term debt is scheduled to be repaid over the next five years as follows:

2020	\$ 67,911
2021	70,105
2022	72,371
2023	74,711
2024	76,132

5. Related Party Transactions

During the period, \$23,110 (2017 - \$20,480) in administrative services were paid to, and frontage charges of \$299 (2017 - \$299) were received 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 value, which is the amount of consideration established and agreed to by the related parties.

6. Government Transfers For Capital

	March 31, 2019	December 31, 2017
New Deals Gas Tax	\$ 27,971	\$ 62
Municipal Capital Expenditures grant	3,189	-
Build Canada Fund	-	11,594
	<u>\$ 31,160</u>	<u>\$ 11,656</u>

7. Accumulated Surplus

Unrestricted surplus	\$ 126,086	\$ 92,200
Investment in tangible capital assets	<u>4,167,002</u>	<u>4,198,388</u>
	<u>\$ 4,293,088</u>	<u>\$ 4,290,588</u>

**CAVENDISH SEWER UTILITY
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
15 MONTHS ENDED MARCH 31, 2019**

8. Financial Instruments

The Utility's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, trust fund payable, amount due to Resort Municipality 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, 2019.

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.

Liquidity risk

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

9. Budget Figures

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

Budgeted annual deficit	\$ (4,700)
Add: Capital expenditures	200,000
Add: Debt retirement	<u>114,500</u>
	<u>\$ 309,800</u>

The budget figures provided on Statements 2 and 3 were not subject to review or audit by the external auditor.

10. 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 price accordingly.

11. Comparative Figures

Some of the comparative figures have been reclassified to conform to current year's presentation.

**CAVENDISH SEWER UTILITY
SCHEDULE TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF TANGIBLE CAPITAL ASSETS
15 MONTHS ENDED MARCH 31, 2019**

	Cost Beginning of Period	Additions	Disposals	Cost End of Period	Accum Amort Dec 31, 2017	Amort in Period	Accum Amort Mar 31, 2019	NBV Mar 31, 2019	Schedule 1	
									Cost End of Year	Accum Amort Dec 31, 2016
Land	\$ 277,450	-	\$ -	\$ 277,450	-	\$ -	\$ -	\$ 277,450		
Equipment	13,140	-	-	13,140	11,213	442	11,655	1,485		
Sewer mains	5,036,207	3,454	-	5,039,661	1,055,569	75,595	1,131,164	3,908,497		
Sewer equipment	1,006,862	31,623	-	1,038,485	794,272	64,906	859,178	179,307		
Retention pond	1,239,972	-	-	1,239,972	157,296	18,600	175,896	1,064,076		
Signage	1,338	-	-	1,338	1,338	-	1,338	-		
	\$ 7,574,969	\$ 35,077	\$ -	\$ 7,610,046	\$ 2,019,688	\$ 159,543	\$ 2,179,231	\$ 5,430,815		
Land	\$ 277,450	-	\$ -	\$ 277,450	-	\$ -	\$ -	\$ 277,450		
Equipment	13,140	-	-	13,140	10,859	354	11,213	1,927		
Sewer mains	5,018,755	17,452	-	5,036,207	995,134	60,435	1,055,569	3,980,638		
Sewer equipment	1,006,175	687	-	1,006,862	743,929	50,343	794,272	212,590		
Retention pond	1,239,972	-	-	1,239,972	142,416	14,880	157,296	1,082,676		
Signage	1,338	-	-	1,338	1,338	-	1,338	-		
	\$ 7,556,830	\$ 18,139	\$ -	\$ 7,574,969	\$ 1,893,676	\$ 126,012	\$ 2,019,688	\$ 5,555,281		

(Notes 1 to 11 are an integral part of these non-consolidated financial statements)