Stratford Utility Corporation
Financial Statements

December 31, 2006

Grant Thornton

Contents

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

His Worship the Mayor and
Members of Town Council

We have audited the statement of financial position of Stratford Utility Corporation as at December 31, 2006 and the statement of financial activities and surplus and the statement of changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Stratford Utility Corporation as at December 31, 2006 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Charlottetown, Prince Edward Island
February 28, 2007

Grant Thornton LLP
Chartered Accountants

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Stratford Utility Corporation
Statement of Financial Activities and Surplus

Year Ended December 31	Budget	**2006**	2005
Revenue			
Unmetered sales	$ 967,500	**$ 981,062**	$ 905,685
Late penalty charges	15,000	**37,679**	37,328
Frontage charges	54,600	**53,397**	49,505
Metered sales	52,000	**67,513**	43,100
Miscellaneous	1,000	**1,393**	65
Connection fees	3,500	**7,680**	5,420
Water supply capital contribution	-	**75,741**	125,192
Interest	-	**4,081**	3,902
	1,093,600	**1,228,546**	1,170,197
Expenditures			
Consulting	6,000	**4,201**	2,589
Contingency	20,000	**284**	-
Depreciation	254,300	**125,937**	113,066
Electricity	81,500	**73,033**	78,469
Honorariums	500	**500**	500
Insurance	12,000	**11,491**	10,320
Interest and bank charges	20,000	**52,051**	44,200
Interest on long term debt	275,900	**300,205**	269,634
Office	10,000	**38,215**	10,432
Postage	4,800	**6,737**	4,807
Professional fees	25,000	**17,708**	30,381
Property taxes	2,100	**1,126**	2,092
Rent	33,600	**33,600**	26,711
Repairs and maintenance			
Sewer	48,000	**33,893**	68,001
Water	25,000	**29,256**	36,842
Snow removal	3,500	**3,131**	2,774
Telephone	9,000	**7,659**	7,819
Tools and equipment	3,000	**2,664**	3,979
Travel	8,000	**5,801**	7,167
Wages and employee benefits	233,300	**238,711**	217,300
Workers compensation	9,500	**7,676**	6,985
Vehicle	5,000	**5,657**	3,918
	1,090,000	**999,536**	947,986
Excess revenue over expenditures	$ 3,600	**229,010**	222,211
Transfers (to) from			
Reserve for debt service		**-**	209,224
Reserve for future capital expenditures (Note 7)		**(75,741)**	(48,381)
Increase in current surplus		**$ 153,269**	$ 383,054

	2006	2005
Surplus		
Balance, beginning of year	**$ 469,815**	$ 86,761
Increase in current surplus	**153,269**	383,054
Balance, end of year	**$ 623,084**	$ 469,815

See accompanying notes to the financial statements.

Stratford Utility Corporation
Statement of Financial Position

December 31	**2006**	2005
Assets		
Current		
Cash	**$ 29,931**	$ 12,877
Receivables		
Trade	**223,134**	278,379
PST rebate	**106,223**	100,140
GST	**151,599**	135,451
Town of Stratford	**-**	151,670
Federal and Provincial grants	**1,321,975**	1,463,544
Prepaids	**7,100**	6,424
Current portion of capital contributions receivable	**61,685**	45,300
	1,901,647	2,193,785
Capital contributions receivable	**271,963**	237,597
Capital assets (Note 3)	**17,170,070**	15,143,865
	$ 19,343,680	$ 17,575,247

Liabilities		
Current		
Bank indebtedness and short term borrowings (Note 4)	**$ 2,177,501**	$ 2,499,237
Payables and accruals		
Trade	**51,318**	59,054
Capital assets	**213,827**	236,736
Town of Stratford	**111,037**	-
Holdbacks	**477,413**	413,373
Current portion of long term debt	**270,995**	232,174
	3,302,091	3,440,574
Long term debt (Note 5)	**4,635,846**	4,179,746
	7,937,937	7,620,320
Contributions in aid of construction (Note 6)	**10,595,439**	9,373,633
Surplus and reserves		
Surplus	**623,084**	469,815
Reserves (Note 7)	**187,220**	111,479
	810,304	581,294
	$ 19,343,680	$ 17,575,247

On behalf of the Corporation

Chair

Chief Administrative Officer

See accompanying notes to the financial statements.

Stratford Utility Corporation
Statement of Changes in Financial Position

Year Ended December 31	**2006**	2005
Increase (decrease) in cash and cash equivalents		
Operating		
Cash received from customers	**$ 1,212,811**	$ 1,352,518
Payments to suppliers	**(290,544)**	(296,219)
Payments to employees	**(239,211)**	(217,800)
Interest received	**4,081**	3,902
Interest paid	**(352,256)**	(313,834)
	334,881	528,567
Financing		
Change in bank indebtedness	**(321,736)**	258,404
Advances from (to) the Town of Stratford	**262,707**	(136,985)
Federal and Provincial grants received	**1,565,083**	1,178,786
Proceeds from long term debt	**715,982**	500,000
Repayment of long term debt	**(221,061)**	(228,642)
	2,000,975	1,571,563
Investing		
Purchase of property and equipment, net of residents' and Town of Stratford's capital contributions	**(2,318,802)**	(2,096,071)
Net increase in cash and cash equivalents	**17,054**	4,059
Cash and cash equivalents		
Beginning of year	**12,877**	8,818
End of year	**$ 29,931**	$ 12,877

See accompanying notes to the financial statements.

1. Nature of operations

The Stratford Utility Corporation was created as a body corporate in Town Bylaw #25 pursuant to the *Charlottetown Area Municipalities Act*.

2. Summary of significant accounting policies

Basis of accounting
The financial statements of the Stratford Utility Corporation are prepared by management in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies are as follows:

Capital assets
Capital assets relating to sewer and water systems are valued at cost, net of residents' capital contributions.

All costs associated with placing an asset in service, including freight, installation costs, site preparation costs, alterations, and professional fees are included in the capitalized value.

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

Contributions in aid of construction
Infrastructure and other program grants and rebates related to capital asset purchases are recorded as contributions in aid of construction on the statement of financial position and are amortized to income through amortization using the same method and annual rates as the related assets are depreciated.

Depreciation
Rates and bases of depreciation applied to write-off the cost of capital assets over their estimated lives are as follows:

Sewer systems	2%,	declining balance
Water systems	2%,	declining balance
Computer software	10%,	declining balance
Equipment	10%,	declining balance
Vehicles	30%,	declining balance

Revenue recognition
Revenues from metered customers are recorded on a quarterly basis based on consumption. Unmetered customers are charged a flat rate plus additional frontage fees based on lot size and are billed at the beginning of each quarter.

Use of estimates
The preperation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. Capital assets

	Cost	Accumulated Depreciation	2006 Net Book Value	2005 Net Book Value
Land	$ 175,324		**$ 175,324**	$ 175,324
Sewer systems	13,478,325	$ 2,018,655	**11,459,670**	10,071,319
Water systems	5,878,171	381,052	**5,497,119**	4,859,339
Computer software	39,918	24,360	**15,558**	17,287
Equipment	37,437	20,771	**16,666**	12,407
Vehicles	28,090	22,357	**5,733**	8,189
	$ 19,637,265	$ 2,467,195	**$ 17,170,070**	$ 15,143,865

No interest was capitalized during the year (2005 – $17,130).

4. Bank indebtedness and short term borrowings

The Utility has an operating line of credit of $2,000,000 of which $842,822 is unused at December 31, 2006.

Bank indebtedness consists of bank overdraft of $1,157,118, outstanding cheques of $521,895 and outstanding deposits of $1,512. Also included in bank indebtedness and short term borrowings is a $500,000 4.65% Metro Credit Union Limited loan maturing in July 2007.

5. Long term debt

	2006	2005
5.32% Bank of Montreal loan payable in equal monthly instalments of $5,225 including interest, maturing in April 2016.	**$ 460,441**	$ 484,167
4.73% Bank of Montreal loan payable in equal monthly instalments of $2,582 including interest, maturing in November 2016	**244,893**	260,091
6.23% National Bank loan payable in equal monthly instalments of $6,235 including interest, maturing in June 2008, amortized to June 2023.	**769,896**	795,859
7.41% National Bank loan payable in equal monthly instalments of $2,870 including interest, maturing in December 2009.	**92,515**	119,019
4.90% Metro Credit Union Limited loan payable in equal monthly instalments of $4,033.06 including interest, maturing in July 2011, amortized to July 2020.	**478,207**	505,388

5. Long term debt (continued)	**2006**	2005
4.67% Bank of Montreal loan payable in equal monthly instalments of $3,249 including interest, maturing in November 2015, amortized to November 2020.	**$ 398,393**	$ 418,266
4.73% Bank of Montreal loan payable in equal monthly instalments of $2,847 including interest, maturing in November 2016.	**270,000**	281,058
5.23% National Bank loan payable in equal monthly instalments of $3,026 including interest, maturing in December 2007, amortized to December 2022.	**394,419**	408,408
5.63% National Bank loan payable in equal monthly instalments of $1,127 including interest, maturing in February 2007, amortized to February 2022.	**137,756**	143,354
5.20% Metro Credit Union Limited loan payable in equal monthly instalments of $550 including interest, maturing in January 2008.	**6,956**	13,032
4.97% Bank of Montreal loan payable in equal monthly instalments of $3,423 including interest, maturing in November 2014, amortized to November 2024.	**485,191**	501,707
4.64% Bank of Montreal loan payable in equal monthly instalments of $3,219 including interest, maturing in December 2008, amortized to December 2023.	**452,192**	469,404
4.72% Bank of Montreal loan payable in equal monthly instalments of $4,762 including interest, maturing in December 2015, amortized to December 2025.	**715,982**	-
Repaid during the year	**-**	12,167
	4,906,841	4,411,920
Less: current portion	**270,995**	232,174
	$ 4,635,846	$ 4,179,746

The Utility has assumed that loans maturing in the next five years will be refinanced with terms consistent with those noted above. Based on these assumptions, principal repayments in each of the next five years are due as follows: 2007 - $270,995; 2008 - $279,633; 2009 - $294,259; 2010 - $275,058; 2011 - $289,287.

6. Contributions in aid of construction

	Cost	Accumulated Amortization	**2006** **Net Book Value**	2005 Net Book Value
Federal grants	$ 5,605,560	$ 311,841	**$ 5,293,719**	$ 4,417,193
Provincial grants	5,652,286	350,566	**5,301,720**	4,956,440
	$11,257,846	$ 662,407	**$10,595,439**	$ 9,373,633

7. Reserve for future capital expenditures

	2006	2005
Opening balance	**$ 111,479**	$ 272,322
Transfers during the year	**75,741**	(160,843)
Ending balance	**$ 187,220**	$ 111,479

These internally restricted amounts are not available for other purposes without approval of Council.

8. Related party transactions

During the year, payments were made to the Town of Stratford for rent of $33,600 (2005 - $26,711), and wages of $238,711 (2005 - $217,300). Capital contributions totalling $26,123 (2005 - $25,364) were made to the Utility by the Town of Stratford.

9. Budget

The budget figures have not been audited and have been included on the financial statements for comparative purposes only.