

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Index to Financial Statements Year Ended March 31, 2019

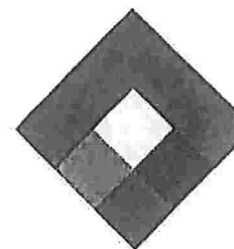
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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Commissioners of Public Utilities

Opinion

We have audited the financial statements of Board of Commissioners of Public Utilities (the Board), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, changes in net financial assets 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 Board as at March 31, 2019, and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 Board 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 the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

(continues)



Independent Auditor's Report to the of Board of Commissioners of Public Utilities *(continued)*

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 Board'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 Board'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 Board 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.

Nosworthy Chapman

Chartered Professional Accountants
St. John's, NL
May 29, 2019


BOARD OF COMMISSIONERS OF PUBLIC UTILITIES


Statement of Financial Position Year Ended March 31, 2019

	2019	2018
FINANCIAL ASSETS		
Cash	\$ 1,060,400	\$ 1,116,271
Receivables (Note 4)	1,859,629	28,367
HST receivable (Note 5)	-	170,843
Recoverable costs (Note 6)	622,796	1,918,812
	3,542,825	3,234,293
LIABILITIES		
Payables and accruals	367,143	201,630
Government remittances payable	7,201	18,528
HST payable (Note 5)	223,984	-
Payroll accruals	739,281	922,317
	1,337,609	1,142,475
NET FINANCIAL ASSETS	\$ 2,205,216	\$ 2,091,818
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	\$ 80,627	\$ 58,271
Prepaid expenses	20,413	12,055
	101,040	70,326
ACCUMULATED SURPLUS	\$ 2,306,256	\$ 2,162,144
Accumulated surplus comprised of:		
Invested in capital assets (Note 8)	\$ 80,627	\$ 58,271
Internally restricted (Note 10)	1,410,403	1,477,815
Unrestricted	815,226	626,058
	\$ 2,306,256	\$ 2,162,144

Commitments (Note 13)

On Behalf of the Board:





Chairperson and CEO

Director of Corporate Services

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Operations Year Ended March 31, 2019

	Budget 2019 (Note 14) (Unaudited)	2019	2018
REVENUES			
Regulatory assessments	\$ 2,669,592	\$ 3,328,166	\$ 2,467,177
Interest and other income	10,000	23,308	8,139
	<u>2,679,592</u>	<u>3,351,474</u>	<u>2,475,316</u>
EXPENDITURES			
Amortization	\$ -	\$ 27,332	\$ 21,795
Consulting fees	208,000	629,456	270,869
Office equipment, supplies, and services	129,002	124,834	86,775
Rent and insurance	302,744	301,594	225,096
Salaries and associated costs (Note 12)	1,891,652	1,875,744	1,837,580
Telecommunications	30,972	41,996	32,259
Training and membership	73,522	16,244	22,149
Travel	43,700	29,368	28,908
	<u>2,679,592</u>	<u>3,046,568</u>	<u>2,525,431</u>
Excess of revenues over expenditures (expenditure over revenues)	\$ -	\$ 304,906	\$ (50,115)

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Change in Net Financial Assets Year Ended March 31, 2019

	Budget 2019 (Note 14) (Unaudited)	2019	2018
Annual surplus (deficit)	\$ -	\$ 304,906	\$ (50,115)
Changes in tangible capital assets			
Acquisition of tangible capital assets		(49,688)	(29,090)
Amortization of tangible capital assets		27,332	21,795
		(22,356)	(7,295)
Change in other non-financial assets			
Assessment reductions		(160,794)	-
Net acquisition of prepaid expenses		(8,358)	(2,334)
		(169,152)	(2,334)
Increase in net assets		113,398	(59,744)
Net financial assets, beginning of year	2,091,818	2,091,818	2,151,562
Net financial assets, end of year	\$ -	\$ 2,205,216	\$ 2,091,818

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Cash Flows Year Ended March 31, 2019

	2019	2018
Operating transactions		
Cash receipts from assessments and other revenues	\$ 1,530,261	\$ 3,196,728
Cash paid to suppliers and employees	(2,832,460)	(2,488,400)
Cash (used in) from operating transactions	(1,302,199)	708,328
Hearing and review transaction		
Decrease in recoverable costs	1,296,016	318,265
Cash from hearing and review transaction	1,296,016	318,265
Capital transaction		
Purchase of capital assets	(49,688)	(29,090)
Cash used in capital transaction	(49,688)	(29,090)
(Decrease) Increase in cash during year	(55,871)	997,503
Cash position, beginning of year	1,116,271	118,768
Cash position, end of year	\$ 1,060,400	\$ 1,116,271

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

1. GENERAL

The Board of Commissioners of Public Utilities (the "Board") is an independent, quasi-judicial regulatory tribunal constituted in 1949 by the Lieutenant-Governor in Council pursuant to the *Public Utilities Act*. The Board regulates the electric utilities in the Province of Newfoundland and Labrador and is responsible for ensuring that the rates charged are reasonable and that the service provided is safe and reliable. Other responsibilities include: (a) the regulation of automobile insurance rates; (b) the regulation of, from June 8, 2004, fuel prices pursuant to the *Petroleum Products Act*; (c) limited regulation of the motor carrier industry as it relates to certain passenger and ambulance operations; and (d) establishing compensation for matters referred to the Board pursuant to the *Expropriation Act*. The Board was incorporated on May 12, 2000 pursuant to an amendment to the *Public Utilities Act* and as a Crown entity of the Province is not subject to provincial or federal income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Board is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Board does not prepare a statement of re-measurement gains and losses as the Board does not enter into relevant transactions or circumstances that are addressed by that statement.

Financial instruments

The Board's financial instruments recognized in the statement of financial position consist of cash, receivables, HST receivable, recoverable costs, payables and accruals, government remittances payable and payroll accruals. The Board generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Board subsequently measures all its financial assets and financial liabilities at cost or amortized cost. Transaction costs and any gains or losses arising from changes in fair value are recognized immediately in the statement of revenues and expenditures. Receivables are classified as loans and accounts payable are classified as other financial liabilities. Both are measured at amortized cost.

The Board's carrying value of cash, receivables, recoverable costs, payables and accruals, government remittance payable, HST payable and payroll accruals approximates its fair value due to the immediate or short term maturity of these instruments.

Cash

Cash includes cash in bank and balances with financial institutions, net of overdrafts.

Recoverable costs

Recoverable costs relating to regulatory hearings and specific enquiries held by the Board are not accrued until the Board orders payment. The costs and subsequent recoveries for these enquiries are not included in the operating revenues and expenditures of the Board.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible capital assets

Capital assets are recorded on the Statement of Financial Position at cost net of accumulated amortization and are amortized as follows:

Furniture and equipment	20%	declining balance method
Computer hardware	35%	declining balance method
Computer software	50%	declining balance method
Leasehold improvements		the lesser of five year straight-line or remaining term of the lease

Capital assets are written down when conditions indicate that they no longer contribute to the Board's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value. The net write-downs are accounted for as expenditures in the statement of operations.

Prepaid expenses

Prepaid expenses include amounts paid in advance for services, insurance, and workers compensation and are charged to expense over the periods expected to benefit from them.

Funds and reserves

Certain amounts, as approved by the Board, are set aside in accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are an adjustment to the respective fund when approved.

Employee future benefits

(i) Severance pay

Certain employees of the Board are entitled to severance pay. Severance pay is accounted for on the accrual basis and is based upon years of service and current salary levels. Under new legislation which received Royal Assent on May 31, 2018, employees with at least one (1) year service to a maximum of twenty (20) years of continuous service are entitled to severance pay. The severance entitlement is calculated based on service years and rate of pay as of March 31, 2018. Unpaid amounts have been accrued in the financial statements.

(ii) Pension fund

The employees of the Board are subject to the *Public Service Pension Act 1991*. Employee contributions are matched by the Board and then remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. Contributions of the Board to the plan are recorded as expenses in the year the contributions are made.

Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures

Expenditures are reported on an accrual basis. The costs of all goods consumed and services received during the year are expensed.

Inter-entity transactions

Inter-entity transactions are transactions between commonly controlled entities.

Inter-entity transactions are recorded at the exchange amount when they are undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length.

Cost allocations to/from commonly controlled entities are recorded on a gross basis.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

3. FINANCIAL INSTRUMENTS

The Board 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 organization'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 Board is exposed to credit risk with respect to regulatory assessments. An allowance for doubtful accounts may be established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Board manages exposure through its normal operating and financing activities. The Board is exposed to interest rate risk primarily through its floating interest rate bank credit agreement.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

4. RECEIVABLES

	2019	2018
Revenues receivable	\$ 1,851,292	\$ 23,230
Accrued interest receivable	1,720	-
Other receivables	6,617	5,137
	<u>\$ 1,859,629</u>	<u>\$ 28,367</u>

5. HST RECEIVABLE (PAYABLE)

	2019	2018
HST rebate receivable from federal government	\$ 22,255	\$ 193,682
HST payable to federal government	(246,239)	(22,839)
	<u>\$ (223,984)</u>	<u>\$ 170,843</u>

6. RECOVERABLE COSTS

	2019	2018
Recoverable costs, beginning of year	\$ 1,918,812	\$ 2,237,077
Add - specific enquiry costs incurred during the year:		
Consumer Advocate	440,715	1,291,763
Consulting fees	1,752,584	305,067
Legal	291,496	144,922
Advertising and notice	43,472	18,215
Transcription and printing	72,327	-
Other	-	-
	<u>2,600,594</u>	<u>1,759,967</u>
	<u>4,519,406</u>	<u>3,997,044</u>
Less - costs recovered during the year	(3,871,245)	(1,929,047)
Less - costs deemed non recoverable	(25,365)	(149,185)
Recoverable costs, end of year	<u>\$ 622,796</u>	<u>\$ 1,918,812</u>

See also Note 11.

7. BANK CREDIT AGREEMENT

The Board has established a \$1,000,000 line of credit subject to a general security agreement over all accounts and book debts, equipment, tangible capital assets and certain other assets. Any outstanding balance bears interest at the bank prime rate plus 0.5%. As at March 31, 2019, the balance outstanding was \$Nil (2018-\$Nil).

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

8. TANGIBLE CAPITAL ASSETS

	2019			
	Furniture and Equipment	Computer Hardware and Software	Leasehold Improvements	Total
Cost				
Opening balance	\$ 270,604	\$ 277,245	\$ 204,606	\$ 752,455
Additions	6,123	8,683	34,882	49,688
Disposals	-	-	-	-
Closing balance	276,727	285,928	239,488	802,143
Accumulated amortization				
Opening balance	242,598	255,641	195,945	694,184
Amortization	6,826	10,712	9,794	27,332
Disposals	-	-	-	-
Closing balance	249,424	266,353	205,739	721,516
Net book value	\$ 27,303	\$ 19,575	\$ 33,749	\$ 80,627
				2018
	Furniture and Equipment	Computer Hardware and Software	Leasehold Improvements	Total
Cost				
Opening balance	\$ 266,009	\$ 260,310	\$ 197,046	\$ 723,365
Additions	4,595	16,935	7,560	29,090
Disposals	-	-	-	-
Closing balance	270,604	277,245	204,606	752,455
Accumulated amortization				
Opening balance	235,596	243,666	193,127	672,389
Amortization	7,002	11,975	2,818	21,795
Disposals	-	-	-	-
Closing balance	242,598	255,641	195,945	694,184
Net book value	\$ 28,006	\$ 21,604	\$ 8,661	\$ 58,271

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

9. NON-VESTED SICK LEAVE PAYOUTS

Prior to a change in government policy, several employees were permitted to accumulate unused sick day credits. As of March 31, 2019, there is one employee who has an accumulated sick-leave payout balance. Accumulated credits may be used in future years to the extent that the employee's illness or injury exceeds the current year's allocation of credits. The use of accumulated sick days for sick-leave compensation ceases on termination of employment. The benefit costs and liabilities related to the plan are included in the financial statements.

10. INTERNALLY RESTRICTED SURPLUS

The Board has adopted a formal policy to accumulate and restrict estimated amounts required to meet expected future obligations. The amounts restricted as at March 31, 2019 are as follows:

	2019	2018
Lease commitments	\$ -	\$ 283,681
Payroll contingency	-	61,425
Redundancy pay contingency	963,089	686,110
Working capital	447,314	446,599
	<u>\$ 1,410,403</u>	<u>\$ 1,477,815</u>

During the year, as a result of a review of the Board's policies surrounding internally restricted surpluses, it was decided that the Board revise the methodology used to calculate the restricted surpluses better reflect the future immediate obligations of the Board.

11. RELATED PARTY TRANSACTIONS

The Board incurs costs in relation to hearings held to deliver on its mandate which are recoverable from industry participants at cost. A portion of these costs are recoverable from Newfoundland and Labrador Hydro, an entity under common control.

	2019	2018
Beginning balance	\$ 1,551,008	\$ 2,129,494
Costs incurred	859,486	1,155,070
Costs recovered	2,278,831	1,733,556
Ending balance	<u>\$ 131,663</u>	<u>\$ 1,551,008</u>

The Board has also charged Newfoundland and Labrador Hydro assessment fees in the amount of \$882,845 (2018: \$854,297).

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

12. DESIGNATED PENSION FUNDS AND PENSION ASSET (OBLIGATIONS)

Commissioners and employees are members of The Public Service Pension Fund Act 1991. Pension contributions deducted from commissioners' and employees' salaries are matched by the Board and then remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to commissioners and employees when they retire. The Board's share of pension expense for the year in the amount of \$151,662 (2018 - \$125,511) is included in salaries and associated costs.

The Board is also committed to make pension payments to a former Commissioner in the amount of \$2,043 per month (\$24,516 per annum). These payments are paid directly by the Board out of operating expenditures. An estimated liability in the amount of \$233,913 (2018 - \$241,119), has been included in the financial statements, and reflects the present value of the pension obligation based on an average life expectancy of 86 years and a discount rate of 2.01% (2018 - 2.36%).

13. COMMITMENTS

The Board has a premises lease agreement in the amount of \$26,254 plus HST per month (\$315,045 plus HST per annum), concluding May 31, 2023.

The Board has a equipment lease agreement in the amount of \$376 plus HST per month (\$4,512 plus HST per annum), concluding June 18, 2020.

14. BUDGET FIGURES

Budget figures have been provided for comparison purposes and have been derived from the estimates approved by the Board.