

The Rural Municipality of Murray Harbour

Consolidated Financial Statements

March 31, 2020

Management's Report

The management of the Rural Municipality of Murray Harbour is responsible for the integrity, relevance and comparability of the financial information presented in the accompanying consolidated financial statements.

The consolidated financial statements are prepared by management in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies is disclosed in note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current period cannot be finalized with 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 consolidated financial statements. These systems are monitored and evaluated by management.

The Council is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control, and exercises these responsibilities through the Council. The Council reviews internal financial statements on a monthly basis and external audited financial statements yearly. The Council also discusses any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by ArsenaultBestCameronEllis, independent external auditors appointed by the Municipality. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Municipality's consolidated financial statements.



Anne Harnesk
Chief Administrative Officer



Paul White
Mayor



ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

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September 2, 2020

Independent Auditor's Report

To the Council of the The Rural Municipality of Murray Harbour

Opinion

We have audited the accompanying consolidated financial statements of The Rural Municipality of Murray Harbour which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of accumulated surplus, operations, changes in net assets (debt) and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Rural Municipality of Murray Harbour as at March 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 consolidated Financial Statements* section of our report. We are independent of The Rural Municipality of Murray Harbour in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing The Rural Municipality of Murray Harbour's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate The Rural Municipality of Murray Harbour or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing The Rural Municipality of Murray Harbour's financial reporting process.

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

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

Arsenault Best Cameron Ellis

Chartered Professional Accountants

The Rural Municipality of Murray Harbour

Consolidated Statement of Financial Position

As at March 31, 2020

	2020 \$	2019 \$
Assets		
Financial assets		
Cash and cash equivalents		
Unrestricted	87,336	91,489
Accounts receivable		
Sewer	7,607	2,429
Grants	2,646	-
HST	2,050	9,656
Fire department and other	20,304	53
Restricted cash (note 2)	287,968	110,463
Total financial assets	407,911	214,090
Liabilities		
Accounts payable and accrued liabilities	54,198	38,030
Deferred revenue (note 2)	313,918	142,825
Long-term debt (note 3)	211,379	228,298
Total liabilities	579,495	409,153
Net debt	(171,584)	(195,063)
Non-financial assets		
Prepaid expenses	23,777	21,493
Tangible capital assets (Schedule 2)	2,717,721	2,759,846
	2,741,498	2,781,339
Accumulated surplus	2,569,914	2,586,276

On behalf of the Council

Mayor

Acting Chief Administrative Officer

The Rural Municipality of Murray Harbour

Consolidated Statement of Accumulated Surplus

For the year ended March 31, 2020

	(12 months) 2020 \$	(15 months) 2019 \$
Accumulated surplus - Beginning of year	2,586,276	2,236,423
Annual surplus (deficit)	(16,362)	349,853
Accumulated surplus - End of year	2,569,914	2,586,276

The Rural Municipality of Murray Harbour

Consolidated Statement of Operations

For the year ended March 31, 2020

	(12 months) 2020	(12 months) 2020	(15 months) 2019
	Budget (unaudited) \$	Actual \$	Actual \$
Revenue (Schedule 1)			
Property taxes	84,660	81,854	102,288
Government transfers			
Equalization	9,400	9,741	14,204
Wages	-	3,843	-
Rent and other	24,300	19,782	10,601
Interest	-	1,365	1,884
Sewer charges	60,000	70,794	77,269
Fire dues	50,400	47,484	60,585
	228,760	234,863	266,831
Expenses (Schedule 1)			
General government	149,560	97,121	195,027
Municipal centre and recreation	59,200	51,155	59,796
Sewer	60,000	79,434	85,204
Fire department	70,000	55,262	61,704
	338,760	282,972	401,731
Operating deficit	(110,000)	(48,109)	(134,900)
Other revenue			
Government infrastructure funding	30,000	31,747	484,753
Annual surplus (deficit)	(80,000)	(16,362)	349,853

The Rural Municipality of Murray Harbour

Consolidated Statement of Changes in Net Assets (Debt)

For the year ended March 31, 2020

	(12 months) 2020	(12 months) 2020	(15 months) 2019
	Budget (unaudited) \$	Actual \$	Actual \$
Annual surplus (deficit)	(80,000)	(16,362)	349,853
Amortization of tangible capital assets - net	80,000	76,928	95,231
Acquisition of tangible capital assets - net	(35,000)	(34,803)	(632,753)
Change in prepaid expenses - general	-	(2,284)	(17,533)
	45,000	39,841	(555,055)
Increase (decrease) in net financial assets	(35,000)	23,479	(205,202)
Net financial assets (net debt) - Beginning of year	(195,063)	(195,063)	10,139
Net debt - End of year	(230,063)	(171,584)	(195,063)

The Rural Municipality of Murray Harbour

Consolidated Statement of Cash Flows

For the year ended March 31, 2020

	(12 months) 2020 \$	(15 months) 2019 \$
Cash provided by (used in)		
Operating activities		
Annual surplus (deficit)	(16,362)	349,853
Item not affecting cash		
Amortization	76,928	95,231
	60,566	445,084
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	(20,469)	30,364
Increase (decrease) in accounts payable and accrued liabilities	16,168	(6,658)
Increase in deferred revenue	171,093	91,214
Increase in prepaid expenses	(2,284)	(17,533)
	225,074	542,471
Capital activity		
Acquisition of tangible capital assets	(34,803)	(632,753)
Financing activities		
Increase in restricted cash	(177,505)	(57,328)
Issuance of long-term debt	-	649,641
Debt repayment	(16,919)	(483,451)
	(194,424)	108,862
Increase (decrease) in cash and cash equivalents	(4,153)	18,580
Cash and cash equivalents - Beginning of year	91,489	72,909
Cash and cash equivalents - End of year	87,336	91,489

The Rural Municipality of Murray Harbour

Notes to Consolidated Financial Statements

March 31, 2020

1 Summary of significant accounting policies

The consolidated financial statements of The Rural Municipality of Murray Harbour are prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada. Significant aspects of the accounting policies adopted by the Municipality are as follows:

a) Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, expenses, and surplus/deficit of the reporting entity. The reporting entity is comprised of all organizations and committees that are accountable to the Municipality for administration of their financial affairs and resources, and which are owned or controlled by the Municipality. Interdepartmental and organizational transactions and balances are eliminated.

b) Consolidated entities

The organizations included in the consolidated financial statements are as follows:

Rural Municipality of Murray Harbour
Murray Harbour Fire Department
Murray Harbour Sewer Utility

On January 1, 2018, the The Rural Municipality of Murray Harbour changed its fiscal year-end from December 31 to March 31, beginning with the March 31, 2019 reporting period.

c) Basis of accounting

The consolidated 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 creation of a legal obligation to pay.

d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and bank account balances. Restricted cash is held in separate accounts to fund eligible expenditures under the Direct Allocation Capital Investment Plan Project Funding Agreement (see note 2).

e) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for 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 excess of revenue over expenses, provides the consolidated change in net debt for the year.

The Rural Municipality of Murray Harbour

Notes to Consolidated Financial Statements

March 31, 2020

f) Management estimates

The presentation 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 and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Significant estimates include the estimated useful life of tangible capital assets and are based on management's best information and judgment. Actual results could differ from those reported.

g) Revenue recognition

- (i) Tax revenue consists of property tax billings which are received directly from the Province of Prince Edward Island. Taxes are billed based on the assessment rolls provided by the Province of Prince Edward Island at rates established by the Municipality. Taxation revenue is recorded as it is received in monthly installments from the Province of Prince Edward Island. Assessments and the related property taxes are subject to appeal to the Province of Prince Edward by residents. The Municipality's revenue is adjusted for any of these appeals using a yearly statement.
- (ii) Rent and other, interest, sewer charges and fire dues are recorded when it is earned and collection is reasonably assured.

h) Government transfers

Transfers from governments without eligibility criteria or stipulations is recognized as revenue by the Municipality when the transfer is authorized. Transfers with eligibility criteria is recognized as revenue by the Municipality when the transfer is authorized and all eligibility criteria have been met, unless there is a stipulation that gives rise to an obligation that meets the definition of a liability. In that case, the transfer is recorded as a liability and recognized as revenue as the stipulations are met. Transfers with stipulations is recognized as revenue by the Municipality when the transfer is authorized and all stipulations have been met.

Transfers to other organizations are recognized as an expense when they are authorized.

i) Tangible capital assets

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

Land improvements	4.0% and 10.0%
Buildings	2.5% and 4.0%
Street lights and equipment	10.0% and 20.0%
Fire equipment	10.0%
Sewer system	1.2% and 5.0%

Full amount of the annual amortization is charged in the year of acquisition.

The Rural Municipality of Murray Harbour

Notes to Consolidated Financial Statements

March 31, 2020

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

j) Fair value of financial instruments

(i) Measurement of financial instruments

The Rural Municipality of Murray Harbour's financial instruments consist of cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities and long-term debt.

The Municipality initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. This fair value amount is then deemed to be the amortized cost of the financial instrument.

The Municipality subsequently measures all its financial assets and financial liabilities at amortized cost.

(ii) Impairment

For financial assets measured at cost or amortized cost, the Municipality determines whether there are indications of possible impairment. When there is an indication of impairment, and the Municipality determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows, a write-down is recognized in annual surplus (deficit). A previously recognized impairment loss may be reversed to the extent of the improvement. The carrying amount of the financial asset may not be greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in annual surplus (deficit).

(c) Risks

Transacting in financial instruments exposes the Municipality to certain financial risks and uncertainties. These risks include:

- i) Interest rate risk: The Municipality is exposed to interest rate risk due to the variable rate interest on their long-term debt. Changes in the bank lending rates can cause fluctuations in cash flows and interest expense. The Municipality does not use any derivatives to manage this risk. The Municipality does not have any bank advances at year end.
- ii) Credit risk: The Municipality is exposed to credit risk in connection with the collection of its accounts receivable. The Municipality mitigates this risk by performing continuous evaluation of its accounts receivables.
- iii) Liquidity risk: The Municipality's exposure to liquidity risk is dependent on the collection of accounts receivable or raising of funds to meet commitments and sustain operations. The Municipality controls liquidity risk by management of working capital, cash flows and availability of borrowing facilities.

The Rural Municipality of Murray Harbour

Notes to Consolidated Financial Statements

March 31, 2020

2 Deferred revenue

	2020 \$	2019 \$
Deferred revenue - Beginning of period	142,825	51,611
Allocation received	200,000	100,000
Interest income	194	442
Eligible expenditures incurred	(29,101)	(9,228)
Deferred revenue - End of period	313,918	142,825

During the year the Municipality was allocated \$200,000 (2019 - \$100,000) under the New Deal Gas Tax Funding for Incorporated Communities Agreement. The Municipality must use their allocation of the New Deal Gas Tax funds for eligible infrastructure and capacity building.

Under the Agreement on the Transfer of Federal Gas Tax Revenues through the New Deal for Cities and Communities and the Direct Allocation Capital Investment Plan Project, the Municipality has received funds which are restricted for expenditure on eligible projects. The Municipality has prepared, and the governmental regulating body has accepted, a Capital Investment Plan which details eligible expenditures.

The Municipality has \$287,968 (2019 - \$110,463) in a separate bank account to be used to pay for future eligible expenditures incurred under this agreement. This is shown as restricted cash on the Statement of Financial Position.

3 Long-term debt

	2020 \$	2019 \$
<u>Rural Municipality of Murray Harbour - General</u>		
Prime plus 1.5%, Canadian Imperial Bank of Commerce loan, maturing April 2029, payable in bi-weekly installments of \$192 plus interest	45,448	50,449
Prime plus 1.5%, Canadian Imperial Bank of Commerce loan, maturing February 2034, payable in bi-weekly installments of \$458 plus interest	165,931	177,849
	211,379	228,298

The Rural Municipality of Murray Harbour

Notes to Consolidated Financial Statements

March 31, 2020

Principal repayments are due as follows:

	Total \$
2021	16,918
2022	16,918
2023	16,918
2024	16,918
2025	16,918
Thereafter	126,789
	<hr/> 211,379

Canadian Imperial Bank of Commerce prime rate at March 31, 2020 was 2.45% (2019 - 3.95%).

4 Rate regulation

The Municipality is subject to rate regulation on the Sewer utilities provided to residents in Prince Edward Island under the Island Regulatory Appeals Commission Act. The purpose of this Act, which is administered by the Island Regulatory and Appeal Commission (IRAC), is to regulate the rate municipalities may charge for sewer utilities provided to residents within Prince Edward Island and to ensure at all times a just and reasonable price for sewer services. Changes in sewer utility rates can only be implemented with the approval from IRAC.

5 Segment disclosure - Schedule 1

The Municipality provides various services to its citizens. For management reporting purposes the Municipality's operations and activities are organized and reported by segment. Segments were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

Community services are provided by departments and their activity is reported in these funds. The services provided by these departments are as follows:

General government services

This department is responsible for the overall financial and local government administration. Its tasks include accounts payable and receivables, budgets and financial statements, administration and maintenance of bylaws.

Municipality centre and recreation

This department is responsible for rental and maintenance of the Municipality community centre and parks.

Sewer utility

This department is responsible for sewage utility services provided to the residents.

The Rural Municipality of Murray Harbour

Notes to Consolidated Financial Statements

March 31, 2020

Fire protection services

This department is responsible for fire protection for its residents.

Elimination amounts

Internally generated revenues and expenses are eliminated on a consolidated basis.

The kural Municipality of Murray Harbour

Consolidated Schedule of Segment Disclosures

For the year ended March 31, 2020

Schedule 1

March 31,
2020

	General Government \$	Municipality center & Recreation \$	Sewer \$	Fire Department \$	Elimination \$	Consolidated \$
Revenues						
Property taxes	81,854	-	-	-	-	81,854
Government transfer						
Municipal Support Grant Program	9,741	-	-	-	-	9,741
Wages	-	3,843	-	-	-	3,843
Rent and other	15,172	11,191	-	898	(7,479)	19,782
Interest	(202)	-	1,567	-	-	1,365
Sewer	-	-	70,794	-	-	70,794
Fire dues	-	-	-	65,004	(17,520)	47,484
	106,565	15,034	72,361	65,902	(24,999)	234,863
Expenditures						
Salaries and benefits	32,595	3,491	3,515	2,125	-	41,726
Goods and services	65,072	30,276	44,710	35,401	(24,999)	150,460
Amortization	13,215	17,388	28,681	17,644	-	76,928
Interest	3,759	-	10,007	92	-	13,858
	114,641	51,155	86,913	55,262	(24,999)	282,972
Operating surplus (deficit)	(8,076)	(36,121)	(14,552)	10,640	-	(48,109)
Other revenue						
Government Infrastructure funding	-	-	31,747	-	-	31,747
	(8,076)	(36,121)	17,195	10,640	-	(16,362)

(14)

The Rural Municipality of Murray Harbour

Consolidated Schedule of Segment Disclosures

For the year ended March 31, 2020

Schedule 1

March 31,
2019

	General Government \$	Municipality center & Recreation \$	Sewer \$	Fire Department \$	Elimination \$	Consolidated \$
Revenues						
Property taxes	102,288	-	-	-	-	102,288
Government transfer						
Municipal Support Grant Program	14,204	-	-	-	-	14,204
Rent and other	11,624	9,396	-	1,205	(11,624)	10,601
Interest	442	-	1,442	-	-	1,884
Sewer	-	-	77,269	-	-	77,269
Fire dues	874	-	-	83,021	(23,310)	60,585
	129,432	9,396	78,711	84,226	(34,934)	266,831
Expenditures						
Salaries and benefits	41,869	2,723	9,235	2,125	-	55,952
Goods and services	142,749	34,058	53,146	38,647	(34,934)	233,666
Amortization	17,855	23,015	33,663	20,698	-	95,231
Interest	15,864	-	784	234	-	16,882
	218,337	59,796	96,828	61,704	(34,934)	401,731
Operating surplus (deficit)	(88,905)	(50,400)	(18,117)	22,522	-	(134,900)
Other revenue						
Government infrastructure funding	61	-	484,692	-	-	484,753
	(88,844)	(50,400)	466,575	22,522	-	349,853

(15)

The Rural Municipality of Murray Harbour

Schedule of Tangible Capital Assets

For the year ended March 31, 2020

Schedule 2

	March 31, 2020		Cost		March 31, 2020		March 31, 2020	March 31, 2020	March 31, 2020
	Beginning \$	Additions \$	Ending \$	Beginning \$	Amortization \$	Ending \$	Net book value \$		
Land and land improvements	271,052	-	271,052	20,939	7,624	28,563	242,489		
Buildings	742,382	-	742,382	288,282	16,671	304,953	437,429		
Street lights and equipment	78,232	1,606	79,838	42,981	3,628	46,609	33,229		
Fire equipment	370,394	4,096	374,490	172,911	19,953	192,864	181,626		
Sewer system	2,314,631	29,101	2,343,732	491,732	29,052	520,784	1,822,948		
	3,776,691	34,803	3,811,494	1,016,845	76,928	1,093,773	2,717,721		

	March 31, 2019		Cost		March 31, 2019		March 31, 2019	March 31, 2019	March 31, 2019
	Beginning \$	Additions \$	Ending \$	Beginning \$	Amortization \$	Ending \$	Net book Value \$		
Land and land improvements	270,499	553	271,052	10,291	10,648	20,939	250,113		
Buildings	732,534	9,848	742,382	266,669	21,613	288,282	454,100		
Street lights and equipment	78,011	221	78,232	37,918	5,063	42,981	35,251		
Fire equipment	316,180	54,214	370,394	148,571	24,340	172,911	197,483		
Sewer system	1,746,714	567,917	2,314,631	458,165	33,567	491,732	1,822,899		
	3,143,938	632,753	3,776,691	921,614	95,231	1,016,845	2,759,846		