

Village of Murray Harbour

**Consolidated Financial Statements
December 31, 2017**

Draft

Management's Report

The management of the Village 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 Village. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Village's consolidated financial statements.

Mark Tiller
Acting Chief Administrative Officer

Garry Herring
Chair of Council

March 28, 2018

Independent Auditor's Report

To the Council of the Village of Murray Harbour

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Village of Murray Harbour**, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of accumulated surplus, operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Village of Murray Harbour** as at December 31, 2017, and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

Village of Murray Harbour
 Consolidated Statement of Financial Position
 As at December 31, 2017

	2017 \$	2016 \$
Assets		
Financial assets		
Cash and cash equivalents		
Unrestricted	72,909	92,555
Accounts receivable		
Sewer	1,855	629
Grants	35,385	-
HST	4,954	22,085
Other	308	-
Restricted cash (note 2)	53,135	45,392
Total financial assets	168,546	160,661
Liabilities		
Accounts payable and accrued liabilities	44,688	17,878
Deferred revenue (note 2)	51,611	56,616
Long-term debt (note 3)	62,108	74,363
Total liabilities	158,407	148,857
Net financial assets	10,139	11,804
Non-financial assets		
Prepaid expenses	3,960	4,579
Tangible capital assets (Schedule 2)	2,222,324	2,124,864
	2,226,284	2,129,443
Accumulated surplus	2,236,423	2,141,247

On behalf of the Council

 Mayor

 Councilor

Village of Murray Harbour
Consolidated Statement of Accumulated Surplus
For the year ended December 31, 2017

	2017 \$	2016 \$
Accumulated surplus - Beginning of year	2,141,247	1,934,691
Annual surplus	95,176	206,556
Accumulated surplus - End of year	<u>2,236,423</u>	<u>2,141,247</u>

Draft

Village of Murray Harbour

Consolidated Statement of Operations

For the year ended December 31, 2017

	2017	2017	2016
	Budget (unaudited)	Actual	Actual
	\$	\$	\$
Revenue (Schedule 1)			
Property taxes (note 4)	77,936	78,707	77,825
Government transfers			
Equalization	19,754	20,253	20,106
Infrastructure	120,000	140,389	264,468
Wages	11,520	9,801	8,576
Other	-	2,500	-
Rent and other	29,000	17,589	20,828
Gain on disposal of tangible capital assets	1,000	-	2,100
Interest	300	1,648	1,594
Sewer charges	60,000	60,472	61,101
Fire dues	36,444	40,782	40,215
	<u>355,954</u>	<u>372,141</u>	<u>496,813</u>
Expenses (Schedule 1)			
General government	120,964	121,961	116,688
Village centre and recreation	31,234	46,415	65,288
Sewer	60,000	66,652	67,717
Fire department	55,110	41,937	40,564
	<u>267,308</u>	<u>276,965</u>	<u>290,257</u>
Annual surplus	<u>88,646</u>	<u>95,176</u>	<u>206,556</u>

Village of Murray Harbour

Consolidated Statement of Changes in Net Assets For the year ended December 31, 2017

	Budget (Unaudited) \$	2017 \$	2016 \$
Annual surplus	88,646	95,176	206,556
Amortization of tangible capital assets - net	64,000	71,458	67,712
Acquisition of tangible capital assets - net	(114,121)	(168,918)	(240,258)
Change in prepaid expenses - general	-	619	1,527
	(50,121)	(96,841)	(171,019)
Increase (decrease) in net financial assets	38,525	(1,665)	35,537
Net financial assets (net debt) - Beginning of year	11,804	11,804	(23,733)
Net financial assets - End of year	50,329	10,139	11,804

Village of Murray Harbour
Consolidated Statement of Cash Flows
For the year ended December 31, 2017

	2017	2016
	\$	\$
Cash provided by (used in)		
Operating activities		
Annual surplus	95,176	206,556
Items not affecting cash		
Amortization	71,458	67,712
Gain on disposal of tangible capital assets	-	(2,100)
	<u>166,634</u>	<u>272,168</u>
Net change in non-cash working capital items		
Increase in accounts receivable	(19,788)	(12,182)
Increase (decrease) in accounts payable and accrued liabilities	26,810	(6,491)
Decrease in deferred revenue	(5,005)	(63,702)
Decrease in prepaid expenses	619	1,527
	<u>169,270</u>	<u>191,320</u>
Capital activities		
Acquisition of tangible capital assets	(168,918)	(240,258)
Proceeds on disposal of tangible capital assets	-	2,100
	<u>(168,918)</u>	<u>(238,158)</u>
Financing activities		
Decrease (increase) in restricted cash	(7,743)	74,926
Debt repayment	(12,255)	(12,255)
	<u>(19,998)</u>	<u>62,671</u>
Increase (decrease) in cash and cash equivalents	(19,646)	15,833
Cash and cash equivalents - Beginning of year	<u>92,555</u>	<u>76,722</u>
Cash and cash equivalents - End of year	<u>72,909</u>	<u>92,555</u>

Village of Murray Harbour

Notes to Consolidated Financial Statements

December 31, 2017

1 Summary of significant accounting policies

The consolidated financial statements of Village 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 Village 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 Village for administration of their financial affairs and resources, and which are owned or controlled by the Village. Interdepartmental and organizational transactions and balances are eliminated.

b) Consolidated entities

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

Village of Murray Harbour
Murray Harbour Fire Department
Village of Murray Harbour Sewer Utility

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.

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.

f) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

Village of Murray Harbour

Notes to Consolidated Financial Statements

December 31, 2017

g) 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.

h) 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 Village. 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 Village's revenue is adjusted for any of these appeals using a yearly statement.
- (ii) Other revenue is recorded when it is earned and collection is reasonably assured.

i) Government transfers

Transfers from governments without eligibility criteria or stipulations is recognized as revenue by the Village when the transfer is authorized. Transfers with eligibility criteria is recognized as revenue by the Village 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 Village when the transfer is authorized and all stipulations have been met.

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

j) Financial instruments

Financial instruments consist of cash and cash equivalents unrestricted, accounts receivable, restricted cash, accounts payable and accrued liabilities and long-term debt.

k) Fair value of financial instruments

The Village has evaluated the fair value of its financial instruments based on the current interest rate environment, market values, and the actual prices of financial instruments with similar terms. The carrying value of financial instruments is considered to approximate fair value.

Village of Murray Harbour

Notes to Consolidated Financial Statements

December 31, 2017

l) 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.

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.

2 Deferred revenue

	2017	2016
	\$	\$
Deferred revenue - Beginning of year	56,616	120,318
Allocation received	100,000	200,000
Interest income	205	766
Eligible expenditures incurred	(105,210)	(264,468)
Deferred revenue - End of year	<u>51,611</u>	<u>56,616</u>

During the year the Village was allocated \$100,000 (2016 - \$200,000) under the New Deal Gas Tax Funding for Incorporated Communities Agreement. The Village 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 Village has received funds which are restricted for expenditure on eligible projects. The Village has prepared, and the governmental regulating body has accepted, a Capital Investment Plan which details eligible expenditures.

The Village has \$53,135 (2016 - \$45,392) in separate bank accounts to be used to pay for future eligible expenditures incurred under this agreement.

Village of Murray Harbour

Notes to Consolidated Financial Statements

December 31, 2017

3 Long-term debt

	2017 \$	2016 \$
<u>Village of Murray Harbour General</u>		
Prime plus 1.5%, Canadian Imperial Bank of Commerce loan, maturing April 2029, payable in monthly installments of \$417 plus interest	56,667	61,667
<u>Village of Murray Harbour Fire Department</u>		
Prime plus 1.5%, Canadian Imperial Bank of Commerce loan, maturing September 2018, payable in monthly installments of \$604 plus interest	5,441	12,696
	62,108	74,363

Principal repayments are due as follows:

	General \$	Fire Department \$	Total \$
2018	5,004	5,441	10,445
2019	5,004	-	5,004
2020	5,004	-	5,004
2021	5,004	-	5,004
2022	5,004	-	5,004
Thereafter	31,647	-	31,647
	56,667	5,441	62,108

Canadian Imperial Bank of Commerce prime rate at December 31, 2017 was 3.2% (2016 - 2.7%).

4 Property taxes

	2017 \$	2016 \$
Commercial property tax	5,528	5,528
Non-commercial property tax	73,179	72,297
	78,707	77,825

Village of Murray Harbour

Notes to Consolidated Financial Statements

December 31, 2017

5 Rate regulation

The Village 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.

6 Contingent liability

A lawsuit has been initiated by a former employee claiming damages for wrongful dismissal. The Village has filed a counterclaim against this individual. No amount has been accrued in the records of the Village as the outcome and potential liability from this claim cannot be determined at this time.

7 Subsequent event

Effective January 1, 2018, the Village of Murray Harbour has legally changed their name to The Rural Municipality of Murray Harbour.

8 Segment disclosure - Schedule 1

The Village provides various services to its citizens. For management reporting purposes the Village's operations and activities are organized and reported by fund. Funds 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.

Village centre and recreation

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

Sewer utility

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

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.

Village of Murray Harbour

Consolidated Schedule of Segment Disclosures

For the year ended December 31, 2017

Schedule 1

	General Government \$	Village center & Recreation \$	Sewer \$	Fire Department \$	Elimination \$	2017 Consolidated \$
Revenues						
Property taxes	78,707	-	-	-	-	78,707
Government transfer						
Municipal Support Grant Program	20,253	-	-	-	-	20,253
Infrastructure	95,102	-	45,287	-	-	140,389
Wages	-	9,801	-	-	-	9,801
Other	2,500	-	-	-	-	2,500
Rent and other	11,492	8,058	-	8,663	(10,624)	17,589
Interest	206	-	1,442	-	-	1,648
Sewer	-	-	60,472	-	-	60,472
Fire dues	-	-	-	59,430	(18,648)	40,782
	208,260	17,859	107,201	68,093	(29,272)	372,141
Expenditures						
Salaries and benefits	17,942	1,761	9,855	2,050	-	31,608
Goods and services	104,137	27,381	42,268	25,168	(29,272)	169,682
Amortization	15,286	17,273	24,674	14,225	-	71,458
Interest	3,244	-	479	494	-	4,217
	140,609	46,415	77,276	41,937	(29,272)	276,965
	67,651	(28,556)	29,925	26,156	-	95,176

Village of Murray Harbour

Consolidated Schedule of Segment Disclosures

For the year ended December 30, 2016

Schedule 1

	General Government \$	Village center & Recreation \$	Sewer \$	Fire Department \$	Elimination \$	2016 Consolidated \$
Revenues						
Property taxes	77,825	-	-	-	-	77,825
Government transfer						
Municipal Support Grant Program	20,106	-	-	-	-	20,106
Infrastructure	239,151	-	25,317	-	-	264,468
Wages	1,732	6,844	-	-	-	8,576
Rent and other	6,495	10,856	-	7,077	(3,600)	20,828
Interest	-	-	1,594	-	-	1,594
Gain on disposal of tangible capital assets	2,100	-	-	-	-	2,100
Sewer	-	-	61,101	-	-	61,101
Fire dues	-	-	-	58,863	(18,648)	40,215
	<u>347,409</u>	<u>17,700</u>	<u>88,012</u>	<u>65,940</u>	<u>(22,248)</u>	<u>496,813</u>
Expenditures						
Salaries and benefits	27,535	23,848	5,900	1,975	-	59,258
Goods and services	88,643	29,841	39,317	23,299	(22,248)	158,852
Amortization	15,923	11,599	25,688	14,502	-	67,712
Interest	3,235	-	412	788	-	4,435
	<u>135,336</u>	<u>65,288</u>	<u>71,317</u>	<u>40,564</u>	<u>(22,248)</u>	<u>290,257</u>
	<u>212,073</u>	<u>(47,588)</u>	<u>16,695</u>	<u>25,376</u>	<u>-</u>	<u>206,556</u>

Village of Murray Harbour

Schedule of Tangible Capital Assets

For the year ended December 31, 2017

Schedule 2

	Cost 2017			Accumulated amortization 2017			2017
	Beginning \$	Additions/ (Credit) \$	Ending \$	Beginning \$	Amortization \$	Ending \$	Net book value \$
Land and land improvements	175,590	94,909	270,499	3,176	7,115	10,291	260,208
Buildings	732,631	(97)	732,534	248,902	17,767	266,669	465,865
Street lights and equipment	77,486	525	78,011	33,449	4,469	37,918	40,093
Fire equipment	299,681	16,499	316,180	130,864	17,707	148,571	167,609
Sewer system	1,689,632	57,082	1,746,714	433,765	24,400	458,165	1,288,549
	<u>2,975,020</u>	<u>168,918</u>	<u>3,143,938</u>	<u>850,156</u>	<u>71,458</u>	<u>921,614</u>	<u>2,222,324</u>

	Cost 2016			Accumulated amortization 2016			2016
	Beginning \$	Additions \$	Ending \$	Beginning \$	Amortization \$	Ending \$	Net book Value \$
Land and land improvements	63,608	111,982	175,590	323	2,853	3,176	172,414
Buildings	641,783	90,848	732,631	232,329	16,573	248,902	483,729
Street lights and equipment	64,035	13,451	77,486	29,250	4,199	33,449	44,037
Fire equipment	293,242	6,439	299,681	112,465	18,399	130,864	168,817
Sewer system	1,672,094	17,538	1,689,632	408,077	25,688	433,765	1,255,867
	<u>2,734,762</u>	<u>240,258</u>	<u>2,975,020</u>	<u>782,444</u>	<u>67,712</u>	<u>850,156</u>	<u>2,124,864</u>