

# **The Rural Municipality of Murray Harbour**

Consolidated Financial Statements

**March 31, 2019**

## Management's Report

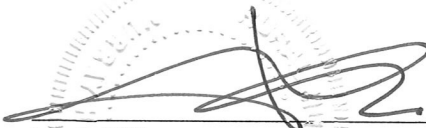
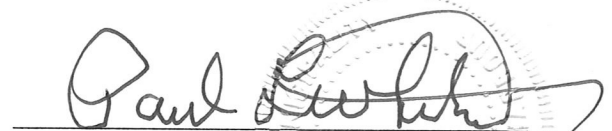
The management of the Rural Municipality of Murray Harbour is responsible for the integrity, relevance and comparability of the financial information presented in the accompanying consolidated financial statements.

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.

  
Mark Tiller  
Chief Administrative Officer  
Paul White  
Mayor

July 10, 2019

**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, 2019, and the consolidated statements of accumulated surplus, operations, changes in net assets (debt) and cash flows for the 15 month period 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, 2019, and the results of its operations and its cash flows for the 15 month period 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, 2019

	March 31, 2019 \$	December 31, 2017 \$
<b>Assets</b>		
<b>Financial assets</b>		
Cash and cash equivalents		
Unrestricted	91,489	72,909
Accounts receivable		
Sewer	2,429	1,855
Grants	-	35,385
HST	9,656	4,954
Other	53	308
Restricted cash (note 2)	110,463	53,135
<b>Total financial assets</b>	214,090	168,546
<b>Liabilities</b>		
Accounts payable and accrued liabilities	38,030	44,688
Deferred revenue (note 2)	142,825	51,611
Long-term debt (note 3)	228,298	62,108
<b>Total liabilities</b>	409,153	158,407
<b>Net financial assets (debt)</b>	(195,063)	10,139
<b>Non-financial assets</b>		
Prepaid expenses	21,493	3,960
Tangible capital assets (Schedule 2)	2,759,846	2,222,324
	2,781,339	2,226,284
<b>Accumulated surplus</b>	2,586,276	2,236,423

On behalf of the Council

\_\_\_\_\_  
Mayor

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Acting Chief Administrative Officer

# The Rural Municipality of Murray Harbour

Consolidated Statement of Accumulated Surplus

For the 15-month period ended March 31, 2019

	(15 months) March 31, 2019 \$	(12 months) December 31, 2017 \$
Accumulated surplus - Beginning of period	2,236,423	2,141,247
Annual surplus	349,853	95,176
Accumulated surplus - End of period	2,586,276	2,236,423

# The Rural Municipality of Murray Harbour

## Consolidated Statement of Operations

For the 15-month period ended March 31, 2019

	(15 months) March 31, 2019	(15 months) March 31, 2019	(12 months) December 31, 2017
	Budget (unaudited) \$	Actual \$	Actual \$
<b>Revenue</b> (Schedule 1)			
Property taxes	98,100	102,288	78,707
Government transfers			
Equalization	25,440	14,204	20,253
Wages	12,250	-	9,801
Other	-	-	2,500
Rent and other	15,750	10,601	17,589
Interest	-	1,884	1,648
Sewer charges	75,000	77,269	60,472
Fire dues	55,190	60,585	40,782
	281,730	266,831	231,752
<b>Expenses</b> (Schedule 1)			
General government	121,140	195,027	121,961
Municipal centre and recreation	51,130	59,796	46,415
Sewer	106,250	85,204	66,652
Fire department	80,720	61,704	41,937
	359,240	401,731	276,965
<b>Operating deficit</b>	(77,510)	(134,900)	(45,213)
<b>Other revenue</b>			
Government infrastructure funding	544,089	484,753	140,389
<b>Annual surplus</b>	466,579	349,853	95,176

# The Rural Municipality of Murray Harbour

## Consolidated Statement of Changes in Net Assets (Debt)

For the 15-month period ended March 31, 2019

	(15 months) March 31, 2019	(15 months) March 31, 2019	(12 months) December 31, 2017
	Budget (unaudited) \$	Actual \$	Actual \$
<b>Annual surplus</b>	466,579	349,853	95,176
Amortization of tangible capital assets - net	80,000	95,231	71,458
Acquisition of tangible capital assets - net	(725,452)	(632,753)	(168,918)
Change in prepaid expenses - general	-	(17,533)	619
	(645,452)	(555,055)	(96,841)
<b>Decrease in net financial assets</b>	(178,873)	(205,202)	(1,665)
<b>Net financial assets - Beginning of period</b>	10,139	10,139	11,804
<b>Net financial assets (net debt) - End of period</b>	(168,734)	(195,063)	10,139

# The Rural Municipality of Murray Harbour

## Consolidated Statement of Cash Flows

For the 15-month period ended March 31, 2019

	(15 months) March 31, 2019 \$	(12 months) December 31, 2017 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Annual surplus	349,853	95,176
Item not affecting cash		
Amortization	95,231	71,458
	445,084	166,634
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	30,364	(19,788)
Increase (decrease) in accounts payable and accrued liabilities	(6,658)	26,810
Increase (decrease) in deferred revenue	91,214	(5,005)
Decrease (increase) in prepaid expenses	(17,533)	619
	542,471	169,270
<b>Capital activity</b>		
Acquisition of tangible capital assets	(632,753)	(168,918)
<b>Financing activities</b>		
Increase in restricted cash	(57,328)	(7,743)
Issuance of long-term debt	649,641	-
Debt repayment	(483,451)	(12,255)
	108,862	(19,998)
<b>Increase (decrease) in cash and cash equivalents</b>	18,580	(19,646)
<b>Cash and cash equivalents - Beginning of period</b>	72,909	92,555
<b>Cash and cash equivalents - End of period</b>	91,489	72,909

# The Rural Municipality of Murray Harbour

## Notes to Consolidated Financial Statements

March 31, 2019

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### 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

#### 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.

# The Rural Municipality of Murray Harbour

## Notes to Consolidated Financial Statements

March 31, 2019

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### 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.

### 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 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) 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 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.

### 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.

# The Rural Municipality of Murray Harbour

## Notes to Consolidated Financial Statements

March 31, 2019

### k) Fair value of financial instruments

The Municipality 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.

### 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

	March 31, 2019 \$	December 31, 2017 \$
Deferred revenue - Beginning of period	51,611	56,616
Allocation received	100,000	100,000
Interest income	442	205
Eligible expenditures incurred	(9,228)	(105,210)
Deferred revenue - End of period	142,825	51,611

During the year the Municipality was allocated \$100,000 (2017 - \$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 \$110,463 (2017 - \$53,135) in separate bank accounts to be used to pay for future eligible expenditures incurred under this agreement.



# The Rural Municipality of Murray Harbour

## Notes to Consolidated Financial Statements

March 31, 2019

### 3 Long-term debt

	March 31, 2019 \$	December 31, 2017 \$
<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	50,449	56,667
Prime plus 1.5%, Canadian Imperial Bank of Commerce loan, maturing February 2034, payable in bi-weekly installments of \$458 plus interest	177,849	-
<u>Murray Harbour Fire Department</u>		
Prime plus 1.5%, Canadian Imperial Bank of Commerce loan, repaid during the year	-	5,441
	<u>228,298</u>	<u>62,108</u>

Principal repayments are due as follows:

	Total \$
2020	16,918
2021	16,918
2022	16,918
2023	16,918
2024	16,918
Thereafter	143,708
	<u>228,298</u>

Canadian Imperial Bank of Commerce prime rate at March 31, 2019 was 3.95% (2017 - 3.2%).

### 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.

# The Rural Municipality of Murray Harbour

Notes to Consolidated Financial Statements

March 31, 2019

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## 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 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.

### 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.

### 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 Rural Municipality of Murray Harbour

Consolidated Schedule of Segment Disclosures

For the 15-month period ended March 31, 2019

Schedule 1

	General Government \$	Municipality center & Recreation \$	Sewer \$	Fire Department \$	Elimination \$	Consolidated \$
<b>Revenues</b>						
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
<b>Expenditures</b>						
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
<b>Operating surplus (deficit)</b>	(88,905)	(50,400)	(18,117)	22,522	-	(134,900)
<b>Other revenue</b>						
Government Infrastructure funding	61	-	484,692	-	-	484,753
	(88,844)	(50,400)	466,575	22,522	-	349,853

(13)

# The Rural Municipality of Murray Harbour

Consolidated Schedule of Segment Disclosures

For the year ended ended December 31, 2017

Schedule 1

	General Government \$	Municipality center & Recreation \$	Sewer \$	Fire Department \$	Elimination \$	December 31, 2017 Consolidated \$
<b>Revenues</b>						
Property taxes	78,707	-	-	-	-	78,707
Government transfer						
Municipal Support Grant Program	20,253	-	-	-	-	20,253
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
	113,158	17,859	61,914	68,093	(29,272)	231,752
<b>Expenditures</b>						
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
<b>Operating surplus (deficit)</b>	(27,451)	(28,556)	(15,362)	26,156	-	(45,213)
<b>Other revenue</b>						
Government infrastructure funding	95,102	-	45,287	-	-	140,389
	67,651	(28,556)	29,925	26,156	-	95,176

(14)

# The Rural Municipality of Murray Harbour

Schedule of Tangible Capital Assets  
For the 15-month ended March 31, 2019

Schedule 2

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

	December 31, 2017		Cost	December 31, 2017	Accumulated amortization	December 31, 2017
	Beginning \$	Additions \$	Ending \$	Beginning \$	Amortization \$	Net book Value \$
Land and land improvements	175,590	94,909	270,499	3,176	7,115	260,208
Buildings	732,631	(97)	732,534	248,902	17,767	465,865
Street lights and equipment	77,486	525	78,011	33,449	4,469	40,093
Fire equipment	299,681	16,499	316,180	130,864	17,707	167,609
Sewer system	1,689,632	57,082	1,746,714	433,765	24,400	1,288,549
	2,975,020	168,918	3,143,938	850,156	71,458	2,222,324

(15)