

VILLAGE OF HAY LAKES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council of the Village of Hay Lakes:

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of the Village of Hay Lakes (the Entity), which comprise the consolidated statement of financial position as at December 31, 2018, and the results of its operations, changes in its net financial assets (debt) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Village of Hay Lakes as at December 31, 2018, the results of its operations, change in its net financial assets (debt) and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of my report. I am independent of the Entity in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Entity's financial reporting process.

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

My 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 my 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, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

Brian King Professional Corporation
Chartered Professional Accountant



- 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 my 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 Entity'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 Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I 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 I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

- **Debt Limit Regulation:**
In accordance with Alberta Regulation 255/2000, I confirm that the municipality is in compliance with the Debt Limit Regulation. A detailed account of the Entity's debt limit can be found in Note 7.
- **Supplementary Accounting Principles and Standards Regulation:**
In accordance with Alberta Regulation 313/2000, I confirm that the municipality is in compliance with the Supplementary Accounting Principles and Standards Regulation and note the information required can be found in Note 11.

M.D. of Wainwright
May 30, 2019


Brian King Professional Corporation
Chartered Professional Accountant

VILLAGE OF HAY LAKES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
FINANCIAL ASSETS		
Cash (Note 2)	237,096	98,035
Taxes and grants in place of taxes (Note 3)	43,692	40,508
Trade and other receivables	53,901	46,049
Due from other governments	260,494	285,936
Local improvement levy receivable	404,247	423,068
Inventory held for resale	397,244	417,898
	<u>1,396,674</u>	<u>1,311,494</u>
LIABILITIES		
Accounts payable and accrued liabilities	44,377	47,346
Deposits held in trust	1,000	2,000
Deferred revenue (Note 5)	190,552	5,944
Long term debt (Note 6)	579,298	667,462
	<u>815,227</u>	<u>722,752</u>
NET FINANCIAL ASSETS	<u>581,447</u>	<u>588,742</u>
NON-FINANCIAL ASSETS		
Tangible capital assets	4,598,575	4,752,217
Prepaid expenses	24,516	-
	<u>4,623,091</u>	<u>4,752,217</u>
ACCUMULATED SURPLUS (NOTE 9)	<u>5,204,538</u>	<u>5,340,959</u>

VILLAGE OF HAY LAKES

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (unaudited)	2018	2017
REVENUE			
Net municipal property taxes (Schedule 3)	381,861	352,452	339,545
User fees and sales of goods	268,262	298,978	289,210
Penalties and costs on taxes	10,250	13,045	12,653
Licenses and permits	2,900	3,073	2,770
Fines	-	637	546
Franchise and concession contracts	23,500	22,924	20,752
Investment income	250	14,038	13,762
Government transfers for operating	70,175	48,813	50,157
Other	-	13,980	18,641
	<u>757,198</u>	<u>767,940</u>	<u>748,036</u>
EXPENSES			
Legislative	44,600	36,697	31,836
Administration	167,635	187,431	148,331
Protective services	72,252	44,945	42,157
Transportation	225,444	167,979	143,134
Water supply and distribution	134,522	132,681	123,478
Wastewater treatment and disposal	50,356	39,318	61,415
Waste management	76,231	77,831	73,107
Public health and welfare	2,917	3,013	2,867
Planning and development	23,600	28,197	33,420
Recreation	39,562	44,423	43,850
Culture	17,559	12,203	12,201
Amortization	-	225,137	222,432
Loss (gain) on disposal of assets	-	(450)	(5,840)
	<u>854,678</u>	<u>999,405</u>	<u>932,388</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE OTHER	(97,480)	(231,465)	(184,352)
OTHER			
Government transfers for capital (Schedule 4)	246,305	95,044	250,017
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	148,825	(136,421)	65,665
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>5,340,959</u>	<u>5,340,959</u>	<u>5,275,294</u>
ACCUMULATED SURPLUS, END OF YEAR	<u><u>5,489,784</u></u>	<u><u>5,204,538</u></u>	<u><u>5,340,959</u></u>

VILLAGE OF HAY LAKES

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (unaudited)	2018	2017
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>148,825</u>	<u>(136,421)</u>	<u>65,665</u>
Acquisition of tangible capital assets	(30,000)	(74,045)	(30,513)
Proceeds on disposal of tangible capital assets	-	3,000	8,000
Amortization of tangible capital assets	-	225,137	222,432
Loss (gain) on sale of tangible capital assets	-	(450)	(5,840)
	<u>(30,000)</u>	<u>153,642</u>	<u>194,079</u>
Net (increase) decrease of prepaid assets	-	(24,516)	-
INCREASE IN NET FINANCIAL ASSETS	118,825	(7,295)	259,744
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>588,742</u>	<u>588,742</u>	<u>328,998</u>
NET FINANCIAL ASSETS, END OF YEAR	<u>707,567</u>	<u>581,447</u>	<u>588,742</u>

VILLAGE OF HAY LAKES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenues over expenses	(136,421)	65,665
Non-cash items included in excess of revenue over expenses:		
Amortization of tangible capital assets	225,137	222,432
Loss (gain) on disposal of tangible capital assets	(450)	(5,840)
Non-cash charges to operations (net change):		
Decrease (increase) in taxes and grants in place of taxes	(3,184)	(15,888)
Decrease (increase) in due from other governments	25,442	105,363
Decrease (increase) in trade and other receivables	(7,852)	(3,646)
Decrease (increase) in local improvement levy receivable	18,821	18,030
Decrease (increase) in inventory held for resale	20,654	34,688
Decrease (increase) in prepaid expenses	(24,516)	-
Increase (decrease) in accounts payable and accrued liabilities	(2,969)	(185,888)
Increase (decrease) in deposits held in trust	(1,000)	1,000
Increase (decrease) in deferred revenue	184,608	257
	<u>298,270</u>	<u>236,173</u>
CAPITAL		
Acquisition of tangible capital assets	(74,045)	(30,513)
Sale of tangible capital assets	3,000	8,000
	<u>(71,045)</u>	<u>(22,513)</u>
FINANCING		
Long-term debt repaid	(88,164)	(86,894)
	<u>(88,164)</u>	<u>(86,894)</u>
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	139,061	126,766
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	98,035	(28,731)
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>237,096</u>	<u>98,035</u>
CASH AND CASH EQUIVALENTS IS MADE UP OF:		
Cash	237,096	98,035
	<u>237,096</u>	<u>98,035</u>

VILLAGE OF HAY LAKES

SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 2018 (Schedule 1)

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2018	2017
BALANCE, BEGINNING OF YEAR	982,093	274,111	4,084,755	5,340,959	5,275,294
Excess (deficiency) of revenues over expenses	(136,421)	-	-	(136,421)	65,665
Current year funds used for tangible capital assets	(74,045)	-	74,045	-	-
Disposal of tangible capital assets	2,550	-	(2,550)	-	-
Annual amortization expense	225,137	-	(225,137)	-	-
Long term debt repaid	(88,164)	-	88,164	-	-
Change in accumulated surplus	(70,943)	-	(65,478)	(136,421)	65,665
BALANCE, END OF YEAR	911,150	274,111	4,019,277	5,204,538	5,340,959

VILLAGE OF HAY LAKES

CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS FOR THE YEAR ENDED DECEMBER 31, 2018 (Schedule 2)

	LAND	LAND IMPROVEMENTS	BUILDINGS	ENGINEERED STRUCTURES	MACHINERY AND EQUIPMENT	VEHICLES	2018	2017
COST:								
Balance - beginning of year	329,467	171,424	407,421	5,817,139	822,902	64,499	7,612,852	7,596,739
Acquisition of tangible capital assets	-	-	-	45,044	-	29,001	74,045	30,513
Disposal of tangible capital assets	-	-	-	-	-	17,000	17,000	14,400
Balance - end of year	329,467	171,424	407,421	5,862,183	822,902	76,500	7,669,897	7,612,852
ACCUMULATED AMORTIZATION								
Balance - beginning of year	-	165,838	287,543	1,871,483	483,592	52,179	2,860,635	2,650,443
Annual amortization	-	924	7,533	175,880	34,821	5,979	225,137	222,432
Accumulated amortization on disposals	-	-	-	-	-	14,450	14,450	12,240
Balance - end of year	-	166,762	295,076	2,047,363	518,413	43,708	3,071,322	2,860,635
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	329,467	4,662	112,345	3,814,820	304,489	32,792	4,598,575	4,752,217
PRIOR YEAR NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	329,467	5,586	119,878	3,945,656	339,310	12,320	4,752,217	

VILLAGE OF HAY LAKES

CONSOLIDATED SCHEDULE OF PROPERTY TAXES LEVIED FOR THE YEAR ENDED DECEMBER 31, 2018 (Schedule 3)

	Budget (Unaudited)	2018	2017
TAXATION			
Real property taxes	462,685	465,891	445,040
Linear property taxes	5,812	5,812	5,990
Local improvement levy	32,594	-	-
	<u>501,091</u>	<u>471,703</u>	<u>451,030</u>
REQUISITIONS			
Alberta School Foundation	119,230	119,231	111,485
Designated Industrial Levy	-	20	-
	<u>119,230</u>	<u>119,251</u>	<u>111,485</u>
NET MUNICIPAL TAXES	<u>381,861</u>	<u>352,452</u>	<u>339,545</u>

VILLAGE OF HAY LAKES

CONSOLIDATED SCHEDULE OF GOVERNMENT TRANSFERS FOR THE YEAR ENDED DECEMBER 31, 2018 (Schedule 4)

	Budget (Unaudited)	2018	2017
TRANSFERS FOR OPERATING			
Provincial Government	44,025	44,025	35,851
Local Governments	26,150	4,788	14,306
	<u>70,175</u>	<u>48,813</u>	<u>50,157</u>
TRANSFERS FOR CAPITAL			
Federal Government	50,000	50,000	50,000
Provincial Government	196,305	45,044	200,017
TOTAL GOVERNMENT TRANSFERS	<u>316,480</u>	<u>143,857</u>	<u>300,174</u>

VILLAGE OF HAY LAKES

CONSOLIDATED SCHEDULE OF EXPENDITURE BY OBJECT FOR THE YEAR ENDED DECEMBER 31, 2018 (Schedule 5)

	Budget (Unaudited)	2018	2017
Expenditures			
Salaries, wages and benefits	311,320	331,316	283,017
Contracted and general services	242,761	192,439	202,342
Materials, goods and utilities	226,336	184,074	163,593
Provision for allowances	-	668	-
Transfers to local boards and agencies	54,502	50,344	48,605
Bank charges and short term interest	3,000	1,795	2,879
Interest on capital long term debt	14,460	14,082	15,360
Amortization of tangible capital assets	-	225,137	222,432
Loss on disposal of tangible capital assets	-	(450)	(5,840)
	<u>854,678</u>	<u>999,405</u>	<u>932,388</u>

VILLAGE OF HAY LAKES

SCHEDULE OF SEGMENTED DISCLOSURE FOR THE YEAR ENDED DECEMBER 31, 2018 (Schedule 6)

	General Government	Protective Services	Transportation services	Environmental Services	Public Health & Welfare	Planning & Development	Recreation & Culture	Total
REVENUE								
Net municipal property taxes (Schedule 2)	352,452	-	-	-	-	-	-	352,452
User fees and sales of goods	951	1,534	-	222,412	-	47,000	27,081	298,978
Penalties and costs on taxes	10,625	-	-	2,420	-	-	-	13,045
Licenses and permits	653	2,420	-	-	-	-	-	3,073
Fines	-	637	-	-	-	-	-	637
Franchise and concession contracts	22,924	-	-	-	-	-	-	22,924
Investment income	14,038	-	-	-	-	-	-	14,038
Government transfers	44,025	4,788	-	-	-	-	-	48,813
Other	5,660	-	-	-	-	1,320	7,000	13,980
	<u>451,328</u>	<u>9,379</u>	<u>-</u>	<u>224,832</u>	<u>-</u>	<u>48,320</u>	<u>34,081</u>	<u>767,940</u>
EXPENSES								
Salaries, wages and benefits	151,211	16,273	88,888	54,383	-	-	20,561	331,316
Contracted and general services	65,209	14,150	10,729	86,433	-	7,544	8,374	192,439
Materials, goods and utilities	5,245	14,522	54,280	80,063	-	20,653	9,311	184,074
Provision for allowances	668	-	-	-	-	-	-	668
Transfers to local boards and agencies	-	-	-	28,951	3,013	-	18,380	50,344
Bank charges and short term interest	1,795	-	-	-	-	-	-	1,795
Interest on capital long term debt	-	-	14,082	-	-	-	-	14,082
	<u>224,128</u>	<u>44,945</u>	<u>167,979</u>	<u>249,830</u>	<u>3,013</u>	<u>28,197</u>	<u>56,626</u>	<u>774,718</u>
NET REVENUE, BEFORE AMORTIZATION	<u>227,200</u>	<u>(35,566)</u>	<u>(167,979)</u>	<u>(24,998)</u>	<u>(3,013)</u>	<u>20,123</u>	<u>(22,545)</u>	<u>(6,778)</u>
AMORTIZATION AND DISPOSAL OF ASSETS								
Amortization of tangible capital assets	3,755	4,501	156,889	53,625	-	-	6,367	225,137
Loss (gain) on disposal of tangible capital assets	-	-	(450)	-	-	-	-	(450)
	<u>3,755</u>	<u>4,501</u>	<u>156,439</u>	<u>53,625</u>	<u>-</u>	<u>-</u>	<u>6,367</u>	<u>224,687</u>
NET REVENUE	<u>223,445</u>	<u>(40,067)</u>	<u>(324,418)</u>	<u>(78,623)</u>	<u>(3,013)</u>	<u>20,123</u>	<u>(28,912)</u>	<u>(231,465)</u>

VILLAGE OF HAY LAKES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Village of Hay Lakes are the representations of management prepared in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants.

Significant aspects of the accounting policies adopted by the village are as follows:

a) Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, changes in fund balances and change in financial position of the reporting entity. This entity is comprised of the municipal operations plus all of the organizations that are owned or controlled by the village are, therefore accountable to the Council for the administration of their financial affairs and resources.

The schedule of taxes levied also includes requisitions for education, health, social and other external organizations that are not part of the municipal reporting entity.

The statements exclude trust assets that are administered for the benefit of external parties. Interdepartmental and organizational transactions and balances are eliminated.

b) Basis of Accounting

The 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 legal obligation to pay.

Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used for certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed or the tangible capital assets are acquired.

VILLAGE OF HAY LAKES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditure during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

d) Investments

Investments are recorded at amortized cost. Investment premiums and discounts are amortized on the net present value basis over the term of the respective investments. When there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

e) Requisition Over-levy and Under-levy

Over-levies and under-levies arise from the difference between the actual property tax levy made to cover each requisition and the actual amount requisitioned.

If the actual levy exceeds the requisition, the over-levy is accrued as a liability and property tax revenue is reduced. Where the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property tax revenue.

Requisition tax rates in the subsequent year are adjusted for any over-levies or under-levies of the prior year.

f) Inventories for Resale

Land held for resale is recorded at the lower of cost or net realizable value. Cost includes costs for land acquisition and improvements required to prepare the land for servicing such as clearing, stripping and levelling charges. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks and street lighting are recorded as physical assets under the respective function.

g) Tax revenue

Tax revenues are recognized when the tax has been authorized by bylaw and the taxable event has occurred.

Requisitions operate as a flow through and are excluded from municipal revenue.

VILLAGE OF HAY LAKES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Landfill Closure and Post-Closure Liability

Pursuant to the Alberta Environmental Protection and Enhancement Act, the town is required to fund the closure of its landfill site and provide for post-closure care of the facility. Closure and post-closure activities include the final clay cover, landscaping, as well as surface and ground water monitoring, leachate control, and visual inspection. The requirement is being provided for over the estimated remaining life of the landfill site based on usage.

i) Contaminated Sites Liability

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of a contaminated site is recognized when a site is not in productive use and is management's estimate of the cost of post-remediation including operation, maintenance and monitoring.

j) Government Transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or the result of a direct financial return.

Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be determined.

k) 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 revenues over expenses, provides the consolidated Change in Net Financial Assets for the year.

VILLAGE OF HAY LAKES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	YEARS
Buildings	25-50
Engineered structures - other	10-40
Engineered structures - water system	45-75
Engineered structures - wastewater system	45-75
Land improvements	15-45
Machinery and equipment	5-25
Vehicles	10-25

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

ii. Contributions of Tangible Capital Assets

Tangible capital assets received as contributions are recorded at fair value at the date of receipt and also are recorded as revenue.

iii. 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.

iv. Inventories

Inventories held for consumption are recorded at the lower of cost and replacement cost.

v. Cultural and Historical Tangible Capital Assets

Works of art for display are not recorded as tangible capital assets but are disclosed.

VILLAGE OF HAY LAKES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. CASH AND TERM DEPOSITS

	<u>2018</u>	<u>2017</u>
Included in cash and term deposits are amounts received from various grant funding programs that are held for use in accordance with the funding agreements. (Note 5)	-	-
Included in cash and term deposits are amounts designated by council for future expenses and tangible capital asset acquisitions. (Note 8)	<u>237,096</u>	<u>98,035</u>
Total restricted cash and term deposits	<u>237,096</u>	<u>98,035</u>
Total unrestricted cash and term deposits	<u>-</u>	<u>-</u>

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLES

	<u>2018</u>	<u>2017</u>
Current taxes and grants in place of taxes	<u>29,585</u>	<u>26,513</u>
Arrears taxes	<u>14,107</u>	<u>13,995</u>
	<u>43,692</u>	<u>40,508</u>

4. BANK INDEBTEDNESS

Bank indebtedness consists of an authorized overdraft in the amount of \$200,000 bearing interest at prime, secured by all assets of the village at large.

5. DEFERRED INCOME

Deferred income consists of the following:	<u>2018</u>	<u>2017</u>
Municipal Sustainability Initiative - capital	<u>184,602</u>	<u>358</u>
Prepaid property taxes	<u>5,950</u>	<u>5,586</u>
	<u>190,552</u>	<u>5,944</u>

VILLAGE OF HAY LAKES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

6. LONG TERM DEBT

	<u>2018</u>	<u>2017</u>	
Alberta Capital Finance Authority	<u>579,298</u>	<u>667,462</u>	
Principal and interest payments are as follows:			
	Principal	Interest	Total
2019	89,458	13,166	102,624
2020	90,775	11,849	102,624
2021	21,874	10,699	32,573
2022	22,473	10,100	32,573
2023	23,088	9,485	32,573
Thereafter	<u>331,630</u>	<u>59,246</u>	<u>390,876</u>
	<u>579,298</u>	<u>114,545</u>	<u>693,843</u>

Debenture debt repayable to Alberta Capital Finance Authority and bears interest at 1.088% to 2.718% and matures in 2020 to 2035 and is secured by the credit and security of the village at large.

The village's total cash payments for interest in 2018 were \$14,460.

7. DEBT LIMITS

Section 276(2) of the Municipal Government Act requires that debt and debt limits as defined by Alberta Regulation 255/00 for the Village of Hay Lakes be disclosed as follows:

	<u>2018</u>	<u>2017</u>
Total debt limit	<u>1,151,910</u>	1,875,150
Total debt	<u>579,298</u>	667,462
Surplus debt limit	<u>572,612</u>	<u>1,207,688</u>
Debt servicing limit	<u>191,985</u>	312,525
Debt servicing	<u>102,624</u>	102,624
Surplus debt servicing	<u>89,361</u>	<u>209,901</u>

The debt limit is calculated at 1.5 times revenue of the municipality (as defined in Alberta Regulation 255/00) and the debt service limit is calculated at 0.25 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify municipalities, which could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the municipality. Rather, the financial statements must be interpreted as a whole.

VILLAGE OF HAY LAKES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

8. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2018</u>	<u>2017</u>
Tangible capital assets (Schedule 2)	7,669,897	7,612,852
Accumulated amortization (Schedule 2)	(3,071,322)	(2,860,635)
Long-term debt (Note 6)	(579,298)	(667,462)
	<u>4,019,277</u>	<u>4,084,755</u>

9. ACCUMULATED SURPLUS

Accumulated surplus consists of restricted and unrestricted amounts and equity in tangible capital assets as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted surplus	<u>911,150</u>	<u>982,093</u>
Restricted surplus		
General	<u>274,111</u>	<u>274,111</u>
Equity in tangible capital assets	<u>4,019,277</u>	<u>4,084,755</u>
	<u>5,204,538</u>	<u>5,340,959</u>

10. SEGMENTED DISCLOSURE

The Village of Hay Lakes provides a range of services to its ratepayers. For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in Note 1.

Refer to the Schedule of Segmented Disclosure (schedule 6)

VILLAGE OF HAY LAKES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

11. SALARY AND BENEFITS DISCLOSURE

Disclosure of salaries and benefits for municipal officials, the chief administrative officer as required by Alberta Regulation 313/2000 is as follows:

	2018			2017
	Salary	Benefits & Allowances	Total	Total
Leicht	5,350	-	5,350	2,677
Patten	9,586	-	9,586	6,968
Pauls	10,837	-	10,837	4,978
Skaret	-	-	-	3,559
These	4,724	-	4,724	750
Vellee	4,100	-	4,100	750
Yearwood	-	-	-	2,992
CAO	94,848	5,645	100,493	73,782
CAO	3,719	298	4,017	-
Designated Officer (1)	4,528	-	4,528	4,536

1. Salary includes regular base pay, bonuses, overtime, lump sum payments, gross honoraria and any other direct cash remuneration.
2. Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans, professional memberships and tuition.

12. COMMITMENTS

The village is a member of the Capital Region Southwest Water Services Commission, as part of the membership, the village has committed to make monthly payments to cover the village's share of the debenture used to construct water line extension to service the village. The total annual payments due per year is \$24,472 until 2034.

13. CONTINGENCIES

The village is a member of the Alberta Municipal Insurance Exchange (MUNIX). Under the terms of the membership, the village could become liable for its proportionate share of any claim losses in excess of the funds held by the exchange. Any liability incurred would be accounted for as a current transaction in the year the losses are determined.

14. CONTAMINATED SITES LIABILITY

The village has adopted PS3260 Liability for Contaminated Sites. The village did not identify any financial liabilities in 2018 (2017 – nil) as a result of this standard.

VILLAGE OF HAY LAKES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

15. FINANCIAL INSTRUMENTS

The Village's financial instruments consist of cash and temporary investments, accounts receivable, investments, bank indebtedness, accounts payable and accrued liabilities, deposit liabilities and long-term debt. It is management's opinion that the village is not exposed to significant interest or currency risks arising from these financial instruments.

The village is subject to credit risk with respect to taxes receivable and trade and other receivables. Credit risk arises from the possibility that taxpayers and entities to which the village provides services may experience financial difficulty and be unable to fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

Unless otherwise noted, the fair value of these financial instruments approximates their fair value.

16. RECONCILIATION OF OPERATING RESULTS TO BUDGETING SYSTEM

The village has prepared its budget according to the former accounting standards that were in place prior to 2009 which tracked all municipal activities including capital projects and reserves for future use. The reconciliation below to encompass these items is provided for information purposes only to provide users with supplementary comparative information. It should not be used as a replacement for the consolidated statement of financial activities and accumulated surplus and users should note that this information may not be appropriate for their purposes.

	Budget (unaudited)	2018	2017
Excess of revenue over expenditures, per financial statements	148,825	(136,421)	65,665
Adjustments			
Amortization expense	-	225,137	222,432
Loss (gain) on disposal of tangible capital assets	-	(450)	(5,840)
Acquisition of tangible capital assets	(30,000)	(74,045)	(30,513)
Proceeds on disposition of tangible capital assets	-	3,000	8,000
Results of operations - previous methods	<u>118,825</u>	<u>17,221</u>	<u>259,744</u>
Net transfers (to) from reserves	(6,500)	-	-
Debenture repaid	<u>(102,624)</u>	<u>(88,164)</u>	<u>(86,894)</u>
Increase (decrease) in unrestricted surplus	<u>9,701</u>	<u>(70,943)</u>	<u>172,850</u>

17. COMPARITIVE FIGURES

Certain comparative figures have been restated to conform to the current year's presentation.

18. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.