
INDEPENDENT AUDITOR'S REPORT

To the Members of County of Two Hills No. 21

We have audited the accompanying consolidated financial statements of County of Two Hills No. 21, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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.

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 consolidated 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.

(continues)

Independent Auditor's Report to the Members of County of Two Hills No. 21 *(continued)*

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of County of Two Hills No. 21 as at December 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Vegreville, Alberta
March 30, 2016

Synergy
Chartered Accountants

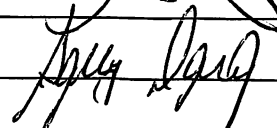
COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Financial Position
Year Ended December 31, 2015

	2015	2014
FINANCIAL ASSETS		
Cash and temporary investments (Note 2)	\$ 15,133,034	\$ 14,346,455
Taxes and grants in place of taxes receivable (Note 3)	196,468	602,911
Receivables from other governments	18,917	121,163
Trade and other receivables	1,116,373	1,451,465
Long-term investments (Note 4)	43,300	43,397
Debt charges recoverable (Note 5)	561,101	501,755
	17,069,193	17,067,146
LIABILITIES		
Accounts payable and accrued liabilities	621,609	965,802
Wages payable	125,564	93,437
Funds held in trust (Note 6)	152,391	138,097
Deferred revenue (Note 7)	2,484,165	3,082,750
Due to Regional Waste Management Commission	587,562	689,979
Long-term debt (Note 8)	561,101	501,755
	4,532,392	5,471,820
NET FINANCIAL ASSETS	12,536,801	11,595,326
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 9)	54,777,485	52,928,547
Inventory for consumption (Note 10)	1,208,082	1,111,570
Prepaid expenses	1,776,800	1,828,223
	57,762,367	55,868,340
ACCUMULATED SURPLUS (Note 11)	\$ 70,299,168	\$ 67,463,666

Commitments and Contingencies (Note 15) & (Note 16)

ON BEHALF OF THE COUNTY OF TWO HILLS NO. 21


 _____ Reeve


 _____ Chief Administrative Officer

COUNTY OF TWO HILLS NO. 21**Consolidated Statement of Change in Net Financial Assets****Year Ended December 31, 2015**

	(Unaudited) Budget	2015	2014
EXCESS OF REVENUES OVER EXPENSES	\$ 4,472,082	\$ 2,835,502	\$ 5,220,144
Amortization of tangible capital assets	2,979,033	2,529,283	2,528,229
Amortization added to tangible capital assets	233,551	574,210	395,385
Proceeds on disposal of tangible capital assets	44,876	92,092	189,413
Loss on sale of tangible capital assets	-	59,566	20,825
Acquisition of tangible capital assets	(8,111,212)	(5,104,089)	(5,840,452)
Change in inventories and prepaid expenses	-	14,614	(562,538)
	(381,670)	1,001,178	1,951,006
Net financial assets, beginning of year	-	11,595,326	9,644,320
NET FINANCIAL ASSETS, END OF YEAR		\$ 12,596,504	\$ 11,595,326

COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Operations
For the Year Ended December 31, 2015

	(Unaudited) Budget	2015	2014
REVENUES			
Net municipal taxes <i>(Schedule 1)</i>	\$ 9,758,676	\$ 9,757,267	\$ 9,753,342
Sales of goods and services	6,685,525	6,018,135	9,045,909
Government Transfers for Operating <i>(Schedule 2)</i>	646,611	453,181	482,109
Investment income	81,500	155,661	140,621
Penalties and costs of taxes	40,450	133,906	88,204
Licenses and permits	12,600	18,868	24,199
Other	102,954	234,096	761,042
	17,328,316	16,771,114	20,295,426
EXPENSES			
Legislative	352,690	277,007	273,819
Administration	1,418,553	2,183,708	1,288,275
Protective services	447,781	383,087	324,484
Roads, streets, walks, lighting	9,257,014	8,549,936	8,593,738
Water supply and distribution	406,169	154,256	154,175
Waste management	255,100	217,703	219,402
Family and community support	487,663	292,773	87,663
Agriculture services	622,430	533,265	537,159
Subdivision land development	41,250	15,777	33,169
Parks and recreation	1,379,330	1,369,247	217,945
Library	35,522	35,522	34,384
Gas Utility	4,139,800	3,172,998	5,309,399
	18,843,302	17,185,279	17,073,612
EXCESS OF REVENUES OVER EXPENSES BEFORE TRANSFERS FOR CAPITAL			
	(1,514,986)	(414,165)	3,221,814
Government transfers for capital <i>(Schedule 3)</i>	5,987,068	3,249,667	1,998,330
EXCESS OF REVENUES OVER EXPENSES	\$ 4,472,082	\$ 2,835,502	\$ 5,220,144

COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Cash Flows
Year Ended December 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 2,835,502	\$ 5,220,144
Items not affecting cash:		
Amortization of tangible capital assets	2,529,283	2,528,229
Amortization added to tangible capital assets	574,210	395,385
Loss on sale of tangible capital assets	59,566	20,825
	5,998,561	8,164,583
Changes in non-cash working capital:		
Taxes and grants in place of taxes receivable	406,443	(398,505)
Receivables from other governments	102,246	(42,096)
Trade and other receivables	275,389	(135,202)
Accounts payable and accrued liabilities	(344,193)	(135,763)
Wages payable	32,127	(23,532)
Funds held in trust	14,294	14,179
Deferred revenue	(598,585)	1,132,994
Inventory for consumption	(96,512)	596,095
Prepaid expenses	111,126	(1,158,633)
	(97,665)	(150,463)
Cash flow from operating activities	5,900,896	8,014,120
CAPITAL ACTIVITIES		
Purchase of property, plant and equipment	(5,104,089)	(5,840,452)
Proceeds on disposal of property, plant and equipment	92,092	189,413
Cash flow used by capital activities	(5,011,997)	(5,651,039)
FINANCING ACTIVITIES		
Due to Regional Waste Management Commission	(102,417)	208,839
Long-term debt issued	150,000	-
Debt charges issued	(150,000)	-
Repayment of long term debt	(90,654)	(88,176)
Debt charges recoverable	90,654	88,176
Cash flow from (used by) financing activities	(102,417)	208,839
INVESTING ACTIVITIES		
Decrease (increase) in long-term investments	97	(106)
Decrease (increase) in restricted cash or cash equivalents	480,841	(1,404,278)
Cash flow from (used by) investing activities	480,938	(1,404,384)
INCREASE IN CASH FLOW	1,267,420	1,167,536
Cash - beginning of year	11,332,204	10,164,668
CASH - END OF YEAR	\$ 12,599,624	\$ 11,332,204
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest received	\$ 152,091	\$ 140,621

(continues)

COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Cash Flows *(continued)*
Year Ended December 31, 2015

	2015	2014
Interest paid	\$ 17,686	\$ 20,164
CASH CONSISTS OF:		
Cash and temporary investments <i>(Note 2)</i>	\$ 15,133,034	\$ 14,346,455
Less: restricted cash or cash equivalents	(2,533,410)	(3,014,251)
	\$ 12,599,624	\$ 11,332,204

COUNTY OF TWO HILLS NO. 21**Consolidated Schedule of Property and Other Taxes****(Schedule 1)****Year Ended December 31, 2015**

	(Unaudited) Budget	2015	2014
TAXATION			
Residential land and improvements	\$ 1,630,627	\$ 1,632,754	\$ 1,496,621
Farmland	1,606,132	1,610,440	1,603,031
Non-residential land and improvements	603,383	602,212	636,511
Machinery and equipment	1,904,661	1,898,002	2,089,172
Linear property	6,113,176	6,113,227	5,895,628
	11,857,979	11,856,635	11,720,963
REQUISITIONS			
Alberta School Foundation Fund	1,751,037	1,751,037	1,673,408
ASFF Opted-out Boards	4,971	5,036	4,710
Eagle Hill Foundation	343,295	343,295	289,503
	2,099,303	2,099,368	1,967,621
	\$ 9,758,676	\$ 9,757,267	\$ 9,753,342

COUNTY OF TWO HILLS NO. 21

**Consolidated Schedule of Government Transfers for Operating
Year Ended December 31, 2015**

(Schedule 2)

	(Unaudited) Budget	2015	2014
TRANSFERS FOR OPERATING			
Provincial grants-operating	\$ 636,689	\$ 444,058	\$ 473,118
Local government grants-operating	9,922	9,123	8,991
	\$ 646,611	\$ 453,181	\$ 482,109

**Consolidated Schedule of Government Transfers for Capital
Year Ended December 31, 2015**

(Schedule 3)

	(Unaudited) Budget	2015	2014
TRANSFERS FOR CAPITAL			
Provincial grants-capital	\$ 4,818,488	\$ 3,233,141	\$ 1,975,196
Federal grants-capital	1,168,580	16,526	23,134
	\$ 5,987,068	\$ 3,249,667	\$ 1,998,330

**Consolidated Schedule of Expenses by Object
Year Ended December 31, 2015**

(Schedule 4)

	(Unaudited) Budget	2015	2014
EXPENSES			
Salaries, wages and benefits	\$ 5,440,727	\$ 4,275,759	\$ 4,418,047
Contracted and general services	2,399,330	1,769,454	1,669,417
Purchases from other governments	2,514,025	1,821,937	4,133,944
Materials, goods, supplies and utilities	4,212,106	4,247,925	4,031,819
Provision for allowances	23,000	1,203,379	109,176
Transfers to other governments	1,113,309	1,117,074	-
Transfers to local boards and agencies	141,022	141,022	139,884
Bank charges and short-term interest	20,750	19,880	22,271
Amortization of tangible capital assets	2,979,033	2,529,283	2,528,229
Loss on sale of tangible capital asset	-	59,566	20,825
	\$ 18,843,302	\$ 17,185,279	\$ 17,073,612

COUNTY OF TWO HILLS NO. 21

Statement of Operating Revenue And Expenses For The Gas Utility

(Schedule 5)

Year Ended December 31, 2015

	(Unaudited) Budget	2015	2014
REVENUE	\$ 3,401,578	\$ 2,555,371	\$ 4,884,632
PURCHASES	2,497,000	1,807,189	4,116,813
GROSS PROFIT	904,578	748,182	767,819
OTHER OPERATING REVENUES			
Other sales and service	71,665	102,308	127,915
Penalties and interest income	55,000	52,681	65,351
Profit on capital construction	-	163,631	136,500
RMO station operating grant	25,000	25,500	25,500
Service charges	280,000	285,720	269,382
	431,665	629,840	624,648
EXPENSES			
Amortization	276,010	268,960	251,095
Bad debt expense	3,000	243,947	57,012
Council	22,350	15,592	15,707
Insurance, permits, damage claims	47,950	40,811	38,386
Memberships, dues, fees	31,700	23,963	25,276
Office supplies	60,250	42,812	30,946
Professional fees	33,000	6,530	7,404
Repair and maintenance	196,000	30,677	100,569
Travel and training	20,000	5,328	7,332
Utilities	52,200	45,997	44,347
Vehicle and equipment costs	119,450	55,918	61,624
Wages and benefits	685,890	514,348	562,042
Less infill cost recovery	95,000	51,016	(9,154)
Loss on sale of tangible capital asset	-	19,910	-
	1,642,800	1,365,809	1,192,586
DEFICIENCY OF EXPENSES OVER REVENUE	\$ (306,557)	\$ 12,213	\$ 199,881

COUNTY OF TWO HILLS NO. 21
Consolidated Schedule of Segmented Disclosures
Year Ended December 31, 2015

(Schedule 6)

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Gas utility	Family & Community Support Services	2015
REVENUE									
Net municipal taxes	\$ 9,757,267	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,757,267
User fees & sales of goods	6,069	124,915	2,757,105	19,315	25,240	115,062	2,970,429	-	6,018,135
Government transfers	-	9,123	2,547,674	183,359	872,926	16,526	-	73,240	3,702,848
Investment income	130,529	-	-	-	-	-	25,132	-	155,661
Other revenues	151,082	27,588	-	18,554	-	-	189,646	-	386,870
	10,044,947	161,626	5,304,779	221,228	898,166	131,588	3,185,207	73,240	20,020,781
EXPENSES									
Salaries & wages	803,598	93,563	2,577,028	202,008	66,652	15,278	517,632	-	4,275,759
Contract & general services	361,650	50,662	562,218	91,575	72,181	250,866	180,302	200,000	1,769,454
Purchases from/transfers to other governments	-	-	-	14,748	1,117,074	-	1,807,189	-	2,939,011
Goods & supplies	248,426	179,233	3,327,514	209,734	-	55,983	134,262	92,773	4,247,925
Provision for allowances	959,432	-	-	-	-	-	243,947	-	1,203,379
Transfers to local boards	-	-	-	5,500	135,522	-	-	-	141,022
Other expenses	25,393	451	31,977	(239)	-	1,162	20,702	-	79,446
	2,398,499	323,909	6,498,737	523,326	1,391,429	323,289	2,904,034	292,773	14,655,996
NET REVENUE, BEFORE AMORTIZATION									
Amortization expense	7,646,448	(162,283)	(1,193,958)	(302,098)	(493,263)	(191,701)	281,173	(219,533)	5,364,785
	62,217	59,217	2,051,203	25,678	13,339	48,669	268,960	-	2,529,283
EXCESS OF REVENUES OVER EXPENSES									
	\$ 7,584,231	\$ (221,500)	\$ (3,245,161)	\$ (327,776)	\$ (506,602)	\$ (240,370)	\$ 12,213	\$ (219,533)	\$ 2,835,502

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the County of Two Hills No. 21 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 Chartered Professional Accountants of Canada. Significant aspects of the accounting policies adopted by the municipality are as follows:

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 county and are, therefore, accountable to the municipal 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.

Basis of presentation

The consolidated financial statements were prepared in accordance with Canadian public sector accounting standards.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada 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.

Internally constructed tangible capital assets, mainly consisting of roads and the gas system are costed by using internal documents to determine the costs of the various components of the construction. Such documents include costing reports for projects, machines, timesheets etc. Gravel inventory is costed by a similar method using internal documents to determine the cost of crushing. As uncertainty inherently exists in the accurateness of these documents, actual results could differ from the accumulated costs.

Investments

Investments are recorded at amortized cost. 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.

Debt charges recoverable

Debt charges recoverable consist of amounts that are recoverable from municipal agencies or other local governments with respect to outstanding debentures. These recoveries are recorded at a value that equals the offsetting portion of the unmatured long-term debt.

(continues)

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Inventory

Inventory of materials and supplies for consumption are valued at the lower of cost or net realizable value with the cost being determined by the average cost method. Gravel inventory is valued at the amount of the royalty as well as the costs of crushing.

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.

(continues)

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

a) **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
Land improvements	15-25
Buildings	25-50
Engineered structures	
Roads and bridges	20-40
Gas system	35-75
Water system	25-75
Wastewater system	35-75
Machinery and equipment	5-40
Vehicles	10

Assets under construction are not amortized until the asset is available for productive use.

b) **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.

c) **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.

Budget figures

Budget figures are included for information purposes only and are not audited.

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

2. CASH AND TEMPORARY INVESTMENTS

	2015	2014
Cash	\$ 1,641,530	\$ 1,314,565
Temporary investments	13,491,504	13,031,890
	\$ 15,133,034	\$ 14,346,455

Bank indebtedness bears interest at prime minus 2%.

Temporary investments are short-term deposits with original maturities of three months or less. Rates vary from 1.45% to 1.65% and mature starting in January 2016.

Council has designated funds of \$12,437,631 (2014 - \$10,835,836) included in the above amounts for reserves.

Included in cash is a restricted amount of \$2,533,410 (2014 - \$3,014,251) comprised of \$152,391 (2014 - \$138,097) of funds held in trust and \$2,381,019 (2014 - \$2,876,154) of deferred revenue received from various sources and held exclusively for approved projects (*Note 7*).

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLE

	2015	2014
Current	\$ 838,364	\$ 587,835
Arrears	642,434	110,249
	1,480,798	698,084
Less: allowance for uncollectible accounts	(1,284,330)	(95,173)
	\$ 196,468	\$ 602,911

4. LONG TERM INVESTMENTS

To be involved with Gas Alberta Inc., the municipality was required to invest in shares and a debenture with Gas Alberta Inc. to provide them with initial operating capital. The debenture is non-interest bearing.

Alberta Central East Water Corporation (ACE) - in order to participate in the water pipeline project, the County of Two Hills No. 21 had to subscribe to shares in the capital stock of ACE.

Details are as follows:

	2015	2014
788 Class A common shares in Gas Alberta Inc.	\$ 788	\$ 885
Debenture receivable from Gas Alberta Inc.	42,500	42,500
1,240 Class A common voting shares in ACE	12	12
	\$ 43,300	\$ 43,397

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

5. DEBT CHARGES RECOVERABLE

	2015	2014
Current debt charges recoverable	\$ 67,051	\$ 90,655
Non-current debt charges recoverable	494,050	411,100
	\$ 561,101	\$ 501,755

Principal and interest repayments are as follows:

	Principal	Interest	Total
2016	\$ 67,051	\$ 19,170	\$ 86,221
2017	36,866	17,463	54,329
2018	38,270	16,060	54,330
2019	39,727	14,603	54,330
2020	41,241	13,089	54,330
Thereafter	337,946	53,701	391,647
	\$ 561,101	\$ 134,086	\$ 695,187

The County of Two Hills No, 21 loaned \$500,000 to Eagle Hill Foundation (1995), bearing interest at 3.97%, payable in semi-annual payments of \$22,279, maturing March 15, 2026.

An additional \$300,000 was loaned to the Willingdon Seed Cleaning Co-op Ltd., bearing interest at 2.2545% payable in semi-annual payments of \$31,891, maturing June 15, 2016.

An additional \$150,000 was loaned to the Mrynam Seed Cleaning Co-op Ltd., bearing interest at 2.718% payable in semi-annual payments of \$4,886, maturing September 15, 2035.

These debt charges recoverable are the reciprocal payment of the Alberta Capital Finance loans taken on behalf of these two organizations. (Note 8) - Long-Term Debt.

6. FUNDS HELD IN TRUST

	2015	2014
Tax sale surplus	\$ 5,217	\$ 5,176
Public reserve	146,174	131,721
Premise deposits	1,000	1,200
	\$ 152,391	\$ 138,097

Tax sale surplus consists of surplus funds received from land sold at public auction. These funds are payable to the previous ratepayer under the the guidelines set out in the Municipal Government Act.

Public reserve consists of funds received for municipal reserve upon subdivision of land.

Premise deposits are amounts required to be paid to receive gas utility service.

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

7. DEFERRED REVENUE

Deferred revenue is comprised of the funds noted below, the use of which are externally restricted. These funds are recognized as revenue in the period they are used for in the purpose specified.

	2015	2014
RCP Wastewater Treatment System Upgrade Grant	\$ 972,089	\$ 957,141
Federal Gas Tax Refund	519,051	605,562
Alberta Community Partnership Grant	352,338	-
RCP Transitional Governance Grant	219,416	216,683
Derwent - MSI, New Deal and Federal Gas Tax Refund	128,049	126,143
Hairy Hill Transitional funding	108,124	106,946
Roadway fee oiling	74,261	72,750
Bridge Upgrade Grant	50,323	49,551
MSI - capital	31,628	-
Road security deposits	23,902	23,544
Pre-purchased gravel	3,081	108,802
Subdivision access	1,500	1,500
MSI - operating	403	-
Community Spirit Grant	-	761,469
Further Education	-	52,659
	\$ 2,484,165	\$ 3,082,750

Funding from various grant programs, organizations and individuals, remained unspent at the end of the current year. The use of these funds is restricted to eligible operating and capital projects as approved under the funding agreements or as indicated by the donors.

8. LONG TERM DEBT

(Note 5) - Debt Charges Recoverable.

	2015	2014
Alberta Capital Finance Authority loan bearing interest at 3.97% per annum, repayable in semi-annual blended payments of \$22,279. The loan matures on March 15, 2026.	\$ 379,565	\$ 408,199
Alberta Capital Finance Authority loan bearing interest at 2.2545% per annum, repayable in semi-annual blended payments of \$31,891. The loan matures on June 15, 2016.	31,536	93,556
Alberta Capital Finance Authority loan bearing interest at 2.718% per annum, repayable in semi-annual blended payments of \$4,886. The loan matures on September 15, 2035.	150,000	-
	\$ 561,101	\$ 501,755

(continues)

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

8. LONG TERM DEBT (continued)

Principal and interest repayments are as follows:

	Principal	Interest	Total
2016	\$ 67,051	\$ 19,170	\$ 86,221
2017	36,866	17,463	54,329
2018	38,270	16,060	54,330
2019	39,727	14,603	54,330
2020	41,241	13,089	54,330
Thereafter	337,946	53,701	391,647
	\$ 561,101	\$ 134,086	\$ 695,187

Interest on long-term debt was \$17,686 (2014 - \$20,164).

The County's total cash payments for interest were \$17,686 (2014 - \$20,164).

Debenture debt is issued on the credit and security of the County at large.

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

9. TANGIBLE CAPITAL ASSETS

	Opening Balance	Additions / Amortization	Disposals / Adjustments	Closing Balance
<u>COST</u>				
Land	\$ 2,625,351	\$ -	\$ (18,750)	\$ 2,606,601
Land improvements	171,971	14,113	-	186,084
Buildings	3,861,146	6,005	2,160	3,869,311
Machinery and equipment	16,895,489	805,114	(179,583)	17,521,020
Vehicles	4,646,816	367,008	(399,982)	4,613,842
Assets under construction	529,352	128,835	(383,329)	274,858
Engineered structures				
Roads and bridges	70,207,095	3,585,574	248,824	74,041,493
Water system	862,248	14,939	-	877,187
Wastewater system	358,326	-	-	358,326
Gas system	9,691,063	182,501	(3,900)	9,869,664
	109,848,857	5,104,089	(734,560)	114,218,386
<u>ACCUMULATED AMORTIZATION</u>				
Land improvements	47,628	8,765	-	56,393
Buildings	1,657,897	56,116	-	1,714,013
Machinery and equipment	7,425,815	991,935	(262,687)	8,155,063
Vehicles	1,945,083	310,612	(320,215)	1,935,480
Engineered structures				
Roads and bridges	41,532,094	1,548,000	-	43,080,094
Water system	376,732	3,872	-	380,604
Wastewater system	191,939	18,841	-	210,780
Gas system	3,743,122	165,352	-	3,908,474
	56,920,310	3,103,493	(582,902)	59,440,901
	\$ 52,928,547	\$ 2,000,596	\$ (151,658)	\$ 54,777,485

10. INVENTORY FOR CONSUMPTION

	2015	2014
Public Works miscellaneous	\$ 313,035	\$ 355,918
Public Works fuel	7,345	19,198
Public Works gravel	791,209	596,949
Public Works coldmix	7,376	55,446
Agricultural services	28,385	23,600
Fire inventory	6,899	5,267
	1,154,249	1,056,378
Gas utility	53,833	55,192
	\$ 1,208,082	\$ 1,111,570

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

11. ACCUMULATED SURPLUS

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

	2015	2014
Unrestricted surplus		
Unrestricted surplus, beginning of year	\$ 3,699,283	\$ 2,626,329
Excess of revenues and expenses	2,835,502	5,220,144
Unrestricted funds designated for future use	(1,601,795)	(1,440,590)
Increase in tangible capital assets	(1,848,938)	(2,706,600)
Unrestricted surplus, end of year	3,084,052	3,699,283
Restricted surplus		
Restricted surplus, beginning of year	10,835,836	9,395,246
Unrestricted funds designated for future use	1,601,795	1,440,590
Restricted surplus, end of year	12,437,631	10,835,836
Equity in tangible capital assets		
Equity in tangible capital assets, beginning of year	52,928,547	50,221,946
Current funds used for tangible capital assets	5,104,089	5,840,452
Proceeds on sale of tangible capital assets	(92,092)	(189,412)
Loss on sale of tangible capital assets	(59,566)	(20,825)
Amortization of tangible capital assets	(3,103,493)	(2,923,614)
Equity in tangible capital assets, end of year	54,777,485	52,928,547
	\$ 70,299,168	\$ 67,463,666

(continues)

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

11. ACCUMULATED SURPLUS (continued)

	2015	2014
Unrestricted surplus consists of the following:		
General Municipal	\$ 2,245,290	\$ 3,008,133
Gas Utility	838,762	691,150
	3,084,052	3,699,283
Restricted surplus consists of the following:		
General Municipal	10,355,107	8,555,107
Gas Utility	2,082,524	2,280,729
	12,437,631	10,835,836
Equity in tangible capital assets consists of the following:		
General Municipal	47,735,504	45,949,371
Gas Utility	7,041,981	6,979,176
	54,777,485	52,928,547
	\$ 70,299,168	\$ 67,463,666

12. 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 County of Two Hills No. 21 be disclosed as follows:

	2015	2014
Total debt limit	\$ 30,031,173	\$ 33,440,634
Debt servicing limit	5,005,196	5,573,439

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 that 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.

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

13. SALARY AND BENEFITS DISCLOSURE

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

		Salary	Benefits & Allowances	2015	2014
Reeve	Sayler	\$ 46,528	\$ 9,097	\$ 55,625	\$ 51,359
Councilors	Yakemchuk	40,805	8,556	49,361	54,299
	Gordeyko	34,443	3,355	37,798	38,670
	Odegard	30,965	7,615	38,580	35,454
	Pidruchney	30,225	7,523	37,748	34,565
Administrator	Dary	122,367	27,472	149,839	126,528
Agriculture	Ropchan	-	-	-	57,304
	Kozak	83,812	19,370	103,182	101,494
ES Coordinator	Straty	60,818	17,803	78,621	77,068

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.
3. If an automobile is provided, no amount is included in the benefits and allowances figure.
4. Benefits and allowances figures also include the employer's share of the costs of additional taxable benefits including special leave with pay, financial and retirement planning services, concessionary loans, travel allowances, car allowances and club memberships.

14. LOCAL AUTHORITIES PENSION PLAN

Employees of the municipality participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the *Public Sector Pension Plans Act*. The LAPP is financed by employer and employee contributions and by investment earnings of the LAPP Fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

The municipality is required to make current service contributions to the LAPP of 11.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 15.84% on pensionable earnings above this amount.

Total current service contributions by the municipality to the LAPP in 2015 were \$309,820 (2014 - \$312,218). Total current service contributions by the employees of the municipality to the Local Authorities Pension Plan in 2015 were \$292,549 (2014 - \$290,397).

At December 31, 2014, the LAPP disclosed an actuarial deficiency of \$2.4 billion.

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

15. COMMITMENTS AND SUBSEQUENT EVENTS

The municipality has a long term lease and maintenance agreements with respect to office equipment. Total annual payments are \$19,665 plus additional variable charges based on usage.

In 2016 the municipality has purchased equipment totaling \$2,170,553 and is committed to additional equipment purchases totaling approximately \$2,129,400. It is estimated \$1,380,000 will be funded by grant proceeds. The municipality has accepted a tender to upgrade the Derwent lagoon for an estimated cost of \$1,061,265. The expenses are expected to be funded by grant revenues.

16. CONTINGENCIES

The County of Two Hills No. 21 is a member of a reciprocal insurance exchange (GENESIS) to cover its liability insurance needs. GENESIS was previously referred to as Jubilee Reciprocal Insurance Exchange (JRIE). A Statement of Claim was filed in 2004 by some of the previous subscribers of JRIE. The statement of claim requests the return of surplus funds in the amount of \$3,820,516. Under the terms of the membership, the County of Two Hills No. 21 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.

The municipality has crushed gravel in many sites over the years. The liability for reclaiming the sites has not been determined and therefore has not been reflected in the financial statements.

17. FINANCIAL INSTRUMENTS

The municipality's financial assets consist of cash and temporary investments, accounts receivable, investments, debt charges recoverable, and financial liabilities consists of accounts payable and accrued liabilities, wages payable, funds held in trust, and long-term debt. It is management's opinion that the municipality is not exposed to significant interest or currency risks arising from these financial instruments.

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

Unless otherwise noted, the carrying value of the financial instrument approximates fair value.

18. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.