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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, 2017 and the consolidated statements of operations, changes in net financial 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.

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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, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matters

The Village of Willingdon dissolved August 31, 2017. The financial position of the Village of Willingdon has been consolidated into the County of Two Hills No. 21 as of September 1, 2017. The August 31, 2017 financial statements of the Village of Willingdon were completed as a review engagement (unaudited).

Vegreville, Alberta
March 28, 2018

Synergy
Chartered Professional Accountants

COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Financial Position
Year Ended December 31, 2017

	2017	2016
FINANCIAL ASSETS		
Cash and temporary investments (Note 2)	\$ 18,311,643	\$ 15,492,465
Taxes and grants in place of taxes receivable (Note 3)	307,984	257,884
Receivables from other governments	1,292,120	26,273
Trade and other receivables	820,049	1,220,660
Long-term investments (Note 4)	43,007	43,007
Debt charges recoverable (Note 5)	457,183	494,050
Note receivable (Note 6)	700,000	-
	21,931,986	17,534,339
LIABILITIES		
Accounts payable and accrued liabilities	534,328	782,247
Wages payable	129,130	129,778
Funds held in trust (Note 7)	243,695	208,434
Deferred revenue (Note 8)	2,306,945	2,637,990
Due to Regional Waste Management Commission	892,342	722,616
Long-term debt (Note 9)	526,006	494,050
	4,632,446	4,975,115
NET FINANCIAL ASSETS	17,299,540	12,559,224
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 10)	56,952,067	55,881,455
Inventory for consumption (Note 11)	1,399,696	1,495,853
Prepaid expenses	1,111,859	1,463,273
	59,463,622	58,840,581
ACCUMULATED SURPLUS (Note 12)	\$ 76,763,162	\$ 71,399,805

Commitments and Contingencies (Note 17) & (Note 19)

ON BEHALF OF THE COUNTY OF TWO HILLS NO. 21


 _____ Reeve


 _____ Chief Administrative Officer

COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Operations
Year Ended December 31, 2017

	Budget (Unaudited)	2017	2016
REVENUE			
Net municipal taxes <i>(Schedule 1)</i>	\$ 8,214,585	\$ 8,167,461	\$ 9,030,154
Sales of goods and services	5,032,965	5,144,319	5,479,858
Government Transfers for Operating <i>(Schedule 2)</i>	419,564	763,316	438,183
Investment income	122,500	304,414	163,068
Penalties and costs of taxes	40,450	199,918	108,099
Licenses and permits	20,700	15,669	23,558
Other	56,472	601,170	152,673
	13,907,236	15,196,267	15,395,593
EXPENSES			
Legislative	352,875	304,636	257,533
Administration	2,522,679	1,819,764	1,596,691
Protective services	457,073	368,181	365,609
Roads, streets, walks, lighting	10,264,012	9,431,996	9,878,404
Water supply and distribution	507,771	655,344	219,266
Waste management	444,459	486,863	224,262
Family and community support	111,811	111,811	311,811
Land use planning, zoning and development	115,573	101,361	113,647
Agriculture services	614,163	581,729	548,092
Subdivision land development	27,350	96,459	17,941
Parks and recreation	279,051	244,784	232,866
Library	37,895	37,894	37,894
Gas Utility	2,573,160	2,353,316	2,310,615
	18,307,872	16,594,138	16,114,631
EXCESS OF REVENUES OVER EXPENSES BEFORE TRANSFERS FOR CAPITAL	(4,400,636)	(1,397,871)	(719,038)
Government transfers for capital <i>(Schedule 3)</i>	2,705,102	3,476,066	1,819,675
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	(1,695,534)	2,078,195	1,100,637
ACCUMULATED SURPLUS - BEGINNING OF YEAR	71,399,805	71,399,805	70,299,168
Hamlet of Willingdon accumulated surplus	3,285,162	3,285,162	-
ACCUMULATED SURPLUS - END OF YEAR	\$ 72,989,433	\$ 76,763,162	\$ 71,399,805

COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Change in Net Financial Assets
Year Ended December 31, 2017

	Budget (Unaudited)	2017	2016
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES			
	\$ (1,695,534)	\$ 2,078,195	\$ 1,100,637
Acquisition of tangible capital assets	(1,726,823)	(1,653,699)	(6,376,349)
Proceeds on disposal of tangible capital assets	183,950	92,547	1,895,040
Amortization of tangible capital assets	3,046,622	2,678,499	2,673,998
Amortization added to tangible capital assets	103,950	477,700	376,760
Loss on sale of tangible capital assets	-	47,072	326,581
Change in inventories and prepaid expenses	-	447,569	25,756
(DECREASE) INCREASE IN NET ASSETS	(87,835)	4,167,883	22,423
NET FINANCIAL ASSETS, BEGINNING OF YEAR	12,559,224	12,559,224	12,536,801
Hamlet of Willingdon net financial assets	572,433	572,433	-
NET FINANCIAL ASSETS, END OF YEAR	\$ 13,043,822	\$ 17,299,540	\$ 12,559,224

COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Cash Flows
Year Ended December 31, 2017

	2017	2016
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenues over expenses	\$ 2,078,195	\$ 1,100,637
Non-cash items included in excess of revenue over expenses:		
Amortization of tangible capital assets	2,678,499	2,673,998
Amortization added to tangible capital assets	477,700	376,760
Loss on sale of tangible capital assets	47,072	326,581
Amalgamation of Hamlet of Willingdon net financial assets	572,433	-
	5,853,899	4,477,976
Non-cash charges to operations (net change):		
Taxes and grants in place of taxes receivable	(50,100)	(61,416)
Receivables from other governments	(1,265,847)	(7,356)
Trade and other receivables	400,611	(44,584)
Accounts payable and accrued liabilities	(247,923)	100,938
Vacation	(648)	4,214
Funds held in trust	35,261	32,141
Deferred revenue	(331,045)	177,727
Inventory for consumption	96,157	(287,771)
Prepaid expenses	351,414	313,527
	(1,012,120)	227,420
Cash provided by operating transactions	4,841,779	4,705,396
CAPITAL		
Acquisition of tangible capital assets	(1,653,699)	(6,376,349)
Proceeds on disposal of tangible capital assets	92,547	1,895,040
Cash applied to capital transactions	(1,561,152)	(4,481,309)
FINANCING		
Due to Regional Waste Management Commission	169,726	135,054
Advances to note receivable	(700,000)	-
Proceeds from long term financing	70,746	-
Repayment of long term debt	(38,789)	(67,051)
Debt charges recoverable	36,867	67,051
Cash provided by (applied to) financing transactions	(461,450)	135,054

(continues)

COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Cash Flows *(continued)*
Year Ended December 31, 2017

	2017	2016
INVESTING		
Decrease (increase) in long-term investments	-	293
Decrease (increase) in restricted cash or cash equivalents	329,972	(210,035)
Cash provided by (applied to) investing transactions	329,972	(209,742)
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	3,149,149	149,399
Cash and cash equivalents - beginning of year	12,725,121	12,575,722
CASH AND CASH EQUIVALENTS - END OF YEAR	15,874,270	12,725,121
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest received	\$ (169,429)	\$ 158,618
Interest paid	\$ 20,369	\$ 19,170
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and temporary investments <i>(Note 2)</i>	\$ 18,311,643	\$ 15,492,465
Less: restricted cash or cash equivalents <i>(Note 2)</i>	(2,437,373)	(2,767,344)
	\$ 15,874,270	\$ 12,725,121

COUNTY OF TWO HILLS NO. 21
Consolidated Schedule of Property and Other Taxes
Year Ended December 31, 2017

(Schedule 1)

	Budget (Unaudited)	2017	2016
TAXATION			
Residential land and improvements	\$ 1,913,674	\$ 1,916,832	\$ 1,776,207
Farmland	1,613,470	1,617,057	1,610,021
Non-residential land and improvements	659,634	655,334	642,544
Machinery and equipment	1,333,389	1,321,299	1,522,666
Linear property	4,879,514	4,872,604	5,663,713
	10,399,681	10,383,126	11,215,151
REQUISITIONS			
Alberta School Foundation Fund	1,798,060	1,828,629	1,796,300
ASFF Opted-out Boards	5,600	5,600	5,158
Eagle Hill Foundation	381,436	381,436	383,539
	2,185,096	2,215,665	2,184,997
	\$ 8,214,585	\$ 8,167,461	\$ 9,030,154

COUNTY OF TWO HILLS NO. 21

**Consolidated Schedule of Government Transfers for Operating
Year Ended December 31, 2017**

(Schedule 2)

	Budget (Unaudited)	2017	2016
TRANSFERS FOR OPERATING			
Provincial grants-operating	\$ 419,564	\$ 763,316	\$ 428,363
Local government grants-operating	-	-	9,820
	\$ 419,564	\$ 763,316	\$ 438,183

**Consolidated Schedule of Government Transfers for Capital
Year Ended December 31, 2017**

(Schedule 3)

	Budget (Unaudited)	2017	2016
TRANSFERS FOR CAPITAL			
Provincial grants-capital	\$ 2,412,263	\$ 2,229,487	\$ 1,819,675
Federal grants-capital	292,839	1,246,579	-
	\$ 2,705,102	\$ 3,476,066	\$ 1,819,675

**Consolidated Schedule of Expenses by Object
Year Ended December 31, 2017**

(Schedule 4)

	Budget (Unaudited)	2017	2016
EXPENSES			
Salaries, wages and benefits	\$ 5,730,144	\$ 4,402,215	\$ 4,576,501
Contracted and general services	1,866,646	2,054,513	1,750,293
Purchases from other governments	1,216,925	1,270,344	1,173,810
Materials, goods, supplies and utilities	4,984,576	5,257,161	5,029,001
Provision for allowances	200,400	321,171	120,369
Transfers to other governments	1,100,000	400,000	300,000
Transfers to local boards and agencies	143,395	142,794	143,394
Bank charges and short-term interest	19,164	18,988	20,684
Amortization of tangible capital assets	3,046,622	2,678,499	2,673,998
Loss on sale of tangible capital asset	-	47,072	326,581
Interest on operating long term debt	-	1,381	-
	\$ 18,307,872	\$ 16,594,138	\$ 16,114,631

COUNTY OF TWO HILLS NO. 21
Statement of Operating Revenue And Expenses For The Gas Utility **(Schedule 5)**
Year Ended December 31, 2017

	Budget (Unaudited)	2017	2016
REVENUE	\$ 1,775,000	\$ 1,845,009	\$ 1,748,025
PURCHASES	1,200,000	1,258,261	1,157,097
GROSS PROFIT	575,000	586,748	590,928
OTHER OPERATING REVENUES			
Other sales and service	64,700	134,144	76,154
Penalties and interest income	31,900	53,375	34,200
Profit on capital construction	-	52,100	64,702
RMO station operating grant	25,500	25,100	25,500
Service charges	321,150	338,975	307,138
	443,250	603,694	507,694
EXPENSES			
Amortization	275,533	269,362	272,158
Bad debt expense	15,000	4,994	2,957
Council	23,350	16,540	17,460
Insurance, permits, damage claims	39,950	36,448	30,841
Memberships, dues, fees	30,000	24,280	24,837
Office supplies	52,222	58,259	36,238
Professional fees	16,000	12,733	5,475
Repair and maintenance	109,900	41,163	52,280
Travel and training	9,000	6,314	8,658
Utilities	48,000	45,338	42,570
Vehicle and equipment costs	70,550	59,384	47,356
Wages and benefits	633,655	476,919	575,220
Less infill cost recovery	50,000	29,135	36,825
Loss on sale of tangible capital asset	-	14,186	643
	1,373,160	1,095,055	1,153,518
DEFICIENCY OF EXPENSES OVER REVENUE	\$ (354,910)	\$ 95,387	\$ (54,896)

COUNTY OF TWO HILLS NO. 21
Consolidated Schedule of Segmented Disclosures
Year Ended December 31, 2017

(Schedule 6)

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Gas utility	Family & Community Support Services	2017
REVENUE									
Net municipal taxes	\$ 8,167,461	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,167,461
User fees & sales of goods	8,288	49,969	2,467,139	10,311	21,391	256,294	2,330,927	-	5,144,319
Government transfers	16,346	-	2,177,749	273,359	107,352	1,574,222	2,905	87,449	4,239,382
Investment income	266,743	-	-	-	-	-	37,671	-	304,414
Other revenues	688,506	35,182	-	15,869	-	-	77,200	-	816,757
	<u>9,147,344</u>	<u>85,151</u>	<u>4,644,888</u>	<u>299,539</u>	<u>128,743</u>	<u>1,830,516</u>	<u>2,448,703</u>	<u>87,449</u>	<u>18,672,333</u>
EXPENSES									
Salaries & wages	835,190	96,238	2,538,406	349,093	75,603	29,238	478,447	-	4,402,215
Contract & general services	426,584	50,598	583,589	172,553	52,354	584,927	183,908	-	2,054,513
Purchases from/transfers to other governments	225,000	-	-	12,083	-	175,000	1,258,261	-	1,670,344
Goods & supplies	257,932	151,482	4,164,031	211,134	-	217,200	143,571	111,811	5,257,161
Provision for allowances	316,177	-	-	-	-	-	4,994	-	321,171
Transfers to local boards	-	-	-	5,500	137,294	-	-	-	142,794
Other expenses	28,782	-	22,505	-	-	1,381	14,773	-	67,441
	<u>2,089,665</u>	<u>298,318</u>	<u>7,308,531</u>	<u>750,363</u>	<u>265,251</u>	<u>1,007,746</u>	<u>2,083,954</u>	<u>111,811</u>	<u>13,915,639</u>
NET REVENUE, BEFORE AMORTIZATION	7,057,679	(213,167)	(2,663,643)	(450,824)	(136,508)	822,770	364,749	(24,362)	4,756,694
Amortization expense	34,735	69,863	2,123,465	29,186	17,427	134,461	269,362	-	2,678,499
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ 7,022,944	\$ (283,030)	\$ (4,787,108)	\$ (480,010)	\$ (153,935)	\$ 688,309	\$ 95,387	\$ (24,362)	\$ 2,078,195

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

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

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 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 transfer, 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.

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.

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COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tax revenue

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

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

Property tax revenue is based on market value of assessments determined in accordance with the Municipal Government Act. Tax rates are established annually. Taxation revenues are recorded at the time tax notices are issued. Assessments are subject to appeal.

Construction and borrowing costs associated with local improvement projects are recovered through annual special property tax assessment during the period of the related borrowings. These levies are collectible from property owners for work performed by the Village and are recognized as revenue in the year they are levied.

Cash and cash equivalents

Cash includes cash and cash equivalents. Cash equivalents are temporary investments valued at cost. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

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.

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.

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.

(continues)

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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:

	<u>YEARS</u>
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.

d) Inventories

Inventories 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 and costs of crushing.

Impairment of long lived assets

The municipality tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent the carrying value exceeds its fair value.

(continues)

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Accounts receivable are stated after evaluation as to their delectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for valuation or tangible capital assets, the useful lives and related amortization of tangible capital assets are areas where management makes significant estimates and assumptions in determining the amount to be recorded in the financial statements.

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.

Budget figures

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

2. CASH AND TEMPORARY INVESTMENTS

	2017	2016
Cash	\$ 2,328,824	\$ 2,671,498
Temporary investments	15,982,819	12,820,967
	\$ 18,311,643	\$ 15,492,465

Bank indebtedness bears interest at prime plus 3% (2016 - prime minus 2%).

Temporary investments are short-term deposits with original maturities of three months or less. Rates vary from 1.7% to 2.0%.

Council has designated funds of \$13,911,320 (2016 - \$11,738,557) included in the above amounts for restricted surplus.

Included in cash and temporary investments is a restricted amount of \$2,437,373 (2016 - \$2,767,344) comprised of \$243,695 (2016 - \$208,434) of funds held in trust and \$2,193,677 (2016 - \$2,558,910) of deferred revenue received from various sources and held exclusively for approved projects (*Note 8*).

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLE

	2017	2016
Current	\$ 1,187,351	\$ 240,648
Arrears	384,001	1,411,658
	1,571,352	1,652,306
Less: allowance for uncollectible accounts	(1,263,368)	(1,394,422)
	\$ 307,984	\$ 257,884

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:

	2017	2016
788 Class A common shares in Gas Alberta Inc.	\$ 495	\$ 495
Debenture receivable from Gas Alberta Inc.	42,500	42,500
1,240 Class A common voting shares in ACE	12	12
	\$ 43,007	\$ 43,007

5. DEBT CHARGES RECOVERABLE

	2017	2016
Current debt charges recoverable	\$ 38,270	\$ 36,866
Non-current debt charges recoverable	418,913	457,184
	\$ 457,183	\$ 494,050

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

Principal and interest repayments are as follows:

	Principal	Interest	Total
2018	\$ 38,270	\$ 16,060	\$ 54,330
2019	39,727	14,603	54,330
2020	41,241	13,089	54,330
2021	42,813	11,517	54,330
2022	44,446	9,884	54,330
Thereafter	250,686	32,300	282,986
	\$ 457,183	\$ 97,453	\$ 554,636

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 \$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 9)* - Long-Term Debt.

6. NOTE RECEIVABLE

The note receivable consists of \$700,000 loaned to the Village of Myrnam. The note receivable is non-interest bearing and repayable in 2018.

7. FUNDS HELD IN TRUST

	2017	2016
Tax sale surplus	\$ 5,345	\$ 5,258
Public reserve	173,130	169,760
Road and gravel deposits	64,220	32,416
Premise deposits	1,000	1,000
	\$ 243,695	\$ 208,434

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, 2017

8. 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.

	2017	2016
Basic Municipal Transportation Grant	\$ 407,541	\$ 383,730
Federal Gas Tax Refund	204,974	296,459
Roadway fee oiling	79,187	74,498
Derwent - MSI, New Deal and Federal Gas Tax Refund	53,307	129,923
Bridge Upgrade Grant	52,034	51,164
Pre-purchased gravel	3,831	3,081
Subdivision access	1,500	1,500
MSI - operating	565	-
RCP Wastewater Treatment System Upgrade Grant	-	980,701
Alberta Community Partnership Grant	-	355,174
RCP Transitional Governance Grant	-	220,252
MSI - capital	-	32,107
Willingdon Infrastructure funding	912,500	-
Willingdon Transitional funding	188,654	-
Hairy Hill Transitional funding	110,725	109,401
Willingdon - MSI - capital	213,302	-
Willingdon - Federal Gas Tax Refund	50,640	-
Willingdon - MSI - operating	28,185	-
	\$ 2,306,945	\$ 2,637,990

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.

9. LONG TERM DEBT

(Note 5) - Debt Charges Recoverable.

	2017	2016
Alberta Capital Finance Authority loan bearing interest at 3.97% per annum, repayable in semi-annual blended payments of \$22,279. The loan Matures March 15, 2026.	\$ 318,807	\$ 349,783
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.	138,376	144,267
Alberta Capital Finance Authority loan bearing interest at 3.904% per annum, repayable in semi-annual blended payments of \$3,304. The loan matures on June 15, 2031.	68,823	-
	\$ 526,006	\$ 494,050

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

9. LONG TERM DEBT (continued)

Principal and interest repayments are as follows:

	Principal	Interest	Total
2018	\$ 42,228	\$ 18,709	\$ 60,937
2019	43,842	17,095	60,937
2020	45,518	15,419	60,937
2021	47,258	13,679	60,937
2022	49,067	11,870	60,937
Thereafter	298,093	76,773	374,866
	\$ 526,006	\$ 153,545	\$ 679,551

Interest on long-term debt was \$20,262 (2016 - \$19,170).

The County's total cash payments for interest were \$20,262 (2016- \$19,170).

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

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:

	2017	2016
Total debt limit	\$ 28,008,500	\$ 25,822,906
Total debt	68,823	-
Amount of debt limit unused	28,077,323	25,822,906
Debt servicing limit	4,668,083	4,303,818
Debt servicing	6,607	-
Amount of debt servicing limit unused	\$ 4,674,690	\$ 4,303,818

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, 2017

10. TANGIBLE CAPITAL ASSETS

	Opening Balance	Additions / Amortization	Disposals / Adjustments	Closing Balance
<u>COST</u>				
Land	\$ 2,674,613	\$ -	\$ 23,605	\$ 2,698,218
Land improvements	214,430	-	2	214,432
Buildings	3,935,358	85,338	930,726	4,951,422
Machinery and equipment	17,680,890	296,349	(57,246)	17,919,993
Vehicles	4,958,892	318,595	148,381	5,425,868
Assets under construction	1,941,705	44,777	(1,932,510)	53,972
Engineered structures				
Roads and bridges	74,532,079	743,984	2,535,352	77,811,415
Water system	877,187	-	1,137,539	2,014,726
Wastewater system	358,326	111,390	2,352,391	2,822,107
Gas system	9,955,837	53,266	-	10,009,103
	117,129,317	1,653,699	5,138,240	123,921,256
<u>ACCUMULATED AMORTIZATION</u>				
Land improvements	66,477	10,082	-	76,559
Buildings	1,770,901	71,177	288,808	2,130,886
Machinery and equipment	7,828,338	882,877	(171,417)	8,539,798
Vehicles	2,253,935	349,594	58,811	2,662,340
Engineered structures				
Roads and bridges	44,641,297	1,571,659	1,263,140	47,476,096
Water system	414,417	76,788	510,272	1,001,477
Wastewater system	199,680	26,694	615,514	841,888
Gas system	4,072,817	167,328	-	4,240,145
	61,247,862	3,156,199	2,565,128	66,969,189
	\$ 55,881,455	\$ (1,502,500)	\$ 2,573,112	\$ 56,952,067

Included in disposal/adjustments is the Hamlet of Willingdon's tangible capital assets amalgamated into the County of Two Hills No. 21 as of September 1, 2017.

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

11. INVENTORY FOR CONSUMPTION

	2017	2016
Public Works miscellaneous	\$ 391,143	\$ 337,540
Public Works fuel	28,340	13,155
Public Works gravel	871,910	1,055,333
Public Works coldmix	10,420	-
Agricultural services	44,675	43,589
Fire inventory	4,567	6,761
Water systems-inventory	9,884	-
	1,360,939	1,456,378
Gas utility	38,757	39,475
	\$ 1,399,696	\$ 1,495,853

12. ACCUMULATED SURPLUS

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

	2017	2016
Unrestricted surplus		
Unrestricted surplus, beginning of year	\$ 3,779,793	\$ 3,084,052
Excess of revenue over expenses	2,078,195	1,100,637
Unrestricted funds designated for future use	(2,147,263)	699,074
Increase in tangible capital assets	1,642,116	(1,103,970)
Hamlet of Willingdon unrestricted surplus	546,934	-
Unrestricted surplus, end of year	5,899,775	3,779,793
Restricted surplus		
Restricted surplus, beginning of year	11,738,557	12,437,631
Unrestricted funds designated for future use	3,200,000	(699,074)
Restricted funds used	(1,052,737)	-
Hamlet of Willingdon reserves	25,500	-
Restricted surplus, end of year	13,911,320	11,738,557
Equity in tangible capital assets		
Equity in tangible capital assets, beginning of year	55,881,455	54,777,485
Current funds used for tangible capital assets	1,653,699	6,376,349
Proceeds on sale of tangible capital assets	(92,546)	(1,895,040)
Loss on sale of tangible capital assets	(47,072)	(326,581)
Amortization of tangible capital assets	(3,156,199)	(3,050,758)
Hamlet of Willingdon tangible capital assets	2,712,730	-
Equity in tangible capital assets, end of year	56,952,067	55,881,455
	\$ 76,763,162	\$ 71,399,805

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

Unrestricted surplus consists of the following:		
General Municipal	\$ 4,425,732	\$ 2,618,297
Gas Utility	1,474,043	1,161,496
	5,899,775	3,779,793
Restricted surplus consists of the following:		
General Municipal	12,076,718	9,905,207
Gas Utility	1,834,602	1,833,350
	13,911,320	11,738,557
Equity in tangible capital assets consists of the following:		
General Municipal	50,256,954	48,967,929
Gas Utility	6,695,113	6,913,526
	56,952,067	55,881,455
	\$ 76,763,162	\$ 71,399,805

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

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	2017	2016
Reeve	Gulayec	\$ 9,563	\$ 1,607	\$ 11,170	\$ -
	Sayler	40,275	7,318	47,593	51,032
Councilors	Yakemchuk	46,575	9,102	55,677	49,816
	Odegard	29,700	5,904	35,604	34,626
	Phillips	5,625	1,427	7,052	-
	Saskiw	7,875	1,523	9,398	-
	Gordeyko	29,475	2,743	32,218	35,930
	Pidruchney	30,488	6,359	36,847	34,362
CAO		131,143	29,503	160,646	152,011
ASB		91,690	20,277	111,967	108,017
ES Coordinator		66,325	18,390	84,715	80,707

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. RELATED PARTY TRANSACTIONS

The spouse of the Administrator was employed by the County earning wages totaling \$11,764 in 2017. This transaction is in the normal course of operations and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related party.

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

15. 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 2017 were \$328,212 (2016 - \$344,577). Total current service contributions by the employees of the municipality to the Local Authorities Pension Plan in 2017 were \$300,077 (2016 - \$316,945).

At December 31, 2016, the LAPP disclosed an actuarial deficiency of \$637,357 million.

16. SEGMENTED DISCLOSURE

The County of Two Hills No. 21 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 consolidated financial statements as disclosed in Note 1.

Refer to the Schedule of Segmented Disclosure (Schedule 6).

17. COMMITMENTS

In 2017 the municipality purchased equipment totaling \$37,806, funded by restricted surplus.

The municipality has long term lease and maintenance agreements with respect to office equipment. Future minimum lease payments as at December 31, 2017, are as follows, plus additional variable charges based on usage:

2018	\$	33,929
2019		33,929
2020		13,597
2021		10,985
2022		10,216
Thereafter		<u>1,318</u>
	\$	<u>103,974</u>

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

18. 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.

19. CONTINGENCIES

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.

20. EMPLOYEE BENEFIT OBLIGATIONS

	2017	2016
Vacation	\$ 129,130	\$ 129,778

The vacation liability is comprised of the vacation that employees are deferring to future years. Employees have either earned the benefits (and are vested) or are entitled to these benefits within the next budgetary year. The municipality has accumulating non-vesting sick leave benefits.

21. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.

22. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.