

COUNTY OF TWO HILLS NO. 21
Consolidated Financial Statements
Year Ended December 31, 2021

COUNTY OF TWO HILLS NO. 21
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Year Ended December 31, 2021

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of the County of Two Hills No. 21 (the Municipality), is responsible for the preparation, accuracy, objectivity and integrity of the accompanying consolidated financial statements and all other information contained within this Financial Report. Management believes that the consolidated financial statements present fairly the Municipality's financial position as at December 31, 2021, and the results of its operations for the year then ended.

The consolidated financial statements have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards (PSAS).

The consolidated financial statements include certain amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis in order to ensure the consolidated financial statements are presented fairly in all material respects.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has designed and maintains a system of internal controls to produce reliable information and to meet reporting requirements on a timely basis. The system is designed to provide management with reasonable assurance that transactions are properly authorized and assets are properly accounted for and safeguarded.


These systems are monitored and evaluated by management and reliable financial information is available for preparation of the consolidated financial statements.

The Municipality's Council is responsible for review of the consolidated financial statements. Council meets regularly with management and annually with the external auditors to discuss the results of audit examinations and financial reporting matters.

Council has approved the consolidated financial statements.

The consolidated financial statements have been audited by Synergy Chartered Professional Accountants, independent external auditors appointed by Council. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Municipality's consolidated financial statements.

SEVERED



Mrs. Sally Dary, Chief Administrative
Officer

SEVERED



Mr. Don Gulayec, Reeve

Two Hills, Alberta
March 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Members of Council

Opinion

We have audited the consolidated financial statements of County of Two Hills No. 21 (the Municipality), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Municipality as at December 31, 2021, and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards (PSAS).

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PSAS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Municipality's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the municipality or cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Municipality's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality'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 Municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Municipality to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Vegreville, Alberta
March 30, 2022

Synergy
Chartered Professional Accountants

COUNTY OF TWO HILLS NO. 21**Consolidated Statement of Financial Position****December 31, 2021**

	2021	2020
FINANCIAL ASSETS		
Cash and temporary investments <i>(Note 2)</i>	\$ 21,336,746	\$ 21,219,054
Taxes and grants in place of taxes receivable <i>(Note 3)</i>	348,890	389,930
Receivables from other governments	231,778	221,408
Trade and other receivables	1,421,525	1,181,877
Long-term investments <i>(Note 4)</i>	42,946	42,946
Debt charges recoverable <i>(Note 5)</i>	295,134	337,946
	23,677,019	23,393,161
LIABILITIES		
Accounts payable and accrued liabilities	1,093,087	945,610
Employee benefit obligations <i>(Note 6)</i>	197,290	191,686
Deposit liabilities <i>(Note 7)</i>	244,597	242,624
Deferred revenue <i>(Note 8)</i>	1,528,873	1,950,827
Due to Two Hills Regional Waste Management Commission <i>(Note 9)</i>	749,764	1,101,903
Long term debt <i>(Note 10)</i>	295,134	337,946
	4,108,745	4,770,596
NET FINANCIAL ASSETS	19,568,274	18,622,565
NON-FINANCIAL ASSETS		
Tangible capital assets <i>(Schedule 2)</i>	51,884,110	53,167,374
Inventory for consumption <i>(Note 11)</i>	1,559,516	1,991,379
Prepaid expenses	407,285	420,078
	53,850,911	55,578,831
ACCUMULATED SURPLUS <i>(Note 12) (Schedule 1)</i>	\$ 73,419,185	\$ 74,201,396

COMMITMENTS AND CONTINGENCIES *(Note 13) (Note 14)*

COUNTY OF TWO HILLS NO. 21

Consolidated Statement of Operations and Accumulated Surplus

Year Ended December 31, 2021

	Budget <i>(Unaudited)</i>	2021	2020
REVENUE			
Net municipal taxes <i>(Schedule 3)</i>	\$ 7,263,651	\$ 7,273,167	\$ 7,774,039
Sales of goods and services	3,301,224	4,139,921	3,566,164
Government transfers for operating <i>(Schedule 4)</i>	2,404,340	2,501,128	790,926
Investment income	228,000	164,007	373,868
Penalties and costs of taxes	202,200	211,373	232,637
Licenses and permits	60,250	81,392	66,364
Other	115,392	372,250	155,002
	13,575,057	14,743,238	12,959,000
EXPENSES			
Legislative	361,124	289,847	278,804
Administration	2,274,435	1,856,357	2,075,143
Protective services	677,932	650,282	458,951
Roads, streets, walks, lighting	10,342,294	10,124,954	10,024,158
Water supply and distribution	767,887	821,585	428,083
Waste management	395,772	325,804	469,863
Family and community support	122,776	122,776	122,776
Agriculture services	691,897	527,774	504,040
Subdivision land development	77,500	50,909	63,687
Parks and recreation	253,787	221,761	573,085
Library	44,657	43,937	43,937
Gas Utility	2,652,998	3,122,035	2,534,565
	18,663,059	18,158,021	17,577,092
SHORTFALL OF REVENUES OVER EXPENSES BEFORE TRANSFERS FOR CAPITAL	(5,088,002)	(3,414,783)	(4,618,092)
Government transfers for capital <i>(Schedule 5)</i>	2,591,465	2,632,572	1,870,246
SHORTFALL OF REVENUES OVER EXPENSES	(2,496,537)	(782,211)	(2,747,846)
ACCUMULATED SURPLUS - BEGINNING OF YEAR	74,201,396	74,201,396	76,949,242
ACCUMULATED SURPLUS - END OF YEAR	\$ 71,704,859	\$ 73,419,185	\$ 74,201,396

COUNTY OF TWO HILLS NO. 21

Consolidated Statement of Changes in Net Financial Assets

Year Ended December 31, 2021

	Budget <i>(Unaudited)</i>	2021	2020
SHORTFALL OF REVENUES OVER EXPENSES	\$ (2,496,537)	\$ (782,211)	\$ (2,747,846)
Acquisition of tangible capital assets	(2,155,172)	(2,103,586)	(1,660,272)
Proceeds on disposal of tangible capital assets	216,000	360,532	417,120
(Gain) / Loss on disposal of tangible capital assets	-	(59,894)	170,399
Amortization of tangible capital assets	3,168,011	2,859,714	2,785,023
Amortization added to tangible capital assets	-	226,498	273,354
	1,228,839	1,283,264	1,985,625
Decrease (increase) in prepaid expenses	-	12,793	107,855
Decrease (increase) in inventory for consumption	-	431,863	643,842
	-	444,656	751,697
	1,228,839	1,727,920	2,737,321
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(1,267,698)	945,709	(10,525)
NET FINANCIAL ASSETS - BEGINNING OF YEAR	18,622,565	18,622,565	18,633,090
NET FINANCIAL ASSETS - END OF YEAR	\$ 17,354,867	\$ 19,568,274	\$ 18,622,565

See notes to financial statements

COUNTY OF TWO HILLS NO. 21
Consolidated Statement of Cash Flows
Year Ended December 31, 2021

	2021	2020
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Shortfall of revenue over expenses	\$ (782,211)	\$ (2,747,846)
Non-cash items included in excess of revenue over expenses:		
Amortization of tangible capital assets	2,859,714	2,785,023
Amortization added to tangible capital assets	226,498	273,354
(Gain) loss on sale of tangible capital assets	(59,894)	170,399
	2,244,107	480,930
Non-cash charges to operations (net change):		
Taxes and grants in place of taxes receivable	41,040	32,864
Receivables from other governments	(10,370)	(78,879)
Trade and other receivables	(239,648)	(352,391)
Accounts payable and accrued liabilities	147,477	(315,969)
Employee benefit obligation	5,604	27,380
Deposit liabilities	1,973	(35,202)
Deferred revenue	(421,954)	1,058,668
Inventory for consumption	431,863	643,841
Prepaid expenses	12,793	107,856
	(31,222)	1,088,168
Cash provided by operating transactions	2,212,885	1,569,098
CAPITAL		
Acquisition of tangible capital assets	(2,103,586)	(1,660,272)
Proceeds on disposal of tangible capital assets	360,532	417,120
Cash applied to capital transactions	(1,743,054)	(1,243,152)
FINANCING		
(Decrease) increase due to Two Hills Regional Waste Management Commission	(352,139)	111,785
Repayment of long term debt	(42,813)	(41,241)
Debt charges recovered	42,813	41,241
Cash provided (used) by financing transactions	(352,139)	111,785
INVESTING		
Decrease (increase) in long-term investments	-	61
Decrease (increase) in restricted cash or cash equivalents	487,380	(1,032,524)
	487,380	(1,032,463)
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	605,072	(594,732)
Cash and cash equivalents - beginning of year	19,107,876	19,702,608
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 19,712,948	\$ 19,107,876

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COUNTY OF TWO HILLS NO. 21

Consolidated Statement of Cash Flows (continued)

Year Ended December 31, 2021

	2021	2020
CASH CONSISTS OF:		
Cash and temporary investments (Note 2)	\$ 21,336,746	\$ 21,219,054
Less: restricted cash or temporary investments (Note 2)	(1,623,798)	(2,111,178)
	\$ 19,712,948	\$ 19,107,876
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest received	\$ 138,032	\$ 330,190
Interest paid	\$ 13,051	\$ 14,743

COUNTY OF TWO HILLS NO. 21

Consolidated Schedule of Changes in Accumulated Operating Surplus

(Schedule 1)

Year Ended December 31, 2021

	Unrestricted Surplus	Internally Restricted Surplus	Equity in Tangible Capital Assets	2021	2020
BALANCE, BEGINNING OF YEAR	\$ 7,757,055	\$ 13,276,967	\$ 53,167,374	\$ 74,201,396	\$ 76,949,242
Shortfall of revenues over expenses	(782,211)	-	-	(782,211)	(2,747,846)
Unrestricted funds designated for future use	(28,308)	28,308	-	-	-
Restricted funds used for operations	1,141,266	(1,141,266)	-	-	-
Restricted funds used for tangible capital assets	-	(112,088)	112,088	-	-
Current year funds used for tangible capital assets	(1,991,498)	-	1,991,498	-	-
Disposal of tangible capital assets	300,638	-	(300,638)	-	-
Annual amortization expense	3,086,212	-	(3,086,212)	-	-
CHANGE IN ACCUMULATED SURPLUS	1,726,099	(1,225,046)	(1,283,264)	(782,211)	(2,747,846)
BALANCE, END OF YEAR (Note 12)	\$ 9,483,154	\$ 12,051,921	\$ 51,884,110	\$ 73,419,185	\$ 74,201,396

See notes to financial statements

COUNTY OF TWO HILLS NO. 21
Consolidated Schedule of Tangible Capital Assets
Year Ended December 31, 2021

(Schedule 2)

	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2021	2020
COST								
BALANCE, BEGINNING OF YEAR	\$ 2,669,308	\$ 272,038	\$ 5,307,206	\$ 95,053,718	\$ 19,255,099	\$ 5,442,046	\$127,999,415	\$127,175,021
Acquisition of tangible capital assets	18,630	-	144,870	678,782	1,127,301	33,806	2,003,389	1,556,344
Construction-in-progress	-	-	-	100,197	-	-	100,197	103,928
Disposal of tangible capital assets	-	-	-	(38,592)	(838,574)	(209,177)	(1,086,343)	(835,878)
BALANCE, END OF YEAR	2,687,938	272,038	5,452,076	95,794,105	19,543,826	5,266,675	129,016,658	127,999,415
ACCUMULATED AMORTIZATION								
BALANCE, BEGINNING OF YEAR	-	114,273	2,430,214	59,051,406	10,096,586	3,139,562	74,832,041	72,022,023
Annual amortization	-	12,889	89,914	1,858,695	816,358	308,356	3,086,212	3,058,377
Accumulated amortization on disposals	-	-	-	(38,592)	(588,506)	(158,607)	(785,705)	(248,359)
BALANCE, END OF YEAR	-	127,162	2,520,128	60,871,509	10,324,438	3,289,311	77,132,548	74,832,041
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 2,687,938	\$ 144,876	\$ 2,931,948	\$ 34,922,596	\$ 9,219,388	\$ 1,977,364	\$ 51,884,110	\$ 53,167,374
2020 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 2,669,308	\$ 157,765	\$ 2,876,992	\$ 36,002,312	\$ 9,158,513	\$ 2,302,484	\$ 53,167,374	

COUNTY OF TWO HILLS NO. 21

Consolidated Schedule of Property and Other Taxes

(Schedule 3)

Year Ended December 31, 2021

	Budget <i>(Unaudited)</i>	2021	2020
TAXATION			
Residential land and improvements	\$ 2,683,645	\$ 2,693,208	\$ 2,572,469
Farmland	1,817,690	1,828,345	1,812,790
Non-residential land and improvements	340,648	339,878	334,866
Machinery and equipment	47,080	47,080	27,865
Linear property	4,632,446	4,616,590	5,329,739
	9,521,509	9,525,101	10,077,729
REQUISITIONS			
Alberta School Foundation Fund	1,723,491	1,717,567	1,766,960
Eagle Hill Foundation	520,776	520,776	521,214
Designated Industrial Property	13,591	13,591	15,516
	2,257,858	2,251,934	2,303,690
NET MUNICIPAL TAXES	\$ 7,263,651	\$ 7,273,167	\$ 7,774,039

COUNTY OF TWO HILLS NO. 21

**Consolidated Schedule of Government Transfers for Operating
Year Ended December 31, 2021**

(Schedule 4)

	Budget <i>(Unaudited)</i>	2021	2020
TRANSFERS FOR OPERATING			
Provincial	\$ 2,404,340	\$ 2,501,128	\$ 790,926

**Consolidated Schedule of Government Transfers for Capital
Year Ended December 31, 2021**

(Schedule 5)

	Budget <i>(Unaudited)</i>	2021	2020
TRANSFERS FOR CAPITAL			
Provincial	\$ 2,193,828	\$ 2,293,715	\$ 1,775,550
Federal	357,637	290,830	26,239
Local government	40,000	48,027	68,457
	\$ 2,591,465	\$ 2,632,572	\$ 1,870,246

**Consolidated Schedule of Expenses by Object
Year Ended December 31, 2021**

(Schedule 6)

	Budget <i>(Unaudited)</i>	2021	2020
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	\$ 5,695,503	\$ 4,876,263	\$ 4,912,346
Contracted and general services	2,530,675	2,318,299	2,006,925
Purchases from other governments	1,172,685	1,779,275	1,332,749
Materials, goods and utilities	5,355,411	5,831,574	5,023,569
Provision for allowances	385,000	198,252	589,751
Transfers to other governments	190,000	190,000	225,000
Transfers to local boards and agencies	152,657	151,487	516,587
Bank charges and short-term interest	13,117	13,051	14,743
Amortization of tangible capital assets	3,168,011	2,859,714	2,785,023
(Gain)/ loss on sale of tangible capital assets	-	(59,894)	170,399
	\$ 18,663,059	\$ 18,158,021	\$ 17,577,092

COUNTY OF TWO HILLS NO. 21

Statement of Operating Revenue And Expenses For The Gas Utility

(Schedule 7)

Year Ended December 31, 2021

	Budget (Unaudited)	2021	2020
REVENUE	\$ 1,856,833	\$ 2,406,822	\$ 2,005,659
PURCHASES	1,172,585	1,779,275	1,332,749
GROSS PROFIT	684,248	627,547	672,910
OTHER OPERATING REVENUES			
Other sales and service	95,650	192,869	150,806
Penalties and interest income	22,000	20,597	15,874
Profit on capital construction	-	156,285	85,730
RMO station operating grant	12,000	12,000	13,075
Service charges	500,000	517,350	487,893
	629,650	899,101	753,378
EXPENSES			
Amortization	274,000	239,986	258,671
Bad debt expense	10,000	30,662	10,267
Council remuneration	22,720	14,180	9,622
Insurance, permits, damage claims	46,850	56,273	45,428
Memberships, dues, fees	26,200	20,702	10,915
Office supplies	56,350	41,542	41,599
Professional fees	12,000	9,975	8,226
Repair and maintenance	108,000	21,715	47,305
Travel and training	9,000	3,096	4,636
Utilities	44,700	51,596	45,439
Vehicle and equipment costs	106,800	117,474	52,832
Wages and benefits	693,793	670,501	612,288
Materials and supplies	70,000	65,058	51,133
Loss on sale of tangible capital asset	-	-	3,455
	1,480,413	1,342,760	1,201,816
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ (166,515)	\$ 183,888	\$ 224,472

COUNTY OF TWO HILLS NO. 21
Consolidated Schedule of Segmented Disclosures
Year Ended December 31, 2021

(Schedule 8)

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Gas utility	Family & Community Support Services	2021
REVENUE									
Net municipal taxes	\$ 7,273,167	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,273,167
User fees and sales of goods	44,206	153,761	401,910	36,112	24,668	391,715	3,087,549	-	4,139,921
Government transfers	229,282	-	4,163,817	158,907	127,254	310,192	48,027	96,221	5,133,700
Investment income	161,955	-	-	-	-	-	2,052	-	164,007
Other revenues	270,395	57,671	110,579	58,075	-	-	168,295	-	665,015
	<u>7,979,005</u>	<u>211,432</u>	<u>4,676,306</u>	<u>253,094</u>	<u>151,922</u>	<u>701,907</u>	<u>3,305,923</u>	<u>96,221</u>	<u>17,375,810</u>
EXPENSES									
Salaries and wages	911,423	71,299	2,820,296	199,553	69,009	115,703	688,980	-	4,876,263
Contract and general services	593,513	185,760	653,041	92,694	34,304	583,533	175,454	-	2,318,299
Purchases from/transfers to other governments	190,000	-	-	-	-	-	1,779,275	-	1,969,275
Goods and supplies	256,875	333,657	4,319,258	263,155	-	328,757	207,096	122,776	5,831,574
Provision for allowances	167,590	-	-	-	-	-	30,662	-	198,252
Transfers to local boards	-	-	-	8,000	143,487	-	-	-	151,487
Other expenses	14,159	-	(62,794)	1,210	-	-	582	-	(46,843)
	<u>2,133,560</u>	<u>590,716</u>	<u>7,729,801</u>	<u>564,612</u>	<u>246,800</u>	<u>1,027,993</u>	<u>2,882,049</u>	<u>122,776</u>	<u>15,298,307</u>
NET REVENUE BEFORE AMORTIZATION	<u>5,845,445</u>	<u>(379,284)</u>	<u>(3,053,495)</u>	<u>(311,518)</u>	<u>(94,878)</u>	<u>(326,086)</u>	<u>423,874</u>	<u>(26,555)</u>	<u>2,077,503</u>
Amortization expense	12,644	59,565	2,395,153	14,071	18,898	119,397	239,986	-	2,859,714
	<u>12,644</u>	<u>59,565</u>	<u>2,395,153</u>	<u>14,071</u>	<u>18,898</u>	<u>119,397</u>	<u>239,986</u>	<u>-</u>	<u>2,859,714</u>
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	<u>\$ 5,832,801</u>	<u>\$ (438,849)</u>	<u>\$ (5,448,648)</u>	<u>\$ (325,589)</u>	<u>\$ (113,776)</u>	<u>\$ (445,483)</u>	<u>\$ 183,888</u>	<u>\$ (26,555)</u>	<u>\$ (782,211)</u>

See notes to financial statements

COUNTY OF TWO HILLS NO. 21

Notes to Consolidated Financial Statements

Year Ended December 31, 2021

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements of the County of Two Hills No. 21 (the Municipality) 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 Municipality and are, therefore, accountable to 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.

Revenue recognition

a) Tax revenue

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

Requisitions operate as a flow through and are excluded from municipal revenue. 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. This difference is reflected in property tax revenue. Requisition tax rates in the subsequent year are adjusted for any over-levies or under-levies of the prior year.

b) Government transfers

Government transfers are the transfer of assets from 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. The Municipality recognizes a government transfer as revenue when the transfer is authorized and all eligibility criteria, if any, have been met. A government transfer with stipulations giving rise to an obligation that meets the definition of a liability is recognized as a liability. In such circumstances the Municipality recognizes revenue as the liability is settled.

c) Sales of goods and services

Sales of goods and services revenue is recognized in the period when the related expenses are incurred, services are performed or goods are acquired.

d) Penalties, investment income, licenses and permits

Penalties and costs of taxes, investment income and licenses and permits revenue is recognized as it is earned, measurable and receivable.

(continues)

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Other revenues

Other revenue sources, such as land rent, lease revenue, donations and other miscellaneous revenue is recognized as it is earned, measurable and receivable.

Gas infill revenue is recognized in the period when the related expenses are incurred, services are performed, goods are received.

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 consolidated financial statements, and the reported amounts of revenue and expenditures during the period. Where measurement uncertainty exists, the consolidated financial statements have been prepared within reasonable limits of materiality. The main estimates relate to:

- a) Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.
- b) The amounts recorded for valuation of 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.
- c) Internally constructed tangible capital assets, consisting mainly 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.
- d) 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.

Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Valuation of financial assets and liabilities

The Municipality's financial assets and liabilities are measured as follows:

<u>Financial statement component</u>	<u>Measurement</u>
Cash	Cost and amortized cost
Short term investments	Amortized cost
Trade and other receivables	Lower of cost or net recoverable value
Investments	Fair value and amortized cost
Loan receivable and debt charges recoverable	Amortized cost
Accounts payable and accrued liabilities	Cost
Deposit liabilities	Cost
Bank indebtedness and long term debt	Amortized cost

(continues)

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2021

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and temporary investments

Cash includes cash and temporary investments. Temporary investments are Guaranteed Investment Certificates with maturities less than twelve months from year end date. Temporary investments are valued at cost, which approximates fair value, due to the short period of time to maturity.

Long term 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 un-matured long term debt.

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 (Debt) 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

A full year annual amortization is recorded in the year of acquisition, or in the year the asset is put into service or construction is complete. No amortization is calculated in the year of disposal.

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.

(continues)

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 royalty plus crushing costs.

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.

Inventory

The Municipality's inventory of raw materials is recorded at the lower of cost and replacement cost. Work-in-process and finished goods are valued at the lower of cost (including overhead) and net realizable value [less normal profit margin]. Cost is determined by the first-in, first-out method. Cost of inventories of items that are segregated for specific projects is assigned by using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

Future changes in significant accounting policies

The following accounting standards have been issued by the Chartered Professional Accountants of Canada (CPA Canada) but are not yet effective for the Municipality. The Municipality is currently evaluating the effect of adopting these standards, which it expects to do in fiscal year 2022.

Section 3280, "Asset retirement obligations (ARO)", which is effective for years, beginning on or after April 1, 2022. This Section now includes requirements on how to account and report a liability for asset retirement obligations (ARO). This Section identifies the main attributes of an ARO and provides guidance on how to establish the fair value of the ARO. This standard is effective for fiscal periods beginning on or after April 1, 2022. Early adoption is permitted.

Section 3450, "Financial instruments", which is effective for years, beginning on or after April 1, 2022. This Section now includes requirements to recognize and measure financial assets, financial liabilities and non-financial derivatives. In conjunction with this new section, section PS1201, section PS 2601 and section 3041 have been amended as a consequence of the introduction of new financial instruments standards. These amendments were required to present the associated gains and losses with financial instruments recognized under the new section.

Section 3400, "Revenue", which is effective for years, beginning on or after April 1, 2023. This Section now establishes standards on how to account for and report on revenue. This section differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. The new section applies to fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted.

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, 2021****2. CASH AND TEMPORARY INVESTMENTS**

	2021	2020
Cash	\$ 3,372,238	\$ 2,819,874
Temporary investments	17,964,508	18,399,180
	\$ 21,336,746	\$ 21,219,054

The Municipality has an authorized revolving loan with a limit of of \$1,985,000, bearing interest at prime plus 3% (2020 - prime plus 3%). The balance outstanding at December 31, 2021 was Nil (2020 - Nil).

Temporary investments are Guaranteed Investment Certificates with maturities less than twelve months from year end date. Rates vary from 0.75% to 0.9% (2020 - 0.8% to 1.1%).

Council has designated funds of \$12,051,921 (2020 - \$13,276,967) included in the above amounts for restricted surplus.

Included in cash and temporary investments is a restricted amount of \$1,623,798 (2020 - \$2,111,178) comprised of \$244,597 (2020 - \$242,624) of deposit liabilities and \$1,379,201 (2020 - \$1,868,554) of deferred revenue received from various sources and held exclusively for approved projects.

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLE

	2021	2020
Current	\$ 355,072	\$ 645,616
Arrears	3,333,114	2,954,654
	3,688,186	3,600,270
Less: allowance for uncollectible accounts	(3,339,296)	(3,210,339)
	\$ 348,890	\$ 389,930

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:

	2021	2020
727 Class A common shares in Gas Alberta Inc.	\$ 434	\$ 434
Debenture receivable from Gas Alberta Inc.	42,500	42,500
1,240 Class A common voting shares in ACE	12	12
	\$ 42,946	\$ 42,946

COUNTY OF TWO HILLS NO. 21

Notes to Consolidated Financial Statements

Year Ended December 31, 2021

5. DEBT CHARGES RECOVERABLE

	2021	2020
Current debt charges recoverable	\$ 44,446	\$ 42,813
Non-current debt charges recoverable	250,688	295,133
	\$ 295,134	\$ 337,946

Principal and interest repayments are as follows:

	Principal	Interest	Total
2022	\$ 44,446	\$ 9,884	\$ 54,330
2023	46,142	8,188	54,330
2024	47,904	6,426	54,330
2025	49,734	4,596	54,330
2026	29,356	2,695	32,051
Thereafter	77,552	10,395	87,947
	\$ 295,134	\$ 42,184	\$ 337,318

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 Myrnam 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 10) - Long-Term Debt.

6. EMPLOYEE BENEFIT OBLIGATIONS

	2021	2020
Vacation	\$ 197,290	\$ 191,686

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.

COUNTY OF TWO HILLS NO. 21**Notes to Consolidated Financial Statements****Year Ended December 31, 2021****7. DEPOSIT LIABILITIES**

	2021	2020
Public reserve	\$ 193,572	\$ 191,209
Road and gravel deposits	42,629	42,273
Tax sale surplus	5,743	5,711
Water service deposit	2,653	2,631
Premise deposits	-	800
	\$ 244,597	\$ 242,624

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

Road and gravel deposits are amounts required to be paid by private companies for reclamation deposits or hauling on public roads.

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.

Water service and premise deposits are initial amounts required to receive utility services.

8. DEFERRED REVENUE

	2021	2020
Federal Gas Tax Refund	\$ 972,980	\$ 767,901
STIP - Local Road Bridge	106,501	275,007
Hairy Hill Transitional funding	104,415	103,480
Municipal stimulus program funding	74,700	432,823
Roadway fee oiling	72,750	72,750
Watershed resiliency grant	58,910	63,403
Gas- infill deposits	51,366	-
Bridge Upgrade Grant	44,132	43,736
FCSS grant	24,056	8,023
2021 WRRP GRANT	12,500	-
Emergency Management Preparedness Program Grant	5,063	5,023
Subdivision access	1,500	1,500
Willingdon Transitional funding	-	78,171
MSI - capital	-	77,546
STIP - Community Airport Program	-	21,464
	\$ 1,528,873	\$ 1,950,827

Deferred revenue is comprised of funding from various grant programs, organizations and individuals, that are 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. This revenue is recognized in the period when the related expenses are incurred, services performed or tangible capital assets are put into use.

COUNTY OF TWO HILLS NO. 21
Notes to Consolidated Financial Statements
Year Ended December 31, 2021

9. DUE TO TWO HILLS REGIONAL WASTE MANAGEMENT COMMISSION

	2021	2020
Due to Two Hills Regional Waste Management Commission	\$ 749,764	\$ 1,101,903

The County of Two Hills No. 21 provides annual financial and payroll services for the Two Hills Regional Waste Management Commission. Operational and capital funds are retained by the Municipality to provide these services. Amounts due to the Commission are non-interest bearing and have no set repayment terms.

10. LONG TERM DEBT

	2021	2020
Debentures recoverable (Note 5)	\$ 295,134	\$ 337,946

Principal and interest repayments are as follows:

	Principal	Interest	Total
2022	\$ 44,446	\$ 9,884	\$ 54,330
2023	46,142	8,188	54,330
2024	47,904	6,426	54,330
2025	49,734	4,596	54,330
2026	29,356	2,695	32,051
Thereafter	77,552	10,395	87,947
	\$ 295,134	\$ 42,184	\$ 337,318

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 2.718% to 3.97% per annum, matures in periods 2026 through 2035. The average annual interest rate is 3.344% (2020 - 3.344%).

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

The Municipality's total cash payments for interest were \$13,051 (2020 - \$14,743).

Interest on long-term debt amounted to nil (2020 - nil).

COUNTY OF TWO HILLS NO. 21**Notes to Consolidated Financial Statements****Year Ended December 31, 2021****DEBT LIMITS AND DEBT SERVICING LIMIT**

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:

	2021	2020
Total debt limit	\$ 22,147,635	\$ 19,438,500
Total debt	-	-
Amount of debt limit unused	\$ 22,147,635	\$ 19,438,500
Debt servicing limit	\$ 3,691,273	\$ 3,239,750
Debt servicing	-	-
Amount of debt servicing limit unused	\$ 3,691,273	\$ 3,239,750

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.

11. INVENTORY FOR CONSUMPTION

Municipal inventories consist of the following:

	2021	2020
Public Works gravel	\$ 1,014,491	\$ 1,256,636
Public Works coldmix	96,415	262,801
Public Works miscellaneous	302,938	309,837
Public Works fuel	10,330	12,398
Agricultural services	45,255	71,658
Fire inventory	2,550	2,506
Sewer systems-inventory	1,483	1,534
Water systems-inventory	17,514	15,926
	1,490,976	1,933,296
Gas utility	68,540	58,083
	\$ 1,559,516	\$ 1,991,379

COUNTY OF TWO HILLS NO. 21

Notes to Consolidated Financial Statements

Year Ended December 31, 2021

12. ACCUMULATED SURPLUS

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

	2021	2020
Unrestricted surplus	\$ 9,483,154	\$ 7,757,055
Internally restricted surplus		
Reserve for future expenditures	5,023,464	5,026,532
Transportation capital replacement	2,300,900	3,395,347
General equipment replacement	2,041,577	2,125,881
Gas Utility	922,883	994,418
Roads	1,398,481	1,398,481
Gas Utility capital replacement	272,321	244,013
Ag Service Board capital replacement	36,608	36,608
Ag Service Board	34,344	34,344
Recreation	12,662	12,662
Water	8,681	8,681
Internally restricted surplus	12,051,921	13,276,967
Equity in tangible capital assets		
Tangible capital assets (<i>Schedule 2</i>)	129,016,658	127,999,415
Accumulated amortization (<i>Schedule 2</i>)	(77,132,548)	(74,832,041)
Equity in tangible capital assets	51,884,110	53,167,374
	\$ 73,419,185	\$ 74,201,396
Unrestricted surplus consists of the following:		
General Municipal	\$ 6,778,071	\$ 5,313,293
Gas Utility	2,705,083	2,443,762
	9,483,154	7,757,055
Internally restricted surplus consists of the following:		
General Municipal	10,856,717	12,038,536
Gas Utility	1,195,204	1,238,431
	12,051,921	13,276,967
Equity in tangible capital assets consists of the following:		
General Municipal	45,000,692	46,249,748
Gas Utility	6,883,418	6,917,626
	51,884,110	53,167,374
	\$ 73,419,185	\$ 74,201,396

COUNTY OF TWO HILLS NO. 21

Notes to Consolidated Financial Statements

Year Ended December 31, 2021

13. COMMITMENTS

The Municipality has committed to purchasing two CAT graders and one John Deere wheel loader for a total cost of \$1,640,400 plus GST.

The Municipality has long term lease and maintenance agreements with respect to office equipment. Future minimum lease payments as at December 31, 2021, are as follows, plus additional variable charges based on usage:

2022	\$	20,770
2023		4,557
2024		1,775
2025		1,775
2026		444
		<hr/>
	\$	29,321

14. 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.

15. COVID-19

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

COVID-19 has not had a significant impact on the municipality. The Municipality has recorded funding received under the Municipal Operating Support Transfer (MOST) grant, in the amount of \$220,000.

The increased global uncertainty may directly impact the cost of property, plant and equipment. The financial effects have been minimal to date. However, the Municipality is uncertain of the future effects of the pandemic on its consolidated financial statements. Any disturbance may be temporary; however, there is uncertainty about the length and potential impact of the disturbance.

16. RELATED PARTY TRANSACTIONS

There were no related party transactions for the 2021 year.

COUNTY OF TWO HILLS NO. 21

Notes to Consolidated Financial Statements

Year Ended December 31, 2021

17. SALARY, CONTRACTS AND BENEFITS DISCLOSURE

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

		Salary & Contracted amounts	Benefits & Allowances	2021	2020
Reeve	Gulayec	\$ 58,050	\$ 8,698	\$ 66,748	\$ 65,013
Councilors	Yakemchuk	46,980	10,365	57,345	57,072
	Odegard	29,430	5,043	34,473	34,894
	Phillips	39,420	7,227	46,647	39,476
	Saskiw	36,450	5,204	41,654	49,445
	Dutrisac	6,480	1,928	8,408	-
	CAO	Dary	159,730	11,734	171,464
Designated Officers	3 positions until the resignation of one officer May 2021 (2020 - 3 positions)	274,294	30,465	304,759	352,176

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.

18. 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 9.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.84% on pensionable earnings above this amount.

Total current service contributions by the municipality to the LAPP in 2021 were \$340,211 (2020 - \$342,442). Total current service contributions by the employees of the Municipality to the Local Authorities Pension Plan in 2021 were \$307,081 (2020 - \$309,428).

At December 31, 2020 the LAPP disclosed an actuarial surplus of \$4.96 billion.

COUNTY OF TWO HILLS NO. 21

Notes to Consolidated Financial Statements

Year Ended December 31, 2021

19. 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 Disclosures (Schedule 8).

General government includes council and other legislative, and general administration. Protective services includes fire. Transportation includes roads, streets, walks and lighting. Planning and development includes land use planning, zoning and subdivision land and development. Public health and welfare includes family and community support. Recreation and culture includes parks and recreation, libraries, museums and halls. Environmental use and protection includes water supply and distribution, wastewater treatment and disposal, and waste management.

20. FINANCIAL INSTRUMENTS

The Municipality initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets and financial liabilities at amortized cost.

The Municipality's financial instruments consist of all financial assets and liabilities. 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.

21. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.