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## INDEPENDENT AUDITOR'S REPORT

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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, 2016 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.

### 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, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Vegreville, Alberta  
April 11, 2017

*Synergy*  
Chartered Professional Accountants

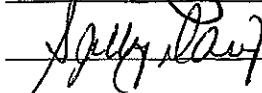
**COUNTY OF TWO HILLS NO. 21**  
**Consolidated Statement of Financial Position**  
**Year Ended December 31, 2016**

	2016	2015
<b>FINANCIAL ASSETS</b>		
Cash and temporary investments (Note 2)	\$ 15,492,465	\$ 15,133,034
Taxes and grants in place of taxes receivable (Note 3)	257,884	196,468
Receivables from other governments	26,273	18,917
Trade and other receivables	1,220,660	1,176,076
Long-term investments (Note 4)	43,007	43,300
Debt charges recoverable (Note 5)	494,050	561,101
	<b>17,534,339</b>	<b>17,128,896</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	782,247	681,312
Wages payable	129,778	125,564
Funds held in trust (Note 6)	176,018	152,391
Deferred revenue (Note 7)	2,670,406	2,484,165
Due to Regional Waste Management Commission	722,616	587,562
Long-term debt (Note 8)	494,050	561,101
	<b>4,975,115</b>	<b>4,592,095</b>
<b>NET FINANCIAL ASSETS</b>	<b>12,559,224</b>	<b>12,536,801</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 9)	55,881,455	54,777,485
Inventory for consumption (Note 10)	1,495,853	1,208,082
Prepaid expenses	1,463,273	1,776,800
	<b>58,840,581</b>	<b>57,762,367</b>
<b>ACCUMULATED SURPLUS (Note 11)</b>	<b>\$ 71,399,805</b>	<b>\$ 70,299,168</b>

*Commitments and Contingencies (Note 16) & (Note 17)*

ON BEHALF OF THE COUNTY OF TWO HILLS NO. 21

  
 \_\_\_\_\_ Reeve

  
 \_\_\_\_\_ Chief Administrative Officer

**COUNTY OF TWO HILLS NO. 21**  
**Consolidated Statement of Change in Net Financial Assets**  
**Year Ended December 31, 2016**

	(Unaudited) Budget	2016	2015
<b>EXCESS OF REVENUES OVER EXPENSES</b>	\$ 467,525	\$ 1,100,637	\$ 2,835,502
Amortization of tangible capital assets	3,022,105	2,673,998	2,529,283
Amortization added to tangible capital assets	193,930	376,760	574,210
Proceeds on disposal of tangible capital assets	1,843,000	1,895,040	92,092
Loss on sale of tangible capital assets	-	326,581	59,566
Acquisition of tangible capital assets	(6,700,847)	(6,376,349)	(5,104,089)
Change in inventories and prepaid expenses	-	25,756	(45,089)
Net financial assets, beginning of year	(1,174,287)	22,423	941,475
	-	12,536,801	11,595,326
<b>NET FINANCIAL ASSETS, END OF YEAR</b>		<b>\$ 12,559,224</b>	<b>\$ 12,536,801</b>

**COUNTY OF TWO HILLS NO. 21**  
**Consolidated Statement of Operations**  
**Year Ended December 31, 2016**

	(Unaudited) Budget	2016	2015
<b>REVENUES</b>			
Net municipal taxes <i>(Schedule 1)</i>	\$ 9,036,681	\$ 9,030,154	\$ 9,757,267
Sales of goods and services	5,389,621	5,473,496	6,018,135
Government Transfers for Operating <i>(Schedule 2)</i>	580,311	438,183	453,181
Investment income	116,500	169,429	155,661
Penalties and costs of taxes	40,450	108,099	133,906
Licenses and permits	11,400	23,558	18,868
Other	53,400	152,674	234,096
	15,228,363	15,395,593	16,771,114
<b>EXPENSES</b>			
Legislative	346,460	257,533	277,007
Administration	2,405,425	1,596,691	2,183,708
Protective services	461,750	365,609	383,087
Roads, streets, walks, lighting	10,231,234	9,878,404	8,549,936
Water supply and distribution	475,475	219,266	154,256
Waste management	423,700	224,262	217,703
Family and community support	296,179	311,811	292,773
Land use planning, zoning and development	23,410	113,647	-
Agriculture services	636,239	548,092	533,265
Subdivision land development	23,250	17,941	15,777
Parks and recreation	283,238	232,866	1,369,247
Library	37,895	37,894	35,522
Gas Utility	3,030,530	2,310,615	3,172,998
	18,674,785	16,114,631	17,185,279
<b>EXCESS OF REVENUES OVER EXPENSES BEFORE TRANSFERS FOR CAPITAL</b>	(3,446,422)	(719,038)	(414,165)
Government transfers for capital <i>(Schedule 3)</i>	3,913,947	1,819,675	3,249,667
<b>EXCESS OF REVENUES OVER EXPENSES</b>	\$ 467,525	\$ 1,100,637	\$ 2,835,502

**COUNTY OF TWO HILLS NO. 21**  
**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2016**

	2016	2015
<b>OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	\$ 1,100,637	\$ 2,835,502
Items not affecting cash:		
Amortization of tangible capital assets	2,673,998	2,529,283
Amortization added to tangible capital assets	376,760	574,210
Loss on sale of tangible capital assets	326,581	59,566
	<b>4,477,976</b>	<b>5,998,561</b>
Changes in non-cash working capital:		
Taxes and grants in place of taxes receivable	(61,416)	406,443
Receivables from other governments	(7,356)	102,246
Trade and other receivables	(44,584)	275,389
Accounts payable and accrued liabilities	100,935	(284,490)
Wages payable	4,214	32,127
Funds held in trust	23,627	14,294
Deferred revenue	186,241	(598,585)
Inventory for consumption	(287,771)	(96,512)
Prepaid expenses	313,527	51,423
	<b>227,417</b>	<b>(97,665)</b>
Cash flow from operating activities	<b>4,705,393</b>	<b>5,900,896</b>
<b>CAPITAL ACTIVITIES</b>		
Purchase of property, plant and equipment	(6,376,349)	(5,104,089)
Proceeds on disposal of property, plant and equipment	1,895,040	92,092
Cash flow used by capital activities	<b>(4,481,309)</b>	<b>(5,011,997)</b>
<b>FINANCING ACTIVITIES</b>		
Due to Regional Waste Management Commission	135,054	(102,417)
Long-term debt issued	-	150,000
Debt charges issued	-	(150,000)
Repayment of long term debt	(67,051)	(90,654)
Debt charges recoverable	67,051	90,654
Cash flow from (used by) financing activities	<b>135,054</b>	<b>(102,417)</b>
<b>INVESTING ACTIVITIES</b>		
Decrease (increase) in long-term investments	293	97
Decrease (increase) in restricted cash or cash equivalents	(201,518)	480,841
Cash flow from (used by) investing activities	<b>(201,225)</b>	<b>480,938</b>
<b>INCREASE IN CASH FLOW</b>	<b>157,913</b>	<b>1,267,420</b>
Cash - beginning of year	<b>12,599,624</b>	<b>11,332,204</b>
<b>CASH - END OF YEAR</b>	<b>12,757,537</b>	<b>12,599,624</b>
<b>CASH FLOWS SUPPLEMENTARY INFORMATION</b>		
Interest received	\$ 158,618	\$ 152,091

(continues)

**COUNTY OF TWO HILLS NO. 21**  
**Consolidated Statement of Cash Flows** *(continued)*  
**Year Ended December 31, 2016**

	2016	2015
Interest paid	\$ 19,170	\$ 17,686
<b>CASH CONSISTS OF:</b>		
Cash and temporary investments <i>(Note 2)</i>	\$ 15,492,465	\$ 15,133,034
Less: restricted cash or cash equivalents <i>(Note 2)</i>	(2,734,928)	(2,533,410)
	<b>\$ 12,757,537</b>	<b>\$ 12,599,624</b>

**COUNTY OF TWO HILLS NO. 21**  
**Consolidated Schedule of Property and Other Taxes**  
**Year Ended December 31, 2016**

*(Schedule 1)*

	(Unaudited) Budget	2016	2015
<b>TAXATION</b>			
Residential land and improvements	\$ 1,776,162	\$ 1,776,207	\$ 1,632,754
Farmland	1,603,383	1,610,021	1,610,440
Non-residential land and improvements	646,114	642,544	602,212
Machinery and equipment	1,532,332	1,522,666	1,898,002
Linear property	5,663,687	5,663,713	6,113,227
	11,221,678	11,215,151	11,856,635
<b>REQUISITIONS</b>			
Alberta School Foundation Fund	1,796,300	1,796,300	1,751,037
ASFF Opted-out Boards	5,158	5,158	5,036
Eagle Hill Foundation	383,539	383,539	343,295
	2,184,997	2,184,997	2,099,368
	\$ 9,036,681	\$ 9,030,154	\$ 9,757,267

**COUNTY OF TWO HILLS NO. 21**

**Consolidated Schedule of Government Transfers for Operating  
Year Ended December 31, 2016**

**(Schedule 2)**

	(Unaudited) Budget	2016	2015
<b>TRANSFERS FOR OPERATING</b>			
Provincial grants-operating	\$ 570,491	\$ 428,363	\$ 444,058
Local government grants-operating	9,820	9,820	9,123
	\$ 580,311	\$ 438,183	\$ 453,181

**Consolidated Schedule of Government Transfers for Capital  
Year Ended December 31, 2016**

**(Schedule 3)**

	(Unaudited) Budget	2016	2015
<b>TRANSFERS FOR CAPITAL</b>			
Provincial grants-capital	\$ 2,733,367	\$ 1,819,675	\$ 3,233,141
Federal grants-capital	1,180,580	-	16,526
	\$ 3,913,947	\$ 1,819,675	\$ 3,249,667

**Consolidated Schedule of Expenses by Object  
Year Ended December 31, 2016**

**(Schedule 4)**

	(Unaudited) Budget	2016	2015
<b>EXPENSES</b>			
Salaries, wages and benefits	\$ 5,475,023	\$ 4,576,501	\$ 4,275,759
Contracted and general services	2,467,917	1,750,293	1,769,454
Purchases from other governments	1,426,925	1,173,810	1,821,937
Materials, goods, supplies and utilities	4,929,820	5,029,001	4,247,925
Provision for allowances	712,400	120,369	1,203,379
Transfers to other governments	475,000	300,000	1,117,074
Transfers to local boards and agencies	143,395	143,394	141,022
Bank charges and short-term interest	22,200	20,684	19,880
Amortization of tangible capital assets	3,022,105	2,673,998	2,529,283
Loss on sale of tangible capital asset	-	326,581	59,566
	\$ 18,674,785	\$ 16,114,631	\$ 17,185,279



COUNTY OF TWO HILLS NO. 21

Statement of Operating Revenue And Expenses For The Gas Utility

(Schedule 5)

Year Ended December 31, 2016

	(Unaudited) Budget	2016	2015
<b>REVENUE</b>	\$ 2,157,200	\$ 1,748,025	\$ 2,555,371
<b>PURCHASES</b>	1,410,000	1,157,097	1,807,189
<b>GROSS PROFIT</b>	747,200	590,928	748,182
<b>OTHER OPERATING REVENUES</b>			
Other sales and service	84,460	76,154	102,308
Penalties and interest income	45,000	34,200	52,681
Profit on capital construction	-	64,702	163,631
RMO station operating grant	25,500	25,500	25,500
Service charges	327,500	307,138	285,720
	482,460	507,694	629,840
<b>EXPENSES</b>			
Amortization	277,800	272,158	268,960
Bad debt expense	12,000	2,957	243,947
Council	23,050	17,460	15,592
Insurance, permits, damage claims	49,800	30,841	40,811
Memberships, dues, fees	30,000	24,837	23,963
Office supplies	62,200	36,238	42,812
Professional fees	31,000	5,475	6,530
Repair and maintenance	182,510	52,280	30,677
Travel and training	14,000	8,658	5,328
Utilities	51,600	42,570	45,997
Vehicle and equipment costs	94,650	47,356	55,918
Wages and benefits	696,920	575,220	514,348
Less infill cost recovery	95,000	36,825	51,016
Loss on sale of tangible capital asset	-	643	19,910
	1,620,530	1,153,518	1,365,809
<b>DEFICIENCY OF EXPENSES OVER REVENUE</b>	\$ (390,870)	\$ (54,896)	\$ 12,213

COUNTY OF TWO HILLS NO. 21  
 Consolidated Schedule of Segmented Disclosures  
 Year Ended December 31, 2016

(Schedule 6)

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Gas Utility	Family & Community Support Services	2016
<b>REVENUE</b>									
Net municipal taxes	\$ 9,030,154	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,030,154
User fees & sales of goods	7,059	118,037	3,020,069	13,247	26,235	153,369	2,135,480	-	5,473,496
Government transfers	-	9,820	1,870,559	183,359	105,852	819	-	87,449	2,257,858
Investment income	139,842	-	-	-	-	-	29,587	-	169,429
Other revenues	144,498	25,823	-	23,358	-	-	90,652	-	284,331
	9,321,553	153,680	4,890,628	219,964	132,087	154,188	2,255,719	87,449	17,215,268
<b>EXPENSES</b>									
Salaries & wages	761,555	96,345	2,706,304	349,938	78,826	15,821	567,712	-	4,576,501
Contract & general services	349,003	55,099	598,857	77,951	38,342	253,653	177,388	200,000	1,750,293
Purchases from/transfers to other governments	300,000	-	-	16,713	-	-	1,157,097	-	1,473,810
Goods & supplies	253,188	149,172	4,058,349	200,286	-	124,079	132,116	111,811	5,029,001
Provision for allowances	117,412	-	-	-	-	-	2,957	-	120,369
Transfers to local boards	-	-	-	5,500	137,894	-	-	-	143,394
Other expenses	20,139	-	325,939	-	-	-	1,187	-	347,265
	1,801,297	300,616	7,689,449	650,388	255,062	393,553	2,038,457	311,811	13,440,633
<b>NET REVENUE, BEFORE AMORTIZATION</b>	7,520,256	(146,936)	(2,798,821)	(430,424)	(122,975)	(239,365)	217,262	(224,362)	3,774,635
Amortization expense	52,927	64,993	2,188,955	29,292	15,698	49,975	272,158	-	2,673,998
<b>EXCESS OF REVENUES OVER EXPENSES</b>	\$ 7,467,329	\$ (211,929)	\$ (4,987,776)	\$ (459,716)	\$ (138,673)	\$ (289,340)	\$ (54,896)	\$ (224,362)	\$ 1,100,637

**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the County of Two Hills No. 21 are the representations of management prepared in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant aspects of the accounting policies adopted by the municipality are as follows:

Reporting entity

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

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

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

Basis of presentation

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditure during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

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

Investments

Investments are recorded at amortized cost. When there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

Debt charges recoverable

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

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**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Requisition over-levy and under-levy

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

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

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

Inventory

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

Government transfers

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

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

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**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the consolidated Change in Net Financial Assets for the year.

a) **Tangible Capital Assets**

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

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

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

b) **Contributions of Tangible Capital Assets**

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

c) **Leases**

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

Budget figures

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

**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

**2. CASH AND TEMPORARY INVESTMENTS**

	<b>2016</b>	<b>2015</b>
Cash	\$ 2,671,498	\$ 1,641,530
Temporary investments	12,820,967	13,491,504
	<b>\$ 15,492,465</b>	<b>\$ 15,133,034</b>

Bank indebtedness bears interest at prime minus 2%.

Temporary investments are short-term deposits with original maturities of three months or less. Rates vary from 1.45% to 1.65%.

Council has designated funds of \$11,738,557 (2015 - \$12,437,631) included in the above amounts for restricted surplus.

Included in cash and temporary investments is a restricted amount of \$2,734,928 (2015 - \$2,533,410) comprised of \$176,018 (2015 - \$152,391) of funds held in trust and \$2,558,910 (2015 - \$2,381,019) of deferred revenue received from various sources and held exclusively for approved projects (*Note 7*).

**3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLE**

	<b>2016</b>	<b>2015</b>
Current	\$ 240,648	\$ 838,364
Arrears	1,411,658	642,434
	<b>1,652,306</b>	<b>1,480,798</b>
Less: allowance for uncollectible accounts	<b>(1,394,422)</b>	<b>(1,284,330)</b>
	<b>\$ 257,884</b>	<b>\$ 196,468</b>

**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:

	<b>2016</b>	<b>2015</b>
788 Class A common shares in Gas Alberta Inc.	\$ 495	\$ 788
Debenture receivable from Gas Alberta Inc.	42,500	42,500
1,240 Class A common voting shares in ACE	12	12
	<b>\$ 43,007</b>	<b>\$ 43,300</b>

**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

5. DEBT CHARGES RECOVERABLE

	2016	2015
Current debt charges recoverable	\$ 36,866	\$ 67,051
Non-current debt charges recoverable	457,184	494,050
	<b>\$ 494,050</b>	<b>\$ 561,101</b>

Principal and interest repayments are as follows:

	Principal	Interest	Total
2016	\$ 36,866	\$ 17,464	\$ 54,330
2017	38,270	16,060	54,330
2018	39,727	14,603	54,330
2019	41,241	13,089	54,330
2020	42,813	11,517	54,330
Thereafter	295,133	42,183	337,316
	<b>\$ 494,050</b>	<b>\$ 114,916</b>	<b>\$ 608,966</b>

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

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

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

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

6. FUNDS HELD IN TRUST

	2016	2015
Tax sale surplus	\$ 5,258	\$ 5,217
Public reserve	169,760	146,174
Premise deposits	1,000	1,000
	<b>\$ 176,018</b>	<b>\$ 152,391</b>

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, 2016**

**7. DEFERRED REVENUE**

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

	<b>2016</b>	<b>2015</b>
RCP Wastewater Treatment System Upgrade Grant	\$ 980,701	\$ 972,089
Basic Municipal Transportation Grant	383,730	-
Alberta Community Partnership Grant	355,174	352,338
Federal Gas Tax Refund	296,459	519,051
RCP Transitional Governance Grant	220,252	219,416
Derwent - MSI, New Deal and Federal Gas Tax Refund	129,923	128,049
Hairy Hill Transitional funding	109,401	108,124
Roadway fee oiling	74,498	74,259
Bridge Upgrade Grant	51,164	50,325
MSI - capital	32,107	31,628
Road security deposits	24,264	23,902
Gravel Reclamation Deposits	8,152	-
Pre-purchased gravel	3,081	3,081
Subdivision access	1,500	1,500
MSI - operating	-	403
	<b>\$ 2,670,406</b>	<b>\$ 2,484,165</b>

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

**8. LONG TERM DEBT**

(Note 5) - Debt Charges Recoverable.

	<b>2016</b>	<b>2015</b>
Alberta Capital Finance Authority loan bearing interest at 3.97% per annum, repayable in semi-annual blended payments of \$22,279. The loan matures on March 15, 2026.	\$ 349,783	\$ 379,565
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.	144,267	150,000
Alberta Capital Finance Authority loan matured on June 15, 2016.	-	31,536
	<b>\$ 494,050</b>	<b>\$ 561,101</b>

(continues)



**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

8. LONG TERM DEBT (continued)

Principal and interest repayments are as follows:

	Principal	Interest	Total
2016	\$ 36,866	\$ 17,464	\$ 54,330
2017	38,270	16,060	54,330
2018	39,727	14,603	54,330
2019	41,241	13,089	54,330
2020	42,813	11,517	54,330
Thereafter	295,133	42,183	337,316
	\$ 494,050	\$ 114,916	\$ 608,966

Interest on long-term debt was \$19,170 (2015 - \$17,686).

The County's total cash payments for interest were \$19,170 (2015 - \$17,686).

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

**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

**9. TANGIBLE CAPITAL ASSETS**

	Opening Balance	Additions / Amortization	Disposals / Adjustments	Closing Balance
<b><u>COST</u></b>				
Land	\$ 2,606,601	\$ 68,012	\$ -	\$ 2,674,613
Land improvements	186,084	28,346	-	214,430
Buildings	3,869,311	19,907	46,140	3,935,358
Machinery and equipment	17,521,020	3,613,370	(3,453,500)	17,680,890
Vehicles	4,613,842	354,050	(9,000)	4,958,892
Assets under construction	274,858	1,712,987	(46,140)	1,941,705
Engineered structures				
Roads and bridges	74,041,493	490,586	-	74,532,079
Water system	877,187	-	-	877,187
Wastewater system	358,326	-	-	358,326
Gas system	9,869,664	89,091	(2,918)	9,955,837
	<b>114,218,386</b>	<b>6,376,349</b>	<b>(3,465,418)</b>	<b>117,129,317</b>
<b><u>ACCUMULATED AMORTIZATION</u></b>				
Land improvements	56,393	10,084	-	66,477
Buildings	1,714,013	56,888	-	1,770,901
Machinery and equipment	8,155,063	907,507	(1,234,232)	7,828,338
Vehicles	1,935,480	325,745	(7,290)	2,253,935
Engineered structures				
Roads and bridges	43,080,094	1,561,203	-	44,641,297
Water system	395,576	18,841	-	414,417
Wastewater system	195,808	3,872	-	199,680
Gas system	3,908,474	166,618	(2,275)	4,072,817
	<b>59,440,901</b>	<b>3,050,758</b>	<b>(1,243,797)</b>	<b>61,247,862</b>
	<b>\$ 54,777,485</b>	<b>\$ 3,325,591</b>	<b>\$ (2,221,621)</b>	<b>\$ 55,881,455</b>

**10. INVENTORY FOR CONSUMPTION**

	2016	2015
Public Works miscellaneous	\$ 337,540	\$ 313,035
Public Works fuel	13,155	7,345
Public Works gravel	1,055,333	791,209
Public Works coldmix	-	7,376
Agricultural services	43,589	28,385
Fire inventory	6,761	6,899
	<b>1,456,378</b>	<b>1,154,249</b>
Gas utility	<b>39,475</b>	<b>53,833</b>
	<b>\$ 1,495,853</b>	<b>\$ 1,208,082</b>

**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

11. ACCUMULATED SURPLUS

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

	2016	2015
<b>Unrestricted surplus</b>		
Unrestricted surplus, beginning of year	\$ 3,084,052	\$ 3,699,283
Excess of revenues and expenses	1,100,637	2,835,502
Unrestricted funds designated for future use	699,074	(1,601,795)
Increase in tangible capital assets	(1,103,970)	(1,848,938)
Unrestricted surplus, end of year	3,779,793	3,084,052
<b>Restricted surplus</b>		
Restricted surplus, beginning of year	12,437,631	10,835,836
Unrestricted funds designated for future use	(699,074)	1,601,795
Restricted surplus, end of year	11,738,557	12,437,631
<b>Equity in tangible capital assets</b>		
Equity in tangible capital assets, beginning of year	54,777,485	52,928,547
Current funds used for tangible capital assets	6,376,349	5,104,089
Proceeds on sale of tangible capital assets	(1,895,040)	(92,092)
Loss on sale of tangible capital assets	(326,581)	(59,566)
Amortization of tangible capital assets	(3,050,758)	(3,103,493)
Equity in tangible capital assets, end of year	55,881,455	54,777,485
	<b>\$ 71,399,805</b>	<b>\$ 70,299,168</b>

(continues)

**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

11. ACCUMULATED SURPLUS (continued)

	2016	2015
<b>Unrestricted surplus consists of the following:</b>		
General Municipal	\$ 2,618,297	\$ 2,245,290
Gas Utility	1,161,496	838,762
	<b>3,779,793</b>	<b>3,084,052</b>
<b>Restricted surplus consists of the following:</b>		
General Municipal	9,905,207	10,355,107
Gas Utility	1,833,350	2,082,524
	<b>11,738,557</b>	<b>12,437,631</b>
<b>Equity in tangible capital assets consists of the following:</b>		
General Municipal	48,967,929	47,735,504
Gas Utility	6,913,526	7,041,981
	<b>55,881,455</b>	<b>54,777,485</b>
	<b>\$ 71,399,805</b>	<b>\$ 70,299,168</b>

12. DEBT LIMITS

Section 276(2) of the Municipal Government Act requires that debt and debt limits as defined by Alberta Regulation 255/00 for the County of Two Hills No. 21 be disclosed as follows:

	2016	2015
Total debt limit	\$ 25,822,906	\$ 30,031,173
Debt servicing limit	4,303,818	5,005,196

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, 2016**

**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	2016	2015
Reeve	Sayler	\$ 42,680	\$ 8,352	\$ 51,032	\$ 55,625
Councillors	Yakemchuk	41,580	8,236	49,816	49,361
	Gordeyko	32,670	3,260	35,930	37,798
	Odegard	27,720	6,906	34,626	38,580
	Pidruchney	27,500	6,862	34,362	37,748
Administrator	Dary	123,896	28,115	152,011	149,839
Agriculture	Kozak	88,254	19,763	108,017	103,182
ES Coordinator	Straty	63,154	17,553	80,707	78,621

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 \$32,538 in 2016. 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.

**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 2016 were \$344,577 (2015 - \$317,905). Total current service contributions by the employees of the municipality to the Local Authorities Pension Plan in 2016 were \$316,945 (2015 - \$292,549).

At December 31, 2015, the LAPP disclosed an actuarial deficiency of \$923,416 million.

**COUNTY OF TWO HILLS NO. 21**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2016**

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**16. COMMITMENTS**

The municipality has a long term lease and maintenance agreements with respect to office equipment. Total annual payments are \$22,941 plus additional variable charges based on usage.

In 2017 the municipality purchased equipment totaling \$38,625 and committed to loaning the Village of Myrnam \$700,000. The loan is non-interest bearing, repayable in 2018, and funded by restricted surplus.

**17. CONTINGENCIES**

The County of Two Hills No. 21 is a member of a reciprocal insurance exchange (GENESIS) to cover its liability insurance needs. GENESIS was previously referred to as Jubilee Reciprocal Insurance Exchange (JRIE). A Statement of Claim was filed in 2004 by some of the previous subscribers of JRIE. The statement of claim requests the return of surplus funds in the amount of \$3,820,516. Under the terms of the membership, the County of Two Hills No. 21 could become liable for its proportionate share of any claim losses in excess of the funds held by the exchange. Any liability incurred would be accounted for as a current transaction in the year the losses are determined.

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

**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. APPROVAL OF FINANCIAL STATEMENTS**

Council and Management have approved these financial statements.

**20. COMPARATIVE FIGURES**

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