

SADDLE HILLS COUNTY
SPIRIT RIVER, ALBERTA
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Reeve and Council of Saddle Hills County

We have audited the accompanying financial statements of Saddle Hills County (the "County"), which comprise the statement of financial position as at December 31, 2016, and the statements of operations, change 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Saddle Hills County as at December 31, 2016, and the results of its operations, change in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Edmonton, Alberta
April 25, 2017

Hawkings Epp Dumont LLP
Chartered Accountants

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MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgements and estimates in accordance with Canadian public sector accounting standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgement is required.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The elected Mayor and Council of the Saddle Hills County are composed entirely of individuals who are neither administration nor employees of the Town. The Mayor and Council have the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters, and financial reporting issues. The Mayor and Council are also responsible for the appointment of the Town's external auditors.

Hawkings Epp Dumont LLP, an independent firm of Chartered Accountants, is appointed by Council to audit the consolidated financial statements and to report directly to them. The external auditors have full and free access to and meet periodically and separately with both the Mayor and Council and management to discuss their audit findings.

Julia Whittleton, Chief Administrative Officer

Cary Merritt, Director of Corporate Services

April 25, 2017

SADDLE HILLS COUNTY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>
FINANCIAL ASSETS		
Cash and cash equivalents (Note 2)	\$ 16,718,608	\$ 31,993,338
Accounts receivable (Note 3)	5,475,877	6,452,524
Long-term investments (Note 4)	<u>60,704,321</u>	<u>54,631,557</u>
	<u>82,898,806</u>	<u>93,077,419</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	5,922,763	14,697,340
Deferred revenue (Note 6)	375,598	305,414
Landfill closure and post-closure costs (Note 7)	<u>5,160,268</u>	<u>533,475</u>
	<u>11,458,629</u>	<u>15,536,229</u>
NET FINANCIAL ASSETS	<u>71,440,177</u>	<u>77,541,190</u>
NON-FINANCIAL ASSETS		
Inventory for consumption (Note 8)	936,753	1,181,475
Prepaid expenses	120,802	113,717
Tangible capital assets (Schedule 2)	<u>110,867,198</u>	<u>98,890,304</u>
	<u>111,924,753</u>	<u>100,185,496</u>
ACCUMULATED SURPLUS (Schedule 1, Note 9)	<u>\$183,364,930</u>	<u>\$177,726,686</u>
CONTINGENCIES (Note 12)		

ON BEHALF OF COUNTY COUNCIL:

_____ Reeve

_____ Chief Administrative Officer

SADDLE HILLS COUNTY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget <u>2016</u> (Note 20)	Actual <u>2016</u>	Actual <u>2015</u>
Revenue			
Net taxes for general municipal purposes (Schedule 3)	\$ 30,251,468	\$ 30,035,251	\$ 29,664,353
Return on investments	516,500	1,550,787	1,649,352
Other	2,196,400	1,492,186	294,040
Oil well drilling equipment tax	500,000	1,116,999	2,273,383
Government transfers (Schedule 4)	279,951	285,520	278,201
User fees and sale of goods	275,150	194,926	301,557
Penalties and costs on taxes	<u>50,000</u>	<u>176,239</u>	<u>118,004</u>
	<u>34,069,469</u>	<u>34,851,908</u>	<u>34,578,890</u>
Expenses			
Road and bridge projects	21,615,772	14,254,849	20,116,531
Waste management (Note 7)	643,163	5,418,643	654,161
Administrative	3,403,688	3,275,896	3,231,199
Recreation and culture	1,678,733	2,581,445	1,044,786
Legislative	1,801,369	2,051,325	1,405,831
Agriculture and land development	2,184,602	1,685,196	1,485,302
Protective services	2,225,177	1,014,857	1,259,385
Common services	994,752	807,841	438,333
Water and wastewater	425,451	646,155	337,660
Family and community support services	81,365	70,155	82,124
Contingency	<u>493,811</u>	<u>-</u>	<u>-</u>
	<u>35,547,883</u>	<u>31,806,362</u>	<u>30,055,312</u>
Excess of Revenue (Deficiency) over Expenses Before Other Items	<u>(1,478,414)</u>	<u>3,045,546</u>	<u>4,523,578</u>
Other Items			
Government transfers for capital (Schedule 4)	1,483,000	2,788,795	3,068,544
Gain (loss) on disposal of tangible capital assets	<u>-</u>	<u>(196,097)</u>	<u>(35,921)</u>
	<u>1,483,000</u>	<u>2,592,698</u>	<u>3,032,623</u>
Excess of Revenue over Expenses	<u>\$ 4,586</u>	<u>5,638,244</u>	<u>7,556,201</u>
Accumulated Surplus, Beginning of Year		<u>177,726,686</u>	<u>170,170,485</u>
Accumulated Surplus, End of Year		<u>\$183,364,930</u>	<u>\$177,726,686</u>

SADDLE HILLS COUNTY
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>
Excess of Revenue over Expenses	\$ <u>5,638,244</u>	\$ <u>7,556,201</u>
Acquisition of tangible capital assets	(16,127,005)	(11,428,401)
Proceeds on disposal of tangible capital assets	88,191	251,958
Amortization of tangible capital assets	3,865,823	3,748,007
Loss (gain) on sale of tangible capital assets	<u>196,097</u>	<u>35,921</u>
	<u>(11,976,894)</u>	<u>(7,392,515)</u>
Use (acquisition) of supplies inventories	244,722	(574,420)
Use (acquisition) of other assets	<u>(7,085)</u>	<u>36,439</u>
	<u>237,637</u>	<u>(537,981)</u>
Increase (Decrease) In Net Financial Assets	(6,101,013)	(374,295)
Net Financial Assets, Beginning of Year	<u>77,541,190</u>	<u>77,915,485</u>
Net Financial Assets, End of Year	\$ <u>71,440,177</u>	\$ <u>77,541,190</u>

SADDLE HILLS COUNTY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>
Operating Activities		
Cash from operations		
Excess of revenue over expenditures	\$ 5,638,244	\$ 7,556,201
Amortization	3,865,823	3,748,007
Loss (gain) on disposal of tangible capital assets	<u>196,097</u>	<u>35,921</u>
	<u>9,700,164</u>	<u>11,340,129</u>
Change in non-cash working capital balances related to operations:		
Accounts receivable	976,647	1,281,837
Inventory for consumption	244,722	(574,420)
Prepaid expenses	(7,085)	36,439
Accounts payable and accrued liabilities	(8,774,577)	12,328,496
Deferred revenue	70,184	165,414
Deposit liabilities	4,626,793	5,961
Provision for landfill closure and post-closure (Note 7)	<u>4,626,793</u>	<u>5,961</u>
	<u>(2,863,316)</u>	<u>13,243,727</u>
	<u>6,836,848</u>	<u>24,583,856</u>
Capital Activities		
Acquisition of tangible capital assets	(16,127,005)	(11,428,401)
Proceeds on sale of tangible capital assets	<u>88,191</u>	<u>251,958</u>
	<u>(16,038,814)</u>	<u>(11,176,443)</u>
Investing Activities		
Proceeds on sale of long-term investments	13,759,491	9,314,242
Purchase of long-term investments	<u>(19,832,255)</u>	<u>(12,404,489)</u>
	<u>(6,072,764)</u>	<u>(3,090,247)</u>
Change in Cash and Cash Equivalents for the Year	(15,274,730)	10,317,166
Cash and Cash Equivalents (Note 2), Beginning of Year	<u>31,993,338</u>	<u>21,676,172</u>
Cash and Cash Equivalents (Note 2), End of Year	<u>\$ 16,718,608</u>	<u>\$ 31,993,338</u>

SADDLE HILLS COUNTY
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2016

SCHEDULE 1

	<u>Equity in Tangible Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, Beginning of Year	\$ 98,890,304	\$ 78,836,382	\$ -	\$ 177,726,686
Excess of Revenue over Expenses	-	-	5,638,244	5,638,244
Unrestricted funds designated for future use	-	(6,338,650)	6,338,650	-
Disposal of tangible capital assets, net book value	(284,288)	-	284,288	-
Current year funds used for tangible capital assets additions	16,127,005	-	(16,127,005)	-
Annual amortization expense	<u>(3,865,823)</u>	<u>-</u>	<u>3,865,823</u>	<u>-</u>
Balance, End of Year	<u>\$ 110,867,198</u>	<u>\$ 72,497,732</u>	<u>\$ -</u>	<u>\$ 183,364,930</u>

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Equity in Tangible Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, Beginning of Year	\$ 91,497,789	\$ 78,672,696	\$ -	\$ 170,170,485
Excess of Revenue over Expenses	-	-	7,556,201	7,556,201
Unrestricted funds designated for future use	-	163,686	(163,686)	-
Disposal of tangible capital assets	(287,879)	-	287,879	-
Current year funds used for tangible capital assets additions	11,428,401	-	(11,428,401)	-
Annual amortization expense	<u>(3,748,007)</u>	<u>-</u>	<u>3,748,007</u>	<u>-</u>
Balance, End of Year	<u>\$ 98,890,304</u>	<u>\$ 78,836,382</u>	<u>\$ -</u>	<u>\$ 177,726,686</u>

SADDLE HILLS COUNTY

SCHEDULE 2

SCHEDULE OF TANGIBLE CAPITAL ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings</u>	<u>Engineered Structures</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>2016</u>	<u>2015</u>
COST:								
Balance, Beginning of Year	\$ <u>1,316,306</u>	\$ <u>1,906,077</u>	\$ <u>15,942,789</u>	\$ <u>116,614,696</u>	\$ <u>10,769,441</u>	\$ <u>933,691</u>	\$ <u>147,483,000</u>	\$ <u>136,874,332</u>
Acquisition of tangible capital assets	6,188	503,162	1,559,736	12,438,562	1,055,407	563,950	16,127,005	11,428,401
Disposal of tangible capital assets	(24,414)	(46,229)	-	-	(523,584)	-	(594,227)	(819,733)
Transfers	<u>22,960</u>	<u>(22,960)</u>	-	-	-	-	-	-
Balance, End of Year	<u>1,321,040</u>	<u>2,340,050</u>	<u>17,502,525</u>	<u>129,053,258</u>	<u>11,301,264</u>	<u>1,497,641</u>	<u>163,015,778</u>	<u>147,483,000</u>
ACCUMULATED AMORTIZATION:								
Balance, Beginning of Year	-	378,614	1,153,680	40,656,943	5,921,962	481,497	48,592,696	45,376,543
Annual amortization	-	30,064	307,288	2,634,262	735,745	158,464	3,865,823	3,748,007
Accumulated amortization on disposals	-	<u>(275)</u>	-	-	<u>(309,664)</u>	-	<u>(309,939)</u>	<u>(531,854)</u>
Balance, End of Year	-	<u>408,403</u>	<u>1,460,968</u>	<u>43,291,205</u>	<u>6,348,043</u>	<u>639,961</u>	<u>52,148,580</u>	<u>48,592,696</u>
2016 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ <u>1,321,040</u>	\$ <u>1,931,647</u>	\$ <u>16,041,557</u>	\$ <u>85,762,053</u>	\$ <u>4,953,221</u>	\$ <u>857,680</u>	\$ <u>110,867,198</u>	\$ <u>98,890,304</u>
2015 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ <u>1,316,306</u>	\$ <u>1,527,463</u>	\$ <u>14,789,109</u>	\$ <u>75,957,753</u>	\$ <u>4,847,479</u>	\$ <u>452,194</u>		\$ <u>98,890,304</u>

SADDLE HILLS COUNTY
SCHEDULE OF PROPERTY TAXES LEVIED
FOR THE YEAR ENDED DECEMBER 31, 2016

SCHEDULE 3

	Budget <u>2016</u> <i>(Note 20)</i>	Actual <u>2016</u>	Actual <u>2015</u>
Taxation			
Real property taxes	\$ 18,168,663	\$ 19,103,420	\$ 17,812,558
Linear	18,490,713	17,648,679	18,128,150
Government grants in lieu of property taxes	-	5,117	6,377
Early payment discount	<u>(600,000)</u>	<u>(600,017)</u>	<u>(592,217)</u>
	<u>36,059,376</u>	<u>36,157,199</u>	<u>35,354,868</u>
Deduct:			
Alberta School Foundation Fund	5,710,648	6,024,764	5,595,066
Senior's Foundation	<u>97,260</u>	<u>97,184</u>	<u>95,449</u>
	<u>5,807,908</u>	<u>6,121,948</u>	<u>5,690,515</u>
Net Taxes for General Municipal Purposes	<u>\$ 30,251,468</u>	<u>\$ 30,035,251</u>	<u>\$ 29,664,353</u>

SADDLE HILLS COUNTY
SCHEDULE OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31, 2016

SCHEDULE 4

	Budget <u>2016</u> <i>(Note 20)</i>	Actual <u>2016</u>	Actual <u>2015</u>
Provincial Transfers			
Operating	\$ 279,951	\$ 285,520	\$ 278,201
Capital	<u>1,483,000</u>	<u>2,788,795</u>	<u>3,068,544</u>
	<u>\$ 1,762,951</u>	<u>\$ 3,074,315</u>	<u>\$ 3,346,745</u>

SADDLE HILLS COUNTY

SCHEDULE 5

CONSOLIDATED SCHEDULE OF SEGMENTED INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2016

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environment Services	Other	Total
Revenue								
Net taxes for general municipal purposes	\$ 30,035,251	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,035,251
Provincial government transfers	-	47,500	2,785,795	168,359	72,661	-	-	3,074,315
Oil well drilling equipment taxes	-	-	1,116,999	-	-	-	-	1,116,999
Investment income	1,550,787	-	-	-	-	-	-	1,550,787
Other	192,544	2,460	58,300	12,395	-	-	1,402,727	1,668,426
User fees and sale of goods	<u>12,940</u>	<u>175</u>	<u>123,185</u>	<u>-</u>	<u>-</u>	<u>58,626</u>	<u>-</u>	<u>194,926</u>
	<u>31,791,522</u>	<u>50,135</u>	<u>4,084,279</u>	<u>180,754</u>	<u>72,661</u>	<u>58,626</u>	<u>1,402,727</u>	<u>37,640,704</u>
Expenses								
Contracted and general services	153,802	262,156	6,245,026	532,981	46,505	604,740	1,189,206	9,034,416
Salaries, wages and benefits	274,601	425,108	2,734,065	919,208	-	438,032	1,858,889	6,649,903
Transfers to governments, agencies and organizations	1,622,795	2,500	-	76,500	2,507,219	-	37,500	4,246,514
Materials, goods and supplies	126	151,412	2,080,152	99,044	23,045	226,008	386,980	2,966,767
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,626,793</u>	<u>416,147</u>	<u>5,042,940</u>
	<u>2,051,324</u>	<u>841,176</u>	<u>11,059,243</u>	<u>1,627,733</u>	<u>2,576,769</u>	<u>5,895,573</u>	<u>3,888,722</u>	<u>27,940,540</u>
Excess (Deficiency) of Revenue over Expenses Before Amortization	29,740,198	(791,041)	(6,974,964)	(1,446,979)	(2,504,108)	(5,836,947)	(2,485,995)	9,700,164
Amortization	-	173,681	3,195,604	57,462	4,676	169,225	265,174	3,865,823
Loss (Gain) on disposal of tangible capital assets	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>35,993</u>	<u>-</u>	<u>157,280</u>	<u>(1,176)</u>	<u>196,097</u>
Excess (Deficiency) of Revenue over Expenses	<u>\$ 29,740,198</u>	<u>\$ (964,722)</u>	<u>\$ (10,174,568)</u>	<u>\$ (1,540,434)</u>	<u>\$ (2,508,784)</u>	<u>\$ (6,163,452)</u>	<u>\$ (2,749,993)</u>	<u>\$ 5,638,244</u>

SADDLE HILLS COUNTY

SCHEDULE 6

CONSOLIDATED SCHEDULE OF SEGMENTED INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>General Government</u>	<u>Protective Services</u>	<u>Transportation Services</u>	<u>Planning & Development</u>	<u>Recreation & Culture</u>	<u>Environmental Services</u>	<u>Other</u>	<u>Total</u>
Revenue								
Net taxes for general municipal purposes	\$ 29,664,353	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,664,353
Oil well drilling equipment taxes	-	-	2,273,383	-	-	-	-	2,273,383
Provincial government transfers	624,342	44,500	2,444,202	168,609	65,092	-	-	3,346,745
Investment income	1,649,352	-	-	-	-	-	-	1,649,352
User fees and sale of goods	14,487	28,037	198,055	-	-	60,978	-	301,557
Other	<u>133,334</u>	<u>20,931</u>	<u>70,446</u>	<u>41,715</u>	<u>-</u>	<u>-</u>	<u>145,618</u>	<u>412,044</u>
	<u>32,085,868</u>	<u>93,468</u>	<u>4,986,086</u>	<u>210,324</u>	<u>65,092</u>	<u>60,978</u>	<u>145,618</u>	<u>37,647,434</u>
Expenses								
Salaries, wages and benefits	243,118	356,590	2,219,256	860,109	-	205,201	1,691,825	5,576,099
Contracted and general services	102,048	412,630	13,194,076	477,806	17,665	512,911	890,831	15,607,967
Transfers to governments, agencies and organizations	1,056,540	263,000	-	53,276	1,014,011	-	3,400	2,390,227
Materials, goods and supplies	4,124	99,868	1,488,238	61,775	7,362	115,371	182,949	1,959,687
Other	<u>-</u>	<u>-</u>	<u>2,336</u>	<u>-</u>	<u>-</u>	<u>3,625</u>	<u>767,364</u>	<u>773,325</u>
	<u>1,405,830</u>	<u>1,132,088</u>	<u>16,903,906</u>	<u>1,452,966</u>	<u>1,039,038</u>	<u>837,108</u>	<u>3,536,369</u>	<u>26,307,305</u>
Excess (Deficiency) of Revenue over Expenses Before Amortization	30,680,038	(1,038,620)	(11,917,820)	(1,242,642)	(973,946)	(776,130)	(3,390,751)	11,340,129
Amortization	-	127,297	3,212,624	32,336	5,748	154,713	215,289	3,748,007
Loss (Gain) on disposal of tangible capital assets	<u>-</u>	<u>1,139</u>	<u>(247,877)</u>	<u>99,066</u>	<u>-</u>	<u>-</u>	<u>183,593</u>	<u>35,921</u>
Excess (Deficiency) of Revenue over Expenses	<u>\$ 30,680,038</u>	<u>\$ (1,167,056)</u>	<u>\$ (14,882,567)</u>	<u>\$ (1,374,044)</u>	<u>\$ (979,694)</u>	<u>\$ (930,843)</u>	<u>\$ (3,789,633)</u>	<u>\$ 7,556,201</u>

SADDLE HILLS COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the County are the representations of management prepared in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the County are as follows:

(a) Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues, expenses, and change in net financial assets and cash flows 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 Council for the administration of their financial affairs and resources. They include the County's proportionate share of the Central Peace Regional Waste Management Commission (25%).

The schedule of taxes levied includes requisitions for education and housing that are not part of the municipal reporting entity.

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

(b) Basis of Accounting

The consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Revenues are accounted for in the period in which the transactions or events occurred that gave rise to the revenue. Expenses are recognized as they are incurred and measurable based upon receipt of goods and 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.

(c) Deferred Revenue

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation and agreement and may only be used in completion of certain programs, in the completion of specific work, or for the purchase of tangible capital assets. These funds and the earnings thereon are accounted for as deferred revenue until the related expenses are incurred, the services are performed or the tangible assets are acquired.

(d) Use of Estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 expenses during the period. Where management uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. These estimates and assumptions are based on the County's best information and judgement and actual results could differ from these estimates.

(e) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances with the banks net of outstanding cheques and term deposits with original maturities of 90 days or less at the date of acquisition and are recorded at cost.

(CONT'D)

SADDLE HILLS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Investments

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

(g) 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 that the events giving rise to the transfer occurred, providing the transfers are authorized, any eligibility criteria have been met by the County, and reasonable estimates of the amounts can be made.

(h) Requisition of Over-Levies and Under-Levies

Over-levies and under-levies arise from the difference between the actual 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. In situations 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.

(i) Landfill Closure and Post-Closure Liability

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

(j) Contaminated Sites

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

(k) Employee Future Benefits

Selected employees of the County are members of the Local Authority Pension Plan ("LAPP"), a multi-employer define benefit pension plan. The trustee of the plan is the Alberta Treasurer and the plan is administered by a Board of Trustees. Since the plan is a multi-employer plan, it is accounted for as a defined contribution plan and, accordingly, the County does not recognize its share of any of the LAPP's surplus or deficit.

(CONT'D)

SADDLE HILLS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) 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.

i) Tangible Capital Assets

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

Land improvements	15-25 years
Buildings	25-50 years
Engineered structures	
Water system	30-75 years
Wastewater system	30-75 years
Roads and bridges	30-75 years
Machinery and equipment	3-20 years
Vehicles	7-20 years

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

ii) Contributions of Tangible Capital Assets

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

iii) Leases

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

iv) Inventories

Inventories of materials and supplies for consumption are recorded at the lower of cost or net realizable value with cost determined by the first-in, first-out method. Inventories largely represent the stockpile of gravel maintained for County purposes.

(m) Accumulated Surplus

Accumulated surpluses are established at the discretion of Council to set aside funds for future operating and capital expenditures. Transfers to and/or from reserves are reflected as an adjustment to the respective fund.

Equity in capital assets consist of the net investments in total capital assets after deducting the portion financed by third parties.

SADDLE HILLS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2016

2. CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
Cash	\$ 3,447,899	\$ 1,750,252
Temporary investments	<u>13,270,709</u>	<u>30,243,086</u>
	<u>\$ 16,718,608</u>	<u>\$ 31,993,338</u>

Cash held in deposit accounts earns interest at tiered rates between 0.80% and 1.15%.

A portion of the cash balances above are restricted for reserves and deferred revenue. The total restricted capital, including long-term investments, is \$72,497,732 (2015 - \$78,836,382).

3. ACCOUNTS RECEIVABLE

	<u>2016</u>	<u>2015</u>
Accrued interest	\$ 2,846,832	\$ 2,540,353
Property taxes	1,611,080	1,069,994
Trade	1,293,233	1,213,462
Government grants	745,364	2,193,690
Goods and Services Tax	<u>78,660</u>	<u>188,330</u>
	6,575,169	7,205,829
Less: Allowance for doubtful accounts	<u>(1,099,292)</u>	<u>(753,305)</u>
	<u>\$ 5,475,877</u>	<u>\$ 6,452,524</u>

4. LONG-TERM INVESTMENTS

	<u>2016</u>	<u>2015</u>
RBC bond portfolio	\$ 60,703,355	\$ 54,630,591
Alberta Association of Municipal Districts and Counties Member's Equity	856	856
Alberta Capital Finance Authority shares	<u>110</u>	<u>110</u>
	<u>\$ 60,704,321</u>	<u>\$ 54,631,557</u>

RBC bond portfolio has effective interest rates ranging from 1.104% to 2.750% (2015 - 1.535% to 3.500%) with maturity dates from January 30, 2017 to August 5, 2021.

SADDLE HILLS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2016

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2016</u>	<u>2015</u>
Trade	\$ 4,900,917	\$13,808,780
Vacation, sick leave and overtime	929,069	854,783
Security deposits	<u>92,777</u>	<u>33,777</u>
	<u>\$ 5,922,763</u>	<u>\$14,697,340</u>

The vacation, sick leave and overtime liability is comprised of the vacation, sick leave and overtime that employees are deferring to future years. Employees have either earned the benefits or are entitled to these benefits within the next budgetary years.

6. DEFERRED REVENUE

Deferred revenue consists of the following amounts, which have been restricted by third parties for a specified purpose. These amounts are recognized as revenue in the period in which the related expenses are incurred.

	<u>2015</u>	<u>Additions</u>	<u>Revenue Recognized</u>	<u>2016</u>
Disaster services	\$ 3,000	\$ -	\$ 3,000	\$ -
Capital for Emergent Projects	162,414	-	38,816	123,598
Peace River Water Hauling Infrastructure Program	140,000	-	140,000	-
Alberta Community Partnership	-	250,000	-	250,000
Vancouver Foundation	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
	<u>\$ 305,414</u>	<u>\$ 252,000</u>	<u>\$ 181,816</u>	<u>\$ 375,598</u>

SADDLE HILLS COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

7. LANDFILL CLOSURE AND POST-CLOSURE COSTS

Alberta environmental law requires closure and post-closure care of landfill sites, which includes final covering and landscaping, pumping of ground water and leachates from the site, ongoing environmental monitoring, and site inspections and maintenance.

The estimated total liability represents the net present value of the discounted cash flows of the total estimated cost for closure and post-closure activities for 25 years after closing using a discount rate of 3.245% and assuming annual inflation of 3.000%.

The accrued liability is based on the cumulative capacity used at year end compared to the total estimated landfill capacity. The estimated remaining capacity of the landfill sites is 847,706 (2015 - 847,706) cubic metres and the total capacity of the site is estimated at 952,000 cubic metres.

The County stopped receiving municipal solid waste at these landfills in prior years. Some of these unused landfills were converted to waste transfer stations. The County intends to commence closure work for a portion of these unused landfills in the near future.

The County obtained revised cost estimates related to its closure and post-closure obligations during the year. These revised cost estimates result in an increase of \$4,626,793 to the closure and post-closure obligations, which is included in waste management expense on the Statement of Operations.

	<u>2016</u>	<u>2015</u>
Estimated closure costs	\$ 3,652,235	\$ 533,475
Estimated post-closure costs	<u>1,508,033</u>	<u>-</u>
	5,160,268	533,475
Portion of liability remaining to be recognized	<u>-</u>	<u>-</u>
Accrued liability portion	<u>\$ 5,160,268</u>	<u>\$ 533,475</u>

SADDLE HILLS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2016

8. INVENTORY FOR CONSUMPTION

	<u>2016</u>	<u>2015</u>
Gravel	\$ 665,289	\$ 925,886
Parts, culverts and other	<u>271,464</u>	<u>255,589</u>
	<u>\$ 936,753</u>	<u>\$ 1,181,475</u>

9. ACCUMULATED SURPLUS

	<u>2016</u>	<u>2015</u>
Unrestricted surplus	\$ _____ -	\$ _____ -
Restricted surplus:		
Operating reserves:		
Due to others	1,443,546	1,540,988
ASB brushing and VSI	790,560	902,103
Operating fund	639,270	1,996,806
Tax reassessment	-	586,453
Community recreation	<u>-</u>	<u>50,000</u>
	<u>2,873,376</u>	<u>5,076,350</u>
Capital reserves:		
Infrastructure development	17,547,673	15,378,929
Rural water	15,759,585	21,424,047
Well drilling equipment tax	9,522,035	9,935,056
Paving overlay	9,352,572	7,144,172
Mobile equipment	4,019,430	3,954,573
County facilities	3,912,818	4,430,036
Environmental services	3,224,247	3,354,599
General capital	1,906,130	4,140,648
Emergency services equipment	1,590,493	1,474,234
Computer and information technology	921,478	985,112
Emergency command centre	709,190	696,516
Utility communication network	688,940	391,002
Paving project	366,945	360,387
Community development	98,195	86,179
Municipal development	<u>4,625</u>	<u>4,542</u>
	<u>69,624,356</u>	<u>73,760,032</u>
	<u>72,497,732</u>	<u>78,836,382</u>
Equity in tangible capital assets	<u>110,867,198</u>	<u>98,890,304</u>
	<u>\$ 183,364,930</u>	<u>\$ 177,726,686</u>

SADDLE HILLS COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

10. SALARIES AND BENEFITS DISCLOSURE

Disclosure of salaries and benefits for municipal officials, the Chief Administrative Officers and designated officer as required by Alberta Regulation 313/2000 is as follows:

	<u>Salary (1)</u>	<u>Benefits and Allowances (2)</u>	<u>Total</u> <u>2016</u>	<u>Total</u> <u>2015</u>
Councillors				
Division 1	\$ 33,675	\$ 4,373	\$ 38,048	\$ 38,601
Division 2	46,050	4,825	50,875	44,440
Division 3	27,525	4,163	31,688	20,700
Division 4	30,025	4,231	34,256	31,772
Division 5	40,100	4,564	44,664	45,500
Division 6	37,200	3,406	40,606	38,258
Division 7	37,975	3,288	41,263	35,490
Chief Administrative Officers	181,205	30,607	211,812	350,363
Designated Officer	<u>109,554</u>	<u>21,257</u>	<u>130,811</u>	<u>120,724</u>
	<u>\$ 543,309</u>	<u>\$ 80,714</u>	<u>\$ 624,023</u>	<u>\$ 725,848</u>

(1) Salary includes regular base pay, per diems and any other direct cash remuneration.

(2) Benefits and allowances include the employer's share of the employee benefits and contributions or payments made on behalf of employees including pension and health care benefits.

SADDLE HILLS COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

11. DEBT LIMITS

Section 276(2) of the *Municipal Government Act* requires that debt and debt limits as defined by Alberta Regulation 255/2000 for the County be disclosed as follows:

	<u>2016</u>	<u>2015</u>
Total debt limit	\$ 52,277,862	\$ 51,868,335
Total debt	<u>-</u>	<u>-</u>
Amount of total debt limit unused	<u>\$ 52,277,862</u>	<u>\$ 51,868,335</u>
Debt servicing limit	\$ 8,712,977	\$ 8,644,723
Debt servicing	<u>-</u>	<u>-</u>
Amount of debt servicing limit unused	<u>\$ 8,712,977</u>	<u>\$ 8,644,723</u>

The debt limit is calculated at 1.50 times revenue of the County (as defined in the Alberta Regulation 255/2000) and the debt service limit is calculated as 0.25 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are a conservative guideline used by Alberta Municipal Affairs to identify municipalities that could be at a financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the County. Rather, the financial statements must be interpreted as a whole.

12. CONTINGENCIES

(a) MUNIX

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

(b) Legal Claims

The County is defendant in various lawsuits as at December 31, 2016. Where the occurrence of future events is considered likely to result in a loss with respect to an existing condition, and the amount of the loss can be reasonably estimated, amounts have been included in accrued liabilities. Where the resulting losses, if any, cannot be determined or the occurrence of future events is unknown, amounts have not been recorded.

SADDLE HILLS COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

13. COMMITMENTS

As at December 31, 2016, the County has the following outstanding commitments:

- (a) Construction of a new medical clinic at Spirit River, along with its regional partners, of approximately \$3,439,934.
- (b) Construction of a water treatment plant at Bonanza and a water treatment plant at Ksituan, of approximately \$903,618.
- (c) Grading and other work on Spirit Ridge Road, of approximately \$1,157,720.
- (d) Grading and other work on Township Road 822, of approximately \$680,997.
- (e) Engineering services for the potential development of a future landfill site, of approximately \$226,918.
- (f) Bridge culvert installation and other work at four different locations, of approximately \$818,539.
- (g) Engineering services for the feasibility of a Gundy Connector between Highway 43 and Highway 49, of approximately \$114,166.

14. LOCAL AUTHORITIES PENSION PLAN

Employees of the County participate in the Local Authorities Pension Plan ("LAPP"), which is covered by the *Public Sector Pension Plans Act*. LAPP services about 237,612 people and 423 employers. Contributions are collected from employees and employers and the money is invested in equities, bonds and other investment vehicles. The investment income and the contributions are used to pay pension benefits to LAPP retirees, now and in the future.

The County is required to make current service contributions to the LAPP of 11.39% of pensionable earnings up to the Canada Pension Plan yearly maximum pensionable earnings and 15.84% on pensionable earnings above this amount. Employees of the County are required to make current service contributions of 10.39% of pensionable earnings up to the yearly maximum pensionable earnings and 14.84% on pensionable earnings above this amount.

Total current and past service contributions made by the County to the LAPP in 2016 were \$506,092 (2015 - \$405,934). Total current and past service contributions made by the employees of the County to the LAPP in 2016 were \$466,978 (2015 - \$374,483).

At December 31, 2015, the LAPP disclosed an actuarial deficit of \$0.92 billion (2014 - \$2.45 billion).

SADDLE HILLS COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

15. FINANCIAL INSTRUMENTS

The County's financial instruments consist of cash and cash equivalents, accounts receivables, long-term investments, accounts payable and accrued liabilities, deferred revenue and provision for landfill closure. It is management's opinion that the County is not exposed to significant interest, currency or credit risk arising from these financial instruments.

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

The County is subject to interest rate risk with respect to its cash equivalents and long-term investments. Interest rate risk arises from the risk that the fair value of financial instruments or future cash flows associated with instruments will fluctuate due to changes in market interest rates. The County manages this risk by investing in diverse and low risk assets.

Unless otherwise noted, the carrying value of the financial instruments approximate their fair value.

16. SEGMENTED INFORMATION

The County provides a range of services to its residents. 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. For additional information see the Consolidated Schedule of Segment Disclosure (Schedule 5).

17. ACCOUNTING POLICY ADOPTION

In June 2010, the Public Sector Accounting Board issued PS - 3260 Liability for Contaminated Sites applicable for fiscal years starting on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into the air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. The County adopted this accounting standard retroactively as of January 1, 2015. There was no impact to the County's financial statement due to this adoption.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

19. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and management.

SADDLE HILLS COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

20. RECONCILIATION OF OPERATING RESULTS TO BUDGETING SYSTEM

The budget presented in these financial statements are based upon the 2016 operating and capital budgets approved by Council on December 8, 2015.

Amortization was not contemplated on development of the budget and, as such, has not been included. The table below reconciles the approved budget to the budget figures reporting in these financial statements.

	Budget <u>2016</u>	Actual <u>2016</u>	Actual <u>2015</u>
Excess of Revenue over Expenses, per financial statements	\$ <u>4,586</u>	\$ <u>5,638,244</u>	\$ <u>7,556,201</u>
Add back:			
Amortization expense	-	3,865,823	3,748,007
Net transfers (to) from reserves	22,544,296	6,338,650	(163,686)
Net transfers (to) from capital projects	<u>(13,944,906)</u>	<u>-</u>	<u>-</u>
	<u>8,599,390</u>	<u>10,204,473</u>	<u>3,584,321</u>
Deduct:			
(Gain) loss on disposal of tangible capital assets	-	196,097	35,921
Purchase of tangible capital asset	<u>(36,503,587)</u>	<u>(16,127,005)</u>	<u>(11,428,401)</u>
	<u>(36,503,587)</u>	<u>(15,930,908)</u>	<u>(11,392,480)</u>
Results of Operations as Budgeted	\$ <u>(27,899,611)</u>	\$ <u>(88,191)</u>	\$ <u>(251,958)</u>