

SADDLE HILLS COUNTY
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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Management's Responsibility

To the Reeve and Council of Saddle Hills County:

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

In discharging its responsibilities 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 financial statements.

The Council is composed entirely of Councillors who are neither management nor employees of the County. The Council is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the financial statements. The Council fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, and external auditors. Council is responsible for the appointment of the County's external auditors.

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

April 9, 2019

Chief Administrative Officer

Safe Strong Sustainable

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Independent Auditors' Report

To the Reeve and Council of
Saddle Hills County

Opinion

We have audited the consolidated financial statements of Saddle Hills County, which comprise the statement of financial position as at December 31, 2018, and the statements of operations, change in net financial assets, cash flows and schedules 1 through 6 for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Saddle Hills County as at December 31, 2018, and the results of its operations, change in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 Financial Statements section of our report. We are independent of Saddle Hills County in accordance with the 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 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.

In preparing the 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 to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Saddle Hills County'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 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 financial statements.

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 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 Saddle Hills County'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 Saddle Hills County'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 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 Saddle Hills County to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Peace River, Alberta
April 9, 2019

MNP LLP

Chartered Professional Accountants

**SADDLE HILLS COUNTY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018**

	2018	2017
	\$	\$
FINANCIAL ASSETS		<i>(Restated Note 18)</i>
Cash and cash equivalents (Note 2)	<u>16,142,660</u>	<u>15,156,731</u>
Accounts receivable (Note 3)	<u>5,632,886</u>	<u>5,276,225</u>
Long-term investments (Note 4)	<u>63,580,293</u>	<u>62,692,580</u>
	<u>85,355,839</u>	<u>83,125,536</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	<u>3,198,276</u>	<u>4,355,186</u>
Deferred revenue (Note 6)	<u>2,351,687</u>	<u>2,544,773</u>
Landfill closure and post-closure costs (Note 7)	<u>5,463,356</u>	<u>5,261,678</u>
	<u>11,013,319</u>	<u>12,161,637</u>
NET FINANCIAL ASSETS	<u>74,342,520</u>	<u>70,963,899</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2)	<u>124,919,912</u>	<u>115,236,866</u>
Inventory for consumption (Note 8)	<u>555,555</u>	<u>1,124,390</u>
Prepaid expenses	<u>357,088</u>	<u>130,842</u>
	<u>125,832,555</u>	<u>116,492,098</u>
ACCUMULATED SURPLUS (Schedule 1, Note 9)	<u>200,175,075</u>	<u>187,455,997</u>

Contingencies and Commitments - See Note 12 and 13

Approved by

Reeve

Chief Administrative Officer

See accompanying notes to the financial statements

**SADDLE HILLS COUNTY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget \$	2018 \$	2017 \$ <i>(Restated Note 18)</i>
REVENUE			
Net municipal property taxes (Schedule 3)	30,278,904	30,247,671	28,026,162
Oil well drilling equipment tax	1,500,000	2,621,435	2,526,835
Return on investments	1,217,500	1,690,352	1,601,382
Other	122,255	234,192	802,803
Government transfers for operating (Schedule 4)	671,650	426,365	424,570
User fees and sale of goods	647,746	764,893	487,121
Penalties and costs on taxes	100,000	83,970	137,940
Total revenues	<u>34,538,055</u>	<u>36,068,878</u>	<u>34,006,813</u>
EXPENSES			
Operating			
Road and bridge projects	12,907,275	14,571,513	16,541,197
Administrative	3,357,331	4,179,608	3,200,555
Agriculture and land development	2,544,148	1,958,366	3,139,043
Protective services	1,752,433	1,535,760	1,420,364
Water and wastewater	1,952,862	1,492,901	1,650,095
Recreation and culture	2,166,507	1,477,730	938,008
Legislative	1,500,536	1,435,570	1,466,083
Waste management	981,228	952,501	840,171
Common services	1,102,528	907,786	867,314
Family and community support services	54,448	38,523	64,102
Total Expenses	<u>28,319,296</u>	<u>28,550,258</u>	<u>30,126,932</u>
EXCESS OF REVENUE OVER EXPENSES - BEFORE OTHER	6,218,759	7,518,620	3,879,881
OTHER			
Government transfers for capital (Schedule 4)	9,002,531	5,184,417	223,642
Gain (loss) on disposal of tangible capital assets	-	16,041	(12,456)
EXCESS OF REVENUE OVER EXPENSES	15,221,290	12,719,078	4,091,067
ACCUMULATED SURPLUS, BEGINNING OF YEAR AS PREVIOUSLY STATED	189,513,074	189,513,074	183,364,930
PRIOR PERIOD ADJUSTMENT (Note 18)	<u>(2,057,077)</u>	<u>(2,057,077)</u>	<u>-</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR AS RESTATED	187,455,997	187,455,997	183,364,930
ACCUMULATED SURPLUS, END OF YEAR	<u><u>202,677,287</u></u>	<u><u>200,175,075</u></u>	<u><u>187,455,997</u></u>

See accompanying notes to the financial statements

**SADDLE HILLS COUNTY
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget \$	2018 \$	2017 \$ <i>(Restated Note 18)</i>
EXCESS OF REVENUES OVER EXPENSES	<u>15,221,290</u>	<u>12,719,078</u>	<u>4,091,067</u>
Acquisition of tangible capital assets	(39,339,210)	(15,316,324)	(8,661,119)
Proceeds on disposal of tangible capital assets	(1,414,999)	1,425,311	60,989
Amortization of tangible capital assets	-	4,224,004	4,218,006
(Gain) loss on sale of tangible capital assets	-	(16,041)	12,456
	<u>(40,754,209)</u>	<u>(9,683,050)</u>	<u>(4,369,668)</u>
Acquisition of supplies inventories	-	(555,555)	(1,124,390)
Use of supplies inventories	-	1,124,394	936,753
Acquisition of prepaid assets	-	(357,088)	(130,842)
Use of prepaid assets	-	130,842	120,802
	<u>-</u>	<u>342,593</u>	<u>(197,677)</u>
INCREASE IN NET FINANCIAL ASSETS	(25,532,919)	3,378,621	(476,278)
NET FINANCIAL ASSETS, BEGINNING OF YEAR AS PREVIOUSLY STATED	73,020,976	73,020,976	71,440,177
PRIOR PERIOD ADJUSTMENT (Note 18)	<u>(2,057,077)</u>	<u>(2,057,077)</u>	<u>-</u>
NET FINANCIAL ASSETS, BEGINNING OF YEAR AS RESTATED	<u>70,963,899</u>	<u>70,963,899</u>	<u>71,440,177</u>
NET FINANCIAL ASSETS, END OF YEAR	<u><u>45,430,980</u></u>	<u><u>74,342,520</u></u>	<u><u>70,963,899</u></u>

**SADDLE HILLS COUNTY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	2018	2017
	\$	\$
		<i>(Restated Note 18)</i>
	<hr/>	<hr/>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenues over expenses	12,719,078	4,091,067
(Gain) loss on sale of tangible capital assets	(16,041)	12,456
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	4,224,004	4,218,006
Non-cash charges to operations (net change):		
Decrease (increase) in trade and other receivables	(356,661)	199,650
Decrease (increase) in inventory for consumption	568,841	(187,637)
Decrease (increase) in prepaid expenses	(226,246)	(10,040)
Increase (decrease) in accounts payable and accrued liabilities	(1,156,912)	(1,567,575)
Increase (decrease) in deferred revenue	(193,086)	2,169,175
Increase (decrease) in provision for landfill closure and post-closure (Note 2)	201,678	101,410
Cash provided by operating transactions	15,764,655	9,026,512
	<hr/>	<hr/>
CAPITAL		
Acquisition of tangible capital assets	(15,316,324)	(8,661,119)
Sale of tangible capital assets	1,425,311	60,989
Cash applied to capital transactions	(13,891,013)	(8,600,130)
	<hr/>	<hr/>
INVESTING		
Decrease (increase) in investments	(887,713)	(1,988,259)
	<hr/>	<hr/>
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	985,929	(1,561,877)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,156,731	16,718,608
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	16,142,660	15,156,731
	<hr/>	<hr/>
See accompanying notes to the financial statements		
	<hr/>	<hr/>
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 2)	16,142,660	15,156,731
	<hr/>	<hr/>

**SADDLE HILLS COUNTY
CONSOLIDATED SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2018
SCHEDULE 1**

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2018 \$	2017 \$ <i>(Restated Note 18)</i>
BALANCE, BEGINNING OF YEAR AS PREVIOUSLY STATED	-	74,276,208	115,236,866	189,513,074	183,364,930
PRIOR PERIOD ADJUSTMENT (Note 18)	<u>(2,057,077)</u>	<u>-</u>	<u>-</u>	<u>(2,057,077)</u>	<u>-</u>
BALANCE, BEGINNING OF YEAR AS RESTATED	<u>(2,057,077)</u>	<u>74,276,208</u>	<u>115,236,866</u>	<u>187,455,997</u>	<u>183,364,930</u>
Excess of revenues over expenses	12,719,078	-	-	12,719,078	4,091,067
Unrestricted funds designated for future use	(978,955)	978,955	-	-	-
Restricted funds used for operations	-	-	-	-	-
Current year funds used for tangible capital assets	(15,316,324)	-	15,316,324	-	-
Disposal of assets (at net book value)	1,409,274	-	(1,409,274)	-	-
Annual amortization expense	4,224,004	-	(4,224,004)	-	-
Long term debt repaid	-	-	-	-	-
Change in accumulated surplus	<u>2,057,077</u>	<u>978,955</u>	<u>9,683,046</u>	<u>12,719,078</u>	<u>4,091,067</u>
BALANCE, END OF YEAR	<u>-</u>	<u>75,255,163</u>	<u>124,919,912</u>	<u>200,175,075</u>	<u>187,455,997</u>

See accompanying notes to the financial statements

**SADDLE HILLS COUNTY
CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018
SCHEDULE 2**

	Land	Land Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2018 \$	2017 \$
COST:								
BALANCE, BEGINNING OF YEAR	1,343,236	2,780,815	20,310,228	133,117,070	9,824,471	1,588,420	168,964,240	163,015,778
Acquisition of tangible capital assets	184,886	466,116	3,216,125	6,291,519	4,645,334	512,344	15,316,324	8,661,119
Disposal of tangible capital assets	(24,416)	(16,130)	-	(678,142)	(2,977,386)	-	(3,696,074)	(2,712,657)
BALANCE, END OF YEAR	1,503,706	3,230,801	23,526,353	138,730,447	11,492,419	2,100,764	180,584,490	168,964,240
ACCUMULATED AMORTIZATION:								
BALANCE, BEGINNING OF YEAR	-	453,089	1,802,587	45,728,869	4,910,357	832,472	53,727,374	52,148,580
Annual amortization	-	59,343	343,413	2,746,848	866,759	207,641	4,224,004	4,218,006
Accumulated amortization on disposals	-	(645)	-	(678,142)	(1,608,013)	-	(2,286,800)	(2,639,212)
BALANCE, END OF YEAR	-	511,787	2,146,000	47,797,575	4,169,103	1,040,113	55,664,578	53,727,374
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	1,503,706	2,719,014	21,380,353	90,932,872	7,323,316	1,060,651	124,919,912	115,236,866
2017 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	1,343,236	2,327,726	18,507,641	87,388,201	4,914,114	755,948	115,236,866	

See accompanying notes to the financial statements

**SADDLE HILLS COUNTY
CONSOLIDATED SCHEDULE OF PROPERTY TAXES LEVIED
FOR THE YEAR ENDED DECEMBER 31, 2018
SCHEDULE 3**

	Budget \$	2018 \$	2017 \$
TAXATION			
Real property taxes	19,899,549	19,887,626	19,011,986
Linear property taxes	16,644,347	16,625,216	15,587,458
Government grants in place of property taxes	-	4,592	4,571
Early payment discount	(599,157)	(604,769)	(556,097)
	<u>35,944,739</u>	<u>35,912,665</u>	<u>34,047,918</u>
REQUISITIONS			
Alberta School Foundation Fund	5,477,604	5,477,174	5,917,867
Seniors Foundation	107,009	107,009	103,889
Designated Industrial Property	81,222	80,811	-
	<u>5,665,835</u>	<u>5,664,994</u>	<u>6,021,756</u>
NET MUNICIPAL TAXES	<u>30,278,904</u>	<u>30,247,671</u>	<u>28,026,162</u>

See accompanying notes to the financial statements

**SADDLE HILLS COUNTY
CONSOLIDATED SCHEDULE OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31, 2018
SCHEDULE 4**

	Budget \$	2018 \$	2017 \$ <i>(Restated Note 18)</i>
	<u> </u>	<u> </u>	<u> </u>
TRANSFERS FOR OPERATING:			
Provincial Government	671,650	426,365	424,570
Federal Government	-	-	-
	<u>671,650</u>	<u>426,365</u>	<u>424,570</u>
TRANSFERS FOR CAPITAL:			
Provincial Government	9,002,531	5,184,417	223,642
Federal Government	-	-	-
	<u>9,002,531</u>	<u>5,184,417</u>	<u>223,642</u>
TOTAL GOVERNMENT TRANSFERS	<u>9,674,181</u>	<u>5,610,782</u>	<u>648,212</u>

See accompanying notes to the financial statements

**SADDLE HILLS COUNTY
CONSOLIDATED SCHEDULE OF EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2018
SCHEDULE 5**

	Budget \$	2018 \$	2017 \$
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	8,746,751	7,959,238	7,373,762
Contracted and general services	11,648,814	8,479,355	11,544,471
Materials, goods, supplies and utilities	3,667,830	3,366,486	2,720,514
Transfers to governments, agencies and organizations	3,887,203	3,905,686	3,674,920
Amortization of tangible capital assets	-	4,224,004	4,218,006
Other expenses	368,698	615,489	595,259
	<u>28,319,296</u>	<u>28,550,258</u>	<u>30,126,932</u>

See accompanying notes to the financial statements

**SADDLE HILLS COUNTY
CONSOLIDATED SCHEDULE OF SEGMENTED DISCLOSURE
FOR THE YEAR ENDED DECEMBER 31, 2018
SCHEDULE 6**

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	Total \$
REVENUE								
Net municipal taxes	30,247,671	-	-	-	-	-	-	30,247,671
Government transfers	14,701	146,726	942,913	-	176,479	4,329,963	-	5,610,782
Oil well drilling equipment taxes	-	-	2,621,435	-	-	-	-	2,621,435
User fees and sales of goods	191,147	42,896	304,749	7,408	-	218,693	-	764,893
Investment income	1,690,352	-	-	-	-	-	-	1,690,352
Other revenues	101,098	33,494	124,851	25,765	-	699	32,255	318,162
	32,244,969	223,116	3,993,948	33,173	176,479	4,549,355	32,255	41,253,295
EXPENSES								
Contract & general services	719,591	350,401	6,375,316	397,016	58,614	466,414	112,003	8,479,355
Salaries & wages	1,773,541	557,946	3,371,162	1,206,116	-	1,050,473	-	7,959,238
Goods & supplies	166,238	156,841	2,398,585	183,729	42,787	369,146	49,160	3,366,486
Transfers to governments, agencies and organizations	1,236,265	224,660	-	82,700	1,368,673	109,393	883,995	3,905,686
Other expenses	375,288	38,523	-	-	-	201,678	-	615,489
	4,270,923	1,328,371	12,145,063	1,869,561	1,470,074	2,197,104	1,045,158	24,326,254
NET REVENUE BEFORE AMORTIZATION	27,974,046	(1,105,255)	(8,151,115)	(1,836,388)	(1,293,595)	2,352,251	(1,012,903)	16,927,041
Amortization expense	(237,587)	(245,912)	(3,334,236)	(88,805)	(7,656)	(248,299)	(61,509)	(4,224,004)
Gain (Loss) on disposal of tangible capital assets	-	-	(18,313)	34,354	-	-	-	16,041
NET REVENUE	27,736,459	(1,351,167)	(11,503,664)	(1,890,839)	(1,301,251)	2,103,952	(1,074,412)	12,719,078

**SADDLE HILLS COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Saddle Hills County 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 Canadian Institute of Chartered Professional Accountants. Significant aspects of the accounting policies adopted by Saddle Hills County are as follows:

a) Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, changes 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 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 also 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. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay.

Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used for certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed or the tangible capital assets are acquired.

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 capital 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.

**SADDLE HILLS COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

h) Requisition Over-levies and Under-Levies

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.

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.

**SADDLE HILLS COUNTY
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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:

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

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.

**SADDLE HILLS COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

2. CASH AND INVESTMENTS

	2018	2017
	\$	\$
Cash	1,930,496	5,577,748
Temporary investments	14,212,164	9,578,983
	<u>16,142,660</u>	<u>15,156,731</u>

Cash held in deposit accounts earn interest at tiered rates between 0.05% and 2.23%.

A portion of the cash balances above are restricted for reserves and deferred revenue. The total restricted capital, including long-term investments is \$74,865,238 (2017 - \$76,820,981).

3. ACCOUNTS RECEIVABLE

	2018	2017
	\$	\$
Accrued interest	3,474,242	3,055,908
Trade	1,705,380	1,539,440
Property taxes	412,429	511,586
Goods and Services Tax	285,506	345,280
	<u>5,877,557</u>	<u>5,452,214</u>
Less: Allowance for doubtful accounts	(244,671)	(175,989)
	<u>5,632,886</u>	<u>5,276,225</u>

4. LONG-TERM INVESTMENTS

	2018	2017
	\$	\$
RBC bond portfolio	63,579,327	62,691,614
Rural Municipalities of Alberta Member's Equity	856	856
Alberta Capital Finance Authority shares	110	110
	<u>63,580,293</u>	<u>62,692,580</u>

RBC investment portfolio has effective interest rates ranging from 1.600% to 2.600% (2017 - 1.300% to 3.120%) with maturity dates from February 4, 2019 to June 5, 2023.

5. ACCOUNTS PAYABLE & ACCRUED LIABILITIES

	2018	2017
	\$	\$
Trade	1,768,971	3,085,351
Vacation, sick leave and overtime	1,243,488	1,138,014
Security deposits	185,817	131,821
	<u>3,198,276</u>	<u>4,355,186</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 year.

SADDLE HILLS COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

	(Restated) 2017	Additions	Revenue Recognized	2018
	\$	\$	\$	\$
MSI Capital	2,057,077	1,058,284	2,057,077	1,058,284
AMMWP - Woking WTP upgrade	-	940,000	178,003	761,997
STIP Bridge	-	170,000	-	170,000
Alberta Community Partnership	189,341	-	70,065	119,276
Capital for Emergent Projects	112,066	-	2,853	109,213
Peace Region Water Study	167,588	-	88,459	79,129
FGTF	-	122,718	68,930	53,788
Municipal Intern Program	14,701	-	14,701	-
Vancouver Foundation	4,000	-	4,000	-
	<u>2,544,773</u>	<u>2,291,002</u>	<u>2,484,088</u>	<u>2,351,687</u>

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 3.339% and assuming annual inflation of 3.00%.

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 (2017 - 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 \$201,678 (2017 - \$101,410) to the closure and post-closure obligations, which is included in waste management expense on the Statement of Operations.

	2018	2017
	\$	\$
Estimate closure costs	<u>3,863,341</u>	3,707,571
Estimate post-closure costs	<u>1,600,015</u>	1,554,107
	<u>5,463,356</u>	5,261,678
Portion of liability remaining to be recognized	-	-
Accrued liability portion	<u>5,463,356</u>	<u>5,261,678</u>

**SADDLE HILLS COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

8. INVENTORY FOR CONSUMPTION

	2018	2017
	\$	\$
Gravel	277,110	826,227
Parts, culverts and other	278,445	298,163
	555,555	1,124,390

9. ACCUMULATED SURPLUS

	2018	2017
	\$	\$
Unrestricted surplus	-	(2,057,077)
Restricted surplus:		
Operating reserves:		
Gravel usage	1,550,169	1,100,000
Grant programs	600,713	83,913
Operating fund	484,257	1,368,794
Due to others	21,504	20,058
Community recreation	61	374,325
	2,656,704	2,947,090
Capital reserves:		
Rural water	16,490,313	17,414,506
Well drilling equipment tax	14,426,558	11,698,274
Paving overlay	13,406,890	11,609,125
Infrastructure development	8,301,623	12,553,417
Current county facilities	4,624,132	3,790,429
Mobile equipment	4,469,686	6,525,732
General capital	2,991,046	258,241
Environmental services	3,289,303	3,693,383
New county facilities	1,147,526	91,460
Utility communication network	783,523	117,173
Emergency command centre	736,687	722,592
Paving project	696,686	731,667
Computer and information technology	689,901	1,135,666
G5 clinic	406,385	882,691
Community development	133,396	100,050
Municipal development	4,804	4,712
	72,598,459	71,329,118
	75,255,163	74,276,208
Equity in tangible capital assets	124,919,912	115,236,866
	200,175,075	187,455,997

**SADDLE HILLS COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

10. 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:

	2018			2017	
	\$	\$		\$	
	Salary ¹	Benefits & allowances ²	Expense reimbursement ³	Total	Total
Councillors					
Division 1	28,650	4,469	4,191	37,310	30,349
Division 2	39,725	4,864	3,318	47,907	51,044
Division 3	22,350	4,276	4,215	30,841	30,013
Division 4	28,875	4,459	3,526	36,860	43,277
Division 5	32,550	3,875	9,215	45,640	39,772
Division 6	35,175	3,668	8,723	47,566	42,961
Division 7	34,275	3,565	5,928	43,768	40,132
Chief Administrative Officer	206,931	35,581	2,246	244,758	227,054
Designated Officer	105,158	20,148	3,104	128,410	154,851
	533,689	84,905	44,466	663,060	659,453

1 Salary includes regular base pay, bonuses, 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.

3 Direct reimbursement of expenses.

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:

	2018	2017
	\$	\$
Total debt limit	54,103,317	51,010,220
Total debt	-	-
Amount of debt limit unused	54,103,317	51,010,220
Debt servicing limit	9,017,220	8,501,703
Debt servicing	-	-
Amount of debt servicing limit unused	9,017,220	8,501,703

The debt limit is calculated at 1.50 times revenue of the County (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 County. Rather, the financial statements must be interpreted as a whole.

**SADDLE HILLS COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018. 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.

13. COMMITMENTS

As at December 31, 2018, the County has the following outstanding commitments:

(a) Construction of a new medical clinic at Spirit River, along with its regional partners, of approximately \$398,610.

(b) Co-locates on 2 County towers, of approximately \$835,995.

(c) Engineering services for Savanna Water Treatment Plant, of approximately \$434,982.

(d) Construction services for rural water main line from Bonanza to Baytree, of approximately \$152,384.

(e) Construction services for Savanna WTP raw water storage, of approximately \$2,540,560.

(f) Mechanical services for Woking WTP upgrade, of approximately \$1,778,475.

14. LOCAL AUTHORITIES PENSION PLAN

Employees of the County participate in the Local Authorities Pension Plan (LAPP), which is covered by the Alberta Public Sector Pension Plans Act. 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 10.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 14.84% on pensionable earnings above this amount. Employees of the County are required to make current service contributions of 9.39% of pensionable salary up to the year's maximum pensionable salary and 13.84% on pensionable salary above this amount.

Total current service contributions by the County to the LAPP in 2018 were \$612,340 (2017 - \$576,179). Total current service contributions by the employees of the County to the LAPP in 2018 were \$561,256 (2017 - \$531,922).

At December 31, 2017, the LAPP disclosed a surplus of \$4.835 billion (2016 - \$637 million deficit).

**SADDLE HILLS COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 approximates fair value.

16. SEGMENTED DISCLOSURE

Saddle Hills 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 Schedule of Segmented Disclosure (Schedule 6).

17. COMPARATIVE FINANCIAL STATEMENTS

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

**SADDLE HILLS COUNTY
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

18. PRIOR PERIOD ADJUSTMENT

The County has restated its financial statements to reclassify grants previously recognized as revenue to deferred revenue as the approved expenditures related to the grants have not yet been incurred. The adjustments to correct these balances are as follows:

	2018 \$	2017 \$
	<u> </u>	<u> </u>
Adjustments to opening accumulated surplus:		
As previously reported	189,513,074	183,364,930
Adjusted for grant revenue previously recognized	(2,057,077)	-
As restated	<u><u>187,455,997</u></u>	<u><u>183,364,930</u></u>
		2017
		<u> </u>
Adjustments to deferred revenue:		
As previously reported		487,696
Adjustment for grant revenue previously recognized		<u>2,057,077</u>
		<u><u>2,544,773</u></u>

19. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and management.