

SYLVAIN & COMPANY

BIRCH HILLS COUNTY

Financial Statements

For the Year Ended December 31, 2019



CPA

CHARTERED
PROFESSIONAL
ACCOUNTANTS

BIRCH HILLS COUNTY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

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MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Birch Hills County (the "Municipality") are the responsibility of management and have been approved by the Municipality's Council. The consolidated financial statements have been prepared in conformity with Canadian public sector accounting standards established by the Public Sector Accounting Board of CPA Canada, using management's best estimates and judgments, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the consolidated financial position, the results of its consolidated financial activities and changes in consolidated financial position of the Municipality within reasonable limits of materiality.

A system of internal accounting and administrative controls is maintained by management to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the financial records are properly maintained to provide accurate and reliable consolidated financial statements.

Council is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. Council carries out this responsibility through regular meetings with management throughout the year to review significant accounting and auditing matters.

These consolidated financial statements have been audited, in accordance with Canadian public sector accounting standards, by SYLVAIN & COMPANY, who were appointed by Council. SYLVAIN & COMPANY have full and unrestricted access to management and Council to discuss their audit and related findings. The Independent Auditor's Report outlining the scope of their examination and their opinion on the consolidated financial statements is presented on the following page.



Hermann Minderlein, Chief Administrative Officer

March 12, 2020

SYLVAIN & COMPANY

Chartered Professional Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of Council BIRCH HILLS COUNTY

Opinion

We have audited the consolidated financial statements of BIRCH HILLS COUNTY (the Municipality), which comprise the consolidated statement of financial position as at December 31, 2019, and the results of its operations, changes in net financial assets (debt) and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of BIRCH HILLS COUNTY as at December 31, 2019, the results of its operations, change in its net financial assets (debt) 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 Consolidated Financial Statements* section of our report. We are independent of the Municipality in accordance with the ethical requirements that are relevant to our audit of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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

Those charged with governance are responsible for overseeing the Municipality's financial reporting process.

(Continues)

Independent Auditor's Report to Members of Council BIRCH HILLS COUNTY (continued)

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 the Municipality's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Municipality to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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.

Report on Other Legal and Regulatory Requirements

- Debt Limit Regulation:
In accordance with Alberta Regulation 255/2000, we confirm that the municipality is in compliance with the Debt Limit Regulation. A detailed account of the municipality's debt limit can be found in note 10.
- Supplementary Accounting Principles and Standards Regulation:
In accordance with Alberta Regulation 313/2000, we confirm that the municipality is in compliance with the Supplementary Accounting Principles and Standards Regulation and note the information required can be found in note 16.


CHARTERED PROFESSIONAL ACCOUNTANTS

Falher, AB
March 12, 2020

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

	2019	2018
FINANCIAL ASSETS	\$	\$
Cash and temporary investments (Note 2)	8,577,156	7,521,517
Receivables		
Taxes and grants in place of taxes (Note 3)	284,182	222,720
Trade and other (Note 4)	670,392	490,972
Land held for resale inventory	6,684	6,684
Investments (Note 5)	12,795,274	14,928,854
	22,333,688	23,170,747
LIABILITIES		
Accounts payable and accrued liabilities	271,955	382,976
Deposit liabilities	18,318	25,073
Deferred revenue (Note 6)	43,377	402,762
Employee benefit obligations (Note 7)	135,143	145,728
Provision for landfill closure and post-closure costs (Note 8)	100,000	100,000
Other liabilities (Note 9)	14,350	-
	583,143	1,056,539
NET FINANCIAL ASSETS (DEBT)	21,750,545	22,114,208
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2, Note 11)	31,977,077	33,455,343
Inventory for consumption	1,627,276	2,198,393
Prepaid expenses	117,980	112,393
	33,722,333	35,766,129
ACCUMULATED SURPLUS (Schedule 1, Note 13)	55,472,878	57,880,337

Contingencies - See Note 18

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2019

	Budget (Unaudited)	2019	2018
REVENUE	\$	\$	\$
Net municipal taxes (Schedule 3)	4,928,711	4,931,384	4,817,844
Well drilling	-	40,632	-
User fees and sales of goods	423,750	445,245	476,391
Government transfers for operating (Schedule 4)	558,071	463,024	804,681
Penalties and costs on taxes	50,000	128,940	69,578
Licenses and permits	5,000	3,245	8,705
Franchise and concession contracts	3,500	3,964	3,628
Investment income	502,000	555,799	502,218
Rentals	30,150	33,565	33,184
Other revenues	85,440	111,642	132,907
Gain on disposal of tangible capital assets	46,715	29,290	241,345
Total Revenue	6,633,337	6,746,730	7,090,481
EXPENSES (Schedule 5 - By Object)			
Council and legislative	169,006	152,391	143,185
Administration	1,125,588	1,561,487	1,026,603
Fire fighting and protective services	261,898	181,713	180,951
Disaster and emergency services	17,270	24,112	11,307
Ambulance and first aid	43,260	38,235	40,525
Roads, streets, walks, lighting	6,093,197	5,723,072	6,010,764
Airport	500	500	12,827
Storm sewers and drainage	10,000	9,530	11,860
Water supply and distribution	695,703	700,663	654,567
Wastewater treatment and disposal	107,770	96,705	108,986
Waste management	144,300	127,802	125,458
Public health and welfare	101,273	104,928	77,399
Cemetery	900	3,105	-
Land use planning, zoning and development	86,955	70,486	87,102
Economic/agricultural development	758,133	671,419	630,307
Other planning and development	350,000	350,000	-
Parks and recreation	140,940	139,543	133,298
Culture	57,359	48,433	49,018
Total Expenses	10,164,052	10,004,124	9,304,157
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	(3,530,715)	(3,257,394)	(2,213,676)
OTHER			
Government transfers for capital (Schedule 4)	797,193	849,935	1,601,219
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	(2,733,522)	(2,407,459)	(612,457)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	57,880,337	57,880,337	58,492,794
ACCUMULATED SURPLUS, END OF YEAR	55,146,815	55,472,878	57,880,337

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)

For the Year Ended December 31, 2019

	Budget (Unaudited)	2019	2018
	\$	\$	\$
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	(2,733,522)	(2,407,459)	(612,457)
Acquisition of tangible capital assets	(1,253,900)	(1,406,562)	(832,244)
Proceeds on disposal of tangible capital assets	238,000	353,886	340,242
Amortization of tangible capital assets	2,609,580	2,509,071	2,579,313
Loss (gain) on sale of tangible capital assets	44,972	21,871	(1,858)
	1,638,652	1,478,266	2,085,453
Acquisition of supplies inventories	(844,500)	(362,953)	(1,895,215)
Acquisition of prepaid assets	(95,478)	(103,305)	(102,930)
Use of supplies inventories	844,500	934,070	604,230
Use of prepaid assets	95,478	97,718	95,427
	-	565,530	(1,298,488)
INCREASE (DECREASE) IN NET ASSETS (DEBT)	(1,094,870)	(363,663)	174,508
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	22,114,208	22,114,208	21,939,700
NET FINANCIAL ASSETS (DEBT), END OF YEAR	21,019,338	21,750,545	22,114,208

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019

	2019	2018
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenues over expenses	(2,407,459)	(612,457)
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	2,509,071	2,579,313
Loss (gain) on disposal of tangible capital assets	21,871	(1,858)
Non-cash charges to operations (net change):		
Decrease (increase) in taxes and grants in lieu receivable	(61,462)	(50,844)
Decrease (increase) in trade and other receivables	(179,420)	(252,997)
Decrease (increase) in inventory for consumption	571,117	(1,290,985)
Decrease (increase) in prepaid expenses	(5,587)	(7,503)
Increase (decrease) in accounts payable and accrued liabilities	(111,021)	10,322
Increase (decrease) in deposit liabilities	(6,755)	1,872
Increase (decrease) in deferred revenue	(359,385)	(564,946)
Increase (decrease) in employee benefit obligations	(10,585)	14,212
Increase (decrease) in provision for landfill	-	-
Increase (decrease) in other liabilities	14,350	-
Cash provided by operating transactions	(25,265)	(175,871)
CAPITAL		
Acquisition of tangible capital assets	(1,406,562)	(832,244)
Sale of tangible capital assets	353,886	340,242
Cash provided by (applied to) capital transactions	(1,052,676)	(492,002)
INVESTING		
Decrease (increase) in restricted cash or cash equivalents	-	-
Decrease (increase) in investments	2,133,580	(162,018)
Cash provided by (applied to) investing transactions	2,133,580	(162,018)
FINANCING		
Long-term debt issued	-	-
Long-term debt repaid	-	-
Cash provided by (applied to) financing transactions	-	-
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	1,055,639	(829,891)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,521,517	8,351,408
CASH AND CASH EQUIVALENTS, END OF YEAR	8,577,156	7,521,517
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 2)	8,577,156	7,521,517

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

Schedule 1

SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS

For the Year Ended December 31, 2019

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2019	2018
	\$	\$	\$	\$	\$
BALANCE, BEGINNING OF YEAR	5,441,411	18,983,583	33,455,343	57,880,337	58,492,794
Excess (deficiency) of revenues over expenses	(2,407,459)	-	-	(2,407,459)	(612,457)
Unrestricted funds designated for future use	-	-	-	-	-
Restricted funds used for operations	805,558	(805,558)	-	-	-
Restricted funds used for tangible capital assets	-	(316,033)	316,033	-	-
Current year funds used for tangible capital assets	(1,090,529)	-	1,090,529	-	-
Contributed tangible capital assets	-	-	-	-	-
Disposal of tangible capital assets	375,757	-	(375,757)	-	-
Annual amortization expense	2,509,071	-	(2,509,071)	-	-
CHANGE IN ACCUMULATED SURPLUS	192,398	(1,121,591)	(1,478,266)	(2,407,459)	(612,457)
BALANCE, END OF YEAR	5,633,809	17,861,992	31,977,077	55,472,878	57,880,337

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
SCHEDULE OF TANGIBLE CAPITAL ASSETS

Schedule 2

For the Year Ended December 31, 2019

	Land	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2019	2018
	\$	\$	\$	\$	\$	\$	\$
COST:							
BALANCE, BEGINNING OF YEAR	900,097	6,680,051	178,670,479	4,201,685	2,290,752	192,743,064	193,032,356
Acquisition of tangible capital assets	-	-	95,571	1,272,155	38,836	1,406,562	832,244
Construction-in-progress	-	-	-	-	-	-	-
Disposal of tangible capital assets	-	-	(23,460)	(895,212)	(91,183)	(1,009,855)	(1,121,536)
Write down of tangible capital assets	-	-	-	-	-	-	-
BALANCE, END OF YEAR	900,097	6,680,051	178,742,590	4,578,628	2,238,405	193,139,771	192,743,064
ACCUMULATED AMORTIZATION:							
BALANCE, BEGINNING OF YEAR	-	1,824,053	154,352,650	1,759,604	1,351,414	159,287,721	157,491,560
Annual amortization	-	133,111	1,919,184	336,190	120,586	2,509,071	2,579,313
Accumulated amortization on disposals	-	-	(23,460)	(525,773)	(84,865)	(634,098)	(783,152)
BALANCE, END OF YEAR	-	1,957,164	156,248,374	1,570,021	1,387,135	161,162,694	159,287,721
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS							
	900,097	4,722,887	22,494,216	3,008,607	851,270	31,977,077	33,455,343
2018 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	900,097	4,855,998	24,317,829	2,442,081	939,338	33,455,343	

See accompanying schedules and notes to the financial statements.

SCHEDULE OF PROPERTY AND OTHER TAXES

For the Year Ended December 31, 2019

	Budget (Unaudited)	2019	2018
	\$	\$	\$
TAXATION			
Real property taxes	2,950,918	2,937,544	2,934,369
Linear property taxes	2,818,763	2,818,250	2,718,424
Government grants in place of property taxes	19,415	19,415	18,963
	5,789,096	5,775,209	5,671,756
REQUISITIONS			
Alberta School Foundation Fund	832,129	817,440	834,014
Grande Spirit Seniors Foundation	13,890	13,890	13,597
Designated Industrial Property	14,366	12,495	6,301
Adjustments to requisition transfers	-	-	-
	860,385	843,825	853,912
NET MUNICIPAL TAXES	4,928,711	4,931,384	4,817,844

See accompanying schedules and notes to the financial statements.

SCHEDULE OF GOVERNMENT TRANSFERS

For the Year Ended December 31, 2019

	Budget (Unaudited)	2019	2018
	\$	\$	\$
TRANSFERS FOR OPERATING			
Federal Government	7,875	12,600	4,896
Provincial Government	550,196	448,424	796,345
Local Government	-	2,000	3,440
	558,071	463,024	804,681
TRANSFERS FOR CAPITAL			
Federal Government	-	-	-
Provincial Government	797,193	849,935	1,601,219
Local Government	-	-	-
	797,193	849,935	1,601,219
TOTAL GOVERNMENT TRANSFERS	1,355,264	1,312,959	2,405,900

See accompanying schedules and notes to the financial statements.

SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT

For the Year Ended December 31, 2019

	Budget (Unaudited)	2019	2018
	\$	\$	\$
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	2,913,716	2,793,796	2,648,257
Contracted and general services	1,920,013	1,571,343	1,900,864
Materials, goods and utilities	1,848,900	1,833,161	1,552,635
Provision for allowances	100,000	572,033	97,611
Transfers to other governments	388,056	388,056	-
Transfers to local boards and agencies	196,500	193,515	196,438
Transfers to individuals and organizations	76,100	67,946	72,028
Bank charges and short-term interest	18,500	18,181	16,749
Other expenditures	1,000	5,861	775
Amortization of tangible capital assets	2,609,580	2,509,071	2,579,313
Loss on disposal of tangible capital assets	91,687	51,161	239,487
	10,164,052	10,004,124	9,304,157

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
SCHEDULE OF SEGMENTED DISCLOSURE

Schedule 6

For the Year Ended December 31, 2019

	General Government	Protective Services	Transportation Services	Environmental Services	Health & Welfare	ASB, Planning Development	Recreation & Culture	Total 2019
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Net municipal taxes	4,931,384	-	-	-	-	-	-	4,931,384
Well drilling	40,632	-	-	-	-	-	-	40,632
User fees and sales of goods	5,359	49,397	57,317	330,022	-	3,150	-	445,245
Government transfers for operating	-	2,000	286,972	-	47,606	126,446	-	463,024
Penalties and costs on taxes	128,940	-	-	-	-	-	-	128,940
Licenses and permits	-	-	-	-	-	3,245	-	3,245
Franchise and concession contracts	-	-	-	-	-	-	3,964	3,964
Investment income	555,799	-	-	-	-	-	-	555,799
Rentals	15,700	-	8,844	4,000	-	-	5,021	33,565
Other revenues	30,652	12,688	20,767	20,174	10	17,414	9,937	111,642
Gain on disposal of tangible capital assets	-	-	29,290	-	-	-	-	29,290
	5,708,466	64,085	403,190	354,196	47,616	150,255	18,922	6,746,730
EXPENSES								
Salaries, wages and benefits	742,828	35,022	1,264,176	329,015	11,437	398,215	13,103	2,793,796
Contracted and general services	296,709	71,836	887,953	195,552	116	114,952	4,225	1,571,343
Materials, goods and utilities	48,200	35,883	1,416,460	148,701	-	165,262	18,655	1,833,161
Provision for allowances	572,033	-	-	-	-	-	-	572,033
Transfers to other governments	-	-	-	-	38,056	350,000	-	388,056
Transfers to local boards and agencies	-	-	-	-	51,415	-	142,100	193,515
Transfers to individuals and organizations	2,954	32,000	500	-	-	22,599	9,893	67,946
Bank charges and short-term interest	18,181	-	-	-	-	-	-	18,181
Other expenditures	5,861	-	-	-	-	-	-	5,861
Loss on disposal of tangible capital assets	-	-	51,161	-	-	-	-	51,161
	1,686,766	174,741	3,620,250	673,268	101,024	1,051,028	187,976	7,495,053
Net revenue before amortization and government transfers for capital								
	4,021,700	(110,656)	(3,217,060)	(319,072)	(53,408)	(900,773)	(169,054)	(748,323)
Amortization	(27,112)	(69,319)	(2,112,852)	(251,902)	(7,009)	(40,877)	-	(2,509,071)
Government transfers for capital	-	-	800,890	49,045	-	-	-	849,935
NET REVENUE (SHORTFALL)	3,994,588	(179,975)	(4,529,022)	(521,929)	(60,417)	(941,650)	(169,054)	(2,407,459)
2018 NET REVENUE (SHORTFALL)	4,270,493	(175,459)	(3,478,874)	(525,399)	(27,763)	(507,879)	(167,576)	(612,457)

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of BIRCH 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 Chartered Professional Accountants of Canada. 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 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 COUNTY Council for the administration of their financial affairs and resources. Included with the municipality are the following:

Central Peace Medical Clinic

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.

b) Basis of Accounting

The 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) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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. There is a high degree of measurement uncertainty in the allowance for uncollectible taxes. A large amount of current taxes receivable are on linear assessment properties which are much harder to recover than taxes receivable on land and improvements.

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES - CON'T

d) Cash and Temporary Investments

Cash and cash equivalents consists of cash on hand, balances with banks, deposits and bonds with an original maturity date of purchase of three months or less. Because of the short term maturity of these investments, their carrying value approximates fair value.

e) Investments

Investments are recorded at amortized cost. Investment premiums and discounts are amortized on the 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.

f) Debt Charges Recoverable

Debt charges recoverable consist of amounts that are recoverable from municipal agencies or other local governments with respect to outstanding debentures or other long-term debt pursuant to annexation orders or joint capital undertakings. These recoveries are recorded at a value that equals the offsetting portion of the un-matured long-term debt, less actuarial requirements for the retirement of any sinking fund debentures.

g) 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 a property tax revenue.

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

h) Inventories for Resale

Land held for resale is recorded at the lower of cost or net realizable value. Cost includes costs for land acquisition and improvements required to prepare the land for servicing such as clearing, stripping and levelling charges. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks and street lighting are recorded as physical assets under their respective function.

i) Tax Revenue

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

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

j) Landfill Closure and Post-Closure Liability

Pursuant to the Alberta Environment Protection and Enhancement Act, the TOWN is required to fund the closure of its landfill site 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 is being provided for over the estimated remaining life of the landfill site based on usage.

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES - CON'T

k) Contaminated Sites Liability

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 post-remediation including operation, maintenance and monitoring.

l) 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.

m) Non-Financial Assets

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

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
Buildings	25-50
Engineered structures	
Bridges	variable
Water system	40
Wastewater system	40
Other engineered structures	20-40
Machinery and equipment	5-15
Vehicles	7-15

Annual amortization is charged in the year of acquisition and no amortization is charged 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.

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES - CON'T

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 held for consumption are recorded at the lower of cost and replacement cost, with costs being realized on a first-in first-out basis.

v. Cultural and Historical Tangible Capital Assets

Works of art for display are not recorded as tangible capital assets but are disclosed.

2. CASH AND TEMPORARY INVESTMENTS

	2019	2018
	\$	\$
Cash	979,554	801,787
Temporary investments	7,597,602	6,719,730
	8,577,156	7,521,517

Temporary investments are short-term deposits with original maturities of three months or less.

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLES

	2019	2018
	\$	\$
Current taxes and grants in place of taxes	756,216	238,997
Arrears taxes	607,126	490,850
	1,363,342	729,847
Less: Allowance for doubtful accounts	1,079,160	507,127
	284,182	222,720

For measurement uncertainty pertaining to the allowance for doubtful tax accounts see Note 1 c) use of estimates.

4. TRADE AND OTHER RECEIVABLES

	2019	2018
	\$	\$
Accrued interest	71,885	90,254
Goods and services tax recoverable	11,994	31,657
From other governments	452,491	280,527
Trade and other accounts	95,241	35,714
Utility accounts	38,781	52,820
	670,392	490,972

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

5. INVESTMENTS

	2019		2018	
	Cost	Market Value	Cost	Market Value
	\$	\$	\$	\$
Debenture borrowing shares	80	80	80	80
Investment deposits	9,119,051	9,119,051	11,296,099	11,296,099
Government bonds	2,270,933	2,327,634	2,223,975	2,269,956
Public corporation bonds	1,405,210	1,407,543	1,408,700	1,372,447
	12,795,274	12,854,308	14,928,854	14,938,582

Investment deposits have effective interest rates of 1.55% to 3.35% (2018: 1.55% to 3.35%) with maturity dates from June 24, 2020 to December 4, 2023. Public corporation bonds have effective interest rates of 2.105% to 3.226% (2018: 1.85% to 3.226%) with maturity dates from June 4, 2020 to December 9, 2026. Government bonds have effective interest rates of 2.46% to 4.00% (2018: 2.46% to 4.10%) with maturity dates from June 2, 2021 to June 1, 2027.

Council has designated funds of \$10,696,347 (2018: \$11,213,940) included in the above amounts for capital asset replacement (Note 13)

Included in investments are restricted amounts totalling \$43,377 (2018: \$400,762) received from the provincial government being held exclusively for specific capital projects (Note 6).

6. DEFERRED REVENUE

	2019	2018
	\$	\$
Provincial government transfers		
Federal Gas Tax Fund - Capital	43,377	52,553
Municipal Sustainability Initiative - Capital	-	348,209
	43,377	400,762
AB Health Services	-	2,000
	43,377	402,762

Government funding as per above \$43,377 remain unspent at year-end. The use of these funds is restricted to eligible projects as approved under the funding agreements. Unexpended capital funds related to the advance are supported by investments of \$43,377 (2018: \$400,762) held exclusively for these capital projects (refer Note 5).

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

7. EMPLOYEE BENEFIT OBLIGATIONS

	2019	2018
	\$	\$
Sick pay benefits	39,055	44,617
Vacation and overtime	96,088	101,111
	135,143	145,728

Sick pay benefits

The sick pay benefits liability is comprised of sick pay that accumulates but does not vest and is paid only upon an illness or injury-related absence. The extent to which accumulated sick days are expected to be used by the employees has been considered in measuring this obligation.

Vacation and overtime

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

8. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

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, and ongoing environmental monitoring, site inspections and maintenance.

The accrued liability for closure and post-closure of the COUNTY's landfill is recognized, using management's estimated costs for closure and post-closure care. Management is unable to estimate how many years that post-closure care could be required.

The COUNTY has not designated assets for setting closure and post-closure liabilities. The following summarizes the total estimated costs of closure and post-closure care:

	\$
Estimated closure costs	60,000
Estimated post-closure costs	40,000
Estimated total costs	100,000
Actual closure and post-closure costs incurred to date	-
Ending balance, December 31, 2019	100,000

9. OTHER LIABILITIES

	2019	2018
	\$	\$
Alberta School Foundation Fund over-levy	14,350	-

BIRCH HILLS COUNTY**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended December 31, 2019

10. DEBT LIMITS

Section 276(2) of the Municipal Government Act requires that debt and debt limits as defined by Alberta Regulation 255/00 for BIRCH HILLS COUNTY be disclosed as follows:

	2019	2018
	\$	\$
Total debt limit	10,120,095	10,635,722
Total debt	-	-
Amount of debt limit unused	10,120,095	10,635,722
Debt servicing limit	1,686,683	1,772,620
Debt servicing	-	-
Amount of debt servicing above limit	1,686,683	1,772,620

The debt limit is calculated at 1.5 times revenue of the municipality (as defined in Alberta Regulation 255/00) and the debt service limit is calculated at 0.25 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify municipalities that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the municipality. Rather, the financial statements must be interpreted as a whole.

11. TANGIBLE CAPITAL ASSETS

Net Book Value	2019	2018
	\$	\$
Land	900,097	900,097
Buildings	4,722,887	4,855,998
Engineered Structures		
Roadway system	18,785,677	20,477,751
Water distribution system	2,278,688	2,362,832
Wastewater treatment system	1,429,851	1,477,246
Machinery, equipment, and furnishings	3,008,607	2,442,081
Vehicles	851,270	939,338
	31,977,077	33,455,343

12. EQUITY IN TANGIBLE CAPITAL ASSETS

	2019	2018
	\$	\$
Tangible capital assets (Schedule 2)	193,139,771	192,743,064
Accumulated amortization (Schedule 2)	(161,162,694)	(159,287,721)
	31,977,077	33,455,343

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

13. ACCUMULATED SURPLUS

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

	2019	2018
	\$	\$
Unrestricted surplus (deficit)	5,633,809	5,441,411
Restricted surplus - Operating		
Tax rate stabilization	7,165,645	7,769,643
Restricted surplus - Capital		
Council and legislative	13,633	13,633
Administration	14,851	23,302
Fire services	317,620	317,620
Roads, streets, etc.	5,818,293	6,301,632
Airport	207,000	207,000
Water supply	897,719	897,719
Waste management	887,393	887,393
Other public health and welfare	100,000	100,000
Agricultural services	-	25,803
Recreation and hall	198,135	198,135
Contingency	2,241,703	2,241,703
Equity in tangible capital assets	31,977,077	33,455,343
	55,472,878	57,880,337

14. SEGMENTED DISCLOSURE

BIRCH HILLS COUNTY provides a range of services to its ratepayers. For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in Note 1.

Refer to the Schedule of Segmented Disclosure (schedule 6)

BIRCH HILLS COUNTY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

15. TRUST FUNDS

The COUNTY OF BIRCH HILLS administers the following trusts:

	2019	2018
TAX SALE SURPLUS		
Balance, beginning of year	13,606	18,202
Tax sales during year	-	-
Interest earned	76	504
Less: Drawings	-	(5,100)
Balance, end of year	13,682	13,606

16. 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(1)	Benefits & Allowances(2)	2019 Total	2018 Total
Reeve:				
MAZULENKO, Gerald	12,567	460	13,027	14,050
Councillors:				
BOGDANEK, Cheryl	-	-	-	4,900
CARBONE, Terry	13,145	3,471	16,616	13,000
DUVAL, Mel	14,300	548	14,848	3,075
JOUDREY, Denise	18,108	3,830	21,938	17,876
PARADIS, Ginette	-	-	-	6,650
POETKER, Albert	16,418	-	16,418	2,925
REUM, Paul	11,605	411	12,016	11,250
WENDLAND, Deanne	14,493	3,539	18,032	15,100
	100,636	12,259	112,895	88,826
Chief Administrative Officer:				
MINDERLEIN, Hermann	156,046	30,876	186,922	177,140
	256,682	43,135	299,817	265,966

1) Salary includes regular base pay, bonuses, overtime, lump sum payments, retiring allowances, gross honoraria and any other direct cash remuneration.

2) For reeve and councillors, benefits and allowances consists of travel expense allowances, employer's share of Canada pension plan, health care, dental coverage, vision coverage, group life insurance and accidental disability and dismemberment insurance. For chief administrative officer, benefits and allowances consists of employer's share of Canada pension plan, employment insurance, pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans, vehicle allowance, telephone allowance and moving expenses.

BIRCH HILLS COUNTY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

17. LOCAL AUTHORITIES PENSION PLAN

Employees of BIRCH HILLS COUNTY participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pensions 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.

BIRCH HILLS COUNTY is required to make current service contributions to the LAPP of 9.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.84% on pensionable earnings above this amount. Employees of the BIRCH HILLS COUNTY are required to make current service contributions of 8.39% of pensionable salary up to the year's maximum pensionable salary and 12.84% on pensionable salary above this amount.

Total current service contributions by BIRCH HILLS COUNTY to the LAPP in 2019 were \$205,611 (2018: \$196,578). Total current service contributions by the employees of BIRCH HILLS COUNTY to the Local Authorities Pension Plan in 2019 were \$176,782 (2018: \$180,047).

At December 31, 2018, the LAPP disclosed an actuarial surplus of \$3.47 billion.

18. CONTINGENCIES

The county is a member of the Jubilee Reciprocal Insurance Exchange. Under the terms of the membership, the County 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.

19. GOVERNMENT PARTNERSHIP

A Co-Owners agreement between the Village of Rycroft, Town of Spirit River, Municipal District of Spirit River No. 133 and Birch Hills County was made the 1st day of February, 2004 and was terminated March 1, 2019 with all the funds (\$152,224) held being transferred to the Central Peace Medical Services Corporation. Each Co-Owner is the registered owner of an undivided 25% tenancy-in-common interest in the property of the Central Peace Medical Clinic. The primary purpose of this agreement is to provide and maintain a building to rent to the doctors whereby they can provide medical services to local residents. This investment is accounted for by the proportionate consolidation method.

	2019	2018
	\$	\$
Share of assets (25%)	-	38,431
Share of liabilities (25%)	-	(375)
	-	38,056
Total revenues	-	7,200
Total expenditures	-	(29,014)
	-	(21,814)
Share of surplus for the year ended December 31 (25%)	-	(5,454)

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

20. FINANCIAL INSTRUMENTS

The COUNTY's financial instruments consist of cash and temporary investments, accounts receivable, investments, debt charges recoverable, accounts payable and accrued liabilities, and deposit liabilities. It is management's opinion that the COUNTY is not exposed to significant interest or currency risks arising from these financial instruments.

The COUNTY 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 COUNTY provides services may experience financial difficulty and be unable to fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

Unless otherwise noted, the carrying value of the financial instrument approximates fair value.

21. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.