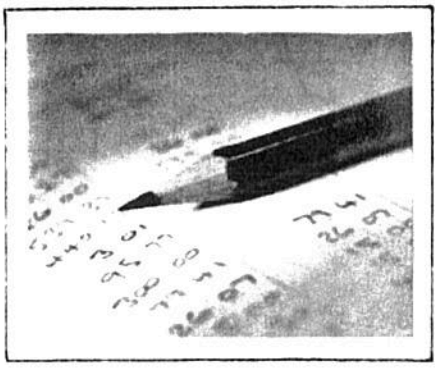
SYLVAIN & DORAN
Certified General Accountants

BIRCH HILLS COUNTY

Financial Statements

For the Year Ended December 31, 2013



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BIRCH HILLS COUNTY

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

CONTENTS

	Page
Independent Auditors' Report	2
Consolidated Statement of Financial Position	3
Consolidated Statement of Operations	4
Consolidated Statement of Changes in Net Financial Assets (Debt)	5
Consolidated Statement of Cash Flows	6
Schedule 1 - Schedule of Changes in Accumulated Surplus	7
Schedule 2 - Schedule of Tangible Capital Assets	8
Schedule 3 - Schedule of Property and Other Taxes	9
Schedule 4 - Schedule of Government Transfers	10
Schedule 5 - Schedule of Consolidated Expenses by Object	11
Schedule 6 - Schedule of Segmented Disclosure	12
Notes to the Financial Statements	13 - 22

SYLVAIN & DORAN
Certified General Accountants

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INDEPENDENT AUDITORS' REPORT

To the Members of Council
BIRCH HILLS COUNTY

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of BIRCH HILLS COUNTY , which comprise the statement of financial position as at December 31, 2013, and the statements of operations, change in net financial assets (debt) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 auditor's judgement, 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 consolidated financial statements present fairly, in all material respects, the financial position of BIRCH HILLS COUNTY as at December 31, 2013 and 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.

Falher, Alberta
April 1, 2014

Sylvain & Doran
CERTIFIED GENERAL ACCOUNTANTS

*DENOTES CERTIFIED GENERAL ACCOUNTANT WHOSE PROFESSIONAL CORPORATION IS A MEMBER OF THE PARTNERSHIP

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2013

	2013	2012
FINANCIAL ASSETS	$	$
Cash and temporary investments (Note 2)	6,596,915	6,121,295
Receivables		
Taxes and grants in place of taxes (Note 3)	204,374	187,782
From other governments	541,547	118,566
Trade and other	662,230	783,525
Land held for resale inventory	6,684	6,684
Investments (Note 4)	12,552,815	12,398,582
	20,564,565	19,616,434
LIABILITIES		
Accounts payable and accrued liabilities	435,704	325,169
Deposit liabilities	36,465	47,387
Deferred revenue (Note 5)	227,726	84,095
Employee benefit obligations (Note 6)	87,269	82,638
Provision for landfill closure and post-closure costs (Note 7)	330,000	330,000
	1,117,164	869,289
NET FINANCIAL ASSETS (DEBT)	19,447,401	18,747,145
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2, Note 9)	41,395,743	43,636,002
Inventory for consumption	2,410,359	2,819,445
Prepaid expenses	66,375	49,308
	43,872,477	46,504,755
ACCUMULATED SURPLUS (Schedule 1, Note 11)	63,319,878	65,251,900

Contingencies - See Note 16

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2013

	Budget (Unaudited)	2013	2012
REVENUE	$	$	$
Net municipal taxes (Schedule 3)	5,111,677	**5,120,370**	5,214,992
Well drilling	10,000	**19,161**	4,226
User fees and sales of goods	366,179	**295,370**	245,558
Government transfers for operating (Schedule 4)	697,686	**1,134,858**	644,867
Penalties and costs on taxes	27,000	**34,736**	33,985
Licenses and permits	2,628	**3,328**	2,620
Franchise and concession contracts	4,700	**5,097**	4,035
Investment income	414,000	**419,306**	447,501
Rentals	18,560	**32,472**	20,714
Other revenues	78,103	**96,153**	81,759
Gain on disposal of tangible capital assets	-	**3,031**	-
Total Revenue	6,730,533	**7,163,882**	6,700,257
EXPENSES (Schedule 5 - By Object)			
Council and legislative	161,451	**151,132**	155,807
Administration	1,085,318	**1,063,797**	1,142,249
Fire fighting and protective services	381,700	**311,863**	230,682
Disaster and emergency services	43,500	**11,073**	10,504
Ambulance and first aid	51,000	**38,913**	40,587
Roads, streets, walks, lighting	6,490,100	**6,267,607**	6,078,413
Airport	3,000	**2,303**	500
Storm sewers and drainage	165,100	**110,424**	40,325
Water supply and distribution	557,500	**561,067**	524,822
Wastewater treatment and disposal	57,000	**45,409**	56,171
Waste management	129,600	**144,707**	140,724
Public health and welfare	50,700	**46,235**	37,596
Cemetery	1,100	**1,100**	1,100
Land use planning, zoning and development	106,342	**87,672**	8,971
Economic/agricultural development	893,530	**665,082**	680,741
Parks and recreation	168,280	**170,032**	222,647
Culture	30,693	**38,939**	43,930
Total Expenses	10,375,914	**9,717,355**	9,415,769
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	(3,645,381)	**(2,553,473)**	(2,715,512)
OTHER			
Government transfers for capital (Schedule 4)	854,251	**621,451**	909,966
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	(2,791,130)	**(1,932,022)**	(1,805,546)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	65,251,900	**65,251,900**	67,057,446
ACCUMULATED SURPLUS, END OF YEAR	62,460,770	**63,319,878**	65,251,900

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, 2013

	Budget (Unaudited)	2013	2012
	$	$	$
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	(2,791,130)	(1,932,022)	(1,805,546)
Acquisition of tangible capital assets	(1,285,000)	(728,486)	(527,744)
Proceeds on disposal of tangible capital assets	-	122,933	6,839
Amortization of tangible capital assets	2,861,600	2,820,075	2,836,441
Loss (gain) on sale of tangible capital assets	-	25,737	17,489
	1,576,600	2,240,259	2,333,025
Acquisition of supplies inventories	(885,000)	(533,958)	(931,095)
Acquisition of prepaid assets	(126,500)	(136,575)	(49,308)
Use of supplies inventories	885,000	943,044	850,018
Use of prepaid assets	126,500	119,508	48,279
	-	392,019	(82,106)
(INCREASE) DECREASE IN NET DEBT	(1,214,530)	700,256	445,373
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	18,747,145	18,747,145	18,301,772
NET FINANCIAL ASSETS (DEBT), END OF YEAR	17,532,615	19,447,401	18,747,145

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

	2013	2012
	$	$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenues over expenses	**(1,932,022)**	(1,805,546)
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	**2,820,075**	2,836,441
Loss (gain) on disposal of tangible capital assets	**25,737**	17,489
Non-cash charges to operations (net change):		
Decrease (increase) in taxes and grants in lieu receivable	**(16,592)**	(37,147)
Decrease (increase) in receivable from other governments	**(422,981)**	565,756
Decrease (increase) in trade and other receivables	**121,295**	(58,579)
Decrease (increase) in inventory for consumption	**409,086**	(81,077)
Decrease (increase) in prepaid expenses	**(17,067)**	(1,029)
Increase (decrease) in accounts payable and accrued liabilities	**110,535**	(196,224)
Increase (decrease) in deposit liabilities	**(10,922)**	10,176
Increase (decrease) in deferred revenue	**143,631**	40,705
Increase (decrease) in employee benefit obligations	**4,631**	61,231
Cash provided by operating transactions	**1,235,406**	1,352,196
CAPITAL		
Acquisition of tangible capital assets	**(728,486)**	(527,744)
Sale of tangible capital assets	**122,933**	6,839
Cash provided by (applied to) capital transactions	**(605,553)**	(520,905)
INVESTING		
Decrease (increase) in restricted cash or cash equivalents	**(145,431)**	(39,905)
Decrease (increase) in investments	**(154,233)**	(285,275)
Cash provided by (applied to) investing transactions	**(299,664)**	(325,180)
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	**330,189**	506,111
CASH AND CASH EQUIVALENTS (SHORTAGE), BEGINNING OF YEAR	**6,039,000**	5,532,889
CASH AND CASH EQUIVALENTS (SHORTAGE), END OF YEAR	**6,369,189**	6,039,000
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 2)	**6,596,915**	6,121,295
Less: restricted portion of cash and temporary investments (Note 2)	**(227,726)**	(82,295)
	6,369,189	6,039,000

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, 2013

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2013	2012
	$	$	$	$	$
BALANCE, BEGINNING OF YEAR	**3,804,003**	**17,811,895**	**43,636,002**	**65,251,900**	67,057,446
Excess (deficiency) of revenues over expenses	(1,932,022)	-	-	**(1,932,022)**	(1,805,546)
Unrestricted funds designated for future use	-	-	-	-	-
Restricted funds used for operations	(226,696)	226,696	-	-	-
Restricted funds used for tangible capital assets	-	(469,257)	469,257	-	-
Current year funds used for tangible capital assets	(259,228)	-	259,228	-	-
Contributed tangible capital assets	-	-	-	-	-
Disposal of tangible capital assets	148,669	-	(148,669)	-	-
Annual amortization expense	2,820,075	-	(2,820,075)	-	-
CHANGE IN ACCUMULATED SURPLUS	550,798	(242,561)	(2,240,259)	**(1,932,022)**	(1,805,546)
BALANCE, END OF YEAR	**4,354,801**	**17,569,334**	**41,395,743**	**63,319,878**	65,251,900

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, 2013

	Land	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2013	2012
	$	$	$	$	$	$	$
COST:							
BALANCE, BEGINNING OF YEAR	810,212	5,941,722	176,751,498	3,460,647	1,920,242	**188,884,321**	188,485,745
Acquisition of tangible capital assets	-	240,576	-	429,159	-	**669,735**	292,887
Construction-in-progress	-	-	58,751	-	-	**58,751**	234,857
Disposal of tangible capital assets	-	-	(20,029)	(278,000)	(34,525)	**(332,554)**	(129,168)
Write down of tangible capital assets	-	-	-	-	-	**-**	-
BALANCE, END OF YEAR	810,212	6,182,298	176,790,220	3,611,806	1,885,717	**189,280,253**	188,884,321
ACCUMULATED AMORTIZATION:							
BALANCE, BEGINNING OF YEAR	-	1,042,616	141,796,750	1,424,889	984,064	**145,248,319**	142,516,718
Annual amortization	-	129,496	2,278,309	279,270	133,000	**2,820,075**	2,836,441
Accumulated amortization on disposals	-	-	(20,028)	(139,000)	(24,856)	**(183,884)**	(104,840)
BALANCE, END OF YEAR	-	1,172,112	144,055,031	1,565,159	1,092,208	**147,884,510**	145,248,319
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	**810,212**	**5,010,186**	**32,735,189**	**2,046,647**	**793,509**	**41,395,743**	43,636,002
2012 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	810,212	4,899,106	34,954,748	2,035,758	936,178	43,636,002	

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

Schedule 3

SCHEDULE OF PROPERTY AND OTHER TAXES

For the Year Ended December 31, 2013

	Budget (Unaudited)	2013	2012
	$	$	$
TAXATION			
Real property taxes	2,648,071	**2,657,029**	2,709,951
Linear property taxes	3,414,593	**3,414,328**	3,465,252
Government grants in place of property taxes	26,817	**26,817**	26,711
	6,089,481	**6,098,174**	6,201,914
REQUISITIONS			
Alberta School Foundation Fund	961,621	**961,621**	970,542
Grande Spirit Seniors Foundation	16,183	**16,183**	16,380
	977,804	**977,804**	986,922
NET MUNICIPAL TAXES	5,111,677	**5,120,370**	5,214,992

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

Schedule 4

SCHEDULE OF GOVERNMENT TRANSFERS

For the Year Ended December 31, 2013

	Budget (Unaudited)	2013	2012
	$	$	$
TRANSFERS FOR OPERATING			
Federal Government	-	-	-
Provincial Government	697,686	1,129,534	644,867
Local Government	-	5,324	-
	697,686	1,134,858	644,867
TRANSFERS FOR CAPITAL			
Federal Government	-	-	-
Provincial Government	854,251	621,451	909,966
Local Government	-	-	-
	854,251	621,451	909,966
TOTAL GOVERNMENT TRANSFERS	1,551,937	1,756,309	1,554,833

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

Schedule 5

SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT

For the Year Ended December 31, 2013

	Budget (Unaudited)	2013	2012
	$	$	$
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	2,476,199	**2,124,741**	1,989,560
Contracted and general services	3,056,082	**2,577,209**	2,704,409
Materials, goods and utilities	1,704,780	**1,834,152**	1,559,814
Provision for allowances	-	**55,773**	5,131
Transfers to local boards and agencies	244,053	**237,609**	279,974
Transfers to individuals and organizations	6,400	**3,575**	3,375
Bank charges and short-term interest	14,800	**18,708**	19,222
Other expenditures	12,000	**16,745**	354
Amortization of tangible capital assets	2,861,600	**2,820,075**	2,836,441
Loss on disposal of tangible capital assets	-	**28,768**	17,489
	10,375,914	**9,717,355**	9,415,769

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

SCHEDULE OF SEGMENTED DISCLOSURE

Schedule 6

For the Year Ended December 31, 2013

	General Government	Protective Services	Transportation Services	Enviromental Services	Health & Welfare	ASB, Planning Development	Recreation & Culture	Total 2013
	$	$	$	$	$	$	$	$
REVENUE								
Net municipal taxes	5,120,370	-	-	-	-	-	-	5,120,370
Well drilling	19,161	-	-	-	-	-	-	19,161
User fees and sales of goods	8,241	15,111	106,252	165,566	150	50	-	295,370
Government transfers for operating	-	5,324	962,373	-	44,964	122,197	-	1,134,858
Penalties and costs on taxes	34,736	-	-	-	-	-	-	34,736
Licenses and permits	-	-	-	-	-	3,328	-	3,328
Franchise and concession contracts	5,097	-	-	-	-	-	-	5,097
Investment income	419,306	-	-	-	-	-	-	419,306
Rentals	15,120	600	6,815	1,500	5,400	-	3,037	32,472
Other revenues	48,102	4,321	37,272	210	30	6,173	45	96,153
Gain on disposal of tangible capital assets	-	-	3,031	-	-	-	-	3,031
	5,670,133	25,356	1,115,743	167,276	50,544	131,748	3,082	7,163,882
EXPENSES								
Salaries, wages and benefits	565,637	62,065	983,446	243,967	-	265,183	4,443	2,124,741
Contracted and general services	477,234	140,217	1,371,341	187,855	2,421	388,323	9,818	2,577,209
Materials, goods and utilities	48,795	56,173	1,499,844	126,560	266	75,015	27,499	1,834,152
Provision for allowances	55,773	-	-	-	-	-	-	55,773
Transfers to local boards and agencies	-	32,000	-	-	43,556	5,000	157,053	237,609
Transfers to individuals and organizations	-	-	500	-	-	-	3,075	3,575
Bank charges and short-term interest	18,708	-	-	-	-	-	-	18,708
Other expenditures	16,745	-	-	-	-	-	-	16,745
Loss on disposal of tangible capital assets	-	-	28,768	-	-	-	-	28,768
	1,182,892	290,455	3,883,899	558,382	46,243	733,521	201,888	6,897,280
Net revenue before amortization and government transfers for capital	4,487,241	(265,099)	(2,768,156)	(391,106)	4,301	(601,773)	(198,806)	266,602
Amortization	(32,037)	(71,394)	(2,496,435)	(192,801)	(1,092)	(19,233)	(7,083)	(2,820,075)
Government transfers for capital	-	-	551,451	70,000	-	-	-	621,451
NET REVENUE (SHORTFALL)	**4,455,204**	**(336,493)**	**(4,713,140)**	**(513,907)**	**3,209**	**(621,006)**	**(205,889)**	**(1,932,022)**

See accompanying schedules and notes to the financial statements.

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 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 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.

1. SIGNIFICANT ACCOUNTING POLICIES - CON'T

d) 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.

e) 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.

f) 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.

g) 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.

h) Prepaid Local Improvement Charges

Construction and borrowing costs associated with local improvement projects are recovered through annual special assessments during the period of the related borrowings. These levies are collectible from property owners for work performed by the municipality.

Where a taxpayer has elected to prepay the outstanding local improvement charges, such amounts are recorded as deferred revenue. Deferred revenue is amortized to revenue on a straight line basis over the remaining term of the related borrowings.

In the event that the prepaid amounts are applied against the related borrowings, the deferred revenue is amortized to revenue by an amount equal to the debt repayment.

i) Landfill Closure and Post-Closure Liability

Pursuant to the Alberta Environment Protection and Enhancement Act, the COUNTY 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.

1. SIGNIFICANT ACCOUNTING POLICIES - CON'T

j) 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.

k) 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.

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

	2013	2012
	$	$
Cash	1,325,295	1,383,754
Temporary investments	5,271,620	4,737,541
	6,596,915	6,121,295

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

Included in temporary investments is a restricted amount of $227,726 (2012 - $82,295) received from the provincial and other local government being held exclusively for specific projects.

Council has designated funds of $5,018,555 (2012 $5,416,546) included in the above amounts for tax rate stabilization.

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLES

	2013	2012
	$	$
Current taxes and grants in place of taxes	169,991	123,201
Arrears taxes	173,807	148,232
	343,798	271,433
Less: Allowance for doubtful accounts	139,424	83,651
	204,374	187,782

4. INVESTMENTS

	2013		2012	
	Cost	Market Value	Cost	Market Value
	$	$	$	$
Debenture borrowing shares	80	80	80	80
Equity held in A.A.M.D.& C.	1,956	1,956	3,153	3,153
Long-term GIC's	240,225	240,225	237,847	237,847
Government and government guaranteed bonds	3,724,553	3,920,471	3,959,328	4,200,050
Public corporation bonds	8,586,001	9,035,306	8,198,174	8,872,504
	12,552,815	13,198,038	12,398,582	13,313,634

Public corporation bonds have effective interest rates of 2.29% to 4.03% (2012 - 2.35% to 4.75%) with maturity dates from June 24, 2014 to May 7, 2019. Government and government guaranteed bonds have effective interest rates of 2.00% to 4.5% (2012 - 2.29% to 4.50%) with maturity dates from June 1, 2016 to December 1, 2021.

Council has designated funds of $12,550,779 (2012 $12,395,349) included in the above amounts for building, equipment, roads, water lines and engineered structures, wastewater lines and engineered structures, cemetary, and parks replacement and tax rate stabilization.

5. DEFERRED REVENUE

	2013	2012
	$	$
Provincial government transfers		
FCSS grant	-	12,295
FCC - Fire training centre	6,475	-
Municipal Sustainability Initiative - 2013 Capital	221,251	-
Peace Region Water Hauling Infrastructure Program	-	70,000
	227,726	82,295
Requisition over-levy	-	1,800
	227,726	84,095

As per above Provincial funding of $227,726 remain unspent at year-end. The use of these funds is restricted to eligible projects as approved under the funding agreements. Unexpended funds related to the advance are supported by temporary investments of $227,726 held exclusively for these projects (refer Note 2).

6. EMPLOYEE BENEFIT OBLIGATIONS

	2013	2012
	$	$
Vacation and overtime	87,269	82,638

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.

7. 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	260,000
Estimated post-closure costs	70,000
Estimated total costs	330,000
Actual closure and post-closure costs incurred to date	-
Ending balance, December 31, 2013	330,000

8. 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:

	2013	2012
	$	$
Total debt limit	11,678,000	11,415,335
Total debt	-	-
Amount of debt limit unused	11,678,000	11,415,335
Debt servicing limit	1,946,333	1,902,556
Debt servicing	-	-
Amount of debt servicing above limit	1,946,333	1,902,556

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.

9. TANGIBLE CAPITAL ASSETS

Net Book Value	2013	2012
	$	$
Land	810,212	810,212
Buildings	5,010,186	4,728,819
Buildings - construction-in-progress	-	170,287
Engineered Structures		
Roadway system	30,080,605	32,275,231
Roadway system - construction-in-progress	125,697	66,946
Water distribution system	2,474,427	2,551,168
Wastewater treatment system	54,460	61,403
Machinery, equipment, and furnishings	2,046,647	2,035,758
Vehicles	793,509	936,178
	41,395,743	43,636,002

10. EQUITY IN TANGIBLE CAPITAL ASSETS

	2013	2012
	$	$
Tangible capital assets (Schedule 2)	189,280,253	188,884,321
Accumulated amortization (Schedule 2)	(147,884,510)	(145,248,319)
	41,395,743	43,636,002

11. ACCUMULATED SURPLUS

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

	2013	2012
	$	$
Unrestricted surplus (deficit)	**4,354,801**	3,804,003
Restricted surplus		
Tax rate stabilization	**7,583,871**	8,119,357
Tangible Capital Asset Replacement		
Administration	**220,467**	263,519
Fire services	**325,008**	484,753
Roads, streets, etc.	**5,853,386**	5,431,246
Water supply	**1,022,517**	1,003,137
Wastewater treatment	**251,653**	245,899
Waste management	**887,393**	867,103
Other public health and welfare	**170,484**	166,586
Agricultural services	**21,378**	20,889
Recreation and halls	**-**	4,425
Contingency	**1,233,177**	1,204,981
Equity in tangible capital assets	**41,395,743**	43,636,002
	63,319,878	65,251,900

12. 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)

13. TRUST FUNDS

The COUNTY OF BIRCH HILLS administers the following trusts:

	2013	2012
TAX SALE SURPLUS		
Balance, beginning of year	**10,044**	9,324
Tax sales during year	**3,581**	662
Bond held in trust	**1,000**	-
Interest earned	**51**	58
Less: Drawings	**-**	-
Balance, end of year	**14,676**	10,044

14. 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)	2013 **Total**	2012 Total
Reeve:				
SMITH, Warren	8,388	6,563	**14,951**	17,033
DORAN, Marvin	1,970	1,053	**3,023**	-
Councillors:				
BOGDANEK, Cherly	2,517	1,564	**4,081**	-
CARBONE, Terry	1,383	746	**2,129**	-
DORAN, Marvin	9,847	5,267	**15,114**	19,152
FARKASH, Al	4,733	4,555	**9,288**	12,933
JANZEN, Dale	5,667	5,053	**10,720**	15,282
JONES, Todd	4,733	2,457	**7,190**	12,888
MAZULENKO, Gerald	10,800	5,761	**16,561**	14,975
MACAULEY, Jack	3,567	1,931	**5,498**	-
REUM, Paul	7,617	4,012	**11,629**	12,276
SMITH, Warren	1,678	1,312	**2,990**	-
	62,900	40,274	**103,174**	104,539
Chief Administrative Officer:				
NORTHCOTT, Harold	121,666	22,804	**144,470**	66,700
	184,566	63,078	**247,644**	171,239

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

2) For reeve and councillors, benefits and allowances consists of travel and general non-accountable expense allowances. 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, and moving expenses.

15. 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 Plan serves about 133,000 people and 389 employers. 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 10.43% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 14.47% on pensionable earnings above this amount. Employees of the BIRCH HILLS COUNTY are required to make current service contributions of 9.43% of pensionable salary up to the year's maximum pensionable salary and 13.47% on pensionable salary above this amount.

Total current service contributions by BIRCH HILLS COUNTY to the LAPP in 2013 were $134,150 (2012: $92,361). Total current service contributions by the employees of BIRCH HILLS COUNTY to the Local Authorities Pension Plan in 2013 were $122,467 (2012: $83,854).

At December 31, 2012, the LAPP disclosed an actuarial deficiency of $4.635 billion.

16. CONTINGENCIES

The county is a member of the Genesis 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.

17. 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. 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. The following information was taken from the December 31, 2013 audited financial statement:

	2013	2012
	$	$
Share of assets (25%)	64,122	62,258
Share of liabilities (25%)	-	-
	64,122	62,258
Total revenues	21,600	21,600
Total expenditures	(14,142)	(10,202)
	7,458	11,398
Share of surplus for the year ended December 31 (25%)	1,865	2,850

18. 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.

19. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.

April 14, 2014