

SYLVAIN & COMPANY

BIRCH HILLS COUNTY

Financial Statements

For the Year Ended December 31, 2018



CPA

CHARTERED
PROFESSIONAL
ACCOUNTANTS

BIRCH HILLS COUNTY
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

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SYLVAIN & COMPANY

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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, 2018, 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, 2018, 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)

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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 9.
- 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 15.

Falher, AB
April 4, 2019


CHARTERED PROFESSIONAL ACCOUNTANTS

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

	2018	2017
FINANCIAL ASSETS	\$	\$
Cash and temporary investments (Note 2)	7,521,517	8,351,408
Receivables		
Taxes and grants in place of taxes (Note 3)	222,720	171,876
Trade and other (Note 4)	490,972	237,975
Land held for resale inventory	6,684	6,684
Investments (Note 5)	14,928,854	14,766,836
	23,170,747	23,534,779
LIABILITIES		
Accounts payable and accrued liabilities	382,976	372,654
Deposit liabilities	25,073	23,201
Deferred revenue (Note 6)	402,762	967,708
Employee benefit obligations (Note 7)	145,728	131,516
Provision for landfill closure and post-closure costs (Note 8)	100,000	100,000
	1,056,539	1,595,079
NET FINANCIAL ASSETS (DEBT)	22,114,208	21,939,700
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2, Note 10)	33,455,343	35,540,796
Inventory for consumption	2,198,393	907,408
Prepaid expenses	112,393	104,890
	35,766,129	36,553,094
ACCUMULATED SURPLUS (Schedule 1, Note 12)	57,880,337	58,492,794

Commitments and Contingencies - See Note 17

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2018

	Budget (Unaudited)	2018	2017
	\$	\$	\$
REVENUE			
Net municipal taxes (Schedule 3)	4,818,083	4,817,844	4,793,795
Well drilling	-	-	6,810
User fees and sales of goods	358,050	476,391	420,398
Government transfers for operating (Schedule 4)	728,739	804,681	467,834
Penalties and costs on taxes	35,000	69,578	57,061
Licenses and permits	4,000	8,705	5,025
Franchise and concession contracts	5,000	3,628	4,233
Investment income	442,000	502,218	462,663
Rentals	28,050	33,184	35,956
Other revenues	92,562	132,907	112,875
Gain on disposal of tangible capital assets	-	241,345	-
Total Revenue	6,511,484	7,090,481	6,366,650
EXPENSES (Schedule 5 - By Object)			
Council and legislative	167,750	143,185	148,525
Administration	1,032,806	1,026,603	1,147,380
Fire fighting and protective services	296,900	180,951	186,705
Disaster and emergency services	19,612	11,307	11,492
Ambulance and first aid	44,490	40,525	41,442
Roads, streets, walks, lighting	5,884,877	6,010,764	5,707,590
Airport	3,700	12,827	1,667
Storm sewers and drainage	5,000	11,860	-
Water supply and distribution	670,080	654,567	618,286
Wastewater treatment and disposal	114,490	108,986	90,118
Waste management	134,700	125,458	113,318
Public health and welfare	54,656	77,399	75,431
Cemetery	900	-	-
Land use planning, zoning and development	83,852	87,102	83,714
Economic/agricultural development	684,888	630,307	525,837
Parks and recreation	133,100	133,298	128,277
Culture	60,851	49,018	47,988
Total Expenses	9,392,652	9,304,157	8,927,770
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	(2,881,168)	(2,213,676)	(2,561,120)
OTHER			
Contributed assets	-	-	-
Government transfers for capital (Schedule 4)	1,507,054	1,601,219	500,991
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	(1,374,114)	(612,457)	(2,060,129)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	58,492,794	58,492,794	60,552,923
ACCUMULATED SURPLUS, END OF YEAR	57,118,680	57,880,337	58,492,794

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, 2018

	Budget (Unaudited)	2018	2017
	\$	\$	\$
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	(1,374,114)	(612,457)	(2,060,129)
Acquisition of tangible capital assets	(923,500)	(832,244)	(745,688)
Proceeds on disposal of tangible capital assets	136,000	340,242	-
Amortization of tangible capital assets	2,676,330	2,579,313	2,627,425
Loss (gain) on sale of tangible capital assets	-	(1,858)	-
	1,888,830	2,085,453	1,881,737
Acquisition of supplies inventories	(722,000)	(1,895,215)	(86,628)
Acquisition of prepaid assets	(94,300)	(102,930)	(98,189)
Use of supplies inventories	722,000	604,230	797,148
Use of prepaid assets	94,300	95,427	94,061
	-	(1,298,488)	706,392
INCREASE (DECREASE) IN NET ASSETS (DEBT)	514,716	174,508	528,000
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	21,939,700	21,939,700	21,411,700
NET FINANCIAL ASSETS (DEBT), END OF YEAR	22,454,416	22,114,208	21,939,700

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018

	2018	2017 (Note 21)
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenues over expenses	(612,457)	(2,060,129)
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	2,579,313	2,627,425
Loss (gain) on disposal of tangible capital assets	(1,858)	-
Non-cash charges to operations (net change):		
Decrease (increase) in taxes and grants in lieu receivable	(50,844)	(29,643)
Decrease (increase) in other assets	-	2,845
Decrease (increase) in trade and other receivables	(252,997)	27,883
Decrease (increase) in inventory for consumption	(1,290,985)	710,520
Decrease (increase) in prepaid expenses	(7,503)	(4,128)
Increase (decrease) in accounts payable and accrued liabilities	10,322	16,112
Increase (decrease) in deposit liabilities	1,872	(6,345)
Increase (decrease) in deferred revenue	(564,946)	478,846
Increase (decrease) in employee benefit obligations	14,212	18,473
Increase (decrease) in provision for landfill	-	-
Cash provided by operating transactions	(175,871)	1,781,859
CAPITAL		
Acquisition of tangible capital assets	(832,244)	(745,688)
Sale of tangible capital assets	340,242	-
Cash provided by (applied to) capital transactions	(492,002)	(745,688)
INVESTING		
Decrease (increase) in restricted cash or cash equivalents	-	-
Decrease (increase) in investments	(162,018)	(805,545)
Cash provided by (applied to) investing transactions	(162,018)	(805,545)
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	(829,891)	230,626
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,351,408	8,120,782
CASH AND CASH EQUIVALENTS, END OF YEAR	7,521,517	8,351,408
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 2)	7,521,517	8,351,408
Cash flows supplementary information:		
Interest received	496,291	435,128

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, 2018

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2018	2017
	\$	\$	\$	\$	\$
BALANCE, BEGINNING OF YEAR	3,065,682	19,886,316	35,540,796	58,492,794	60,552,923
Excess (deficiency) of revenues over expenses	(612,457)	-	-	(612,457)	(2,060,129)
Unrestricted funds designated for future use	(275,915)	275,915	-	-	-
Restricted funds used for operations	1,178,648	(1,178,648)	-	-	-
Restricted funds used for tangible capital assets	-	-	-	-	-
Current year funds used for tangible capital assets	(832,244)	-	832,244	-	-
Contributed tangible capital assets	-	-	-	-	-
Disposal of tangible capital assets	338,384	-	(338,384)	-	-
Annual amortization expense	2,579,313	-	(2,579,313)	-	-
CHANGE IN ACCUMULATED SURPLUS	2,375,729	(902,733)	(2,085,453)	(612,457)	(2,060,129)
BALANCE, END OF YEAR	5,441,411	18,983,583	33,455,343	57,880,337	58,492,794

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, 2018

	Land	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2018	2017
	\$	\$	\$	\$	\$	\$	\$
COST:							
BALANCE, BEGINNING OF YEAR	900,097	6,680,051	178,898,697	4,263,683	2,289,828	193,032,356	192,286,668
Acquisition of tangible capital assets	-	-	4,305	699,716	128,223	832,244	745,688
Construction-in-progress	-	-	-	-	-	-	-
Disposal of tangible capital assets	-	-	(232,523)	(761,714)	(127,299)	(1,121,536)	-
Write down of tangible capital assets	-	-	-	-	-	-	-
BALANCE, END OF YEAR	900,097	6,680,051	178,670,479	4,201,685	2,290,752	192,743,064	193,032,356
ACCUMULATED AMORTIZATION:							
BALANCE, BEGINNING OF YEAR	-	1,690,942	152,560,459	1,901,944	1,338,215	157,491,560	154,864,135
Annual amortization	-	133,111	2,024,714	293,720	127,768	2,579,313	2,627,425
Accumulated amortization on disposals	-	-	(232,523)	(436,060)	(114,569)	(783,152)	-
BALANCE, END OF YEAR	-	1,824,053	154,352,650	1,759,604	1,351,414	159,287,721	157,491,560
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	900,097	4,855,998	24,317,829	2,442,081	939,338	33,455,343	35,540,796
2017 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	900,097	4,989,109	26,338,238	2,361,739	951,613	35,540,796	

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
SCHEDULE OF PROPERTY AND OTHER TAXES

Schedule 3

For the Year Ended December 31, 2018

	Budget (Unaudited)	2018	2017
	\$	\$	\$
TAXATION			
Real property taxes	2,934,608	2,934,369	2,882,541
Linear property taxes	2,718,424	2,718,424	2,781,582
Government grants in place of property taxes	18,963	18,963	18,513
	5,671,995	5,671,756	5,682,636
REQUISITIONS			
Alberta School Foundation Fund	834,014	834,014	872,648
Grande Spirit Seniors Foundation	13,597	13,597	13,348
Designated Industrial Property	6,301	6,301	-
Adjustments to requisition transfers	-	-	2,845
	853,912	853,912	888,841
NET MUNICIPAL TAXES	4,818,083	4,817,844	4,793,795

See accompanying schedules and notes to the financial statements.

SCHEDULE OF GOVERNMENT TRANSFERS

For the Year Ended December 31, 2018

	Budget (Unaudited)	2018	2017
	\$	\$	\$
TRANSFERS FOR OPERATING			
Federal Government	-	4,896	6,588
Provincial Government	725,299	796,345	461,246
Local Government	3,440	3,440	-
	728,739	804,681	467,834
TRANSFERS FOR CAPITAL			
Federal Government	-	-	-
Provincial Government	1,507,054	1,601,219	500,991
Local Government	-	-	-
	1,507,054	1,601,219	500,991
TOTAL GOVERNMENT TRANSFERS	2,235,793	2,405,900	968,825

See accompanying schedules and notes to the financial statements.

SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT

For the Year Ended December 31, 2018

	Budget (Unaudited)	2018	2017
	\$	\$	\$
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	2,825,852	2,648,257	2,571,456
Contracted and general services	1,922,861	1,900,864	1,675,339
Materials, goods and utilities	1,687,765	1,552,635	1,539,502
Provision for allowances	-	97,611	201,545
Transfers to local boards and agencies	181,267	196,438	194,095
Transfers to individuals and organizations	78,077	72,028	94,511
Bank charges and short-term interest	18,500	16,749	16,719
Other expenditures	2,000	775	7,178
Amortization of tangible capital assets	2,676,330	2,579,313	2,627,425
Loss on disposal of tangible capital assets	-	239,487	-
	9,392,652	9,304,157	8,927,770

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
SCHEDULE OF SEGMENTED DISCLOSURE

Schedule 6

For the Year Ended December 31, 2018

	General Government	Protective Services	Transportation Services	Environmental Services	Health & Welfare	ASB, Planning Development	Recreation & Culture	Total 2018
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Net municipal taxes	4,817,844	-	-	-	-	-	-	4,817,844
User fees and sales of goods	6,136	31,408	110,630	308,766	200	19,251	-	476,391
Government transfers for operating	-	3,440	632,793	-	47,606	120,842	-	804,681
Penalties and costs on taxes	69,578	-	-	-	-	-	-	69,578
Licenses and permits	-	-	-	-	-	8,705	-	8,705
Franchise and concession contracts	-	-	-	-	-	-	3,628	3,628
Investment income	502,218	-	-	-	-	-	-	502,218
Rentals	13,108	-	11,795	3,925	1,800	-	2,556	33,184
Other revenues	31,397	22,476	38,962	17,434	30	14,052	8,556	132,907
Gain on disposal of tangible capital assets	-	-	241,345	-	-	-	-	241,345
	5,440,281	57,324	1,035,525	330,125	49,636	162,850	14,740	7,090,481
EXPENSES								
Salaries, wages and benefits	692,061	27,979	1,229,695	308,413	7,986	372,179	9,944	2,648,257
Contracted and general services	291,253	72,506	1,155,597	208,203	7,474	160,878	4,953	1,900,864
Materials, goods and utilities	38,683	30,979	1,213,059	121,765	-	134,630	13,519	1,552,635
Provision for allowances	97,611	-	-	-	-	-	-	97,611
Transfers to local boards and agencies	-	-	-	-	54,930	-	141,508	196,438
Transfers to individuals and organizations	2,836	32,000	500	-	-	24,300	12,392	72,028
Bank charges and short-term interest	16,749	-	-	-	-	-	-	16,749
Other expenditures	675	-	100	-	-	-	-	775
Loss on disposal of tangible capital assets	-	-	239,487	-	-	-	-	239,487
	1,139,868	163,464	3,838,438	638,381	70,390	691,987	182,316	6,724,844
Net revenue before amortization and government transfers for capital	4,300,413	(106,140)	(2,802,913)	(308,256)	(20,754)	(529,137)	(167,576)	365,637
Amortization	(29,920)	(69,319)	(2,197,013)	(250,630)	(7,009)	(25,422)	-	(2,579,313)
Government transfers for capital	-	-	1,521,052	33,487	-	46,680	-	1,601,219
NET REVENUE (SHORTFALL)	4,270,493	(175,459)	(3,478,874)	(525,399)	(27,763)	(507,879)	(167,576)	(612,457)
2017 NET REVENUE (SHORTFALL)	4,100,901	(211,486)	(5,096,383)	(318,743)	(17,523)	(358,115)	(158,780)	(2,060,129)

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

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.

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

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, 2018

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, 2018

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

	2018	2017
	\$	\$
Cash	801,787	1,983,618
Temporary investments	6,719,730	6,367,790
	7,521,517	8,351,408

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

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLES

	2018	2017
	\$	\$
Current taxes and grants in place of taxes	238,997	321,622
Arrears taxes	490,850	259,770
	729,847	581,392
Less: Allowance for doubtful accounts	507,127	409,516
	222,720	171,876

4. TRADE AND OTHER RECEIVABLES

	2018	2017
	\$	\$
Accrued interest	90,254	84,327
Goods and services tax recoverable	31,657	24,943
From other governments	280,527	41,260
Other accounts	13,480	4,531
Trade accounts	22,234	39,240
Utility accounts	52,820	43,674
	490,972	237,975

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

5. INVESTMENTS

	2018		2017	
	Cost	Market Value	Cost	Market Value
	\$	\$	\$	\$
Debenture borrowing shares	80	80	80	80
Investment deposits	11,296,099	11,296,099	10,591,672	10,591,672
Government bonds	2,223,975	2,269,956	2,763,861	2,844,294
Public corporation bonds	1,408,700	1,372,447	1,411,223	1,388,640
	14,928,854	14,938,582	14,766,836	14,824,686

Investment deposits have effective interest rates of 1.55% to 3.35% (2017: 1.45% to 2.76%) with maturity dates from June 27, 2019 to December 4, 2023. Public corporation bonds have effective interest rates of 1.85% to 3.226% (2017: 1.85% to 3.226%) with maturity dates from July 14, 2020 to December 9, 2026. Government bonds have effective interest rates of 2.46% to 4.10% (2017: 2.46% to 4.10%) with maturity dates from June 2, 2021 to June 1, 2027.

Council has designated funds of \$11,213,940 (2017: \$11,980,750) included in the above amounts for capital asset replacement (Note 12)

Included in investments are restricted amounts totalling \$400,762 (2017: \$940,299) received from the provincial government being held exclusively for specific capital projects (Note 6).

6. DEFERRED REVENUE

	2018	2017
	\$	\$
Provincial government transfers		
Federal Gas Tax Fund - Capital	52,553	51,777
Municipal Sustainability Initiative - Capital	348,209	888,522
	400,762	940,299
AB Health Services	2,000	-
ATCO Contribution	-	3,440
WCB surplus rebate	-	21,342
Prepaid user charges	-	2,627
	402,762	967,708

Government funding as per above \$400,762 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 \$400,762 (2017: \$940,299) held exclusively for these capital projects (refer Note 5).

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

7. EMPLOYEE BENEFIT OBLIGATIONS

	2018	2017
	\$	\$
Sick pay benefits	44,617	33,953
Vacation and overtime	101,111	97,563
	145,728	131,516

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, 2018	100,000

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

For the Year Ended December 31, 2018

9. 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:

	2018	2017
	\$	\$
Total debt limit	10,635,722	9,549,975
Total debt	-	-
Amount of debt limit unused	10,635,722	9,549,975
Debt servicing limit	1,772,620	1,591,663
Debt servicing	-	-
Amount of debt servicing above limit	1,772,620	1,591,663

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.

10. TANGIBLE CAPITAL ASSETS

Net Book Value	2018	2017
	\$	\$
Land	900,097	900,097
Buildings	4,855,998	4,989,109
Engineered Structures		
Roadway system	20,477,751	22,227,765
Roadway system - construction-in-progress	-	143,130
Water distribution system	2,362,832	2,442,687
Wastewater treatment system	1,477,246	1,524,656
Machinery, equipment, and furnishings	2,442,081	2,361,739
Vehicles	939,338	951,613
	33,455,343	35,540,796

11. EQUITY IN TANGIBLE CAPITAL ASSETS

	2018	2017
	\$	\$
Tangible capital assets (Schedule 2)	192,743,064	193,032,356
Accumulated amortization (Schedule 2)	(159,287,721)	(157,491,560)
	33,455,343	35,540,796

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

12. ACCUMULATED SURPLUS

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

	2018	2017
	\$	\$
Unrestricted surplus (deficit)	5,441,411	3,065,682
Restricted surplus - Operating		
Tax rate stabilization	7,769,643	7,905,566
Restricted surplus - Capital		
Council and legislative	13,633	13,633
Administration	23,302	23,302
Fire services	317,620	317,620
Roads, streets, etc.	6,301,632	7,275,442
Airport	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	25,803
Recreation and hall	198,135	198,135
Contingency	2,241,703	2,241,703
Equity in tangible capital assets	33,455,343	35,540,796
	57,880,337	58,492,794

13. 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, 2018

14. TRUST FUNDS

The COUNTY OF BIRCH HILLS administers the following trusts:

	2018	2017
TAX SALE SURPLUS		
Balance, beginning of year	18,202	15,048
Tax sales during year	-	3,990
Interest earned	504	164
Less: Drawings	(5,100)	(1,000)
Balance, end of year	13,606	18,202

15. 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)	2018 Total	2017 Total
Reeve:				
DORAN, Marvin	-	-	-	14,015
MAZULENKO, Gerald	9,367	4,683	14,050	-
Councillors:				
BOGDANEK, Cheryl	3,267	1,633	4,900	16,292
CARBONE, Terry	8,667	4,333	13,000	15,595
DUVAL, Mel	2,050	1,025	3,075	-
JOUDREY, Denise	11,917	5,959	17,876	3,443
LANGLOIS, Kathrin	-	-	-	11,709
MACAULEY, Jack	-	-	-	11,188
MAZULENKO, Gerald	-	-	-	13,256
PARADIS, Ginette	4,433	2,217	6,650	2,925
POETKER, Albert	1,950	975	2,925	-
REUM, Paul	7,500	3,750	11,250	12,171
WENDLAND, Deanne	10,067	5,033	15,100	3,648
	59,218	29,608	88,826	104,242
Chief Administrative Officer:				
MINDERLEIN, Hermann	146,133	31,007	177,140	168,246
	205,351	60,615	265,966	272,488

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 and general non-accountable 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, 2018

16. 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 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 BIRCH HILLS 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 BIRCH HILLS COUNTY to the LAPP in 2018 were \$196,578 (2017: \$213,794). Total current service contributions by the employees of BIRCH HILLS COUNTY to the Local Authorities Pension Plan in 2018 were \$180,047 (2017: \$197,022).

At December 31, 2017, the LAPP disclosed an actuarial surplus of \$4.84 billion.

17. 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.

18. 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, 2018 audited financial statement:

	2018	2017
	\$	\$
Share of assets (25%)	38,431	43,510
Share of liabilities (25%)	(375)	-
	38,056	43,510
Total revenues	7,200	21,600
Total expenditures	(29,014)	(13,802)
	(21,814)	7,798
Share of surplus for the year ended December 31 (25%)	(5,454)	1,950

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

19. 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.

20. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to correspond with the current year presentation.