

AUDITORS' REPORT

To the Reeve and Members of Council  
of the County of Two Hills No. 21

We have audited the consolidated statement of financial position of the County of Two Hills No. 21 as at December 31, 2002 and the consolidated statement of financial activities with change in fund balances, statements of revenues and expenditures and consolidated statement of changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the County's administration. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by administration, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Municipality as at December 31, 2002 and the results of its financial activities and changes in its financial position for the year then ended in accordance with Canadian accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants.

Vegreville, Alberta  
February 20, 2003

*Wilde & Company*  
Chartered Accountants

**COUNTY OF TWO HILLS NO. 21**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at December 31, 2002

	2002	2001
<b>ASSETS</b>		
Financial Assets		
Cash and temporary investments	\$ 7,964,600	\$ 7,157,677
Restricted cash funds	33,512	32,785
Taxes and grants in place receivable	101,536	113,774
Receivables from other governments	147,553	78,612
Trade and other receivables	633,047	404,146
Prepaid expenses	1,024,246	12,945
Investment in Gas Alberta Inc. - note 4	42,836	42,836
Inventory - note 3	432,242	411,325
Total financial assets	10,379,572	8,254,100
Physical Assets - note 5	14,433,208	16,876,760
<b>TOTAL ASSETS</b>	<b>\$ 24,812,780</b>	<b>\$ 25,130,860</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 562,292	\$ 436,886
Due to Regional Waste Management Commission	351,710	338,029
Deposit liabilities	5,600	6,000
Deferred revenue - grants	355,279	665,462
Total current liabilities	1,274,881	1,446,377
Trust liabilities	33,512	32,785
<b>TOTAL LIABILITIES</b>	<b>1,308,393</b>	<b>1,479,162</b>
Contingencies - note 8		
<b>MUNICIPAL POSITION</b>		
Operating fund - page 2	2,113,378	2,108,413
Equity in physical assets	14,433,208	16,876,761
Reserves - note 6	6,957,801	4,666,526
<b>TOTAL MUNICIPAL POSITION</b>	<b>23,504,387</b>	<b>23,651,700</b>
<b>TOTAL LIABILITIES AND MUNICIPAL POSITION</b>	<b>\$ 24,812,780</b>	<b>\$ 25,130,860</b>

ON BEHALF OF THE COUNTY OF TWO HILLS NO. 21

\_\_\_\_\_  
Reeve

\_\_\_\_\_  
Administrator

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES AND CHANGE IN FUND BALANCES  
 For the year ended December 31, 2002

	Capital \$	Reserves \$	Operating \$	2002 \$	Budget \$	2001 \$
Revenues					(unaudited)	
Net property taxes - page 5			3,434,656	3,434,656	3,297,867	3,239,967
Sales of goods and services			1,632,459	1,632,459	123,350	143,617
Government transfers			1,277,159	1,277,159	998,105	1,808,122
Investment income			129,123	129,123	83,000	163,729
Penalties and costs on taxes			13,163	13,163	26,000	32,977
Other revenue own sources			45,905	45,905	31,450	50,239
Natural gas	84,863		1,947,903	2,032,766	1,641,500	2,245,243
	84,863	---	8,480,368	8,565,231	6,201,272	7,683,894
Expenditures						
General government	298,553		708,461	1,007,014	1,050,765	710,441
Protective services	4,350		141,171	145,521	1,182,139	145,224
Transportation services	193,061		2,577,175	2,770,236	3,364,835	3,225,912
Water, sewer and garbage	2,198		70,797	72,995	80,566	64,800
Agriculture services	45,984		194,706	240,690	275,483	228,434
Recreation, culture and other			75,762	75,762	93,603	71,048
Natural gas	97,568		1,859,205	1,956,773	1,641,500	2,183,019
	641,714	---	5,627,277	6,268,991	7,688,891	6,628,878
Excess of revenues over expenditures	(556,851)		2,853,091	2,296,240	(1,487,619)	1,055,016
Interfund transfers						
From (to) capital	556,851	---	(556,851)	---	---	---
Transfer to reserves - note 6		2,291,275	(2,291,275)	---	---	---
Change in fund balances	---	2,291,275	4,965	2,296,240	---	1,055,016
Balance, beginning of year	---	4,666,526	2,108,413	6,774,939	---	5,719,923
Balance, end of year	---	<b>6,957,801</b>	<b>2,113,378</b>	<b>9,071,179</b>	---	6,774,939

*Wilde & Company*  
 Chartered Accountants

**COUNTY OF TWO HILLS NO. 21**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
For the year ended December 31, 2002

	<b>2002</b>	<b>2001</b>
<b>Excess of revenues over expenditures - page 2</b>	\$ 2,296,240	\$ 1,055,016
Net operating revenue		
Add (deduct) net changes in non-cash working capital balances		
(Increase) in taxes receivables and under-levy	12,238	12,795
Decrease in due from government	(68,941)	(53,094)
Decrease in trade receivables	(228,900)	403,912
Decrease in inventory	(20,917)	(28,143)
Decrease in prepaid expenses	(1,011,301)	(6,902)
(Decrease) in accounts payable	125,406	(228,577)
Increase in due to Regional Waste Management Commission	13,681	3,990
Increase in deposit liabilities	(400)	1,075
(Decrease) in deferred revenues	(310,183)	261,241
	(1,489,317)	366,297
Net cash provided by operating activities	806,923	1,421,313
<b>Financing</b>		
Repayment of long term debt	---	---
Net cash (used in) financing activities	---	---
<b>Investing</b>		
Share purchase and loan to Gas Alberta Inc.	---	---
Net cash (used in) investing activities	---	---
Change in cash and cash equivalents during the year	806,923	1,421,313
Cash and cash equivalents, beginning of year	7,157,677	5,736,364
<b>Cash and cash equivalents, end of year</b>	<b>\$ 7,964,600</b>	<b>\$ 7,157,677</b>

**COUNTY OF TWO HILLS NO. 21****STATEMENT OF MUNICIPAL REVENUES AND EXPENDITURES**

For the year ended December 31, 2002

	2002			2001	
	Revenues	Expenditures	Net revenue (expenditure)	Unaudited Budget	Net revenue (expenditure)
	\$	\$	\$	\$	\$
<b>General Municipal Revenues to fund Municipal Operations</b>					
Property taxes (p 5)	3,434,656		3,434,656	3,297,867	3,239,967
Unconditional grants	9,035		9,035	9,000	9,035
Interest and dividends	129,123		129,123	83,000	163,729
Penalties, costs on taxes	13,163		13,163	26,000	32,977
Other revenue	7,542		7,542	3,600	7,412
	<b>3,593,519</b>		<b>3,593,519</b>	<b>3,419,467</b>	<b>3,453,120</b>
<b>Municipal Operations</b>					
Legislative	-	136,919	(136,919)	(141,150)	(110,491)
Administrative	234,147	571,542	(337,395)	(459,615)	(536,229)
Protective services	39,236	141,171	(101,935)	(52,239)	(63,554)
Common services	2,522,346	2,577,175	(54,829)	(1,576,251)	(1,395,766)
Landfill/water	4,398	70,797	(66,399)	(78,066)	(62,350)
Agriculture services	113,728	194,706	(80,978)	(101,183)	(90,256)
Recreation	25,091	62,465	(37,374)	(54,000)	(35,651)
Culture	-	13,297	(13,297)	(13,303)	(12,471)
<b>Excess (deficiency) of revenues over expenditures</b>	<b>6,532,465</b>	<b>3,768,072</b>	<b>2,764,393</b>	<b>943,660</b>	<b>1,146,352</b>
Repayment of debt			-	-	-
Transfers to reserves			(2,216,275)	470,568	(989,868)
Transfers for physical assets			(544,146)	(1,414,228)	(153,560)
<b>Changes in operating fund during the year</b>	<b>6,532,465</b>	<b>3,768,072</b>	<b>3,972</b>	<b>-</b>	<b>2,924</b>

*See accompanying notes*

**COUNTY OF TWO HILLS NO. 21**  
**SCHEDULE OF PROPERTY TAXES**  
 For the year ended December 31, 2002

	<b>2002</b>	<b>2001</b>
	<b>\$</b>	<b>\$</b>
<b>LEVIES</b>		
Residential land and improvements	372,013	344,711
Farmland	1,686,244	1,625,624
Non-resident land, improvements, machinery and equipment	2,994,248	2,884,677
<b>Total taxes and grants in place</b>	<b>5,052,505</b>	<b>4,855,012</b>
<b>REQUISITIONS</b>		
Alberta School Foundation Fund	1,473,787	1,494,006
ASFF Opted-out Boards	4,309	4,373
Eagle Hill Foundation	139,753	116,666
<b>Total requisitions</b>	<b>1,617,849</b>	<b>1,615,045</b>
<b>Net taxes for general municipal purposes</b>	<b>3,434,656</b>	<b>3,239,967</b>

**SCHEDULE OF MUNICIPAL OPERATING EXPENDITURES BY OBJECT**  
 For the year ended December 31, 2002

	<b>2002</b>	<b>2001</b>
	<b>\$</b>	<b>\$</b>
<b>Expenditures</b>		
Council fees and expenses	136,919	110,491
Salaries and benefits	1,412,988	1,377,281
Contracted and general services	739,145	1,523,378
Materials, goods, supplies and utilities	1,325,124	1,153,405
Transfers to local boards and agencies	57,505	60,566
Transfers to individuals and organizations	73,740	56,232
Other	22,651	10,945
	<b>3,768,072</b>	<b>4,292,298</b>

*See accompanying notes*

**COUNTY OF TWO HILLS NO. 21****STATEMENT OF OPERATING REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCES**

For the year ended December 31, 2002

<b>Gas Utility</b>	<b>2002</b>	<b>2002 Budget</b>	<b>2001</b>
		(Unaudited)	
Gas sales	\$ 1,702,434	\$ 1,382,400	\$ 1,853,205
Gas rebate from Gas Alberta Inc.	52,646	---	13,368
Gas purchases and billing charges	1,396,509	1,026,000	1,614,242
<b>Gross Profit</b>	<b>358,571</b>	<b>356,400</b>	<b>252,331</b>
Other Operating Revenues (Expenditures)			
Service charges	154,553	153,000	153,962
Penalties	13,343	10,000	11,058
Interest income	21,666	36,500	45,092
Appliance sales and service	54,176	39,900	79,974
Less cost of appliances sold	(27,754)	(34,700)	(70,759)
Sale of miscellaneous goods and services	181	1,200	20,129
Rentals - B.B.Q.	540	500	728
RMO station operating revenues	29,304	18,000	28,800
Bad debt expense	(21,528)	(10,000)	(12,301)
	224,481	214,400	256,683
General and Administrative Expenditures			
Council	11,508	14,034	9,821
Audit, legal and consulting	10,386	13,500	7,519
Memberships, dues, fees	17,573	16,983	16,995
Telephone, postage, freight	24,353	23,450	21,882
Office supplies, billing, advertising, other	61,022	72,550	61,457
Travel and training	4,474	10,500	2,661
Wages and benefits	132,155	151,530	122,822
	261,471	302,547	243,157
Distribution			
Wages and benefits	164,985	164,000	147,375
Less cost recovery - infills	(11,056)	(5,000)	(12,213)
Vehicle and equipment costs	40,135	32,700	26,884
Insurance, permits, damage claims	15,086	16,100	14,953
Repair and maintenance - system	23,733	34,500	23,798
	232,883	242,300	200,797
Excess of revenues over expenditures	88,698	25,953	65,060
Transfer to equity in physical assets	(12,705)	(16,000)	(2,837)
Transfer to gas reserves - note 6	(75,000)	(9,953)	(60,000)
Net change in Gas Utility Operating Fund Surplus	993	---	2,223
Opening Gas Utility Operating Fund Balance	534,853	---	532,630
Closing Gas Utility Operating Fund Balance	\$ 535,846	\$ ---	\$ 534,853

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2002

**1. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the County of Two Hills No. 21 are the representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of these accounting policies adopted by the County of Two Hills No. 21 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 municipality and are, therefore, accountable to the Council for the administration of their financial affairs and resources.

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 basis of accounting followed in the financial statement presentation includes revenues recognized in the period in which the transactions or events occurred that gave rise to the revenues, and expenditures recognized in the period the goods and services are acquired and a liability is incurred or transfers are due, with the exception of pension expenditures as disclosed in note 1e).

**c) Fund Accounting**

Management funds consist of the operating, capital and reserve funds. Transfers between funds are recorded as adjustments to the appropriate equity account.

**d) Government Transfers**

Government transfers are recognized in the financial statements as revenues in the period that the events giving rise to the transfer occurred, providing the transfers are authorized, the municipality has met any eligibility criteria, and reasonable estimates of the amounts can be made.

**e) Pension Expenditure**

The County participates in a multi-employer defined pension plan. This plan is accounted for as a defined contribution plan.

**f) Investments**

Investments are recorded at cost. Investment premiums and discounts are amortized proportionately over the term of the respective investments.

**g) Inventories**

Inventories of materials and supplies for consumption are valued at the lower of cost or net realizable value with cost determined by the average cost method.

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2002

**h) Budget Figures**

Budget figures are included for information purposes only and are not audited.

**i) Physical Assets**

Physical assets are reported as expenditures in the period they are acquired. Physical assets are reported at cost except for donated assets, which are reported at estimated fair value.

Government contributions for the acquisition of physical assets are reported as capital revenue and do not reduce the related physical asset costs.

Physical assets for government purposes are not depreciated.

**j) Allowances for Operating and Physical Assets**

Allowances for asset valuations are netted against the related asset and are segregated between operating and capital purposes. Increases in allowances are recorded as expenditures while decreases in allowances are recorded as revenues in the respective operating and capital fund.

**k) Reserves for Future Expenditures**

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

**l) Equity in Physical Assets**

Equity in physical assets represents the County's net investment in its total physical assets after deducting work in progress, the portion financed by third parties through debenture, bond, and mortgage debts, long term capital borrowings, capitalized leases, and other capital liabilities.

**m) Over-levies and Under-levies**

Over-levies and under-levies arise from the difference between the actual levy made to cover each requisition and the actual amount requisitioned.

If the actual levy exceeds the requisition, the over-levy is accrued as a liability and property tax revenue is reduced. Where the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property tax revenue.

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

**n) 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.

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2002

**2. CASH AND TEMPORARY INVESTMENTS**

	<b>2002</b>	<b>2001</b>
Cash	\$ 436,902	\$ 306,247
Temporary investments	7,527,698	6,851,430
	<b>\$ 7,964,600</b>	<b>\$ 7,157,677</b>

Council has designated funds of \$6,957,801 (2001 - \$4,666,526) included in the above amounts for equipment replacement.

**3. INVENTORY**

	<b>2002</b>	<b>2001</b>
Inventory is recorded at the lower of cost or net realizable value as follows:		
Public Works - Gravel	\$ 192,522	\$ 194,454
- Repair and maintenance parts	172,202	144,039
Municipal subtotal	364,724	338,493
Gas utility - materials	67,518	72,832
	<b>\$ 432,242</b>	<b>\$ 411,325</b>

**4. INVESTMENT IN GAS ALBERTA INC.**

	<b>2002</b>	<b>2001</b>
The County of Two Hills No. 21 has signed an agreement with Gas Alberta Inc. to exclusively buy natural gas from Gas Alberta Inc. until June 2008. To be involved with Gas Alberta Inc., the County was required to invest in shares and a debenture with Gas Alberta Inc. to provide them with initial operating capital. The debenture is non-interest bearing and is repayable in June 2008. Details are as follows:		
Class A common shares	\$ 336	\$ 336
Debenture receivable	42,500	42,500
	<b>\$ 42,836</b>	<b>\$ 42,836</b>

**5. PHYSICAL ASSETS**

	<b>2002</b>	<b>2001</b>
Land	\$ 197,925	\$ 197,925
Buildings	1,649,830	1,437,018
Equipment	3,508,830	6,254,783
Vehicles	1,011,780	1,003,062
Engineering structures	8,064,843	7,983,972
	<b>\$ 14,433,208</b>	<b>\$ 16,876,760</b>

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2002

6. SUMMARY OF RESERVES	2002			
	Opening \$	Increase \$	Decrease \$	Closing \$
<b>OPERATING RESERVES</b>				
Municipal				
General	151,000	---	---	151,000
Public Works	398,482		---	398,482
Operating Contingency	3,247,872	2,216,275	---	5,464,147
Hairy Hill operating	24,083	---	---	24,083
Gas Utility				
General	274,279	75,000	---	349,279
<b>TOTAL OPERATING</b>	<b>4,095,716</b>	<b>2,291,275</b>	<b>---</b>	<b>6,386,991</b>
<b>CAPITAL RESERVES</b>				
Municipal	170,144	50,000	50,000	170,144
Gas	400,666	---	---	400,666
<b>TOTAL CAPITAL</b>	<b>570,810</b>	<b>50,000</b>	<b>50,000</b>	<b>570,810</b>
<b>TOTAL CAPITAL AND OPERATING</b>	<b>4,666,526</b>	<b>2,341,275</b>	<b>50,000</b>	<b>6,957,801</b>

**7. LOCAL AUTHORITIES PENSION PLAN**

Employees of the County of Two Hills No. 21 participate in the Local Authorities Pension Plan (LAPP), which is covered by the Public Sector Pension Plans Act. The Plan serves about 133,000 people and 389 employees. Employer and employee contributions and investment earnings of the LAPP Fund finance it.

The County of Two Hills No. 21 is required to make current service contributions to the Plan of 5.025% of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings and 6.9% for the excess.

Total current service contributions by the County of Two Hills No. 21 to the Local Authorities Pension Plan in 2002 were \$22,400 (2001 - \$19,453). Total current service contributions by the employees of the County of Two Hills No. 21 to the Local Authorities Pension Plan in 2002 were \$18,203 (2001 - \$23,920).

At December 31, 2001 the Plan disclosed an actuarial surplus of \$635.0 million.

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2002

**8. CONTINGENCIES**

The County of Two Hills No. 21 is a member of the Genesis Reciprocal Insurance Exchange. Under the terms of membership, the County of Two Hills No. 21 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.

**9. SALARY & BENEFITS DISCLOSURE - MUNICIPAL & GAS UTILITY**

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:

		2002			2001
		Salary	Benefits & Allowances	Total	Total
		(1)	(2)		
Reeve	- Gordeyko	\$ 21,821	\$ 4,203	\$ 26,024	\$ 21,828
Councillors	- Gulayec	23,895	4,303	28,198	21,806
	- Hruday	19,008	4,055	23,063	18,567
	- Leonty	15,964	1,162	17,126	11,765
	- Saylor	18,048	3,169	21,217	17,783
Administrator		74,000	13,368	87,368	84,761
Agriculture - Designated officer		52,500	11,247	63,747	61,248

1. Salary includes regular base pay, bonuses, overtime, lump sum payments, gross honoraria and any other direct cash remuneration.
2. Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, professional memberships and tuition.
3. Benefits and allowances figures also include the Employer's share of the costs of additional taxable benefits including special leave with pay, financial planning services, retirement planning services, concessionary loans, travel allowances, car allowances and club memberships.

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2002

**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 the County of Two Hills No. 21 be disclosed as follows:

	2002	2001
Total debt limit	\$ 12,845,349	\$ 11,514,549
Total debt	---	---
Amount by which debt limit exceeds debt	12,845,349	11,514,549
Service on debt limit	2,140,892	1,919,092
Service on debt	---	---
Amount by which debt servicing limit exceeds debt servicing	\$ 2,140,892	\$ 1,919,092

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. FINANCIAL INSTRUMENTS**

The County's financial instruments consist of cash and temporary investments, receivables, bank overdraft, accounts payable and accrued liabilities. It is management's opinion that the County is not exposed to significant interest, currency or credit risk arising from these financial statements. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

**12. APPROVAL OF FINANCIAL STATEMENTS**

Council and management approved these financial statements.