

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, 2003 and the consolidated statement of financial activities and 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, 2003 and the results of its financial activities and changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1.

Vegreville, Alberta
February 18, 2004

Wilde & Company
Chartered Accountants

COUNTY OF TWO HILLS NO. 21
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2003

	2003	2002
ASSETS		
Financial Assets		
Cash and temporary investments	\$ 5,929,303	\$ 7,964,600
Restricted cash funds	34,424	33,512
Taxes and grants in place receivable	103,478	101,536
Receivables from other governments	109,178	147,553
Trade and other receivables	620,860	633,047
Prepaid expenses	956,335	1,024,246
Investment in Gas Alberta Inc. - note 4	42,836	42,836
Inventory - note 3	380,574	432,242
Total financial assets	8,176,988	10,379,572
Physical Assets - note 5	17,192,906	14,433,208
TOTAL ASSETS	\$ 25,369,894	\$ 24,812,780
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 807,605	\$ 562,292
Due to Regional Waste Management Commission	216,987	351,710
Deposit liabilities	7,000	5,600
Deferred revenue - grants	288,765	355,279
Total current liabilities	1,320,357	1,274,881
Trust liabilities	34,424	33,512
TOTAL LIABILITIES	1,354,781	1,308,393
Contingencies - note 8		
MUNICIPAL POSITION		
Operating fund - page 2	2,126,331	2,113,378
Equity in physical assets	17,192,906	14,433,208
Reserves - note 6	4,695,876	6,957,801
TOTAL MUNICIPAL POSITION	24,015,113	23,504,387
TOTAL LIABILITIES AND MUNICIPAL POSITION	\$ 25,369,894	\$ 24,812,780

ON BEHALF OF THE COUNTY OF TWO HILLS NO. 21

Reeve

Administrator

COUNTY OF TWO HILLS NO. 21

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES AND CHANGE IN FUND BALANCES
For the year ended December 31, 2003

	Capital	Reserves	Operating	2003	2003 Budget	2002
	\$	\$	\$	\$	\$	\$
(unaudited)						
Revenues						
Net property taxes - page 5			3,484,634	3,484,634	3,297,867	3,434,656
Sales of goods and services			658,217	658,217	91,870	1,632,459
Government transfers			1,099,715	1,099,715	897,751	1,277,159
Investment income			125,033	125,033	82,500	129,123
Penalties and costs on taxes			11,431	11,431	11,500	13,163
Other revenue own sources			65,809	65,809	33,250	45,905
Natural gas			2,883,292	2,883,292	2,257,778	2,032,766
			8,328,131	8,328,131	6,672,516	8,565,231
Expenditures						
General government	120,787		697,253	818,040	1,050,765	1,007,014
Protective services	915,000		118,116	1,033,116	1,182,139	145,521
Transportation services	2,253,736		2,785,552	5,039,288	3,364,835	2,770,236
Water, sewer and garbage	233,057		87,281	320,338	80,566	72,995
Agriculture services	7,642		285,545	293,187	275,483	240,690
Recreation, culture and other			74,370	74,370	93,603	75,762
Natural gas	241,076		2,757,688	2,998,764	1,641,500	1,956,773
	3,771,298		6,805,805	10,577,103	7,688,891	6,268,991
Excess of revenues over expenditures	(3,771,298)		1,522,326	(2,248,972)	(1,016,375)	2,296,240
Interfund transfers						
From (to) capital	3,771,298		(3,771,298)			
Transfer to (from) reserves - note 6		(2,261,925)	2,261,925			
Change in fund balances		(2,261,925)	12,953	(2,248,972)		2,296,240
Balance, beginning of year		6,957,801	2,113,378	9,071,179		6,774,939
Balance, end of year		4,695,876	2,126,331	6,822,207		9,071,179

COUNTY OF TWO HILLS NO. 21
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 2003

	2003	2002
Excess of revenues over expenditures - page 2	\$ (2,248,972)	\$ 2,296,240
Net operating revenue		
Add (deduct) net changes in non-cash working capital balances		
(Increase) in taxes receivables and under-levy	(1,942)	12,238
Decrease in due from government	38,375	(68,941)
Decrease in trade receivables	12,187	(228,900)
Decrease in inventory	51,668	(20,917)
Decrease in prepaid expenses	67,911	(1,011,301)
Increase in accounts payable	245,313	125,406
(Decrease) in due to Regional Waste Management Commission	(134,723)	13,681
Increase in deposit liabilities	1,400	(400)
(Decrease) in deferred revenues	(66,514)	(310,183)
	213,675	(1,489,317)
<i>Net cash provided by operating activities</i>	(2,035,297)	806,923
Financing		
Repayment of long term debt	---	---
<i>Net cash (used in) financing activities</i>	---	---
Investing		
Share purchase and loan to Gas Alberta Inc.	---	---
<i>Net cash (used in) investing activities</i>	---	---
Change in cash and cash equivalents during the year	(2,035,297)	806,923
Cash and cash equivalents, beginning of year	7,964,600	7,157,677
Cash and cash equivalents, end of year	\$ 5,929,303	\$ 7,964,600

COUNTY OF TWO HILLS NO. 21
STATEMENT OF MUNICIPAL REVENUES AND EXPENDITURES
For the year ended December 31, 2003

	2003		Unaudited Budget	2002 Net revenue (expenditure)
	Revenues	Expenditures		
	\$	\$	\$	\$
General Municipal Revenues to fund Municipal Operations				
Property taxes (p 5)	3,484,634		3,441,812	3,434,656
Unconditional grants	109,035		8,500	9,035
Interest and dividends	125,033		82,500	129,123
Penalties, costs on taxes	11,431		11,500	13,163
Other revenue	6,872		5,500	7,542
	3,737,005		3,549,812	3,593,519
Municipal Operations				
Legislative	-	148,446	(146,750)	(136,919)
Administrative	112,085	548,807	(553,943)	(337,395)
Protective services	10,598	118,116	(68,800)	(101,935)
Common services	1,247,006	2,785,552	(2,753,479)	(54,829)
Landfill/water	178,421	87,281	91,140	(66,399)
Agriculture services	134,250	285,545	(151,295)	(80,978)
Recreation	25,474	61,744	(36,270)	(37,374)
Culture	-	12,626	(12,626)	(13,297)
Excess (deficiency) of revenues over expenditures	5,444,839	4,048,117	1,396,722	2,764,393
Transfers to reserves			2,137,696	(2,216,275)
Transfers for physical assets			(3,530,223)	(544,146)
Changes in operating fund during the year			4,195	3,972

See accompanying notes

COUNTY OF TWO HILLS NO. 21
SCHEDULE OF PROPERTY TAXES
 For the year ended December 31, 2003

	2003	2002
	\$	\$
LEVIES		
Residential land and improvements	412,841	372,013
Farmland	1,656,056	1,686,244
Non-resident land, improvements, machinery and equipment	3,087,255	2,994,248
Total taxes and grants in place	5,156,152	5,052,505
REQUISITIONS		
Alberta School Foundation Fund	1,526,926	1,473,787
ASFF Opted-out Boards	4,324	4,309
Eagle Hill Foundation	140,268	139,753
Total requisitions	1,671,518	1,617,849
Net taxes for general municipal purposes	3,484,634	3,434,656

SCHEDULE OF MUNICIPAL OPERATING EXPENDITURES BY OBJECT
 For the year ended December 31, 2003

	2003	2002
	\$	\$
Expenditures		
Council fees and expenses	148,446	136,919
Salaries and benefits	1,537,621	1,412,988
Contracted and general services	663,790	739,145
Materials, goods, supplies and utilities	1,555,078	1,325,124
Transfers to local boards and agencies	57,505	57,505
Transfers to individuals and organizations	85,579	73,740
Other	98	22,651
	4,048,117	3,768,072

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, 2003

Gas Utility	2003	2003 Budget	2002
		(Unaudited)	
Gas sales	\$ 2,590,403	\$ 1,797,688	\$ 1,702,434
Gas rebate from Gas Alberta Inc.	---	---	52,646
Gas purchases and billing charges	2,237,525	1,457,000	1,396,509
Gross Profit	352,878	340,688	358,571
Other Operating Revenues (Expenditures)			
Service charges	160,882	164,000	154,553
Penalties	15,246	10,000	13,343
Interest income	25,114	30,000	21,666
Appliance sales and service	25,688	42,300	54,176
Less cost of appliances sold	(27,483)	(30,800)	(27,754)
Sale of miscellaneous goods and services	12,739	10,350	181
Rentals - B.B.Q.	727	500	540
RMO station operating grant	28,800	28,800	29,304
Provincial conditional grant (ICAP)	18,637	---	---
Bad debt expense	(29,472)	(10,000)	(21,528)
	230,878	245,150	224,481
General and Administrative Expenditures			
Council	11,959	16,028	11,508
Audit, legal and consulting	13,919	19,000	10,386
Memberships, dues, fees	17,697	20,250	17,573
Federation building levy	17,225	17,000	---
Telephone, postage, freight	29,604	25,300	24,353
Office supplies, billing, advertising, other	70,111	79,020	61,022
Travel and training	7,390	10,800	4,474
Wages and benefits	114,461	127,230	132,155
	282,366	314,628	261,471
Distribution			
Wages and benefits	172,534	171,000	164,985
Less cost recovery - infills	(8,713)	---	(11,056)
Vehicle and equipment costs	29,032	34,700	40,135
Insurance, permits, damage claims	18,044	17,150	15,086
Repair and maintenance - system	7,820	39,500	23,733
	218,717	262,350	232,883
Excess of revenues over expenditures	82,673	8,860	88,698
Transfer to equity in physical assets	(198,144)	(178,000)	(12,705)
Transfer from (to) gas reserves - note 6	124,225	169,140	(75,000)
Net change in Gas Utility Operating Fund Surplus	8,754	---	993
Opening Gas Utility Operating Fund Balance	535,846	---	534,853
Closing Gas Utility Operating Fund Balance	\$ 544,600	\$ ---	\$ 535,846

COUNTY OF TWO HILLS NO. 21
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2003

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, 2003

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, 2003

2. CASH AND TEMPORARY INVESTMENTS

	2003	2002
Cash	\$ 338,097	\$ 436,902
Temporary investments	5,591,206	7,527,698
	\$ 5,929,303	\$ 7,964,600

Council has designated funds of \$4,695,876 (2002 - \$6,957,801) included in the above amounts for equipment replacement.

3. INVENTORY

	2003	2002
Inventory is recorded at the lower of cost or net realizable value as follows:		
Public Works - Gravel	\$ 145,865	\$ 192,522
- Repair and maintenance parts	178,886	172,202
Municipal subtotal	324,751	364,724
Gas utility - materials	55,823	67,518
	\$ 380,574	\$ 432,242

4. INVESTMENT IN GAS ALBERTA INC.

	2003	2002
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
	\$ 42,836	\$ 42,836

5. PHYSICAL ASSETS

	2003	2002
Land	\$ 237,925	\$ 197,925
Buildings	1,697,701	1,649,830
Equipment	4,936,184	3,508,830
Vehicles	1,999,337	1,011,780
Engineering structures	8,321,759	8,064,843
	\$ 17,192,906	\$ 14,433,208

COUNTY OF TWO HILLS NO. 21
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2003

	2003			
	Opening \$	Increase \$	Decrease \$	Closing \$
6. SUMMARY OF RESERVES				
OPERATING RESERVES				
Municipal				
General	151,000	---	---	151,000
Public Works	398,482	---	---	398,482
Operating Contingency	5,464,147	955,059	3,092,759	3,326,447
Hairy Hill operating	24,083	---	---	24,083
Gas Utility				
General	349,279		124,225	225,054
TOTAL OPERATING	6,386,991	955,059	3,216,984	4,125,066
CAPITAL RESERVES				
Municipal	170,144	---	---	170,144
Gas	400,666	---	---	400,666
TOTAL CAPITAL	570,810	---	---	570,810
TOTAL CAPITAL AND OPERATING	6,957,801	955,059	3,216,984	4,695,876

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 employers. 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 5.525% of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings and 7.4% for the excess.

Total current service contributions by the County of Two Hills No. 21 to the Local Authorities Pension Plan in 2003 were \$66,899 (2002 - \$22,400). Total current service contributions by the employees of the County of Two Hills No. 21 to the Local Authorities Pension Plan in 2003 were \$55,184 (2002 - \$18,203).

At December 31, 2002 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, 2003

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:

		2003			2002
		Salary	Benefits & Allowances	Total	Total
		(1)	(2)		
Reeve	- Hrudey	\$ 19,752	\$ 4,332	\$ 24,084	\$ 23,063
Councilors	- Gulayec	24,658	4,608	29,266	28,198
	- Gordeyko	23,631	4,543	28,174	26,024
	- Leonty	17,004	1,248	18,252	17,126
	- Saylor	19,399	3,440	22,839	21,217
Administrator		75,200	14,212	89,412	87,368
Agriculture - Designated officer		53,700	11,993	65,693	63,747

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

10. COMMITMENT

The County of Two Hills has purchased land at NW 20-54-8-W4 for a gravel pit. The total price of \$125,000 was paid in 2003. The legal transfer was completed in 2004.

COUNTY OF TWO HILLS NO. 21
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2003

11. 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:

	2003	2002
Total debt limit	\$ 12,489,699	\$ 12,845,349
Total debt	---	---
Amount by which debt limit exceeds debt	12,489,699	12,845,349
Service on debt limit	2,081,617	2,140,892
Service on debt	---	---
Amount by which debt servicing limit exceeds debt servicing	\$ 2,081,617	\$ 2,140,892

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.

12. 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.

13. APPROVAL OF FINANCIAL STATEMENTS

Council and management approved these financial statements.