Kneehill County
Financial Statements
For the year ended December 31, 2004

Contents

Auditors' Report	**2**
Financial Statements	
Balance Sheet	**3**
Statement of Financial Activities - Operating Fund	**4**
Statement of Financial Activities - Capital Fund	**5**
Notes to Financial Statements	**6 - 12**
	Schedule
Schedule of Net Taxes for Municipal Purposes	**1**
Schedule of Functional Operating Expenditures	**1**

Auditors' Report

To the Reeve, Council and Ratepayers
Kneehill County

We have audited the balance sheet of the Kneehill County as at December 31, 2004 and the statement of municipal equity and operating fund activities for the year then ended. These 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 financial statements present fairly, in all material respects, the financial position of Kneehill County as at December 31, 2004 and the results of its financial activities for the year then ended in accordance with accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants as described in Note 1.

Chartered Accountants

Calgary, Alberta
June 29, 2005

Kneehill County
Balance Sheet

December 31	2004	2003
Assets		
Current		
Cash	**$ 2,803,817**	$ 291,257
Term deposits	**9,500,000**	13,000,000
Taxes receivable	**318,351**	366,754
Trade and other accounts receivable	**2,290,108**	1,137,298
Inventories (Note 2)	**989,774**	1,325,211
Prepaid expenses	**148,751**	169,138
	16,050,801	16,289,658
Capital assets (Note 3)	**18,548,360**	17,815,054
Other assets (Note 4)	**1,121**	1,141
Tax Sale Trust Account	**331**	331
	$ 34,600,613	$ 34,106,184
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 657,073**	$ 750,361
Vested sick leave benefits	**258,391**	243,945
Deferred revenue (Note 5)	**146,406**	16,470
	1,061,870	1,010,776
Tax Sale Trust Account	**331**	331
	1,062,201	1,011,107
Municipal Equity		
Operating Fund - Page 4	**5,737,283**	5,732,799
Capital Fund - Page 5	**291,027**	-
Equity in Capital Assets (Note 15)	**18,548,360**	17,815,054
Reserves (Note 6)	**8,961,742**	9,547,224
	33,538,412	33,095,077
	$ 34,600,613	$ 34,106,184

On behalf of the Council:

_____ Reeve

The accompanying notes are an integral part of these financial statements.

_____ Municipal Administrator

The accompanying notes are an integral part of these financial statements.

Kneehill County
Statement of Financial Activities - Operating Fund

For the year ended December 31	Budget (Unaudited)	2004	2003
Property Taxes	$ 10,592,070	**$ 10,605,745**	$ 10,400,787
Requisition Transfers	(4,127,623)	**(4,127,422)**	(4,068,985)
Net Taxes For Municipal Purposes - Schedule 1	6,464,447	**6,478,323**	6,331,802
Revenue			
Government transfers	2,776,858	**3,187,612**	1,998,530
Interest and patronage dividends	304,500	**281,066**	386,765
Sales and user charges	204,700	**242,264**	314,732
Drilling licenses	40,000	**59,948**	53,888
Fees, licenses, permits and fines	41,700	**56,171**	68,107
Rentals	13,000	**40,036**	32,287
Insurance proceeds	-	**812**	1,725
Penalties and costs on taxes	40,650	**49,197**	47,125
Local government transfers	-	**167,492**	159,509
Local improvement charges	33,197	**33,197**	34,609
Other	40,128	**111,601**	50,025
	3,494,733	**4,229,396**	3,147,302
Total Revenue	9,959,180	**10,707,719**	9,479,104
Expenditures			
Salaries, wages and benefits	2,896,507	**2,629,932**	2,446,814
Contracted and general services	4,828,289	**4,630,779**	3,300,339
Purchases from other governments	47,011	**34,074**	70,523
Materials, goods, supplies and utilities	2,184,450	**2,064,360**	2,082,785
Transfers to other governments	135,319	**135,315**	129,975
Transfers to local boards and agencies	149,278	**147,694**	40,034
Transfers to individuals and organizations	358,690	**314,616**	324,310
Bank charges and interest	500	**1,529**	593
Property taxes cancelled	30,000	**10,160**	10,953
Other	-	**34,901**	-
Total Expenditures - Schedule 2	10,630,044	**10,003,360**	8,406,326
Excess (deficiency) of revenue over expenditures	(670,864)	**704,359**	1,072,778
Transfers from (to) other funds			
Net transfers to capital fund	(1,212,950)	**(1,227,075)**	(922,504)
Net transfers from (to) operating reserves	1,889,752	**527,200**	(146,199)
	676,802	**(699,875)**	(1,068,703)
Net surplus from operations	5,938	**4,484**	4,075
Operating Fund, beginning of year	-	**5,732,799**	5,728,724
Operating Fund, end of year	**$ -**	**$ 5,737,283**	$ 5,732,799

The accompanying notes are an integral part of these financial statements.

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Kneehill County
Statement of Financial Activities - Capital Fund

For the year ended December 31	Budget (Unaudited)	2004	2003
Revenue			
Government transfers	$ 102,400	**$ 93,910**	$ 260,662
Proceeds from disposal of capital property	19,200	**182,804**	233,523
Insurance proceeds	-	**-**	5,316
	121,600	**276,714**	499,501
Expenditures			
General Government	82,000	**56,962**	40,658
Fire services	453,000	**496,850**	414,356
Roads and Streets	678,000	**607,195**	855,862
Water supply and distribution	110,000	**94,064**	38,866
Land use planning	500	**-**	608
Agricultural Service Board	18,350	**15,773**	56,214
Other	-	**200**	-
	1,341,850	**1,271,044**	1,406,564
Excess (deficiency) of revenue over expenditures	(1,220,250)	**(994,330)**	(907,063)
Net inter-fund transfers			
Transfers to operating fund	1,212,950	**1,227,075**	922,504
Transfers to (from) capital reserves	153,600	**58,282**	(15,441)
Change in fund balance	146,300	**291,027**	-
Capital fund, beginning of year	-	**-**	-
Capital fund, end of year	$ 146,300	**$ 291,027**	$ -

The accompanying notes are an integral part of these financial statements.

1. Significant Accounting Policies

The financial statements of Kneehill County are the representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by Kneehill County are as follows:

(a) Reporting Entity

The financial statements reflect the assets, liabilities, revenues and expenditures, and changes in fund balances of the reporting entity. This entity is comprised of all 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) Fund Accounting

Management funds consist of the operating, capital and reserve funds. Transfers between funds are recorded as adjustments to the appropriate equity account. Proceeds from land sales are recorded as operating fund revenues.

(c) 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 1(e).

(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, any eligibility criteria have been met by the municipality, and reasonable estimates of the amounts can be made.

(e) Pension Expenditure

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

(f) Investments

Investments are recorded at cost.

1. Significant Accounting Policies - (Continued)

(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.

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 leveling charges. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks and street lighting are recorded as capital assets under their respective function.

(h) Capital Assets

Capital assets are reported as expenditures in the period they are acquired.

Capital assets are reported at cost except for donated assets which are reported at estimated fair value.

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

Capital assets for government purposes are not depreciated.

(i) 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 reserves are reflected as an adjustment to the respective fund.

(j) Equity in Capital Assets

Equity in capital assets represents the County's net investment in capital assets after deducting any long-term or other capital liabilities.

(k) 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.

(l) Statement of Cash Flows

A statement of cash flows has not been presented as the financial statements already adequately present the operating, financing and investing activities of the county.

2. Inventories

	2004	2003
Gravel	**$ 675,368**	$ 999,235
Other transportation amounts	**241,909**	259,199
Other	**56,003**	50,283
Land held for resale	**16,494**	16,494
	$ 989,774	$ 1,325,211

3. Capital Assets

	2004	2003
Land held for own use	**$ 437,507**	$ 437,507
Buildings	**2,225,585**	2,084,189
Engineering structures	**3,400,364**	3,306,300
Minor machinery and equipment	**818,205**	818,205
Major machinery and equipment	**7,259,032**	7,014,920
Vehicles and power equipment	**4,407,667**	4,153,933
	$ 18,548,360	$ 17,815,054

During the year, capital assets in the amount of $1,270,844 (2003 - $1,406,564) were acquired, and assets with an original cost of $537,538 (2003 - 409,597) were disposed of or written off.

4. Other Assets

	2004	2003
Three Hills Water Waste Pipeline	**$ 1,000**	$ 1,000
Deposits	**-**	20
Alberta Municipal Financing Corporation, shares, at cost	**120**	120
Mt. Vernon Water Co-op Association Ltd. membership	**1**	1
	$ 1,121	$ 1,141

5. Deferred Revenue

	2004	2003
Public Health - K.C.R.P.	**$ 5,240**	$ -
Public Health - F.C.S.S.	-	16,470
Transportation	**50,000**	-
Disaster Services - Flood	**19,545**	-
Prepaid property taxes	**70,631**	-
Tax certificates	**915**	-
Assessment appeal fees	**75**	-
	$ 146,406	$ 16,470

6. Reserves

	2004	2003
Operating reserves		
Contingency	**$ 7,833,395**	$ 7,813,673
Administration	**39,513**	20,000
Assessment	**16,000**	-
Fire	**5,355**	-
Transportation	**369,979**	1,257,080
Sewer	**25,000**	-
Garbage	**145,000**	-
FCSS	**5,861**	-
Kneehill Community Resource Program	**20,030**	4,501
Agricultural Service Board	**89,921**	22,000
Parks	**40,000**	-
	8,590,054	9,117,254
Capital Reserves		
Torrington	**53,800**	53,800
Administration	**6,543**	-
Fire	**229,485**	180,280
Ambulance	**-**	113,830
Water	**57,745**	57,745
Planning	**11,929**	12,129
Agricultural Service Board	**12,186**	12,186
	371,688	429,970
	$ 8,961,742	$ 9,547,224

7. Contingent Liabilities

a) Kneehill County is from time to time a defendant in various actions seeking damages for actions by, and events occurring in, the County. It is the opinion of management that the exposure to any potential liability will be fully covered by the insurance in place for such events.

b) Kneehill County is a member of the Alberta Municipal Insurance Exchange (MUNIX). Under the terms of membership, Kneehill County could become liable for its proportionate share of any claim losses in excess of the funds held by the exchange.

8. Salary and Benefits Disclosure

Required disclosure of salaries and benefits for elected municipal officials, the chief administrative officer and designated officers, as required by Alberta Regulation 313/2000, is as follows:

	2004			2003
	Salary & Fees (1)	Benefits & allowances (2) (3)	Total	Total
Councillor/Division				
Holsworth, Brian - 1	**$ 18,751**	**$ 3,125**	**$ 21,876**	$ 16,954
Calhoun, Carol - 2	**20,484**	**3,217**	**23,701**	20,476
Wittstock, Jerry - 3	**17,126**	**3,045**	**20,171**	17,285
Woods, Murray - 4	**28,949**	**3,570**	**32,519**	21,221
Crawford, Vern - 5	**20,482**	**3,185**	**23,667**	17,938
Hoppins, Ken - 6	**28,153**	**3,498**	**31,651**	26,233
Knievel, Ken - 7	**21,088**	**3,175**	**24,263**	16,854
County Administrator and other designated Officers				
Kiviaho, Gene	**$ 90,471**	**$ 14,068**	**$ 104,539**	$ 94,419
Other - designated officers	**98,294**	**11,080**	**109,374**	**-**

(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 includes the employer's share of travel and car allowances.

9. Debt Limits

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

	2004	2003
Total debt limit	**$ 16,403,300**	$ 14,602,166
Total debt	**-**	-
Amount of debt limit unused	**16,403,300**	$ 14,602,166
Debt servicing limit	**$ 2,733,884**	$ 2,433,694
Debt servicing	**-**	-
Amount of debt servicing limit unused	**$ 2,733,884**	$ 2,433,694

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. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

11. Local Authorities Pension Plan

Employees of Kneehill County participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pension Plans Act. The LAPP serves about 133,000 people and 389 employers. The LAPP is financed by employer and employee contributions and investment earnings of the LAPP Fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

Kneehill County is required to make current service contributions to the LAPP of 5.525% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 7.4% on pensionable earnings above this amount. Employees of the County are required to make current service contributions of 4.525% of pensionable salary up to the year's maximum pensionable salary and 6.4% on pensionable salary above this amount.

Total current service contributions by Kneehill County to the LAPP in 2004 were $95,768 (2003 - $78,439). Total current service contributions by the employees of Kneehill County to the Local Authorities Pension Plan in 2004 were $81,878 (2003 - $64,873).

At December 31, 2003, the Plan disclosed an actuarial deficiency of $ 1.411 billion.

12. Approval of Financial Statements

Council and Management approved these financial statements.

13. Financial Instruments

The County's financial instruments consist of various assets and 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.

14. Budget Amounts

The 2004 budget for Kneehill County was approved by Council and has been reported in the financial statements for information purposes only. These budget amounts have not been audited.

15. Equity in Capital Assets

	2004	2003
Acquisition of capital assets		
General Government	**$ 56,962**	$ 40,658
Fire services	**496,850**	414,356
Roads and Streets	**607,195**	855,862
Water supply and distribution	**94,064**	38,866
Land use planning	**-**	608
Agricultural services board	**15,773**	56,214
	1,270,844	1,406,564
Original cost of capital asset disposals	**(537,538)**	(409,597)
Change in equity balance	**733,306**	996,967
Equity balance, beginning of year	**17,815,054**	16,818,087
Equity balance, end of year	**$ 18,548,360**	$ 17,815,054
Represented by:		
Capital assets - Note 3	**$ 18,548,360**	$ 17,815,054

Schedule 1
Kneehill County
Schedule of Net Taxes For Municipal Purposes

For the year ended December 31	Budget (Unaudited)	**2004**	2003
Property Taxes			
Farmland	$ 2,031,743	**$ 1,971,681**	$ 1,982,658
Residential	1,820,791	**1,734,109**	1,776,381
Commercial	685,883	**770,187**	747,003
Linear property	4,875,354	**4,989,272**	4,756,444
Machinery and equipment	1,159,020	**1,122,712**	1,119,485
Railway	15,259	**14,677**	14,887
Grants in lieu	4,020	**3,107**	3,929
	10,592,070	**10,605,745**	10,400,787
Less: Requisition transfers			
Alberta School Foundation Fund	(4,108,707)	**(4,108,506)**	(4,049,914)
Kneehill Foundation	(18,916)	**(18,916)**	(19,071)
	(4,127,623)	**(4,127,422)**	(4,068,985)
Net taxes for municipal purposes	$ 6,464,447	**$ 6,478,323**	$ 6,331,802

Schedule 2
Kneehill County
Schedule of Functional Operating Expenditures

For the year ended December 31	Budget (Unaudited)	**2004**	2003
Legislative	$ 211,200	**$ 174,567**	$ 176,956
General Administration	839,235	**802,345**	734,203
Other general Administration - Assessment	110,414	**114,084**	89,778
Fire protection	260,580	**222,500**	238,472
Disaster and Emergency Measures	6,000	**347,702**	5,938
Ambulance	140,789	**140,459**	143,616
Utility and Development	30,100	**15,741**	9,620
Bridge inspection	245,200	**362,718**	114,767
Transportation	6,899,424	**6,352,779**	5,347,994
Water supply and distribution	78,150	**72,882**	92,485
Sewer services	74,500	**16,371**	56,069
Waste management	392,474	**251,623**	230,737
Public Health - F.C.S.S.	312,668	**311,650**	333,478
- K.C.R.P.	205,550	**203,296**	198,562
Cemetery	22,900	**25,267**	23,750
Planning and development	149,085	**123,605**	115,554
Agricultural Service Board	372,500	**224,509**	269,492
Parks and recreation	279,275	**238,262**	224,855
	$ 10,630,044	**$ 10,003,360**	$ 8,406,326