

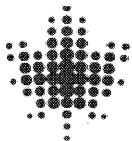
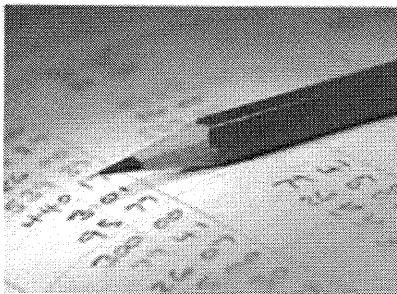
SYLVAIN & COMPANY



MUNICIPAL DISTRICT OF PEACE
NO. 135

Financial Statements

For the Year Ended December 31, 2016



CPA

CHARTERED
PROFESSIONAL
ACCOUNTANTS

MUNICIPAL DISTRICT OF PEACE NO. 135

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

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SYLVAIN & COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Members of Council
MUNICIPAL DISTRICT OF PEACE NO. 135

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of MUNICIPAL DISTRICT OF PEACE NO. 135, which comprise the statement of financial position as at December 31, 2016, and the statements of operations, change in net financial assets (debt) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the MUNICIPAL DISTRICT OF PEACE NO. 135 as at December 31, 2016 and the results of its operations, change in its net financial assets (debt) and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Falher, Alberta
April 11, 2017


CHARTERED PROFESSIONAL ACCOUNTANTS

MUNICIPAL DISTRICT OF PEACE NO. 135
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2016

| | 2016 | 2015 |
|---|------------------|------------------|
| | \$ | \$ |
| FINANCIAL ASSETS | | |
| Cash and temporary investments (Note 2) | 4,003,839 | 4,273,006 |
| Receivables | | |
| Taxes and grants in place of taxes (Note 3) | 215,100 | 703,639 |
| From other governments | 41,963 | 56,005 |
| Trade and other receivables | 83,920 | 108,317 |
| Land for resale inventory | 17,194 | 22,041 |
| Long-term investments (Note 4) | 4,035,119 | 4,053,796 |
| Other financial assets (Note 5) | 1,426 | - |
| | 8,398,561 | 9,216,804 |

LIABILITIES

| | | |
|--|------------------|------------------|
| Accounts payable and accrued liabilities | 24,448 | 291,333 |
| Deferred revenue (Note 6) | 896,866 | 812,064 |
| Employee benefit obligations (Note 7) | 74,949 | 63,028 |
| Provision for landfill closure and post-closure costs (Note 8) | 12,500 | 10,000 |
| | 1,008,763 | 1,176,425 |

NET FINANCIAL ASSETS (DEBT)

7,389,798 **8,040,379**

NON-FINANCIAL ASSETS

| | | |
|----------------------------------|-------------------|-------------------|
| Tangible capital assets (Note 9) | 12,054,670 | 10,756,588 |
| Inventory for consumption | 409,769 | 294,022 |
| Prepaid expenses | 58,269 | 55,021 |
| | 12,522,708 | 11,105,631 |

ACCUMULATED SURPLUS (Schedule 1, Note 11)

19,912,506 **19,146,010**

Commitments and contingencies - (Note 16 and 17)

See accompanying schedules and notes to the financial statements.

MUNICIPAL DISTRICT OF PEACE NO. 135
CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2016

| | Budget \$ (Unaudited) | 2016 \$ | 2015 \$ |
|---|-----------------------------|-------------------|-------------------|
| REVENUE | | | |
| Net municipal taxes (Schedule 3) | 2,785,437 | 2,782,074 | 2,471,516 |
| Well drilling | 3,000 | 15,028 | 10,874 |
| Sales and user charges | 111,000 | 169,779 | 103,929 |
| Penalties and costs on taxes | 25,000 | 36,629 | 35,865 |
| Licenses, permits and fines | 6,150 | 3,675 | 6,102 |
| Investment income | 128,300 | 118,907 | 171,979 |
| Rentals | 25,100 | 47,680 | 23,165 |
| Government transfers for operating (Schedule 4) | 459,927 | 460,394 | 525,683 |
| Gain on disposal of capital assets | 110,000 | 54,560 | 68,346 |
| Other revenues | 79,050 | 70,042 | 146,205 |
| Total Revenue | 3,732,964 | 3,758,768 | 3,563,664 |
| EXPENDITURES | | | |
| Council and other legislative | 182,500 | 183,268 | 160,004 |
| General administration | 743,800 | 624,398 | 614,765 |
| Fire fighting and protective services | 160,000 | 126,097 | 111,041 |
| Bylaws enforcement | 3,500 | 1,783 | 7,800 |
| Roads, streets, walks, lighting | 1,730,000 | 1,594,130 | 1,726,470 |
| Airport | 35,000 | 35,000 | - |
| Water and wastewater | 94,600 | 75,815 | 94,577 |
| Waste management | 33,200 | 35,828 | 31,522 |
| Family and community support services | 65,200 | 65,065 | 57,811 |
| Cemeteries | 4,000 | 3,000 | 2,367 |
| Land use planning, zoning, development | 143,700 | 151,509 | 83,100 |
| Agricultural development | 467,233 | 461,098 | 393,724 |
| Economic development | 36,300 | 36,300 | 36,300 |
| Subdivision land development | - | - | - |
| Parks and recreation | 255,300 | 246,319 | 227,132 |
| Culture: libraries, museums, halls | 17,758 | 17,757 | 16,991 |
| Total Expenditures | 3,972,091 | 3,657,367 | 3,563,604 |
| EXCESS (SHORTFALL) OF REVENUE OVER EXPENDITURES - BEFORE OTHER | (239,127) | 101,401 | 60 |
| Other | | | |
| Contributed Assets | - | - | 132,369 |
| Government transfers for capital (Schedule 4) | 655,000 | 665,095 | 835,000 |
| EXCESS OF REVENUE OVER EXPENDITURES | 415,873 | 766,496 | 967,429 |
| ACCUMULATED SURPLUS, BEGINNING OF YEAR | 19,146,010 | 19,146,010 | 18,178,581 |
| ACCUMULATED SURPLUS, END OF YEAR | 19,561,883 | 19,912,506 | 19,146,010 |

See accompanying schedules and notes to the financial statements.

MUNICIPAL DISTRICT OF PEACE NO. 135
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)

For the Year Ended December 31, 2016

| | Budget \$ (Unaudited) | 2016 \$ | 2015 \$ |
|---|-----------------------------|-------------|-------------|
| EXCESS OF REVENUES OVER EXPENDITURES | 415,873 | 766,496 | 967,429 |
| Acquisition of tangible capital assets | (2,130,000) | (1,965,004) | (2,063,929) |
| Contributed tangible capital assets | - | - | (132,369) |
| Proceeds on disposal of tangible capital assets | 110,000 | 106,845 | 74,070 |
| Amortization of tangible capital assets | 569,700 | 609,902 | 538,160 |
| (Gain) loss on sale of tangible capital assets | - | (49,825) | 59,493 |
| | (1,450,300) | (1,298,082) | (1,524,575) |
| Acquisition of supplies inventories | (482,100) | (532,861) | (292,828) |
| Acquisition of prepaid assets | (61,200) | (56,398) | (48,931) |
| Use of supplies inventories | 482,100 | 417,114 | 391,402 |
| Use of prepaid assets | 61,200 | 53,150 | 55,770 |
| | - | (118,995) | 105,413 |
| INCREASE (DECREASE) IN NET FINANCIAL ASSETS | (1,034,427) | (650,581) | (451,733) |
| NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR | 8,040,379 | 8,040,379 | 8,492,112 |
| NET FINANCIAL ASSETS (DEBT), END OF YEAR | 7,005,952 | 7,389,798 | 8,040,379 |

See accompanying schedules and notes to the financial statements.

**MUNICIPAL DISTRICT OF PEACE NO. 135
CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2016

| | 2016 | 2015 |
|--|--------------------|--------------------|
| | \$ | \$ |
| NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES: | | |
| OPERATING | | |
| Excess of revenues over expenditures | 766,496 | 967,429 |
| Non-cash items included in excess of revenues over expenditures: | | |
| Amortization of tangible capital assets | 609,902 | 538,160 |
| Loss on disposal of tangible capital assets | (49,824) | 59,493 |
| Tangible capital assets received as contributions | - | (132,369) |
| Non-cash charges to operations (net change): | | |
| Decrease (increase) in taxes and grants in lieu receivable | 488,539 | (608,246) |
| Decrease (increase) in receivable from other governments | 14,042 | 9,781 |
| Decrease (increase) in trade and other receivables | 24,397 | 23,173 |
| Decrease (increase) in land held for resale | 4,847 | - |
| Decrease (increase) in inventory for consumption | (115,748) | 98,574 |
| Decrease (increase) in prepaid expenses | (3,248) | 6,839 |
| Decrease (increase) in other assets | (1,426) | - |
| Increase (decrease) in accounts payable and accrued liabilities | (266,885) | 243,739 |
| Increase (decrease) in employee benefit obligations | 11,921 | 3,391 |
| Increase (decrease) in deferred revenue | 84,802 | (300,064) |
| Increase (decrease) in provision for landfill closure | 2,500 | 2,500 |
| Cash provided by operating transactions | <u>1,570,315</u> | <u>912,400</u> |
| CAPITAL | | |
| Acquisition of tangible capital assets | (1,965,004) | (2,063,929) |
| Sale of tangible capital assets | 106,845 | 74,070 |
| Cash applied to capital transactions | <u>(1,858,159)</u> | <u>(1,989,859)</u> |
| INVESTING | | |
| Decrease (increase) in restricted cash and temporary investments | (94,017) | 281,924 |
| Decrease (increase) in long-term investments | 18,677 | 471,046 |
| Cash provided by (applied to) investing transactions | <u>(75,340)</u> | <u>752,970</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR | (363,184) | (324,489) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 3,312,449 | 3,636,938 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | 2,949,265 | 3,312,449 |
| Cash and cash equivalents is made up of: | | |
| Cash and temporary investments (Note 2) | 4,003,839 | 4,273,006 |
| Less: restricted portion of cash and temporary investments (Note 2) | (1,054,574) | (960,557) |
| | <u>2,949,265</u> | <u>3,312,449</u> |

See accompanying schedules and notes to the financial statements.

**MUNICIPAL DISTRICT OF PEACE NO. 135
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS**

For the Year Ended December 31, 2016

Schedule 1

| | Unrestricted Surplus | Restricted Surplus | Equity in Tangible Capital Assets | 2016 | 2015 |
|---|-------------------------|-----------------------|--------------------------------------|-------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| BALANCE, BEGINNING OF YEAR | 1,699,935 | 6,689,487 | 10,756,588 | 19,146,010 | 18,178,581 |
| Excess (deficiency) of revenues over expenses | 766,496 | - | - | 766,496 | 967,429 |
| Unrestricted funds designated for future use | (681,587) | 681,587 | - | - | - |
| Restricted funds used for operations | 20,000 | (20,000) | - | - | - |
| Restricted funds used for tangible capital assets | - | (1,200,900) | 1,200,900 | - | - |
| Current year funds used for tangible capital assets | (764,104) | - | 764,104 | - | - |
| Contributed tangible capital assets | - | - | - | - | - |
| Disposal of tangible capital assets | 57,020 | - | (57,020) | - | - |
| Annual amortization expense | 609,902 | - | (609,902) | - | - |
| Capital long-term debt repaid | - | - | - | - | - |
| CHANGE IN ACCUMULATED SURPLUS | 7,727 | (539,313) | 1,298,082 | 766,496 | 967,429 |
| BALANCE, END OF YEAR | 1,707,662 | 6,150,174 | 12,054,670 | 19,912,506 | 19,146,010 |

See accompanying schedules and notes to the financial statements.

**MUNICIPAL DISTRICT OF PEACE NO.135
SCHEDULE OF TANGIBLE CAPITAL ASSETS**

Schedule 2

For the Year Ended December 31, 2016

| | Land | Land Improvements | Buildings | Engineered Structures | Machinery & Equipment | Vehicles | 2015 \$ | 2015 \$ |
|--|---------|-------------------|-----------|-----------------------|-----------------------|-----------|------------|------------|
| COST: | | | | | | | | |
| BALANCE, BEGINNING OF YEAR | 324,334 | 369,393 | 2,743,100 | 8,790,540 | 3,440,534 | 1,038,420 | 16,706,321 | 15,436,836 |
| Acquisition of tangible capital assets | - | - | 769,200 | 6,498 | 839,525 | 333,652 | 1,948,875 | 914,598 |
| Construction-in-progress | - | - | - | 12,139 | 3,990 | - | 16,129 | 1,281,700 |
| Disposal of tangible capital assets | - | - | - | - | (472,800) | - | (472,800) | (926,813) |
| Write-down of tangible capital assets | - | - | - | - | - | - | - | - |
| BALANCE, END OF YEAR | 324,334 | 369,393 | 3,512,300 | 8,809,177 | 3,811,249 | 1,372,072 | 18,198,525 | 16,706,321 |
| ACCUMULATED AMORTIZATION: | | | | | | | | |
| BALANCE, BEGINNING OF YEAR | - | 156,690 | 502,260 | 3,027,848 | 1,775,103 | 487,832 | 5,949,733 | 6,204,823 |
| Annual Amortization | - | 11,259 | 49,389 | 210,930 | 272,122 | 66,202 | 609,902 | 538,160 |
| Accumulated amortization on disposals | - | - | - | - | (415,780) | - | (415,780) | (793,250) |
| BALANCE, END OF YEAR | - | 167,949 | 551,649 | 3,238,778 | 1,631,445 | 554,034 | 6,143,855 | 5,949,733 |
| NET BOOK VALUE | 324,334 | 201,444 | 2,960,651 | 5,570,399 | 2,179,804 | 818,038 | 12,054,670 | 10,756,588 |
| TANGIBLE CAPITAL ASSETS | | | | | | | | |
| 2015 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS | 324,334 | 212,703 | 2,240,839 | 5,762,694 | 1,665,430 | 550,588 | | |

See accompanying schedules and notes to the financial statements.

MUNICIPAL DISTRICT OF PEACE NO. 135
SCHEDULE OF PROPERTY TAXES LEVIED

Schedule 3

For the Year Ended December 31, 2016

| | Budget \$ (Unaudited) | 2016 \$ | 2015 \$ |
|---|-----------------------------|------------------|------------------|
| TAXATION | | | |
| Real property taxes | 2,384,778 | 2,375,187 | 1,936,931 |
| Linear property taxes | 843,319 | 839,237 | 908,412 |
| Government grants in place of property taxes | 431,214 | 431,214 | 545,388 |
| | <u>3,659,311</u> | <u>3,645,638</u> | <u>3,390,731</u> |
| REQUISITIONS | | | |
| Alberta School Foundation Fund | 682,293 | 682,293 | 738,022 |
| Holy Family Catholic Regional Division No. 37 | 87,312 | 87,312 | 85,792 |
| North Peace Housing Foundation | 104,269 | 93,959 | 95,401 |
| | <u>873,874</u> | <u>863,564</u> | <u>919,215</u> |
| NET MUNICIPAL PROPERTY TAXES | <u>2,785,437</u> | <u>2,782,074</u> | <u>2,471,516</u> |

See accompanying schedules and notes to the financial statements.

MUNICIPAL DISTRICT OF PEACE NO. 135
SCHEDULE OF GOVERNMENT TRANSFERS

Schedule 4

For the Year Ended December 31, 2016

| | Budget \$ (Unaudited) | 2016 \$ | 2015 \$ |
|---------------------------------------|-----------------------------|------------|------------|
| TRANSFERS FOR OPERATING | | | |
| Federal Government | - | 4,480 | - |
| Provincial Government - conditional | 455,427 | 451,414 | 521,183 |
| Provincial Government - unconditional | - | - | - |
| Other local governments | 4,500 | 4,500 | 4,500 |
| | 459,927 | 460,394 | 525,683 |
| TRANSFERS FOR CAPITAL | | | |
| Federal Government | - | 30,000 | - |
| Provincial Government | 655,000 | 635,095 | 835,000 |
| Other local governments | - | - | - |
| | 655,000 | 665,095 | 835,000 |
| TOTAL GOVERNMENT TRANSFERS | 1,114,927 | 1,125,489 | 1,360,683 |

See accompanying schedules and notes to the financial statements.

MUNICIPAL DISTRICT OF PEACE NO. 135
SCHEDULE OF CONSOLIDATED EXPENDITURES BY OBJECT

Schedule 5

For the Year Ended December 31, 2016

| | Budget \$ (Unaudited) | 2016 \$ | 2015 \$ |
|--|-----------------------------|------------------|------------------|
| Consolidated Expenditures by Object | | | |
| Salaries, wages and benefits | 1,266,060 | 1,207,002 | 1,188,618 |
| Contracted and general services | 1,019,731 | 895,183 | 814,635 |
| Purchases from other governments | 3,500 | 2,329 | 2,287 |
| Materials, goods, supplies and utilities | 690,600 | 556,268 | 548,377 |
| Transfers to other governments | 299,700 | 263,827 | 229,831 |
| Transfers to local boards and agencies | 45,700 | 45,699 | 45,338 |
| Transfers to individuals and organizations | 56,500 | 53,702 | 54,494 |
| Bank charges & short term interest | 800 | 891 | 717 |
| Amortization of tangible capital assets | 569,700 | 609,902 | 538,160 |
| Loss on disposal of capital assets | - | 4,735 | 127,839 |
| Other expenditures | 19,800 | 17,829 | 13,308 |
| Total expenditures | 3,972,091 | 3,657,367 | 3,563,604 |

See accompanying schedules and notes to the financial statements.

**MUNICIPAL DISTRICT OF PEACE NO.135
SCHEDULE OF SEGMENTED DISCLOSURE**

For the Year Ended December 31, 2016

Schedule 6

| | General Government | Protective Services | Transportation Services | Environmental Services | Recreation Culture | Other | Total 2016 |
|--|-----------------------|------------------------|----------------------------|---------------------------|-----------------------|------------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUE | | | | | | | |
| Net municipal taxes | 2,782,074 | - | - | - | - | - | 2,782,074 |
| Well drilling charges | 15,028 | - | - | - | - | - | 15,028 |
| User fees and sales of goods | 5,884 | 63,769 | 12,866 | 43,671 | - | 43,589 | 169,779 |
| Government transfers for operating | 18,071 | 1,000 | 150,000 | - | 7,475 | 283,848 | 460,394 |
| Penalties and costs on taxes | 36,629 | - | - | - | - | - | 36,629 |
| Licenses and permits | - | 600 | - | - | - | 3,075 | 3,675 |
| Investment income | 115,250 | - | - | 228 | 3,429 | - | 118,907 |
| Rentals | 31,258 | - | 11,647 | - | 3,875 | 900 | 47,680 |
| Drawn from allowances | - | - | - | - | - | - | - |
| Gain on disposal of tangible capital assets | - | - | 54,560 | - | - | - | 54,560 |
| Other revenues | 4,721 | 90 | 58,390 | 2,497 | 2,235 | 2,109 | 70,042 |
| | 3,008,915 | 65,459 | 287,463 | 46,396 | 17,014 | 333,521 | 3,758,768 |
| EXPENSES | | | | | | | |
| Salaries, wages and benefits | 393,270 | 13,304 | 495,737 | 7,314 | 42,647 | 254,730 | 1,207,002 |
| Contracted and general services | 248,424 | 42,268 | 336,867 | 39,427 | 30,016 | 198,181 | 895,183 |
| Purchases from other governments | 2,329 | - | - | - | - | - | 2,329 |
| Materials, goods and utilities | 60,555 | 21,827 | 333,449 | 21,121 | 16,404 | 102,912 | 556,268 |
| Provision for allowance | - | - | - | - | - | - | - |
| Transfers to other governments | 13,561 | 7,200 | 35,000 | 10,710 | 61,673 | 135,683 | 263,827 |
| Transfers to local boards and agencies | - | - | - | - | 9,399 | 36,300 | 45,699 |
| Transfers to individuals and organizations | 21,010 | 3,000 | - | - | 4,300 | 25,392 | 53,702 |
| Bank charges and short-term interest | 891 | - | - | - | - | - | 891 |
| Other expenditures | 15,020 | - | - | 2,809 | - | - | 17,829 |
| Loss on disposal of tangible capital assets | 4,735 | - | - | - | - | - | 4,735 |
| | 759,795 | 87,599 | 1,201,053 | 81,381 | 164,439 | 753,198 | 3,047,465 |
| Net revenue before amortization and transfers for capital | 2,249,120 | (22,140) | (913,590) | (34,985) | (147,425) | (419,677) | 711,303 |
| Amortization | (47,872) | (40,281) | (428,076) | (30,262) | (25,627) | (37,784) | (609,902) |
| Contributed assets | - | - | - | - | - | - | - |
| Government transfers for capital | - | 288,652 | 346,443 | - | 30,000 | - | 665,095 |
| NET REVENUE (SHORTFALL) | 2,201,248 | 226,231 | (995,223) | (65,247) | (143,052) | (457,461) | 766,496 |

See accompanying schedules and notes to the financial statements.

MUNICIPAL DISTRICT OF PEACE NO. 135
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Municipal District of Peace No. 135 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 municipality 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 municipal 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 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.

d) Investments

Investments are recorded at amortized cost. Investment premiums and discounts are amortized on the net present value basis over the term of the respective investments. When there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

MUNICIPAL DISTRICT OF PEACE NO. 135
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

e) Debt Charges Recoverable

Debt charges recoverable consist of amounts that are recoverable from municipal agencies or other local governments with respect to outstanding debentures or other long-term debt pursuant to annexation orders or joint capital undertakings. These recoveries are recorded at a value that equals the offsetting portion of the unmatured long-term debt, less actuarial requirements for the retirement of any sinking fund debentures.

f) Requisition Over-levy and Under-levy

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

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

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

g) Inventories for Resale

Land held for resale is recorded at the lower of cost or net realizable value. Cost includes costs for land acquisition and improvements required to prepare the land for servicing such as clearing, stripping and levelling charges. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks and street lighting are recorded as physical assets under the respective function.

h) Prepaid Local Improvement Charges

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

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

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

i) Landfill Closure and Post-Closure Liability

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

j) 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.

MUNICIPAL DISTRICT OF PEACE NO. 135

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

k) 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.

l) 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 of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

| | YEARS |
|-----------------------------|--------------|
| Land Improvements | 20 |
| Buildings | 50 |
| Engineered Structures | |
| Bridges | variable |
| Water system | 60 |
| Wastewater system | 60 |
| Other engineered structures | 30-40 |
| Machinery and Equipment | 5-20 |
| Vehicles | 10-25 |

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

ii. Contributions of Tangible Capital Assets

Tangible capital assets received as contributions are recorded at fair value at the date of receipt and also are recorded as revenue.

iii. Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

iv. Inventories

Inventories held for consumption are recorded at the lower of cost and replacement on a first-in first-out basis for office supplies, fuel, parts and pesticides. Gravel is costed out using historical cost identified by pit location and stockpile.

v. Cultural and Historical Tangible Capital Assets

Works of art for display and historical artifacts are not recorded as tangible capital assets.

MUNICIPAL DISTRICT OF PEACE NO. 135
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

2. CASH AND TEMPORARY INVESTMENTS

| | 2016 | 2015 |
|------------------------------|------------------|------------------|
| | \$ | \$ |
| Cash | 7,438 | 7,113 |
| Current bank accounts | 2,811,257 | 2,789,707 |
| Savings - recreation reserve | 250,574 | 246,486 |
| Temporary investments | 934,570 | 1,229,700 |
| | 4,003,839 | 4,273,006 |

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

Included in the above balances is a restricted amount of \$804,000 (2015: \$714,071) received from the provincial government and held exclusively for specific projects.

Included in the above balances are \$3,199,839 (2015: \$3,558,935) of funds which are restricted in use, as per reserves (Note 11) of funds. The recreation land reserve of \$250,574 (2015: \$246,486) is externally restricted while the remaining reserves are internal council restrictions.

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLES

| | 2016 | 2015 |
|--|----------------|----------------|
| | \$ | \$ |
| Current taxes and grants in place of taxes | 170,255 | 684,407 |
| Non-current taxes and grants in place of taxes | 54,242 | 28,629 |
| | 224,497 | 713,036 |
| Less: Allowance for doubtful accounts | (9,397) | (9,397) |
| | 215,100 | 703,639 |

4. LONG-TERM INVESTMENTS

| | 2016 | | 2015 | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | Cost | Market Value | Cost | Market Value |
| | \$ | \$ | \$ | \$ |
| Loan to N.P. Housing Foundation | 400,000 | 400,000 | 433,333 | 433,333 |
| Equity held in Servus Credit Un. | 3 | 3 | 3 | 3 |
| Equity held in A.A.M.D. & C. | - | - | - | - |
| Equity held in U.F.A. | 4,955 | 4,955 | 4,934 | 4,934 |
| Long-term deposits | 2,196,723 | 2,196,723 | 2,165,824 | 2,165,824 |
| Investment in marketable bonds | 1,433,438 | 1,455,939 | 1,449,702 | 1,480,704 |
| | 4,035,119 | 4,057,620 | 4,053,796 | 4,084,798 |

Long-term deposits have effective interest rates ranging from 1.25% to 2.3% with maturity dates ranging January 22, 2017 to Nov.30, 2017. Included in the term deposits balance are \$600,335 (2015 - \$1,057,552) of funds which are restricted in use as per reserves (Note 11) of funds.

Loan to N.P. Housing has an effective interest rate of 2.7%. The loan is repayable in quarterly payments of \$8,333.33 of principal plus interest with last payment receivable October 2028.

Investments in marketable bonds have effective interest rates of 1.742% to 6.02% with maturity dates ranging from May 2018 to July 2024.

MUNICIPAL DISTRICT OF PEACE NO. 135
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

5. OTHER FINANCIAL ASSETS

| | 2016 | 2015 |
|--|-------|------|
| | \$ | \$ |
| Requisition under-levy - education taxes | 1,426 | - |

6. DEFERRED REVENUE

| | 2016 | 2015 |
|---|---------|---------|
| | \$ | \$ |
| Provincial government transfers | | |
| Federal Gas Tax Fund | 155,500 | 76,000 |
| Regional Collaboration Program | - | 18,071 |
| Municipal Sustainability Initiative | 648,500 | 620,000 |
| | 804,000 | 714,071 |
| Interest earned on deferred provincial transfers | - | - |
| Prepaid property taxes and utilities | 71,616 | 87,343 |
| Requisition over levy (North Peace Foundation) | 10,100 | - |
| Other - hall, tent, trees, reward fund, bulk water deposits | 11,150 | 10,650 |
| | 896,866 | 812,064 |

Funding from the province and interest earned on these conditional transfers in the amount of \$802,262 remains unspent at year-end. The use of these funds is restricted to eligible projects, as approved under the funding agreement. Unexpended funds related to these advances are supported by temporary investments of \$802,262 held exclusively for these projects (refer Note 2).

7. EMPLOYEE BENEFIT OBLIGATIONS

| | 2016 | 2015 |
|------------------------------|--------|--------|
| | \$ | \$ |
| Sick pay benefits obligation | 7,450 | 5,200 |
| Vacation and overtime | 67,499 | 57,828 |
| | 74,949 | 63,028 |

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.

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.

MUNICIPAL DISTRICT OF PEACE NO. 135
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

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 Municipality'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.

At the current rate of usage, the landfill is expected to reach capacity in the year 2021. An annual amount of \$2,500 will be accrued over the expected remaining five years of usage.

The Municipality 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 | 10,000 |
| Estimated post-closure costs | 15,000 |
| <u>Estimated total costs</u> | <u>25,000</u> |
| <u>Accrued liability portion, December 31, 2016</u> | <u>12,500</u> |

9. TANGIBLE CAPITAL ASSETS

| | 2016 | 2015 |
|--|-------------------|-------------------|
| | \$ | \$ |
| <u>Net Book Value</u> | | |
| Land | 324,334 | 324,334 |
| Land improvements | 201,444 | 212,703 |
| Buildings | 2,960,651 | 893,410 |
| New Office - construction in progress | - | 1,260,323 |
| Lac Cardinal Hall Kitchen - construction in progress | - | 87,106 |
| Engineered structures | | |
| Roadway system | 4,816,402 | 5,002,753 |
| BF71960 - construction in progress | 12,139 | - |
| Water and wastewater system | 407,047 | 420,624 |
| Other | 334,811 | 339,316 |
| Machinery, equipment and furnishings | 2,175,814 | 1,665,431 |
| Water Meter Software - construction in progress | 3,990 | - |
| Vehicles | 818,038 | 550,588 |
| | <u>12,054,670</u> | <u>10,756,588</u> |

10. EQUITY IN TANGIBLE CAPITAL ASSETS

| | 2016 | 2015 |
|---------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Tangible Capital Assets (Schedule 2) | 18,198,525 | 16,706,321 |
| Accumulated amortization (Schedule 2) | 6,143,855 | 5,949,733 |
| | <u>12,054,670</u> | <u>10,756,588</u> |

MUNICIPAL DISTRICT OF PEACE NO. 135**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended December 31, 2016

11. ACCUMULATED SURPLUS

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

| | 2016 | 2015 |
|-----------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Unrestricted surplus | 1,707,662 | 1,699,935 |
| Restricted surplus | | |
| Tax Rate Stabilization | 2,202,500 | 2,073,000 |
| Administration | 75,000 | 446,500 |
| Economic Development | 50,000 | 50,000 |
| Fire Services | 430,000 | 475,000 |
| Public Works | 1,935,000 | 2,191,000 |
| Hamlet of Brownvale | 142,100 | 175,000 |
| Environment | 210,000 | 210,000 |
| A.S.B. | 335,000 | 235,000 |
| Recreation | 770,574 | 833,987 |
| Equity in tangible capital assets | 12,054,670 | 10,756,588 |
| | 19,912,506 | 19,146,010 |

12. TRUST FUNDS

| | 2016 | 2015 |
|---|---------------|---------------|
| | \$ | \$ |
| The Municipal District of Peace No. 135 administers the following trusts: | | |
| Tax Sale Surplus | | |
| Balance, beginning of year | 16,487 | 36,344 |
| Add: Deposits | - | - |
| Interest | 1,083 | - |
| | 1,083 | - |
| Less: Payment to property owner | - | 15,157 |
| Appropriated by M.D. of Peace | - | 4,700 |
| | - | 19,857 |
| Balance, end of year | 17,570 | 16,487 |
| Northern Alberta Elected Leaders (NAEL) | | |
| Balance, beginning of year | 30,021 | - |
| Add: Deposits | 400 | 4,800 |
| Transfer from previous administrative authority | | 25,321 |
| | 400 | 30,121 |
| Less: Disbursement for expenditures | 1,195 | 100 |
| Other | - | - |
| | 1,195 | 100 |
| Balance, end of year | 29,226 | 30,021 |

MUNICIPAL DISTRICT OF PEACE NO. 135
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

13. SALARY AND BENEFITS DISCLOSURE

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:

| | Salary(1) | Benefits & Allowances(2) | 2016 Total | 2015 Total |
|-------------------------------|-----------|--------------------------|------------|------------|
| | \$ | \$ | | \$ |
| Reeve: | | | | |
| BLISKA, Veronica | \$ 22,365 | \$ 17,927 | 40,292 | \$ 41,521 |
| Councillors: | | | | |
| BETTENSON, Orwell | - | - | - | 16,240 |
| BRIGHTWELL, George | 12,745 | 14,536 | 27,281 | 25,734 |
| EASTMAN, Sandra | 18,460 | 17,040 | 35,500 | 31,799 |
| REYDA, Janice | 13,215 | 13,497 | 26,712 | - |
| WILLING, Robert | 15,995 | 16,887 | 32,882 | 27,048 |
| | 82,780 | 79,887 | 162,667 | 142,342 |
| Chief Administrative Officer: | | | | |
| MCKEN, Lyle | 104,913 | 21,224 | 126,137 | 122,330 |
| | 187,693 | 101,111 | 288,804 | 264,672 |

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. For chief administrative officer, benefits and allowances consists of employer's share of Canada pension plan, unemployment insurance contributions, pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, tuition, travel and automobile allowances.

Payments to Elected Officials by Other Organizations (unaudited)

Sandra Eastman - North Peace Housing Foundation

2016
\$

2,650

14. LOCAL AUTHORITIES PENSION PLAN

Employees of the Municipal District of Peace No. 135 participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the 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.

The Municipal District of Peace No. 135 is required to make current service contributions to the LAPP of 11.39% of pensionable earnings up to the years maximum pensionable earnings under the Canada Pension Plan and 15.84% on pensionable earnings above this amount. Employees of the municipality are required to make current service contributions of 10.39% of pensionable salary up to the year's maximum pensionable salary and 14.84% on pensionable salary above this amount.

Total current service contributions by the Municipal District of Peace No.135 to the Local Authorities Pension Plan in 2016 were \$81,086 (2015: \$73,792). Total current service contributions by the employees of the Municipal District of Peace No.135 to the Local Authorities Pension Plan in 2015 were \$74,475 (2015: \$67,807).

At December 31, 2015, the Plan disclosed an actuarial deficiency of \$923 million.

MUNICIPAL DISTRICT OF PEACE NO. 135

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

15. DEBT LIMITS

Section 276(2) of the Municipal Government Act requires that debt and debt limits as defined by Regulation 255/00 for the Municipal District of Peace No. 135 be disclosed as follows:

| | 2016 | 2015 |
|---------------------------------------|-----------|-----------|
| | \$ | \$ |
| Total debt limit | 5,638,152 | 5,345,496 |
| Total debt | - | - |
| Amount of total debt unused | 5,638,152 | 5,345,496 |
| Debt servicing limit | 939,692 | 890,916 |
| Debt servicing | - | - |
| Amount of debt servicing limit unused | 939,692 | 890,916 |

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 which 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.

16. COMMITMENTS

The MUNICIPAL DISTRICT OF PEACE NO. 135 signed an inter-municipal cooperation agreement on July 29, 2010 with the Town of Peace River. During 2016, an amount of \$69,746 (2015 - \$68,715) was paid to the Town of Peace River for cost sharing of F.C.S.S. and recreation programs and services per this new agreement. The agreement is effective for 8 years (to July, 2018) with a possible automatic renewal for subsequent 3 year terms. Future payments will be calculated using a formula with an initial cost-sharing base of \$61,823 per year.

17. CONTINGENCIES

The MUNICIPAL DISTRICT OF PEACE NO. 135 is a member of the Genesis Reciprocal Insurance Exchange. Under the terms of the membership, the MUNICIPAL DISTRICT OF PEACE NO. 135 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.

MUNICIPAL DISTRICT OF PEACE NO. 135

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

18. FINANCIAL INSTRUMENTS

The municipality's financial instruments consist of cash and temporary investments, accounts receivable, accounts payable, accrued liabilities and long-term debt. It is management's opinion that the municipality is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The municipality 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 municipality 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 these financial instruments approximates fair value.

19. CONTAMINATED SITES LIABILITY

On January 1, 2015 the Municipality adopted PS3260 Liability for Contaminated Sites. The municipality did not identify any financial liabilities in 2016 (2015 - nil) as a result of this standard.

20. APPROVAL OF FINANCIAL STATEMENTS

Council and management have approved these financial statements.