

AUDITORS' REPORT

To the Reeve and Council  
Clear Hills County

We have audited the consolidated statement of financial position of Clear Hills County as at December 31, 2006 and the consolidated statement of financial activities with change in fund balances, the statement of operating revenue and expenditures, and the consolidated statement of changes in financial position and the schedules supporting these statements for the year then ended. These financial statements are the responsibility of the County's management. 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 Clear Hills County as at December 31, 2006 and the results of its financial activities and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Vegreville, Alberta  
February 22, 2007

*Wilde & Company*  
Chartered Accountants

**CLEAR HILLS COUNTY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at December 31, 2006

|                                                   | 2006<br>\$        | 2005<br>\$        |
|---------------------------------------------------|-------------------|-------------------|
| <b>Financial Assets</b>                           |                   |                   |
| Cash and temporary investments - Note 2           | 6,214,020         | 5,649,620         |
| Accounts receivable                               |                   |                   |
| Taxes receivable - Note 3                         | 84,594            | 223,211           |
| Trade and other receivables - Note 4              | 588,478           | 3,183,724         |
| Loan receivable - Note 5                          | -                 | 532,696           |
| Prepaid expenses                                  | 66,348            | 4,978             |
| Land held for resale                              | 300,730           | 300,730           |
| Investments - Note 6                              | 6,231,021         | 1,631,499         |
|                                                   | 13,485,191        | 11,526,458        |
| <b>Physical Assets</b>                            |                   |                   |
| Inventory for consumption - Note 7                | 726,014           | 737,729           |
| Capital assets - Note 8                           | 9,635,862         | 7,937,504         |
| <b>TOTAL ASSETS</b>                               | <b>23,847,067</b> | <b>20,201,691</b> |
| <b>Liabilities</b>                                |                   |                   |
| Accounts payable and accrued liabilities - Note 9 | 2,020,662         | 1,395,475         |
| <b>TOTAL LIABILITIES</b>                          | <b>2,020,662</b>  | <b>1,395,475</b>  |
| Contingent Liabilities - Note 16                  |                   |                   |
| <b>Municipal Equity</b>                           |                   |                   |
| Operating fund                                    | 1,115,170         | 1,115,170         |
| Capital fund                                      | -                 | -                 |
| Reserve fund - Note 12                            | 11,075,373        | 9,753,542         |
| Total fund balances                               | 12,190,543        | 10,868,712        |
| Equity in capital assets - Note 13                | 9,635,862         | 7,937,504         |
|                                                   | 21,826,405        | 18,806,216        |
| <b>TOTAL LIABILITIES AND MUNICIPAL EQUITY</b>     | <b>23,847,067</b> | <b>20,201,691</b> |

See accompanying notes

**CLEAR HILLS COUNTY**  
**CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES WITH CHANGE IN FUND BALANCES**  
 For the year ended December 31, 2006

|                                             | Capital     | Reserves      | Operating    | Total<br>2006 | Budget<br>2006<br>(unaudited) | 2005          |
|---------------------------------------------|-------------|---------------|--------------|---------------|-------------------------------|---------------|
| <b>Revenues</b>                             |             |               |              |               |                               |               |
| Net municipal taxes - Page 5                | \$ -        | \$ -          | \$ 9,404,755 | \$ 9,404,755  | \$ 9,288,599                  | \$ 8,359,235  |
| Local improvement levies                    | -           | -             | 16,400       | 16,400        | 16,401                        | 16,400        |
| Sale of goods and services                  | -           | -             | 699,467      | 699,467       | 451,500                       | 191,050       |
| Government transfers                        | 105,360     | -             | 1,527,613    | 1,632,973     | 1,220,000                     | 3,477,433     |
| Investment income                           | -           | 303,364       | 169,096      | 472,460       | 500,000                       | 526,889       |
| Well drilling taxes                         | -           | -             | 109,387      | 109,387       | 75,000                        | 97,804        |
| Rentals, licenses and other                 | 1,000       | -             | 169,241      | 170,241       | 248,500                       | 187,941       |
|                                             | 106,360     | 303,364       | 12,095,959   | 12,505,683    | 11,800,000                    | 12,856,752    |
| <b>Expenditures</b>                         |             |               |              |               |                               |               |
| Legislative                                 | -           | -             | 314,190      | 314,190       | 300,000                       | 283,256       |
| Administration                              | 21,132      | -             | 1,029,467    | 1,050,599     | 1,070,000                     | 880,035       |
| Emergency services                          | 48,540      | -             | 175,688      | 224,228       | 120,000                       | 1,128,147     |
| Transportation services                     | 194,434     | -             | 6,064,674    | 6,259,108     | 6,470,000                     | 13,022,559    |
| Water, wastewater and waste management      | 1,489,839   | -             | 618,092      | 2,107,931     | 2,565,000                     | 571,168       |
| Subdivision and land development            | -           | -             | 157,495      | 157,495       | 100,000                       | 110,769       |
| Agriculture and community services          | -           | -             | 696,952      | 696,952       | 875,000                       | 981,099       |
| Recreation and culture                      | -           | -             | 373,348      | 373,348       | 300,000                       | 301,690       |
|                                             | 1,753,945   | -             | 9,429,906    | 11,183,851    | 11,800,000                    | 17,278,723    |
| <b>Excess of revenues over expenditures</b> | (1,647,585) | 303,364       | 2,666,053    | 1,321,832     | -                             | (4,421,971)   |
| Net interfund transfers                     |             |               |              |               |                               |               |
| From (to) operations                        | 1,647,585   | -             | (1,647,585)  | -             | -                             | -             |
| From (to) reserves                          | -           | 1,018,468     | (1,018,468)  | -             | (350,000)                     | -             |
| <b>Change in fund balances</b>              |             |               |              |               |                               |               |
| Balance, beginning of year                  | -           | 1,321,832     | -            | 1,321,832     | (350,000)                     | (4,421,971)   |
| Balance, end of year                        | -           | 9,753,542     | 1,115,170    | 10,868,712    | -                             | 15,290,683    |
|                                             | \$ -        | \$ 11,075,374 | \$ 1,115,170 | \$ 12,190,544 | \$ (350,000)                  | \$ 10,868,712 |

See accompanying notes

**CLEAR HILLS COUNTY**  
**STATEMENT OF OPERATING REVENUES AND EXPENDITURES**  
For the year ended December 31, 2006

|                                                                    | 2006           |                    |                                    | Budget<br>\$       | 2005<br>Net revenue<br>(expenditure)<br>\$ |
|--------------------------------------------------------------------|----------------|--------------------|------------------------------------|--------------------|--------------------------------------------|
|                                                                    | Revenues<br>\$ | Expenditures<br>\$ | Net revenue<br>(expenditure)<br>\$ |                    |                                            |
| <b>General municipal revenues<br/>to fund municipal operations</b> |                |                    |                                    | (unaudited)        |                                            |
| Municipal taxes - Page 5                                           | 9,404,755      |                    | 9,404,755                          | <b>9,288,599</b>   | 8,359,235                                  |
| Sales, services, rentals, other                                    | 22,552         |                    | 22,552                             | <b>12,000</b>      | 30,398                                     |
| Government transfers                                               | 4,800          |                    | 4,800                              | <b>4,800</b>       | 9,268                                      |
| Well drilling taxes                                                | 109,387        |                    | 109,387                            | <b>75,000</b>      | 97,804                                     |
| Return on investments                                              | 169,096        |                    | 169,096                            | <b>500,000</b>     | 258,485                                    |
|                                                                    | 9,710,590      | -                  | 9,710,590                          | <b>9,880,399</b>   | 8,755,190                                  |
| <b>Municipal operations</b>                                        |                |                    |                                    |                    |                                            |
| Legislative                                                        | -              | 314,190            | (314,190)                          | <b>(300,000)</b>   | (265,657)                                  |
| Administration                                                     | 116,327        | 1,029,467          | (913,140)                          | <b>(814,232)</b>   | (817,701)                                  |
| Emergency services                                                 | 15,586         | 175,688            | (160,102)                          | <b>(105,000)</b>   | (138,611)                                  |
| Transportation services                                            | 1,609,652      | 6,064,674          | (4,455,022)                        | <b>(5,019,386)</b> | (10,111,017)                               |
| Water, wastewater and waste<br>management                          | 270,949        | 618,092            | (347,143)                          | <b>(873,599)</b>   | (199,967)                                  |
| Subdivision and land<br>development                                | 46,494         | 157,495            | (111,001)                          | <b>(69,500)</b>    | (86,757)                                   |
| Agriculture and community<br>services                              | 263,088        | 696,952            | (433,864)                          | <b>(698,682)</b>   | (804,472)                                  |
| Recreation and culture                                             | 63,273         | 373,348            | (310,075)                          | <b>(300,000)</b>   | (301,690)                                  |
|                                                                    | 2,385,369      | 9,429,906          | (7,044,537)                        | <b>(8,180,399)</b> | (12,725,872)                               |
| <b>Excess of revenues over<br/>expenditures</b>                    | 12,095,959     | 9,429,906          | 2,666,053                          | <b>1,700,000</b>   | (3,970,682)                                |
| Net transfers from (to) reserves                                   |                |                    | (1,018,468)                        | <b>(350,000)</b>   | 4,110,514                                  |
| Net transfers from (to) capital                                    |                |                    | (1,647,585)                        | <b>(1,700,000)</b> | (139,832)                                  |
| <b>Changes in operating fund<br/>during the year</b>               |                |                    | -                                  | <b>(350,000)</b>   | -                                          |

See accompanying notes

**CLEAR HILLS COUNTY**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
For the year ended December 31, 2006

|                                                                 | 2006<br>\$       | 2005<br>\$       |
|-----------------------------------------------------------------|------------------|------------------|
| <b>Operating activities</b>                                     |                  |                  |
| Excess of Revenues over Expenditures                            | 1,321,832        | (4,421,971)      |
| Net changes in non-cash operating working capital balances      |                  |                  |
| Decrease (increase) in taxes receivable                         | 138,617          | (58,754)         |
| Decrease (increase) in trade and other receivables              | 2,595,246        | (2,835,434)      |
| Decrease in loan receivable                                     | 532,696          | 226,672          |
| Decrease (increase) in prepaids                                 | (61,370)         | (3,598)          |
| Increase in land held for resale                                | 0                | (73,167)         |
| Decrease in inventory held for consumption                      | 11,715           | 214,661          |
| Increase (decrease) in accounts payable and accrued liabilities | 625,186          | (224,797)        |
| <i>Net cash provided by (used in) operating activities</i>      | 5,163,922        | (7,176,388)      |
| <b>Investing</b>                                                |                  |                  |
| Decrease (increase) in investments                              | (4,599,522)      | 4,468,263        |
| <i>Net cash used in investing activities</i>                    | (4,599,522)      | 4,468,263        |
| Change in cash and cash equivalents for the year                | 564,400          | (2,708,125)      |
| Cash and cash equivalents, beginning of year                    | 5,649,620        | 8,357,745        |
| <b>Cash and cash equivalents, end of year</b>                   | <b>6,214,020</b> | <b>5,649,620</b> |
| Cash and cash equivalents is made up of:                        |                  |                  |
| Cash and temporary investments (Note 2)                         | 6,214,020        | 5,649,620        |

See accompanying notes

**CLEAR HILLS COUNTY**  
**SCHEDULE OF PROPERTY TAXES LEVIED**  
 For the year ended December 31, 2006

|                                        | Budget<br>\$      | 2006<br>\$ | 2005<br>\$ |
|----------------------------------------|-------------------|------------|------------|
|                                        | (unaudited)       |            |            |
| <b>Taxation</b>                        |                   |            |            |
| Real property taxes                    | 12,402,957        | 4,198,616  | 4,037,101  |
| Linear property taxes                  | -                 | 8,303,151  | 7,448,190  |
| Provincial grants in lieu              | -                 | 1,475      | 1,438      |
| Penalties and costs                    | 50,000            | 63,708     | 96,963     |
| <b>Total taxes and grants in place</b> | <b>12,452,957</b> | 12,566,950 | 11,583,692 |
| <b>Requisitions</b>                    |                   |            |            |
| Alberta School Foundation Fund         | 2,989,420         | 2,987,257  | 3,045,593  |
| Senior Foundation                      | 174,938           | 174,938    | 178,864    |
|                                        | <b>3,164,358</b>  | 3,162,195  | 3,224,457  |
| <b>Net municipal taxes</b>             | <b>9,288,599</b>  | 9,404,755  | 8,359,235  |

**SCHEDULE OF EXPENDITURES BY OBJECT**  
 For the year ended December 31, 2006

|                                               | Budget<br>\$      | 2006<br>\$ | 2005<br>\$ |
|-----------------------------------------------|-------------------|------------|------------|
|                                               | (unaudited)       |            |            |
| Salaries, wages and benefits                  | 1,550,000         | 1,519,191  | 1,447,436  |
| Contracted and general services               | 6,605,000         | 5,911,126  | 12,935,506 |
| Purchases from other governments              | 110,000           | 107,534    | 140,183    |
| Materials, goods, supplies and utilities      | 1,200,000         | 1,188,187  | 963,597    |
| Transfers to other governments                | 145,000           | 145,000    | 145,000    |
| Transfers to local boards and agencies        | 165,000           | 157,311    | 210,728    |
| Transfers to individuals and organizations    | 300,000           | 382,087    | 396,104    |
| Financial service and other charges           | 5,000             | 2,914      | 2,263      |
| Other transactions, discounts and adjustments | 20,000            | 16,556     | 7,518      |
| Capital assets acquired                       | 1,700,000         | 1,753,945  | 1,030,388  |
| <b>Total expenditures by object - Page 2</b>  | <b>11,800,000</b> | 11,183,851 | 17,278,723 |

See accompanying notes

**CLEAR HILLS COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2006

**1. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of Clear Hills County are the representations of management prepared in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of these accounting policies adopted by the County are as follows:

**a) Reporting Entity**

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, changes in fund balances and change in financial position of the reporting entity. This entity is comprised of the municipal operations plus all of the organizations that are owned or controlled by the County and are, therefore, accountable to the 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**

Revenues are accounted for in the period in which the transactions or events occurred that gave rise to the revenues.

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 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.

Expenditures are 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 1(o).

**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 expenditures 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) 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 subdivision development land sales are recorded as operating fund revenues.

**e) Investments**

Investments are recorded at cost.

**CLEAR HILLS COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2006

**f) 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 physical assets under their respective function.

**g) 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 asset costs.

Capital assets for government purposes are not depreciated.

Effective January 1, 2007, Clearhills County will adopt Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants ("CICA") with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 - Tangible Capital Assets of the Public Sector Accounting Handbook comes into effect on January 1, 2009.

During 2007, Clearhills County will work towards compliance with the new recommendations for accounting for tangible capital assets.

As of January 1, 2007, capital assets including assets held under capital leases will be recorded at cost in the period they are acquired and recorded as an expenditure within the capital fund. Donated assets related to waterworks and wastewater distribution and collection systems will be capitalized and recorded at their estimated fair value upon acquisition. Certain capital assets for which historical cost information is not available will be recorded at current fair market value discounted by a relevant inflation factor.

**h) 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.



**CLEAR HILLS COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2006

**i) Landfill Closure and Post-Closure Liabilities**

Pursuant to the Alberta Environmental Protection and Enhancement Act, the County is required to fund the closure of its landfill sites and provide for post-closure care of the facilities. Closure and post-closure activities include the final clay cover, landscaping, as well as surface and ground water monitoring, leachate control and visual inspections. The requirement is being provided for over the estimated remaining life of the landfill sites based on usage.

**j) Operating Fund**

Operating fund represents the amounts available to offset future operational revenue requirements (or the shortfall which will be financed from future operational revenues).

**k) Capital Fund**

Capital fund represents the amounts available to finance (or the shortfall in financing available for) capital projects.

**l) Reserve Fund**

Reserve fund represents the amounts set aside to finance future operating and capital expenditures. Reserves are established at the discretion of Council. Transfers to and/or from the reserve fund are reflected as an adjustment to the respective fund.

**m) Equity in Capital Assets**

Equity in capital assets represents the County's net investment in its capital assets after deducting the portion financed by third parties through debenture, bond, and mortgage debts, long term capital borrowings, capitalized leases, and other capital liabilities which will be repaid by the municipality.

**n) Allowances for Operating and Capital 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.

**o) Pension Expenditure**

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

| <b>2. CASH AND TEMPORARY INVESTMENTS</b> | <b>2006</b>      | <b>2005</b>      |
|------------------------------------------|------------------|------------------|
|                                          | <b>\$</b>        | <b>\$</b>        |
| Cash                                     | 1,214,020        | 5,649,620        |
| Temporary investments                    | 5,000,000        | -                |
|                                          | <b>6,214,020</b> | <b>5,649,620</b> |

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

| <b>3. TAXES RECEIVABLE</b>           | <b>2006</b>     | <b>2005</b>     |
|--------------------------------------|-----------------|-----------------|
|                                      | <b>\$</b>       | <b>\$</b>       |
| Current taxes receivable             | 71,721          | 186,414         |
| Arrears taxes                        | 76,196          | 91,966          |
|                                      | <b>147,917</b>  | <b>278,380</b>  |
| Less allowance for doubtful accounts | <b>(63,323)</b> | <b>(55,169)</b> |
|                                      | <b>84,594</b>   | <b>223,211</b>  |

**CLEAR HILLS COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2006

| <b>4. TRADE AND OTHER RECEIVABLES</b> | <b>2006</b>    | <b>2005</b>      |
|---------------------------------------|----------------|------------------|
|                                       | <b>\$</b>      | <b>\$</b>        |
| Grants                                | 54,207         | 2,017,717        |
| GST                                   | 317,075        | 1,012,238        |
| Interest                              | 58,678         | 83,674           |
| Other                                 | 214,482        | 117,658          |
|                                       | 644,442        | 3,231,287        |
| Less allowance for doubtful accounts  | (55,964)       | (47,563)         |
|                                       | <b>588,478</b> | <b>3,183,724</b> |

**5. LOAN RECEIVABLE**

The loan receivable from North Peace Housing Foundation was repaid in full in June 2006.

|                 | <b>2006</b> | <b>2005</b> |
|-----------------|-------------|-------------|
|                 | <b>\$</b>   | <b>\$</b>   |
| Loan receivable | -           | 532,696     |

**6. INVESTMENTS**

|                                                | <b>2006</b>      | <b>2005</b>      |
|------------------------------------------------|------------------|------------------|
|                                                | <b>\$</b>        | <b>\$</b>        |
| Term deposits                                  | 6,114,839        | 1,543,930        |
| Credit Union common shares                     | 116,082          | 87,469           |
| Alberta Municipal Financing Corporation shares | 100              | 100              |
|                                                | <b>6,231,021</b> | <b>1,631,499</b> |

Term deposits earn interest at rates varying between 3.875% and 6.5 % with maturity dates between September 2007 and June 2011.

**CLEAR HILLS COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2006

| <b>7. INVENTORY FOR CONSUMPTION</b>                | <b>2006</b>      | <b>2005</b>      |
|----------------------------------------------------|------------------|------------------|
|                                                    | <b>\$</b>        | <b>\$</b>        |
| Gravel                                             | 406,716          | 359,492          |
| Public Works                                       | 299,913          | 335,497          |
| Agricultural Service Board                         | 19,385           | 42,740           |
|                                                    | <b>726,014</b>   | <b>737,729</b>   |
| <b>8. CAPITAL ASSETS</b>                           | <b>2006</b>      | <b>2005</b>      |
|                                                    | <b>\$</b>        | <b>\$</b>        |
| Land                                               | 120,521          | 120,521          |
| Buildings                                          | 2,389,266        | 2,384,301        |
| Engineering structures                             | 2,869,404        | 2,869,404        |
| Machines and equipment                             | 1,872,655        | 1,660,422        |
| Vehicles                                           | 894,178          | 902,856          |
| Infrastructure                                     | 1,489,838        | -                |
|                                                    | <b>9,635,862</b> | <b>7,937,504</b> |
| <b>9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES</b> | <b>2006</b>      | <b>2005</b>      |
|                                                    | <b>\$</b>        | <b>\$</b>        |
| Trade accounts payable                             | 1,677,433        | 1,114,096        |
| Accrued landfill closure and post-closure costs    | 253,467          | 198,892          |
| Accrued vacation payable                           | 89,762           | 82,487           |
|                                                    | <b>2,020,662</b> | <b>1,395,475</b> |

**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 Clear Hills County be disclosed as follows:

|                                       | <b>2006</b>       | <b>2005</b>       |
|---------------------------------------|-------------------|-------------------|
|                                       | <b>\$</b>         | <b>\$</b>         |
| Total debt limit                      | 18,600,485        | 18,031,476        |
| Total debt                            | -                 | -                 |
| Amount of debt limit unused           | <b>18,600,485</b> | <b>18,031,476</b> |
| Debt servicing limit                  | 3,100,081         | 3,005,246         |
| Debt servicing                        | -                 | -                 |
| Amount of debt servicing limit unused | <b>3,100,081</b>  | <b>3,005,246</b>  |

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.

**CLEAR HILLS COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2006

**11. LANDFILL CLOSURES AND POST-CLOSURE LIABILITIES**

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 sites, and ongoing environmental monitoring, site inspections and maintenance.

At December 31, 2006 the Clear Hills County has accrued \$253,467 (2005 - \$198,892) of closure and post-closure costs. The County's landfills are expected to reach capacity in the upcoming year. Post-closure costs are expected to occur for 25 years beyond the closure of each landfill.

In 2002, the municipality joined the North Peace Regional Landfill Commission (NPRLC). This commission was established to construct a new regional landfill to replace the aging landfills within the municipality. At that time, the municipality signed an agreement with Alberta Environment to construct several transfer stations by 2012 to supply the new landfill. Clear Hills County intends to construct some of these transfer stations on the existing landfill sites, thus delaying some of the post-closure requirements for a number of these landfills.

Clear Hills County has not designated assets for settling closure and post-closure liabilities.

| <b>12. RESERVE FUND</b>          | <b>2005</b> | <b>Increases</b> | <b>Decreases</b> | <b>2006</b> |
|----------------------------------|-------------|------------------|------------------|-------------|
|                                  | \$          | \$               | \$               | \$          |
| <b>Operating Reserves</b>        |             |                  |                  |             |
| Rate stabilization               | 2,353,185   |                  |                  | 2,353,185   |
| Area structure plan              | 162,500     |                  |                  | 162,500     |
|                                  | 2,515,685   | -                | -                | 2,515,685   |
| <b>Capital Reserves</b>          |             |                  |                  |             |
| Road construction and upgrades   | 2,829,068   | 1,137,044        |                  | 3,966,112   |
| Gravel pits                      | 1,635,169   | 68,536           |                  | 1,703,705   |
| Bridges                          | 1,068,311   | 44,777           |                  | 1,113,088   |
| Fire protection                  | 3,230       | 135              |                  | 3,365       |
| Water treatment and distribution | 784,492     | 32,881           |                  | 817,373     |
| Equipment replacement            | 414,510     | 17,373           |                  | 431,883     |
| Office renovations               | 376,767     | 15,791           |                  | 392,558     |
| Recreation                       | 93,199      | 3,906            |                  | 97,105      |
| Seniors transportation           | 17,610      | 738              |                  | 18,348      |
| Cemetery                         | 15,501      | 650              |                  | 16,151      |
|                                  | 7,237,857   | 1,321,831        | -                | 8,559,688   |
|                                  | 9,753,542   | 1,321,831        | -                | 11,075,373  |

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| <b>13. EQUITY IN CAPITAL ASSETS</b>         | <b>2006</b>      | <b>2005</b>      |
|---------------------------------------------|------------------|------------------|
|                                             | <b>\$</b>        | <b>\$</b>        |
| Acquisition of capital assets               |                  |                  |
| Administration                              | 21,132           | 36,030           |
| Emergency services                          | 48,540           | 976,759          |
| Transportation services                     | 194,434          | 17,599           |
| Water, wastewater and waste management      | 1,489,839        | -                |
|                                             | <b>1,753,945</b> | <b>1,030,388</b> |
| Disposal of capital assets (cost)           |                  |                  |
| Legislative and administrative services     | (55,587)         | (2,000)          |
| Protective services                         | -                | -                |
|                                             | <b>(55,587)</b>  | <b>(2,000)</b>   |
| Change in equity balance                    | 1,698,358        | 1,028,388        |
| Equity balance at beginning of year         | 7,937,504        | 6,909,116        |
| Equity balance at end of year               | <b>9,635,862</b> | <b>7,937,504</b> |
| Equity in capital assets is represented by: |                  |                  |
| Capital assets (Note 8)                     | 9,635,862        | 7,937,504        |

**14. SALARY AND BENEFITS DISCLOSURE**

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

|                                           | <b>2006</b>       |                                       |                | <b>2005</b>    |
|-------------------------------------------|-------------------|---------------------------------------|----------------|----------------|
|                                           | <b>Salary (i)</b> | <b>Benefits &amp; Allowances (ii)</b> | <b>Total</b>   | <b>Total</b>   |
|                                           | <b>\$</b>         | <b>\$</b>                             | <b>\$</b>      | <b>\$</b>      |
| Councillor - Division 1                   | 12,220            | 2,263                                 | 14,483         | 13,472         |
| Councillor - Division 2                   |                   |                                       | -              | 7,349          |
| Councillor - Division 2 (Elected in 2005) | 15,340            | 1,851                                 | 17,191         | 4,030          |
| Councillor - Division 3                   | 9,620             | 1,683                                 | 11,303         | 12,625         |
| Councillor - Division 4 (Reeve)           | 20,240            | 2,413                                 | 22,653         | 23,242         |
| Councillor - Division 5                   | 6,630             | 2,089                                 | 8,719          | 11,912         |
| Councillor - Division 6                   | 10,400            | 2,089                                 | 12,489         | 10,482         |
| Councillor - Division 7                   | 11,310            | 2,743                                 | 14,053         | 15,942         |
|                                           | <b>85,760</b>     | <b>15,131</b>                         | <b>100,891</b> | <b>99,054</b>  |
| Chief Administrative Officer (CAO)        |                   |                                       |                |                |
| Former CAO (2006 - 6 months)              | 84,687            | 9,855                                 | 94,542         | 106,497        |
| Current CAO (2006 - 6 months)             | 44,098            | 13,797                                | 57,895         | -              |
|                                           | <b>128,785</b>    | <b>23,652</b>                         | <b>152,437</b> | <b>106,497</b> |

**CLEAR HILLS COUNTY**  
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**14. SALARY AND BENEFITS DISCLOSURE (continued)**

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

**15. LOCAL AUTHORITIES PENSION PLAN**

Employees of Clear Hills 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 by investment earnings of the LAPP Fund.

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

The County is required to make current service contributions to the LAPP of 7.75% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 10.64% on pensionable earnings above this amount. Employees of the County are required to make current service contributions of 6.75% of pensionable salary up to the year's maximum pensionable salary and 9.14% on pensionable salary above this amount. As a benefit to employees, Clear Hills County pays both the employer and employee share of LAPP contributions.

Total current service contributions by the County to the LAPP in 2006, including contributions made on behalf of employees were \$101,643 (2005 - \$99,077).

At December 31, 2005, the LAPP disclosed an actuarial deficiency of \$863.6 million.

**16. CONTINGENT LIABILITIES**

Clear Hills County is a member of a reciprocal insurance exchange (GENESIS) to cover its liability insurance needs. GENESIS was previously referred to as Jubilee Reciprocal Insurance Exchange (JRIE). A Statement of Claim was filed in 2004 by some of the previous subscribers of JRIE. The statement of claim requests the return of surplus funds in the amount of \$3,820,516. Under the terms of the membership, the County could become liable for its proportionate share of any claim losses in excess of the funds held by the exchange. Any liability incurred would be accounted for as a current transaction in the year the losses are determined.

Clear Hills County has been named in a claim by the Alberta Union of Provincial Employees (AUPE). The claim relates to employees choosing to no longer be members of the union when the former Improvement District became a Municipal District. It is estimated that if AUPE is successful, the costs to the County of implementing the terms of the collective agreement could be as high as \$271,000. As the outcome of the claim is uncertain, no provision has been made in these financial statements.

**CLEAR HILLS COUNTY**  
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**17. COMMITMENTS**

Clear Hills County is committed to make an annual payment of \$145,000 next year to the Village of Hines Creek.

Clear Hills County is committed to make quarterly payments of \$2,344 for the next three years to IKON Business Solutions for the use of a photocopier.

Clear Hills County is committed to make annual payments of \$63,756 for the next three years to Mackenzie Municipal Services Agency as the County's planning consultant.

Clear Hills County is committed to purchase 60,000 tonnes of road crush gravel from Agroc at a cost of \$9 per tonne.

**18. FINANCIAL INSTRUMENTS**

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

The County is subject to credit risk with respect to taxes and grants in place of taxes receivables and trade and other receivables. Credit risk arises from the possibility that taxpayers and entities to which the County provides services may experience financial difficulty and be unable to fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

Unless otherwise noted, the carrying value of the financial instrument approximates fair value.

**19. BUDGET FIGURES**

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

**20. APPROVAL OF FINANCIAL STATEMENTS**

Council and management have approved these financial statements.