

# TOWN OF TWO HILLS

## FINANCIAL STATEMENTS

DECEMBER 31, 2009

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TOWN OF TWO HILLS

AUDITOR'S REPORT

The Mayor and Council of:  
THE TOWN OF TWO HILLS

I have audited the consolidated statement of financial position, the Consolidated Statement of Operations, the Consolidated Statement of Change in Net Financial Assets (Debt) and the Consolidated Statement of Cash Flow of the TOWN OF TWO HILLS as at the December 31, 2009. These financial statements are the responsibility of the Town's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Town of Two Hills as at December 31, 2009 and the results of its operations, the change in net financial assets (Debt) and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



JOHN M. BEALE, CMA  
CERTIFIED MANAGEMENT ACCOUNTANT

TWO HILLS, ALBERTA  
June 23, 2010

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF FINANCIAL POSITION

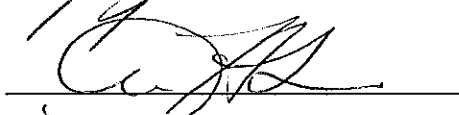
as at December 31, 2009

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	<u>2009</u>	<u>(restated)</u> <u>2008</u>
<u>FINANCIAL ASSETS</u>		
Cash and temporary investments (Note 2)	\$ 367,940	\$ 587,033
Receivables		
Taxes and grants in place of taxes (Note 3)	120,563	95,683
Trade and Other Receivable (Note 4)	230,371	101,302
Land for resale inventory	89,721	91,872
Investments Long Term	<u>6,620</u>	<u>6,214</u>
	<u>815,215</u>	<u>882,104</u>
 <u>LIABILITIES</u>		
Temporary Bank Indebtedness	\$ 290,964	\$ -
Accounts Payable and accrued liabilities	258,810	107,419
Deposit Liabilities (Note 5)	39,270	38,818
Deferred Revenue (Note 6)	453,976	576,091
Long Term Debt (Note 7)	<u>471,684</u>	<u>229,603</u>
	<u>1,514,704</u>	<u>951,931</u>
 <u>NET FINANCIAL ASSETS (DEBT)</u>	 <u>(699,489)</u>	 <u>(69,827)</u>
 <u>NON-FINANCIAL ASSETS</u>		
Tangible Capital Assets (Schedule 1)	4,717,690	4,226,682
Inventory for consumption	15,647	34,657
Prepaid Expenses	<u>6,557</u>	<u>11,351</u>
	<u>4,739,894</u>	<u>4,272,690</u>
 <u>ACCUMULATED SURPLUS</u>	 <u>\$ 4,040,405</u>	 <u>\$ 4,202,863</u>

Approved by Council:

  
 \_\_\_\_\_ Mayor

  
 \_\_\_\_\_ Administrator

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF OPERATIONSfor the year ended the December 31, 2009

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	2009 <u>ACTUAL</u>	2009 <u>Budget</u>	(restated) 2008 <u>ACTUAL</u>
<u>REVENUES</u>			
Net Taxes Available for Municipal Purpose (Page 6)	\$ 857,718	\$ 819,487	\$ 846,046
Local Improvements	43,764	37,500	38,002
Sales to Other Governments	98,170	47,749	7,570
Sales and User Charges	508,566	671,800	535,062
Penalties and Costs	17,266	5,000	14,924
Licence & Permits	9,549	8,200	8,264
Concessions & Franchises	86,221	67,500	45,865
Return on Investments	3,121	14,000	19,292
Rentals	29,270	36,000	23,938
Federal Conditional Grants	-	-	-
Provincial Unconditional Grants	3,537	10,700	7,202
Provincial Conditional Grants	188,021	76,256	196,978
Local Government Transfers	16,071	25,600	-
Other	<u>2,549</u>	<u>130,717</u>	<u>1,811</u>
	<u>1,863,823</u>	<u>1,950,509</u>	\$ <u>1,744,954</u>

TOWN OF TWO HILLS  
CONSOLIDATED STATEMENT OF OPERATIONS  
for the year ended the December 31, 2009

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	2009 <u>ACTUAL</u>	2009 <u>Budget</u>	(restated) 2008 <u>ACTUAL</u>
<u>EXPENDITURES</u>			
Legislative	\$ 93,821	\$ 96,900	\$ 88,993
Administration	729,982	617,701	610,985
Fire	50,846	40,300	45,609
Disaster Services	8,232	10,000	2,988
Ambulance	8,624	8,325	32,417
By-Law Enforcement	8,852	10,000	10,432
Roads	645,676	566,957	334,702
Storm Sewers	19,654	-	28,130
Water Supply	529,770	368,059	351,446
Sanitary Sewer	224,947	251,706	173,938
Garbage Collection	111,752	145,745	112,258
Family & Community Services	71,296	74,781	68,688
Community Service	1,170	43,750	1,161
Subdivision Land	3,551	26,695	44,259
Hall Operations	56,783	77,245	59,011
Arena Operations	34,276	41,450	33,842
Curling Rink Operations	7,192	23,450	4,876
Parks	69,466	253,480	75,825
Library	27,604	39,650	26,184
	<u>2,703,494</u>	<u>2,696,194</u>	<u>2,105,744</u>
Excess (shortfall) of Revenue over Expenses - before other	(839,671)	3,088	(360,790)
<u>OTHER</u>			
Government transfers for Capital	<u>677,213</u>	<u>748,773</u>	<u>571,085</u>
Excess (shortfall) of Revenue over Expenses	(162,458)	3,088	210,295
ACCUMULATED SURPLUS, beginning of year	<u>4,202,863</u>		<u>3,992,568</u>
ACCUMULATED SURPLUS, end year	\$ <u>4,040,405</u>		\$ <u>4,202,863</u>

TOWN OF TWO HILLS  
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)  
for the year ended the December 31, 2009

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	2009 <u>ACTUAL</u>	(restated) 2008 <u>ACTUAL</u>
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ (162,458)	\$ 210,295
Acquisition of tangible capital assets	(740,200)	(447,580)
Amortization of tangible capital assets	<u>249,192</u>	<u>231,041</u>
	(491,008)	(216,539)
Acquisition of supplies inventory	(54,553)	(25,404)
Acquisition of prepaid assets	(6,557)	(11,351)
Use of supply inventory	73,563	36,260
Use of prepaid assets	<u>11,351</u>	<u>9,310</u>
	<u>23,804</u>	<u>8,815</u>
(INCREASE) DECREASE IN NET DEBT	(629,662)	2,571
NET FINANCIAL ASSETS (DEBT), Beginning of year	<u>(69,827)</u>	<u>(72,398)</u>
NET FINANCIAL ASSETS (DEBT), End of year	\$ <u>(699,489)</u>	\$ <u>(69,827)</u>

TOWN OF TWO HILLS  
CONSOLIDATED STATEMENT OF CASH FLOWS  
for the year ended the December 31, 2009

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	2009 <u>ACTUAL</u>	(restated) 2008 <u>ACTUAL</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenue over expenditure	\$ (162,458)	\$ 210,295
Non-cash items included:		
Amortization of tangible capital assets	249,192	231,041
Non-cash charges to operations:		
Decrease (Increase) in Taxes/Grant in Lieu Receivable	(24,880)	9,194
Decrease (Increase) in Trade and Other Receivables	(129,069)	(11,119)
Decrease (Increase) in Land for resale inventory	2,151	41,959
Decrease (Increase) in Inventory for consumption	19,010	10,856
Decrease (Increase) in Prepaid Expenses	4,794	(2,041)
Increase (Decrease) in Accounts Payable	151,391	(41,007)
Increase (Decrease) in Deposit Liabilities	452	548
Increase (Decrease) in Deferred Revenue	(122,115)	(89,477)
Cash provided by operating transactions	<u>(11,532)</u>	<u>360,249</u>
CAPITAL		
Acquisition of tangible capital assets	(740,200)	(447,580)
INVESTING		
Decrease (Increase) in investments	(406)	(1,019)
FINANCING		
Long-term debt issued	330,000	-
Long-term Debt repaid	(87,919)	(84,393)
Cash provided by financing transactions	<u>242,081</u>	<u>(84,393)</u>
CHANGE IN CASH AND EQUIVALENTS DURING YEAR	(510,057)	(172,743)
Net Cash and Cash Equivalents at Beginning of Year	<u>587,033</u>	<u>759,776</u>
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>76,976</u>	\$ <u>587,033</u>
Cash and cash Equivalents is made up of:		
Cash and temporary investments	\$ 367,940	\$ 587,033
Temporary bank indebtedness	(290,964)	-
	\$ <u>76,976</u>	\$ <u>587,033</u>

**TOWN OF TWO HILLS**  
**SCHEDULE OF TANGIBLE CAPITAL ASSETS**  
**For the Year Ended December 31, 2009**  
**Schedule 1**

	Land	Land Improvements	Buildings	Engineered Structures	Machinery Equipment	Vehicles	2009	(restated) 2008
<b>COST:</b>								
BALANCE, Beginning of Year	99,701	58,883	2,710,808	8,134,464	1,001,627	71,638	12,077,121	11,629,541
Acquisition of tangible capital assets	-	-	12,561	717,689	9,950	-	740,200	447,580
<b>BALANCE, End of Year</b>	<b>99,701</b>	<b>58,883</b>	<b>2,723,369</b>	<b>8,852,153</b>	<b>1,011,577</b>	<b>71,638</b>	<b>12,817,321</b>	<b>12,077,121</b>
<b>ACCUMULATED AMORTIZATION:</b>								
BALANCE, Beginning of Year	-	23,286	2,034,134	5,355,552	389,877	47,590	7,850,439	7,619,398
Annual Amortization	-	3,925	53,581	134,623	52,656	4,407	249,192	231,041
<b>BALANCE, End of Year</b>	<b>-</b>	<b>27,211</b>	<b>2,087,715</b>	<b>5,490,175</b>	<b>442,533</b>	<b>51,997</b>	<b>8,099,631</b>	<b>7,850,439</b>
<b>NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS</b>	<b>99,701</b>	<b>31,672</b>	<b>635,654</b>	<b>3,361,978</b>	<b>569,044</b>	<b>19,641</b>	<b>4,717,690</b>	<b>4,226,682</b>
<b>2008 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS (restated)</b>	<b>99,701</b>	<b>39,523</b>	<b>712,802</b>	<b>2,700,043</b>	<b>649,208</b>	<b>25,405</b>		<b>4,226,682</b>



TOWN OF TWO HILLS

Schedule of Property and Other Taxes  
for the year ended the December 31, 2009

Schedule 2

	*****		
	2009	2009	2008
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>
<u>LEVIES FOR REVENUE</u>			
Residential	\$ 686,546		\$ 679,308
Commercial	202,818		189,564
Industrial	11,162		10,910
Farm Land	<u>76</u>		<u>100</u>
Subtotal	\$ 900,602		\$ 879,882
Power, Pipe, Cable	83,841		82,679
Federal Grant in Lieu	16,016		14,125
Provincial Grant in Lieu	<u>12,554</u>		<u>14,702</u>
Total Taxes and Grant in Lieu	\$ <u>1,013,013</u>	\$ <u>974,783</u>	\$ <u>991,388</u>
<u>REQUISITIONS</u>			
Supplementary School	135,189	135,190	129,968
Eagle Hill Foundation	<u>20,106</u>	<u>20,106</u>	<u>15,374</u>
	<u>155,295</u>	<u>155,296</u>	<u>145,342</u>
Net Taxes for Municipal Purposes	\$ <u>857,718</u>	\$ <u>819,487</u>	\$ <u>846,046</u>

TOWN OF TWO HILLSSchedule of Government Transfersfor the year ended the December 31, 2009Schedule 3

	*****		
	2009	2009	2008
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>
TRANSFERS FOR OPERATING:			
Provincial Government	\$ 191,558	\$ 76,256	\$ 204,180
Other Local Governments	<u>16,071</u>	<u>25,600</u>	<u>-</u>
	<u>207,629</u>	<u>101,856</u>	<u>204,180</u>
TRANSFERS FOR CAPITAL:			
Provincial Government	677,213	748,773	545,107
Other Local Governments	<u>-</u>	<u>-</u>	<u>-</u>
	<u>677,213</u>	<u>748,773</u>	<u>545,107</u>
TOTAL GOVERNMENT TRANSFERS	\$ <u>884,842</u>	\$ <u>850,629</u>	\$ <u>749,287</u>

TOWN OF TWO HILLSSTATEMENT OF CONSOLIDATED EXPENDITURES BY OBJECTfor the year ended the 31st of December, 2009Schedule 4

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	2009	2009	(restated)
	<u>ACTUAL</u>	<u>BUDGET</u>	2008
<u>EXPENDITURES BY OBJECT</u>			<u>ACTUAL</u>
Salaries, Wages, and Benefits	\$ 881,740	\$ 803,870	\$ 659,927
Contracted and General Service	842,576	1,247,164	581,130
Purchases from Other Governments	98,726	94,672	98,038
Materials, Goods, Supplies, and Utilities	514,747	404,450	371,931
Transfers to Individuals and Organizations	96,381	119,806	130,651
Bank Charges and Short Term Interest	5,143	6,000	6,686
Interest on Capital Long Term Debt	8,974	15,232	12,184
Amortization of Tangible Capital Assets	249,192	-	231,041
Other Expenditures	6,015	5,000	14,156
Total Expenditures	\$ <u>2,703,494</u>	\$ <u>2,696,194</u>	\$ <u>2,105,744</u>

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1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Two Hills are the representations of management prepared in accordance Canadian 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 Town of Two Hills are as follows:

a) Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenue and expenditures, and changes in fund balances and in financial position of the reporting entity. The entity is comprised of the municipal operations plus all the organizations that are owned or controlled by the municipality and are, accountable to the town 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 revenues as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or legal obligation to pay.

Funds from external parties and earnings there on 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 be only 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 that 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.

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2009

Page 12

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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 investment. When there has been a loss in the value that is other than a temporary decline, the respective investment is written down to recognize the loss.

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) Over-levies and Under-levies

Over-levies and under-levies arise from the difference between the actual levy made to cover each requisition and the actual amount requisitioned. If the actual levy exceeds the requisition, the over-levy is accrued as a liability and property tax revenue is reduced. Where the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property tax revenue. Requisition tax rates in the subsequent year are adjusted for any over-levy or underlevies 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 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 property assessments during the period of the related borrowing. 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 borrowing. In the event that the prepaid amounts are applied against the related borrowing, the deferred revenue is amortized to revenue by an amount equal to the debt repayment.

i) GOVERNMENT TRANSFERS

Government transfers are the transfers of assets from senior levels of government that are not the result of exchange transactions, 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 the 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.

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2009

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j) 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 indented for sale in the normal course of operations. The change in non-financial assets during the year, together with excess of revenues over expenses, provided 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 attributed to acquisition, construction, development or betterment of the asset. The cost less residual value, of the tangible capital asset is amortized on a straight line basis over the estimate useful life as follows:

Land Improvements	15-25 years
Buildings	25-50 years
Engineered Structures	
- Water Systems	45-75 years
- Wastewater Systems	45-75 years
- Other Engineered Structures	5-30 years
Machinery and Equipment	5-40 years
Vehicles	10-25 years

Assets under construction are not amortized until the asset is available for productive use.

ii) Contribution 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 the benefits and risk 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 cost.

v) Cultural and Historical Tangible Capital Assets

Works of art for display are not recorded as tangible capital assets but are disclosed.

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
31st of December, 2009

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2. CASH AND TEMPORARY INVESTMENTS

	<u>2009</u>	<u>2008</u>
Cash	\$ 311,388	\$ 405,240
Temporary Investments	<u>56,552</u>	<u>181,793</u>
	<u>\$ 367,940</u>	<u>\$ 587,033</u>

Temporary investments are short term deposits with original maturities of one year or less.

Included in cash and temporary investments is a restricted amount of \$480,050 (2008 - \$588,963) received from Provincial grants and debentures which are held exclusively for capital projects.

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2009</u>	<u>2008</u>
Current Taxes and Grants in Lieu	\$ 83,948	\$ 64,465
Arrears Taxes	<u>45,386</u>	<u>39,989</u>
	129,334	104,454
Less: Allowance for Doubtful Accounts	<u>(8,771)</u>	<u>(8,771)</u>
	<u>\$ 120,563</u>	<u>\$ 95,683</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2009</u>	<u>2008</u>
Trade and Other Receivables	\$ 140,607	\$ 110,620
Receivable from other governments	123,696	19,782
Less: Allowance for Doubtful Accounts	<u>(33,932)</u>	<u>(29,100)</u>
	<u>\$ 230,371</u>	<u>\$ 101,302</u>

5. DEPOSIT LIABILITIES

	<u>2009</u>	<u>2008</u>
Water Deposits	\$ 26,870	\$ 25,958
Land Option Deposits	9,600	10,100
Garbage Deposits	<u>2,800</u>	<u>2,760</u>
	<u>\$ 39,270</u>	<u>\$ 38,818</u>

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
31st of December, 2009

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6. DEFERRED REVENUE

	<u>2009</u>	<u>2008</u>
Provincial Capital Grants	\$ 388,589	\$ 548,997
Provincial Operating Grants	56,604	19,114
Prepaid Taxes and Utilities	<u>8,783</u>	<u>7,980</u>
	<u>\$ 453,976</u>	<u>\$ 576,091</u>

The use of provincial capital grant funds are restricted to eligible capital projects. The use of provincial operating grant funds are restricted to eligible operating projects. This deferred revenue is not completely supported by cash and temporary investments.

7. LONG TERM DEBT

	<u>2009</u>	<u>2008</u>
Tax Supported Debentures	\$ 471,684	\$ 229,603
Self Supported Debentures	<u>-</u>	<u>-</u>
	<u>\$ 471,684</u>	<u>\$ 229,603</u>

Principal and interest repayments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 94,723	\$ 16,912	\$ 111,635
2011	81,993	13,245	95,238
2012	52,266	9,867	62,133
2013	31,175	8,211	39,386
2014	32,273	7,112	39,385
Thereafter	<u>179,254</u>	<u>17,672</u>	<u>196,926</u>
	<u>\$ 471,684</u>	<u>\$ 73,019</u>	<u>\$ 544,703</u>

Debenture debt is repayable to Alberta Municipal Financing Corporation and bears interest at rates ranging from 2.75% to 4.971%, and mature in periods 2010 through 2019. The average annual interest rate is 3.90% for 2009 (3.88% for 2008). Debenture debt is issued on the credit and security of the Town of Two Hills.

Interest on long term debt amounted to \$8,974 (2008 - \$12,184)  
The Town's total cash payments for interest in 2009 were \$14,117 (2008 - \$18,870)



TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
31st of December, 2009

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8. DEBT LIMITS

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

	<u>2009</u>	<u>2008</u>
Total Debt Limit	\$ 2,795,737	\$ 2,617,431
Total Debt	<u>762,648</u>	<u>229,603</u>
	\$ <u>2,033,089</u>	\$ <u>2,387,828</u>
Service on Debt Limit	\$ 465,956	\$ 436,238
Service on Debt	<u>402,600</u>	<u>96,894</u>
	\$ <u>63,356</u>	\$ <u>339,344</u>

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. 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.

9. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2009</u>	<u>(restated)</u> <u>2008</u>
Tangible Capital Assets (Schedule 1)	\$ 12,817,321	\$ 12,077,121
Accumulated Amortization (Schedule 1)	(8,099,631)	(7,850,439)
Long Term Debt	<u>(471,684)</u>	<u>(229,603)</u>
	\$ <u>4,246,006</u>	\$ <u>3,997,079</u>

10. ACCUMULATED SURPLUS

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

	<u>2009</u>	<u>(restated)</u> <u>2008</u>
Unrestricted Surplus (Deficit)	\$ (297,061)	\$ 93,977
Restricted Surplus	91,460	111,807
Equity in Tangible Capital Assets	<u>4,246,006</u>	<u>3,997,079</u>
	\$ <u>4,040,405</u>	\$ <u>4,202,863</u>

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
31st of December, 2009

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11. SALARY & 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:

		<u>2009</u>		<u>2008</u>	
		Salary	Benefits & Allowances <sup>(2)</sup>	Total	
					Total
Mayor	- Kussman	14,050	5,337	19,387	
Councillors	- Pawliuk	10,525	5,175	15,700	
	- Rajoo	11,300	2,220	13,520	
	- Saskiw	9,600	2,366	11,966	
	- Sorochan	13,020	5,279	<u>18,299</u>	
				78,872	78,429
Town Manager		62,873	10,931 <sup>(3)</sup>	73,804	99,721

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

12. LEASES

The Town of Two Hills is leasing a photocopier. This lease calls for payments of \$1,295 quarterly ending in April, 2011.

The Town of Two Hills is leasing a 2009 International 3 Ton Truck. This lease calls for payments of \$1,738.87 monthly ending in September, 2013. Future payments required:

2010	26,046
2011	22,161
2012	20,866
2013	15,652

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13. LOCAL AUTHORITIES PENSION PLAN

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

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

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

Total current service contributions by the Town to the LAPP in 2009 were \$31,749 (2008 - \$19,190). Total current service contributions by the employees of the Town to the LAPP in 2009 were \$28,098 (2008 - \$19,885).

At December 31, 2008, the LAPP disclosed an actuarial deficiency of \$1,288.9 million.

14. CONTINGENCIES

The Town of Two Hills is a member of the Alberta Municipal Insurance Exchange (MUNIX). Under the terms of membership, the Town of Two Hills 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.

The Town is the defendant in a lawsuit related to a land transaction. At present, the outcome is not determinable. The amount of an future settlement would be accounted for as a current transaction in the year of the settlement.

15. FINANCIAL INSTRUMENTS

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

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

Unless otherwise noted, the fair value of these financial instruments approximates their carrying value.

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
31st of December, 2009

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16. PRIOR PERIOD ADJUSTMENTS

The Town has restated its financial statements to comply with the provisions

	<u>2008</u>
Adjustments to Opening Accumulated Surplus	
As previously reported	\$ 11,277,321
Adjustment to net book value of tangible capital assets	<u>(7,284,753)</u>
As restated	<u>\$ 3,992,568</u>

	<u>2008</u>
Adjustment to Shortfall or Revenue over Expenses:	
As previously reported	\$ (158,492)
Tangible capital assets recorded but previously expensed	599,828
Annual amortization expense	<u>(231,041)</u>
As restated	<u>\$ 210,295</u>

	<u>2008</u>
Adjustment to Tangible Capital Assets:	
As previously reported	\$ 11,219,456
Adjust to historical cost of tangible capital asset	857,665
Accumulated amortization recorded	<u>(7,850,439)</u>
As restated	<u>\$ 4,226,682</u>

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

17. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and Management.