

TOWN OF TWO HILLS

FINANCIAL STATEMENTS

DECEMBER 31, 2010

INDEX

Page 1	Auditor's Report
Page 2	Consolidated Statement of Financial Position
Page 3-4	Consolidated Statement of Operations
Page 5	Consolidated Statement of Changes in Net Financial Assets (Debts)
Page 6	Consolidated Statement of Cash Flows
Page 7	Schedule of Changes in Accumulated Surplus
Page 8	Schedule of Tangible Capital Assets
Page 9	Schedule of Property and Other Taxes
Page 10	Schedule of Government Transfers
Page 11	Schedule of Consolidated Expense by Object
Page 12	Schedule of Segmented Disclosure
Page 13-21	Notes to Financial Statement

JOHN M. BEALE, CMA
CERTIFIED MANAGEMENT ACCOUNTANT

Page 1

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AUDITOR'S REPORT

To the Members of Council:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Town of Two Hills, which comprise the statement of financial position as at December 31, 2010 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 consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines in necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement on the consolidated 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 consolidated 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 on 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 consolidated 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 Town of Two Hills as at December 31, 2010, the results of its operations, change in its net financial assets (debt) and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

Town of Two Hills
April 28, 2011


John M. Beale, CMA
Certified Management Accountant

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2010

	<u>2010</u>	<u>2009</u>
<u>FINANCIAL ASSETS</u>		
Cash and temporary investments (Note 2)	\$ 293,210	\$ 367,940
Receivables		
Taxes and grants in place of taxes (Note 3)	193,529	120,563
Trade and Other Receivable (Note 4)	160,337	230,371
Land for resale inventory	89,721	89,721
Investments Long Term	<u>6,827</u>	<u>6,620</u>
	<u>743,624</u>	<u>815,215</u>
 <u>LIABILITIES</u>		
Temporary Bank Indebtedness	\$ 589,591	\$ 290,964
Accounts Payable and accrued liabilities	169,040	258,810
Deposit Liabilities (Note 5)	40,661	39,270
Deferred Revenue (Note 6)	277,774	453,976
Long Term Debt (Note 7)	<u>376,960</u>	<u>471,684</u>
	<u>1,454,026</u>	<u>1,514,704</u>
 <u>NET FINANCIAL ASSETS (DEBT)</u>	 <u>(710,402)</u>	 <u>(699,489)</u>
 <u>NON-FINANCIAL ASSETS</u>		
Tangible Capital Assets (Schedule 2)	5,230,113	4,717,690
Inventory for consumption	15,647	15,647
Prepaid Expenses	<u>3,863</u>	<u>6,557</u>
	<u>5,249,623</u>	<u>4,739,894</u>
 <u>ACCUMULATED SURPLUS</u> (Schedule 1)	 \$ <u>4,539,221</u>	 \$ <u>4,040,405</u>

Approved by Council:

_____ Mayor

_____ Administrator

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF OPERATIONSfor the year ended the December 31, 2010

	<u>2010</u> <u>ACTUAL</u>	<u>2010</u> <u>BUDGET</u>	<u>2009</u> <u>ACTUAL</u>
<u>REVENUES</u>			
Net Taxes Available for			
Municipal Purpose (Schedule 3) \$	899,082	\$ 910,093	\$ 857,718
Local Improvements	54,032	58,352	43,764
Sales to Other Governments	149,721	60,000	98,170
Sales and User Charges	516,644	664,340	508,566
Penalties and Costs	28,599	20,000	17,266
Licence & Permits	8,452	8,930	9,549
Concessions & Franchises	92,276	90,000	86,221
Return on Investments	2,051	2,500	3,121
Rentals	23,966	25,000	29,270
Gain on Sale of Tangible Capital Assets	7,290	-	-
Provincial Unconditional Grants	-		3,537
Provincial Conditional Grants	275,316	302,043	188,021
Local Government Transfers	8,007	4,020	16,071
Other	16,726	2,850	2,549
	<u>2,082,162</u>	<u>2,148,128</u>	<u>1,863,823</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended the December 31, 2010

<u>EXPENDITURES</u>	2010 <u>ACTUAL</u>	2010 <u>BUDGET</u>	2009 <u>ACTUAL</u>
Legislative	\$ 94,286	\$ 88,040	\$ 93,821
Administration	625,802	658,322	729,982
Fire	36,891	43,183	50,846
Disaster Services	12,487	13,487	8,232
Ambulance	-	-	8,624
By-Law Enforcement	10,098	9,500	8,852
Roads	656,688	617,225	645,676
Storm Sewers	19,656	-	19,654
Water Supply	275,688	667,320	529,770
Sanitary Sewer	113,296	311,659	224,947
Garbage Collection	118,570	142,061	111,752
Family & Community Services	76,672	76,610	71,296
Community Service	1,204	44	1,170
Subdivision Land	-	8,000	3,551
Hall Operations	67,145	55,814	56,783
Arena Operations	52,016	30,490	34,276
Curling Rink Operations	10,698	5,806	7,192
Parks	92,335	266,078	69,466
Library	<u>32,481</u>	<u>41,803</u>	<u>27,604</u>
	<u>2,296,013</u>	<u>3,035,442</u>	<u>2,703,494</u>
Excess (shortfall) of Revenue over Expenses - before other	(213,851)	(887,314)	(839,671)
<u>OTHER</u>			
Government transfers for Capital	<u>712,667</u>	<u>999,280</u>	<u>677,213</u>
Excess (shortfall) of Revenue over Expenses	498,816	111,966	(162,458)
ACCUMULATED SURPLUS, beginning of year	<u>4,040,405</u>		<u>4,202,863</u>
ACCUMULATED SURPLUS, end of year	\$ <u>4,539,221</u>		\$ <u>4,040,405</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)
for the year ended the December 31, 2010

	<u>2010</u> <u>ACTUAL</u>	<u>2009</u> <u>ACTUAL</u>
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ <u>498,816</u>	\$ <u>(162,458)</u>
Acquisition of tangible capital assets	(786,073)	(740,200)
Proceed on Sale of Tangible Capital Assets	27,757	-
Amortization of tangible capital assets	253,183	249,192
(Gain) Loss on sale of Tangible Capital Assets	<u>(7,290)</u>	<u>-</u>
	<u>(512,423)</u>	<u>(491,008)</u>
Acquisition of supplies inventory	-	(54,553)
Acquisition of prepaid assets	-	(6,557)
Use of supply inventory	-	73,563
Use of prepaid assets	<u>2,694</u>	<u>11,351</u>
	<u>2,694</u>	<u>23,804</u>
(INCREASE) DECREASE IN NET DEBT	(10,913)	(629,662)
NET FINANCIAL ASSETS (DEBT), Beginning of year	(699,489)	<u>(69,827)</u>
NET FINANCIAL ASSETS (DEBT), End of year	\$ <u>(710,402)</u>	\$ <u>(699,489)</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended the December 31, 2010

	<u>2010</u> <u>ACTUAL</u>	<u>2009</u> <u>ACTUAL</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenue over expenditures	\$ 498,816	\$ (162,458)
Non-cash items included:		
Amortization of tangible capital assets	253,183	249,192
Loss (Gain) on Sale of tangible capital assets	(7,290)	-
Non-cash charges to operations:		
Decrease (Increase) in Taxes/Grant in Lieu Receivable	(72,966)	(24,880)
Decrease (Increase) in Trade and Other Receivables	71,525	(129,069)
Decrease (Increase) in Land for resale inventory	-	2,151
Decrease (Increase) in Inventory for consumption	-	19,010
Decrease (Increase) in Prepaid Expenses	2,694	4,794
Increase (Decrease) in Accounts Payable	(89,770)	151,391
Increase (Decrease) in Deposit Liabilities	11,410	452
Increase (Decrease) in Deferred Revenue	<u>(187,712)</u>	<u>(122,115)</u>
Cash provided by operating transactions	<u>479,890</u>	<u>(11,532)</u>
CAPITAL		
Sale of tangible capital assets	27,757	-
Acquisition of tangible capital assets	<u>(786,073)</u>	<u>(740,200)</u>
	<u>(758,316)</u>	<u>(740,200)</u>
INVESTING		
Decrease (Increase) in investments	<u>(207)</u>	<u>(406)</u>
FINANCING		
Long-term debt issued	-	330,000
Long-term Debt repaid	<u>(94,724)</u>	<u>(87,919)</u>
Cash provided by financing transactions	<u>(94,724)</u>	<u>242,081</u>
CHANGE IN CASH AND EQUIVALENTS DURING YEAR	(373,357)	(510,057)
Net Cash and Cash Equivalents at Beginning of Year	<u>76,976</u>	<u>587,033</u>
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>(296,381)</u>	\$ <u>76,976</u>
Cash and cash Equivalents is made up of:		
Cash and temporary investments	\$ 293,210	\$ 367,940
Temporary bank indebtedness	<u>(589,591)</u>	<u>(290,964)</u>
	\$ <u>(296,381)</u>	\$ <u>76,976</u>

TOWN OF TWO HILLS
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
For the Year Ended December 31, 2010
Schedule 1

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2010	2009
BALANCE, Beginning of Year	(297,061)	91,460	4,246,006	4,040,405	4,202,863
Excess (deficiency) of Revenue over Expenses	498,816	-	-	498,816	(162,458)
Restricted funds used for tangible capital assets	-	(91,460)	91,460	-	-
Current year funds used for tangible capital assets	(694,611)	-	694,611	-	-
Disposals of tangible capital assets	20,465	-	(20,465)	-	-
Annual amortization expense	253,183	-	(253,183)	-	-
Long term debt repaid	(94,724)	-	94,724	-	-
Change in accumulated surplus	(16,871)	(91,460)	607,147	498,816	(162,458)
BALANCE, End of Year	(313,932)	-	4,853,153	4,539,221	4,040,405
ACCUMULATED AMORTIZATION:					

TOWN OF TWO HILLS
SCHEDULE OF TANGIBLE CAPITAL ASSETS
For the Year Ended December 31, 2010
Schedule 2

	Land		Buildings	Engineered Structures	Machinery Equipment	Vehicles		
	Land	Improvements					2010	2009
COST:								
BALANCE, Beginning of Year	99,701	58,883	2,723,368	8,852,155	1,011,577	71,638	12,817,322	12,077,121
Acquisition of tangible capital assets	-	-	24,590	725,283	36,200	-	786,073	740,200
Disposal of tangible capital assets	-	-	-	-	(212,958)	-	(212,958)	-
BALANCE, End of Year	99,701	58,883	2,747,958	9,577,438	834,819	71,638	13,390,437	12,817,321
ACCUMULATED AMORTIZATION:								
BALANCE, Beginning of Year	-	27,211	2,087,715	5,490,177	442,533	51,996	8,099,632	7,850,439
Annual Amortization	-	3,926	54,578	139,937	50,336	4,406	253,183	249,192
Accumulated Amortization on disposals	-	-	-	-	(192,491)	-	(192,491)	-
BALANCE, End of Year	-	31,137	2,142,293	5,630,114	300,378	56,402	8,160,324	8,099,631
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	99,701	27,746	605,665	3,947,324	534,441	15,236	5,230,113	4,717,690
2009 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS (restated)	99,701	31,672	635,654	3,361,978	569,044	19,641	4,717,690	

TOWN OF TWO HILLS

Schedule of Property and Other Taxes
for the year ended the December 31, 2010

Schedule 3

	2010	2010	2009
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>
<u>LEVIES FOR REVENUE</u>			
Residential	\$ 713,652		\$ 686,546
Commercial	215,900		202,818
Industrial	26,814		11,162
Farm Land	<u>87</u>		<u>76</u>
Subtotal	\$ 956,453		\$ 900,602
Power, Pipe, Cable	84,586		83,841
Federal Grant in Lieu	15,957		16,016
Provincial Grant in Lieu	<u>13,083</u>		<u>12,554</u>
Total Taxes and Grant in Lieu	\$ <u>1,070,079</u>	\$ <u>1,081,090</u>	\$ <u>1,013,013</u>
<u>REQUISITIONS</u>			
Supplementary School	145,346	145,346	135,189
Eagle Hill Foundation	<u>25,651</u>	<u>25,651</u>	<u>20,106</u>
	<u>170,997</u>	<u>170,997</u>	<u>155,295</u>
Net Taxes for Municipal Purposes	\$ <u><u>899,082</u></u>	\$ <u><u>910,093</u></u>	\$ <u><u>857,718</u></u>

TOWN OF TWO HILLSSchedule of Government Transfersfor the year ended the December 31, 2010Schedule 4

	2010	2010	2009
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>
TRANSFERS FOR OPERATING:			
Provincial Government	\$ 275,316	\$ 302,043	\$ 191,558
Other Local Governments	<u>8,007</u>	<u>4,020</u>	<u>16,071</u>
	<u>283,323</u>	<u>306,063</u>	<u>207,629</u>
TRANSFERS FOR CAPITAL:			
Provincial Government	644,008	931,280	677,213
Federal Government	<u>68,659</u>	<u>68,000</u>	<u>-</u>
	<u>712,667</u>	<u>999,280</u>	<u>677,213</u>
TOTAL GOVERNMENT TRANSFERS	\$ <u>995,990</u>	\$ <u>1,305,343</u>	\$ <u>884,842</u>

TOWN OF TWO HILLSSTATEMENT OF CONSOLIDATED EXPENDITURES BY OBJECTfor the year ended December 31, 2010Schedule 5

<u>EXPENDITURES BY OBJECT</u>	2010 <u>ACTUAL</u>	2010 <u>BUDGET</u>	2009 <u>ACTUAL</u>
Salaries, Wages, and Benefits	\$ 761,908	\$ 805,052	\$ 881,740
Contracted and General Service	575,989	1,528,328	842,576
Purchases from Other Governments	105,047	100,968	98,726
Materials, Goods, Supplies, and Utilities	460,245	389,251	514,747
Transfers to Individuals and Organizations	104,341	95,207	96,381
Bank Charges and Short Term Interest	6,747	6,000	5,143
Interest on Capital Long Term Debt	16,912	15,912	8,974
Amortization of Tangible Capital Assets	253,183	-	249,192
Other Expenditures	<u>11,641</u>	<u>94,724</u>	<u>6,015</u>
Total Expenditures	\$ <u>2,296,013</u>	\$ <u>3,035,442</u>	\$ <u>2,703,494</u>

TOWN OF TWO HILLS
SCHEDULE OF SEGMENTED DISCLOSURE
For the Year Ended December 31, 2010
Schedule 6

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	TOTAL
REVENUE								
Net Municipal Taxes	899,082	-	-	-	-	-	-	899,082
Local Improvements	-	-	-	-	-	54,032	-	54,032
Sales to Other Governments	113,971	31,730	-	-	-	-	4,020	149,721
User fees and sale of goods	61,272	3,376	60,978	17,750	15,468	357,801	-	516,645
Penalties & Costs on Taxes	28,599	-	-	-	-	-	-	28,599
Licence & Permits	7,022	1,430	-	-	-	-	-	8,452
Franchise & Concession Contracts	92,276	-	-	-	-	-	-	92,276
Investment income	2,051	-	-	-	-	-	-	2,051
Rentals	23,966	-	-	-	-	-	-	23,966
Gain on Sale of Tangible Capital Assets	-	-	7,290	-	-	-	-	7,290
Federal Government Conditional Transfers	-	-	-	-	-	68,659	-	68,659
Provincial Government Conditional Transfers	31,955	19,941	70,197	-	111,126	625,337	60,767	919,323
Local Government Transfers	-	-	-	-	8,007	-	-	8,007
Other Revenue	6,326	-	-	-	10,400	-	-	16,726
	<u>1,266,520</u>	<u>56,477</u>	<u>138,465</u>	<u>17,750</u>	<u>145,001</u>	<u>1,105,829</u>	<u>64,787</u>	<u>2,794,829</u>

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	TOTAL
EXPENSES								
Salaries & wages	460,544	-	141,852	-	67,375	92,137	-	761,908
Contracted & general Services	167,520	50,338	176,399	1,204	91,737	88,096	695	575,989
Purchases from other governments	-	-	3,000	-	-	102,047	-	105,047
Goods & Supplies	58,032	7,747	240,966	-	36,989	116,493	18	460,245
Transfers to local boards	6,108	-	-	-	22,274	-	-	104,341
Bank Charges & Short term interest	6,747	-	-	-	-	-	-	6,747
Long term debt interest	-	-	806	-	-	15,498	-	16,912
Other expenses	10,499	-	-	-	-	1,142	-	11,641
	<u>709,450</u>	<u>58,085</u>	<u>563,023</u>	<u>1,204</u>	<u>218,983</u>	<u>415,413</u>	<u>76,672</u>	<u>2,042,830</u>

NET REVENUE, BEFORE AMORTIZATION	557,070	(1,608)	(424,568)	16,546	(73,982)	690,416	(11,885)	751,999
Amortization Expense	10,638	1,391	93,665	-	35,692	111,797	-	253,183

NET REVENUE	<u>546,432</u>	<u>(2,999)</u>	<u>(518,223)</u>	<u>16,546</u>	<u>(109,674)</u>	<u>578,619</u>	<u>(11,885)</u>	<u>498,816</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.

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, 2010

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)
December 31, 2010

2. CASH AND TEMPORARY INVESTMENTS

	<u>2010</u>	<u>2009</u>
Cash	\$ 262,666	\$ 311,388
Temporary Investments	<u>30,544</u>	<u>56,552</u>
	<u>\$ 293,210</u>	<u>\$ 367,940</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 \$277,774 (2009 - \$480,050) received from Provincial grants and debentures which are held exclusively for capital projects.

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2010</u>	<u>2009</u>
Current Taxes and Grants in Lieu	\$ 147,913	\$ 83,948
Arrears Taxes	<u>56,197</u>	<u>45,386</u>
	204,110	129,334
Less: Allowance for Doubtful Accounts	<u>(10,581)</u>	<u>(8,771)</u>
	<u>\$ 193,529</u>	<u>\$ 120,563</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2010</u>	<u>2009</u>
Trade and Other Receivables	\$ 123,814	\$ 140,607
Receivable from other governments	80,286	123,696
Less: Allowance for Doubtful Accounts	<u>(43,763)</u>	<u>(33,932)</u>
	<u>\$ 160,337</u>	<u>\$ 230,371</u>

5. DEPOSIT LIABILITIES

	<u>2010</u>	<u>2009</u>
Water Deposits	\$ 24,988	\$ 26,870
Land Option Deposits	9,433	9,600
Garbage Deposits	4,754	2,800
Hall Deposits	<u>1,486</u>	<u>-</u>
	<u>\$ 40,661</u>	<u>\$ 39,270</u>

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2010

6. DEFERRED REVENUE

	<u>2010</u>	<u>2009</u>
Provincial Capital Grants	\$ 245,025	\$ 388,589
Provincial Operating Grants	21,239	56,604
Prepaid Taxes and Utilities	<u>11,510</u>	<u>8,783</u>
	<u>\$ 277,774</u>	<u>\$ 453,976</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>2010</u>	<u>2009</u>
Tax Supported Debentures	\$ 376,960	\$ 471,684
Self Supported Debentures	<u>-</u>	<u>-</u>
	<u>\$ 376,960</u>	<u>\$ 471,684</u>

Principal and interest repayments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2015	33,411	5,974	39,385
Thereafter	<u>145,842</u>	<u>11,698</u>	<u>157,540</u>
	<u>\$ 376,960</u>	<u>\$ 56,107</u>	<u>\$ 433,067</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 2011 through 2019. The average annual interest rate is 3.58% for 2010 (3.90% for 2009). Debenture debt is issued on the credit and security of the Town of Two Hills.

Interest on long term debt amounted to \$16,912 (2009 - \$8,974)

The Town's total cash payments for interest in 2010 were \$23,659 (2009 - \$14,117)

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2010

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>2010</u>	<u>2009</u>
Total Debt Limit	\$ 3,123,243	\$ 2,795,737
Total Debt	<u>966,551</u>	<u>762,648</u>
	\$ <u>2,156,692</u>	\$ <u>2,033,089</u>
Service on Debt Limit	\$ 520,540	\$ 465,956
Service on Debt	<u>684,829</u>	<u>402,600</u>
	\$ <u>(164,289)</u>	\$ <u>63,356</u>

9. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2010</u>	<u>2009</u>
Tangible Capital Assets (Schedule 1)	\$ 13,390,437	\$ 12,817,321
Accumulated Amortization (Schedule 1)	(8,160,324)	(8,099,631)
Long Term Debt	<u>(376,960)</u>	<u>(471,684)</u>
	\$ <u>4,853,153</u>	\$ <u>4,337,466</u>

10. ACCUMULATED SURPLUS

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

	<u>2010</u>	<u>2009</u>
Unrestricted Surplus (Deficit)	\$ (313,932)	\$ (297,061)
Restricted Surplus	-	91,460
Equity in Tangible Capital Assets	<u>4,853,153</u>	<u>4,246,006</u>
	\$ <u>4,539,221</u>	\$ <u>4,040,405</u>

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2010

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>2010</u>		<u>2009</u>	
		Salary	Benefits & Allowances ⁽²⁾	Total	
					Total
Mayor	- Sorochan	3,150	875	4,025	
	- Kussman	11,000	4,566	15,566	
Councillors	- Babiuk	2,675	358	3,033	
	- Gray	2,550	53	2,603	
	- Pawliuk	8,225	4,328	12,553	
	- Rajoo	11,675	2,093	13,768	
	- Saskiw	9,300	243	9,543	
	- Sorochan	10,900	4,373	<u>15,273</u>	
				76,364	78,872
Town Manager		78,000	19,543 ⁽³⁾	97,543	73,804

- (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.

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2010

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.

The Town of Two Hills is leasing a 2005 Volvo G730B grader. This lease calls for payments of \$2,973.89 monthly ending in June, 2014.

The Town of Two Hills is leasing a 2009 Volvo BL70 backhoe. This lease calls for payments of \$1,748.01 monthly ending in June, 2015.

Future payments required:

2011	78,824
2012	77,529
2013	72,315
2014	38,820
2015	10,488

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 amount. 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 2010 were \$36,641 (2009 - \$31,749). Total current service contributions by the employees of the Town to the LAPP in 2010 were \$34,113 (2009 - \$28,098).

At December 31, 2009, 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.

16. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and Management.