

TOWN OF TWO HILLS

FINANCIAL STATEMENTS

DECEMBER 31, 2011

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JOHN M. BEALE, CMA
CERTIFIED MANAGEMENT ACCOUNTANT

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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, 2011 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.

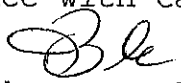
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement on the consolidated financial statements, 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, 2011, 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 23, 2012


John M. Beale, CMA
Certified Management Accountant

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2011

	<u>2011</u>	<u>2010</u>
<u>FINANCIAL ASSETS</u>		
Cash and temporary investments (Note 2)	\$ 1,335,757	\$ 293,210
Receivables		
Taxes and grants in place of taxes (Note 3)	187,077	193,529
Trade and Other Receivable (Note 4)	248,587	160,337
Land for resale inventory	103,712	89,721
Investments Long Term	<u>6,000</u>	<u>6,827</u>
	<u>1,881,133</u>	<u>743,624</u>
 <u>LIABILITIES</u>		
Temporary Bank Indebtedness	\$ -	\$ 589,591
Accounts Payable and accrued liabilities	189,501	169,040
Deposit Liabilities (Note 5)	52,428	40,661
Deferred Revenue (Note 6)	341,862	277,774
Long Term Debt (Note 7)	<u>2,131,950</u>	<u>376,960</u>
	<u>2,715,741</u>	<u>1,454,026</u>
 <u>NET FINANCIAL ASSETS (DEBT)</u>	 <u>(834,608)</u>	 <u>(710,402)</u>
 <u>NON-FINANCIAL ASSETS</u>		
Tangible Capital Assets (Schedule 2)	6,765,840	5,230,113
Inventory for consumption	15,647	15,647
Prepaid Expenses	<u>3,985</u>	<u>3,863</u>
	<u>6,785,472</u>	<u>5,249,623</u>
 <u>ACCUMULATED SURPLUS (Schedule 1)</u>	 \$ <u>5,950,864</u>	 \$ <u>4,539,221</u>

Approved by Council:

_____ Mayor

_____ Administrator

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF OPERATIONSfor the year ended the December 31, 2011

	<u>2011</u> <u>ACTUAL</u>	<u>2011</u> <u>BUDGET</u>	<u>2010</u> <u>ACTUAL</u>
<u>REVENUES</u>			
Net Taxes Available for			
Municipal Purpose (Schedule 3) \$	908,315	\$ 910,092	\$ 899,082
Local Improvements	55,407	55,000	54,032
Sales to Other Governments	184,156	163,545	149,721
Sales and User Charges	526,334	570,242	516,644
Penalties and Costs	36,777	25,000	28,599
Licence & Permits	6,661	6,900	8,452
Concessions & Franchises	96,635	90,000	92,276
Return on Investments	2,640	1,300	2,051
Rentals	33,431	20,000	23,966
Gain on Sale of Tangible Capital Assets	-	-	7,290
Provincial Unconditional Grants	-	-	-
Provincial Conditional Grants	310,746	282,727	275,316
Local Government Transfers	14,701	-	8,007
Other	21,857	7,000	16,726
	<u>2,197,660</u>	<u>2,131,806</u>	<u>2,082,162</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended the December 31, 2011

<u>EXPENDITURES</u>	2011 <u>ACTUAL</u>	2011 <u>BUDGET</u>	2010 <u>ACTUAL</u>
Legislative	\$ 99,670	\$ 90,400	\$ 94,286
Administration	579,815	586,968	625,802
Fire	40,489	39,191	36,891
Disaster Services	3,388	3,386	12,487
Ambulance	-	-	-
By-Law Enforcement	10,392	10,500	10,098
Roads	689,845	643,985	656,688
Storm Sewers	19,654	22,000	19,656
Water Supply	194,925	215,491	275,688
Sanitary Sewer	90,688	78,698	113,296
Garbage Collection	124,078	123,706	118,570
Family & Community Services	77,279	77,207	76,672
Community Service	30,620	36,392	1,204
Subdivision Land	-	5,000	-
Hall Operations	73,129	45,934	67,145
Arena Operations	51,048	49,373	52,016
Curling Rink Operations	18,941	12,326	10,698
Parks	73,004	67,741	92,335
Library	36,412	36,331	32,481
	<u>2,213,377</u>	<u>2,144,629</u>	<u>2,296,013</u>
 Excess (shortfall) of Revenue over Expenses - before other	 (15,717)	 (12,823)	 (213,851)
 <u>OTHER</u>			
Government transfers for Capital	<u>1,427,360</u>	<u>7,530,172</u>	<u>712,667</u>
 Excess (shortfall) of Revenue over Expenses	 1,411,643	 7,517,349	 498,816
 ACCUMULATED SURPLUS, beginning of year	 <u>4,539,221</u>		 <u>4,040,405</u>
ACCUMULATED SURPLUS, end of year	\$ <u>5,950,864</u>		\$ <u>4,539,221</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)
for the year ended the December 31, 2011

	<u>2011</u> <u>ACTUAL</u>	<u>2010</u> <u>ACTUAL</u>
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ <u>1,411,643</u>	\$ <u>498,816</u>
Acquisition of tangible capital assets	(1,797,850)	(786,073)
Proceed on Sale of Tangible Capital Assets	-	27,757
Amortization of tangible capital assets	262,123	253,183
(Gain) Loss on sale of Tangible Capital Assets	<u>-</u>	<u>(7,290)</u>
	(124,084)	<u>(512,423)</u>
Acquisition of supplies inventory	-	-
Acquisition of prepaid assets	(122)	-
Use of supply inventory	-	-
Use of prepaid assets	<u>-</u>	<u>2,694</u>
	<u>(122)</u>	<u>2,694</u>
(INCREASE) DECREASE IN NET DEBT	(124,206)	(10,913)
NET FINANCIAL ASSETS (DEBT), Beginning of year	<u>(710,402)</u>	<u>(699,489)</u>
NET FINANCIAL ASSETS (DEBT), End of year	\$ <u>(834,608)</u>	\$ <u>(710,402)</u>

TOWN OF TWO HILLS
 CONSOLIDATED STATEMENT OF CASH FLOWS
 for the year ended the December 31, 2011

	<u>2011</u> <u>ACTUAL</u>	<u>2010</u> <u>ACTUAL</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenue over expenditures	\$ 1,411,643	\$ 498,816
Non-cash items included:		
Amortization of tangible capital assets	262,123	253,183
Loss (Gain) on Sale of tangible capital assets	-	(7,290)
Non-cash charges to operations:		
Decrease (Increase) in Taxes/Grant in Lieu Receivable	6,452	(72,966)
Decrease (Increase) in Trade and Other Receivables	(88,250)	71,525
Decrease (Increase) in Land for resale inventory	(13,991)	-
Decrease (Increase) in Inventory for consumption	-	-
Decrease (Increase) in Prepaid Expenses	(122)	2,694
Increase (Decrease) in Accounts Payable	20,461	(89,770)
Increase (Decrease) in Deposit Liabilities	11,845	11,410
Increase (Decrease) in Deferred Revenue	<u>64,010</u>	<u>(187,712)</u>
Cash provided by operating transactions	<u>1,674,171</u>	<u>479,890</u>
CAPITAL		
Sale of tangible capital assets	-	27,757
Acquisition of tangible capital assets	<u>(1,797,850)</u>	<u>(786,073)</u>
	<u>(1,797,850)</u>	<u>(758,316)</u>
INVESTING		
Decrease (Increase) in investments	<u>827</u>	<u>(207)</u>
FINANCING		
Long-term debt issued	1,855,421	-
Long-term Debt repaid	<u>(100,431)</u>	<u>(94,724)</u>
Cash provided by financing transactions	<u>1,754,990</u>	<u>(94,724)</u>
CHANGE IN CASH AND EQUIVALENTS DURING YEAR	1,632,138	(373,357)
Net Cash and Cash Equivalents at Beginning of Year	<u>(296,381)</u>	<u>76,976</u>
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>1,335,757</u>	\$ <u>(296,381)</u>
Cash and cash Equivalents is made up of:		
Cash and temporary investments	\$ 1,335,757	\$ 293,210
Temporary bank indebtedness	<u>-</u>	<u>(589,591)</u>
	\$ <u>1,335,757</u>	\$ <u>(296,381)</u>

TOWN OF TWO HILLS
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
For the Year Ended December 31, 2011
Schedule 1

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2011	2010
BALANCE, Beginning of Year	(313,932)	-	4,853,153	4,539,221	4,040,405
Excess (deficiency) of Revenue over Expenses	1,411,643	-	-	1,411,643	498,816
Restricted funds used for tangible capital assets	-	-	-	-	-
Current year funds used for tangible capital assets	(1,397,763)	-	1,397,763	-	-
Disposals of tangible capital assets	-	-	-	-	-
Annual amortization expense	262,123	-	(262,123)	-	-
Long term debt repaid	(100,431)	-	100,431	-	-
Unexpended Capital Funding	-	1,455,334	(1,455,334)	-	-
Change in accumulated surplus	175,572	1,455,334	(219,263)	1,411,643	498,816
BALANCE, End of Year	(138,360)	1,455,334	4,633,890	5,950,864	4,539,221
ACCUMULATED AMORTIZATION:					

TOWN OF TWO HILLS
SCHEDULE OF TANGIBLE CAPITAL ASSETS
For the Year Ended December 31, 2011
Schedule 2

	Land	Land Improvements	Buildings	Engineered Structures	Machinery Equipment	Vehicles	Construction in Process	2011	2010
COST:									
BALANCE, Beginning of Year	99,701	58,883	2,747,958	9,577,438	834,819	71,638	-	13,390,437	12,817,322
Acquisition of tangible capital assets	-	-	5,750	392,162	144,980	-	1,254,958	1,797,850	786,073
Disposal of tangible capital assets	-	-	-	-	-	-	-	-	(212,958)
BALANCE, End of Year	99,701	58,883	2,753,708	9,969,600	979,799	71,638	1,254,958	15,188,287	13,390,437

ACCUMULATED AMORTIZATION:

BALANCE, Beginning of Year	-	31,137	2,142,293	5,630,114	300,378	56,402	-	8,160,324	8,099,632
Annual Amortization	-	3,926	54,347	144,227	55,216	4,407	-	262,123	253,183
Accumulated Amortization on disposals	-	-	-	-	-	-	-	-	(192,491)
BALANCE, End of Year	-	35,063	2,196,640	5,774,341	355,594	60,809	-	8,422,447	8,160,324

NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS

	99,701	23,820	557,068	4,195,259	624,205	10,829	1,254,958	6,765,840	5,230,113
2010 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	99,701	27,746	605,665	3,947,324	534,441	15,236	15,236	5,230,113	5,230,113

TOWN OF TWO HILLS

Schedule of Property and Other Taxes
for the year ended the December 31, 2011

Schedule 3

	2011 <u>ACTUAL</u>	2011 <u>BUDGET</u>	2010 <u>ACTUAL</u>
<u>LEVIES FOR REVENUE</u>			
Residential	\$ 731,314		\$ 713,652
Commercial	224,369		215,900
Industrial	27,070		26,814
Farm Land	<u>86</u>		<u>87</u>
Subtotal	\$ 982,839		\$ 956,453
Power, Pipe, Cable	80,414		84,586
Federal Grant in Lieu	15,699		15,957
Provincial Grant in Lieu	<u>13,865</u>		<u>13,083</u>
Total Taxes and Grant in Lieu	\$ <u>1,092,817</u>	\$ <u>1,094,594</u>	\$ <u>1,070,079</u>
<u>REQUISITIONS</u>			
Supplementary School	159,011	159,011	145,346
Eagle Hill Foundation	<u>25,491</u>	<u>25,491</u>	<u>25,651</u>
	<u>184,502</u>	<u>184,502</u>	<u>170,997</u>
Net Taxes for Municipal Purposes	\$ <u><u>908,315</u></u>	\$ <u><u>910,092</u></u>	\$ <u><u>899,082</u></u>

TOWN OF TWO HILLS

Schedule of Government Transfers
for the year ended the December 31, 2011

Schedule 4

	2011 <u>ACTUAL</u>	2011 <u>BUDGET</u>	2010 <u>ACTUAL</u>
TRANSFERS FOR OPERATING:			
Provincial Government	\$ 310,746	\$ 282,727	\$ 275,316
Other Local Governments	<u>14,701</u>	<u>-</u>	<u>8,007</u>
	<u>325,447</u>	<u>282,727</u>	<u>283,323</u>
TRANSFERS FOR CAPITAL:			
Provincial Government	1,427,360	7,530,172	712,667
Federal Government	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,427,360</u>	<u>7,530,172</u>	<u>712,667</u>
TOTAL GOVERNMENT TRANSFERS	\$ <u>1,752,807</u>	\$ <u>7,812,899</u>	\$ <u>995,990</u>

TOWN OF TWO HILLSSTATEMENT OF CONSOLIDATED EXPENDITURES BY OBJECTfor the year ended December 31, 2011Schedule 5

<u>EXPENDITURES BY OBJECT</u>	2011 <u>ACTUAL</u>	2011 <u>BUDGET</u>	2010 <u>ACTUAL</u>
Salaries, Wages, and Benefits	\$ 756,188	\$ 752,408	\$ 761,908
Contracted and General Service	449,066	460,488	575,989
Purchases from Other Governments	114,061	111,360	105,047
Materials, Goods, Supplies, and Utilities	455,403	396,732	460,245
Transfers to Individuals and Organizations	106,614	101,096	104,341
Bank Charges and Short Term Interest	13,585	6,000	6,747
Interest on Capital Long Term Debt	50,800	53,345	16,912
Amortization of Tangible Capital Assets	262,123	263,200	253,183
Other Expenditures	5,537	-	11,641
Total Expenditures	\$ <u>2,213,377</u>	\$ <u>2,144,629</u>	\$ <u>2,296,013</u>

TOWN OF TWO HILLS
SCHEDULE OF SEGMENTED DISCLOSURE
For the Year Ended December 31, 2011
Schedule 6

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	TOTAL
REVENUE								
Net Municipal Taxes	908,315	-	-	-	-	-	-	908,315
Local Improvements	-	-	-	-	-	55,407	-	55,407
Sales to Other Governments	139,123	37,570	-	4,020	3,443	-	-	184,156
User fees and sale of goods	33,120	7,434	16,484	33,782	19,257	416,257	-	526,334
Penalties & Costs on Taxes	36,777	-	-	-	-	-	-	36,777
Licence & Permits	6,021	640	-	-	-	-	-	6,661
Franchise & Concession Contracts	96,635	-	-	-	-	-	-	96,635
Investment income	2,640	-	-	-	-	-	-	2,640
Rentals	33,431	-	-	-	-	-	-	33,431
Gain on Sale of Tangible Capital Assets	-	-	-	-	-	-	-	-
Federal Government Conditional Transfers	-	-	-	-	-	-	-	-
Provincial Government Conditional Transfers	20,821	8,271	442,880	-	164,132	1,030,064	71,938	1,738,106
Local Government Transfers	3,897	-	-	-	10,804	-	-	14,701
Other Revenue	2,777	-	-	-	19,080	-	-	21,857
	<u>1,283,557</u>	<u>53,915</u>	<u>459,364</u>	<u>37,802</u>	<u>216,716</u>	<u>1,501,728</u>	<u>71,938</u>	<u>3,625,020</u>
EXPENSES								
Salaries & wages	439,283	-	199,949	-	50,644	43,037	-	732,913
Contracted & general Services	152,381	45,605	137,918	11,089	91,348	33,368	632	472,341
Purchases from other governments	-	-	-	3,690	-	110,371	-	114,061
Goods & Supplies	52,965	7,272	252,533	10,841	52,496	78,608	688	455,403
Transfers to local boards	8,407	-	-	5,000	17,248	-	-	106,614
Bank Charges & Short term interest	13,585	-	-	-	-	-	-	13,585
Long term debt interest	-	-	236	-	266	50,298	-	50,800
Other expenses	4,174	-	-	-	-	1,363	-	5,537
	<u>670,795</u>	<u>52,877</u>	<u>590,636</u>	<u>30,620</u>	<u>212,002</u>	<u>317,045</u>	<u>77,279</u>	<u>1,951,254</u>
NET REVENUE, BEFORE AMORTIZATION	612,762	1,038	(131,272)	7,182	4,714	1,184,683	(5,341)	1,673,766
Amortization Expense	8,686	1,391	99,209	-	40,034	112,301	502	262,123
NET REVENUE	<u>604,076</u>	<u>(353)</u>	<u>(230,481)</u>	<u>7,182</u>	<u>(35,320)</u>	<u>1,072,382</u>	<u>(5,843)</u>	<u>1,411,643</u>

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. This 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, 2011

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, 2011

2. CASH AND TEMPORARY INVESTMENTS

	<u>2011</u>	<u>2010</u>
Cash	\$ 963,242	\$ 262,666
Temporary Investments	<u>372,515</u>	<u>30,544</u>
	<u>\$ 1,335,757</u>	<u>\$ 293,210</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 \$1,797,196 (2010 - \$277,774) received from Provincial grants and debentures which are held exclusively for capital projects.

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2011</u>	<u>2010</u>
Current Taxes and Grants in Lieu	\$ 130,102	\$ 147,913
Arrears Taxes	<u>68,201</u>	<u>56,197</u>
	198,303	204,110
Less: Allowance for Doubtful Accounts	<u>(11,226)</u>	<u>(10,581)</u>
	<u>\$ 187,077</u>	<u>\$ 193,529</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2011</u>	<u>2010</u>
Trade and Other Receivables	\$ 132,031	\$ 123,814
Receivable from other governments	165,211	80,286
Less: Allowance for Doubtful Accounts	<u>(48,655)</u>	<u>(43,763)</u>
	<u>\$ 248,587</u>	<u>\$ 160,337</u>

5. DEPOSIT LIABILITIES

	<u>2011</u>	<u>2010</u>
Land Option Deposits	\$ 29,600	\$ 9,433
Water Deposits	19,816	24,988
Garbage Deposits	1,995	4,754
Hall Deposits	<u>1,017</u>	<u>1,486</u>
	<u>\$ 52,428</u>	<u>\$ 40,661</u>

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2011

6. DEFERRED REVENUE

	<u>2011</u>	<u>2010</u>
Provincial Capital Grants	\$ 330,150	\$ 245,025
Prepaid Taxes and Utilities	11,712	11,510
Provincial Operating Grants	<u> -</u>	<u>21,239</u>
	<u>\$ 341,862</u>	<u>\$ 277,774</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>2011</u>	<u>2010</u>
Tax Supported Debentures	\$ 2,104,187	\$ 376,960
Bank Loans	<u>27,763</u>	<u> -</u>
	<u>\$ 2,131,950</u>	<u>\$ 376,960</u>

Principal and interest repayments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 117,966	\$ 83,841	\$ 201,807
2013	70,675	80,622	151,297
2014	73,401	77,896	151,297
2015	76,234	75,063	151,297
2016	79,176	72,121	151,297
Thereafter	<u>1,714,498</u>	<u>897,101</u>	<u>2,611,599</u>
	<u>\$ 2,131,950</u>	<u>\$ 1,286,644</u>	<u>\$ 3,418,594</u>

Debenture debt is repayable to Alberta Municipal Financing Corporation and bears interest at rates ranging from 3.49% to 4.971%, and mature in periods 2012 through 2041. The average annual interest rate is 4.01% for 2011 (3.58% for 2010). Debenture debt is issued on the credit and security of the Town of Two Hills.

Bank loan is payable on demand. It carries interest at the rate of 3.00%. It is secured by a lean on two mowers.

Interest on long term debt amounted to \$50,800 (2010 - \$16,912)

The Town's total cash payments for interest in 2011 were \$64,385 (2010 - \$23,659)

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2011

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>2011</u>	<u>2010</u>
Total Debt Limit	\$ 3,296,490	\$ 3,123,243
Total Debt	<u>2,131,950</u>	<u>966,551</u>
	\$ <u>1,164,540</u>	\$ <u>2,156,692</u>
Service on Debt Limit	\$ 549,415	\$ 520,540
Service on Debt	<u>201,807</u>	<u>684,829</u>
	\$ <u>347,608</u>	\$ <u>(164,289)</u>

9. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2011</u>	<u>2010</u>
Tangible Capital Assets (Schedule 2)	\$ 15,188,287	\$ 13,390,437
Accumulated Amortization (Schedule 2)	(8,422,447)	(8,160,324)
Long Term Debt	<u>(2,131,950)</u>	<u>(376,960)</u>
	\$ <u>4,633,890</u>	\$ <u>4,853,153</u>

10. ACCUMULATED SURPLUS

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

	<u>2011</u>	<u>2010</u>
Unrestricted Surplus (Deficit)	\$ (138,360)	\$ (313,932)
Restricted Surplus	1,455,334	-
Equity in Tangible Capital Assets	<u>4,633,890</u>	<u>4,853,153</u>
	\$ <u>5,950,864</u>	\$ <u>4,539,221</u>

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2011

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>2011</u>	<u>2010</u>
	Salary	Benefits & Allowances ⁽²⁾	Total	Total
Mayor - Sorochan	18,550	5,384	23,934	
Councillors - Babiuk	12,175	2,113	14,288	
- Gray	11,325	2,427	13,752	
- Rajoo	13,775	2,130	15,905	
- Saskiw	9,875	2,409	<u>12,284</u>	
			80,163	76,364
Town Manager	80,833	20,580 ⁽³⁾	101,413	97,543

- (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. SEGMENTED DISCLOSURE

The Town of Two Hills provides a range of services to its ratepayers. For each reported segment, revenue and expenses represent both amounts that are directly attributable to the segment and amounts that allocated on a reasonable basis. The accounting policies used in there segments are consistent with those followed in the preparation of the financial statements as disclosed in Note 1.

Refer to the Schedule of Segmented Disclosure (schedule 6)

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2011

12. LEASES

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:

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 2011 were \$33,051 (2010 - \$36,641). Total current service contributions by the employees of the Town to the LAPP in 2011 were \$30,186 (2010 - \$34,113).

At December 31, 2010, the LAPP disclosed an actuarial deficiency of \$4.635 billion.