

TOWN OF PENHOLD

FINANCIAL STATEMENTS

DECEMBER 31, 2010

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AUDITORS' REPORT

To the Members of Council
Town of Penhold

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Town of Penhold, which comprise the consolidated statement of financial position as at December 31, 2010, the consolidated statement of operations, the consolidated statement of change in net financial assets (debt) and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 is 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 of 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 of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Town of Penhold as at December 31, 2010 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 public sector accounting standards.

Red Deer, Alberta
April 4, 2011

Chartered Accountants

**TOWN OF PENHOLD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010**


	2010	2009
FINANCIAL ASSETS		
Cash and temporary investments (Note 2).....	\$ 143,422	\$ 1,905,164
Accounts receivable		
Taxes and grants in place of taxes (Note 3)	186,895	171,957
Trade and other receivables (Note 4)	<u>882,157</u>	<u>4,272,702</u>
	<u>1,212,474</u>	<u>6,349,823</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 245,728	\$ 1,768,515
Deferred revenue (Note 7).....	→ 41,641	2,984,382
Employee benefit obligations (Note 6)	95,049	-
Long-term debt (Note 8)	<u>2,500,000</u>	<u>-</u>
	<u>2,882,418</u>	<u>4,752,897</u>
NET FINANCIAL ASSETS (DEBT)	<u>(1,669,944)</u>	<u>1,596,926</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 1)	<u>31,754,300</u>	<u>20,531,239</u>
ACCUMULATED SURPLUS (Note 11)	<u>\$ 30,084,356</u>	<u>\$ 22,128,165</u>

CONTINGENCIES (Note 15)

On Behalf of Council:



Mayor



Town Administrator

See accompanying notes to financial statements

TOWN OF PENHOLD

**CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budget (Unaudited)	2010	2009
REVENUE			
Net municipal taxes (Schedule 2)	\$ 1,820,863	\$ 1,862,220	\$ 1,792,521
User fees and sales of goods	2,303,699	1,690,214	1,515,986
Government transfers for operating (Schedule 3)	438,602	1,079,773	607,988
Investment income	10,000	9,886	85,434
Penalties and costs of taxes	30,000	48,561	34,612
Fines and costs	33,250	53,911	26,820
Franchise and concession contract	115,000	167,383	115,673
	<u>4,751,414</u>	<u>4,911,948</u>	<u>4,179,034</u>
EXPENSES			
Administration	387,286	436,971	334,286
Amortization	-	736,695	290,606
Family and community support	186,594	206,705	190,457
Fire, ambulance and bylaw enforcement	274,851	234,329	219,265
Land use planning, zoning and development	236,537	209,034	165,961
Legislative	232,772	197,975	138,976
Recreation, parks and culture	829,089	917,594	318,331
Roads, streets, walks, and lighting	347,723	425,257	425,607
Water supply and distribution	177,944	155,053	131,315
Waste management	114,176	109,084	99,421
Waste water treatment and disposal	481,307	511,808	423,396
Loss (gain) on disposal of capital assets	-	(1,279)	7,397
	<u>3,268,279</u>	<u>4,139,226</u>	<u>2,745,018</u>
EXCESS OF REVENUE OVER EXPENSES - BEFORE OTHER	1,483,135	772,722	1,434,016
OTHER			
Contributed assets	-	2,005,527	1,190,326
Government transfers for capital (Schedule 3) ..	10,964,208	5,177,942	6,954,119
EXCESS OF REVENUE OVER EXPENSES	<u>12,447,343</u>	<u>7,956,191</u>	<u>9,578,461</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>22,128,165</u>	<u>22,128,165</u>	<u>12,549,704</u>
ACCUMULATED SURPLUS, END OF YEAR	<u>\$ 34,575,508</u>	<u>\$ 30,084,356</u>	<u>\$ 22,128,165</u>

See accompanying notes to financial statements

TOWN OF PENHOLD

**CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (DEBT)
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budget (Unaudited)	2010	2009
EXCESS OF REVENUE OVER EXPENSES	\$ 12,447,343	\$ 7,956,191	\$ 9,578,461
Acquisition of tangible capital assets	(5,978,412)	(7,504,630)	(11,469,734)
Contributed tangible capital assets	-	(2,005,527)	(1,190,326)
Proceeds on disposal of tangible capital assets.....	-	51,230	358,003
Amortization of tangible capital assets.....	-	736,695	290,606
Loss (gain) on sale of tangible capital assets.....	-	(1,279)	7,397
	<u>(5,978,412)</u>	<u>(8,723,511)</u>	<u>(12,004,054)</u>
Acquisition of long term debt	-	(2,500,000)	-
Acquisition of prepaid assets	-	-	400,480
	<u>-</u>	<u>(2,500,000)</u>	<u>400,480</u>
(INCREASE) DECREASE IN NET DEBT	6,468,931	(3,267,320)	(2,025,113)
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	<u>1,596,926</u>	<u>1,596,926</u>	<u>3,622,039</u>
NET FINANCIAL ASSETS (DEBT), END OF YEAR	\$ <u>8,065,857</u>	\$ <u>(1,670,394)</u>	\$ <u>1,596,926</u>

See accompanying notes to financial statements

TOWN OF PENHOLD

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	2010	2009
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenue over expenses	\$ 7,956,191	\$ 9,578,461
Non-cash items included in excess of revenues over expenses:		
Amortization of tangible capital assets	736,695	290,606
Loss (gain) on disposal of tangible capital assets.....	(1,279)	7,397
Tangible capital assets received as contributions.....	(2,005,527)	(1,190,326)
Non-cash charges to operations (net change):		
Increase in taxes and grants in lieu receivable	(14,939)	(70,548)
Decrease (increase) in trade and other receivables ...	3,390,546	(3,874,147)
Decrease (increase) in prepaid expenses	-	400,480
Increase (decrease) in accounts payable and accrued liabilities	(1,427,288)	1,008,200
Decrease in deposit liabilities	-	(10,131)
Increase (decrease) in deferred revenue	<u>(2,942,741)</u>	<u>432,935</u>
Cash provided by operating transactions	<u>5,691,658</u>	<u>6,572,927</u>
CAPITAL		
Acquisition of tangible capital assets.....	(10,004,630)	(11,469,734)
Proceeds on disposal of tangible capital assets.....	51,230	358,003
Cash applied to capital transactions.....	<u>(9,953,400)</u>	<u>(11,111,731)</u>
INVESTING		
Decrease in investments	-	5,168,140
Cash provided by investment activities.....	<u>-</u>	<u>5,168,140</u>
FINANCING		
Proceeds from long term debt	<u>2,500,000</u>	-
Cash provided by financing transactions	<u>2,500,000</u>	-
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR.....	(1,761,742)	629,336
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,905,164</u>	<u>1,275,828</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>143,422</u>	\$ <u>1,905,164</u>

SUPPLEMENTARY INFORMATION (Note 13)

See accompanying notes to financial statements

TOWN OF PENHOLD
SCHEDULE OF TANGIBLE CAPITAL ASSETS
YEAR ENDED DECEMBER 31, 2010

	Land	Land Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2010	2009
COST								
BALANCE, BEGINNING OF YEAR	\$ 1,442,930	\$ 758,052	\$ 10,285,954	\$ 11,248,409	\$ 921,300	\$ 394,762	\$ 25,051,407	\$ 15,265,861
Acquisition of tangible capital assets	-	470,879	7,713,926	2,725,090	1,085,233	15,029	12,010,157	12,660,060
Disposal of tangible capital assets	-	-	-	-	(55,746)	-	(55,746)	(2,874,514)
BALANCE, END OF YEAR	<u>1,442,930</u>	<u>1,228,931</u>	<u>17,999,880</u>	<u>13,973,499</u>	<u>1,950,787</u>	<u>409,791</u>	<u>37,005,818</u>	<u>25,051,407</u>
ACCUMULATED AMORTIZATION								
BALANCE, BEGINNING OF YEAR	-	47,907	289,233	3,818,764	213,597	150,667	4,520,168	6,738,676
Annual Amortization	-	51,839	330,290	214,459	111,979	28,129	736,696	290,606
Accumulated amortization on disposals	-	-	-	-	(5,346)	-	(5,346)	(2,509,114)
BALANCE, END OF YEAR	-	<u>99,746</u>	<u>619,523</u>	<u>4,033,223</u>	<u>320,230</u>	<u>178,796</u>	<u>5,251,518</u>	<u>4,520,168</u>
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 1,442,930</u>	<u>\$ 1,129,185</u>	<u>\$ 17,380,357</u>	<u>\$ 9,940,276</u>	<u>\$ 1,630,557</u>	<u>\$ 230,995</u>	<u>\$ 31,754,300</u>	<u>\$ 20,531,239</u>
2009 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 1,442,930</u>	<u>\$ 710,145</u>	<u>\$ 9,996,721</u>	<u>\$ 7,429,645</u>	<u>\$ 707,703</u>	<u>\$ 244,095</u>	<u>\$ 20,531,239</u>	

See accompanying notes to financial statements

TOWN OF PENHOLD
SCHEDULE OF PROPERTY AND OTHER TAXES
YEAR ENDED DECEMBER 31, 2010

	Budget (Unaudited)	2010	2009
TAXATION			
Real property taxes	\$ 2,229,352	\$ 2,258,256	\$ 2,143,381
Linear property taxes	<u>45,589</u>	<u>56,865</u>	<u>60,511</u>
	<u>2,274,941</u>	<u>2,315,121</u>	<u>2,203,892</u>
REQUISITIONS			
Alberta School Foundation Fund	454,078	450,234	408,573
Autumn Glen Seniors Lodge.....	<u>-</u>	<u>2,667</u>	<u>2,798</u>
	<u>454,078</u>	<u>452,901</u>	<u>411,371</u>
NET MUNICIPAL TAXES	\$ <u>1,820,863</u>	\$ <u>1,862,220</u>	\$ <u>1,792,521</u>

See accompanying notes to financial statements

TOWN OF PENHOLD
SCHEDULE OF GOVERNMENT TRANSFERS
YEAR ENDED DECEMBER 31, 2010

	Budget (Unaudited)	2010	2009
TRANSFERS FOR OPERATING			
Provincial government.....	\$ 397,604	\$ 1,019,521	\$ 540,079
Other local governments.....	<u>40,998</u>	<u>60,252</u>	<u>67,909</u>
	<u>438,602</u>	<u>1,079,773</u>	<u>607,988</u>
TRANSFERS FOR CAPITAL			
Federal government.....	5,373,444	1,525,388	3,502,946
Provincial government.....	<u>5,590,764</u>	<u>3,652,554</u>	<u>3,451,173</u>
	<u>10,964,208</u>	<u>5,177,942</u>	<u>6,954,119</u>
TOTAL GOVERNMENT TRANSFERS	\$ <u>11,402,810</u>	\$ <u>6,257,715</u>	\$ <u>7,562,107</u>

See accompanying notes to financial statements

TOWN OF PENHOLD

**SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT
YEAR ENDED DECEMBER 31, 2010**

CONSOLIDATED EXPENSES BY OBJECT	Budget (Unaudited)	2010	2009
Salaries, wages and benefits	\$ 1,552,982	\$ 1,496,411	\$ 1,116,969
Contracted and general services	911,519	951,603	728,108
Materials, goods and utilities	338,215	400,524	176,722
Transfers to local boards and agencies	81,903	85,549	69,900
Bank charges and short-term interest.....	13,980	59,296	11,199
Purchases from other governments.....	369,680	410,427	344,116
Amortization of tangible capital assets.....	-	736,695	290,607
Loss (gain) on disposal of tangible capital assets.....	-	(1,279)	7,397
	<u>\$ 3,268,279</u>	<u>\$ 4,139,226</u>	<u>\$ 2,745,018</u>

See accompanying notes to financial statements

TOWN OF PENHOLD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010**1. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Town of Penhold are the representations of management in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants ("CICA"). Significant aspects of the accounting policies adopted by the Town are as follows:

a) Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, and changes in fund balances and change in financial position of the reporting entity. This entity is comprised of the municipal operations plus all of the organizations that are owned or controlled by the Town and are, therefore, 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 any trust assets that may be administered for the benefit of external parties. Interdepartmental and organizational transactions and balances are eliminated.

b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based on receipt of goods or services and/or the legal obligation to pay.

Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used for certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed or the tangible capital assets are acquired.

c) Use of Estimates

The preparation of the 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. Estimates are used when accounting for items and matters such as amortization, employee benefits, contributed assets and contingencies.

TOWN OF PENHOLD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Cash and Temporary Investments

The policy of the Town is to disclose bank balances and temporary investments under cash and temporary investments, including bank overdrafts with balances that fluctuate from being positive to overdrawn and temporary investments with a maturity of three months or less from the date of acquisition.

e) Requisition Over-levy and Under-levy

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

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

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

f) Prepaid Local Improvement Charges

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

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

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

g) Government Transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or the result of a direct financial return.

Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be determined.

TOWN OF PENHOLD

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)***h) Non-Financial Assets***

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets, together with the excess of revenues over expenses, provides the consolidated Change in Net Financial Assets (Debt) for the year.

i. Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to the acquisition, construction, development, or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

Land improvements	15 to 45 years
Buildings	25 to 50 years
Roadway system	5 to 65 years
Water distribution system	45 to 75 years
Wastewater treatment system	45 to 75 years
Other engineered structures	5 to 25 years
Vehicles	10 to 20 years

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

ii. Contributions of Tangible Capital Assets

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

iii. Leases

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

iv. Cultural and Historical Tangible Assets

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

TOWN OF PENHOLD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010

2. CASH AND TEMPORARY INVESTMENTS

	2010	2009
Cash	\$ 2,430,732	\$ 1,317,792
Temporary investments	512,690	587,372
Line of credit (Note 5)	<u>(2,800,000)</u>	<u>-</u>
	<u>\$ 143,422</u>	<u>\$ 1,905,164</u>

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

Included in the temporary investments is a restricted amount of \$512,690 (2009 - \$587,372) held exclusively for capital infrastructure projects.

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLE

	2010	2009
Current taxes and grants in place of taxes	\$ 139,616	\$ 130,571
Arrears taxes	<u>47,279</u>	<u>41,386</u>
	<u>\$ 186,895</u>	<u>\$ 171,957</u>

4. TRADE AND OTHER RECEIVABLES

	2010	2009
Utility accounts receivable	\$ 50,423	\$ 50,584
Goods and services tax recoverable	85,724	305,662
Trade and other receivables	53,975	324,267
Multiplex capital grants receivable	692,035	3,499,533
Red Deer County - WRSB	<u>-</u>	<u>92,656</u>
	<u>\$ 882,157</u>	<u>\$ 4,272,702</u>

5. LINE OF CREDIT

The Town has a municipal revolving loan of \$700,000 to help with cash flow requirements. The line of credit is currently inactive but if used would require monthly interest payments at ATB Financial's prime lending rate per annum. The effective interest rate at December 31, 2010 is 3.00% (2009 - 2.35%). The line of credit is issued on the credit and security of the Town of Penhold at large and is reviewed annually.

The Town has an additional line of credit of \$4,700,000 designated as capital financing under Borrowing Bylaw 649/09. The line of credit requires monthly interest payments at ATB Financial's prime lending rate plus 0.10% per annum. The effective interest rate at December 31, 2010 is 3.10% (2009 - 2.35%). The Town has drawn \$2,800,000 on the line of credit in 2010 (2009 - \$nil). The line of credit is issued on the credit and security of the Town of Penhold at large and is reviewed annually.

TOWN OF PENHOLD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010**6. EMPLOYEE BENEFIT OBLIGATIONS**

Employee benefit obligations represent vacation, overtime and sick time that employees are deferring to future years. Employees have either earned the benefits (and are vested) or are entitled to these benefits within the next budgetary year.

7. DEFERRED REVENUE

Deferred revenue represents provincial and federal government grants and other amounts received during the year and deferred to match with the anticipated expenses to be incurred in a future reporting period.

8. LONG-TERM DEBT

	2010	2009
Tax supported debenture	\$ <u>2,500,000</u>	\$ <u> -</u>

The current portion of the long term debt amounts to \$82,514 (2009 - nil).
Principal and interest repayments are as follows:

	Principal	Interest	Total
2011	\$ 82,514	\$ 102,258	\$ 184,772
2012	85,952	98,820	184,772
2013	89,533	95,239	184,772
2014	93,264	91,508	184,772
2015	97,149	87,623	184,772
Thereafter	<u>2,051,588</u>	<u>719,992</u>	<u>2,771,580</u>
	<u>\$ 2,500,000</u>	<u>\$ 1,195,440</u>	<u>\$ 3,695,440</u>

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at 4.124% (2009 - nil) per annum and matures in 2030.

Debenture debt is issued on the credit and security of the Town at large.

Interest on long-term debt amounted to \$nil (2009 -\$nil).

TOWN OF PENHOLD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010

9. DEBT LIMITS

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

	2010	2009
Total debt limit	\$ 7,367,922	\$ 6,268,551
Total debt	<u>2,500,000</u>	<u>-</u>
Amount of debt limit unused	<u>\$ 4,867,922</u>	<u>\$ 6,268,551</u>
Debt servicing limit	\$ 1,227,987	\$ 1,044,759
Debt servicing	<u>184,772</u>	<u>-</u>
Amount of debt servicing limit unused	<u>\$ 1,043,215</u>	<u>\$ 1,044,759</u>

The debt limit is calculated at 1.5 times the revenue of the municipality (as defined in Alberta Regulations 255/00) and the debt service limit is calculated at 0.25 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify municipalities that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the municipality. Rather, the financial statements must be interpreted as a whole.

10. EQUITY IN TANGIBLE CAPITAL ASSETS

	2010	2009
Tangible capital assets (Schedule 1)	\$ 37,005,818	\$ 25,051,407
Accumulated amortization (Schedule 1)	(5,251,518)	(4,520,168)
Long-term debt (Note 8)	<u>(2,500,000)</u>	<u>-</u>
	<u>\$ 29,254,300</u>	<u>\$ 20,531,239</u>

The Town of Penhold owns an antique caboose that is on permanent display at the southern entrance to the Town. The caboose was donated to the Town and has significant cultural and historical value in perpetuity. The caboose is not recorded as a tangible capital asset in the financial statements and is not amortized.

TOWN OF PENHOLD

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

11. ACCUMULATED SURPLUS

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

	2010	2009
Unrestricted surplus (deficit)	\$ 408,584	\$ (1,342,699)
Restricted surplus		
Administration	-	7,000
Family and community support	-	12,840
Fire, ambulance and bylaw	245,039	250,000
Recreation	176,433	2,191,701
Transportation	-	230,958
Water and sewer	-	247,126
Equity in tangible capital assets	<u>29,254,300</u>	<u>20,531,239</u>
	<u>\$ 30,084,356</u>	<u>\$ 22,128,165</u>

12. SALARY AND BENEFITS DISCLOSURE

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

	Salary ¹	Benefits ²	2010 Total	2009 Total
Mayor Cooper	\$ 8,487	\$ 4,294	\$ 12,781	\$ 14,697
Past Mayor King	14,307	7,204	21,511	22,374
Councilor Dodman W.	1,988	1,045	3,033	-
Councilor Sitter	10,995	5,548	16,543	14,542
Councilor Hoffman	2,205	1,153	3,358	-
Councilor Jones	7,961	4,032	11,993	10,597
Councilor Klein	1,755	928	2,683	-
Councilor Klooster	9,745	4,923	14,668	14,122
Councilor Dodman M.	5,490	2,796	8,286	6,831
Councilor Yargeau	5,940	3,021	8,961	11,872
Chief Administrative Officer	<u>111,532</u>	<u>16,233</u>	<u>127,765</u>	<u>120,186</u>
	<u>\$ 180,405</u>	<u>\$ 51,177</u>	<u>\$ 231,582</u>	<u>\$ 215,221</u>

1. Salaries include regular base pay, 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, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, professional memberships and municipal officers expense allowance.

TOWN OF PENHOLD

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

13. STATEMENT OF CASH FLOWS - SUPPLEMENTARY INFORMATION:

	2010	2009
Cash	\$ 2,430,732	\$ 1,317,792
Temporary investments	512,690	587,372
Bank indebtedness	<u>(2,800,000)</u>	<u>-</u>
	<u>\$ 143,422</u>	<u>\$ 1,905,164</u>

Included in Statement of Changes in Cash Flow are the following amounts:

Investment income received	<u>\$ 9,886</u>	<u>\$ 85,433</u>
Interest expense paid.....	<u>\$ 59,296</u>	<u>\$ 11,199</u>

14. LOCAL AUTHORITIES PENSION PLAN

Employees of the Town of Penhold participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pension Plans Act. The LAPP serves about 200,000 people and 418 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 of Penhold is required to make current service contributions to the Plan of 9.06% of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings and 12.53% for the excess. Employees of the Town of Penhold are required to make current service contributions of 8.06% on the first \$47,200 of pensionable salary and 11.53% thereafter.

Total current and past service contributions by the Town of Penhold to the LAPP in 2010 were \$71,475 (2009 - \$50,365). Total current and past service contributions by the employees of Town of Penhold to the LAPP in 2010 were \$64,140 (2009 - \$45,094).

At December 31, 2009, the Plan disclosed an actuarial deficiency of \$4.0 billion.

15. CONTINGENCIES

The Town is a member of the Alberta Municipal Insurance Exchange ("MUNIX"). Under the terms of membership, the Town 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 of Penhold is a stakeholder in the Central Alberta Regional Waste Management Commission. The Commission's continuance as a going concern is contingent on its ability to fund post-closure costs and disbursements of the Riverview solid waste management site. In order to fund post-closure and debenture costs, the Commission expects to rely on requisitions from its member municipalities.

TOWN OF PENHOLD

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**15. CONTINGENCIES (Continued)**

The Town of Penhold is one of six municipal stakeholders in the South Red Deer Regional Waste Water Commission. The Commission's continuance as a going concern is contingent on its ability to fund post-closure costs and disbursements of the regional waste water pipeline. In order to fund post-closure and debenture costs, the Commission expects to rely on requisitions from its member municipalities.

The Town has not accrued any liability for their stake in either Commission. If a liability is created, it will be recorded in the year the liability is confirmed.

The Town is a party to claims and litigation arising in the normal course of operations. The Town does not expect the resolution of these matters to have a materially adverse effect on the financial position or results of operations of the Town. No provision for these claims and litigations have been made in these financial statements. Should a loss result from these claims, such loss would be accounted for as an expense in the period in which the loss is determined or can be reasonable estimated.

16. FINANCIAL INSTRUMENTS***Fair Value***

The Town's financial instruments consist of cash and temporary investments, accounts receivable, accounts payable, accrued liabilities and deposit liabilities. There are no significant differences between the carrying values of these amounts and their estimated market value due to the short term maturities of these instruments.

Credit Risk

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 fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

Interest Rate Risk

The Town is exposed to interest rate risk on debt instruments to the extent of changes in the prime interest rate.

It is management's opinion that the Town is not exposed to significant interest or credit risks arising from these financial instruments.

17. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.