

SYLVAIN & DORAN

Certified General Accountants

BIRCH HILLS COUNTY

Financial Statements

For the Year Ended December 31, 2010



Leaders in Business

BIRCH HILLS COUNTY
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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SYLVAIN & DORAN

Certified General Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of Council
BIRCH HILLS COUNTY

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of BIRCH HILLS COUNTY, 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 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Falher, Alberta
March 14, 2011


CERTIFIED GENERAL ACCOUNTANTS

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

	2010	(Restated) 2009
FINANCIAL ASSETS	\$	\$
Cash and temporary investments (Note 2)	8,912,337	7,049,747
Receivables		
Taxes and grants in place of taxes (Note 3)	174,137	307,635
From other governments	377,485	305,975
Trade and other	803,919	569,855
Land held for resale inventory	6,684	6,684
Investments (Note 4)	8,719,116	7,749,436
	18,993,678	15,989,332
LIABILITIES		
Accounts payable and accrued liabilities	392,899	165,727
Deposit liabilities	35,293	32,750
Deferred revenue (Note 5)	387,088	19,817
Employee benefit obligations (Note 6)	50,520	57,625
Provision for landfill closure and post-closure costs (Note 7)	330,000	330,000
	1,195,800	605,919
NET FINANCIAL ASSETS (DEBT)	17,797,878	15,383,413
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 9)	47,272,400	49,704,868
Inventory for consumption	1,511,017	1,428,664
Prepaid expenses	50,227	50,145
	48,833,644	51,183,677
ACCUMULATED SURPLUS (Schedule 1, Note 11)	66,631,522	66,567,090

Contingencies - See Note 15

APPROVED ON BEHALF OF COUNCIL

Frank Cooper
Chief Administrative Officer

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2010

REVENUE	Budget	2010	2009
	(Unaudited)		
	\$	\$	\$
Net municipal taxes (Schedule 3)	5,335,187	5,347,812	5,924,873
Well drilling	23,000	57,265	21,056
User fees and sales of goods	490,013	324,027	263,793
Government transfers for operating (Schedule 4)	889,124	1,269,732	1,005,763
Penalties and costs on taxes	46,000	27,031	46,864
Licenses and permits	3,000	2,266	3,642
Franchise and concession contracts	6,500	5,478	6,428
Investment income	205,000	321,950	275,796
Rentals	13,600	18,463	14,105
Other revenues	146,900	91,716	108,232
Gain on disposal of tangible capital assets	-	-	11,531
Total Revenue	7,158,324	7,465,740	7,682,083
EXPENSES (Schedule 5 - By Object)			
Legislative	120,000	113,714	107,331
Administration	667,516	637,766	652,356
Fire fighting and protective services	238,849	181,390	205,326
Disaster and emergency services	500	-	-
Ambulance and first aid	19,500	11,781	13,815
Roads, streets, walks, lighting	5,322,596	5,366,429	7,345,511
Airport	500	500	500
Storm sewers and drainage	10,500	2,430	35,347
Water supply and distribution	842,210	448,927	398,759
Wastewater treatment and disposal	285,400	67,429	33,780
Waste management	130,400	142,598	86,957
Public health and welfare	49,348	39,235	34,463
Cemetery	1,100	1,500	1,100
Land use planning, zoning and development	29,125	30,861	26,658
Economic/agricultural development	239,999	308,007	160,132
Subdivision land development	-	-	2,919
Parks and recreation	100,700	101,053	100,960
Culture	24,398	22,506	16,801
Total Expenses	8,082,641	7,476,126	9,222,715
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	(924,317)	(10,386)	(1,540,632)
OTHER			
Government transfers for capital (Schedule 4)	924,317	74,818	543,391
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	-	64,432	(997,241)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	66,567,090	66,567,090	67,564,331
ACCUMULATED SURPLUS, END OF YEAR	66,567,090	66,631,522	66,567,090

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)

For the Year Ended December 31, 2010

	Budget (Unaudited)	2010	2009
	\$	\$	\$
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	-	64,432	(997,241)
Acquisition of tangible capital assets	-	(601,169)	(1,549,394)
Proceeds on disposal of tangible capital assets	-	221,575	420,494
Amortization of tangible capital assets	2,191,420	2,788,044	4,305,198
Loss (gain) on sale of tangible capital assets	-	24,018	52,779
	2,191,420	2,432,468	3,229,077
Acquisition of supplies inventories	-	(855,041)	(631,117)
Acquisition of prepaid assets	-	(50,227)	(50,145)
Use of supplies inventories	-	772,688	805,531
Use of prepaid assets	-	50,145	48,555
	-	(82,435)	172,824
(INCREASE) DECREASE IN NET DEBT	2,191,420	2,414,465	2,404,660
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	15,383,413	15,383,413	12,978,753
NET FINANCIAL ASSETS (DEBT), END OF YEAR	17,574,833	17,797,878	15,383,413

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
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 (shortfall) of revenues over expenses	64,432	(997,241)
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	2,788,044	4,305,198
Loss (gain) on disposal of tangible capital assets	24,018	52,779
Non-cash charges to operations (net change):		
Decrease (increase) in taxes and grants in lieu receivable	133,498	(83,173)
Decrease (increase) in receivable from other governments	(71,510)	1,717,209
Decrease (increase) in trade and other receivables	(234,064)	(9,922)
Decrease (increase) in land held for resale	-	2,919
Decrease (increase) in deposit on tangible capital assets	-	272,797
Decrease (increase) in inventory for consumption	(82,353)	174,414
Decrease (increase) in prepaid expenses	(82)	(1,590)
Increase (decrease) in accounts payable and accrued liabilities	227,172	(243,906)
Increase (decrease) in deposit liabilities	2,543	(2,468)
Increase (decrease) in deferred revenue	367,271	(399,793)
Increase (decrease) in employee benefit obligations	(7,105)	6,477
Increase (decrease) in provision for landfill closure	-	-
Cash provided by operating transactions	3,211,864	4,793,700
CAPITAL		
Acquisition of tangible capital assets	(601,169)	(1,549,394)
Sale of tangible capital assets	221,575	420,494
Cash provided by (applied to) capital transactions	(379,594)	(1,128,900)
INVESTING		
Decrease (increase) in restricted cash or cash equivalents	(332,975)	402,261
Decrease (increase) in investments	(969,680)	(2,011,335)
Cash provided by (applied to) investing transactions	(1,302,655)	(1,609,074)
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	1,529,615	2,055,726
CASH AND CASH EQUIVALENTS (SHORTAGE), BEGINNING OF YEAR	6,995,634	4,939,908
CASH AND CASH EQUIVALENTS (SHORTAGE), END OF YEAR	8,525,249	6,995,634
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 2)	8,912,337	7,049,747
Less: restricted portion of cash and temporary investments (Note 2)	(387,088)	(54,113)
	8,525,249	6,995,634

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

Schedule 1

SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS

For the Year Ended December 31, 2010

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2010	2009
	\$	\$	\$	\$	\$
BALANCE, BEGINNING OF YEAR	1,362,868	15,499,354	49,704,868	66,567,090	61,526,052
Excess (deficiency) of revenues over expenses	64,432	-	-	64,432	(997,421)
Unrestricted funds designated for future use	(140,984)	140,984	-	-	-
Restricted funds used for operations	-	-	-	-	-
Restricted funds used for tangible capital assets	-	(537,675)	537,675	-	-
Current year funds used for tangible capital assets	(63,494)	-	63,494	-	-
Contributed tangible capital assets	-	-	-	-	-
Disposal of tangible capital assets	245,593	-	(245,593)	-	-
Annual amortization expense	2,788,044	-	(2,788,044)	-	-
CHANGE IN ACCUMULATED SURPLUS	2,893,591	(396,691)	(2,432,468)	64,432	(997,421)
BALANCE, END OF YEAR	4,256,459	15,102,663	47,272,400	66,631,522	60,528,631

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

Schedule 2

SCHEDULE OF TANGIBLE CAPITAL ASSETS

For the Year Ended December 31, 2010

	Land	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2010	(Restated) 2009
	\$	\$	\$	\$	\$	\$	\$
COST:							
BALANCE, BEGINNING OF YEAR	806,028	5,771,436	175,632,756	3,230,472	1,661,045	187,101,737	180,447,200
Acquisition of tangible capital assets	4,184	-	116,169	376,997	84,046	581,396	2,085,751
Construction-in-progress	-	-	19,773	-	-	19,773	5,501,922
Disposal of tangible capital assets	-	-	(117,031)	(357,427)	-	(474,458)	(933,136)
Write down of tangible capital assets	-	-	-	-	-	-	-
BALANCE, END OF YEAR	810,212	5,771,436	175,651,667	3,250,042	1,745,091	187,228,448	187,101,737
ACCUMULATED AMORTIZATION:							
BALANCE, BEGINNING OF YEAR	-	695,729	135,150,048	982,477	568,615	137,396,869	133,551,534
Annual amortization	-	115,629	2,281,696	249,402	141,317	2,788,044	4,305,198
Accumulated amortization on disposals	-	-	(96,865)	(132,000)	-	(228,865)	(459,863)
BALANCE, END OF YEAR	-	811,358	137,334,879	1,099,879	709,932	139,956,048	137,396,869
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	810,212	4,960,078	38,316,788	2,150,163	1,035,159	47,272,400	49,704,868
2009 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	806,028	5,075,707	40,482,708	2,247,995	1,092,430	49,704,868	

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

Schedule 3

SCHEDULE OF PROPERTY AND OTHER TAXES

For the Year Ended December 31, 2010

	Budget (Unaudited)	2010	2009
	\$	\$	\$
TAXATION			
Real property taxes	2,805,960	2,811,306	3,062,021
Linear property taxes	3,539,900	3,546,644	3,897,710
Government grants in place of property taxes	25,667	25,716	25,904
	<u>6,371,527</u>	<u>6,383,666</u>	<u>6,985,635</u>
REQUISITIONS			
Alberta School Foundation Fund	1,019,999	1,019,513	1,045,553
Grande Spirit Seniors Foundation	16,341	16,341	15,209
	<u>1,036,340</u>	<u>1,035,854</u>	<u>1,060,762</u>
NET MUNICIPAL TAXES	<u>5,335,187</u>	<u>5,347,812</u>	<u>5,924,873</u>

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
SCHEDULE OF GOVERNMENT TRANSFERS

Schedule 4

For the Year Ended December 31, 2010

	Budget (Unaudited)	2010	2009
	\$	\$	\$
TRANSFERS FOR OPERATING			
Federal Government	-	-	-
Provincial Government	889,124	1,265,732	1,005,763
Local Government	-	4,000	-
	889,124	1,269,732	1,005,763
TRANSFERS FOR CAPITAL			
Federal Government	-	-	-
Provincial Government	924,317	74,818	543,391
Local Government	-	-	-
	924,317	74,818	543,391
TOTAL GOVERNMENT TRANSFERS	1,813,441	1,344,550	1,549,154

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY

Schedule 5

SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT

For the Year Ended December 31, 2010

	Budget (Unaudited)	2010	2009
	\$	\$	\$
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	1,554,150	1,431,320	1,484,050
Contracted and general services	2,688,220	1,804,455	1,897,143
Materials, goods and utilities	1,477,950	1,261,051	1,288,659
Provision for allowances	-	7,687	6,211
Transfers to local boards and agencies	167,101	154,130	171,255
Transfers to individuals and organizations	1,500	2,675	1,375
Bank charges and short-term interest	1,300	1,751	1,313
Other expenditures	1,000	995	3,201
Amortization of tangible capital assets	2,191,420	2,788,044	4,305,198
Loss on disposal of tangible capital assets	-	24,018	64,310
	8,082,641	7,476,126	9,222,715

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
SCHEDULE OF SEGMENTED DISCLOSURE

Schedule 6

For the Year Ended December 31, 2010

	General Government					Protective Services			Transportation Services			Planning & Recreation			Environmental Services			Other		Total	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	2010	
REVENUE																					
Net municipal taxes	5,347,812	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,347,812
Well drilling	57,265	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	57,265
User fees and sales of goods	11,434	12,434	125,696	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	324,027
Government transfers for operating	8,712	4,000	965,692	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,269,732
Penalties and costs on taxes	27,031	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,031
Licenses and permits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,266
Franchise and concession contracts	5,478	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,478
Investment income	321,950	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	321,950
Rentals	3,575	-	7,013	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,463
Other revenues	45,718	-	44,080	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	91,716
	5,828,975	16,434	1,142,481	3,744	114,683	183,557	175,866	7,465,740													
EXPENSES																					
Salaries, wages and benefits	354,283	26,034	696,796	29,694	1,625	186,150	136,738	1,431,320													
Contracted and general services	310,282	31,531	1,139,845	1,167	6,867	200,259	114,504	1,804,455													
Materials, goods and utilities	44,777	68,690	981,051	-	6,000	123,010	37,523	1,261,051													
Provision for allowances	7,687	-	-	-	-	-	-	7,687													
Transfers to local boards and agencies	-	-	-	-	-	-	-	-													
Transfers to individuals and organizations	2,175	-	500	-	107,053	-	47,077	154,130													
Bank charges and short-term interest	1,751	-	-	-	-	-	-	2,675													
Other expenditures	995	-	-	-	-	-	-	1,751													
Loss on disposal of tangible capital assets	-	-	24,018	-	-	-	-	995													
	721,950	126,255	2,842,210	30,861	121,545	509,419	335,842	4,688,082													
Net revenue before amortization and government transfers for capital	5,107,025	(109,821)	(1,699,729)	(27,117)	(6,862)	(325,862)	(159,976)	2,777,658													
Amortization	(29,530)	(55,135)	(2,524,719)	-	(2,015)	(151,965)	(24,680)	(2,788,044)													
Government transfers for capital	13,252	-	25,140	-	-	36,426	-	74,818													
NET REVENUE (SHORTFALL)	5,090,747	(164,956)	(4,199,308)	(27,117)	(8,877)	(441,401)	(184,656)	64,432													

See accompanying schedules and notes to the financial statements.

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES

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

a) Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, changes in fund balances and change in financial position of the reporting entity. This entity is comprised of the municipal operations plus all of the organizations that are owned or controlled by the COUNTY and are, therefore, accountable to the COUNTY Council for the administration of their financial affairs and resources. Included with the municipality are the following:

Central Peace Medical Clinic

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 revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon 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 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.

BIRCH HILLS COUNTY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES - CON'T

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 investments. When there has been a loss in 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 un-matured long-term debt, less actuarial requirements for the retirement of any sinking fund debentures.

f) Requisition Over-levy and Under-levy

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

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

Requisition tax rates in the subsequent year are adjusted for any over-levies or under-levies 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 water and wastewater services, roads, sidewalks and street lighting are recorded as physical assets under their respective function.

h) 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.

i) Landfill Closure and Post-Closure Liability

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

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES - CON'T

j) 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 the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be determined.

k) 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 during the year, 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 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:

	YEARS
Buildings	25-50
Engineered structures	
Bridges	variable
Water system	40
Wastewater system	40
Other engineered structures	20-40
Machinery and equipment	5-15
Vehicles	7-15

Annual amortization is charged in the year of acquisition and no amortization is charged in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

ii. Contributions 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 of 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. 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.

BIRCH HILLS COUNTY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

2. CASH AND TEMPORARY INVESTMENTS

	2010	2009
	\$	\$
Cash	7,451,433	1,894,602
Temporary investments	1,460,904	5,155,145
	8,912,337	7,049,747

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

Included in temporary investments is a restricted amount of \$387,088 (2009 - \$54,113) received from the provincial and other local government being held exclusively for specific projects.

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLES

	2010	2009
	\$	\$
Current taxes and grants in place of taxes	127,816	139,124
Arrears taxes	116,153	230,656
	243,969	369,780
Less: Allowance for doubtful accounts	69,832	62,145
	174,137	307,635

4. INVESTMENTS

	2010		2009	
	Cost	Market Value	Cost	Market Value
	\$	\$	\$	\$
Debenture borrowing shares	80	80	80	80
Equity held in A.A.M.D. & C.	2,581	2,581	2,742	2,742
Long-term GIC's	525,253	525,253	1,660,141	1,660,141
Public corporation bonds	8,191,202	8,722,733	6,086,473	6,456,175
	8,719,116	9,250,647	7,749,436	8,119,138

Public corporation bonds have effective interest rates of 1.55% to 4.75% (2009 - 1.00% to 4.75%) with maturity dates from January 10, 2011 to November 16, 2015.

Council has designated funds of \$2,311,356 (2009 \$2,628,687) included in the above amounts for building, equipment, roads, water lines and engineered structures, wastewater lines and engineered structures, cemetery, and parks replacement and tax rate stabilization.

BIRCH HILLS COUNTY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

5. DEFERRED REVENUE

	2010	2009
	\$	\$
Provincial government transfers		
FCSS grant	-	15,817
Municipal Sustainability Initiative	387,088	-
	387,088	15,817
Other local government grant	-	4,000
	387,088	19,817

Provincial funding as per above \$387,088 remain unspent at year-end. The use of these funds is restricted to eligible projects as approved under the funding agreements. Unexpended funds related to the advance are supported by temporary investments of \$387,088 held exclusively for these projects (refer Note 2).

6. EMPLOYEE BENEFIT OBLIGATIONS

	2010	2009
	\$	\$
Vacation and overtime	50,520	57,625

Vacation and overtime

The vacation and overtime liability is comprised of the vacation and overtime 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. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

Alberta environmental law requires closure and post-closure care of landfill sites, which includes final covering and landscaping, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspections and maintenance.

The accrued liability for closure and post-closure of the COUNTY's landfill is recognized, using management's estimated costs for closure and post-closure care. Management is unable to estimate how many years that post-closure care could be required.

The COUNTY has not designated assets for setting closure and post-closure liabilities. The following summarizes the total estimated costs of closure and post-closure care:

	\$
Estimated closure costs	260,000
Estimated post-closure costs	70,000
Estimated total costs	330,000
Actual closure and post-closure costs incurred to date	-
Ending balance, December 31, 2010	330,000

BIRCH HILLS COUNTY**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 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 BIRCH HILLS COUNTY be disclosed as follows:

	2010	2009
	\$	\$
Total debt limit	11,310,837	11,523,125
Total debt	-	-
Amount of debt limit unused	11,310,837	11,523,125
Debt servicing limit	1,885,140	1,920,521
Debt servicing	-	-
Amount of debt servicing above limit	1,885,140	1,920,521

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

9. TANGIBLE CAPITAL ASSETS

Net Book Value	(Restated)	
	2010	2009
	\$	\$
Land	810,212	806,028
Buildings	4,960,078	1,188,984
Buildings - construction-in-progress	-	3,886,723
Engineered Structures		
Roadway system	36,428,357	38,553,012
Water distribution system	1,776,156	126,528
Water distribution system - construction-in-progress	36,986	1,720,936
Wastewater treatment system	75,289	82,232
Machinery, equipment, and furnishings	2,150,163	2,247,995
Vehicles	1,035,159	1,092,430
	47,272,400	49,704,868

10. EQUITY IN TANGIBLE CAPITAL ASSETS

	(Restated)	
	2010	2009
	\$	\$
Tangible capital assets (Schedule 2)	187,228,448	187,101,737
Accumulated amortization (Schedule 2)	(139,956,048)	(137,396,869)
	47,272,400	49,704,868

BIRCH HILLS COUNTY**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended December 31, 2010

11. ACCUMULATED SURPLUS

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

	2010	2009
	\$	\$
Unrestricted surplus (deficit)	4,256,459	1,362,868
Restricted surplus		
Tax rate stabilization	8,119,336	8,655,032
Tangible Capital Asset Replacement		
Administration	243,015	238,110
Fire services	723,978	709,366
Roads, streets, etc.	2,668,247	2,614,395
Water supply	961,122	943,661
Wastewater treatment	235,982	231,219
Waste management	821,102	804,530
Other public health and welfare	157,053	153,883
Agricultural services	26,873	26,331
Recreation and halls	2,238	2,193
Contingency	1,143,717	1,120,634
Equity in tangible capital assets	47,272,400	49,704,868
	66,631,522	66,567,090

12. SEGMENTED DISCLOSURE

BIRCH HILLS COUNTY provides a range of services to its ratepayers. For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The accounting policies used in these 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)

BIRCH HILLS COUNTY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

13. SALARY AND BENEFITS DISCLOSURE

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

	Salary(1)	Benefits & Allowances(2)	2010 Total	2009 Total
Reeve:				
EMERSON, Shirley	6,350	3,860	10,210	12,888
Councillors:				
DORAN, Marvin	1,967	983	2,950	-
FARKASH, Al	1,467	1,099	2,566	-
JANZEN, Dale	6,367	5,539	11,906	11,383
JONES, Todd	1,533	767	2,300	-
LOVE, Fiona	4,667	4,224	8,891	12,159
LUNN, Carmen	5,600	2,814	8,414	12,073
MAZULENKO, Gerald	6,367	3,340	9,707	9,729
SATHER, Dennis	6,000	5,197	11,197	10,904
SMITH, Warren	6,117	5,401	11,518	10,920
	46,435	33,224	79,659	80,056
Chief Administrative Officer:				
COOPER, Irene	78,009	11,726	89,735	110,949
	124,444	44,950	169,394	191,005

1) Salary includes regular base pay, bonuses, overtime, lump sum payments, retiring allowances, gross honoraria and any other direct cash remuneration.

2) For reeve and councillors, benefits and allowances consists of travel and general non-accountable expense allowances. For chief administrative officer, benefits and allowances consists of employer's share of Canada pension plan, employment insurance, pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, and long and short-term disability plans.

BIRCH HILLS COUNTY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

14. LOCAL AUTHORITIES PENSION PLAN

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

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

BIRCH HILLS COUNTY is required to make current service contributions to the LAPP of 9.06% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 12.53% on pensionable earnings above this amount. Employees of the BIRCH HILLS COUNTY are required to make current service contributions of 8.06% of pensionable salary up to the year's maximum pensionable salary and 11.53% on pensionable salary above this amount.

Total current service contributions by BIRCH HILLS COUNTY to the LAPP in 2010 were \$79,098 (2009: \$64,494). Total current service contributions by the employees of BIRCH HILLS COUNTY to the Local Authorities Pension Plan in 2009 were \$72,056 (2009: \$57,610).

At December 31, 2009, the LAPP disclosed an actuarial deficiency of \$1,288.9 million.

15. CONTINGENCIES

The county is a member of the Genesis Reciprocal Insurance Exchange. Under the terms of the membership, the County could become liable for its proportionate share of any claim losses in excess of the funds held by the exchange. Any liability incurred would be accounted for as a current transaction in the year the losses are determined.

16. GOVERNMENT PARTNERSHIP

A Co-Owners agreement between the Village of Rycroft, Town of Spirit River, Municipal District of Spirit River No. 133 and Birch Hills County was made the 1st day of February, 2004. Each Co-Owner is the registered owner of an undivided 25% tenancy-in-common interest in the property of the Central Peace Medical Clinic. The primary purpose of this agreement is to provide and maintain a building to rent to the doctors whereby they can provide medical services to local residents. This investment is accounted for by the proportionate consolidation method. The following information was taken from the December 31, 2009 audited financial statement:

	2010	2009
	\$	\$
Share of assets (25%)	57,636	56,356
Share of liabilities (25%)	(337)	(300)
	57,299	56,056
Total revenues	21,600	21,600
Total expenditures	(16,630)	(11,785)
	4,970	9,815
Share of surplus for the year ended December 31 (25%)	1,243	2,454

BIRCH HILLS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

17. FINANCIAL INSTRUMENTS

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

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

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

18. PRIOR PERIOD ADJUSTMENTS

The County has restated its financial statements to account for an error in omitting purchases of tangible capital assets that were construction-in-progress during the transition year where their tangible capital asset policy was implemented. These adjustments are as follows:

	2009
	\$
Adjustments to tangible capital assets:	
As previously reported	43,666,589
Adjustment to historical cost of tangible capital assets	6,038,279
As restated	49,704,868