

AUDITORS' REPORT

To the Reeve and Members of Council  
of the County of Two Hills No. 21

We have audited the consolidated statement of financial position of the County of Two Hills No. 21 as at December 31, 2004 and the consolidated statement of financial activities with change in fund balances, statements of municipal revenues and expenditures, operating revenue, expenditures with change in fund balances and the consolidated statement of changes in financial position and the schedules supporting these statements for the year then ended. These consolidated financial statements are the responsibility of the County's administration. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by administration, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the municipality as at December 31, 2004 and the results of its financial activities and changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1.

Vegreville, Alberta  
February 17, 2005

*Wilde & Company*

Chartered Accountants

**COUNTY OF TWO HILLS NO. 21**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at December 31, 2004

	2004	2003
<b>ASSETS</b>		
Financial Assets		
Cash and temporary investments - note 2	\$ 5,890,533	\$ 5,929,303
Restricted cash funds	35,122	34,424
Taxes and grants in place of taxes receivable - note 3	123,795	103,478
Receivables from other governments	261,542	109,178
Trade and other receivables	802,718	620,860
Prepaid expenses	735,382	956,335
Investment in Gas Alberta Inc. - note 5	42,836	42,836
<b>Total financial assets</b>	<b>7,891,928</b>	<b>7,796,414</b>
Physical Assets		
Inventory - note 4	373,347	380,574
Capital assets - note 6	17,856,787	17,192,906
<b>TOTAL ASSETS</b>	<b>\$ 26,122,062</b>	<b>\$ 25,369,894</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 890,018	\$ 807,605
Due to Regional Waste Management Commission	167,159	216,987
Deposit liabilities	6,800	7,000
Deferred revenue - grants	374,701	288,765
<b>Total current liabilities</b>	<b>1,438,678</b>	<b>1,320,357</b>
Trust liabilities	35,122	34,424
<b>TOTAL LIABILITIES</b>	<b>1,473,800</b>	<b>1,354,781</b>
Contingencies - note 9		
<b>MUNICIPAL EQUITY</b>		
Operating fund - page 2	2,136,081	2,126,331
Equity in capital assets - note 10	17,856,787	17,192,906
Reserve fund - note 7	4,655,394	4,695,876
<b>TOTAL MUNICIPAL EQUITY</b>	<b>24,648,262</b>	<b>24,015,113</b>
<b>TOTAL LIABILITIES AND MUNICIPAL EQUITY</b>	<b>\$ 26,122,062</b>	<b>\$ 25,369,894</b>

ON BEHALF OF THE COUNTY OF TWO HILLS NO. 21

  
\_\_\_\_\_  
Reeve

  
\_\_\_\_\_  
Administrator

**COUNTY OF TWO HILLS NO. 21**

**CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES WITH CHANGE IN FUND BALANCES**

For the year ended December 31, 2004

	Capital	Reserves	Operating	2004	2003
	\$	\$	\$	\$	\$
<b>Revenues</b>					
Net municipal taxes - page 5			3,761,407	3,761,407	3,761,407
Sales of goods and services			269,798	269,798	269,798
Government transfers			1,321,029	1,321,029	1,321,029
Investment income			86,697	86,697	86,697
Penalties and costs of taxes			14,388	14,388	14,388
Other revenue own sources			81,611	81,611	81,611
Natural gas	177,957		2,945,117	3,123,074	2,945,117
	177,957	---	8,480,047	8,658,004	7,822,047
<b>Expenditures</b>					
General government	9,441		848,483	857,924	848,483
Protective services	---		101,169	101,169	101,169
Transportation services	674,346		3,410,341	4,084,687	4,084,687
Water, sewer and garbage	67,747		85,832	153,579	67,747
Agriculture services	33,201		273,233	306,434	33,201
Recreation, culture and other	---		97,910	97,910	97,910
Natural gas	197,132		2,889,901	3,087,033	2,889,901
	981,867	---	7,706,869	8,688,736	8,480,047
Excess of revenues over expenditures	(803,910)		773,178	(30,732)	(5,000)
<b>Interfund transfers</b>					
From (to) capital	458,369	---	(458,369)	---	---
Transfer from reserves - note 7	345,541	(445,541)	100,000	---	---
Transfer to reserves - note 7	---	405,059	(405,059)	---	---
Change in fund balances	---	(40,482)	9,750	(30,732)	(30,732)
Balance, beginning of year	---	4,695,876	2,126,331	6,822,207	6,822,207
<b>Balance, end of year</b>	---	<b>4,655,394</b>	<b>2,136,081</b>	<b>6,791,475</b>	<b>6,791,475</b>

**COUNTY OF TWO HILLS NO. 21**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
For the year ended December 31, 2004

	<b>2004</b>	<b>2003</b>
<b>Excess of revenues over expenditures - page 2</b>	\$ (30,732)	\$ (2,248,972)
Net operating revenue		
Add (deduct) net changes in non-cash operating working capital balances		
(Increase) decrease in taxes receivables and under-levy	(20,317)	(1,942)
(Increase) decrease in due from government	(152,364)	38,375
(Increase) decrease in trade receivables	(181,858)	12,187
(Increase) decrease in inventory	7,227	51,668
(Increase) decrease in prepaid expenses	220,953	67,911
Increase (decrease) in accounts payable	82,413	245,313
Increase (decrease) in due to Regional Waste Management Commission	(49,828)	(134,723)
Increase (decrease) in deposit liabilities	(200)	1,400
Increase (decrease) in deferred revenues	85,936	(66,514)
	(8,038)	213,675
<i>Net cash provided by operating activities</i>	(38,770)	(2,035,297)
<b>Investing</b>		
Decrease in restricted cash and temporary investments (reserves)	40,482	2,261,925
<i>Net cash (used in) investing activities</i>	40,482	2,261,925
Change in cash and cash equivalents during the year	1,712	226,628
Cash and cash equivalents, beginning of year	1,233,427	1,006,799
<b>Cash and cash equivalents, end of year</b>	\$ 1,235,139	\$ 1,233,427
<b>Cash and cash equivalents is made up of:</b>		
Cash and temporary investments - note 2	\$ 5,890,533	\$ 5,929,303
Less: restricted portion of cash and temporary investments - note 2	(4,655,394)	(4,695,876)
	\$ 1,235,139	\$ 1,233,427

**COUNTY OF TWO HILLS NO. 21**  
**STATEMENT OF MUNICIPAL REVENUES AND EXPENDITURES**  
For the year ended December 31, 2004

	2004			2003	
	Revenues	Expenditures	Net revenue (expenditure)	Unaudited Budget	Net revenue (expenditure)
	\$	\$	\$	\$	\$
<b>General Municipal Revenues to fund Municipal Operations</b>					
Municipal taxes (page 5)	3,761,407		3,761,407	3,747,782	3,484,634
Unconditional grants	109,035		109,035	109,035	109,035
Interest and dividends	86,697		86,697	70,000	125,033
Penalties, costs of taxes	14,388		14,388	12,000	11,431
Other revenue	4,233		4,233	5,500	6,872
	3,975,760		3,975,760	3,944,317	3,737,005
<b>Municipal Operations</b>					
Legislative	---	158,213	(158,213)	(158,800)	(148,446)
Administrative	99,465	690,270	(590,805)	(648,080)	(436,722)
Protective services	18,360	101,169	(82,809)	(111,300)	(107,518)
Common services	1,218,443	3,410,341	(2,191,898)	(2,697,294)	(1,538,546)
Landfill/water	58,110	85,832	(27,722)	(36,715)	91,140
Agriculture services	137,760	273,233	(135,473)	(157,766)	(151,295)
Recreation	27,032	81,180	(54,148)	(79,595)	(36,270)
Culture	---	16,730	(16,730)	(16,730)	(12,626)
<b>Excess (deficiency) of revenues over expenditures</b>	5,534,930	4,816,968	717,962	38,037	1,396,722
Transfers to reserves			(375,059)	---	2,137,696
Transfer from reserves			445,541	408,677	
Transfers to capital assets			(784,737)	(446,714)	(3,530,223)
<b>Changes in operating fund during the year</b>			3,707	---	4,195

See accompanying notes

**COUNTY OF TWO HILLS NO. 21**  
**SCHEDULE OF PROPERTY TAXES**  
 For the year ended December 31, 2004

	2004 \$	2003 \$
<b>LEVIES</b>		
Residential land and improvements	474,967	412,841
Farmland	1,568,721	1,656,056
Non-resident land, improvements, machinery and equipment	3,368,613	3,087,255
<b>Total taxes and grants in place</b>	<b>5,412,301</b>	<b>5,156,152</b>
<b>REQUISITIONS</b>		
Alberta School Foundation Fund	1,506,547	1,526,926
ASFF Opted-out Boards	3,966	4,324
Eagle Hill Foundation	140,381	140,268
<b>Total requisitions</b>	<b>1,650,894</b>	<b>1,671,518</b>
<b>Net taxes for general municipal purposes</b>	<b>3,761,407</b>	<b>3,484,634</b>

**SCHEDULE OF MUNICIPAL OPERATING EXPENDITURES BY OBJECT**  
 For the year ended December 31, 2004

	2004 \$	2003 \$
<b>Expenditures</b>		
Council fees and expenses	158,213	148,446
Salaries and benefits	1,750,535	1,537,621
Contracted and general services	1,177,955	663,790
Materials, goods, supplies and utilities	1,570,347	1,555,078
Transfers to local boards and agencies	57,505	57,505
Transfers to individuals and organizations	99,530	85,579
Other	2,883	98
	<b>4,816,968</b>	<b>4,048,117</b>

*See accompanying notes*

## COUNTY OF TWO HILLS NO. 21

## STATEMENT OF OPERATING REVENUE, EXPENDITURES WITH CHANGE IN FUND BALANCES

For the year ended December 31, 2004

Gas Utility	2004	2004 Budget (Unaudited)	2003
Gas sales	\$ 2,668,442	\$ 2,617,175	\$ 2,590,403
Gas purchases and billing charges	2,336,962	2,250,000	2,237,525
<b>Gross Profit</b>	<b>331,480</b>	<b>367,175</b>	<b>352,878</b>
Other Operating Revenues (Expenditures)			
Service charges	160,518	164,000	160,882
Penalties	15,653	10,000	15,246
Interest income	19,300	30,000	25,114
Appliance sales and service	30,117	32,700	25,688
Less cost of appliances sold	(29,320)	(21,800)	(27,483)
Sale of miscellaneous goods and services	2,510	2,600	13,466
RMO station operating grant	23,005	23,100	28,800
Provincial conditional grant	8,242	---	18,637
Profit on capital construction	17,332	---	---
Bad debt expense	(5,007)	(10,000)	(29,472)
	242,350	230,600	230,878
General and Administrative Expenditures			
Council	12,038	16,205	11,959
Audit, legal and consulting	10,113	16,500	13,919
Memberships, dues, fees	17,246	19,650	17,697
Federation building levy	---	---	17,225
Telephone, postage, freight	27,173	37,100	29,604
Office supplies, billing, advertising, other	58,515	83,920	70,111
Travel and training	6,931	13,000	7,390
Wages and benefits	121,410	117,112	114,461
	253,426	303,487	282,366
Distribution			
Wages and benefits	204,503	210,138	172,534
Less cost recovery - infills	(29,018)	---	(8,713)
Vehicle and equipment costs	28,273	38,000	29,032
Insurance, permits, damage claims	19,666	18,850	18,044
Repair and maintenance - system	41,762	27,300	7,820
	265,186	294,288	218,717
Excess of revenues over expenditures	55,218	---	82,673
Transfer to equity in capital assets	(197,132)	(50,000)	(198,144)
Contributions from members/gov't towards capital assets	177,957	---	---
Transfer from (to) gas reserves - note 7	(30,000)	50,000	124,225
Net Change in Gas Utility Operating Fund Surplus	6,043	---	8,754
Opening Gas Utility Operating Fund Balance	544,600	---	535,846
Closing Gas Utility Operating Fund Balance	\$ 550,643	\$ ---	\$ 544,600

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2004

**1. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the County of Two Hills No. 21 are the representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of these accounting policies adopted by the County of Two Hills No. 21 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 municipality and are, therefore, accountable to the 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**

Revenues are accounted for in the period in which the transactions or events occurred that gave rise to the revenues.

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 are recognized in the financial statements as revenues in the period that the events giving rise to the transfer occurred, providing the transfers are authorized, the municipality has met any eligibility criteria, and reasonable estimates of the amounts can be made.

Expenditures are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due with the exception of pension expenditure as disclosed in 1(d).

**c) Fund Accounting**

Management funds consist of the operating, capital and reserve funds. Transfers between funds are recorded as adjustments to the appropriate equity account.

**d) Pension Expenditure**

The County participates in a multi-employer defined pension plan. This plan is accounted for as a defined contribution plan.

**e) 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.



**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2004

**f) Inventories**

Inventories of materials and supplies for consumption are valued at the lower of cost or net realizable value with cost determined by the average cost method.

**g) Budget Figures**

Budget figures are included for information purposes only and are not audited.

**h) Capital Assets**

Capital assets are reported as expenditures in the period they are acquired. Capital assets are reported at cost except for donated assets, which are reported at estimated fair value.

Government contributions for the acquisition of capital assets are reported as capital revenue and do not reduce the related asset costs.

Capital assets for government purposes are not depreciated.

**i) Allowances for Operating and Capital Assets**

Allowances for asset valuations are netted against the related asset and are segregated between operating and capital purposes. Increases in allowances are recorded as expenditures, while decreases in allowances are recorded as revenues in the respective operating and capital fund.

**j) Reserve Fund**

Reserve fund represents the amounts set aside to finance future operating and capital expenditures. Reserves are established at the discretion of Council. Transfers to and/or from the reserve fund are reflected as an adjustment to the respective fund.

**k) Operating Fund**

Operating fund represents the amounts available to offset future operational revenue requirements (or the shortfall which will be financed from future operational revenues).

**l) Capital Fund**

Capital fund represents the amounts available to finance (or the shortfall in financing available for) capital projects.

**m) Equity in Capital Assets**

Equity in capital assets represents the County's net investment in its capital assets after deducting the portion financed by third parties through debenture, bond, and mortgage debts, long term capital borrowings, capitalized leases, and other capital liabilities which will be repaid by the municipality.

**n) 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 property tax revenue.

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

**o) 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.

**2. CASH AND TEMPORARY INVESTMENTS**

	2004	2003
Cash	\$ 413,359	\$ 338,097
Temporary investments	5,477,174	5,591,206
	<b>\$ 5,890,533</b>	<b>\$ 5,929,303</b>

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

Council has designated funds of \$4,655,394 (2003 - \$4,695,876) included in the above amounts for equipment replacement.

**3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLE**

	2004	2003
Current	\$ 94,014	\$ 83,701
Arrears	43,079	33,075
	137,093	116,776
Less: allowance for uncollectable accounts	(13,298)	(13,298)
	<b>\$ 123,795</b>	<b>\$ 103,478</b>

**4. INVENTORY**

	2004	2003
Inventory is recorded at the lower of cost or net realizable value as follows:		
Public Works - Gravel	\$ 138,659	\$ 145,865
- Repair and maintenance parts	173,626	178,886
	312,285	324,751
Gas utility - materials	61,062	55,823
	<b>\$ 373,347</b>	<b>\$ 380,574</b>

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2004

<b>5. INVESTMENT IN GAS ALBERTA INC.</b>	<b>2004</b>		<b>2003</b>	
The County of Two Hills No. 21 has signed an agreement with Gas Alberta Inc. to exclusively buy natural gas from Gas Alberta Inc. until June 2008. To be involved with Gas Alberta Inc., the County was required to invest in shares and a debenture with Gas Alberta Inc. to provide them with initial operating capital. The debenture is non-interest bearing and is repayable in June 2008. Details are as follows:				
Class A common shares	\$	336	\$	336
Debenture receivable		42,500		42,500
	\$	42,836	\$	42,836

<b>6. CAPITAL ASSETS</b>	<b>2004</b>		<b>2003</b>	
Land	\$	237,925	\$	237,925
Buildings		1,843,376		1,697,701
Equipment		5,163,186		4,936,184
Vehicles		2,042,958		1,999,337
Engineering structures		8,569,342		8,321,759
	\$	17,856,787	\$	17,192,906

<b>7. RESERVE FUND</b>	<b>2004</b>			
	Opening \$	Increase \$	Decrease \$	Closing \$
<b>OPERATING RESERVES</b>				
Municipal				
General	151,000	---	---	151,000
Public Works	398,482	---	---	398,482
Operating Contingency	3,326,447	375,059	445,541	3,255,965
Hairy Hill operating	24,083	---	---	24,083
Gas Utility				
General	225,054	30,000	---	255,054
<b>TOTAL OPERATING</b>	<b>4,125,066</b>	<b>405,059</b>	<b>445,541</b>	<b>4,084,584</b>
<b>CAPITAL RESERVES</b>				
Municipal	170,144	---	---	170,144
Gas	400,666	---	---	400,666
<b>TOTAL CAPITAL</b>	<b>570,810</b>	<b>---</b>	<b>---</b>	<b>570,810</b>
<b>TOTAL CAPITAL AND OPERATING</b>	<b>4,695,876</b>	<b>405,059</b>	<b>445,541</b>	<b>4,655,394</b>

**COUNTY OF TWO HILLS NO. 21**  
NOTES TO FINANCIAL STATEMENTS  
For the year ended December 31, 2004

**8. LOCAL AUTHORITIES PENSION PLAN**

Employees of the County of Two Hills No. 21 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 148,000 people and 407 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.

The County of Two Hills No. 21 is required to make current service contributions to the LAPP of 6.602% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 8.5% on pensionable earnings above this amount. Employees of the County are required to make current service contributions of 5.602% of pensionable salary up to the year's maximum pensionable salary and 7.5% on pensionable salary above this amount.

Total current service contributions by the County of Two Hills No. 21 to the LAPP in 2004 were \$91,216 (2003 - \$66,899). Total current service contributions by the employees of the County of Two Hills No. 21 to the Local Authorities Pension Plan in 2004 were \$77,912 (2003 - \$55,184).

At December 31, 2003, the LAPP disclosed an actuarial deficiency of \$1,411.0 million.

**9. CONTINGENCIES**

The County of Two Hills No. 21 is a member of a reciprocal insurance exchange (GENESIS) to cover its liability insurance needs. GENESIS was previously referred to as Jubilee Reciprocal Insurance Exchange (JRIE). A Statement of Claim was filed in 2004 by some of the previous subscribers of JRIE. The statement of claim requests the return of surplus funds in the amount of \$3,820,516. Under the terms of the membership, the County of Two Hills No. 21 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.

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2004

**10. EQUITY IN CAPITAL ASSETS**

	2004	2003
Acquisition of capital assets		
Legislative and administrative services	\$ 9,442	\$ 120,787
Protective services	---	915,000
Public works, roads and streets	674,346	2,253,737
Agricultural service board	33,201	7,642
Water distribution	67,747	233,057
Gas distribution	197,132	241,076
	981,868	3,771,299
Disposal of capital assets (cost)		
Legislative and administrative services	17,807	---
Protective services	---	45,610
Public works, roads and streets	279,800	904,991
Agricultural service board	20,380	---
Gas distribution	---	61,000
	317,987	1,011,601
Change in equity balance	663,881	2,759,698
Equity balance at beginning of year	17,192,906	14,433,208
Equity balance at end of year	\$ 17,856,787	\$ 17,192,906
Equity in capital assets is represented by:		
Capital assets (Note 6)	\$ 17,856,787	\$ 17,192,906

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2004

**11. SALARY & BENEFITS DISCLOSURE - MUNICIPAL & GAS UTILITY**

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:

	<b>2004</b>	Benefits &	<b>2004</b>	<b>2003</b>
	Salary	Allowances	Total	Total
	(1)	(2)		
Reeve - Saylor	\$ 21,165	\$ 3,664	\$ 24,829	\$ 22,839
Councillors - Gulayec	18,026	3,510	21,536	29,266
- Gordeyko	22,715	4,636	27,351	28,174
- Hrudey	21,674	4,559	26,233	24,084
- Leonty	13,208	1,215	14,423	18,252
- Pidruchney	4,412	1,101	5,513	---
- Yakemchuk	5,548	944	6,492	---
Administrator	79,053	15,445	94,498	89,412
Agriculture - Designated officer	57,165	13,019	70,184	65,693

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, concessionary loans, travel allowances, car allowances and club memberships.

**COUNTY OF TWO HILLS NO. 21**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2004

**12. 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 County of Two Hills No. 21 be disclosed as follows:

	<b>2004</b>	<b>2003</b>
Total debt limit	\$ 12,984,509	\$ 12,489,699
Total debt	---	---
Amount by which debt limit exceeds debt	12,984,509	12,489,699
Service on debt limit	2,164,085	2,081,617
Service on debt	---	---
Amount by which debt servicing limit exceeds debt servicing	\$ 2,164,085	\$ 2,081,617

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.

**13. FINANCIAL INSTRUMENTS**

The County's financial instruments consist of cash and temporary investments, receivables, bank overdraft, accounts payable and accrued 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.

**14. APPROVAL OF FINANCIAL STATEMENTS**

Council and management have approved these financial statements.