

SPECIAL AREAS TRUST ACCOUNT

FINANCIAL STATEMENTS

DECEMBER 31, 2010

Letter from Management

Statements of Financial Position

Statements of Operations

Statements of Changes of Net Financial Assets

Statements of Cash Flows

Notes to the Financial Statements

Schedule of Investments

Schedule of Salaries and Benefits

Supplementary Net Financial Asset Information Schedule

Supplementary Unrestricted Accumulated Surplus Information Schedule

Independent Auditor's Report

To the Minister of Municipal Affairs

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Areas Trust Account, which comprise the statement of financial position as at December 31, 2010, and the statements of operations, changes in net assets and 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 judgment, 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Areas Trust Account as at December 31, 2010, and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, CA]

Auditor General

April 5, 2011

Edmonton, Alberta

SPECIAL AREAS TRUST ACCOUNT
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010

	<u>2010</u>	<u>2009</u>
Financial Assets		
Current:		
Cash (Note 3)	\$ 26,110,677	\$ 29,019,032
Accounts receivable (Note 4)	4,910,620	4,461,465
Notes receivable (Note 5)	1,827,191	1,359,323
Due from Province of Alberta (Note 6)	2,087,298	1,054,464
Taxes receivable (Note 7)	1,279,187	569,480
	<u>36,214,973</u>	<u>36,463,764</u>
Non-current:		
Notes receivable (Note 5)	17,201,484	14,424,862
Investments (Schedule 1)	25,658,520	26,627,403
Total Financial Assets	<u>79,074,977</u>	<u>77,516,029</u>
Liabilities		
Current:		
Accounts payable and accruals	2,086,934	2,270,097
Deferred revenues	365,653	536,181
Deferred provincial grant revenue (Note 8)	341,251	1,454,941
Due to Province of Alberta (Note 6)	381,998	845,641
Current portion of long term debt (Note 9)	1,925,369	1,732,020
	<u>5,101,205</u>	<u>6,838,880</u>
Non-current:		
Long term debt (Note 9)	17,227,706	15,393,775
Provision for gravel pit reclamation (Note 10)	1,900,000	1,740,000
Total Liabilities	<u>24,228,911</u>	<u>23,972,655</u>
Net Financial Assets (Schedule 3)	54,846,066	53,543,374
Non-financial Assets		
Capital assets (Schedule 4)	158,750,405	148,423,833
Inventories (Schedule 4)	5,369,864	5,155,042
Non-financial Assets (Note 11)	<u>164,120,269</u>	<u>153,578,875</u>
Accumulated Surplus (Note 12)	\$ <u>218,966,335</u>	\$ <u>207,122,249</u>

The accompanying notes and schedules are part of these financial statements.

SPECIAL AREAS TRUST ACCOUNT
STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010		2009
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
Revenue	(Note 13)		
Taxation			
Power and pipeline	\$ 31,985,000	\$ 29,937,368	\$ 31,015,478
Real property	8,477,200	8,734,009	8,219,121
Grazing and cultivation	742,700	686,403	720,449
Penalties and costs on taxes	75,000	262,786	109,366
	<u>41,279,900</u>	<u>39,620,566</u>	<u>40,064,414</u>
Less amounts expended by transfers:			
Alberta School Foundation Fund	13,642,000	13,284,609	13,642,219
Seniors Foundation requisitions	3,393,000	3,287,141	3,354,667
	<u>17,035,000</u>	<u>16,571,750</u>	<u>16,996,886</u>
Net taxes for municipal purposes	24,244,900	23,048,816	23,067,528
Provincial grants (Note 14)	9,381,080	9,572,594	8,032,259
Leases (Note 15)	7,061,095	8,960,785	7,135,104
Interest	2,061,000	2,073,653	2,102,549
Federal grants	1,742,434	1,244,354	667,009
Tax recovery land sales	1,100,000	686,781	798,551
Other	2,026,700	1,449,218	2,027,172
Total revenue	\$ <u>47,617,209</u>	\$ <u>47,036,201</u>	\$ <u>43,830,172</u>
Expense			
Transportation services	23,292,759	15,393,576	15,693,981
Administrative services	4,639,280	4,920,644	4,058,219
Recreational and cultural services	2,486,151	4,108,802	2,325,254
Water and sanitation services	2,906,354	2,207,056	2,171,060
Agriculture and community development	2,241,069	2,065,970	2,040,856
Protective services	679,410	1,184,065	582,583
Industrial tax transfers	225,000	229,742	240,071
Loss on sale of capital assets	-	119,849	109,802
Amortization	-	4,962,411	4,635,409
Total expense (Note 16)	<u>36,470,023</u>	<u>35,192,115</u>	<u>31,857,235</u>
Surplus for the year	\$ 11,147,186	\$ 11,844,086	\$ 11,972,937
Accumulated surplus at beginning of year	<u>207,122,249</u>	<u>207,122,249</u>	<u>195,149,312</u>
Accumulated surplus at end of year	\$ <u>218,269,435</u>	\$ <u>218,966,335</u>	\$ <u>207,122,249</u>

The accompanying notes and schedules are part of these financial statements.

SPECIAL AREAS TRUST ACCOUNT
STATEMENTS OF CHANGES IN NET FINANCIAL ASSETS
AS AT DECEMBER 31, 2010

	2010		2009
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
	(Note 13)		
Increase in surplus during the year	11,147,186	11,844,086	11,972,937
Acquisition of tangible capital assets	(11,759,523)	(15,512,715)	(14,184,251)
Loss on sale of tangible capital assets	-	119,849	109,802
Net transfers to capital	(280,000)	-	-
Proceeds on disposal of tangible capital assets	127,000	103,883	199,449
Amortization of tangible capital assets	-	4,962,411	4,635,409
Change in inventory	-	(214,822)	280,761
	(765,337)	1,302,692	3,014,107
Net financial assets, beginning of year	<u>53,543,374</u>	<u>53,543,374</u>	<u>50,529,267</u>
Net financial assets, end of year	<u><u>52,778,037</u></u>	<u><u>54,846,066</u></u>	<u><u>53,543,374</u></u>

The accompanying notes and schedules are part of these financial statements.

SPECIAL AREAS TRUST ACCOUNT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>2010</u>	<u>2009</u>
Operating activities:		
Surplus for the year	\$ 11,844,086	\$ 11,972,937
Amortization of investment premiums, less discounts	141,057	122,088
Gain on sale of investments	(106,929)	(218,591)
Amortization of capital assets	4,962,411	4,635,409
Amortization relating to self-constructed assets	(1,012,019)	(974,619)
Loss on sale of capital assets	119,849	109,802
Increase in provision for gravel pit reclamation	160,000	100,000
	<u>16,108,455</u>	<u>15,747,026</u>
Changes in non-cash operating items:		
Accounts receivable	(449,155)	2,239,209
Notes receivable	(467,868)	(1,319,323)
Due from Province of Alberta	(1,032,834)	(29,169)
Taxes receivable, net	(709,707)	(288,274)
Accounts payable and accruals	(183,163)	(2,624,672)
Deferred revenues	(170,528)	53,585
Deferred provincial grant revenue	(1,113,690)	737,187
Due to Province of Alberta	(463,643)	(3,920,920)
Inventories	(214,822)	280,761
	<u>(4,805,410)</u>	<u>(4,871,616)</u>
Cash provided by operating activities	<u>11,303,045</u>	<u>10,875,410</u>
Capital activities:		
Sale of capital assets	103,883	199,449
Purchase of capital assets	(14,500,696)	(13,209,632)
Cash applied to capital activities	<u>(14,396,813)</u>	<u>(13,010,183)</u>
Investing activities:		
Net change in notes receivable	(2,776,622)	(14,164,862)
Proceeds from redemption of investments	4,484,510	7,038,329
Purchase of investments	(3,549,755)	(8,160,565)
Cash applied to investing activities	<u>(1,841,867)</u>	<u>(15,287,098)</u>
Financing activities:		
Long term debt issued	5,000,000	9,804,270
Long term debt repaid	(2,972,720)	(840,904)
Cash provided by financing activities	<u>2,027,280</u>	<u>8,963,366</u>
Decrease in cash	<u>(2,908,355)</u>	<u>(8,458,505)</u>
Cash at the beginning of year	<u>29,019,032</u>	<u>37,477,537</u>
Cash at end of year	<u>\$ 26,110,677</u>	<u>\$ 29,019,032</u>

The accompanying notes and schedules are part of these financial statements.

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 1 Authority and Purpose

The Special Areas Trust Account operates under the authority of the *Special Areas Act*, Revised Statutes of Alberta 2000, chapter S-16. The Special Areas Trust Account is held by the Special Areas Board, an agent of the Crown in right of Alberta, and as such, has a tax exempt status.

The Special Areas Board ("the Board") is appointed by the Lieutenant Governor in Council. The Board provides municipal services and long-term land resource management.

Note 2 Significant Accounting Policies

(a) General

These financial statements are the representations of management, and have been prepared in accordance with Canadian public sector accounting standards and include the following significant accounting policies:

(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.

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 2 (c) Land

(cont'd) Tax recovery land, including any mineral surface leases attached thereto, was acquired for insignificant amounts and is not recorded in the Statements of Financial Position. Approximately 1.056 million acres of tax recovery land remains unsold as at December 31, 2010 (2009 - 1.060 million acres).

Crown land transferred to the Province of Alberta from the Government of Canada for no monetary consideration, located within the Special Areas and administered by the Special Areas Board, is not valued for financial statement purposes. This consists of approximately 1.584 million acres (2009 - 1.584 million acres).

Road infrastructure land right of ways, located within the Special Areas and administered by the Special Areas Board, were transferred to the Province of Alberta from the Government of Canada for no monetary consideration. The Board has also acquired additional right of way for road widening purposes for insignificant amounts. As at December 31, 2010, the road infrastructure right of ways consist of approximately 0.012 million acres of land and are not recorded in the Statements of Financial Position.

(d) Use of Estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported revenue and expenditures during the reporting period. Significant areas requiring the use of management estimates relate to the determination of employee benefit plans, allowance for doubtful accounts receivable, provision for contingencies, gravel inventory, gravel pit reclamation, and both current and prior years tangible capital asset historical costs and related amortization. A significant component of these tangible capital asset costs are self constructed and their cost is measured by the use of equipment rates which are approximations of actual costs incurred. Actual results could differ from management's best estimates as additional information becomes available.

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 2 (e) Financial Instruments

(cont'd) The carrying value of cash, current accounts receivable, current notes receivable, taxes receivable, amounts due to / from Province of Alberta, current debt, accounts payable and accruals approximate fair value due to the short-term nature of these items.

All non-current receivables and long-term debt are a result of binding contractual agreements. The carrying value of these non-current accounts approximate their fair value.

The fair value of investments are disclosed on Schedule 1.

(f) Over/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. Requisition tax rates in the subsequent year are adjusted for any over-levies or under-levies of the prior year.

(g) Investments

Investments are valued at cost adjusted for the applicable amortization of discount or premium using the straight-line method over the period to maturity.

(h) Pensions

The Board participates in two multi-employer defined benefit pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Board accounts for its participation in these plans on a defined contribution basis. Pension costs included in these statements comprise of the cost of employer contributions for current service of employees during the year.

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

(i) Non-financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of goods and services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

Inventories

The cost of consumable supplies is included as an expenditure when incurred. For information purposes, inventories of consumable supplies are shown on the balance sheet as non-financial assets at net book value.

Inventories are valued at the lower of cost or net replacement value. Costs for all inventories are determined by using the first-in-first-out method with the exception of parts which are valued by using the average costing method.

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.

Tangible Capital Assets

Tangible capital assets consist of engineering structures, roads, buildings, vehicles, equipment, land, water/wastewater utilities and dams.

For the purposes of the Board, tangible capital assets having an original cost greater than \$2,500 (\$10,000 for engineered structures and third party software development) and a useful life greater than one year are shown on the statement of financial position as non-financial assets at net book value. Purchased land and other off the shelf electronic data processing equipment are all capitalized.

The Special Areas Board in its provision of transportation services, undertakes using its own forces, a significant amount of construction activity consisting of road building and road resurfacing. These activities are considered to be capital in nature as they result in the construction of tangible capital assets. Thus the expenditures made for direct manpower, materials and indirect equipment costs relating to these activities are removed from operational expenditures to reflect the capital component of the assets being self-constructed. An hourly equipment rate is used to estimate the actual indirect equipment cost, including amortization, and is the basis for allocating these costs to the road construction projects. Annually, the total estimated equipment costs included in the road construction projects is compared to actual equipment costs incurred.

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 2 (i) Non-financial Assets

(cont'd) Tangible capital assets are recorded at cost, net of asset disposals, write-downs and amortization.

The cost of tangible capital assets shown on the statement of financial position is amortized to estimated salvage value in a manner that reflects the consumption of their future economic benefits at the following rates (rates and values expressed as a percentage of original cost):

	<u>Annual Amortization</u>			Estimated Salvage Value
	Year 1	Year 2	Year 3 and Thereafter	
	%	%	%	%
Mobile equipment	5.00	5.00	5.00	5.00
Buildings	2.50	2.50	2.50	2.50
Engineered structures	2.50	2.50	2.50	2.50
Automotive equipment	20.00	15.00	10.00	10.00
Machinery and equip.	6.67	6.67	6.67	6.67
Electronic data processing				
- Hardware	40.00	30.00	20.00	-
- Software	25.00	25.00	25.00	-
Road infrastructure	0.25 to 10.00	0.25 to 10.00	0.25 to 10.00	30.00 to 90.00
Water/wastewater lines	2.50	2.50	2.50	0.00
Dams	2.50	2.50	2.50	0.00

The portion of the cost of purchased land attributed to the value of gravel situated on the land, is amortized at the rate at which the gravel is excavated.

Note 3 Cash

Cash includes funds held in the Consolidated Cash Investment Trust Fund which is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is composed of high quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at December 31, 2010, securities held by the Fund had a time-weighted return of 0.95% per annum (2009 - 1.25% per annum).

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 4 Accounts Receivable

Accounts receivable, net of applicable allowances for doubtful accounts of \$59,007 (2009 - \$62,474), are comprised of the following:

	<u>2010</u>	<u>2009</u>
From sale of tax recovery land & related mineral surface leases	\$ 2,440,559	\$ 2,839,499
Accrued interest	<u>50,275</u>	<u>57,881</u>
	2,490,834	2,897,380
 Federal grant receivable	 1,118,945	 -
Prepays	130,730	71,922
Accrued interest on investments	94,713	105,826
Leases	119,937	95,814
Oil well drilling	111,031	14,196
High speed wireless	447,876	472,876
Local improvement recoveries	158,945	175,527
Equipment rentals	29,397	333,123
Miscellaneous	208,212	294,801
	<u>\$ 4,910,620</u>	<u>\$ 4,461,465</u>

Payment for tax recovery land sold and for the sales of related mineral surface leases may be made in instalments over a period not exceeding ten years. An interest rate of 8% per annum is applied to tax recovery land sale II and 6% per annum to tax recovery land sale III that commenced in 2004. Title to tax recovery land sold (and related leases sold) is transferred from the Minister of Municipal Affairs to the purchaser after all payments have been received. If a purchaser defaults in payment, the agreement(s) for sale may be declared null and void and all monies received may be retained as liquidated damages.

The high speed wireless receivable is a result of the Board entering into a memorandum of agreement with an internet service provider to facilitate the delivery of high-speed internet to residents of the Special Areas. Certain equipment was offered for sale by the Board to the internet service provider at the Board's cost. Repayment terms will be based on network usage and a promissory note that will be signed upon completion of the joint project.

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 5 Notes Receivable

Notes receivable are comprised of the following:

	<u>2010</u>	<u>2009</u>
Current:		
Acadia Foundation	1,796,031	1,342,280
Acadia Foundation - accrued interest	31,160	-
Other	-	17,043
	<u>\$ 1,827,191</u>	<u>\$ 1,359,323</u>
Non-current:		
Acadia Foundation	\$ 17,137,437	\$ 14,273,605
Other	64,047	151,257
	<u>\$ 17,201,484</u>	<u>\$ 14,424,862</u>

The Acadia Foundation loan is a result of the Board entering into a memorandum of understanding with the other municipal members of the Acadia Foundation to borrow on behalf of the Acadia Foundation from the Alberta Capital Finance Authority. These funds are then advanced to the Acadia Foundation for the construction and renovation of the seniors lodges in Oyen, Consort and Hanna. These funds are then lent to the Acadia Foundation and repayment is based on the issuance of unsecured interest bearing promissory notes of either 10 or 25 year terms with respective interest rates ranging from 3.34% to 5.00% (2009 - 3.34% to 5.00%). Semi-annual payments totalling \$1,559,623 (2009 - \$687,754) were made in June and December. Interest revenue recognized as a result of this loan in 2010 was \$679,401 (2009 - \$283,991).

Principal repayments on long-term receivable in each of the next five years are estimated as follows:

2011	\$ 1,796,031
2012	1,863,702
2013	1,933,949
2014	2,006,882
2015	<u>2,082,597</u>
	<u>\$ 9,683,161</u>

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 6 Due from (to) Province of Alberta

The net amount due from (to) the Province of Alberta is comprised of the following:

	<u>2010</u>	<u>2009</u>
Due from Province of Alberta:		
Infrastructure - Building Canada Fund	\$ 1,118,945	\$ -
Transportation	640,259	807,279
Agriculture and Rural Development	271,600	226,600
Environment	45,434	11,185
Other	11,060	9,400
	<u>2,087,298</u>	<u>1,054,464</u>
Due to Province of Alberta:		
Environment	(213,124)	(207,603)
Transportation	-	(511,736)
Other	(168,874)	(126,302)
	<u>(381,998)</u>	<u>(845,641)</u>
Due from Province of Alberta	<u><u>\$ 1,705,300</u></u>	<u><u>\$ 208,823</u></u>

Note 7 Taxes Receivable

	<u>2010</u>	<u>2009</u>
Taxes receivable	\$ 1,550,396	\$ 635,482
Less allowance for doubtful accounts:	<u>(674,622)</u>	<u>(66,002)</u>
	875,774	569,480
Under levy	<u>403,413</u>	<u>-</u>
Taxes receivable	<u><u>\$ 1,279,187</u></u>	<u><u>\$ 569,480</u></u>

Note 8 Deferred Provincial Grant Revenue

	<u>2010</u>	<u>2009</u>
Municipal Affairs	\$ 187,884	\$ 1,299,396
Transportation	140,795	123,395
Agriculture and Rural Development	12,572	11,770
Children and Youth Services	-	20,380
	<u><u>\$ 341,251</u></u>	<u><u>\$ 1,454,941</u></u>

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 9 Long Term Debt

	<u>2010</u>	<u>2009</u>
Alberta Capital Finance Authority loan, repayable in semi-annual instalments of \$263,223, including fixed interest at 4.39%, due June 2018	\$ 3,333,909	\$ 3,701,983
Alberta Capital Finance Authority loan, repayable in semi-annual instalments of \$251,377, including fixed interest at 4.01%, due December 2018	3,411,506	3,766,669
Alberta Capital Finance Authority loan, repayable in semi-annual instalments of \$493,631, including fixed interest at 3.34%, due December 2019	7,618,470	8,333,000
Alberta Capital Finance Authority loan, repayable in semi-annual instalments of \$298,660, including fixed interest at 3.51%, due June 2020	4,789,190	-
Alberta Treasury Branches (ATB) loan, repayable in semi-annual instalments of \$147,127, plus monthly variable interest at ATB prime (December 31, 2010 - 2.25%), fully repaid during the year	- <u>19,153,075</u>	<u>1,324,143</u> <u>17,125,795</u>
Less: current portion	<u>1,925,369</u>	<u>1,732,020</u>
	<u><u>\$ 17,227,706</u></u>	<u><u>\$ 15,393,775</u></u>

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 9 Long Term Debt

(cont'd) Principal repayments on long-term debt in each of the next five years are estimated as follows:

2011	\$ 1,925,369
2012	1,997,637
2013	2,072,650
2014	2,150,516
2015	<u>2,231,343</u>
	<u>\$ 10,377,515</u>

Note 10 Provision for Gravel Pit Reclamation

The provision for gravel pit reclamation costs are estimates of future costs of restoring gravel pits to the standards required by the *Environmental Protection and Enhancement Act*.

The estimated liability is based on the total cubic meters of exposed gravel pits multiplied by the price per cubic meter to reclaim the sites.

In 2010 it was estimated that 757,410 cubic meters (2009 - 696,338 cubic meters) of gravel pits were exposed at an approximate cost for reclamation of \$2.50 per cubic meter (\$2009 - \$2.50 per cubic meter), for a total liability of \$1,900,000 (2009 - \$1,740,000).

There is uncertainty with respect to the measurement of the estimates. Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount.

Reclamation is ongoing and the uncertainty inherent in the provision will thus be partially resolved each year.

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 11 Non-financial Assets

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Tangible Capital Assets:				
Mobile equipment	\$ 19,932,392	\$ 6,136,868	\$ 13,795,524	\$ 12,861,477
Buildings	9,059,226	3,715,506	5,343,720	5,277,948
Engineered structures	7,254,143	675,502	6,578,641	2,979,050
Automotive equipment	12,437,884	7,952,539	4,485,345	4,584,763
Machinery and equipment	4,106,075	2,062,901	2,043,174	1,891,755
Land	1,036,729	126,605	910,124	947,166
Electronic data processing				
- Software	1,548,097	1,388,244	159,853	207,790
- Hardware	1,299,721	1,166,253	133,468	124,118
Road infrastructure	155,807,226	30,573,149	125,234,077	119,481,211
Water/wastewater lines	54,027	53,299	728	750
Dams	367,494	301,743	65,751	67,805
Tangible Capital Assets	<u>\$ 212,903,014</u>	<u>\$ 54,152,609</u>	<u>\$158,750,405</u>	<u>\$148,423,833</u>
	Cost	Allowance for obsolescence	Net Book Value	Net Book Value
Inventory:				
Parts	\$ 1,029,587	\$ 10,296	\$ 1,019,291	\$ 1,027,790
Gravel	4,059,045	-	4,059,045	3,812,596
Culverts	115,653	-	115,653	112,627
Fuel	105,899	-	105,899	115,799
Fencing	21,587	-	21,587	62,270
Chemicals and other	48,389	-	48,389	23,960
Inventory	<u>\$ 5,380,160</u>	<u>\$ 10,296</u>	<u>5,369,864</u>	<u>5,155,042</u>
Total non-financial assets			<u>\$164,120,269</u>	<u>\$153,578,875</u>

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 12 Accumulated Surplus

Accumulated Surplus consists of unrestricted amounts and internally restricted as follows:

	<u>2010</u>	<u>2009</u>
Unrestricted Accumulated Surpluses		
Equity in tangible capital assets	\$ 158,750,405	\$ 148,423,833
Equity in inventory	5,369,864	5,155,042
Unrestricted operational surplus	10,085,366	9,410,558
Internally Restricted Accumulated Surplus		
Tax Recovery Land Sales	<u>44,760,700</u>	<u>44,132,816</u>
Total Accumulated Surplus (Schedule 4)	<u><u>\$218,966,335</u></u>	<u><u>\$207,122,249</u></u>

The internally restricted accumulated surplus are funds that are available to meet cash flow needs but may not be used for expenditures without authorization by the Minister of Municipal Affairs.

Note 13 Budget

The 2010 municipal budget was adopted by the Board and approved by the Minister of Municipal Affairs and Housing in December 2009. The budget was prepared on the previous basis of accounting and as such does not reflect the impact of adopting Tangible Capital Assets (TCA). A reconciliation to that basis is as follows:

	<u>2010</u>		<u>2009</u>
	Budgeted	Actual	Actual
Surplus during the year	11,147,186	11,844,086	11,972,937
Acquisition of tangible capital assets	(11,759,523)	(15,512,715)	(14,184,251)
Net transfers to capital	(280,000)	(1,324,143)	(147,127)
Loss on sale of tangible capital assets	-	119,849	109,802
Proceeds on disposal of tangible capital assets	127,000	103,883	199,449
Amortization of tangible capital assets	-	4,962,411	4,635,409
	<u>(765,337)</u>	<u>193,371</u>	<u>2,586,219</u>
Tax Recovery Land Sales - transferred from operations	<u>(1,000,000)</u>	<u>(627,884)</u>	<u>(712,427)</u>
(Deficit) Surplus	<u><u>(1,765,337)</u></u>	<u><u>(434,513)</u></u>	<u><u>1,873,792</u></u>

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 14 Provincial Grants

	<u>2010</u>	<u>2009</u>
Municipal Affairs	\$ 6,261,811	\$ 1,865,402
Transportation	1,470,198	5,232,691
Finance	1,118,946	-
Agriculture and Rural Development	447,612	431,684
Children and Youth Services	157,954	167,560
Infrastructure	95,442	132,981
Tourism, Parks and Recreation	16,000	16,000
Employment and Immigration	4,631	7,840
Environment	-	178,101
	<u>\$ 9,572,594</u>	<u>\$ 8,032,259</u>

Note 15 Lease Revenue

	<u>2010</u>	<u>2009</u>
Mineral surface leases	\$ 3,420,645	\$ 3,395,886
Equipment rentals	3,170,117	1,750,779
Grazing leases	1,060,252	798,213
Community pastures	480,126	468,511
Cultivation leases	294,823	308,272
Other	534,822	413,443
	<u>\$ 8,960,785</u>	<u>\$ 7,135,104</u>

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 16 Total Expenditure

Total expenditure for the year is analyzed by object of expenditure as follows:

	<u>2010</u>	<u>2009</u>
Manpower (Schedule 2)	\$ 12,789,258	\$ 12,799,513
Materials, goods, and utilities	12,915,549	10,009,790
Contract and general services	6,506,392	9,749,018
Amortization	4,962,411	4,635,409
Grants	3,905,380	1,994,198
Goods and services from Alberta Government departments		
Alberta Finance		
Risk Management	170,738	150,757
Investment fees	14,324	14,527
Alberta Municipal Affairs		
Linear assessment	96,111	94,079
Government Services	24,904	74,431
Interest on long-term debt	701,855	354,349
Industrial tax transfers	229,742	240,071
Loss on sale of capital assets	119,849	109,802
Provision for doubtful accounts	605,153	62,402
Less:		
Internal road projects capitalized in the year	<u>(7,849,551)</u>	<u>(8,431,111)</u>
	<u>\$ 35,192,115</u>	<u>\$ 31,857,235</u>

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 17 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 Board be disclosed as follows:

	<u>2010</u>	<u>2009</u>
Total debt limit	\$ 60,284,854	\$ 63,804,156
Total debt	<u>19,153,075</u>	<u>17,125,795</u>
Amount of debt limit unused	<u><u>\$ 41,131,779</u></u>	<u><u>\$ 46,678,361</u></u>
Debt servicing limit	\$ 10,047,476	\$ 10,634,026
Debt servicing	<u>2,613,783</u>	<u>2,338,302</u>
Amount of debt servicing limit unused	<u><u>\$ 7,433,693</u></u>	<u><u>\$ 8,295,724</u></u>

The debt limit is calculated at 1.5 times revenue of the Board (as defined in Alberta Regulation 255/00) and the debt service limit is calculated at 0.25 times such revenue. Incurring debt beyond these limitation 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 Board. Rather, the financial statements must be interpreted as a whole.

Note 18 Related Party Transactions

Expenditures for goods and services are conducted in the normal course of operations with the Province of Alberta and are billed to the Board as disclosed in Note 16.

Grants provided by the Province of Alberta are disclosed in Note 14 and the amounts outstanding at the end of the year are disclosed in Note 6.

During the year the Board advanced \$4,877,206 (2009 - \$8,155,574) to Acadia Foundation, a significantly influenced related party. For further details see Note 5.

SPECIAL AREAS TRUST ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

Note 19 Pension Plan

The Board participates with other employers in the Public Service Pension Plan ("PSPP") and the Management Employees Pension Plan ("MEPP"). These plans provide pensions for the Board's employees based on years of service and earnings.

Total current contributions by the Board in 2010 to the PSPP were \$509,067 (2009 - \$370,998) and to the MEPP were \$155,079 (2009 - \$171,648).

At December 31, 2009, the PSPP reported a deficit of \$1,729,196,000 (2008 deficit - \$1,187,538,000) and the MEPP reported a deficiency of \$483,199,000 (2008 - \$568,574,000).

Note 20 Contractual Obligations

The Board has entered into seventeen long-term operating leases for equipment. The future lease payments are as follows:

2011	\$ 1,073,443
2012	<u>477,825</u>
	<u>\$ 1,551,268</u>

The Board had entered into a long-term gravel crushing contract in which the Board has committed to crushing 1,500,000 Tonnes from 2008 to 2013. Depending on conditions, an average of 300,000 Tonnes will be crushed annually.

Note 21 Administration Expenses

Accommodation costs for the offices at Hanna, amounting to approximately \$70,000 annually, have not been included in the expenditures of the Board. The building is owned and operated by Alberta Infrastructure and all costs are recorded as expenditure of that Ministry.

Note 22 Comparative Figures

Certain 2009 figures have been reclassified to conform to 2010 presentation.

Note 23 Approval of Financial Statements

These financial statements have been approved by the Board.

SPECIAL AREAS TRUST ACCOUNT
SCHEDULE OF INVESTMENTS
AS AT DECEMBER 31, 2010

	2010				2009	
	Stated Interest Rate	Effective Interest Rate	Maturity Date	Par Value	Fair Value	Book Value
Bonds:						
Bank of Montreal	7.000%	4.320%	January 28, 2010	\$ -	\$ -	\$ 180,328
Bank of Montreal	4.870%	3.900%	April 22, 2020	700,000	744,611	728,425
Bank of Nova Scotia	3.030%	3.030%	June 4, 2012	500,000	507,220	499,993
Canada Housing Trust	3.950%	4.830%	December 15, 2011	-	-	499,988
Canada Housing Trust	4.000%	4.290%	June 15, 2012	3,560,000	3,679,687	1,083,177
Canada Housing Trust	3.600%	2.880%	June 15, 2013	5,260,000	5,466,034	3,537,608
Canada Housing Trust	2.700%	2.650%	December 15, 2013	3,300,000	3,355,275	5,390,004
Canada Housing Trust	2.950%	3.080%	March 15, 2015	1,100,000	1,120,526	3,306,238
Canadian Imperial Bank of Commerce	4.550%	4.710%	March 28, 2016	-	-	-
Canadian Imperial Bank of Commerce	4.110%	4.070%	April 30, 2020	700,000	722,827	696,906
Financement Quebec	3.250%	3.050%	June 1, 2014	500,000	514,025	700,000
Government of Canada	5.500%	4.090%	June 1, 2010	-	-	504,110
Government of Canada	6.000%	5.920%	June 1, 2011	95,000	96,864	522,811
Government of Canada	3.750%	4.010%	September 1, 2011	800,000	812,944	95,079
Government of Canada	5.250%	4.030%	June 1, 2012	3,490,000	3,670,468	1,792,934
Government of Canada	2.500%	1.930%	June 1, 2015	1,000,000	1,008,480	3,544,021
Government of Canada	3.350%	3.060%	June 1, 2013	500,000	515,515	1,023,841
New Brunswick Provincial	6.100%	4.070%	November 19, 2010	-	-	504,602
Province of Ontario	6.100%	4.490%	December 2, 2011	700,000	729,057	508,111
Province of Ontario	5.250%	3.650%	October 1, 2013	800,000	866,072	719,016
Province of Quebec	5.500%	2.740%	December 1, 2014	1,550,000	1,720,686	843,819
Royal Bank of Canada	3.700%	4.190%	June 24, 2015	-	-	1,746,026
TD Bank	5.690%	5.020%	June 3, 2018	700,000	750,183	395,907
Alberta Capital Finance Authority			(15 Shares)	25,255,000	26,280,474	25,658,370
				150	150	150
				\$ 25,255,150	\$ 26,280,624	\$ 25,658,520
						\$ 26,627,403

Note:

The Board, as part of its operations, carries these financial instruments. It is management's opinion that the Board is not exposed to significant currency or credit risks arising from these financial instruments.

SPECIAL AREAS TRUST ACCOUNT
SCHEDULE OF SALARIES AND BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010				2009	
	Number of Individuals (a)	Salary (b)	Other Cash Benefits (c)	Other Non-cash Benefits (d)	Number of Individuals	Total
Chairman of the Special Areas Board	1	\$ 151,254	\$ 5,817	\$ 9,673	1	\$ 193,035
Special Areas Board members	2	14,548	-	1,479	2	15,305
Director of Finance and Administration	1	114,555	-	28,237	1	145,442
Director of Municipal Services	1	109,654	4,429	7,517	1	121,184
Director of Properties Administration	1	109,654	-	27,255	1	140,546
Roads & Equipment Superintendent	1	98,788	-	25,075	1	134,324
Managers (e)	4	387,574	-	98,124	4	497,602
Other full time staff (f)	91.0	5,670,396	-	1,068,772	89.0	6,521,042
Part time and casual wage staff		4,440,261	-	365,048		4,944,688
Other Boards and committees		46,950	-	2,016		53,761
Advisory Councilors	15	23,130	-	546	13	27,540
(Decrease) Increase in vacation accrual		(21,494)	-	-		5,044
		<u>\$ 11,145,270</u>	<u>\$ 10,246</u>	<u>\$ 1,633,742</u>		<u>\$ 12,799,513</u>

- (a) Number of individuals consists of full time equivalents, except for Special Areas Board members and Advisory Councilors.
- (b) Salary includes regular base pay.
- (c) Other cash benefits includes bonuses, lump sum payments, honoraria and vacation payouts.
- (d) Employer's share of all employee benefits and contributions or payments made on behalf of employees, managers and board members including Workers' Compensation Board, Canada Pension Plan, Employment Insurance, camp allowances, pension, health care, dental coverage, out of country medical benefits, membership fees, group life insurance, accidental death and dismemberment insurance and long-term disability plan.
- (e) Average salary is \$97,510 and average benefits (column c & d) are \$25,130 totaling \$122,640 (2009 - \$124,401).
- (f) Average salary is \$62,312 and average benefits are \$11,745 totaling \$74,057 (2009 - \$73,270).

SPECIAL AREAS TRUST ACCOUNT
SUPPLEMENTARY NET FINANCIAL ASSET INFORMATION SCHEDULE
AS AT DECEMBER 31, 2010

	<u>Schedule 3</u>	
	<u>2010</u>	<u>2009</u>
Change in Financial Assets		
Current:		
Cash	\$ (2,908,355)	\$ (8,458,505)
Accounts receivable	449,155	(427,085)
Notes receivable	467,868	-
Due from Province of Alberta	1,032,834	208,823
Taxes receivable	709,707	288,274
	<u>(248,791)</u>	<u>(8,388,493)</u>
Non-current:		
Notes receivable	2,776,622	13,672,061
Investments	(968,883)	1,218,739
	<u>1,558,948</u>	<u>6,502,307</u>
Increase in Financial Assets		
Change in Liabilities		
Current:		
Accounts payable and accruals	183,163	2,624,672
Deferred revenues	170,528	(53,585)
Deferred provincial grant revenue	1,113,690	(737,187)
Due to Province of Alberta	463,643	3,741,266
Current portion of long term loan	(193,349)	(1,038,243)
	<u>1,737,675</u>	<u>4,536,923</u>
Non-current:		
Long term loan	(1,833,931)	(7,925,123)
Provision for gravel pit reclamation	(160,000)	(100,000)
	<u>(256,256)</u>	<u>(3,488,200)</u>
Increase in Liabilities		
Net increase in net financial assets	1,302,692	3,014,107
Net financial assets at the beginning of year	<u>53,543,374</u>	<u>50,529,267</u>
Net financial assets at end of year	\$ <u>54,846,066</u>	\$ <u>53,543,374</u>

SPECIAL AREAS TRUST ACCOUNT
SUPPLEMENTARY UNRESTRICTED ACCUMULATED SURPLUS INFORMATION SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Schedule 4</u>	
	<u>2010</u>	<u>2009</u>
	<u>BUDGET</u> (Note 13)	<u>ACTUAL</u>
		<u>ACTUAL</u>
Equity in capital assets at beginning of year	\$ 148,423,833	\$ 139,184,242
Add purchase of capital assets:		
Road infrastructure	-	7,849,551
Water and sanitation services	6,049,000	3,726,346
Transportation services	3,550,850	2,910,391
Protective services	1,515,000	582,937
Administrative services	264,423	196,433
Recreation and cultural services	290,000	140,204
Agriculture and community pasture services	90,250	106,853
	<u>11,759,523</u>	<u>15,512,715</u>
Annual amortization of capital assets	<u>(4,962,411)</u>	<u>(4,635,409)</u>
Disposal of capital assets	<u>(223,732)</u>	<u>(309,251)</u>
Equity in capital assets at end of year (Note 11, 12)	\$ <u>158,750,405</u>	\$ <u>148,423,833</u>
Equity in inventories at beginning of year	\$ 5,155,042	\$ 5,435,803
Add purchases and other inventory costs	3,695,428	2,659,541
Deduct requisitions	<u>(3,480,606)</u>	<u>(2,940,302)</u>
Equity in inventory at end of year (Note 11, 12)	\$ <u>5,369,864</u>	\$ <u>5,155,042</u>
Accumulated operational surplus at beginning of year	\$ 9,410,558	\$ 7,108,878
Surplus for the year	11,844,086	11,972,937
Change in Non-Financial Assets	<u>(10,541,394)</u>	<u>(8,958,830)</u>
	10,713,250	10,122,985
Transfers to internally restricted reserves	<u>(627,884)</u>	<u>(712,427)</u>
Accumulated operational surplus at end of year (Note 12)	\$ <u>10,085,366</u>	\$ <u>9,410,558</u>
Internally restricted accumulated surplusses at beginning of year	\$ 44,132,816	\$ 43,420,389
Tax Recovery Land Sales - Transfers from operations	<u>627,884</u>	<u>712,427</u>
Internally restricted accumulated surplusses at end of year (Note 12)	\$ <u>44,760,700</u>	\$ <u>44,132,816</u>
	\$ <u>218,966,335</u>	\$ <u>207,122,249</u>