
TOWN OF TWO HILLS
Consolidated Financial Statements
Year Ended December 31, 2018

TOWN OF TWO HILLS
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Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Town of Two Hills

We have audited the accompanying consolidated financial statements of Town of Two Hills, which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statements of operations, changes in net financial debt, changes in accumulated surplus and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Town of Two Hills as at December 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

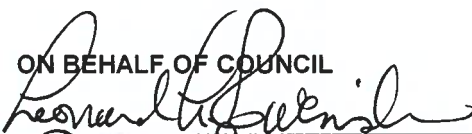
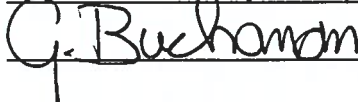
Two Hills, AB
May 14, 2019

NCube & Landry LLP

Chartered Professional Accountants

TOWN OF TWO HILLS
Consolidated Statement of Financial Position
December 31, 2018

	2018	2017
FINANCIAL ASSETS		
Cash (Note 2)	\$ 984,508	\$ 844,781
Tax and grants in place of taxes (Note 3)	490,033	360,277
Trade and other receivable (Note 4)	157,418	149,140
Receivable from other governments	492,416	1,054,253
Land for resale inventory	64,377	64,377
Long term Investments	5,556	5,556
TOTAL FINANCIAL ASSETS	2,194,308	2,478,384
LIABILITIES		
Bank indebtedness (Note 2)	-	1,296
Accounts payable	263,349	531,873
Current portion of long term debt (Note 8)	192,003	164,028
Deposit liabilities (Note 5)	73,562	69,341
Funds held in trust (Note 6)	108,787	109,740
Deferred income (Note 7)	631,444	564,386
Long term debt (Note 8)	2,812,713	2,735,710
TOTAL LIABILITIES	4,081,858	4,176,374
NET FINANCIAL DEBT	(1,887,550)	(1,697,990)
NON-FINANCIAL ASSETS		
Portfolio investments (Note 9)	941,779	804,919
Inventory for consumption	53,134	91,698
Tangible capital assets	15,216,311	14,523,442
	16,211,224	15,420,059
ACCUMULATED SURPLUS	\$ 14,323,674	\$ 13,722,069

ON BEHALF OF COUNCIL

 _____ Mayor

 _____ Administrator

TOWN OF TWO HILLS
Consolidated Statement of Operations
Year Ended December 31, 2018

	Budget	2018	2017
REVENUES			
Net municipal taxes	\$ 1,053,384	\$ 1,043,563	\$ 1,042,003
User fees and sales of goods	944,500	980,040	1,016,159
Government transfers for operating	227,952	300,174	328,120
Local improvements	138,371	139,555	140,709
Concession and franchise	140,000	146,478	125,813
Local government transfers	79,309	126,508	16,290
Penalties and costs of taxes	58,000	83,293	92,222
Insurance proceeds	-	51,022	-
Other	1,000	24,887	119,631
Rentals	16,664	20,132	18,370
Investment income	2,000	8,927	4,331
License and permits	6,150	7,220	6,030
Total Revenue	2,667,330	2,931,799	2,909,678
EXPENSES			
Roads, streets, walks, lighting	941,200	863,167	682,154
Water supply and distribution	566,800	536,140	589,324
Administration	565,000	511,549	655,113
Garbage collection	131,500	136,058	133,686
Legislative	102,200	102,503	89,026
Curling rink operation	145,700	106,920	242,814
Sanitary sewer	73,700	96,854	103,526
Family and community services	81,500	82,454	91,717
Community services	80,800	66,160	80,226
Parks and recreation	37,900	64,527	81,653
Hall operations	73,500	60,356	61,478
Fire	39,000	46,440	40,415
Arena operations	59,400	38,082	60,204
Library	38,600	35,336	34,759
Storm sewer	19,600	20,263	19,654
Bylaws enforcement	2,500	1,575	3,050
Disaster services	4,100	200	4,290
	2,963,000	2,768,584	2,973,089
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	(295,670)	163,215	(63,411)
OTHER INCOME			
Government transfers for Capital	532,766	438,390	598,276
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ 237,096	\$ 601,605	\$ 534,865

TOWN OF TWO HILLS
Consolidated Statement of Changes in Accumulated Surplus
Year Ended December 31, 2018

	Budget 2018	Total 2018	Total 2017
ACCUMULATED SURPLUS - BEGINNING OF YEAR	\$ 13,722,069	\$ 13,722,069	\$ 13,187,204
SURPLUS FOR THE YEAR	261,094	601,605	534,865
ACCUMULATED SURPLUS - END OF YEAR	<u>\$ 13,983,163</u>	<u>\$ 14,323,674</u>	<u>\$ 13,722,069</u>

TOWN OF TWO HILLS**Consolidated Statement of Changes in Net Financial Assets (Debt)****Year Ended December 31, 2018**

	Budget 2018	2018	2017
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ 237,096	\$ 601,605	\$ 534,865
Acquisition of tangible capital assets	(1,200,000)	(1,214,975)	(832,289)
Proceeds on disposal of tangible capital assets	-	59,502	-
Decrease (increase) in inventory valuation	50,000	38,560	(56,907)
Amortization of tangible capital assets	475,000	482,910	552,522
(Gain) loss on sale of tangible capital assets	-	(20,303)	-
Long term investments	-	(136,859)	-
	(675,000)	(791,165)	(336,674)
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(437,904)	(189,560)	198,191
NET FINANCIAL DEBT - BEGINNING OF YEAR	(1,697,990)	(1,697,990)	(1,896,181)
NET FINANCIAL DEBT - END OF YEAR	\$ (2,135,894)	\$ (1,887,550)	\$ (1,697,990)

TOWN OF TWO HILLS
Consolidated Statement of Cash Flows
Year Ended December 31, 2018

	2018	2017
OPERATING ACTIVITIES		
Excess (shortfall) of revenues over expenses	\$ 601,605	\$ 534,865
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	482,910	552,523
Gain on disposal of assets	(20,303)	-
	<u>1,064,212</u>	<u>1,087,388</u>
Changes in non-cash working capital:		
Decrease (increase) in trade and other receivables	(8,278)	979,395
Decrease (increase) in taxes and grants in lieu receivables	(129,756)	(60,151)
Decrease (increase) in inventory for consumption	38,560	(56,907)
Decrease (increase) in accounts payable and accrued liabilities	(268,524)	378,559
Decrease (increase) in deposit liabilities	4,221	14,178
Decrease (increase) in receivable other governments	561,837	(164,861)
Decrease (increase) in deferred revenue	67,057	195,242
Funds held in trust	(953)	-
	<u>264,164</u>	<u>1,285,455</u>
Cash provided by operating transactions	<u>1,328,376</u>	<u>2,372,843</u>
CAPITAL		
Acquisition of tangible capital assets	(1,214,975)	(832,289)
Proceeds on disposal of property, plant and equipment	59,502	-
Cash flow used by capital	<u>(1,155,473)</u>	<u>(832,289)</u>
INVESTING ACTIVITIES		
Decrease (increase) in investments	-	(94)
Portfolio investments	(136,860)	-
Proceeds from long term financing	269,052	-
Long-term debt repaid	(164,072)	(158,694)
Cash flow used by investing activities	<u>(31,880)</u>	<u>(158,788)</u>
INCREASE IN CASH FLOW	141,023	1,381,766
Cash (deficiency) - beginning of year	<u>843,485</u>	<u>(538,281)</u>
CASH - END OF YEAR	<u>984,508</u>	<u>843,485</u>
CASH CONSISTS OF:		
Cash	\$ 984,508	\$ 844,781
Bank indebtedness	-	(1,296)
	<u>\$ 984,508</u>	<u>\$ 843,485</u>

TOWN OF TWO HILLS
Schedule of changes in Accumulated Surplus
Year Ended December 31, 2018

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2018	2017
Balance, beginning of year, as previously stated	\$ 114,266	\$ 809,750	\$ 12,747,320	\$ 13,671,336	\$ 13,147,203
Prior period adjustments	480,523	-	(429,790)	50,733	40,001
Balance, beginning of year, as restated	594,789	809,750	12,317,530	13,722,069	13,187,204
Excess (deficiency) of revenue over expenses	601,605	-	-	601,605	534,865
Funds designated for future use	(53,834)	53,834	-	-	-
Restricted funds used for operations	-	-	-	-	-
Restricted funds used for tangible capital assets	-	-	-	-	-
Current year funds used for TCA	(784,718)	-	784,718	-	-
Disposal of TCA	34,229	-	(34,229)	-	-
Annual amortization expense	482,910	-	(482,910)	-	-
Long term debt repaid	(131,350)	-	131,350	-	-
Change in accumulated surplus	148,842	53,834	398,929	601,605	534,865
BALANCE, END OF YEAR	\$ 743,631	\$ 863,584	\$ 12,716,459	\$ 14,323,674	\$ 13,722,069

TOWN OF TWO HILLS
Consolidated Schedule of Tangible Capital Assets
Year Ended December 31, 2018

	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2018	2017
COST:								
BALANCE, BEGINNING OF THE YEAR	\$ 97,580	\$ 179,544	\$ 8,239,454	\$ 14,946,303	\$ 1,718,606	\$ 227,205	\$ 25,408,692	\$ 24,576,403
Acquisition of tangible capital assets	-	-	672,036	319,165	218,808	-	1,210,009	832,289
Disposal of capital assets	-	-	-	-	(48,899)	-	(48,899)	-
BALANCE, END OF YEAR	\$ 97,580	\$ 179,544	\$ 8,911,490	\$ 15,265,468	\$ 1,888,515	\$ 227,205	\$ 26,569,802	\$ 25,408,692
ACCUMULATED AMORTIZATION								
BALANCE, BEGINNING OF YEAR	\$ -	\$ 78,846	\$ 2,705,793	\$ 7,130,725	\$ 851,055	\$ 118,831	\$ 10,885,250	\$ 10,332,727
Annual amortization	-	6,301	116,216	230,082	114,755	15,557	482,911	552,523
Accumulated amortization on disposal	-	-	-	-	(14,670)	-	(14,670)	-
BALANCE, END OF YEAR	-	85,147	2,822,009	7,360,807	951,140	134,388	11,353,491	10,885,250
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 94,397	\$ 6,089,481	\$ 7,904,661	\$ 937,375	\$ 92,817	\$ 15,216,311	\$ 14,523,442
2017 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 100,699	\$ 5,533,661	\$ 7,815,577	\$ 867,551	\$ 108,374	\$ 14,523,442	\$ -

TOWN OF TWO HILLS
Consolidated Schedule of Property and Other Taxes
Year Ended December 31, 2018

	Budget	2018	2017
TAXATION			
Real property taxes	\$ 932,654	\$ 946,248	\$ 916,620
Business taxes	314,535	303,216	312,680
Linear property taxes	65,570	63,295	65,476
Federal grants in place of property taxes	14,633	14,633	15,177
Provincial grants in place of property taxes	2,275	2,275	2,413
Machinery and equipment	746	746	780
Farm land	95	95	93
Total Taxes and Grant in Lieu	1,330,508	1,330,508	1,313,239
REQUISITIONS			
Alberta School Foundation Fund	237,584	237,584	224,058
Eagle Hill Foundation	49,361	49,361	47,178
	286,945	286,945	271,236
	286,945	286,945	271,236
NET MUNICIPAL TAXES	\$ 1,043,563	\$ 1,043,563	\$ 1,042,003

TOWN OF TWO HILLS
Consolidated Schedule of Government Transfers
Year Ended December 31, 2018

	Budget	2018	2017
TRANSFERS FOR OPERATING			
Provincial Government	\$ 350,000	\$ 294,364	\$ 310,555
Federal Government	10,000	5,810	7,115
Other Local Government	-	-	10,450
	<u>360,000</u>	<u>300,174</u>	<u>328,120</u>
TRANSFERS FOR CAPITAL			
Federal Government	150,000	120,880	200,280
Provincial Government	350,000	317,510	310,785
Other Local Government	-	-	87,211
	<u>500,000</u>	<u>438,390</u>	<u>598,276</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 860,000</u>	<u>\$ 738,564</u>	<u>\$ 926,396</u>

TOWN OF TWO HILLS
Schedule of Consolidated Expenses by Object
Year Ended December 31, 2018

	Budget	2018	2017
EXPENDITURES BY OBJECT			
Salaries, wages, and benefits	\$ 736,500	\$ 660,639	\$ 655,545
Contracted and general services	650,000	630,936	669,964
Materials, goods, supplies and utilities	650,000	616,531	641,828
Amortization of tangible capital assets	552,000	482,910	552,525
Transfers to Individuals and organizations	135,000	137,471	154,776
Purchases from other governments	120,000	122,720	122,570
Interest on capital long term debt	110,000	104,895	112,081
Provision for allowances	-	6,792	52,945
Bank charges and short term interest	9,500	5,690	10,855
TOTAL EXPENDITURES	\$ 2,963,000	\$ 2,768,584	\$ 2,973,089

TOWN OF TWO HILLS
Consolidated Schedule of Segmented Disclosure
Year Ended December 31, 2018

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environment Services	Other	2018
Revenue								
Net municipal taxes	\$ 1,043,563	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,043,563
Local improvements	-	-	-	-	-	139,555	-	139,555
Sales to other governments	-	-	-	-	-	-	-	-
User fees and sale of goods	-	32,107	60,080	10,310	7,963	829,629	-	940,089
Penalties and costs	74,105	-	-	-	-	9,183	-	83,288
Licence and permits	6,516	-	-	-	-	-	-	6,516
Franchise and concession contracts	146,478	-	-	-	-	-	-	146,478
Investments income	8,933	-	-	-	-	-	-	8,933
Rentals	19,632	-	-	-	-	-	-	19,632
Insurance proceeds	-	-	-	-	51,022	-	-	51,022
Federal government conditional transfers	-	-	-	-	120,880	-	-	120,880
Provincial gov't conditional transfers	159,453	-	174,907	-	121,954	91,410	64,149	611,873
Local government transfers	-	-	46,867	11,321	59,689	-	2,632	120,509
Other revenue	16,823	-	20,823	15,424	24,781	-	-	77,851
	\$ 1,475,503	\$ 32,107	\$ 302,677	\$ 37,055	\$ 386,289	\$ 1,069,777	\$ 66,781	\$ 3,370,189
EXPENSES								
Salaries and wages	\$ 374,125	\$ 1,670	\$ 202,050	\$ -	\$ 36,694	\$ 56,680	\$ -	\$ 671,219
Contracted and general services	135,245	33,195	95,670	-	47,024	273,940	-	585,074
Purchases from other governments	-	-	-	3,000	-	82,200	1,377	86,577
Goods and supplies	72,536	11,959	383,875	26,152	79,005	-	-	573,527
Provision for allowances	-	-	-	-	-	6,792	-	6,792
Transfers to local boards	8,000	-	-	26,746	17,248	119,720	80,186	251,900
Bank charges and short term interest	5,690	-	-	-	-	-	-	5,690
Long term debt interest	-	-	-	10,344	9,051	85,500	-	104,895
	595,596	46,824	681,595	66,242	189,022	624,832	81,563	2,285,674
NET REVENUE BEFORE AMORTIZATION	\$ 879,907	\$ (14,717)	\$ (378,918)	\$ (29,187)	\$ 197,267	\$ 444,945	\$ (14,782)	\$ 1,084,515
Amortization expense	\$ 19,398	\$ 1,391	\$ 181,489	\$ -	\$ 116,200	\$ 163,540	\$ 892	\$ 482,910
NET REVENUE	\$ 860,509	\$ (16,108)	\$ (560,407)	\$ (29,187)	\$ 81,067	\$ 281,405	\$ (15,674)	\$ 601,605

TOWN OF TWO HILLS

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Two Hills are the representations of management prepared in accordance Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Chartered Professional Accounts of Canada. Significant aspects of these accounting policies adopted by the Town of Two Hills are as follows:

Reporting Entity

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

The schedule of taxes levied also includes requisitions for education, health, social and other external organizations that are not part of the municipal reporting entity.

The statements exclude trust assets that are administered for the benefit of external parties. Interdepartmental and organizational transactions and balances are eliminated.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenues as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or legal obligation to pay. Funds from external parties and earnings there on restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

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

Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Investments

Investments are recorded at amortized cost. Investment premiums and discounts are amortized on the net present value basis over the term of the respective investment. When there has been a loss in the value that is other than a temporary decline, the respective investment is written down to recognize the loss.

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Charges Recoverable

Debt charges recoverable consist of amounts that are recoverable from municipal agencies or other local governments with respect to outstanding debentures or other long term debt pursuant to annexation orders or joint capital undertakings. These recoveries are recorded at a value that equals the offsetting portion of the unmatured long term debt, less actuarial requirements for the retirement of any sinking fund debentures.

Requisition Over-levies and Under-levy

Over-levies and under-levies arise from the difference between the actual levy made to cover each requisition and the actual amount requisitioned. If the actual levy exceeds the requisition, the over-levy is accrued as a liability and property tax revenue is reduced. Where the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property tax revenue.

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

Inventory 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 leveling charges. Related development costs incurred to provide infrastructure such as wastewater services, roads, sidewalks and street lighting are recorded as physical assets under the respective function.

Tax Revenue

Tax revenues are recognized when the tax has been authorized by bylaw and the taxable event has occurred.

Requisitions operate as a flow through and are excluded from municipal revenue.

Government Transfers

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

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

Non-Financial Assets

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

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible Capital Assets

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

Land improvements	15 - 25 years	straight-line method
Buildings	25 - 50 years	straight-line method
Water systems	45 - 75 years	straight-line method
Waste water systems	45 - 75 years	straight-line method
Machinery and equipment	5 - 40 years	straight-line method
Other engineered structures	5 - 30 years	straight-line method
Motor vehicles	10 - 25 years	straight-line method

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

1. Contribution of Tangible Capital Assets

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

2. Leases

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

3. Inventories

Inventories held for consumption are recorded at the lower of cost and replacement cost.

4. Cultural and Historical Tangible Capital Assets

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

2. CASH AND BANK INDEBTEDNESS

	<u>2018</u>	<u>2017</u>
Cash	\$ 984,508	\$ 844,781
Line of credit	-	(1,296)
	<u>\$ 984,508</u>	<u>\$ 843,485</u>

As at December 31, 2018, line of credit had been fully paid.

Council has designated funds of \$863,584 (2017 - \$809,751) included in the above amounts for reserves.

Included in cash are a restricted amounts of \$108,787 (2017 - \$109,740) of the funds held in trust.

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2018</u>	<u>2017</u>
Current Taxes and Grants in Lieu	\$ 340,343	\$ 250,355
Arrears Taxes	149,690	109,922
	<u>\$ 490,033</u>	<u>\$ 360,277</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2018</u>	<u>2017</u>
Trade and other Receivables	\$ 294,392	\$ 330,289
Requisition Under-Levi	32,406	15,419
Less: Allowance for Doubtful Accounts	<u>(169,380)</u>	<u>(196,568)</u>
	<u>\$ 157,418</u>	<u>\$ 149,140</u>

5. DEPOSIT LIABILITIES

	<u>2018</u>	<u>2017</u>
Prepaid Taxes and Utilities	\$ 32,976	\$ 26,600
Land option deposit	19,760	19,760
Water deposits	17,171	17,365
Hall deposits	2,540	4,260
Garbage Deposits	1,115	1,356
	<u>\$ 73,562</u>	<u>\$ 69,341</u>

6. FUNDS HELD IN TRUST

	<u>2018</u>	<u>2017</u>
Tax Sales surplus	\$ 108,787	\$ 109,740

7. DEFERRED REVENUE

	<u>2018</u>	<u>2017</u>
Provincial Capital Grants	\$ 383,538	\$ 247,868
Local Government Capital Grants	239,081	195,638
Federal Capital Grants	8,825	120,880
	<u>\$ 631,444</u>	<u>\$ 564,386</u>

The use of provincial capital grant funds are restricted to eligible capital projects. The use of provincial operating grant funds are restricted to eligible operating projects. This deferred revenue is not completely supported by cash and temporary investments.

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

8. LONG TERM DEBT

	<u>2018</u>	<u>2017</u>
Alberta Capital Finance Authority - 4000762 loan bearing interest at 3.494% per annum, repayable in semi-annual blended payments of \$19,692. The loan matures on September 15, 2019.	\$ 38,377	\$ 75,447
ATB Financial loan bearing interest at 2.45% per annum, repayable in monthly blended payments of \$2,060. The loan matures on August 15, 2019.	13,290	37,144
Alberta Capital Finance Authority - 4001581 loan bearing interest at 3.866% per annum, repayable in semi-annual blended payments of \$22,694. The loan matures on December 16, 2033.	512,974	537,808
Alberta Capital Finance Authority - 4001161 loan bearing interest at 3.904% per annum, repayable in semi-annual blended payments of \$12,420. The loan matures on June 15, 2031	243,845	258,728
Alberta Capital Finance Authority - 4001162 loan bearing interest at 4.157% per annum, repayable in semi-annual blended payments of \$43,536. The loan matures on June 15, 2041.	1,264,637	1,298,092
Alberta Capital Finance Authority - 4002465 loan bearing interest at 2.68% per annum, repayable in monthly blended payments of \$17,740. The loan matures on September 17, 2023.	165,000	-
Alberta Capital Finance Authority - 4002464 loan bearing interest at 3.204% per annum, repayable in monthly blended payments of \$2,712. The loan matures on December 31, 2031.	104,052	-
Alberta Capital Finance Authority - 4001939 loan bearing interest at 2.831% per annum, repayable in semi-annual blended payments of \$24,685. The loan matured on December 15, 2035.	<u>662,541</u>	<u>692,519</u>
	3,004,716	2,899,738
Amounts payable within one year	<u>(192,003)</u>	<u>(164,028)</u>
	\$ 2,812,713	\$ 2,735,710

Principal repayment terms are approximately:

2019	\$ 194,161
2020	148,751
2021	152,712
2022	157,050
2023	149,151
Thereafter	<u>2,202,891</u>
	\$ 3,004,716

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

8. LONG TERM DEBT (continued)

Debenture debt is repayable to Alberta Municipal Financing Corporation and bears interest at rates ranging from 2.831% to 4.157%, and mature in periods 2019 through 2041. The average annual interest rate is 3.97% (2017 - 3.97%). Debenture debt is issued on the credit and security of the Town of Two Hills.

Bank loan is payable in monthly installments of \$2,060 including principle and interest at 2.45% due August 2019. The bank loan is secured by a general assignment of property taxes receivable.

Interest on long term debt amounted to \$104,895 (2017 - \$112,081) The Town's total cash payments for interest were \$110,585 (2017- \$122,936)

9. PORTFORLIO INVESTMENTS

The town of Two Hills is a holder of 1,211 Class A Common share of Alberta Central East Water Corporation, which is about 8.89% of the issued shares. Since 2012, the town has made contributions towards the construction of the water pipeline which now provides water to the Town of Two Hills.

The Alberta Central East Water Corporation is a profit oriented entity that is owned and controlled by 14 municipalities in North East Alberta. The Federal government has contributed \$90 million towards the construction of the water pipeline meaning 10 % of the capital is contributed by the municipalities.

As of December 31, 2018 ACE water corporation had assets worth over \$90M.

Impairment of ACE corporation has been considered and nothing suggest that there has been any impairment to the value of the corporation.

	2018	2017
Investment in Alberta Central East Water Corporation	<u>\$ 941,779</u>	<u>\$ 804,919</u>

10. DEBTS LIMITS

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

	2018	2017
Total Debt Limit	\$ 5,055,284	\$ 4,364,376
Total Debt	<u>(3,004,716)</u>	<u>(2,901,033)</u>
	<u>\$ 2,050,568</u>	<u>\$ 1,463,343</u>
Service on Debt Limit	\$ 842,548	\$ 727,396
Service on Debt	<u>(286,960)</u>	<u>(270,775)</u>
	<u>\$ 555,588</u>	<u>\$ 456,621</u>

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.

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

11. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2018</u>	<u>2017</u>
Tangible Capital Assets (Schedule 2)	\$ 26,569,802	\$ 25,408,692
Accumulated Amortization (Schedule 2)	(11,353,489)	(10,885,250)
Capital Long term debt	(2,499,854)	(2,224,802)
	<u>\$ 12,716,459</u>	<u>\$ 12,298,640</u>

12. ACCUMULATED SURPLUS

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

	<u>2018</u>	<u>2017</u>
Unrestricted Surplus (Deficit)	\$ 743,631	\$ 613,679
Restricted Surplus	863,584	809,750
Equity in Tangible Capital Assets	<u>12,716,459</u>	<u>12,298,640</u>
	<u>\$ 14,323,674</u>	<u>\$ 13,722,069</u>

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

13. SALARY & BENEFITS DISCLOSURE

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

	Salary	Benefits & Allowances	2018	2017
Mayor				
Ewanishan	\$ 21,726	\$ 2,500	\$ 24,226	\$ 3,275
Romaniuk	-	-	-	11,275
	<u>21,726</u>	<u>2,500</u>	<u>24,226</u>	<u>14,550</u>
Councilors				
Gerren Saskiw	16,722	2,500	19,222	12,150
Elaine Sorochan	19,052	2,500	21,552	2,800
Micheal Tarkowski	19,066	2,500	21,566	2,475
Deborah Tupechka	16,846	2,500	19,346	2,925
Babiuk	-	-	-	14,000
Gray	-	-	-	12,400
Rajoo	-	-	-	12,575
	<u>71,686</u>	<u>10,000</u>	<u>81,686</u>	<u>59,325</u>
Town Manager				
Elsie	95,000	22,630	117,630	118,493
Total	\$ 188,412	\$ 35,130	\$ 223,542	\$ 192,368

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

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.

Benefits and allowances figures also include the Employer's share of the costs of additional taxable benefits including special leave with pay, financial planning services, retirement planning services, travel allowances, and car allowances.

14. SEGMENTED DISCLOSURE

The Town of Two Hills provides a range of services to its ratepayers. For each reported segment, revenue and expenses represent both amounts that are directly attributable to the segment and amounts that allocated on a reasonable basis. The accounting policies used in 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)

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

15. LOCAL AUTHORITIES PENSION PLAN

Employees of the Town of Two Hills participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pension Plans Act. The LAPP is financed by employer and employee contributions and investment earnings of the LAPP Fund.

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

The Town is required to make current service contributions to the LAPP of 11.39% of pensionable earning up to the year's maximum pensionable earnings under the Canada Pension Plan and 15.84% for pensionable earnings above this mount.

Total current service contributions by the Town to the LAPP in 2018 were \$36,157 (2017 - \$47,508). Total current service contributions by the employees of the Town to the LAPP in 2018 were \$32,775 (2017 - \$43,610).

At December 31, 2017, the LAPP disclosed an actuarial deficiency of \$2.45 billion.

16. CONTINGENCIES

The Town of Two Hills is a member of the Alberta Municipal Insurance Exchange(MUNIX). Under the terms of membership, the Town of Two Hills 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.

17. PRIOR PERIOD ADJUSTMENTS

In the prior year, amounts paid to Alberta Central East Water Corporation were recorded as capital assets as they were part of the Town's portion for the construction of the water pipeline. Since the town does not have full control of the pipeline, it jeopardised the basis of recognizing an asset to the town. As such, given that there is sufficient evidence that there are future benefits to the town for the contribution made to ACE Water corporation, it was deemed necessary to record all such transactions to portfolio investments.

These changes have resulted in reversing amortization amounts of \$50,733 that were deducted in accumulated surplus. Also, amounts that were credited to equity in tangible capital assets due to payment of long term debt associated with the ACE payments have been moved to unrestricted surplus.

18. FINANCIAL INSTRUMENTS

The Town's financial instruments consist of cash and temporary investments, accounts receivables, investments, accounts payable and accrued liabilities, deposit liabilities and long term debt. It is management's opinion that the Town is not exposed to significant interest or currency risk arising from these financial instruments.

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

Unless otherwise noted, the fair value of these financial instruments approximates their carrying value.

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2018

19. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and Management.