

**TOWN OF TWO HILLS**  
**Consolidated Financial Statements**  
**Year Ended December 31, 2019**

FINAL DRAFT

**TOWN OF TWO HILLS**  
**Index to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

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## INDEPENDENT AUDITOR'S REPORT

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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, 2019 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.

*(continues)*

Independent Auditor's Report to the Members of Town of Two Hills *(continued)*

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, 2019 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

Chartered Professional Accountants

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**TOWN OF TWO HILLS**  
**Consolidated Statement of Financial Position**  
**December 31, 2019**

	2019	2018
<b>FINANCIAL ASSETS</b>		
Cash (Note 2)	\$ 1,231,440	\$ 984,508
Tax and grants in place of taxes (Note 3)	481,141	490,033
Trade and other receivable (Note 4)	119,785	157,418
Receivable from other governments	469,441	492,416
Land for resale inventory	64,377	64,377
Long term Investments	5,556	5,556
<b>TOTAL FINANCIAL ASSETS</b>	<b>2,371,740</b>	<b>2,194,308</b>
<b>LIABILITIES</b>		
Accounts payable	246,554	263,349
Current portion of long term debt (Note 8)	177,751	192,003
Deposit liabilities (Note 5)	81,390	73,562
Funds held in trust (Note 6)	110,694	108,787
Deferred income (Note 7)	653,413	631,444
Long term debt (Note 8)	2,924,962	2,812,713
<b>TOTAL LIABILITIES</b>	<b>4,194,764</b>	<b>4,081,858</b>
<b>NET FINANCIAL DEBT</b>	<b>(1,823,024)</b>	<b>(1,887,550)</b>
<b>NON-FINANCIAL ASSETS</b>		
Portfolio investments (Note 9)	941,779	941,779
Inventory for consumption	42,287	53,134
Tangible capital assets	15,341,121	15,216,311
	<b>16,325,187</b>	<b>16,211,224</b>
<b>ACCUMULATED SURPLUS</b>	<b>\$ 14,502,165</b>	<b>\$ 14,323,674</b>

**ON BEHALF OF COUNCIL**

\_\_\_\_\_ Mayor

\_\_\_\_\_ Administrator

**TOWN OF TWO HILLS**  
**Consolidated Statement of Operations**  
**Year Ended December 31, 2019**

	Budget	2019	2018
<b>REVENUES</b>			
Net municipal taxes	\$ 1,042,900	\$ 1,042,918	\$ 1,043,563
User fees and sales of goods	995,000	980,162	980,040
Government transfers for operating	350,000	252,513	300,174
Local improvements	142,000	138,756	139,555
Concession and franchise	145,000	137,592	146,478
Local government transfers	85,000	64,220	126,508
Penalties and costs of taxes	65,000	57,852	83,293
Rentals	20,000	42,454	20,132
Investment income	5,000	10,816	8,927
Other	12,000	8,900	38,117
License and permits	8,500	6,625	7,220
Insurance proceeds	-	-	51,022
Loss on sale of equipment	-	(13,100)	(13,230)
<b>Total Revenue</b>	<b>2,870,400</b>	<b>2,729,708</b>	<b>2,931,799</b>
<b>EXPENSES</b>			
Roads, streets, walks, lighting	1,020,000	835,553	863,167
Administration	525,500	608,528	511,549
Water supply and distribution	545,000	591,827	536,140
Curling rink operation	110,500	155,621	106,920
Sanitary sewer	72,500	142,394	96,854
Garbage collection	140,000	139,129	136,058
Legislative	134,000	117,439	102,503
Family and community services	81,500	83,382	82,454
Parks and recreation	38,500	77,147	64,527
Community services	124,000	75,647	66,160
Hall operations	124,000	45,927	60,356
Arena operations	73,500	44,898	38,082
Library	38,500	39,643	35,336
Fire	42,000	38,665	46,440
Storm sewer	19,500	20,873	20,263
Bylaws enforcement	9,500	8,898	1,575
Disaster services	8,000	4,221	200
	<b>3,106,500</b>	<b>3,029,792</b>	<b>2,768,584</b>
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER</b>	<b>(236,100)</b>	<b>(300,084)</b>	<b>163,215</b>
<b>OTHER INCOME</b>			
Government transfers for Capital	550,000	478,575	438,390
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES</b>	<b>\$ 313,900</b>	<b>\$ 178,491</b>	<b>\$ 601,605</b>

**TOWN OF TWO HILLS**

**Consolidated Statement of Changes in Accumulated Surplus**

**Year Ended December 31, 2019**

	Budget 2019	Total 2019	Total 2018
<b>ACCUMULATED SURPLUS - BEGINNING OF YEAR</b>	\$ 14,323,674	\$ 14,323,674	\$ 13,722,069
<b>SURPLUS FOR THE YEAR</b>	313,900	178,491	601,605
<b>ACCUMULATED SURPLUS - END OF YEAR</b>	\$ 14,035,969	\$ 14,502,165	\$ 14,323,674

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**TOWN OF TWO HILLS**

**Consolidated Statement of Changes in Net Financial Assets (Debt)**

**Year Ended December 31, 2019**

	Budget 2019	2019	2018
<b>EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES</b>	\$ 313,900	\$ 178,491	\$ 601,605
Acquisition of tangible capital assets	(900,000)	(702,252)	(1,214,975)
Proceeds on disposal of tangible capital assets	-	16,000	59,502
Decrease in inventory valuation	35,000	10,846	38,560
Amortization of tangible capital assets	525,500	548,341	482,910
(Gain) loss on sale of tangible capital assets	-	13,100	(20,303)
Long term investments	-	-	(136,859)
	<u>(339,500)</u>	<u>(113,965)</u>	<u>(791,165)</u>
<b>INCREASE (DECREASE) IN NET FINANCIAL ASSETS</b>	(25,600)	64,526	(189,560)
<b>NET FINANCIAL DEBT - BEGINNING OF YEAR</b>	<u>(1,887,550)</u>	<u>(1,887,550)</u>	<u>(1,697,990)</u>
<b>NET FINANCIAL DEBT - END OF YEAR</b>	<u>\$ (1,913,150)</u>	<u>\$ (1,823,024)</u>	<u>\$ (1,887,550)</u>

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**TOWN OF TWO HILLS**  
**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2019**

	2019	2018
<b>OPERATING ACTIVITIES</b>		
Excess (shortfall) of revenues over expenses	\$ 178,491	\$ 601,605
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	548,341	482,910
Gain on disposal of assets	-	(20,303)
Loss on disposal of investments	13,100	-
	<u>739,932</u>	<u>1,064,212</u>
Changes in non-cash working capital:		
Decrease (increase) in trade and other receivables	37,633	(8,278)
Decrease (increase) in taxes and grants in lieu receivables	8,892	(129,756)
Decrease (increase) in inventory for consumption	10,847	38,560
Decrease (increase) in accounts payable and accrued liabilities	(16,795)	(268,524)
Decrease (increase) in deposit liabilities	7,828	4,221
Decrease (increase) in receivable other governments	22,975	561,837
Decrease (increase) in deferred revenue	21,968	67,057
Funds held in trust	1,907	(953)
	<u>95,255</u>	<u>264,164</u>
Cash provided by operating transactions	<u>835,187</u>	<u>1,328,376</u>
<b>CAPITAL</b>		
Acquisition of tangible capital assets	(702,252)	(1,214,975)
Proceeds on disposal of property, plant and equipment	16,000	59,502
Cash flow used by capital	<u>(686,252)</u>	<u>(1,155,473)</u>
<b>INVESTING ACTIVITIES</b>		
Portfolio investments	-	(136,860)
Proceeds from long term financing	290,000	269,052
Long-term debt repaid	(192,003)	(164,072)
Cash flow from (used by) investing activities	<u>97,997</u>	<u>(31,880)</u>
<b>INCREASE IN CASH FLOW</b>	<b>246,932</b>	<b>141,023</b>
Cash - beginning of year	<u>984,508</u>	<u>843,485</u>
<b>CASH - END OF YEAR</b>	<b><u>1,231,440</u></b>	<b><u>984,508</u></b>
<b>CASH CONSISTS OF:</b>		
Cash	<u>\$ 1,231,440</u>	<u>\$ 984,508</u>

**TOWN OF TWO HILLS**  
**Schedule of changes in Accumulated Surplus**  
**Year Ended December 31, 2019**

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2019	2018
Balance, beginning of year, as previously stated	\$ 767,486	\$ 863,584	\$ 12,692,604	\$ 14,323,674	\$ 13,671,336
Prior period adjustments	-	-	-	-	50,733
<b>Balance, beginning of year, as restated</b>	<b>767,486</b>	<b>863,584</b>	<b>12,692,604</b>	<b>14,323,674</b>	<b>13,722,069</b>
Excess (deficiency) of revenue over expenses	178,491	-	-	178,491	601,605
Funds designated for future use	-	-	-	-	-
Restricted funds used for operations	(58,864)	58,864	-	-	-
Restricted funds used for tangible capital assets	-	-	-	-	-
Current year funds used for TCA	(601,613)	-	601,613	-	-
Disposal of TCA	29,100	-	(29,100)	-	-
Annual amortization expense	548,341	-	(548,341)	-	-
Long term debt repaid	(111,338)	-	111,338	-	-
Change in accumulated surplus	(15,883)	58,864	135,510	178,491	601,605
<b>BALANCE, END OF YEAR</b>	<b>\$ 751,603</b>	<b>\$ 922,448</b>	<b>\$ 12,828,114</b>	<b>\$ 14,502,165</b>	<b>\$ 14,323,674</b>

**TOWN OF TWO HILLS**  
**Consolidated Schedule of Tangible Capital Assets**  
**Year Ended December 31, 2019**

	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2019	2018
<b>COST:</b>								
BALANCE, BEGINNING OF THE YEAR	\$ 97,580	\$ 179,544	\$ 8,911,490	\$ 15,265,468	\$ 1,888,515	\$ 227,205	\$ 26,569,802	\$ 25,408,692
Acquisition of tangible capital assets	-	-	42,291	313,869	272,940	73,252	702,252	1,210,009
Disposal of capital assets	-	-	-	-	(153,250)	-	(153,250)	(48,899)
<b>BALANCE, END OF YEAR</b>	<b>\$ 97,580</b>	<b>\$ 179,544</b>	<b>\$ 8,953,781</b>	<b>\$ 15,579,337</b>	<b>\$ 2,008,105</b>	<b>\$ 300,457</b>	<b>\$ 27,118,804</b>	<b>\$ 26,569,802</b>
<b>ACCUMULATED AMORTIZATION</b>								
BALANCE, BEGINNING OF YEAR	\$ -	\$ 85,147	\$ 2,822,009	\$ 7,360,807	\$ 951,140	\$ 134,389	\$ 11,353,492	\$ 10,885,250
Annual amortization	-	6,033	142,986	259,578	120,525	19,219	548,341	482,911
Accumulated amortization on disposal	-	-	-	-	(124,150)	-	(124,150)	(14,670)
<b>BALANCE, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 91,180</b>	<b>\$ 2,964,995</b>	<b>\$ 7,620,385</b>	<b>\$ 947,515</b>	<b>\$ 153,608</b>	<b>\$ 11,777,683</b>	<b>\$ 11,353,491</b>
<b>NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS</b>	<b>\$ 97,580</b>	<b>\$ 88,364</b>	<b>\$ 5,988,786</b>	<b>\$ 7,958,952</b>	<b>\$ 1,060,590</b>	<b>\$ 146,849</b>	<b>\$ 15,341,121</b>	<b>\$ 15,216,311</b>
2018 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 94,397	\$ 6,089,481	\$ 7,904,661	\$ 937,375	\$ 92,817	\$ 15,216,311	\$ -

**TOWN OF TWO HILLS**  
**Consolidated Schedule of Property and Other Taxes**  
**Year Ended December 31, 2019**

	Budget	2019	2018
<b>TAXATION</b>			
Real property taxes	\$ 945,000	\$ 949,490	\$ 946,248
Business taxes	310,500	304,255	303,216
Linear property taxes	65,000	63,512	63,295
Federal grants in place of property taxes	15,000	14,683	14,633
Provincial grants in place of property taxes	2,300	2,283	2,275
Machinery and equipment	800	748	746
Farm land	95	95	95
<b>Total Taxes and Grant in Lieu</b>	<b>1,338,695</b>	<b>1,335,066</b>	<b>1,330,508</b>
<b>REQUISITIONS</b>			
Alberta School Foundation Fund	236,299	236,299	237,584
Eagle Hill Foundation	55,849	55,849	49,361
	<u>292,148</u>	<u>292,148</u>	<u>286,945</u>
	<u>292,148</u>	<u>292,148</u>	<u>286,945</u>
<b>NET MUNICIPAL TAXES</b>	<b>\$ 1,046,547</b>	<b>\$ 1,042,918</b>	<b>\$ 1,043,563</b>

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**TOWN OF TWO HILLS**  
**Consolidated Schedule of Government Transfers**  
**Year Ended December 31, 2019**

	Budget	2019	2018
<b>TRANSFERS FOR OPERATING</b>			
Provincial Government	\$ 330,000	\$ 247,613	\$ 294,364
Federal Government	10,000	4,200	5,810
Other Local Government	-	700	-
	<u>340,000</u>	<u>252,513</u>	<u>300,174</u>
<b>TRANSFERS FOR CAPITAL</b>			
Federal Government	150,000	-	120,880
Provincial Government	350,000	478,575	317,510
Other Local Government	-	-	-
	<u>500,000</u>	<u>478,575</u>	<u>438,390</u>
<b>TOTAL GOVERNMENT TRANSFERS</b>	<b>\$ 840,000</b>	<b>\$ 731,088</b>	<b>\$ 738,564</b>

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**TOWN OF TWO HILLS**  
**Schedule of Consolidated Expenses by Object**  
**Year Ended December 31, 2019**

	Budget	2019	2018
<b>EXPENDITURES BY OBJECT</b>			
Salaries, wages, and benefits	\$ 775,000	\$ 764,488	\$ 660,639
Contracted and general services	635,000	509,820	392,578
Materials, goods, supplies and utilities	800,000	804,588	855,832
Amortization of tangible capital assets	525,500	548,341	482,910
Transfers to individuals and organizations	145,000	150,899	137,471
Purchases from other governments	130,000	125,974	122,720
Interest on capital long term debt	110,000	108,247	104,895
Provision for allowances	7,500	6,421	6,792
Bank charges and short term interest	5,000	11,014	4,747
<b>TOTAL EXPENDITURES</b>	<b>\$ 3,133,000</b>	<b>\$ 3,029,792</b>	<b>\$ 2,768,584</b>

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**TOWN OF TWO HILLS**  
**Consolidated Schedule of Segmented Disclosure**  
**Year Ended December 31, 2019**

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environment Services	Other	2019
<b>Revenue</b>								
Net municipal taxes	\$ 1,042,918	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,042,918
Local improvements	-	-	-	-	25,948	112,808	-	138,756
User fees and sale of goods	35,324	34,111	47,773	1,936	4,075	850,091	6,852	980,162
Penalties and costs	56,722	-	-	-	-	1,130	-	57,852
License and permits	6,123	700	-	-	-	-	-	6,823
Franchise and concession contracts	137,592	-	-	-	-	-	-	137,592
Investments income	10,816	-	-	-	-	-	-	10,816
Rentals	42,454	-	-	-	-	-	-	42,454
Federal government conditional transfers	-	-	478,575	-	-	-	-	478,575
Provincial gov't conditional transfers	157,969	-	-	-	38,680	30,394	64,150	252,513
Local government transfers	-	-	22,908	-	(4,398)	-	2,632	64,220
Other revenue	-	-	-	-	-	-	-	(4,398)
	\$ 1,489,918	\$ 34,811	\$ 549,256	\$ 1,936	\$ 64,305	\$ 994,423	\$ 73,634	\$ 3,208,283
<b>EXPENSES</b>								
Salaries and wages	\$ 425,097	\$ 1,800	\$ 242,909	\$ -	\$ 32,070	\$ 62,612	\$ -	\$ 764,488
Contracted and general services	224,294	34,190	30,697	-	118,948	100,347	1,344	509,820
Purchases from other governments	-	-	-	3,000	-	122,974	-	125,974
Materials, goods, supplies and utilities	44,011	6,593	371,197	-	40,887	329,346	12,554	804,588
Provision for allowances	6	-	93	-	-	6,322	-	6,421
Transfers to local boards	900	-	-	15,426	54,387	-	80,186	150,899
Bank charges and short term interest	11,014	-	-	-	-	-	-	11,014
Long term debt interest	-	-	4,214	-	18,540	85,493	-	108,247
	705,322	42,583	649,110	18,426	264,832	707,094	94,084	2,481,451
<b>NET REVENUE BEFORE AMORTIZATION</b>	\$ 784,596	\$ (7,772)	\$ (99,854)	\$ (16,490)	\$ (200,527)	\$ 287,329	\$ (20,450)	\$ 726,832
Amortization expense	\$ 19,648	\$ 1,391	\$ 195,251	\$ -	\$ 144,030	\$ 187,129	\$ 892	\$ 548,341
<b>NET REVENUE</b>	\$ 764,948	\$ (9,163)	\$ (295,105)	\$ (16,490)	\$ (344,557)	\$ 100,200	\$ (21,342)	\$ 178,491

## TOWN OF TWO HILLS

### Notes to Consolidated Financial Statements

Year Ended December 31, 2019

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#### 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, 2019

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#### 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, 2019**

**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>2019</u>	<u>2018</u>
Cash	\$ 1,231,440	\$ 984,508
Line of credit	-	-
	<u>\$ 1,231,440</u>	<u>\$ 984,508</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, 2019**

**3. TAXES AND GRANTS IN LIEU RECEIVABLES**

	<u>2019</u>	<u>2018</u>
Current Taxes and Grants in Lieu	\$ 211,174	\$ 340,343
Arrears Taxes	269,967	149,690
	<u>\$ 481,141</u>	<u>\$ 490,033</u>

**4. TRADE AND OTHER RECEIVABLES**

	<u>2019</u>	<u>2018</u>
Trade and other Receivables	\$ 260,077	\$ 294,392
Requisition Under-Levi	31,402	32,406
Less: Allowance for Doubtful Accounts	(171,694)	(169,380)
	<u>\$ 119,785</u>	<u>\$ 157,418</u>

**5. DEPOSIT LIABILITIES**

	<u>2019</u>	<u>2018</u>
Prepaid Taxes and Utilities	\$ 41,839	\$ 32,976
Land option deposit	19,760	19,760
Water deposits	16,771	17,171
Hall deposits	1,985	2,540
Garbage Deposits	1,035	1,115
	<u>\$ 81,390</u>	<u>\$ 73,562</u>

**6. FUNDS HELD IN TRUST**

	<u>2019</u>	<u>2018</u>
Tax Sales surplus	\$ 110,694	\$ 108,787

**7. DEFERRED REVENUE**

	<u>2019</u>	<u>2018</u>
Provincial Capital Grants	\$ 325,915	\$ 383,538
Local Government Capital Grants	327,498	239,081
Federal Capital Grants	-	8,825
	<u>\$ 653,413</u>	<u>\$ 631,444</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, 2019**

**8. LONG TERM DEBT**

	<u>2019</u>	<u>2018</u>
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.	\$ 487,171	\$ 512,974
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	228,376	243,845
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.	1,229,777	1,264,637
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.	133,733	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.	101,945	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.	631,711	662,541
Alberta Capital Finance Authority - 4002698 loan bearing interest at % per annum, repayable in monthly blended payments of \$-. The loan matures on December 31, 2029 and is secured by which has a carrying value of \$-.	290,000	-
ATB Financial loan bearing interest at 2.45% per annum, repayable in monthly blended payments of \$2,060. The loan matured on August 15, 2019.	-	13,290
Alberta Capital Finance Authority - 4000762 loan bearing interest at 3.494% per annum, repayable in semi-annual blended payments of \$19,692. The loan matured on September 15, 2019.	-	38,377
	<u>3,102,713</u>	<u>3,004,716</u>
Amounts payable within one year	<u>(177,751)</u>	<u>(192,003)</u>
	<u>\$ 2,924,962</u>	<u>\$ 2,812,713</u>

Principal repayment terms are approximately:

**TOWN OF TWO HILLS**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**8. LONG TERM DEBT (continued)**

2020	\$ 177,751
2021	181,712
2022	186,050
2023	178,151
2024	252,159
Thereafter	2,126,890
	<u>\$ 3,102,713</u>

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 3.45% (2018- 3.97%). Debenture debt is issued on the credit and security of the Town of Two Hills.

Interest on long term debt amounted to \$108,247 (2018 - \$104,895) The Town's total cash payments for interest were \$119,261 (2018- \$110,585)

**9. PORTFOLIO 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, 2019 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.

	2019	2018
Investment in Alberta Central East Water Corporation	<u>\$ 941,779</u>	<u>\$ 941,779</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:

	2019	2018
Total Debt Limit	\$ 4,094,562	\$ 4,397,699
Total Debt	<u>(3,102,713)</u>	<u>(3,004,716)</u>
	<u>\$ 991,849</u>	<u>\$ 1,392,983</u>
Service on Debt Limit	\$ 682,427	\$ 732,950
Service on Debt	<u>(319,747)</u>	<u>(286,960)</u>
	<u>\$ 362,680</u>	<u>\$ 445,990</u>

**TOWN OF TWO HILLS**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**10. DEBTS LIMITS (continued)**

**2019**                      **2018**

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.

**11. EQUITY IN TANGIBLE CAPITAL ASSETS**

	<b>2019</b>	<b>2018</b>
Tangible Capital Assets (Schedule 2)	<b>\$ 27,118,804</b>	<b>\$ 26,569,802</b>
Accumulated Amortization (Schedule 2)	<b>(11,777,683)</b>	<b>(11,353,489)</b>
Capital Long term debt	<b>(2,513,007)</b>	<b>(2,499,854)</b>
	<b>\$ 12,828,114</b>	<b>\$ 12,716,459</b>

**12. ACCUMULATED SURPLUS**

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

	<b>2019</b>	<b>2018</b>
Unrestricted Surplus (Deficit)	<b>\$ 751,603</b>	<b>\$ 743,631</b>
Restricted Surplus	<b>922,448</b>	<b>863,584</b>
Equity in Tangible Capital Assets	<b>12,828,114</b>	<b>12,716,459</b>
	<b>\$ 14,502,165</b>	<b>\$ 14,323,674</b>

FINAL DRAFT

**TOWN OF TWO HILLS**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2019**

**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	2019	2018
<b>Mayor</b>				
Ewanishan	\$ 19,300	\$ 2,500	\$ 21,800	\$ 24,226
<b>Councillors</b>				
Gerren Saskiw	10,125	2,500	12,625	19,222
Elaine Sorochan	16,175	2,500	18,675	21,552
Micheal Tarkowski	14,225	2,500	16,725	21,556
Deborah Tupechka	2,325	-	2,325	19,346
Michael William Babiuk	10,950	2,500	13,450	-
Rajoo	1,600	-	1,600	-
	55,400	10,000	65,400	81,676
<b>Town Manager</b>				
Gerren Saskiw	18,250	5,527	23,777	-
Robert Moretti	36,371	10,957	47,328	-
Elsie Kiziak	29,832	6,743	36,575	117,630
	84,453	23,227	107,680	117,630
<b>Total</b>	<b>\$ 159,153</b>	<b>\$ 35,727</b>	<b>\$ 194,880</b>	<b>\$ 223,532</b>

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, 2019

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#### 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 amount.

Total current service contributions by the Town to the LAPP in 2019 were \$42,467 (2018 - \$47,508). Total current service contributions by the employees of the Town to the LAPP in 2019 were \$29,297 (2018 - \$32,775).

At December 31, 2018, 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. 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.

#### 18. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and Management.