
TOWN OF TWO HILLS
Financial Information
Year Ended December 31, 2021

TOWN OF TWO HILLS
Index to Financial Statements
Year Ended December 31, 2021

	Page
AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Operations	4
Statement of Changes in Accumulated Surplus	5
Statement of Changes in Net Financial Debt	6
Statement of Cash Flows	7
Schedule of Changes in Accumulated Surplus	8
Schedule of Tangible Capital Assets	9
Schedule of property and Other Taxes	10
Schedule of Government Transfers	11
Schedule of Consolidated Expenses by Object	12
Schedule of Segmented Disclosure	13
Notes to Financial Statements	14 - 22



INDEPENDENT AUDITOR'S REPORT

To the Members of Town of Two Hills

Opinion

We have audited the financial statements of Town of Two Hills (the organization), which comprise the statement of financial position as at December 31, 2021, and the statements of operations, changes in accumulated surplus, changes in net financial debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the organization as at December 31, 2021, and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards (PSAS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the organization in accordance with ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAS, 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.

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

(continues)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Edmonton, AB
May 24, 2022

Neube & Landry LLP

Chartered Professional Accountants

TOWN OF TWO HILLS
Statement of Financial Position
December 31, 2021

	2021	2020
FINANCIAL ASSETS		
Cash (Note 2)	\$ 951,448	\$ 1,017,186
Tax and grants in place of taxes (Note 3)	662,863	517,644
Trade and other receivable (Note 4)	115,730	83,996
Receivable from other governments	150,060	361,378
Land for resale inventory	64,377	64,377
Long term Investments	5,556	5,556
TOTAL FINANCIAL ASSETS	1,950,034	2,050,137
LIABILITIES		
Accounts payable	179,417	304,512
Current portion of long term debt (Note 8)	251,995	231,212
Deposit liabilities (Note 5)	40,059	55,293
Funds held in trust (Note 6)	110,694	110,694
Deferred income (Note 7)	293,762	448,324
Long term debt (Note 8)	3,441,662	3,343,760
TOTAL LIABILITIES	4,317,589	4,493,795
NET FINANCIAL DEBT	(2,367,555)	(2,443,658)
NON-FINANCIAL ASSETS		
Portfolio investments (Note 9)	1,287,992	1,108,792
Inventory for consumption	65,600	39,524
Tangible capital assets	16,395,458	16,094,929
	17,749,050	17,243,245
ACCUMULATED SURPLUS	\$ 15,381,495	\$ 14,799,590

ON BEHALF OF COUNCIL

original signed Mayor

original signed Administrator

TOWN OF TWO HILLS
Statement of Operations
Year Ended December 31, 2021

	Budget	2021	2020
REVENUES			
User fees and sales of goods	\$ 1,006,900	\$ 1,049,238	\$ 976,605
Net municipal taxes	1,117,000	1,048,934	1,062,823
Government transfers for operating	208,100	299,666	489,676
Local government transfers	100,000	282,912	422,252
Concession and franchise	238,200	235,137	143,448
Local improvements	202,300	204,203	146,908
Rentals	29,200	38,220	52,710
Penalties and costs of taxes	54,500	27,852	47,344
Investment income	750	7,244	3,004
License and permits	5,500	5,640	5,365
Other	1,000	300	210
Total Revenue	2,963,450	3,199,346	3,350,345
EXPENSES			
Roads, streets, walks, lighting	750,000	988,640	904,333
Administration	637,300	654,434	867,618
Water supply and distribution	596,600	653,395	666,976
Family and community services	83,100	158,244	138,745
Curling rink operation	140,000	152,162	135,152
Garbage collection	120,500	122,568	128,151
Legislative	115,100	106,066	114,246
Sanitary sewer	62,100	101,157	149,562
Arena operations	74,700	87,866	76,722
Community services	97,500	72,576	163,673
Parks and recreation	48,700	60,297	53,276
Hall operations	47,500	48,283	37,507
Fire	42,500	47,711	28,595
Library	43,400	30,645	54,975
Storm sewer	20,900	20,873	20,872
Bylaws enforcement	6,000	1,493	2,000
	2,885,900	3,306,410	3,542,403
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	77,550	(107,064)	(192,058)
OTHER INCOME			
Government transfers for Capital	348,000	688,969	483,915
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ 425,550	\$ 581,905	\$ 291,857

TOWN OF TWO HILLS
Statement of Changes in Accumulated Surplus
Year Ended December 31, 2021

	Budget 2021	Total 2021	Total 2020
ACCUMULATED SURPLUS - BEGINNING OF YEAR	\$ 14,799,590	\$ 14,799,590	\$ 14,507,733
SURPLUS FOR THE YEAR	425,550	581,905	291,857
ACCUMULATED SURPLUS - END OF YEAR	<u>\$ 14,147,619</u>	<u>\$ 15,381,495</u>	<u>\$ 14,799,590</u>

TOWN OF TWO HILLS

Consolidated Statement of Changes in Net Financial Assets (Debt)

Year Ended December 31, 2021

	Budget 2021	2021	2020
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ 425,550	\$ 581,905	\$ 291,857
Acquisition of tangible capital assets	(950,000)	(890,444)	(1,480,202)
Decrease (increase) in inventory valuation	15,000	(26,073)	2,763
Amortization of tangible capital assets	575,000	589,915	564,948
Increase in portfolio investments	(180,000)	(179,200)	-
	<u>(540,000)</u>	<u>(505,802)</u>	<u>(912,491)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(114,450)	76,103	(620,634)
NET FINANCIAL DEBT - BEGINNING OF YEAR	(2,443,658)	(2,443,658)	(1,823,024)
NET FINANCIAL DEBT - END OF YEAR	\$ (2,558,108)	\$ (2,367,555)	\$ (2,443,658)

TOWN OF TWO HILLS
Statement of Cash Flows
Year Ended December 31, 2021

	2021	2020
OPERATING ACTIVITIES		
Excess (shortfall) of revenues over expenses	\$ 581,905	\$ 291,857
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	<u>589,915</u>	564,948
	<u>1,171,820</u>	<u>856,805</u>
Changes in non-cash working capital:		
Decrease (increase) in trade and other receivables	(31,739)	35,789
Decrease (increase) in taxes and grants in lieu receivables	(145,219)	(36,503)
Decrease (increase) in inventory for consumption	(26,073)	2,763
Decrease (increase) in accounts payable and accrued liabilities	(125,095)	57,958
Decrease (increase) in deposit liabilities	(15,229)	(26,097)
Decrease (increase) in receivable other governments	211,318	108,063
Decrease (increase) in deferred revenue	<u>(154,563)</u>	<u>(205,089)</u>
	<u>(286,600)</u>	<u>(63,116)</u>
Cash provided by operating transactions	<u>885,220</u>	<u>793,689</u>
CAPITAL		
Acquisition of tangible capital assets	<u>(890,444)</u>	<u>(1,480,202)</u>
Cash flow used by capital	<u>(890,444)</u>	<u>(1,480,202)</u>
INVESTING ACTIVITIES		
Portfolio investments	(179,200)	-
Proceeds from long term financing	356,160	670,000
Long-term debt repaid	<u>(237,474)</u>	<u>(197,741)</u>
Cash flow from (used by) investing activities	<u>(60,514)</u>	<u>472,259</u>
DECREASE IN CASH FLOW	(65,738)	(214,254)
Cash - beginning of year	<u>1,017,186</u>	<u>1,231,440</u>
CASH - END OF YEAR	\$ 951,448	\$ 1,017,186

TOWN OF TWO HILLS
Schedule of changes in Accumulated Surplus
Year Ended December 31, 2021

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2021	2020
Balance, beginning of year, as restated	\$ 762,911	\$ 828,046	\$ 13,208,633	\$ 14,799,590	\$ 14,507,733
Excess (deficiency) of revenue over expenses	581,905	-	-	581,905	291,857
Restricted funds used for operations	115,949	(115,949)	-	-	-
Current year funds used for TCA	(745,684)	-	745,684	-	-
Annual amortization expense	589,915	-	(589,915)	-	-
Long term debt repaid	(237,474)	-	237,474	-	-
Change in accumulated surplus	304,611	(115,949)	393,243	581,905	291,857
BALANCE, END OF YEAR	\$ 1,067,522	\$ 712,097	\$ 13,601,876	\$ 15,381,495	\$ 14,799,590

TOWN OF TWO HILLS
Schedule of Tangible Capital Assets
Year Ended December 31, 2021

	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2021	2020
COST:								
BALANCE, BEGINNING OF THE YEAR	\$ 97,580	\$ 179,544	\$ 9,993,129	\$ 15,783,557	\$ 2,074,730	\$ 303,453	\$ 28,431,993	\$ 26,951,791
Acquisition of tangible capital assets	-	10,452	61,047	793,076	25,869	-	890,444	1,480,202
Disposal of capital assets	-	-	-	-	-	-	-	-
BALANCE, END OF YEAR	\$ 97,580	\$ 189,996	\$ 10,054,176	\$ 16,576,633	\$ 2,100,599	\$ 303,453	\$ 29,322,437	\$ 28,431,993
ACCUMULATED AMORTIZATION								
BALANCE, BEGINNING OF YEAR	\$ -	\$ 97,213	\$ 3,120,724	\$ 7,872,154	\$ 1,070,333	\$ 176,640	\$ 12,337,064	\$ 11,772,116
Annual amortization	-	6,294	167,013	269,130	124,296	23,182	589,915	564,948
Accumulated amortization on disposal	-	-	-	-	-	-	-	-
BALANCE, END OF YEAR	-	103,507	3,287,737	8,141,284	1,194,629	199,822	12,926,979	12,337,064
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 86,489	\$ 6,766,439	\$ 8,435,349	\$ 905,970	\$ 103,631	\$ 16,395,458	\$ 16,094,929
2020 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 82,331	\$ 6,872,405	\$ 7,911,403	\$ 1,004,397	\$ 126,813	\$ 15,094,929	\$ -

TOWN OF TWO HILLS
Schedule of Property and Other Taxes
Year Ended December 31, 2021

	Budget	2021	2020
TAXATION			
Real property taxes	\$ 950,000	\$ 945,714	\$ 971,729
Business taxes	285,900	292,915	297,489
Linear property taxes	65,000	66,568	63,725
Federal grants in place of property taxes	12,000	12,520	11,274
Provincial grants in place of property taxes	8,900	8,698	8,950
Machinery and equipment	750	697	756
Farm land	98	98	98
Total Taxes and Grant in Lieu	1,322,648	1,327,210	1,354,021
REQUISITIONS			
Alberta School Foundation Fund	225,600	214,717	225,577
Eagle Hill Foundation	63,600	63,559	65,621
	289,200	278,276	291,198
	289,200	278,276	291,198
NET MUNICIPAL TAXES	\$ 1,033,448	\$ 1,048,934	\$ 1,062,823

TOWN OF TWO HILLS
Schedule of Government Transfers
Year Ended December 31, 2021

	Budget	2021	2020
TRANSFERS FOR OPERATING			
Provincial Government	\$ 135,000	\$ 299,666	\$ 477,076
Other Local Government	164,100	-	422,252
Federal Government	-	-	12,600
	<u>299,100</u>	<u>299,666</u>	<u>911,928</u>
TRANSFERS FOR CAPITAL			
Provincial Government	348,100	640,669	483,915
Other Local Government	-	282,911	-
Federal Government	-	48,301	-
	<u>348,100</u>	<u>971,881</u>	<u>483,915</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 647,200</u>	<u>\$ 1,271,547</u>	<u>\$ 1,395,843</u>

TOWN OF TWO HILLS
Schedule of Consolidated Expenses by Object
Year Ended December 31, 2021

	Budget	2021	2020
EXPENDITURES BY OBJECT			
Salaries, wages, and benefits	\$ 895,500	\$ 967,740	\$ 961,601
Materials, goods, supplies and utilities	937,200	855,283	879,478
Amortization of tangible capital assets	575,000	589,915	564,948
Contracted and general services	400,800	415,520	630,322
Transfers to Individuals and organizations	157,400	229,837	222,895
Purchases from other governments	123,000	124,800	157,907
Interest on capital long term debt	127,300	120,519	115,741
Bank charges and short term interest	3,500	1,943	4,567
Provision for allowances	1,000	853	4,944
TOTAL EXPENDITURES	\$ 3,220,700	\$ 3,306,410	\$ 3,542,403

TOWN OF TWO HILLS
Schedule of Segmented Disclosure
Year Ended December 31, 2021

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environment Services	Other	2021
Revenue								
Net municipal taxes	\$ 1,048,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,048,934
Local improvements	-	-	-	33,710	80,115	90,377	-	204,202
User fees and sale of goods	61,219	33,758	21,116	5,669	30	913,573	13,875	1,049,240
Penalties and costs	28,152	-	-	-	-	1	-	28,153
Licence and permits	4,980	660	-	-	-	-	-	5,640
Franchise and concession contracts	235,137	-	-	-	-	-	-	235,137
Investments income	7,244	-	-	-	-	-	-	7,244
Rentals	38,218	-	-	-	-	-	-	38,218
Federal government conditional transfers	48,301	-	-	-	-	-	-	48,301
Provincial gov't conditional transfers	231,578	5,000	541,205	-	24,379	-	138,172	940,334
Local government transfers	-	-	143,432	-	139,480	-	-	282,912
Other revenue	-	-	-	-	-	-	-	-
	\$ 1,703,763	\$ 39,418	\$ 705,753	\$ 39,379	\$ 244,004	\$ 1,003,951	\$ 152,047	\$ 3,888,315
EXPENSES								
Salaries and wages	\$ 475,682	\$ 1,800	\$ 435,313	\$ -	\$ 4,327	\$ 50,618	\$ -	\$ 967,740
Contracted and general services	164,238	38,871	35,504	-	115,134	58,871	2,902	415,520
Purchases from other governments	-	-	-	3,000	-	121,800	-	124,800
Materials, goods, supplies and utilities	90,477	7,142	297,400	-	46,780	411,028	2,456	855,283
Provision for allowances	1,470	-	-	-	-	(617)	-	853
Transfers to local boards	-	-	-	-	75,386	-	154,451	229,837
Bank charges and short term interest	1,943	-	-	-	-	-	-	1,943
Long term debt interest	6,171	-	4,100	-	27,703	82,545	-	120,519
	739,981	47,813	772,317	3,000	269,330	724,245	159,809	2,716,495
NET REVENUE BEFORE AMORTIZATION	\$ 963,782	\$ (8,395)	\$ (66,564)	\$ 36,379	\$ (25,326)	\$ 279,706	\$ (7,762)	\$ 1,171,820
Amortization expense	\$ 20,519	\$ 1,391	\$ 216,323	\$ -	\$ 177,042	\$ 173,748	\$ 892	\$ 589,915
NET REVENUE	\$ 943,263	\$ (9,786)	\$ (282,887)	\$ 36,379	\$ (202,368)	\$ 105,958	\$ (8,654)	\$ 581,905

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2021

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 Financial Statements
Year Ended December 31, 2021

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 Financial Statements
Year Ended December 31, 2021

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>2021</u>	<u>2020</u>
Cash	\$ 951,448	\$ 1,017,186
Line of credit	-	-
	<u>\$ 951,448</u>	<u>\$ 1,017,186</u>

Council has designated funds of \$982,707 (2020 - \$982,707) included in the above amounts for reserves.

Included in cash are a restricted amounts of \$110,964 (2020 - \$110,964) of the funds held in trust.

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2021

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2021</u>	<u>2020</u>
Current Taxes and Grants in Lieu	\$ 378,776	\$ 237,219
Arrears Taxes	<u>284,087</u>	<u>280,425</u>
	<u>\$ 662,863</u>	<u>\$ 517,644</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2021</u>	<u>2020</u>
Trade and other Receivables	\$ 111,393	\$ 99,617
Requisition Under-Levi	51,741	44,334
Less: Allowance for Doubtful Accounts	<u>(47,404)</u>	<u>(59,955)</u>
	<u>\$ 115,730</u>	<u>\$ 83,996</u>

5. DEPOSIT LIABILITIES

	<u>2021</u>	<u>2020</u>
Prepaid Taxes and Utilities	\$ 33,646	\$ 31,055
Land option deposit	2,000	19,760
Water deposits	<u>4,413</u>	<u>4,478</u>
	<u>\$ 40,059</u>	<u>\$ 55,293</u>

6. FUNDS HELD IN TRUST

	<u>2021</u>	<u>2020</u>
Tax Sales surplus	\$ 110,694	\$ 110,694

7. DEFERRED REVENUE

	<u>2021</u>	<u>2020</u>
MSI Capital	\$ 171,528	\$ 171,528
51 Street Watermain Reservoir	73,234	73,234
Broadband Study	49,000	49,000
MOST	-	96,684
Local Government Capital Grants	<u>-</u>	<u>57,878</u>
	<u>\$ 293,762</u>	<u>\$ 448,324</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 Financial Statements
Year Ended December 31, 2021

8. LONG TERM DEBT

	<u>2021</u>	<u>2020</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.	\$ 432,504	\$ 460,361
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	195,585	212,298
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.	1,155,602	1,193,452
Alberta Capital Finance Authority - 4002464 loan bearing interest at 3.204% per annum, repayable in semi-annual blended payments of \$2,712. The loan matures on December 31, 2031.	97,525	99,770
Alberta Capital Finance Authority - 4002698 loan bearing interest at 2.34% per annum, repayable in semi-annual blended payments of \$16,394. The loan matured on December 31, 2048.	237,393	264,010
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.	567,387	600,001
Alberta Capital Finance Authority - 4002724 loan bearing interest at 2.26% per annum, repayable in semi-annual blended payments of \$15,602. The loan matures on June 15, 2032	469,783	490,040
Alberta Capital Finance Authority - 4002760 loan bearing interest at 1.1% per annum, repayable in semi-annual blended payments of \$17,518. The loan matured on June 15, 2040.	119,975	153,417
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.	68,646	101,623
Alberta Capital Finance Authority - 4002911 loan bearing interest at 2.519% per annum, repayable in semi-annual blended payments of \$11,389. The loan matured on June 15, 2041.	349,257	-
	3,693,657	3,574,972
Amounts payable within one year	(251,995)	(231,212)
	\$ 3,441,662	\$ 3,343,760

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2021

8. LONG TERM DEBT (continued)

Principal repayment terms are approximately:

2022	\$ 251,995
2023	259,284
2024	231,089
2025	220,375
2026	210,238
Thereafter	<u>2,520,676</u>
	<u>\$ 3,693,657</u>

Debenture debt is repayable to Alberta Municipal Financing Corporation and bears interest at rates ranging from 1.1% to 4.157%, and mature in periods 2022 through 2041. The average annual interest rate is 3.45% (2020- 3.45%). Debenture debt is issued on the credit and security of the Town of Two Hills.

Interest on long term debt amounted to \$124,800 (2020 - \$115,907) The Town's total cash payments for interest were \$126,743 (2020- \$120,308)

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.

During the year, the town contributed \$179,000 towards Alberta Central East Water Corporation.

As of December 31, 2021 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.

	<u>2021</u>	<u>2020</u>
Investment in Alberta Central East Water Corporation	<u>\$ 1,287,992</u>	<u>\$ 1,108,792</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:

	<u>2021</u>	<u>2020</u>
Total Debt Limit	<u>\$ 4,799,019</u>	<u>\$ 5,025,518</u>
Total Debt	<u>(3,693,658)</u>	<u>(3,574,972)</u>
	<u>\$ 1,105,361</u>	<u>\$ 1,450,546</u>
Service on Debt Limit	<u>\$ 799,837</u>	<u>\$ 837,586</u>

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2021

10. DEBTS LIMITS (continued)

	<u>2021</u>	<u>2020</u>
Service on Debt	(357,991)	(346,603)
	<u>\$ 441,846</u>	<u>\$ 490,983</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.

11. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2021</u>	<u>2020</u>
Tangible Capital Assets (Schedule 2)	\$ 29,322,437	\$ 28,431,993
Accumulated Amortization (Schedule 2)	(12,926,979)	(12,337,064)
Capital Long term debt	(2,793,582)	(2,886,296)
	<u>\$ 13,601,876</u>	<u>\$ 13,208,633</u>

12. ACCUMULATED SURPLUS

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

	<u>2021</u>	<u>2020</u>
Unrestricted Surplus (Deficit)	\$ 1,067,522	\$ 762,911
Restricted Surplus	712,097	828,046
Equity in Tangible Capital Assets	13,601,876	13,208,633
	<u>\$ 15,381,495</u>	<u>\$ 14,799,590</u>

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2021

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	2021	2020
<u>Mayor</u>				
Leonard L. Ewanishan	\$ 16,050	\$ 7,254	\$ 23,304	\$ 23,808
<u>Councillors</u>				
Michael Tarkowski	13,150	7,254	20,404	21,685
Rajoo Dharamarajh	14,350	2,632	16,982	20,323
Elaine Sorochan	10,600	5,976	16,576	21,282
Michael William Babiuk	11,675	2,500	14,175	18,625
Arnold Romaniuk	3,050	-	3,050	-
Keegan Thompson	2,850	-	2,850	-
	<u>55,675</u>	<u>18,362</u>	<u>74,037</u>	<u>81,915</u>
<u>Town Manager</u>				
Gerren Saskiw	80,500	12,167	92,667	85,482
Total	\$ 152,225	\$ 37,783	\$ 190,008	\$ 191,205

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 Financial Statements
Year Ended December 31, 2021

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 9.39% of pensionable earning up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.84% for pensionable earnings above this amount.

Total current service contributions by the Town to the LAPP in 2021 were \$51,678 (2020 - \$44,756). Total current service contributions by the employees of the Town to the LAPP in 2021 were \$46,377 (2020 - \$40,230).

At December 31, 2020, the LAPP disclosed an actuarial surplus of \$5 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.