

TOWN OF TWO HILLS
Consolidated Financial Statements
Year Ended December 31, 2020

TOWN OF TWO HILLS
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Year Ended December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Members of Town of Two Hills

Opinion

We have audited the consolidated financial statements of Town of Two Hills (the organization), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations, changes in accumulated surplus, changes in net financial debt and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the organization as at December 31, 2020, and the consolidated results of its operations and consolidated 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 Consolidated 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 consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

(continues)

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

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:

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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.

Neube & Landry LLP

**Edmonton, AB
April 9, 2021**

Chartered Professional Accountants

TOWN OF TWO HILLS
Consolidated Statement of Financial Position
December 31, 2020

	2020	2019
FINANCIAL ASSETS		
Cash (Note 2)	\$ 1,017,186	\$ 1,231,440
Tax and grants in place of taxes (Note 3)	517,644	481,141
Trade and other receivable (Note 4)	83,996	119,785
Receivable from other governments	361,378	469,441
Land for resale inventory	64,377	64,377
Long term Investments	5,556	5,556
TOTAL FINANCIAL ASSETS	2,050,137	2,371,740
LIABILITIES		
Accounts payable	304,512	246,554
Current portion of long term debt (Note 8)	231,212	177,751
Deposit liabilities (Note 5)	55,293	81,390
Funds held in trust (Note 6)	110,694	110,694
Deferred income (Note 7)	448,324	653,413
Long term debt (Note 8)	3,343,760	2,924,962
TOTAL LIABILITIES	4,493,795	4,194,764
NET FINANCIAL DEBT	(2,443,658)	(1,823,024)
NON-FINANCIAL ASSETS		
Portfolio investments (Note 9)	941,779	941,779
Inventory for consumption	39,524	53,134
Tangible capital assets	16,254,149	15,341,121
	17,235,452	16,336,034
ACCUMULATED SURPLUS	\$ 14,791,795	\$ 14,502,165

ON BEHALF OF COUNCIL

_____ Mayor

_____ Administrator

TOWN OF TWO HILLS
Consolidated Statement of Operations
Year Ended December 31, 2020

	Budget	2020	2019
REVENUES			
Net municipal taxes	\$ 1,043,868	\$ 1,062,823	\$ 1,042,918
User fees and sales of goods	881,315	976,605	980,162
Government transfers for operating	325,000	489,676	252,513
Local government transfers	75,000	422,252	64,220
Local improvements	145,000	146,908	138,756
Concession and franchise	140,500	143,448	137,592
Rentals	40,000	52,710	42,454
Penalties and costs of taxes	60,000	47,344	57,852
License and permits	7,200	5,365	6,625
Investment income	5,000	3,004	10,816
Other	8,000	210	8,900
Loss on sale of equipment	-	-	(13,100)
Total Revenue	2,730,883	3,350,345	2,729,708
EXPENSES			
Roads, streets, walks, lighting	818,000	904,333	835,553
Administration	608,500	867,618	608,528
Water supply and distribution	589,000	669,203	591,827
Community services	47,000	163,673	75,647
Sanitary sewer	142,000	149,562	142,394
Family and community services	83,000	138,745	83,382
Curling rink operation	155,500	135,152	155,621
Garbage collection	139,000	128,151	139,129
Legislative	117,500	114,246	117,439
Arena operations	45,000	76,722	44,898
Library	39,000	54,975	39,643
Parks and recreation	55,500	53,276	77,147
Hall operations	46,500	37,507	45,927
Fire	42,800	28,595	38,665
Storm sewer	21,000	20,872	20,873
Bylaws enforcement	8,900	2,000	8,898
Disaster services	4,500	-	4,221
	2,962,700	3,544,630	3,029,792
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	(231,817)	(194,285)	(300,084)
OTHER INCOME			
Government transfers for Capital	500,000	483,915	478,575
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ 268,183	\$ 289,630	\$ 178,491

TOWN OF TWO HILLS
Consolidated Statement of Changes in Accumulated Surplus
Year Ended December 31, 2020

	Budget 2020	Total 2020	Total 2019
ACCUMULATED SURPLUS - BEGINNING OF YEAR	\$ 14,502,165	\$ 14,502,165	\$ 14,323,674
SURPLUS FOR THE YEAR	268,183	289,630	178,491
ACCUMULATED SURPLUS - END OF YEAR	<u>\$ 13,990,252</u>	<u>\$ 14,791,795</u>	<u>\$ 14,502,165</u>

TOWN OF TWO HILLS**Consolidated Statement of Changes in Net Financial Assets (Debt)****Year Ended December 31, 2020**

	Budget 2020	2020	2019
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	<u>\$ 268,183</u>	<u>\$ 289,630</u>	<u>\$ 178,491</u>
Acquisition of tangible capital assets	(952,000)	(1,480,202)	(702,252)
Proceeds on disposal of tangible capital assets	-	-	16,000
Decrease in inventory valuation	15,000	2,763	10,846
Amortization of tangible capital assets	550,000	567,175	548,341
(Gain) loss on sale of tangible capital assets	-	-	13,100
	<u>(387,000)</u>	<u>(910,264)</u>	<u>(113,965)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(118,817)	(620,634)	64,526
NET FINANCIAL DEBT - BEGINNING OF YEAR	<u>(1,823,024)</u>	<u>(1,823,024)</u>	<u>(1,887,550)</u>
NET FINANCIAL DEBT - END OF YEAR	<u>\$ (1,941,841)</u>	<u>\$ (2,443,658)</u>	<u>\$ (1,823,024)</u>

TOWN OF TWO HILLS
Consolidated Statement of Cash Flows
Year Ended December 31, 2020

	2020	2019
OPERATING ACTIVITIES		
Excess (shortfall) of revenues over expenses	\$ 289,630	\$ 178,491
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	567,175	548,341
Loss on disposal of investments	-	13,100
	<u>856,805</u>	<u>739,932</u>
Changes in non-cash working capital:		
Decrease (increase) in trade and other receivables	35,789	37,633
Decrease (increase) in taxes and grants in lieu receivables	(36,503)	8,892
Decrease (increase) in inventory for consumption	2,763	10,847
Decrease (increase) in accounts payable and accrued liabilities	57,958	(16,795)
Decrease (increase) in deposit liabilities	(26,097)	7,828
Decrease (increase) in receivable other governments	108,063	22,975
Decrease (increase) in deferred revenue	(205,089)	21,968
Funds held in trust	-	1,907
	<u>(63,116)</u>	<u>95,255</u>
Cash provided by operating transactions	<u>793,689</u>	<u>835,187</u>
CAPITAL		
Acquisition of tangible capital assets	(1,480,202)	(702,252)
Proceeds on disposal of property, plant and equipment	-	16,000
Cash flow used by capital	<u>(1,480,202)</u>	<u>(686,252)</u>
INVESTING ACTIVITIES		
Proceeds from long term financing	670,000	290,000
Long-term debt repaid	(197,741)	(192,003)
Cash flow from investing activities	<u>472,259</u>	<u>97,997</u>
INCREASE (DECREASE) IN CASH FLOW	(214,254)	246,932
Cash - beginning of year	<u>1,231,440</u>	<u>984,508</u>
CASH - END OF YEAR	\$ 1,017,186	\$ 1,231,440

TOWN OF TWO HILLS
Schedule of changes in Accumulated Surplus
Year Ended December 31, 2020

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2020	2019
Balance, beginning of year, as restated	\$ 860,299	\$ 922,448	\$ 12,719,418	\$ 14,502,165	\$ 14,323,674
Excess (deficiency) of revenue over expenses	289,630	-	-	289,630	178,491
Restricted funds used for operations	94,402	(94,402)	-	-	-
Current year funds used for TCA	(850,854)	-	850,854	-	-
Annual amortization expense	567,175	-	(567,175)	-	-
Long term debt repaid	(197,741)	-	197,741	-	-
Change in accumulated surplus	(97,388)	(94,402)	481,420	289,630	178,491
BALANCE, END OF YEAR	\$ 762,911	\$ 828,046	\$ 13,200,838	\$ 14,791,795	\$ 14,502,165

TOWN OF TWO HILLS

Consolidated Schedule of Tangible Capital Assets

Year Ended December 31, 2020

	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2020	2019
COST:								
BALANCE, BEGINNING OF THE YEAR	\$ 97,580	\$ 179,544	\$ 8,953,781	\$ 15,579,337	\$ 2,008,105	\$ 300,458	\$ 27,118,805	\$ 26,569,802
Acquisition of tangible capital assets	-	-	1,039,348	371,234	66,625	2,995	1,480,202	702,252
Disposal of capital assets	-	-	-	-	-	-	-	(153,250)
BALANCE, END OF YEAR	\$ 97,580	\$ 179,544	\$ 9,993,129	\$ 15,950,571	\$ 2,074,730	\$ 303,453	\$ 28,599,007	\$ 27,118,804
ACCUMULATED AMORTIZATION								
BALANCE, BEGINNING OF YEAR	\$ -	\$ 91,180	\$ 2,964,995	\$ 7,620,385	\$ 947,515	\$ 153,608	\$ 11,777,683	\$ 11,353,492
Annual amortization	-	6,033	155,729	259,563	122,818	23,032	567,175	548,341
Accumulated amortization on disposal	-	-	-	-	-	-	-	(124,150)
BALANCE, END OF YEAR	-	97,213	3,120,724	7,879,948	1,070,333	176,640	12,344,858	11,777,683
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 82,331	\$ 6,872,405	\$ 8,070,623	\$ 1,004,397	\$ 126,813	\$ 16,254,149	\$ 15,341,121
2019 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 88,364	\$ 5,988,786	\$ 7,958,952	\$ 1,060,590	\$ 146,849	\$ 15,341,121	\$ -

TOWN OF TWO HILLS
Consolidated Schedule of Property and Other Taxes
Year Ended December 31, 2020

	Budget	2020	2019
TAXATION			
Real property taxes	\$ 960,000	\$ 971,729	\$ 958,126
Business taxes	296,000	297,489	293,324
Linear property taxes	65,000	63,725	62,832
Federal grants in place of property taxes	13,800	11,274	11,116
Provincial grants in place of property taxes	7,500	8,950	8,824
Machinery and equipment	760	756	746
Farm land	100	98	98
Total Taxes and Grant in Lieu	1,343,160	1,354,021	1,335,066
REQUISITIONS			
Alberta School Foundation Fund	225,577	225,577	236,299
Eagle Hill Foundation	65,621	65,621	55,849
	291,198	291,198	292,148
	291,198	291,198	292,148
NET MUNICIPAL TAXES	\$ 1,051,962	\$ 1,062,823	\$ 1,042,918

TOWN OF TWO HILLS
Consolidated Schedule of Government Transfers
Year Ended December 31, 2020

	Budget	2020	2019
TRANSFERS FOR OPERATING			
Provincial Government	\$ 300,000	\$ 477,076	\$ 247,613
Federal Government	15,000	12,600	4,200
Other Local Government	-	422,252	52,880
	<u>315,000</u>	<u>911,928</u>	<u>304,693</u>
TRANSFERS FOR CAPITAL			
Federal Government	-	-	-
Provincial Government	350,000	483,915	478,575
Other Local Government	-	-	-
	<u>350,000</u>	<u>483,915</u>	<u>478,575</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 665,000</u>	<u>\$ 1,395,843</u>	<u>\$ 783,268</u>

TOWN OF TWO HILLS
Schedule of Consolidated Expenses by Object
Year Ended December 31, 2020

	Budget	2020	2019
EXPENDITURES BY OBJECT			
Salaries, wages, and benefits	\$ 770,000	\$ 961,601	\$ 764,488
Contracted and general services	625,000	630,322	509,820
Materials, goods, supplies and utilities	810,000	879,478	804,588
Amortization of tangible capital assets	550,000	567,175	548,341
Transfers to Individuals and organizations	150,000	222,895	150,899
Purchases from other governments	130,000	157,907	125,974
Interest on capital long term debt	112,000	115,741	108,247
Provision for allowances	5,000	4,944	6,421
Bank charges and short term interest	7,500	4,567	11,014
TOTAL EXPENDITURES	\$ 3,159,500	\$ 3,544,630	\$ 3,029,792

TOWN OF TWO HILLS
Consolidated Schedule of Segmented Disclosure
Year Ended December 31, 2020

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environment Services	Other	2020
Revenue								
Net municipal taxes	\$ 1,062,823	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,062,823
Local improvements	-	-	-	11,220	27,017	108,671	-	146,908
User fees and sale of goods	27,686	20,961	56,661	4,265	20	866,512	500	976,605
Penalties and costs	47,500	-	-	-	-	54	-	47,554
Licence and permits	4,950	415	-	-	-	-	-	5,365
Franchise and concession contracts	143,448	-	-	-	-	-	-	143,448
Investments income	3,004	-	-	-	-	-	-	3,004
Rentals	52,710	-	-	-	-	-	-	52,710
Federal government conditional transfers	12,600	-	-	-	-	-	-	12,600
Provincial gov't conditional transfers	358,676	-	371,234	-	60,000	-	116,649	906,559
Local government transfers	56,503	-	-	25,880	391,670	-	2,631	476,684
Other revenue	-	-	-	-	-	-	-	-
	\$ 1,769,900	\$ 21,376	\$ 427,895	\$ 41,365	\$ 478,707	\$ 975,237	\$ 119,780	\$ 3,834,260
EXPENSES								
Salaries and wages	\$ 539,602	\$ 1,800	\$ 358,820	\$ -	\$ 7,051	\$ 54,328	\$ -	\$ 961,601
Contracted and general services	334,425	20,843	29,120	-	145,027	98,589	2,318	630,322
Purchases from other governments	-	-	-	36,333	-	121,574	-	157,907
Materials, goods, supplies and utilities	74,703	6,562	299,775	-	53,750	434,800	9,888	879,478
Provision for allowances	1,376	-	1,500	-	-	2,068	-	4,944
Transfers to local boards	2,048	-	-	-	88,161	-	132,686	222,895
Bank charges and short term interest	4,567	-	-	-	-	-	-	4,567
Long term debt interest	6,798	-	4,305	-	23,303	81,335	-	115,741
	963,519	29,205	693,520	36,333	317,292	792,694	144,892	2,977,455
NET REVENUE BEFORE AMORTIZATION	\$ 806,381	\$ (7,829)	\$ (265,625)	\$ 5,032	\$ 161,415	\$ 182,543	\$ (25,112)	\$ 856,805
Amortization expense	\$ 18,345	\$ 1,391	\$ 210,813	\$ -	\$ 160,640	\$ 175,094	\$ 892	\$ 567,175
NET REVENUE	\$ 788,036	\$ (9,220)	\$ (476,438)	\$ 5,032	\$ 775	\$ 7,449	\$ (26,004)	\$ 289,630

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2020

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, 2020

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, 2020

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>2020</u>	<u>2019</u>
Cash	\$ 1,017,186	\$ 1,231,440
Line of credit	-	-
	<u>\$ 1,017,186</u>	<u>\$ 1,231,440</u>

Council has designated funds of \$982,707 (2019 - \$922,448) included in the above amounts for reserves.

Included in cash are a restricted amounts of \$110,964 (2019 - \$110,964) of the funds held in trust.

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2020

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2020</u>	<u>2019</u>
Current Taxes and Grants in Lieu	\$ 237,219	\$ 211,174
Arrears Taxes	<u>280,425</u>	<u>269,967</u>
	<u>\$ 517,644</u>	<u>\$ 481,141</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2020</u>	<u>2019</u>
Trade and other Receivables	\$ 99,617	\$ 260,077
Requisition Under-Levi	44,334	31,402
Less: Allowance for Doubtful Accounts	<u>(59,955)</u>	<u>(171,694)</u>
	<u>\$ 83,996</u>	<u>\$ 119,785</u>

5. DEPOSIT LIABILITIES

	<u>2020</u>	<u>2019</u>
Prepaid Taxes and Utilities	\$ 31,055	\$ 41,839
Land option deposit	19,760	19,760
Water deposits	4,478	16,771
Hall deposits	-	1,985
Garbage Deposits	<u>-</u>	<u>1,035</u>
	<u>\$ 55,293</u>	<u>\$ 81,390</u>

6. FUNDS HELD IN TRUST

	<u>2020</u>	<u>2019</u>
Tax Sales surplus	\$ 110,694	\$ 110,694

7. DEFERRED REVENUE

	<u>2020</u>	<u>2019</u>
MSI Capital	\$ 171,528	\$ -
51 Street Watermain Reservoir	73,234	125,915
MOST	96,684	-
Local Government Capital Grants	57,878	327,498
Broadband Study	49,000	-
IFC Grant	<u>-</u>	<u>200,000</u>
	<u>\$ 448,324</u>	<u>\$ 653,413</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, 2020

8. LONG TERM DEBT

	<u>2020</u>	<u>2019</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.	\$ 460,361	\$ 487,171
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	212,298	228,376
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.	1,193,452	1,229,777
Alberta Capital Finance Authority - 4002465 loan bearing interest at 2.68% per annum, repayable in semi-annual blended payments of \$17,740. The loan matures on September 17, 2023.	101,623	133,733
Alberta Capital Finance Authority - 4002464 loan bearing interest at 3.204% per annum, repayable in semi-annual blended payments of \$2,712. The loan matured on December 31, 2048.	99,770	101,945
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.	600,001	631,711
Alberta Capital Finance Authority - 4002698 loan bearing interest at 2.34% per annum, repayable in semi-annual blended payments of \$16,394. The loan matures on December 31, 2029	264,010	290,000
Alberta Capital Finance Authority - 4002724 loan bearing interest at 2.26% per annum, repayable in semi-annual blended payments of \$15,602. The loan matured on June 15, 2040.	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 matures on June 13, 2025 .	153,417	-
	3,574,972	3,102,713
Amounts payable within one year	(231,212)	(177,751)
	\$ 3,343,760	\$ 2,924,962

Principal repayment terms are approximately:

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2020

8. LONG TERM DEBT (continued)

2021	\$ 231,212
2022	237,926
2023	244,859
2024	216,298
2025	205,209
Thereafter	<u>2,439,468</u>
	<u>\$ 3,574,972</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 2021 through 2041. The average annual interest rate is 3.45% (2019- 3.45%). Debenture debt is issued on the credit and security of the Town of Two Hills.

Interest on long term debt amounted to \$115,907 (2019 - \$108,247) The Town's total cash payments for interest were \$120,308 (2019- \$119,261)

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, 2020 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>2020</u>	<u>2019</u>
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:

	<u>2020</u>	<u>2019</u>
Total Debt Limit	<u>\$ 5,025,518</u>	\$ 4,094,562
Total Debt	<u>(3,574,972)</u>	(3,102,713)
	<u>\$ 1,450,546</u>	<u>\$ 991,849</u>
Service on Debt Limit	<u>\$ 837,586</u>	\$ 682,427
Service on Debt	<u>(346,603)</u>	(319,747)
	<u>\$ 490,983</u>	<u>\$ 362,680</u>

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2020

10. DEBTS LIMITS (continued)

2020 2019

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

	2020	2019
Tangible Capital Assets (Schedule 2)	\$ 28,599,006	\$ 27,118,804
Accumulated Amortization (Schedule 2)	(12,344,858)	(11,777,683)
Capital Long term debt	(3,053,310)	(2,621,703)
	\$ 13,200,838	\$ 12,719,418

12. ACCUMULATED SURPLUS

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

	2020	2019
Unrestricted Surplus (Deficit)	\$ 762,911	\$ 860,299
Restricted Surplus	828,046	922,448
Equity in Tangible Capital Assets	13,200,838	12,719,418
	\$ 14,791,795	\$ 14,502,165

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2020

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	2020	2019
<u>Mayor</u>				
Leonard L. Ewanishan	\$ 17,375	\$ 6,433	\$ 23,808	\$ 25,733
<u>Councillors</u>				
Rajoo Dharamarajh	17,175	3,148	20,323	1,600
Michael William Babiuk	16,125	2,500	18,625	13,450
Michael Tarkowski	15,252	6,433	21,685	22,607
Elaine Sorochan	14,925	6,357	21,282	20,582
Deborah Tupechka	-	-	-	2,325
Gerren Saskiw	-	-	-	12,625
	63,477	18,438	81,915	73,189
<u>Town Manager</u>				
Gerren Saskiw	76,000	9,482	85,482	23,777
Robert Moretti	-	-	-	47,328
Elsie Kiziak	-	-	85,000	36,575
Gary Buchanan (Contractor)	-	-	-	19,849
	76,000	9,482	170,482	127,529
Total	\$ 156,852	\$ 34,353	\$ 276,205	\$ 226,451

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, 2020

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 2020 were \$44,756 (2019 - \$47,508). Total current service contributions by the employees of the Town to the LAPP in 2020 were \$40,230 (2019 - \$29,297).

At December 31, 2019, 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.