
TOWN OF TWO HILLS
Financial Statements
Year Ended December 31, 2025

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of the town of Two Hills is responsible for the preparation, accuracy, objectivity and integrity of the accompanying consolidated financial statements and all other information contained within this Financial Report. Management believes that the consolidated financial statements present fairly the town's financial position as at December 31, 2025 and the results of its operations for the year then ended.

The consolidated financial statements have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards (PSAS).

The consolidated financial statements include certain amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis in order to ensure the consolidated financial statements are presented fairly in all material respects.

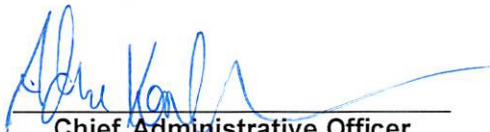
In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has designed and maintains a system of internal controls to produce reliable information and to meet reporting requirements on a timely basis. The system is designed to provide management with reasonable assurance that transactions are properly authorized, and assets are properly accounted for and safeguarded.

These systems are monitored and evaluated by management and reliable financial information is available for preparation of the consolidated financial statements.

The town council carries out its responsibilities for review of the consolidated financial statements principally through its council's meetings. The council meets with management and the auditor to discuss the results of audit examination and financial reporting matters.

The external auditors have full access to the council with and without the presence of management. The town council has approved the consolidated financial statements.

The consolidated financial statements have been audited by Ncube & Landry LLP, Chartered Professional Accountants, independent external auditors appointed by the town. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the town's consolidated financial statements.



Chief Administrative Officer
March 24, 2026

Town of Two Hills, Alberta, Canada



Financial Officer
March 24, 2026

Town of Two Hills, Alberta, Canada

TOWN OF TWO HILLS
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Year Ended December 31, 2025

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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, 2025, and the statements of operations and 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, 2025, 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.

Neube & Landry LLP

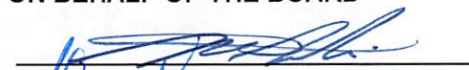
**Two Hills, AB
March 24, 2026**

Chartered Professional Accountants

TOWN OF TWO HILLS
Statement of Financial Position
December 31, 2025

	2025	2024
FINANCIAL ASSETS		
Cash (Note 2)	\$ -	\$ 1,173,923
Tax and grants in place of taxes (Note 3)	605,021	724,133
Trade and other receivable (Note 4)	132,437	179,940
Receivable from other governments	1,348,570	252,590
Long term Investments	7,875	7,220
Land for resale inventory	64,377	64,377
	<u>2,158,280</u>	<u>2,402,183</u>
LIABILITIES		
Bank indebtedness	319,545	-
Accounts payable	461,392	190,762
Current portion of long term debt (Note 9)	209,596	220,375
Deposit liabilities (Note 6)	26,957	38,236
Funds held in trust (Note 7)	13,129	13,129
Deferred income (Note 8)	217,278	759,743
Long term debt (Note 9)	2,524,043	2,732,934
	<u>3,771,940</u>	<u>3,955,179</u>
NET FINANCIAL DEBT	<u>(1,613,660)</u>	<u>(1,552,996)</u>
NON-FINANCIAL ASSETS		
Portfolio investments (Note 10)	1,422,392	1,422,392
Inventory for consumption	99,746	44,947
Tangible capital assets	18,337,925	15,871,319
	<u>19,860,063</u>	<u>17,338,658</u>
ACCUMULATED SURPLUS	<u>\$ 18,246,403</u>	<u>\$ 15,785,662</u>

ON BEHALF OF THE BOARD


 _____ Mayor


 _____ Administrator

TOWN OF TWO HILLS
Statement of Operations and Accumulated Surplus
Year Ended December 31, 2025

	Budget 2025	Total 2025	Total 2024
REVENUES			
Net municipal taxes	\$ 1,440,769	\$ 1,365,690	\$ 1,370,312
User fees and sales of goods	1,170,871	1,243,607	1,190,411
Government transfers for operating	147,412	584,488	522,893
Concession and franchise	303,456	284,291	272,390
Local improvements	235,811	233,865	233,753
Penalties and costs of taxes	30,034	79,748	75,950
Local government transfers	75,000	75,000	99,914
Rentals	46,531	46,514	45,015
Investment income	10,600	19,696	33,066
License and permits	4,630	3,455	4,311
Other	515	300	15,033
	<u>3,465,629</u>	<u>3,936,654</u>	<u>3,863,048</u>
EXPENSES			
Roads, streets, walks, lighting	1,131,032	1,295,860	1,147,194
Administration	870,439	963,804	1,157,716
Water supply and distribution	775,441	743,963	623,892
Community services	312,079	337,152	233,006
Protective services	92,546	192,913	53,157
Recreation centre	173,357	172,313	135,991
Legislative	181,825	179,038	168,560
Garbage collection	172,571	154,945	127,609
Arena operations	134,553	147,577	137,891
Family and community services	159,730	132,652	122,237
Sanitary sewer	108,500	104,604	70,136
Hall operations	67,529	61,394	74,040
Subdivision land	-	57,478	-
Parks and recreation	17,023	56,989	49,941
Library	39,177	35,983	31,583
Storm sewer	20,873	22,212	20,873
	<u>4,256,675</u>	<u>4,658,877</u>	<u>4,153,826</u>
DEFICIT FROM OPERATIONS	(791,046)	(722,223)	(290,778)
OTHER INCOME			
Government transfers for Capital	690,500	3,182,964	486,442
ANNUAL SURPLUS (DEFICIT)	(100,546)	2,460,741	195,664
ACCUMULATED SURPLUS - BEGINNING OF YEAR			
	<u>15,785,662</u>	<u>15,785,662</u>	<u>15,589,998</u>
ACCUMULATED SURPLUS - END OF YEAR	<u>\$ 15,685,116</u>	<u>\$ 18,246,403</u>	<u>\$ 15,785,662</u>

TOWN OF TWO HILLS
Statement of Changes in Net Financial Debt
Year Ended December 31, 2025

	Budget 2025	2025	2024
ANNUAL SURPLUS (DEFICIT)	\$ (100,546)	\$ 2,460,741	\$ 195,664
Purchase of tangible capital assets	(780,000)	(3,063,563)	(361,666)
Decrease (increase) in inventory for consumption	-	(54,799)	(9,876)
Amortization of tangible capital assets	580,000	596,957	553,818
Proceeds on disposal of tangible capital assets	-	-	34,703
(Gain) loss on sale of tangible capital assets	-	-	(15,033)
	(200,000)	(2,521,405)	201,946
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(300,546)	(60,664)	397,610
NET FINANCIAL DEBT - BEGINNING OF YEAR	(1,552,996)	(1,552,996)	(1,950,606)
NET FINANCIAL DEBT - END OF YEAR	\$ (1,853,542)	\$ (1,613,660)	\$ (1,552,996)

TOWN OF TWO HILLS
Statement of Cash Flows
Year Ended December 31, 2025

	2025	2024
OPERATING ACTIVITIES		
Annual surplus	\$ 2,460,741	\$ 195,664
Items not affecting cash:		
Amortization of property, plant and equipment	596,957	553,818
Gain on disposal of property and equipment	-	(15,033)
	<u>3,057,698</u>	<u>734,449</u>
Changes in non-cash working capital:		
Trade and other receivable	47,503	100,801
Tax and grants in place of taxes	119,110	(51,811)
Inventory for consumption	(54,799)	(9,876)
Accounts payable	270,631	54,599
Deposit liabilities	(11,279)	758
Receivable from other governments	(1,095,980)	(21,517)
Deferred income	(542,465)	549,315
Funds held in trust	-	(99,827)
	<u>(1,267,279)</u>	<u>522,442</u>
Cash flow from operating activities	<u>1,790,419</u>	<u>1,256,891</u>
CAPITAL		
Purchase of tangible capital assets	(3,063,563)	(361,666)
Proceeds on disposal of property, plant and equipment	-	34,703
Cash flow used by capital	<u>(3,063,563)</u>	<u>(326,963)</u>
FINANCING ACTIVITIES		
Long term Investments	(655)	(593)
Repayment of long term debt	(219,669)	(230,400)
Cash flow used by financing activities	<u>(220,324)</u>	<u>(230,993)</u>
INCREASE (DECREASE) IN CASH FLOW	(1,493,468)	698,935
Cash - beginning of year	<u>1,173,923</u>	<u>474,988</u>
CASH (DEFICIENCY) - END OF YEAR	\$ (319,545)	\$ 1,173,923

TOWN OF TWO HILLS
Schedule of Changes in Accumulated Surplus
Year Ended December 31, 2025

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2025	2024
Balance, beginning of year	\$ 1,235,809	\$ 712,097	\$ 13,837,756	\$ 15,785,662	\$ 15,589,998
Excess of revenue over expenses	2,460,741	-	-	2,460,741	195,664
Restricted funds used for operations	-	-	-	-	-
Current year funds used for TCA	(3,063,563)	-	3,063,563	-	-
Annual amortization expense	596,957	-	(596,957)	-	-
Long term debt repaid	(149,978)	-	149,978	-	-
Balance, End of year	\$ 1,079,966	\$ 712,097	\$ 16,454,340	\$ 18,246,403	\$ 15,785,662

TOWN OF TWO HILLS
Schedule of Tangible Capital Assets
Year Ended December 31, 2025

	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	Construction in progress	2025	2024
COST:									
BALANCE, BEGINNING OF THE YEAR	\$ 97,580	\$ 189,996	\$ 10,229,951	\$ 17,541,561	\$ 2,226,616	\$ 318,110	\$ 13,755	\$ 30,617,569	\$ 30,291,667
Acquisition of tangible capital assets	-	-	-	845,980	895,318	-	1,322,265	3,063,563	361,666
Disposal of capital assets	-	-	-	-	-	-	-	-	(35,764)
BALANCE, END OF YEAR	\$ 97,580	\$ 189,996	\$ 10,229,951	\$ 18,387,541	\$ 3,121,934	\$ 318,110	\$ 1,336,020	\$ 33,681,132	\$ 30,617,569
ACCUMULATED AMORTIZATION									
BALANCE, BEGINNING OF THE YEAR	\$ -	\$ 123,176	\$ 3,800,407	\$ 8,994,529	\$ 1,582,099	\$ 246,039	\$ -	\$ 14,746,250	\$ 14,208,527
Annual amortization	-	6,555	167,605	279,402	132,176	11,219	-	596,957	553,818
Accumulated amortization on disposal	-	-	-	-	-	-	-	-	(16,095)
BALANCE, END OF YEAR	-	129,731	3,968,012	9,273,931	1,714,275	257,258	-	15,343,207	14,746,250
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 60,265	\$ 6,261,939	\$ 9,113,610	\$ 1,407,659	\$ 60,852	\$ 1,336,020	\$ 18,337,925	\$ 15,871,319
2024 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 66,820	\$ 6,429,544	\$ 8,547,032	\$ 644,517	\$ 72,071	\$ 13,755	\$ 15,871,319	\$ -

TOWN OF TWO HILLS
Schedule of Property and Other Taxes
Year Ended December 31, 2025

(Schedule 1)

	Budget	2025	2024
TAXATION			
Real property taxes	\$ 1,246,017	\$ 1,177,533	\$ 1,167,352
Business taxes	388,850	384,957	389,775
Linear property taxes	93,000	94,552	92,642
Federal grants in place of property taxes	14,650	17,986	13,700
Provincial grants in place of property taxes	11,000	11,308	10,659
Machinery and equipment	950	993	951
Farm land	120	121	128
Total Taxes and Grant in Lieu	1,754,587	1,687,450	1,675,207
REQUISITIONS			
Alberta School Foundation Fund	221,158	230,200	212,235
Eagle Hill Foundation	92,660	91,560	92,660
	313,818	321,760	304,895
	313,818	321,760	304,895
NET MUNICIPAL TAXES	\$ 1,440,769	\$ 1,365,690	\$ 1,370,312

TOWN OF TWO HILLS
Schedule of Government Transfers
Year Ended December 31, 2025

(Schedule 2)

	Budget	2025	2024
TRANSFERS FOR OPERATING			
Federal Government	\$ -	\$ 9,098	\$ 130,481
Provincial Government	325,000	371,188	512,833
Local Government	75,000	193,643	202,567
Other organizations	-	85,559	-
	400,000	659,488	845,881
TRANSFERS FOR CAPITAL			
Provincial Government	690,000	2,570,005	163,454
Other Local Government	-	-	-
Federal Government	-	612,958	-
	690,000	3,182,963	163,454
TOTAL GOVERNMENT TRANSFERS	\$ 1,090,000	\$ 3,842,451	\$ 1,009,335

TOWN OF TWO HILLS**Schedule of Consolidated Expenses by Object****(Schedule 3)****Year Ended December 31, 2025**

	Budget	2025	2024
EXPENDITURES BY OBJECT			
Salaries, wages, and benefits	\$ 1,289,043	\$ 1,212,938	\$ 1,125,799
Materials, goods, supplies and utilities	757,878	1,260,212	1,016,875
Amortization of tangible capital assets	509,595	596,957	553,818
Contracted and general services	673,550	807,192	804,402
Transfers to Individuals and organizations	339,885	407,865	273,039
Purchases from other governments	152,381	152,340	129,462
Interest on capital long term detbt	122,069	96,713	103,500
Bank charges and short term interest	4,570	5,907	2,505
Provision for allowances	-	118,753	144,426
TOTAL EXPENDITURES	\$ 3,848,971	\$ 4,658,877	\$ 4,153,826

TOWN OF TWO HILLS
Schedule of Segmented Disclosure
Year Ended December 31, 2025

(Schedule 4)

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environment Services	Other	2025
Revenue								
Net municipal taxes	\$ 1,365,690	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,365,690
Local improvements	-	-	-	33,609	84,242	116,014	-	233,865
User fees and sale of goods	24,601	34,956	37,860	15,914	-	1,127,856	2,420	1,243,607
Penalties and costs	79,748	-	-	-	-	-	-	79,748
Licence and permits	3,000	455	-	-	-	-	-	3,455
Franchise and concession contracts	284,291	-	-	-	-	-	-	284,291
Investments income	19,696	-	-	-	-	-	-	19,696
Rentals	46,515	-	-	-	-	-	-	46,515
Federal government conditional transfers	9,098	-	-	-	-	-	612,958	622,056
Provincial gov't conditional transfers	48,200	-	-	147,769	285,329	1,531,503	118,642	2,131,443
Local government transfers	-	-	-	-	1,088,953	-	-	1,088,953
Other revenue	300	-	-	-	-	-	-	300
Revenue total	\$ 1,881,139	\$ 35,411	\$ 37,860	\$ 197,292	\$ 1,458,524	\$ 2,775,373	\$ 734,020	\$ 7,119,619
EXPENSES								
Salaries and wages	\$ 680,050	\$ -	\$ 459,581	\$ -	\$ 17,460	\$ 55,847	\$ -	\$ 1,212,938
Contracted and general services	268,560	185,497	31,739	-	210,854	110,542	-	807,192
Purchases from other governments	-	-	-	3,750	-	148,590	-	152,340
Materials, goods, supplies and utilities	115,983	7,416	592,237	-	47,370	489,765	7,441	1,260,212
Provision for allowances	118,753	-	-	-	-	-	-	118,753
Transfers to local boards	-	-	-	-	275,213	-	132,652	407,865
Bank charges and short term interest	5,907	-	-	-	-	-	-	5,907
Long term debt interest	3,508	-	96	-	21,919	71,190	-	96,713
	1,192,761	192,913	1,083,653	3,750	572,816	875,934	140,093	4,061,920
NET REVENUE BEFORE AMORTIZATION	\$ 688,378	\$ (157,502)	\$ (1,045,793)	\$ 193,542	\$ 885,708	\$ 1,899,439	\$ 593,927	\$ 3,057,699
Amortization expense	\$ 21,381	\$ -	\$ 216,088	\$ -	\$ 211,337	\$ 148,151	\$ -	\$ 596,957
NET REVENUE	\$ 666,997	\$ (157,502)	\$ (1,261,881)	\$ 193,542	\$ 674,371	\$ 1,751,288	\$ 593,927	\$ 2,460,742

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2025

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.

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TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2025

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.

(continues)

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2025

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>2025</u>	<u>2024</u>
Cash	\$ (319,545)	\$ 1,173,923
Line of credit	-	-
	<u>\$ (319,545)</u>	<u>\$ 1,173,923</u>

Included in cash are a restricted amounts of \$13,129 (2024 - \$13,129) of the funds held in trust.

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2025

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2025</u>	<u>2024</u>
Current Taxes and Grants in Lieu	\$ 242,423	\$ 273,174
Arrears Taxes	593,925	598,212
Less allowance for uncollectible amounts	<u>(231,327)</u>	<u>(147,253)</u>
	\$ 605,021	\$ 724,133

The allowance for uncollectible taxes pertains to taxes owing on properties seized by the Town where the outstanding tax balance exceeds the property's value. Specifically, the allowance is calculated as the difference between the total taxes owing and the current value of the property.

4. TRADE AND OTHER RECEIVABLES

	<u>2025</u>	<u>2024</u>
Trade and other Receivables	\$ 135,256	\$ 191,568
Less: Allowance for Doubtful Accounts	<u>(2,819)</u>	<u>(11,628)</u>
	\$ 132,437	\$ 179,940

5. RECEIVABLE FROM OTHER GOVERNMENTS

	<u>2025</u>	<u>2024</u>
GST Receivable	\$ 184,178	\$ 69,628
Grants receivable	<u>1,164,392</u>	<u>182,962</u>
	\$ 1,348,570	\$ 252,590

6. DEPOSIT LIABILITIES

	<u>2025</u>	<u>2024</u>
Prepaid Taxes and Utilities	\$ 20,544	\$ 31,823
Land option deposit	2,000	2,000
Water deposits	<u>4,413</u>	<u>4,413</u>
	\$ 26,957	\$ 38,236

7. FUNDS HELD IN TRUST

	<u>2025</u>	<u>2024</u>
Tax Sales surplus	\$ 13,129	\$ 13,129

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2025

8. DEFERRED REVENUE

	<u>2025</u>	<u>2024</u>
51 Street Watermain Reservoir	\$ 73,234	\$ 73,234
Northern and Regional Economic Development Program	50,394	41,500
Broadband Study	49,000	49,000
Co-op Communi	44,650	-
Local Government Fiscal Framework	-	533,799
Small Community Opportunity Program	-	62,210
	<u>\$ 217,278</u>	<u>\$ 759,743</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.

9. LONG TERM DEBT

	<u>2025</u>	<u>2024</u>
Alberta Capital Finance Authority - 4001581 loan bearing interest at 3.866% per annum, repayable in monthly blended payments of \$22,694. The loan matures on December 31, 2032.	\$ 309,771	\$ 342,239
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 December 16, 2033.	121,881	141,389
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 December 31, 2032	987,623	1,032,244
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.	87,795	90,345
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.	124,349	153,628
Alberta Capital Finance Authority - 4001939 loan bearing interest at 2.831% per annum, repayable in semi-annual blended payments of \$24,685. The loan matures on June 15, 2041.	427,365	463,860
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 December 31, 2048.	384,050	406,210

(continues)

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2025

9. LONG TERM DEBT *(continued)*

	<u>2025</u>	<u>2024</u>
Alberta Capital Finance Authority - 4002911 loan bearing interest at 2.519% per annum, repayable in semi-annual blended payments of \$11,389. The loan matures on June 15, 2040.	290,805	305,971
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 13, 2025	-	<u>17,423</u>
	2,733,639	2,953,309
Amounts payable within one year	<u>(209,596)</u>	(220,375)
	\$ 2,524,043	\$ 2,732,934

Principal repayment terms are approximately:

2026	\$ 209,596
2027	216,470
2028	223,581
2029	227,939
2030	204,771
Thereafter	<u>1,651,282</u>
	\$ 2,733,639

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 2024 through 2041. The average annual interest rate is 3.31% (2023 - 3.45%). Debenture debt is issued on the credit and security of the Town of Two Hills.

Interest on long term debt amounted to \$103,500 (2023 - \$110,771). The Town's total cash payments for interest were \$106,005 (2023- \$125,742)

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2025

10. 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 \$134,400 towards Alberta Central East Water Corporation.

As of December 31, 2025 ACE water corporation had Equity in Tangible Capital Assets of \$128M

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

	<u>2025</u>	<u>2024</u>
Investment in Alberta Central East Water Corporation	<u>\$ 1,422,392</u>	<u>\$ 1,422,392</u>

11. 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>2025</u>	<u>2024</u>
Total Debt Limit	<u>\$ 10,679,426</u>	<u>\$ 6,524,235</u>
Total Debt	<u>(2,733,640)</u>	<u>(2,953,309)</u>
	<u>\$ 7,945,786</u>	<u>\$ 3,570,926</u>
Service on Debt Limit	<u>\$ 1,779,904</u>	<u>\$ 1,087,373</u>
Service on Debt	<u>(306,309)</u>	<u>(323,875)</u>
	<u>\$ 1,473,595</u>	<u>\$ 763,498</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.

12. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2025</u>	<u>2024</u>
Tangible Capital Assets (Schedule 2)	<u>\$ 33,681,132</u>	<u>\$ 30,617,569</u>
Accumulated Amortization (Schedule 2)	<u>(15,343,207)</u>	<u>(14,746,250)</u>
Capital Long term debt	<u>(1,883,585)</u>	<u>(2,033,563)</u>
	<u>\$ 16,454,340</u>	<u>\$ 13,837,756</u>

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2025

13. ACCUMULATED SURPLUS

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

	<u>2025</u>	<u>2024</u>
Unrestricted Surplus (Deficit)	\$ 1,010,276	\$ 1,235,809
Restricted Surplus	712,097	712,097
Equity in Tangible Capital Assets	<u>16,524,031</u>	<u>13,837,756</u>
	<u>\$ 18,246,404</u>	<u>\$ 15,785,662</u>

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2025

14. 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	2025	2024
<u>Mayor</u>				
Michael Tarkowski	\$ 20,025	\$ 10,529	\$ 30,554	\$ 30,160
Leonard L. Ewanishan	14,550	10,459	25,009	30,100
	34,575	20,988	55,563	60,260
<u>Councillors</u>				
Cody Dyck	4,575	-	4,575	-
Henry Wall	4,825	640	5,465	-
Marvin Patel	3,250	1,755	5,005	-
Abram Hiebert	4,250	640	4,890	-
Rajoo Dharamarajh	18,350	3,776	22,126	26,640
Arnold Romaniuk	14,975	10,445	25,420	27,300
Elaine Sorochan	18,125	10,445	28,570	32,095
	68,350	27,701	96,051	86,035
<u>Town Manager</u>				
Adam Kozakiewicz	106,577	13,770	120,347	110,114
<u>Designated Contractor</u>				
Wainwright Assessment Group Ltd	18,987	-	18,987	18,501
Total	\$ 228,489	\$ 62,459	\$ 290,948	\$ 274,910

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.

15. 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, 2025

16. 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 8.45% 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 2025 were \$56,830 (2024 - \$54,170). Total current service contributions by the employees of the Town to the LAPP in 2025 were \$51,112 (2024 - \$50,692).

At December 31, 2025, the LAPP disclosed an actuarial surplus of 18.5 billion.

17. 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.

18. FINANCIAL INSTRUMENTS

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

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

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

19. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and Management.
