

TOWN OF TWO HILLS

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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JOHN M. BEALE, CMA
CERTIFIED MANAGEMENT ACCOUNTANT

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BOX 659
TWO HILLS, ALBERTA
T0B 4K0

(780) 657 - 2492
Fax: (780) 657-3492

INDEPENDENT AUDITOR'S REPORT

To the Members of Council:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Town of Two Hills, which comprise the statement of financial position as at December 31, 2013 and the statements of operations, change in net financial assets (debt) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines in necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.


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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Town of Two Hills as at December 31, 2013, the results of its operations, change in its net financial assets (debt) and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

Town of Two Hills
May 6, 2014


John M. Beale, CMA
Certified Management Accountant

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2013

	<u>2013</u>	<u>2012</u>
<u>FINANCIAL ASSETS</u>		
Cash and temporary investments (Note 2)	\$ 1,325,422	\$ 398,807
Receivables		
Taxes and grants in place of taxes (Note 3)	134,238	159,877
Trade and Other Receivable (Note 4)	70,832	135,765
Receivable from Other Governments	549,257	538,465
Land for resale inventory	74,631	103,712
Investments Long Term	5,665	5,772
	<u>2,160,045</u>	<u>1,342,398</u>
 <u>LIABILITIES</u>		
Accounts Payable and accrued liabilities	403,521	319,131
Deposit Liabilities (Note 5)	42,026	51,236
Deferred Revenue (Note 6)	996,342	225,823
Long Term Debt (Note 7)	<u>2,571,465</u>	<u>2,013,984</u>
	<u>4,013,354</u>	<u>2,610,174</u>
 <u>NET FINANCIAL ASSETS (DEBT)</u>	 <u>(1,853,309)</u>	 <u>(1,267,776)</u>
 <u>NON-FINANCIAL ASSETS</u>		
Tangible Capital Assets (Schedule 2)	9,300,124	8,503,101
Inventory for consumption	10,149	9,742
Prepaid Expenses	4,074	8,430
	<u>9,314,347</u>	<u>8,521,273</u>
 <u>ACCUMULATED SURPLUS</u> (Schedule 1)	 \$ <u>7,461,038</u>	 \$ <u>7,253,497</u>

Approved by Council:



 _____ Mayor



 _____ Administrator

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF OPERATIONSfor the year ended the December 31, 2013

	<u>2013</u> <u>ACTUAL</u>		<u>2013</u> <u>BUDGET</u>		<u>2012</u> <u>ACTUAL</u>
<u>REVENUES</u>					
Net Taxes Available for					
Municipal Purpose (Schedule 3) \$	945,995	\$	946,881	\$	961,159
Local Improvements	56,701		55,000		55,285
Sales to Other Governments	36,800		15,000		80,990
Sales and User Charges	846,058		707,619		656,773
Penalties and Costs	29,982		28,000		40,236
Licence & Permits	6,645		5,565		5,712
Concessions & Franchises	117,363		105,000		99,723
Return on Investments	1,172		2,900		4,519
Rentals	34,636		31,214		39,407
Insurance Proceeds	8,339		-		-
Gain on Sale of Capital Assets	4,000		-		-
Government transfers for Operating	331,454		337,912		273,619
Local Government Transfers	15,391		28,556		18,390
Other	2,167		2,000		2,334
	<u>2,436,703</u>		<u>2,265,647</u>		<u>2,238,147</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended the December 31, 2013

<u>EXPENDITURES</u>	2013 <u>ACTUAL</u>	2013 <u>BUDGET</u>	2012 <u>ACTUAL</u>
Legislative	\$ 116,593	\$ 106,976	\$ 102,796
Administration	534,076	469,783	538,237
Fire	41,215	38,256	34,526
Disaster Services	5,480	7,061	4,177
By-Law Enforcement	11,061	15,500	13,494
Roads	727,066	655,981	627,818
Storm Sewers	19,654	22,000	26,254
Water Supply	700,912	451,980	345,166
Sanitary Sewer	87,880	169,305	105,174
Garbage Collection	136,875	133,140	128,512
Family & Community Services	76,969	76,528	76,814
Community Service	76,274	100,002	57,052
Subdivision Land	4,582	-	3,500
Hall Operations	86,083	69,565	86,471
Arena Operations	54,519	35,380	52,390
Curling Rink Operations	32,755	2,567	14,982
Parks	54,106	18,090	73,580
Library	51,267	32,240	33,127
	<u>2,817,367</u>	<u>2,404,354</u>	<u>2,324,070</u>
 Excess (shortfall) of Revenue over Expenses - before other	 (380,664)	 (138,707)	 (85,923)
 <u>OTHER</u>			
Government transfers for Capital	<u>588,205</u>	<u>1,157,127</u>	<u>1,388,556</u>
 Excess (shortfall) of Revenue over Expenses	 207,541	 1,018,420	 1,302,633
 ACCUMULATED SURPLUS, beginning of year	 <u>7,253,497</u>		 <u>5,950,864</u>
ACCUMULATED SURPLUS, end of year	\$ <u>7,461,038</u>		\$ <u>7,253,497</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)
for the year ended the December 31, 2013

	<u>2013</u> <u>ACTUAL</u>	<u>2012</u> <u>ACTUAL</u>
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ 207,541	\$ 1,302,633
Acquisition of tangible capital assets	(1,165,880)	(2,039,525)
Proceed on Sale of Tangible Capital Assets	16,500	-
Amortization of tangible capital assets	354,736	302,264
(Gain) Loss on sale of Tangible Capital Assets	<u>(2,379)</u>	<u>-</u>
	(589,482)	(434,628)
Change in Inventory valuation	(407)	5,905
Change in prepaid assets	<u>4,356</u>	<u>(4,445)</u>
	<u>3,949</u>	<u>1,460</u>
(INCREASE) DECREASE IN NET DEBT	(585,533)	(433,168)
NET FINANCIAL ASSETS (DEBT), Beginning of year	<u>(1,267,776)</u>	<u>(834,608)</u>
NET FINANCIAL ASSETS (DEBT), End of year	\$ <u>(1,853,309)</u>	\$ <u>(1,267,776)</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended the December 31, 2013

	<u>2013</u>	<u>2012</u>
	<u>ACTUAL</u>	<u>ACTUAL</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenue over expenditures\$	207,541	\$ 1,302,633
Non-cash items included:		
Amortization of tangible capital assets	354,736	302,264
(Gain) Loss on sale of assets	(2,379)	-
Non-cash charges to operations:		
Decrease (Increase) in Taxes/Grant in Lieu Receivable	25,639	27,200
Decrease (Increase) in Trade and Other Receivables	64,933	(111,623)
Decrease (Increase) in Receivable other Governments	(10,792)	(314,020)
Decrease (Increase) in Land for resale inventory	29,081	-
Decrease (Increase) in Inventory for consumption	(407)	5,905
Decrease (Increase) in Prepaid Expenses	4,356	(4,445)
Increase (Decrease) in Accounts Payable	84,390	129,630
Increase (Decrease) in Deposit Liabilities	14,338	(1,192)
Increase (Decrease) in Deferred Revenue	<u>746,971</u>	<u>(116,039)</u>
Cash provided by operating transactions	<u>1,518,407</u>	<u>1,220,313</u>
CAPITAL		
Acquisition of tangible capital assets	(1,165,880)	(2,039,525)
Disposal of tangible capital assets	<u>16,500</u>	<u>-</u>
	<u>(1,149,380)</u>	<u>(2,039,525)</u>
INVESTING		
Decrease (Increase) in investments	<u>107</u>	<u>228</u>
FINANCING		
Long-term debt issued	628,157	-
Long-term Debt repaid	<u>(70,676)</u>	<u>(117,966)</u>
Cash provided by financing transactions	<u>557,481</u>	<u>(117,966)</u>
CHANGE IN CASH AND EQUIVALENTS DURING YEAR	926,615	(936,950)
Net Cash and Cash Equivalents at Beginning of Year	<u>398,807</u>	<u>1,335,757</u>
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>1,325,422</u>	\$ <u>398,807</u>

TOWN OF TWO HILLS
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
For the Year Ended December 31, 2013
Schedule 1

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2013	2012
BALANCE, Beginning of Year	(81,704)	846,084	6,489,117	7,253,497	5,950,864
Excess (deficiency) of Revenue over Expenses	207,541	-	-	207,541	1,302,633
Funds Designated for future use	(41,456)	41,456	-	-	-
Restricted funds used for operations	56,085	(56,085)	-	-	-
Restricted funds used for tangible capital assets	-	(6,114)	6,114	-	-
Current year funds used for tangible capital assets	(531,610)	-	531,610	-	-
Disposal of TCA	14,121	-	(14,121)	-	-
Annual amortization expense	354,736	-	(354,736)	-	-
Long term debt repaid	(70,675)	-	70,675	-	-
Change in accumulated surplus	(11,258)	(20,743)	239,542	207,541	1,302,633
BALANCE, End of Year	(92,962)	825,341	6,728,659	7,461,038	7,253,497

TOWN OF TWO HILLS
SCHEDULE OF TANGIBLE CAPITAL ASSETS
For the Year Ended December 31, 2013
Schedule 2

	Land		Buildings	Engineered Structures	Machinery Equipment	Construction		2012	2012
	Land	Improvements				Vehicles	in Process		
COST:									
BALANCE, Beginning of Year	99,701	63,928	2,772,128	13,219,134	1,001,283	71,638	-	17,227,812	15,188,287
Acquisition of tangible capital assets	-	49,474	42,000	899,095	175,311	-	-	1,165,880	2,039,525
Disposal of tangible capital assets	(2,121)	-	-	-	(15,000)	-	-	(17,121)	-
BALANCE, End of Year	97,580	113,402	2,814,128	14,118,229	1,161,594	71,638	-	18,376,571	17,227,812
ACCUMULATED AMORTIZATION:									
BALANCE, Beginning of Year	-	39,115	2,251,417	5,953,625	415,778	64,776	-	8,724,711	8,422,447
Annual Amortization	-	5,415	67,434	213,763	65,463	2,661	-	354,736	302,264
Accumulated Amortization on disposals	-	-	-	-	(3,000)	-	-	(3,000)	-
BALANCE, End of Year	-	44,530	2,318,851	6,167,388	478,241	67,437	-	9,076,447	8,724,711
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	97,580	68,872	495,277	7,950,841	683,353	4,201	-	9,300,124	8,503,101
2012 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS (restated)	99,701	24,813	520,711	7,265,509	585,505	6,862	-	8,503,101	-

TOWN OF TWO HILLS

Schedule of Property and Other Taxes
for the year ended the December 31, 2013

Schedule 3

	2013 <u>ACTUAL</u>	2013 <u>BUDGET</u>	2012 <u>ACTUAL</u>
<u>LEVIES FOR REVENUE</u>			
Residential	\$ 770,007		\$ 767,270
Commercial	263,918		254,178
Industrial	37,431		36,593
Farm Land	<u>86</u>		<u>87</u>
Subtotal	\$ 1,071,442		\$ 1,058,128
Power, Pipe, Cable	82,110		76,213
Federal Grant in Lieu	15,990		15,678
Provincial Grant in Lieu	<u>17,913</u>		<u>15,205</u>
Total Taxes and Grant in Lieu	\$ <u>1,187,455</u>	\$ <u>1,188,341</u>	\$ <u>1,165,224</u>
<u>REQUISITIONS</u>			
Alberta School Foundation Fund	208,461	208,461	177,140
Eagle Hill Foundation	<u>32,999</u>	<u>32,999</u>	<u>26,925</u>
	<u>241,460</u>	<u>241,460</u>	<u>204,065</u>
Net Taxes for Municipal Purposes	\$ <u><u>945,995</u></u>	\$ <u><u>946,881</u></u>	\$ <u><u>961,159</u></u>

TOWN OF TWO HILLS

Schedule of Government Transfers
for the year ended the December 31, 2013

Schedule 4

	2013	2013	2012
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>
TRANSFERS FOR OPERATING:			
Provincial Government	\$ 331,454	\$ 337,912	\$ 273,619
Other Local Governments	<u>15,391</u>	<u>28,556</u>	<u>18,390</u>
	<u>346,845</u>	<u>366,468</u>	<u>292,009</u>
 TRANSFERS FOR CAPITAL:			
Provincial Government	588,205	1,157,127	1,388,556
Federal Government	<u>-</u>	<u>-</u>	<u>-</u>
	<u>588,205</u>	<u>1,157,127</u>	<u>1,388,556</u>
 TOTAL GOVERNMENT TRANSFERS	 \$ <u>935,050</u>	 \$ <u>1,523,595</u>	 \$ <u>1,680,565</u>

TOWN OF TWO HILLSSTATEMENT OF CONSOLIDATED EXPENDITURES BY OBJECTfor the year ended December 31, 2013Schedule 5

<u>EXPENDITURES BY OBJECT</u>	<u>2013</u> <u>ACTUAL</u>	<u>2013</u> <u>BUDGET</u>	<u>2012</u> <u>ACTUAL</u>
Salaries, Wages, and Benefits	\$ 666,664	\$ 679,427	\$ 732,947
Contracted and General Service	868,578	614,338	494,133
Purchases from Other Governments	126,840	123,740	118,447
Materials, Goods, Supplies, and Utilities	553,123	453,055	457,004
Provision for Allowances	24,458	16,600	19,332
Transfers to Individuals and Organizations	134,863	165,207	110,907
Bank Charges and Short Term Interest	5,863	3,200	4,714
Interest on Capital Long Term Debt	80,622	89,586	84,323
Amortization of Tangible Capital Assets	354,736	259,200	302,264
Loss on Sale of Assets	<u>1,620</u>	<u>-</u>	<u>-</u>
Total Expenditures	\$ <u>2,817,367</u>	\$ <u>2,404,353</u>	\$ <u>2,324,070</u>

TOWN OF TWO HILLS
SCHEDULE OF SEGMENTED DISCLOSURE
For the Year Ended December 31, 2013
Schedule 6

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	TOTAL
REVENUE								
Net Municipal Taxes	945,995	-	-	-	-	-	-	945,995
Local Improvements	-	-	-	-	-	56,701	-	56,701
Sales to Other Governments	-	36,800	-	-	-	-	-	36,800
User fees and sale of goods	32,127	490	2,677	47,985	21,849	740,930	-	846,058
Penalties & Costs on Taxes	28,901	-	-	-	-	1,081	-	29,982
Licence & Permits	5,725	920	-	-	-	-	-	6,645
Franchise & Concession Contracts	117,363	-	-	-	-	-	-	117,363
Investment income	1,172	-	-	-	-	-	-	1,172
Rentals	32,230	-	-	-	2,406	-	-	34,636
Insurance Proceeds	-	-	-	-	-	-	8,339	8,339
Gain on Sale of Tangible Capital Assets	-	-	4,000	-	-	-	-	4,000
Federal Government Conditional Transfer	-	-	-	-	-	-	-	-
Provincial Government Conditional Transfer	109,873	15,143	503,839	37,000	113,773	79,264	60,767	919,659
Local Government Transfers	-	-	-	4,120	11,271	-	-	15,391
Other Revenue	1,867	-	-	-	300	-	-	2,167
	<u>1,276,253</u>	<u>53,353</u>	<u>510,516</u>	<u>89,105</u>	<u>149,599</u>	<u>877,976</u>	<u>69,106</u>	<u>3,024,908</u>

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	TOTAL
EXPENSES								
Salaries & wages	383,691	1,824	197,938	-	25,960	57,251	-	666,664
Contracted & general Services	166,709	45,479	105,160	11,055	104,361	426,760	9,054	868,578
Purchases from other governments	-	-	-	3,000	-	123,840	-	126,840
Goods & Supplies	60,696	9,062	304,012	26,816	58,994	93,248	295	553,123
Provision for Allowances	20,149	-	-	-	-	4,309	-	24,458
Transfers to local boards	-	-	-	41,656	17,248	-	75,959	134,863
Bank Charges & Short term Interest	5,863	-	-	-	-	-	-	5,863
Long term debt Interest	-	-	-	-	-	80,622	-	80,622
Loss on Sale of Assets	-	-	-	-	1,620	-	-	1,620
	<u>637,108</u>	<u>56,365</u>	<u>607,110</u>	<u>82,527</u>	<u>208,183</u>	<u>786,030</u>	<u>85,308</u>	<u>2,462,631</u>

NET REVENUE, BEFORE AMORTIZATION	638,145	(3,012)	(96,594)	6,578	(58,584)	91,946	(16,202)	562,277
Amortization Expense	13,561	1,391	119,904	-	60,586	159,294	-	354,736

NET REVENUE	<u>624,584</u>	<u>(4,403)</u>	<u>(216,498)</u>	<u>6,578</u>	<u>(119,170)</u>	<u>(67,348)</u>	<u>(16,202)</u>	<u>207,541</u>
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1. 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 Canadian Institute of Chartered Accountants. Significant aspects of these accounting policies adopted by the Town of Two Hills are as follows:

a) 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.

b) 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.

c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditure during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

d) 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.

e) 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.

f) Over-levies and Under-levies

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.

g) Inventories 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 levelling 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.

h) Prepaid Local Improvement Charges

Construction and borrowing costs associated with local improvement projects are recovered through annual special property assessments during the period of the related borrowing. These levies are collectable from property owners for work performed by the municipality. Where a taxpayer has elected to prepay the outstanding local improvement charges, such amounts are recorded as deferred revenue. Deferred revenue is amortized to revenue on a straight line basis over the remaining term of the related borrowing. In the event that the prepaid amounts are applied against the related borrowing, the deferred revenue is amortized to revenue by an amount equal to the debt repayment.

i) 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.

j) 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.

i) 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
Buildings	25-50 years
Engineered Structures	
- Water Systems	45-75 years
- Wastewater Systems	45-75 years
- Other Engineered Structures	5-30 years
Machinery and Equipment	5-40 years
Vehicles	10-25 years

Assets under construction are not amortized until the asset is available for productive use.

ii) 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.

iii) 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.

iv) Inventories

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

v) Cultural and Historical Tangible Capital Assets

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

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2013

2. CASH AND TEMPORARY INVESTMENTS

	<u>2013</u>	<u>2012</u>
Cash	\$ 1,304,116	\$ 377,709
Temporary Investments	<u>21,306</u>	<u>21,098</u>
	<u>\$ 1,325,422</u>	<u>\$ 398,807</u>

Temporary investments are short term deposits with original maturities of one year or less.

Included in cash and temporary investments is a restricted amount of \$1,444,129 (2012 - \$522,415) received from Provincial grants and debentures which are held exclusively for capital projects.

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2013</u>	<u>2012</u>
Current Taxes and Grants in Lieu	\$ 83,962	\$ 81,059
Arrears Taxes	<u>50,276</u>	<u>90,744</u>
	134,238	171,803
Less: Allowance for Doubtful Accounts	<u>-</u>	<u>(11,926)</u>
	<u>\$ 134,238</u>	<u>\$ 159,877</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2013</u>	<u>2012</u>
Trade and Other Receivables	\$ 153,328	\$ 196,201
Receivable from other governments	549,257	538,465
Less: Allowance for Doubtful Accounts	<u>(82,496)</u>	<u>(60,436)</u>
	<u>\$ 620,089</u>	<u>\$ 674,230</u>

5. DEPOSIT LIABILITIES

	<u>2013</u>	<u>2012</u>
Land Option Deposits	\$ 20,600	\$ 29,600
Water Deposits	18,107	18,414
Hall Deposits	1,683	1,586
Garbage Deposits	<u>1,636</u>	<u>1,636</u>
	<u>\$ 42,026</u>	<u>\$ 51,236</u>

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2013

6. DEFERRED REVENUE

	<u>2013</u>	<u>2012</u>
Provincial Capital Grants	\$ 967,794	\$ 207,727
Prepaid Taxes and Utilities	23,548	18,096
Provincial Operating Grants	<u>5,000</u>	<u>-</u>
	<u>\$ 996,342</u>	<u>\$ 225,823</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.

7. LONG TERM DEBT

	<u>2013</u>	<u>2012</u>
Tax Supported Debentures	\$ <u>2,571,465</u>	\$ <u>2,013,984</u>

Principal and interest repayments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 94,708	\$ 101,976	\$ 196,684
2015	98,372	98,312	196,684
2016	102,178	94,506	196,684
2017	106,133	90,552	196,685
2018	<u>110,241</u>	<u>86,444</u>	<u>196,685</u>
Thereafter	<u>2,059,833</u>	<u>929,986</u>	<u>2,989,819</u>
	<u>\$ 2,571,465</u>	<u>\$ 1,401,776</u>	<u>\$ 3,973,241</u>

Debenture debt is repayable to Alberta Municipal Financing Corporation and bears interest at rates ranging from 3.49% to 4.157%, and mature in periods 2019 through 2041. The average annual interest rate is 4.00% (2012 - 3.981%). Debenture debt is issued on the credit and security of the Town of Two Hills.

Interest on long term debt amounted to \$80,622 (2012 - \$84,323)
The Town's total cash payments for interest in 2013 were \$86,485 (2012 - \$89,037)

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2013

8. DEBT 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>2013</u>	<u>2012</u>
Total Debt Limit	\$ 3,655,054	\$ 3,357,220
Total Debt	<u>2,571,465</u>	<u>2,013,984</u>
	\$ <u>1,083,589</u>	\$ <u>1,343,236</u>
Service on Debt Limit	\$ 609,175	\$ 559,537
Service on Debt	<u>196,684</u>	<u>151,297</u>
	\$ <u>412,491</u>	\$ <u>408,240</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.

9. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2013</u>	<u>2012</u>
Tangible Capital Assets (Schedule 1)	\$ 18,376,571	\$ 17,227,812
Accumulated Amortization (Schedule 1)	(9,076,447)	(8,724,711)
Long Term Debt	<u>(2,571,465)</u>	<u>(2,013,984)</u>
	\$ <u>6,728,659</u>	\$ <u>6,489,117</u>

10. ACCUMULATED SURPLUS

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

	<u>2013</u>	<u>2012</u>
Unrestricted Surplus (Deficit)	\$ (92,962)	\$ (81,704)
Restricted Surplus	825,341	846,084
Equity in Tangible Capital Assets	<u>6,728,659</u>	<u>6,489,117</u>
	\$ <u>7,461,038</u>	\$ <u>7,253,497</u>

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2013

11. 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:

				2013	2012
		Salary	Benefits & Allowances ⁽²⁾	Total	Total
Mayor	- Sorochan	17,625	2,979	20,604	23,365
	- Neufeld	3,300	142	3,442	-
Councillors	- Babiuk	16,150	2,881	19,031	17,604
	- Gray	14,125	3,057	17,182	16,625
	- Rajoo	15,725	2,853	18,578	15,744
	- Saskiw	11,175	2,860	<u>14,035</u>	<u>13,989</u>
				92,872	87,327
Town Manager		89,221	22,065 ⁽³⁾	111,286	112,485

- (1) Salary includes regular base pay, bonuses, overtime, lump sum payments, gross honoraria and any other direct cash remuneration.
- (2) 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.
- (3) 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.

12. 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 there 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 STATEMENT (Continued)
December 31, 2013

12. LEASES

The Town of Two Hills is leasing a 2005 Volvo G730B grader. This lease calls for payments of \$2,973.89 monthly ending in June, 2014.

The Town of Two Hills is leasing a 2009 Volvo BL70 backhoe. This lease calls for payments of \$1,748.01 monthly ending in June, 2015.

The Town of Two Hills is leasing a Case SV250 skid steer. This lease calls for payments of \$861.39 monthly ending in April, 2018.

Future payments required:

2014	49,157
2015	20,825
2016	10,337
2017	10,337
2018	3,445

13. 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 Plan serves about 133,000 people and about 389 employers. 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 5.525% of pensionable earning up to the year's maximum pensionable earnings under the Canada Pension Plan and 7.4% for pensionable earnings above this amount. Employees of the Town are required to make current service contributions of 4.525% of pensionable salary up to the year's maximum pensionable salary and 6.4% on pensionable salary above this amount.

Total current service contributions by the Town to the LAPP in 2013 were \$35,768 (2012 - \$36,789). Total current service contributions by the employees of the Town to the LAPP in 2013 were \$31,520 (2012 - \$33,236).

At December 31, 2012, the LAPP disclosed an actuarial deficiency of \$4.635 billion.

14. 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.

15. 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.

16. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and Management.