

# TOWN OF TWO HILLS

## FINANCIAL STATEMENTS

DECEMBER 31, 2015

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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, 2015 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, 2015, 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  
April 28, 2016

John M. Beale, CMA  
Certified Management Accountant

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2015

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	<u>2015</u>	<u>2014</u>
<u>FINANCIAL ASSETS</u>		
Cash and temporary investments (Note 2)	\$ 2,615,816	\$ 2,106,709
Receivables		
Taxes and grants in place of taxes (Note 3)	194,875	95,300
Trade and Other Receivable (Note 4)	157,573	280,828
Receivable from Other Governments	866,538	531,787
Land for resale inventory	64,377	69,318
Investments Long Term	<u>5,373</u>	<u>5,564</u>
	<u>3,904,552</u>	<u>3,089,506</u>
 <u>LIABILITIES</u>		
Temporary Loans Payable	-	52,564
Accounts Payable and accrued liabilities	130,167	184,922
Deposit Liabilities (Note 5)	67,570	51,613
Funds Held in Trust (Note 6)	134,147	134,147
Deferred Revenue (Note 7)	2,011,287	1,110,253
Long Term Debt (Note 8)	<u>3,211,872</u>	<u>2,582,528</u>
	<u>5,555,043</u>	<u>4,116,027</u>
 <u>NET FINANCIAL ASSETS (DEBT)</u>	 <u>(1,650,491)</u>	 <u>(1,026,521)</u>
 <u>NON-FINANCIAL ASSETS</u>		
Tangible Capital Assets (Schedule 2)	11,519,079	9,282,379
Inventory for consumption	34,627	30,669
Prepaid Expenses	<u>7,058</u>	<u>10,657</u>
	<u>11,560,764</u>	<u>9,323,705</u>
 <u>ACCUMULATED SURPLUS</u> (Schedule 1)	 \$ <u>9,910,273</u>	 \$ <u>8,297,184</u>

Approved by Council:

\_\_\_\_\_ Mayor

\_\_\_\_\_ Administrator

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF OPERATIONSfor the year ended the December 31, 2015

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	Budget (unaudited)	<u>2015</u>	<u>2014</u>
<u>REVENUES</u>			
Net Taxes Available for			
Municipal Purpose (Schedule 3)	\$ 1,037,028	\$ 1,063,677	\$ 1,073,214
Local Improvements	85,044	89,828	59,499
Sales to Other Governments	-	9,494	17,413
Sales and User Charges	958,240	1,106,687	958,345
Penalties and Costs	28,000	45,104	34,645
Licence & Permits	7,000	7,244	7,222
Concessions & Franchises	133,171	120,692	121,536
Return on Investments	5,000	30,138	4,372
Rentals	21,464	22,599	26,889
Insurance Proceeds	-	322,058	858,812
Government transfers for Operating	202,659	216,954	214,603
Local Government Transfers	30,555	29,525	42,577
Other	1,000	27,304	7,181
	<u>2,509,161</u>	<u>3,091,304</u>	<u>3,426,308</u>

TOWN OF TWO HILLS  
CONSOLIDATED STATEMENT OF OPERATIONS  
for the year ended the December 31, 2015

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	<u>Budget</u> <u>(unaudited)</u>	<u>2015</u>	<u>2014</u>
<u>EXPENDITURES</u>			
Legislative	\$ 114,400	\$ 102,028	\$ 110,827
Administration	528,364	547,287	529,467
Fire	38,636	36,551	31,758
Disaster Services	6,339	6,540	6,412
By-Law Enforcement	4,700	17,016	14,760
Roads	817,263	754,077	732,792
Storm Sewers	22,000	23,322	19,654
Water Supply	556,940	634,584	810,889
Sanitary Sewer	157,142	98,800	165,340
Garbage Collection	135,500	138,197	134,139
Family & Community Services	76,809	84,465	77,159
Community Service	28,300	279,997	40,991
Subdivision Land	20,000	4,940	5,313
Hall Operations	56,500	65,936	73,362
Arena Operations	60,000	80,287	64,065
Curling Rink Operations	-	1,277	2,560
Parks	31,250	59,893	65,313
Library	<u>34,794</u>	<u>35,295</u>	<u>33,726</u>
	<u>2,688,937</u>	<u>2,970,492</u>	<u>2,918,527</u>
Excess (shortfall) of Revenue over Expenses - before other	(179,776)	120,812	507,781
 <u>OTHER</u>			
Government transfers for Capital	<u>2,530,484</u>	<u>1,492,277</u>	<u>328,365</u>
Excess (shortfall) of Revenue over Expenses	2,350,708	1,613,089	836,146
ACCUMULATED SURPLUS, beginning of year		<u>8,297,184</u>	<u>7,461,038</u>
ACCUMULATED SURPLUS, end of year		\$ <u>9,910,273</u>	\$ <u>8,297,184</u>

TOWN OF TWO HILLS  
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)  
for the year ended the December 31, 2015

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	<u>2015</u>	<u>2014</u>
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ 1,613,089	\$ 836,146
Acquisition of tangible capital assets	(2,647,959)	(358,861)
Amortization of tangible capital assets	<u>411,259</u>	<u>376,606</u>
	<u>(623,611)</u>	<u>853,891</u>
Change in Inventory valuation	(3,958)	(20,520)
Change in prepaid assets	<u>3,599</u>	<u>(6,583)</u>
	<u>(359)</u>	<u>(27,103)</u>
(INCREASE) DECREASE IN NET DEBT	(623,970)	826,788
NET FINANCIAL ASSETS (DEBT), Beginning of year	<u>(1,026,521)</u>	<u>(1,853,309)</u>
NET FINANCIAL ASSETS (DEBT), End of year	\$ <u>(1,650,491)</u>	\$ <u>(1,026,521)</u>

TOWN OF TWO HILLS  
CONSOLIDATED STATEMENT OF CASH FLOWS  
for the year ended the December 31, 2015

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	<u>2015</u>	<u>2014</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenue over expenditures	\$ 1,613,089	\$ 836,146
Non-cash items included:		
Amortization of tangible capital assets	411,259	376,606
(Gain) Loss on sale of assets		-
Non-cash charges to operations:		
Decrease (Increase) in Taxes/Grant in Lieu Receivable	(99,575)	38,938
Decrease (Increase) in Trade and Other Receivables	123,255	(209,996)
Decrease (Increase) in Receivable other Governments	(334,751)	17,470
Decrease (Increase) in Land for resale inventory	4,941	5,313
Decrease (Increase) in Inventory for consumption	(3,958)	(20,520)
Decrease (Increase) in Prepaid Expenses	3,599	(6,583)
Increase (Decrease) in Accounts Payable	(54,755)	(218,599)
Increase (Decrease) in Deposit Liabilities	15,957	(13,961)
Increase (Decrease) in Deferred Revenue	<u>901,034</u>	<u>271,606</u>
Cash provided by operating transactions	<u>2,580,095</u>	<u>1,076,420</u>
CAPITAL		
Acquisition of tangible capital assets	(2,647,959)	(358,861)
INVESTING		
Decrease (Increase) in investments	<u>191</u>	<u>101</u>
FINANCING		
Long-term debt issued	750,000	114,600
Long-term Debt repaid	<u>(120,656)</u>	<u>(103,537)</u>
Cash provided by financing transactions	<u>629,344</u>	<u>11,063</u>
CHANGE IN CASH AND EQUIVALENTS DURING YEAR	561,671	728,723
Net Cash and Cash Equivalents at Beginning of Year	<u>2,054,145</u>	<u>1,325,422</u>
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>2,615,816</u>	\$ <u>2,054,145</u>

**TOWN OF TWO HILLS**  
**SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS**  
**For the Year Ended December 31, 2015**  
**Schedule 1**

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2014	2014
BALANCE, Beginning of Year	(87,948)	1,685,281	6,699,851	8,297,184	7,461,038
Excess (deficiency) of Revenue over Expenses	1,613,089	-	-	1,613,089	836,146
Funds Designated for future use	(211,528)	211,528	-	-	-
Restricted funds used for operations	-	-	-	-	-
Restricted funds used for tangible capital assets	-	(502,339)	502,339	-	-
Current year funds used for tangible capital assets	(1,795,620)	-	1,795,620	-	-
Disposal of TCA	-	-	-	-	-
Annual amortization expense	411,259	-	(411,259)	-	-
Long term debt repaid	(120,656)	-	120,656	-	-
Change in accumulated surplus	(103,456)	(290,811)	2,007,356	1,613,089	836,146
BALANCE, End of Year	(191,404)	1,394,470	8,707,207	9,910,273	8,297,184



**TOWN OF TWO HILLS**  
**SCHEDULE OF TANGIBLE CAPITAL ASSETS**  
For the Year Ended December 31, 2015  
**Schedule 2**

	Land	Land Improvements	Buildings	Engineered Structures	Machinery Equipment	Vehicles	Construction in Process	2015	2014
<b>COST:</b>									
BALANCE, Beginning of Year	97,580	113,402	2,832,022	14,267,783	1,229,486	195,159	-	18,735,432	18,376,571
Acquisition of tangible capital assets	-	55,002	-	667,911	366,257	21,525	1,537,264	2,647,959	358,861
Disposal of tangible capital assets	-	-	-	-	-	-	-	-	-
<b>BALANCE, End of Year</b>	<b>97,580</b>	<b>168,404</b>	<b>2,832,022</b>	<b>14,935,694</b>	<b>1,595,743</b>	<b>216,684</b>	<b>1,537,264</b>	<b>21,383,391</b>	<b>18,735,432</b>

**ACCUMULATED AMORTIZATION:**

BALANCE, Beginning of Year	-	51,181	2,372,139	6,406,393	549,727	73,613	-	9,453,053	9,076,447
Annual Amortization	-	8,027	53,443	249,802	85,957	14,030	-	411,259	376,606
Accumulated Amortization on disposals	-	-	-	-	-	-	-	-	-
<b>BALANCE, End of Year</b>	<b>-</b>	<b>59,208</b>	<b>2,425,582</b>	<b>6,656,195</b>	<b>635,684</b>	<b>87,643</b>	<b>-</b>	<b>9,864,312</b>	<b>9,453,053</b>

**NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS**

	97,580	109,196	406,440	8,279,499	960,059	129,041	1,537,264	11,519,079	9,282,379
<b>2014 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS (restated)</b>	<b>97,580</b>	<b>62,221</b>	<b>459,883</b>	<b>7,861,390</b>	<b>679,759</b>	<b>121,546</b>	<b>-</b>	<b>9,282,379</b>	<b>-</b>

TOWN OF TWO HILLSSchedule of Property and Other Taxesfor the year ended the December 31, 2015Schedule 3

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	<u>Budget</u> <u>(unaudited)</u>	<u>2015</u>	<u>2014</u>
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LEVIES FOR REVENUE

Residential	\$ 918,705	\$ 877,965
Non-Residential	301,696	318,509
Linear Property	73,248	85,186
Federal Grant in Lieu	15,903	16,886
Provincial Grant in Lieu	2,538	16,801
Machinery and Equipment	814	1,017
Farm Land	<u>93</u>	<u>86</u>
Total Taxes and Grant in Lieu	\$ <u>1,286,348</u>	\$ <u>1,312,997</u>

REQUISITIONS

Alberta School Foundation Fund	209,739	209,739	207,824
Eagle Hill Foundation	<u>39,581</u>	<u>39,581</u>	<u>35,412</u>
	<u>249,320</u>	<u>249,320</u>	<u>243,236</u>
Net Taxes for Municipal Purposes	\$ <u>1,037,028</u>	\$ <u>1,063,677</u>	\$ <u>1,073,214</u>

TOWN OF TWO HILLS

Schedule of Government Transfers  
for the year ended the December 31, 2015

Schedule 4

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	<u>Budget</u> <u>(unaudited)</u>	<u>2015</u>	<u>2014</u>
TRANSFERS FOR OPERATING:			
Provincial Government	\$ 199,864	\$ 212,422	\$ 214,603
Federal Government	2,295	3,795	-
Other Local Governments	<u>31,055</u>	<u>30,262</u>	<u>42,577</u>
	<u>233,214</u>	<u>246,479</u>	<u>257,180</u>
 TRANSFERS FOR CAPITAL:			
Provincial Government	2,180,484	1,133,953	328,365
Other Local Governments	<u>350,000</u>	<u>358,324</u>	<u>-</u>
	<u>2,530,484</u>	<u>1,492,277</u>	<u>328,365</u>
 TOTAL GOVERNMENT TRANSFERS	\$ <u>2,763,698</u>	\$ <u>1,738,756</u>	\$ <u>585,545</u>

TOWN OF TWO HILLSSTATEMENT OF CONSOLIDATED EXPENDITURES BY OBJECTfor the year ended December 31, 2015Schedule 5

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	<u>Budget</u> <u>(unaudited)</u>	<u>2015</u>	<u>2014</u>
<u>EXPENDITURES BY OBJECT</u>			
Salaries, Wages, and Benefits	\$ 804,828	\$ 726,930	\$ 746,385
Contracted and General Service	705,770	713,410	944,576
Purchases from Other Governments	134,700	122,439	124,685
Materials, Goods, Supplies, and Utilities	480,621	515,601	475,150
Provision for Allowances	-	44,171	36,068
Transfers to Individuals and Organizations	115,707	333,390	107,407
Bank Charges and Short Term Interest	5,500	2,544	4,203
Interest on Capital Long Term Debt	98,311	100,748	103,447
Amortization of Tangible Capital Assets	<u>343,500</u>	<u>411,259</u>	<u>376,606</u>
Total Expenditures	\$ <u>2,688,937</u>	\$ <u>2,970,492</u>	\$ <u>2,918,527</u>

**TOWN OF TWO HILLS**  
**SCHEDULE OF SEGMENTED DISCLOSURE**  
**For the Year Ended December 31, 2015**  
**Schedule 6**

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	TOTAL
<b>REVENUE</b>								
Net Municipal Taxes	1,063,677	-	-	-	-	-	-	1,063,677
Local Improvements	-	-	-	-	-	89,828	-	89,828
Sales to Other Governments	-	9,494	-	-	-	-	-	9,494
User fees and sale of goods	34,615	31,242	40,509	113,056	28,297	857,926	1,042	1,106,687
Penalties & Costs	38,882	-	-	-	-	6,222	-	45,104
Licence & Permits	6,500	744	-	-	-	-	-	7,244
Franchise & Concession Contracts	120,692	-	-	-	7,356	-	-	120,692
Investment income	22,782	-	-	-	2,075	-	-	30,138
Rentals	20,524	-	-	-	322,058	-	-	22,599
Insurance Proceeds	-	-	-	-	-	-	-	322,058
Gain on Sale of Tangible Capital Assets	-	-	-	1,500	-	-	-	3,795
Federal Government Conditional Transfer	2,295	-	-	-	55,002	7,938	65,325	1,347,112
Provincial Government Conditional Transfe	11,125	3,595	1,204,127	-	372,994	(3,149)	4,020	387,850
Local Government Transfers	-	-	-	13,985	25,000	-	-	27,303
Other Revenue	2,303	-	-	-	-	-	-	-
	<u>1,323,395</u>	<u>45,075</u>	<u>1,244,636</u>	<u>128,541</u>	<u>812,782</u>	<u>958,765</u>	<u>70,387</u>	<u>4,583,581</u>
<b>EXPENSES</b>								
Salaries & wages	388,949	-	246,916	-	33,515	57,550	-	726,930
Contracted & general Services	154,541	42,530	33,746	6,012	90,361	384,955	1,265	713,410
Purchases from other governments	-	-	-	3,000	850	118,589	-	122,439
Goods & Supplies	44,516	16,186	294,100	41,070	52,221	65,536	1,972	515,601
Provision for Allowances	42,277	-	-	-	-	1,894	-	44,171
Transfers to local boards	950	-	-	234,855	17,248	-	80,337	333,390
Bank Charges & Short term interest	2,544	-	2,436	-	-	98,312	-	2,544
Long term debt interest	-	-	-	-	-	-	-	100,748
Loss on Sale of Assets	-	-	-	-	-	-	-	-
	<u>633,777</u>	<u>58,716</u>	<u>577,198</u>	<u>284,937</u>	<u>194,195</u>	<u>726,856</u>	<u>83,574</u>	<u>2,559,233</u>
<b>NET REVENUE, BEFORE AMORTIZATION</b>	<u>689,618</u>	<u>(13,641)</u>	<u>667,438</u>	<u>(156,396)</u>	<u>618,587</u>	<u>231,929</u>	<u>(13,187)</u>	<u>2,024,348</u>
Amortization Expense	15,538	1,391	176,880	-	48,493	168,066	891	411,259
<b>NET REVENUE</b>	<u>674,080</u>	<u>(15,032)</u>	<u>490,558</u>	<u>(156,396)</u>	<u>570,094</u>	<u>63,863</u>	<u>(14,078)</u>	<u>1,613,089</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 Chartered Professional Accounts of Canada. 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.

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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) Tax Revenue

Tax revenues are recognized when the tax has been authorized by bylaw and the taxable event has occurred.

Requisitions operate as a floe throug and are excluded from mnicipal revenue.

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.

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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

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.

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, 2015

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2. CASH AND TEMPORARY INVESTMENTS

	<u>2015</u>	<u>2014</u>
Cash	\$ 2,615,816	\$ 1,085,314
Temporary Investments	<u>                  -</u>	<u>1,021,395</u>
	<u>\$ 2,615,816</u>	<u>\$ 2,106,709</u>

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

Council has designated funds of \$1,394,470 (2014 - \$1,685,280) included in the above amounts for reserves.

Included in cash and temporary investments is a restricted amount of \$2,145,434 (2014 - \$1,244,400) comprised of \$134,147 (2014 - \$134,147) of funds held in trust and \$ 2,011,287 (2014 - \$1,110,253) received from various sources which are held exclusively for approved Projects.

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2015</u>	<u>2014</u>
Current Taxes and Grants in Lieu	\$ 153,837	\$ 55,045
Arrears Taxes	<u>41,038</u>	<u>40,255</u>
	<u>\$ 194,875</u>	<u>\$ 95,300</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2015</u>	<u>2014</u>
Trade and Other Receivables	\$ 223,059	\$ 187,100
Requisition Under-Levi	23,014	12,913
Insurance Proceeds Receivable	-	162,660
Less: Allowance for Doubtful Accounts	<u>(88,500)</u>	<u>(81,845)</u>
	<u>\$ 157,573</u>	<u>\$ 280,828</u>

5. DEPOSIT LIABILITIES

	<u>2015</u>	<u>2014</u>
Prepaid Taxes and Utilities	\$ 27,011	\$ 28,514
Land Option Deposits	19,760	600
Water Deposits	17,704	17,884
Hall Deposits	1,739	3,140
Garbage Deposits	<u>1,356</u>	<u>1,475</u>
	<u>\$ 67,570</u>	<u>\$ 51,613</u>

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2015

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6. FUNDS HELD IN TRUST

	<u>2015</u>	<u>2014</u>
Tax Sale Surplus	\$ <u>134,147</u>	\$ <u>134,147</u>

7. DEFERRED REVENUE

	<u>2015</u>	<u>2014</u>
Provincial Capital Grants	\$ 1,227,825	\$ 1,110,253
Local Government Capital Grants	750,000	-
Federal Capital Grants	<u>33,462</u>	<u>-</u>
	\$ <u>2,011,287</u>	\$ <u>1,110,253</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.

8. LONG TERM DEBT

	<u>2015</u>	<u>2014</u>
Tax Supported Debentures	\$ 3,128,385	\$ 2,476,757
Bank Loan	<u>83,487</u>	<u>105,771</u>
	\$ <u>3,211,872</u>	\$ <u>2,582,528</u>

Principal and interest repayments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 152,890	\$ 117,885	\$ 270,775
2017	158,373	112,402	270,775
2018	164,057	106,718	270,775
2019	159,517	100,877	260,394
2020	110,923	95,747	206,670
Thereafter	<u>2,466,112</u>	<u>910,283</u>	<u>3,376,395</u>
	\$ <u>3,211,872</u>	\$ <u>1,443,912</u>	\$ <u>4,655,784</u>

Debenture debt is repayable to Alberta Municipal Financing Corporation and bears interest at rates ranging from 2.831% to 4.157%, and mature in periods 2019 through 2041. The average annual interest rate is 3.97% (2014 - 3.97%). Debenture debt is issued on the credit and security of the Town of Two Hills.

Bank loan is payable in monthly instalments of \$2,060 including principle and interest at 2.75% due August 2019. The bank loan is secured by a general assignment of property taxes receivable.

Interest on long term debt amounted to \$100,748 (2014 - \$103,447)  
 The Town's total cash payments for interest in 2015 were \$103,292 (2014 - \$107,650)

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2015

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9. 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>2015</u>	<u>2014</u>
Total Debt Limit	\$ 4,636,956	\$ 5,137,374
Total Debt	<u>3,211,872</u>	<u>2,582,528</u>
	\$ <u>1,425,084</u>	\$ <u>2,554,846</u>
Service on Debt Limit	\$ 772,826	\$ 856,229
Service on Debt	<u>270,775</u>	<u>203,405</u>
	\$ <u>502,051</u>	\$ <u>652,824</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.

10. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2015</u>	<u>2014</u>
Tangible Capital Assets (Schedule 1)	\$ 21,383,391	\$ 18,735,432
Accumulated Amortization (Schedule 1)	(9,864,312)	(9,453,053)
Capital Long Term Debt	<u>(2,611,872)</u>	<u>(2,582,528)</u>
	\$ <u>8,907,207</u>	\$ <u>6,699,851</u>

11. ACCUMULATED SURPLUS

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

	<u>2015</u>	<u>2014</u>
Unrestricted Surplus (Deficit)	\$ (191,404)	\$ (87,948)
Restricted Surplus	1,394,470	1,685,281
Equity in Tangible Capital Assets	<u>8,707,207</u>	<u>6,699,851</u>
	\$ <u>9,910,273</u>	\$ <u>8,297,184</u>

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2015

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12. 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:

			<u>2015</u>	<u>2014</u>
		Benefits & Salary Allowances	Total	Total
Mayor	- Neufeld	15,700	3,122 <sup>(2)</sup>	18,822
			18,822	18,557
Councillors	- Babiuk	15,550	3,094	18,644
	- Gray	13,200	3,026	16,226
	- Rajoo	14,050	3,125	17,175
	- Saskiw	10,525	2,897	13,422
			<u>84,289</u>	<u>85,476</u>
Town Manager		94,382	25,839 <sup>(3)</sup>	120,221
				113,056

- (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.

13. 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)

13. LEASES

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:

2016	10,337
2017	10,337
2018	3,445

14. LOCAL AUTHORITIES PENSION PLAN

Employees of the Town of Two Hills participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pension Plans Act. The LAPP is financed by employer and employee contributions and investment earnings of the LAPP Fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

The Town is required to make current service contributions to the LAPP of 11.39% of pensionable earning up to the year's maximum pensionable earnings under the Canada Pension Plan and 15.84% for pensionable earnings above this amount.

Total current service contributions by the Town to the LAPP in 2015 were \$52,340 (2014 - \$41,659). Total current service contributions by the employees of the Town to the LAPP in 2015 were \$48,002 (2014 - \$38,086).

At December 31, 2014, the LAPP disclosed an actuarial deficiency of \$2.4 billion.

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2015

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15. 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.

16. 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.

17. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and Management.