

TOWN OF TWO HILLS
Consolidated Financial Statements
Year Ended December 31, 2017

TOWN OF TWO HILLS
Index to Consolidated Financial Statements
Year Ended December 31, 2017

	Page
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	2
Consolidated Statement of Operations	3
Consolidated Statement of Changes in Accumulated Surplus	4
Consolidated Statement of Changes in Net Financial Debt	5
Consolidated Statement of Cash Flows	6
Schedule of Changes in Accumulated Surplus	7
Schedule of Tangible Capital Assets	8
Schedule of property and Other Taxes	9
Schedule of Government Transfers	10
Schedule of Consolidated Expenses by Object	11
Schedule of Segmented Disclosure	12
Notes to Consolidated Financial Statements	13 - 20



INDEPENDENT AUDITOR'S REPORT

To the Members of the Town of Two Hills

We have audited the accompanying consolidated financial statements of the Town of Two Hills, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of operations, changes in net financial debt, changes in accumulated surplus 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 is 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 of 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 of 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, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

NCube & Landry LLP

**Two Hills, AB
May 22, 2018**

Chartered Professional Accountants

TOWN OF TWO HILLS
Consolidated Statement of Financial Position
December 31, 2017

	2017	2016
FINANCIAL ASSETS		
Cash (Note 2)	\$ 844,781	\$ 156,719
Tax and grants in place of taxes (Note 3)	360,277	300,126
Trade and other receivable (Note 4)	149,140	1,128,535
Receivable from other governments	1,054,253	889,392
Land for resale inventory	64,377	64,377
Long term Investments	5,556	5,462
TOTAL FINANCIAL ASSETS	2,478,384	2,544,607
LIABILITIES		
Bank indebtedness (Note 2)	1,296	695,000
Accounts payable	531,873	153,314
Current portion of long term debt (Note 8)	164,028	158,777
Deposit liabilities (Note 5)	69,341	55,163
Funds held in trust (Note 6)	109,740	109,740
Deferred income (Note 7)	564,386	369,143
Long term debt (Note 8)	2,735,709	2,899,651
TOTAL LIABILITIES	4,176,373	4,440,788
NET FINANCIAL DEBT	(1,697,989)	(1,896,181)
NON-FINANCIAL ASSETS		
Inventory for consumption	91,696	34,789
Tangible capital assets	15,277,628	15,008,593
	15,369,324	15,043,382
ACCUMULATED SURPLUS	\$ 13,671,336	\$ 13,147,203

ON BEHALF OF COUNCIL

_____ Mayor

_____ Administrator

TOWN OF TWO HILLS
Consolidated Statement of Operations
Year Ended December 31, 2017

	Budget	2017	2016
REVENUES			
Net municipal taxes	\$ 1,040,978	\$ 1,042,003	\$ 1,063,168
User fees and sales of goods	1,361,584	1,016,159	983,919
Government transfers for operating	206,808	328,120	219,273
Local improvements	138,371	140,709	127,960
Concession and franchise	140,000	125,813	121,412
Other	21,000	119,631	650
Penalties and costs of taxes	66,000	92,222	68,718
Rentals	15,000	18,370	21,698
Local government transfers	14,535	16,290	16,137
License and permits	6,140	6,030	6,355
Investment income	4,500	4,331	13,780
Insurance proceeds	-	-	1,497,277
Total Revenue	3,014,916	2,909,678	4,140,347
EXPENSES			
Legislative	101,500	89,026	101,145
Bylaws enforcement	5,500	3,050	1,860
Administration	541,474	655,113	555,463
Fire	38,144	40,415	43,077
Water supply and distribution	622,513	600,056	567,853
Disaster services	3,348	4,290	6,769
Roads, streets, walks, lighting	908,746	682,154	803,944
Storm sewer	19,653	19,654	19,654
Curling rink operation	146,791	242,814	167,032
Sanitary sewer	76,970	103,526	122,161
Garbage collection	131,492	133,686	134,304
Family and community services	92,030	91,717	86,637
Community services	40,019	80,226	283,320
Hall operations	70,306	61,478	88,366
Parks and recreation	44,299	81,653	90,918
Arena operations	59,015	60,204	64,972
Library	41,597	34,759	40,264
	2,943,397	2,983,821	3,177,739
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	71,519	(74,143)	962,608
OTHER INCOME			
Government transfers for Capital	793,776	598,276	2,274,322
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ 865,295	\$ 524,133	\$ 3,236,930

TOWN OF TWO HILLS
Consolidated Statement of Changes in Accumulated Surplus
Year Ended December 31, 2017

	2017	2016
ACCUMULATED SURPLUS - BEGINNING OF YEAR	\$ 13,147,203	\$ 9,910,273
SURPLUS FOR THE YEAR	<u>524,133</u>	<u>3,236,930</u>
ACCUMULATED SURPLUS - END OF YEAR	<u>\$ 13,671,336</u>	<u>\$ 13,147,203</u>

TOWN OF TWO HILLS**Consolidated Statement of Changes in Net Financial Assets (Debt)****Year Ended December 31, 2017**

	Budget 2017	2017	2016
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	<u>\$ 865,295</u>	<u>\$ 524,133</u>	<u>\$ 3,236,930</u>
Acquisition of tangible capital assets	(937,081)	(832,289)	(3,997,930)
Increase in inventory valuation	(50,000)	(56,907)	(164)
Decrease in prepaid assets	-	-	7,058
Amortization of tangible capital assets	551,994	563,255	508,416
Capitalized interest	-	-	-
Capitalized overhead	-	-	-
	<u>(435,087)</u>	<u>(325,941)</u>	<u>(3,482,620)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	430,208	198,192	(245,690)
NET FINANCIAL DEBT - BEGINNING OF YEAR	<u>(1,896,181)</u>	<u>(1,896,181)</u>	<u>(1,650,491)</u>
NET FINANCIAL DEBT - END OF YEAR	<u>\$ (1,465,973)</u>	<u>\$ (1,697,989)</u>	<u>\$ (1,896,181)</u>

TOWN OF TWO HILLS
Consolidated Statement of Cash Flows
Year Ended December 31, 2017

	2017	2016
OPERATING ACTIVITIES		
Excess (shortfall) of revenues over expenses	\$ 524,133	\$ 3,236,930
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	<u>563,255</u>	508,416
	<u>1,087,388</u>	<u>3,745,346</u>
Changes in non-cash working capital:		
Decrease (increase) in trade and other receivables	979,395	(970,962)
Decrease (increase) in taxes and grants in lieu receivables	(60,151)	(105,251)
Decrease (increase) in inventory for consumption	(56,907)	(162)
Decrease (increase) in accounts payable and accrued liabilities	378,559	23,147
Decrease (increase) in deposit liabilities	14,178	(4,846)
Decrease (increase) in prepaid expenses	-	7,058
Decrease (increase) in receivable other governments	(164,861)	(22,854)
Decrease (increase) in deferred revenue	<u>195,242</u>	<u>(1,674,111)</u>
	<u>1,285,455</u>	<u>(2,747,981)</u>
Cash provided by operating transactions	<u>2,372,843</u>	<u>997,365</u>
CAPITAL		
Acquisition of tangible capital assets	<u>(832,289)</u>	<u>(3,997,930)</u>
Cash flow used by capital	<u>(832,289)</u>	<u>(3,997,930)</u>
INVESTING ACTIVITIES		
Decrease (increase) in investments	(94)	(90)
Long-term debt repaid	<u>(158,694)</u>	<u>(153,442)</u>
Cash flow used by investing activities	<u>(158,788)</u>	<u>(153,532)</u>
INCREASE (DECREASE) IN CASH FLOW	1,381,766	(3,154,097)
Cash (deficiency) - beginning of year	<u>(538,281)</u>	<u>2,615,816</u>
CASH (DEFICIENCY) - END OF YEAR	<u>843,485</u>	<u>(538,281)</u>
CASH CONSISTS OF:		
Cash	\$ 844,781	\$ 156,719
Bank indebtedness	<u>(1,296)</u>	<u>(695,000)</u>
	<u>\$ 843,485</u>	<u>\$ (538,281)</u>

TOWN OF TWO HILLS
Schedule of changes in Accumulated Surplus
Year Ended December 31, 2017

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2017	2016
BALANCE, BEGINNING OF YEAR	\$ 1,180	\$ 810,971	\$ 12,335,052	\$ 13,147,203	\$ 9,910,273
Excess (deficiency) of revenue over expenses	524,133	-	-	524,133	3,236,930
Funds designated for future use	(32,577)	32,577	-	-	-
Restricted funds used for operations	-	-	-	-	-
Restricted funds used for tangible capital assets	-	(33,798)	33,798	-	-
Current year funds used for TCA	(798,492)	-	798,492	-	-
Disposal of TCA	-	-	-	-	-
Annual amortization expense	563,255	-	(563,255)	-	-
Long term debt repaid	(143,233)	-	143,233	-	-
Change in accumulated surplus	113,086	(1,221)	412,268	524,133	3,236,930
BALANCE, END OF YEAR	\$ 114,266	\$ 809,750	\$ 12,747,320	\$ 13,671,336	\$ 13,147,203

TOWN OF TWO HILLS

Consolidated Schedule of Tangible Capital Assets

Year Ended December 31, 2017

	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2017	2016
COST:								
BALANCE, BEGINNING OF THE YEAR	\$ 97,580	\$ 179,544	\$ 8,009,855	\$ 15,178,180	\$ 1,688,958	\$ 227,205	\$ 25,381,322	\$ 21,383,391
Acquisition of tangible capital assets	-	-	229,599	573,042	29,648	-	832,289	3,997,930
Construction in progress	-	-	-	-	-	-	-	-
BALANCE, END OF YEAR	\$ 97,580	\$ 179,544	\$ 8,239,454	\$ 15,751,222	\$ 1,718,606	\$ 227,205	\$ 26,213,611	\$ 25,381,321
ACCUMULATED AMORTIZATION								
BALANCE, BEGINNING OF YEAR	\$ -	\$ 68,888	\$ 2,546,336	\$ 6,914,331	\$ 740,199	\$ 102,974	\$ 10,372,728	\$ 9,864,312
Annual amortization	-	9,957	159,457	267,128	110,856	15,857	563,255	508,416
BALANCE, END OF YEAR	-	78,845	2,705,793	7,181,459	851,055	118,831	10,935,983	10,372,728
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 100,699	\$ 5,533,661	\$ 8,569,763	\$ 867,551	\$ 108,374	\$ 15,277,628	\$ 15,008,593
2016 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 110,656	\$ 5,463,519	\$ 8,263,849	\$ 948,759	\$ 124,230	\$ 15,008,593	\$ -

TOWN OF TWO HILLS
Consolidated Schedule of Property and Other Taxes
Year Ended December 31, 2017

	Budget	2017	2016
TAXATION			
Real property taxes	\$ 916,575	\$ 916,620	\$ 936,546
Business taxes	312,680	312,680	302,434
Linear property taxes	64,475	65,475	71,709
Federal grants in place of property taxes	15,177	15,177	15,978
Provincial grants in place of property taxes	2,413	2,413	2,517
Machinery and equipment	800	780	813
Farm land	93	93	93
Total Taxes and Grant in Lieu	1,312,213	1,313,238	1,330,090
REQUISITIONS			
Alberta School Foundation Fund	224,058	224,058	220,730
Eagle Hill Foundation	47,178	47,178	46,192
	271,236	271,236	266,922
	271,236	271,236	266,922
NET MUNICIPAL TAXES	\$ 1,040,977	\$ 1,042,002	\$ 1,063,168

TOWN OF TWO HILLS
Consolidated Schedule of Government Transfers
Year Ended December 31, 2017

	Budget	2017	2016
TRANSFERS FOR OPERATING			
Provincial Government	\$ 140,000	\$ 310,555	\$ 206,921
Federal Government	8,850	7,115	11,852
Other Local Government	12,000	10,450	5,478
	<u>160,850</u>	<u>328,120</u>	<u>224,251</u>
TRANSFERS FOR CAPITAL			
Provincial Government	368,345	310,785	1,442,544
Other Local Government	150,000	87,211	831,778
Federal Government	275,431	200,280	-
	<u>793,776</u>	<u>598,276</u>	<u>2,274,322</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 954,626</u>	<u>\$ 926,396</u>	<u>\$ 2,498,573</u>

TOWN OF TWO HILLS
Schedule of Consolidated Expenses by Object
Year Ended December 31, 2017

	Budget	2017	2016
EXPENDITURES BY OBJECT			
Salaries, wages, and benefits	\$ 791,100	\$ 655,545	\$ 719,427
Contracted and general services	528,700	669,964	634,886
Purchases from other governments	130,000	122,570	121,589
Materials, goods, supplies and utilities	687,900	641,828	676,533
Provision for allowances	-	52,945	58,278
Transfers to Individuals and organizations	130,400	154,776	323,746
Bank charges and short term interest	3,000	10,855	8,394
Interest on capital long term debt	112,300	112,081	126,470
Amortization of tangible capital assets	550,600	563,255	508,416
TOTAL EXPENDITURES	\$ 2,934,000	\$ 2,983,819	\$ 3,177,739

TOWN OF TWO HILLS
Consolidated Schedule of Segmented Disclosure
Year Ended December 31, 2017

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environment Services	Other	2017
Revenue								
Net municipal taxes	\$ 1,042,003	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,042,003
Local improvements	-	-	-	-	-	140,709	-	140,709
Sales to other governments	-	-	-	-	-	-	-	-
User fees and sale of goods	94,811	13,455	85,429	19,975	16,401	786,088	-	1,016,159
Penalties and costs	70,620	-	-	-	-	21,602	-	92,222
Licence and permits	5,375	655	-	-	-	-	-	6,030
Franchise and concession contracts	125,813	-	-	-	-	-	-	125,813
Investments income	2,777	-	-	-	1,554	-	-	4,331
Rentals	18,370	-	-	-	-	-	-	18,370
Insurance proceeds	-	-	-	-	-	-	-	-
Federal government conditional transfers	7,115	-	-	-	77,045	123,235	-	207,395
Provincial gov't conditional transfers	10,450	5,000	163,831	-	128,987	245,776	77,746	631,790
Local government transfers	-	-	38,500	16,289	48,862	-	-	103,651
Other revenue	4,587	-	-	-	114,894	-	-	119,481
	\$ 1,381,921	\$ 19,110	\$ 287,760	\$ 36,264	\$ 387,743	\$ 1,317,410	\$ 77,746	\$ 3,507,954
EXPENSES								
Salaries and wages	\$ 398,383	\$ 1,800	\$ 152,214	\$ -	\$ 41,346	\$ 61,802	\$ -	\$ 655,545
Contracted and general services	144,165	31,949	34,403	-	129,165	329,622	660	669,964
Purchases from other governments	-	-	-	3,000	-	119,570	-	122,570
Goods and supplies	50,085	15,614	336,647	42,074	104,798	92,610	-	641,828
Provision for allowances	52,945	-	-	-	-	-	-	52,945
Transfers to local boards	2,150	-	-	-	61,475	-	91,151	154,776
Bank charges and short term interest	10,857	-	-	-	-	-	-	10,857
Long term debt interest	-	-	1,304	12,375	7,268	91,134	-	112,081
	658,585	49,363	524,568	57,449	344,052	694,738	91,811	2,420,566
NET REVENUE BEFORE AMORTIZATION	\$ 723,336	\$ (30,253)	\$ (236,808)	\$ (21,185)	\$ 43,691	\$ 622,672	\$ (14,065)	\$ 1,087,388
Amortization expense	\$ 17,096	\$ 1,391	\$ 203,747	\$ -	\$ 165,838	\$ 175,183	\$ -	\$ 563,255
NET REVENUE	\$ 706,240	\$ (31,644)	\$ (440,555)	\$ (21,185)	\$ (122,147)	\$ 447,489	\$ (14,065)	\$ 524,133

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

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 Consolidated Financial Statements
Year Ended December 31, 2017

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.

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TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

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>2017</u>	<u>2016</u>
Cash	\$ 844,781	\$ 156,718
Line of credit	(1,296)	(695,000)
	<u>\$ 843,485</u>	<u>\$ (538,282)</u>

As of April 24 2017 the line of credit had been fully paid.

Council has designated funds of \$809,751 (2016 - \$810,972) included in the above amounts for reserves.

Included in cash are a restricted amounts of \$109,740 (2016 - \$109,740) of the funds held in trust.

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2017</u>	<u>2016</u>
Current Taxes and Grants in Lieu	\$ 250,355	\$ 219,055
Arrears Taxes	109,922	81,071
	<u>\$ 360,277</u>	<u>\$ 300,126</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2017</u>	<u>2016</u>
Trade and other Receivables	\$ 330,289	\$ 1,266,750
Requisition Under-Levi	15,419	5,407
Less: Allowance for Doubtful Accounts	<u>(196,568)</u>	<u>(143,622)</u>
	<u>\$ 149,140</u>	<u>\$ 1,128,535</u>

5. DEPOSIT LIABILITIES

	<u>2017</u>	<u>2016</u>
Prepaid Taxes and Utilities	\$ 26,600	\$ 13,479
Land option deposit	19,760	19,760
Water deposits	17,365	17,504
Hall deposits	4,260	3,064
Garbage Deposits	1,356	1,356
	<u>\$ 69,341</u>	<u>\$ 55,163</u>

6. FUNDS HELD IN TRUST

	<u>2017</u>	<u>2016</u>
Tax Sales surplus	\$ 109,740	\$ 109,740

7. DEFERRED REVENUE

	<u>2017</u>	<u>2016</u>
Provincial Capital Grants	\$ 247,868	\$ 190,309
Local Government Capital Grants	195,638	133,000
Federal Capital Grants	<u>120,880</u>	<u>45,834</u>
	<u>\$ 564,386</u>	<u>\$ 369,143</u>

The use of provincial capital grant funds are restricted to eligible capital projects. The use of provincial operating grant funds are restricted to eligible operating projects. This deferred revenue is not completely supported by cash and temporary investments.

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

8. LONG TERM DEBT

	<u>2017</u>	<u>2016</u>
Alberta Capital Finance Authority - 4000762 loan bearing interest at 3.494% per annum, repayable in semi-annual blended payments of \$19,692. The loan matures on September 15, 2019.	\$ 75,447	\$ 111,254
ATB Financial loan bearing interest at 2.45% per annum, repayable in monthly blended payments of \$2,060. The loan matures on August 15, 2019.	37,144	60,560
Alberta Capital Finance Authority - 4001581 loan bearing interest at 3.866% per annum, repayable in semi-annual blended payments of \$22,694. The loan matured on December 16, 2033.	537,808	561,708
Alberta Capital Finance Authority - 4001161 loan bearing interest at 3.904% per annum, repayable in semi-annual blended payments of \$12,420. The loan matures on June 15, 2031	258,728	273,045
Alberta Capital Finance Authority - 4001162 loan bearing interest at 4.157% per annum, repayable in semi-annual blended payments of \$43,536. The loan matured on June 15, 2041.	1,298,092	1,330,198
Alberta Capital Finance Authority - 4001939 loan bearing interest at 2.831% per annum, repayable in semi-annual blended payments of \$24,685. The loan matured on December 15, 2035.	692,518	721,663
	2,899,737	3,058,428
Amounts payable within one year	(164,028)	(158,777)
	\$ 2,735,709	\$ 2,899,651

Principal repayment terms are approximately:

2018	\$ 164,208
2019	158,411
2020	110,923
2021	115,033
2022	119,299
Thereafter	2,231,863
	<u>\$ 2,899,737</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% (2015 - 3.97%). Debenture debt is issued on the credit and security of the Town of Two Hills.

Bank loan is payable in monthly installments of \$2,060 including principle and interest at 2.45% due August 2019. The bank loan is secured by a general assignment of property taxes receivable.

(continues)

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

8. LONG TERM DEBT (continued)

Interest on long term debt amounted to \$126,469 (2015 - \$100,748) The Town's total cash payments for interest in 2016 were \$117,333 (2015- \$103,292)

9. 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>2017</u>	<u>2016</u>
Total Debt Limit	\$ 4,364,376	\$ 6,210,591
Total Debt	<u>(2,901,033)</u>	<u>(3,753,428)</u>
	\$ 1,463,343	\$ 2,457,163
Service on Debt Limit	\$ 727,396	\$ 1,035,087
Service on Debt	<u>(270,775)</u>	<u>(270,775)</u>
	\$ 456,621	\$ 764,312

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>2017</u>	<u>2016</u>
Tangible Capital Assets (Schedule 2)	\$ 26,213,610	\$ 25,381,321
Accumulated Amortization (Schedule 2)	<u>(10,935,982)</u>	<u>(10,372,728)</u>
Capital Long term debt	<u>(2,530,308)</u>	<u>(2,673,541)</u>
	\$ 12,747,320	\$ 12,335,052

11. ACCUMULATED SURPLUS

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

	<u>2017</u>	<u>2016</u>
Unrestricted Surplus (Deficit)	\$ 114,266	\$ 1,180
Restricted Surplus	809,750	810,971
Equity in Tangible Capital Assets	<u>12,747,320</u>	<u>12,335,052</u>
	\$ 13,671,336	\$ 13,147,203

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

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:

	Salary	Benefits & Allowances	2017	2016
<u>Mayor</u>				
Romaniuk	\$ 8,775	\$ 2,500	\$ 11,275	\$ 7,525
Ewanishan	3,275	-	3,275	-
Neufeld	-	-	-	8,925
	12,050	2,500	14,550	16,450
<u>Councillors</u>				
Babiuk	11,500	2,500	14,000	18,050
Gray	9,900	2,500	12,400	15,525
Rajoo	10,075	2,500	12,575	18,575
Saskiw	9,650	2,500	12,150	13,650
Tupechka	2,925	-	2,925	-
Sorochan	2,800	-	2,800	-
Tarkowski	2,475	-	2,475	-
	49,325	10,000	59,325	65,800
<u>Town Manager</u>				
Elsie	106,570	11,923	118,493	116,827
Total	\$ 167,945	\$ 24,423	\$ 192,368	\$ 199,077

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.

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)

TOWN OF TWO HILLS
Notes to Consolidated Financial Statements
Year Ended December 31, 2017

14. OBLIGATIONS UNDER CAPITAL LEASE

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.

Total minimum lease payments	<u>\$ 3,445</u>
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15. LOCAL AUTHORITIES PENSION PLAN

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

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

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

Total current service contributions by the Town to the LAPP in 2017 were \$47,508 (2016 - \$48,818). Total current service contributions by the employees of the Town to the LAPP in 2017 were \$43,610 (2016 - \$44,776).

At December 31, 2016, the LAPP disclosed an actuarial deficiency of \$2.4 billion.

16. CONTINGENCIES

The Town of Two Hills is a member of the Alberta Municipal Insurance Exchange(MUNIX). Under the terms of membership, the Town of Two Hills could become liable for its proportionate share of any claim losses in excess of the funds held by the exchange. Any liability incurred would be accounted for as a current transaction in the year the losses are determined.

17. FINANCIAL INSTRUMENTS

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

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

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

18. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and Management.