

TOWN OF TWO HILLS
Financial Statements
Year Ended December 31, 2016

TOWN OF TWO HILLS
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Year Ended December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council of the Town of Two Hills

I have audited the accompanying financial statements of the Town of Two Hills, which comprise the statement of financial position as at December 31, 2016 and December 31, 2015 and the statements of operations and accumulated surplus and cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Town of Two Hills as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

The financial statements for the year ended December 31, 2015 were audited by another accounting firm and are presented for comparative purposes only.

M. Nelson Ncube Professional Corporation

Two Hills, Alberta
April 25, 2017

CHARTERED PROFESSIONAL ACCOUNTANT

TOWN OF TWO HILLS
Statement of Financial Position
December 31, 2016

	2016	2015
FINANCIAL ASSETS		
Cash (Note 2)	\$ 156,719	\$ 2,615,816
Tax and grants in place of taxes (Note 3)	300,126	194,875
Trade and other receivable (Note 4)	1,128,535	157,576
Receivable from other governments	889,392	866,538
Land for resale inventory	64,377	64,377
Long term Investments	5,462	5,373
TOTAL FINANCIAL ASSETS	2,544,607	3,904,545
LIABILITIES		
Bank indebtedness (Note 2)	695,000	-
Accounts payable	153,314	130,167
Current portion of long term debt (Note 8)	158,777	153,442
Deposit liabilities (Note 5)	55,163	67,570
Funds held in trust (Note 6)	109,740	134,147
Deferred income (Note 7)	369,143	2,011,287
Long term debt (Note 8)	2,899,651	3,058,429
TOTAL LIABILITIES	4,440,788	5,555,042
NET FINANCIAL DEBT	(1,896,181)	(1,650,497)
NON-FINANCIAL ASSETS		
Prepaid expenses	-	7,058
Inventory for consumption	34,789	34,627
Tangible capital assets	15,008,593	11,519,079
	15,043,382	11,560,764
ACCUMULATED SURPLUS	\$ 13,147,203	\$ 9,910,273

ON BEHALF OF COUNCIL

 Mayor

 Administrator

TOWN OF TWO HILLS**Statement of Operations and Accumulated Surplus****Year Ended December 31, 2016**

	Budget	2016	2015
REVENUES			
Net municipal taxes	\$ 1,003,214	\$ 1,063,168	\$ 1,063,677
User fees and sales of goods	974,558	983,919	1,106,687
Insurance proceeds	2,351,550	1,497,277	322,058
Local improvements	89,000	127,960	89,828
Concession and franchise	155,000	121,412	120,692
Government transfers for operating	212,995	219,273	216,954
Penalties and costs of taxes	30,000	68,718	45,104
Rentals	17,564	21,698	22,599
Local government transfers	12,000	16,137	29,525
Investment income	4,600	13,780	30,138
License and permits	6,000	6,355	7,244
Other	1,750	650	27,304
Sales to other government	-	-	9,494
Total Revenue	4,858,231	4,140,347	3,091,304
EXPENSES			
Legislative	99,600	101,145	102,028
Bylaws enforcement	10,700	1,860	17,016
Administration	518,654	555,463	547,287
Fire	37,360	43,077	36,551
Water supply and distribution	518,448	567,853	634,584
Disaster services	10,117	6,769	6,540
Roads, streets, walks, lighting	844,965	803,944	754,077
Storm sewer	27,000	19,654	23,322
Curling rink operation	20,050	167,032	1,277
Sanitary sewer	161,809	122,161	98,800
Garbage collection	135,600	134,304	138,197
Family and community services	91,786	86,637	84,465
Community services	48,333	283,320	279,997
Subdivision land	15,000	-	4,940
Hall operations	61,174	88,366	65,936
Parks and recreation	47,820	90,918	59,893
Arena operations	49,370	64,972	80,287
Library	38,179	40,264	35,295
	2,735,965	3,177,739	2,970,492
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	2,122,266	962,608	120,812
OTHER INCOME			
Government transfers for Capital	649,900	2,274,322	1,492,277
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	2,772,166	3,236,930	1,613,089
ACCUMULATED SURPLUS - BEGINNING OF YEAR			
	9,910,273	9,910,273	8,297,184
ACCUMULATED SURPLUS - END OF YEAR	\$ 12,682,439	\$ 13,147,203	\$ 9,910,273

TOWN OF TWO HILLS**Consolidated Statement of Changes in Net Financial Assets (Debt)****Year Ended December 31, 2016**

	2016	2015
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ 3,236,930	\$ 1,613,089
Acquisition of tangible capital assets	(3,997,930)	(2,647,959)
Increase in inventory valuation	(164)	(3,958)
Decrease in prepaid assets	7,058	3,599
Amortization of tangible capital assets	508,416	411,259
Capitalized interest	-	-
Capitalized overhead	-	-
	(3,482,620)	(2,237,059)
DECREASE IN NET FINANCIAL ASSETS	(245,690)	(623,970)
NET FINANCIAL DEBT - BEGINNING OF YEAR	(1,650,491)	(1,026,521)
NET FINANCIAL DEBT - END OF YEAR	\$ (1,896,181)	\$ (1,650,491)

TOWN OF TWO HILLS
Statement of Cash Flows
Year Ended December 31, 2016

	2016	2015
OPERATING ACTIVITIES		
Excess (shortfall) of revenues over expenses	\$ 3,236,930	\$ 1,613,089
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	508,416	411,259
	<u>3,745,346</u>	<u>2,024,348</u>
Changes in non-cash working capital:		
Decrease (increase) in trade and other receivables	(970,962)	123,254
Decrease (increase) in taxes and grants in lieu receivables	(105,251)	(99,574)
Decrease (increase) in land for resale inventory	-	4,941
Decrease (increase) in inventory for consumption	(162)	(3,958)
Decrease (increase) in accounts payable and accrued liabilities	23,147	(54,753)
Decrease (increase) in deposit liabilities	(4,846)	15,957
Decrease (increase) in prepaid expenses	7,058	3,599
Decrease (increase) in receivable other governments	(22,854)	(334,750)
Decrease (increase) in deferred revenue	(1,674,111)	901,034
	<u>(2,747,981)</u>	<u>555,750</u>
Cash provided by operating transactions	<u>997,365</u>	<u>2,580,098</u>
CAPITAL		
Acquisition of tangible capital assets	<u>(3,997,930)</u>	<u>(2,647,959)</u>
Cash flow used by capital	<u>(3,997,930)</u>	<u>(2,647,959)</u>
INVESTING ACTIVITIES		
Decrease (increase) in investments	(90)	191
Long-term debt issued	-	750,000
Long-term debt repaid	(153,442)	(120,656)
Cash flow from (used by) investing activities	<u>(153,532)</u>	<u>629,535</u>
INCREASE (DECREASE) IN CASH FLOW	<u>(3,154,097)</u>	<u>561,674</u>
Cash - beginning of year	<u>2,615,816</u>	<u>2,054,145</u>
CASH (DEFICIENCY) - END OF YEAR	<u>(538,281)</u>	<u>2,615,819</u>
CASH CONSISTS OF:		
Cash	\$ 156,719	\$ 2,615,816
Bank indebtedness	(695,000)	-
	<u>\$ (538,281)</u>	<u>\$ 2,615,816</u>

TOWN OF TWO HILLS

Schedule of changes in Accumulated Surplus
Year Ended December 31, 2016

(Schedule 1)

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2016	2015
BALANCE, BEGINNING OF YEAR	\$ (191,404)	\$ 1,394,470	\$ 8,707,207	\$ 9,910,273	\$ 8,297,184
Excess (deficiency) of revenue over expenses	3,236,930	-	-	3,236,930	1,613,089
Funds designated for future use	-	-	-	-	-
Restricted funds used for operations	216,250	(216,250)	-	-	-
Restricted funds used for tangible capital assets	-	(367,249)	367,249	-	-
Current year funds used for TCA	(3,615,570)	-	3,615,570	-	-
Disposal of TCA	-	-	-	-	-
Annual amortization expense	508,416	-	(508,416)	-	-
Long term debt repaid	(153,442)	-	153,442	-	-
Change in accumulated surplus	192,584	(583,499)	3,627,845	3,236,930	1,613,089
BALANCE, END OF YEAR	\$ 1,180	\$ 810,971	\$ 12,335,052	\$ 13,147,203	\$ 9,910,273

TOWN OF TWO HILLS

**Schedule of Tangible Capital Assets
Year Ended December 31, 2016**

(Schedule 2)

	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2016	2015
COST:								
BALANCE, BEGINNING OF THE YEAR	\$ 97,580	\$ 168,404	\$ 4,369,286	\$ 14,935,694	\$ 1,595,743	\$ 216,684	\$ 21,383,391	\$ 18,735,432
Acquisition of tangible capital assets	-	11,140	3,640,569	242,486	93,215	10,520	3,997,930	1,110,695
Construction in progress	-	-	-	-	-	-	-	1,537,264
BALANCE, END OF YEAR	\$ 97,580	\$ 179,544	\$ 8,009,855	\$ 15,178,180	\$ 1,688,958	\$ 227,204	\$ 25,381,321	\$ 21,383,391
ACCUMULATED AMORTIZATION								
BALANCE, BEGINNING OF YEAR	\$ -	\$ 59,208	\$ 2,425,582	\$ 6,656,195	\$ 635,684	\$ 87,643	\$ 9,864,312	\$ 9,453,053
Annual amortization	-	9,680	120,754	258,136	104,515	15,331	508,416	411,259
BALANCE, END OF YEAR	-	68,888	2,546,336	6,914,331	740,199	102,974	10,372,728	9,864,312
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 110,656	\$ 5,463,519	\$ 8,263,849	\$ 948,759	\$ 124,230	\$ 15,008,593	\$ 11,519,079
2015 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ 97,580	\$ 109,196	\$ 1,943,704	\$ 8,279,499	\$ 960,059	\$ 129,041	\$ 11,519,079	\$ -

TOWN OF TWO HILLS**Schedule of Property and Other Taxes****(Schedule 3)****Year Ended December 31, 2016**

	Budget	2016	2015
TAXATION			
Real property taxes	\$ -	\$ 936,546	\$ 918,705
Business taxes	-	302,434	301,696
Linear property taxes	-	71,709	73,248
Federal grants in place of property taxes	-	15,978	15,903
Provincial grants in place of property taxes	-	2,517	2,538
Machinery and equipment	-	813	814
Farm land	-	93	93
Total Taxes and Grant in Lieu	1,289,546	1,330,090	1,312,997
REQUISITIONS			
Alberta School Foundation Fund	220,730	220,730	209,739
Eagle Hill Foundation	65,602	46,192	39,581
	286,332	266,922	249,320
	286,332	266,922	249,320
NET MUNICIPAL TAXES	\$ 1,003,214	\$ 1,063,168	\$ 1,063,677

TOWN OF TWO HILLS**Schedule of Government Transfers****(Schedule 4)****Year Ended December 31, 2016**

	Budget	2016	2015
TRANSFERS FOR OPERATING			
Provincial Government	\$ 206,921	\$ 206,921	\$ 212,422
Federal Government	6,810	11,852	3,795
Other Local Government	12,750	5,478	30,262
	<u>226,481</u>	<u>224,251</u>	<u>246,479</u>
TRANSFERS FOR CAPITAL			
Provincial Government	201,600	1,442,544	1,133,953
Other Local Government	448,300	831,778	358,324
	<u>649,900</u>	<u>2,274,322</u>	<u>1,492,277</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 876,381</u>	<u>\$ 2,498,573</u>	<u>\$ 1,738,756</u>

TOWN OF TWO HILLS**Schedule of Consolidated Expenses by Object
Year Ended December 31, 2016****(Schedule 5)**

	Budget	2016	2015
EXPENDITURES BY OBJECT			
Salaries, wages, and benefits	\$ 781,313	\$ 719,427	\$ 726,930
Contracted and general services	582,909	634,886	713,410
Purchases from other governments	130,847	121,589	122,439
Materials, goods, supplies and utilities	648,193	676,533	515,601
Provision for allowances	-	58,278	44,171
Transfers to Individuals and organizations	128,399	323,746	333,390
Bank charges and short term interest	4,800	8,394	2,544
Interest on capital long term debt	115,539	126,470	100,748
Amortization of tangible capital assets	343,965	508,416	411,259
TOTAL EXPENDITURES	\$ 2,735,965	\$ 3,177,739	\$ 2,970,492

TOWN OF TWO HILLS

**Schedule of Segmented Disclosure
Year Ended December 31, 2016**

(Schedule 6)

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environment Services	Other	2016
Revenue								
Net municipal taxes	\$ 1,063,169	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,063,169
Local improvements	-	-	-	-	-	126,880	-	126,880
Sales to other governments	39,507	26,179	71,014	30,646	16,786	801,002	-	985,134
User fees and sale of goods	52,548	-	-	-	-	16,171	-	68,719
Penalties and costs	5,775	580	-	-	-	-	-	6,355
Licence and permits	121,412	-	-	-	-	-	-	121,412
Franchise and concession contracts	4,650	-	-	-	9,039	-	-	13,689
Investments income	21,698	-	-	-	-	-	-	21,698
Rentals	-	-	-	-	1,497,277	-	-	1,497,277
Insurance proceeds	11,582	-	-	-	64,778	-	-	76,360
Federal government conditional transfers	500	-	363,114	-	1,100,000	113,431	72,921	1,649,966
Provincial gov't conditional transfers	-	-	-	545	767,000	-	4,824	772,369
Local government transfers	650	-	-	-	10,992	-	-	11,642
Other revenue								
	\$ 1,321,491	\$ 26,759	\$ 434,128	\$ 31,191	\$ 3,465,872	\$ 1,057,484	\$ 77,745	\$ 6,414,670
EXPENSES								
Salaries and wages	\$ 396,265	\$ -	\$ 241,712	\$ -	\$ 51,387	\$ 30,063	\$ -	\$ 719,427
Contracted and general services	131,901	32,273	34,593	-	112,624	323,010	485	634,886
Purchases from other governments	-	-	-	3,000	-	118,589	-	121,589
Goods and supplies	49,640	17,892	329,223	50,979	138,248	95,551	(5,000)	676,533
Provision for allowances	52,661	-	-	3,000	-	2,615	-	58,276
Transfers to local boards	700	-	-	214,647	17,247	-	91,152	323,746
Bank charges and short term interest	8,397	-	-	-	-	-	-	8,397
Long term debt interest	-	-	1,793	11,695	10,232	102,750	-	126,470
	639,564	50,165	607,321	283,321	329,738	672,578	86,637	2,669,324
NET REVENUE BEFORE AMORTIZATION	\$ 681,927	\$ (23,406)	\$ (173,193)	\$ (252,130)	\$ 3,136,134	\$ 384,906	\$ (8,892)	\$ 3,745,346
Amortization expense	\$ 16,795	\$ 1,391	\$ 196,621	\$ -	\$ 121,807	\$ 171,802	\$ -	\$ 508,416
NET REVENUE	\$ 665,132	\$ (24,797)	\$ (369,814)	\$ (252,130)	\$ 3,014,327	\$ 213,104	\$ (8,892)	\$ 3,236,930

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Two Hills are the representations of management prepared in accordance Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Chartered Professional Accounts of Canada. Significant aspects of these accounting policies adopted by the Town of Two Hills are as follows:

Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenue and expenditures, and changes in fund balances and in financial position of the reporting entity. This entity is comprised of the municipal operations plus all the organizations that are owned or controlled by the municipality and are, accountable to the town Council for the administration of their financial affairs and resources.

The schedule of taxes levied also includes requisitions for education, health, social and other external organizations that are not part of the municipal reporting entity.

The statements exclude trust assets that are administered for the benefit of external parties. Interdepartmental and organizational transactions and balances are eliminated.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenues as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or legal obligation to pay. Funds from external parties and earnings there on restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may be only used for certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period that the related expenses are incurred, services performed or the tangible capital assets are acquired.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Investments

Investments are recorded at amortized cost. Investment premiums and discounts are amortized on the net present value basis over the term of the respective investment. When there has been a loss in the value that is other than a temporary decline, the respective investment is written down to recognize the loss.

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TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2016

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 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.

Tax Revenue

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

Requisitions operate as a flow through and are excluded from municipal revenue.

Government Transfers

Government transfers are the transfers of assets from senior levels of government that are not the result of exchange transactions, are not expected to be repaid in the future, or the result of a direct financial return.

Government transfers are recognized in the financial statements as revenue in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be determined.

Non-Financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not indented for sale in the normal course of operations. The change in non-financial assets during the year, together with excess of revenues over expenses, provided the consolidated Change in Net Financial Assets (Debt) for the year.

(continues)

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2016

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
Waterwater 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

	2016	2015
Section heading		
Cash	\$ 156,718	\$ 2,615,816
Line of credit	(695,000)	-
	<u>\$ (538,282)</u>	<u>\$ 2,615,816</u>

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

Council has designated funds of \$810,972 (2015 - \$1,394,470) included in the above amounts for reserves.

Included in cash are a restricted amounts of \$109,740 (2015 - \$134,147) of the funds held in trust and \$0 (2015 - \$2,011,287) received from various sources which are held exclusively for approved Projects.

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2016

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2016</u>	<u>2015</u>
Current Taxes and Grants in Lieu	\$ 219,055	\$ 153,837
Arrears Taxes	81,071	41,038
	<u>\$ 300,126</u>	<u>\$ 194,875</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2016</u>	<u>2015</u>
Trade and other Receivables	\$ 252,559	\$ 223,059
Requisition Under-Levi	5,407	23,014
Less: Allowance for Doubtful Accounts	<u>(143,622)</u>	<u>(88,500)</u>
Subtotal	114,344	157,573
Insurance Proceeds Receivable	<u>1,014,191</u>	<u>-</u>
	<u>\$ 1,128,535</u>	<u>\$ 157,573</u>

5. DEPOSIT LIABILITIES

	<u>2016</u>	<u>2015</u>
Prepaid Taxes and Utilities	\$ 13,479	\$ 27,011
Land option deposit	19,760	19,760
Water deposits	17,504	17,704
Hall deposits	3,064	1,739
Garbage Deposits	<u>1,356</u>	<u>1,356</u>
	<u>\$ 55,163</u>	<u>\$ 67,570</u>

6. FUNDS HELD IN TRUST

	<u>2016</u>	<u>2015</u>
Tax Sales surplus	\$ 109,740	\$ 134,147

7. DEFERRED REVENUE

	<u>2016</u>	<u>2015</u>
Provincial Capital Grants	\$ 190,309	\$ 1,227,825
Local Government Capital Grants	133,000	750,000
Federal Capital Grants	<u>45,834</u>	<u>33,462</u>
	<u>\$ 369,143</u>	<u>\$ 2,011,287</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 Financial Statements

Year Ended December 31, 2016

8. LONG TERM DEBT

	2016	2015
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 .	\$ 111,254	\$ 145,843
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.	60,560	83,487
Alberta Capital Finance Authority - 4001581 loan bearing interest at 3.866% per annum, repayable in monthly blended payments of \$22,694. The loan matured on December 16, 2033.	561,708	584,711
Alberta Capital Finance Authority - 4001161 loan bearing interest at 3.904% per annum, repayable in monthly blended payments of \$12,420. The loan matures on June 15, 2031	273,045	286,820
Alberta Capital Finance Authority - 4001162 loan bearing interest at 4.157% per annum, repayable in monthly blended payments of \$43,536. The loan matured on June 15, 2041.	1,330,198	1,361,010
Alberta Capital Finance Authority - 4001939 loan bearing interest at 2.831% per annum, repayable in monthly blended payments of \$24,685. The loan matured on December 15, 2035.	721,663	750,000
	3,058,428	3,211,871
Amounts payable within one year	(158,777)	(153,442)
	<u>\$ 2,899,651</u>	<u>\$ 3,058,429</u>

Principal repayment terms are approximately:

2017	\$ 158,777
2018	164,208
2019	158,411
2020	110,923
2021	115,033
Thereafter	2,351,076
	<u>\$ 3,058,428</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 instalments 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.

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)

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2016

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>2016</u>	<u>2015</u>
Total Debt Limit	\$ 6,210,591	\$ 4,636,956
Total Debt	<u>3,753,428</u>	<u>3,211,872</u>
	<u>\$ 2,457,091</u>	<u>\$ 1,425,084</u>
Service on Debt Limit	\$ 1,035,087	\$ 772,826
Service on Debt	<u>270,775</u>	<u>270,775</u>
	<u>\$ 764,312</u>	<u>\$ 502,051</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>2016</u>	<u>2015</u>
Section heading		
Tangible Capital Assets (Schedule 2)	\$ 25,381,321	\$ 21,383,391
Accumulated Amortization (Schedule 2)	<u>(10,372,728)</u>	<u>(9,864,312)</u>
Capital Long term debt	<u>(2,673,541)</u>	<u>(2,811,872)</u>
	<u>\$ 12,335,052</u>	<u>\$ 8,707,207</u>

11. ACCUMULATED SURPLUS

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

	<u>2016</u>	<u>2015</u>
Unrestricted Surplus (Deficit)	\$ (988,293)	\$ (191,404)
Restricted Surplus	<u>781,254</u>	<u>1,394,470</u>
Equity in Tangible Capital Assets	<u>12,335,052</u>	<u>8,707,207</u>
	<u>\$ 12,128,013</u>	<u>\$ 9,910,273</u>

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:

(continues)

TOWN OF TWO HILLS
Notes to Financial Statements
Year Ended December 31, 2016

12. SALARY & BENEFITS DISCLOSURE (continued)

	Salary	Benefits & Allowances	2016	2015
	Salary	Benefits & Allowances	2016	2015
<u>Mayor</u>				
Romaniuk	\$ 5,025	\$ 2,500	\$ 7,525	\$ -
Neufeld	6,425	2,500	8,925	18,822
	<u>11,450</u>	<u>5,000</u>	<u>16,450</u>	<u>18,822</u>
<u>Councillors</u>				
Babiuk	15,550	2,500	18,050	18,644
Gray	13,025	2,500	15,525	16,226
Rajoo	16,075	2,500	18,575	17,175
Saskiw	11,150	2,500	13,650	13,422
	<u>55,800</u>	<u>10,000</u>	<u>65,800</u>	<u>65,467</u>
<u>Town Manager</u>				
Elsie	94,483	22,344	116,827	120,221
Total	\$ 161,733	\$ 37,344	\$ 199,077	\$ 204,510

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 Financial Statements
Year Ended December 31, 2016

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.

2017	\$	10,337
2018		<u>3,445</u>
Total minimum lease payments	\$	<u>13,782</u>

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 2016 were \$48,818 (2015 - \$52,340). Total current service contributions by the employees of the Town to the LAPP in 2016 were \$44,776 (2015 - \$48,002).

At December 31, 2015, 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.

