

TOWN OF TWO HILLS

FINANCIAL STATEMENTS

DECEMBER 31, 2014

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JOHN M. BEALE, CMA
CERTIFIED MANAGEMENT ACCOUNTANT

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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, 2014 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.

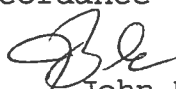
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement on the consolidated financial statements, 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, 2014, 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, 2015


John M. Beale, CMA
Certified Management Accountant

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2014

	<u>2014</u>	<u>2013</u>
<u>FINANCIAL ASSETS</u>		
Cash and temporary investments (Note 2)	\$ 2,106,709	\$ 1,325,422
Receivables		
Taxes and grants in place of taxes (Note 3)	95,300	134,238
Trade and Other Receivable (Note 4)	280,828	70,832
Receivable from Other Governments	531,787	549,257
Land for resale inventory	69,318	74,631
Investments Long Term	<u>5,564</u>	<u>5,665</u>
	<u>3,089,506</u>	<u>2,160,045</u>
 <u>LIABILITIES</u>		
Temporary Loans Payable	52,564	-
Accounts Payable and accrued liabilities	184,922	403,521
Deposit Liabilities (Note 5)	23,100	42,026
Funds Held in Trust (Note 6)	134,147	-
Deferred Revenue (Note 7)	1,138,766	996,342
Long Term Debt (Note 8)	<u>2,582,528</u>	<u>2,571,465</u>
	<u>4,116,027</u>	<u>4,013,354</u>
 <u>NET FINANCIAL ASSETS (DEBT)</u>	 <u>(1,026,521)</u>	 <u>(1,853,309)</u>
 <u>NON-FINANCIAL ASSETS</u>		
Tangible Capital Assets (Schedule 2)	9,282,379	9,300,124
Inventory for consumption	30,669	10,149
Prepaid Expenses	<u>10,657</u>	<u>4,074</u>
	<u>9,323,705</u>	<u>9,314,347</u>
 <u>ACCUMULATED SURPLUS</u> (Schedule 1)	 \$ <u>8,297,184</u>	 \$ <u>7,461,038</u>

Approved by Council:



 _____ Mayor



 _____ Administrator

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF OPERATIONSfor the year ended the December 31, 2014

	<u>Budget</u> <u>(unaudited)</u>	<u>2014</u>	<u>2013</u>
<u>REVENUES</u>			
Net Taxes Available for			
Municipal Purpose (Schedule 3)	\$ 1,004,326	\$ 1,073,214	\$ 945,995
Local Improvements	56,700	59,499	56,701
Sales to Other Governments	-	17,413	36,800
Sales and User Charges	1,003,485	958,345	846,058
Penalties and Costs	31,000	34,645	29,982
Licence & Permits	6,400	7,222	6,645
Concessions & Franchises	124,000	121,536	117,363
Return on Investments	1,050	4,372	1,172
Rentals	31,214	26,889	34,636
Insurance Proceeds	-	858,812	8,339
Gain on Sale of Capital Assets	-	-	4,000
Government transfers for Operating	209,318	214,603	331,454
Local Government Transfers	30,556	42,577	15,391
Other	4,344	7,181	2,167
	<u>2,502,393</u>	<u>3,426,308</u>	<u>2,436,703</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended the December 31, 2014

	<u>Budget</u> <u>(unaudited)</u>	<u>2014</u>	<u>2013</u>
<u>EXPENDITURES</u>			
Legislative	\$ 118,900	\$ 110,827	\$ 116,593
Administration	487,715	529,467	534,076
Fire	33,800	31,758	41,215
Disaster Services	6,839	6,412	5,480
By-Law Enforcement	11,500	14,760	11,061
Roads	765,833	732,792	727,066
Storm Sewers	22,000	19,654	19,654
Water Supply	600,735	810,889	700,912
Sanitary Sewer	225,216	165,340	87,880
Garbage Collection	135,700	134,139	136,875
Family & Community Services	76,979	77,159	76,969
Community Service	54,362	40,991	76,274
Subdivision Land	10,000	5,313	4,582
Hall Operations	63,300	73,362	86,083
Arena Operations	52,200	64,065	54,519
Curling Rink Operations	14,500	2,560	32,755
Parks	33,490	65,313	54,106
Library	33,156	33,726	51,267
	<u>2,746,225</u>	<u>2,918,527</u>	<u>2,817,367</u>
Excess (shortfall) of Revenue over Expenses - before other	(243,832)	507,781	(380,664)
 <u>OTHER</u>			
Government transfers for Capital	<u>2,077,267</u>	<u>328,365</u>	<u>588,205</u>
Excess (shortfall) of Revenue over Expenses	1,833,435	836,146	207,541
ACCUMULATED SURPLUS, beginning of year		<u>7,461,038</u>	<u>7,253,497</u>
ACCUMULATED SURPLUS, end of year		\$ <u>8,297,184</u>	\$ <u>7,461,038</u>

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)
for the year ended the December 31, 2014

	<u>2014</u>	<u>2013</u>
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ 836,146	\$ 207,541
Acquisition of tangible capital assets	(358,861)	(1,165,880)
Proceed on Sale of Tangible Capital Assets	-	16,500
Amortization of tangible capital assets	376,606	354,736
(Gain) Loss on sale of Tangible Capital Assets	-	(2,379)
	<u>853,891</u>	<u>(589,482)</u>
Change in Inventory valuation	(20,520)	(407)
Change in prepaid assets	<u>(6,583)</u>	<u>4,356</u>
	<u>(27,103)</u>	<u>3,949</u>
(INCREASE) DECREASE IN NET DEBT	826,788	(585,533)
NET FINANCIAL ASSETS (DEBT), Beginning of year	(<u>1,853,309</u>)	(<u>1,267,776</u>)
NET FINANCIAL ASSETS (DEBT), End of year	\$ (<u>1,026,521</u>)	\$ (<u>1,853,309</u>)

TOWN OF TWO HILLS
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended the December 31, 2014

	<u>2014</u>	<u>2013</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenue over expenditures\$	836,146	\$ 207,541
Non-cash items included:		
Amortization of tangible capital assets	376,606	354,736
(Gain) Loss on sale of assets	-	(2,379)
Non-cash charges to operations:		
Decrease (Increase) in Taxes/Grant in Lieu Receivable	38,938	25,639
Decrease (Increase) in Trade and Other Receivables	(209,996)	64,933
Decrease (Increase) in Receivable other Governments	17,470	(10,792)
Decrease (Increase) in Land for resale inventory	5,313	29,081
Decrease (Increase) in Inventory for consumption	(20,520)	(407)
Decrease (Increase) in Prepaid Expenses	(6,583)	4,356
Increase (Decrease) in Accounts Payable	(218,599)	84,390
Increase (Decrease) in Deposit Liabilities	(13,961)	14,338
Increase (Decrease) in Deferred Revenue	271,606	746,971
Cash provided by operating transactions	<u>1,076,420</u>	<u>1,518,407</u>
CAPITAL		
Acquisition of tangible capital assets	(358,861)	(1,165,880)
Disposal of tangible capital assets	-	16,500
	<u>(358,861)</u>	<u>(1,149,380)</u>
INVESTING		
Decrease (Increase) in investments	<u>101</u>	<u>107</u>
FINANCING		
Long-term debt issued	114,600	628,157
Long-term Debt repaid	<u>(103,537)</u>	<u>(70,676)</u>
Cash provided by financing transactions	<u>11,063</u>	<u>557,481</u>
CHANGE IN CASH AND EQUIVALENTS DURING YEAR	728,723	926,615
Net Cash and Cash Equivalents at Beginning of Year	<u>1,325,422</u>	<u>398,807</u>
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>2,054,145</u>	\$ <u>1,325,422</u>

TOWN OF TWO HILLS
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
For the Year Ended December 31, 2014
Schedule 1

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2014	2013
BALANCE, Beginning of Year	(92,962)	825,341	6,728,659	7,461,038	7,253,497
Excess (deficiency) of Revenue over Expenses	836,146	-	-	836,146	207,541
Funds Designated for future use	(865,253)	865,253	-		
Restricted funds used for operations	-	-	-	-	-
Restricted funds used for tangible capital assets	-	(5,313)	5,313	-	-
Current year funds used for tangible capital assets	(238,948)	-	238,948	-	-
Disposal of TCA	-	-	-	-	-
Annual amortization expense	376,606	-	(376,606)	-	-
Long term debt repaid	(103,537)	-	103,537	-	-
Change in accumulated surplus	5,014	859,940	(28,808)	836,146	207,541
BALANCE, End of Year	(87,948)	1,685,281	6,699,851	8,297,184	7,461,038

TOWN OF TWO HILLS
SCHEDULE OF TANGIBLE CAPITAL ASSETS
For the Year Ended December 31, 2014
Schedule 2

	Land	Land Improvements	Buildings	Engineered Structures	Machinery Equipment	Construction Vehicles in Process	2014	2013
COST:								
BALANCE, Beginning of Year	97,580	113,402	2,814,128	14,118,229	1,161,594	71,638	18,376,571	17,227,812
Acquisition of tangible capital assets	-	-	17,894	149,554	67,892	123,521	358,861	1,165,880
Disposal of tangible capital assets	-	-	-	-	-	-	-	(17,121)
BALANCE, End of Year	97,580	113,402	2,832,022	14,267,783	1,229,486	195,159	18,735,432	18,376,571

ACCUMULATED AMORTIZATION:								
BALANCE, Beginning of Year	-	44,530	2,318,851	6,167,388	478,241	67,437	9,076,447	8,724,711
Annual Amortization	-	6,651	53,288	239,005	71,486	6,176	376,606	354,736
Accumulated Amortization on disposals	-	-	-	-	-	-	-	(3,000)
BALANCE, End of Year	-	51,181	2,372,139	6,406,393	549,727	73,613	9,453,053	9,076,447

NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	97,580	62,221	459,883	7,861,390	679,759	121,546	9,282,379	9,300,124
2013 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS (restated)	97,580	68,872	495,277	7,950,841	683,353	4,201	9,300,124	

TOWN OF TWO HILLSSchedule of Property and Other Taxesfor the year ended the December 31, 2014Schedule 3

	<u>Budget</u> <u>(unaudited)</u>	<u>2014</u>	<u>2013</u>
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LEVIES FOR REVENUE

Residential		\$ 877,965	\$ 770,007
Non-Residential		318,509	300,347
Linear Property		85,186	82,110
Federal Grant in Lieu		16,886	15,990
Provincial Grant in Lieu		16,801	17,913
Machinery and Equipment		1,017	1,002
Farm Land		<u>86</u>	<u>86</u>
Total Taxes and Grant in Lieu	\$ <u>1,247,562</u>	\$ <u>1,316,450</u>	\$ <u>1,187,455</u>

REQUISITIONS

Alberta School Foundation Fund	207,824	207,824	208,461
Eagle Hill Foundation	<u>35,412</u>	<u>35,412</u>	<u>32,999</u>
	<u>243,236</u>	<u>243,236</u>	<u>241,460</u>
Net Taxes for Municipal Purposes	\$ <u>1,004,326</u>	\$ <u>1,073,214</u>	\$ <u>945,995</u>

TOWN OF TWO HILLSSchedule of Government Transfersfor the year ended the December 31, 2014Schedule 4

	Budget (unaudited)	<u>2014</u>	<u>2013</u>
TRANSFERS FOR OPERATING:			
Provincial Government	\$ 208,818	\$ 214,603	\$ 331,454
Other Local Governments	<u>30,556</u>	<u>42,577</u>	<u>15,391</u>
	<u>239,374</u>	<u>257,180</u>	<u>346,845</u>
TRANSFERS FOR CAPITAL:			
Provincial Government	2,077,267	328,365	588,205
Federal Government	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>328,365</u>	<u>588,205</u>
TOTAL GOVERNMENT TRANSFERS	\$ <u>2,316,641</u>	\$ <u>585,545</u>	\$ <u>935,050</u>

TOWN OF TWO HILLSSTATEMENT OF CONSOLIDATED EXPENDITURES BY OBJECTfor the year ended December 31, 2014Schedule 5

	<u>Budget</u> <u>(unaudited)</u>	<u>2014</u>	<u>2013</u>
<u>EXPENDITURES BY OBJECT</u>			
Salaries, Wages, and Benefits	\$ 752,697	\$ 746,385	\$ 666,664
Contracted and General Service	797,888	944,576	868,578
Purchases from Other Governments	135,000	124,685	126,840
Materials, Goods, Supplies, and Utilities	468,057	475,150	553,123
Provision for Allowances	-	36,068	24,458
Transfers to Individuals and Organizations	126,707	107,407	134,863
Bank Charges and Short Term Interest	5,900	4,203	5,863
Interest on Capital Long Term Debt	101,976	103,447	80,622
Amortization of Tangible Capital Assets	358,000	376,606	354,736
Loss on Sale of Assets	-	-	1,620
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ <u>2,746,225</u>	\$ <u>2,918,527</u>	\$ <u>2,817,367</u>

TOWN OF TWO HILLS
SCHEDULE OF SEGMENTED DISCLOSURE
For the Year Ended December 31, 2014
Schedule 6

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	TOTAL
REVENUE								
Net Municipal Taxes	1,073,214	-	-	-	-	-	-	1,073,214
Local Improvements	-	-	-	-	-	59,499	-	59,499
Sales to Other Governments	-	17,413	-	-	-	-	-	17,413
User fees and sale of goods	52,207	20,404	20,066	43,951	25,229	796,488	-	958,345
Penalties & Costs	29,385	-	-	-	-	5,260	-	34,645
Licence & Permits	6,545	677	-	-	-	-	-	7,222
Franchise & Concession Contracts	121,536	-	-	-	-	-	-	121,536
Investment income	4,372	-	-	-	-	-	-	4,372
Rentals	26,462	-	-	-	427	-	-	26,889
Insurance Proceeds	-	-	-	-	858,812	-	-	858,812
Gain on Sale of Tangible Capital Assets	-	-	-	-	-	-	-	-
Federal Government Conditional Transfer:	-	-	-	-	-	-	-	-
Provincial Government Conditional Transfer:	28,778	3,595	384,079	-	10,765	54,694	61,057	542,968
Local Government Transfers	-	-	-	10,770	17,787	10,000	4,020	42,577
Other Revenue	1,781	-	-	-	5,400	-	-	7,181
	<u>1,344,280</u>	<u>42,089</u>	<u>404,145</u>	<u>54,721</u>	<u>918,420</u>	<u>925,941</u>	<u>65,077</u>	<u>3,754,673</u>
EXPENSES								
Salaries & wages	386,192	1,974	259,318	-	40,519	58,382	-	746,385
Contracted & general Services	150,464	39,497	76,656	7,490	80,335	589,397	737	944,576
Purchases from other governments	-	-	-	3,000	295	121,390	-	124,685
Goods & Supplies	49,434	10,068	246,754	23,389	53,311	92,176	18	475,150
Provision for Allowances	33,350	-	-	-	-	2,718	-	36,068
Transfers to local boards	1,700	-	-	12,500	17,248	-	75,959	107,407
Bank Charges & Short term interest	4,203	-	-	-	-	-	-	4,203
Long term debt interest	-	-	1,471	-	-	101,976	-	103,447
Loss on Sale of Assets	-	-	-	-	-	-	-	-
	<u>625,343</u>	<u>51,539</u>	<u>584,199</u>	<u>46,379</u>	<u>191,708</u>	<u>966,039</u>	<u>76,714</u>	<u>2,541,921</u>
NET REVENUE, BEFORE AMORTIZATION	718,937	(9,450)	(180,054)	8,342	726,712	(40,098)	(11,637)	1,212,752
Amortization Expense	14,950	1,391	148,518	-	47,318	163,984	445	376,606
NET REVENUE	703,987	(10,841)	(328,572)	8,342	679,394	(204,082)	(12,082)	836,146

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.

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2014

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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 mncipal 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.

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2014

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, 2014

2. CASH AND TEMPORARY INVESTMENTS

	<u>2014</u>	<u>2013</u>
Cash	\$ 1,085,314	\$ 1,304,116
Temporary Investments	<u>1,021,395</u>	<u>21,306</u>
	\$ <u>2,106,709</u>	\$ <u>1,325,422</u>

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

Council has designated funds of \$1,522,621 (2013 - \$825,341) included in the above amounts for reserves.

Included in cash and temporary investments is a restricted amount of \$862,156 (2013 - \$972,794) comprised of \$134,147 of funds held in trust and \$ 728,009 (2013 - \$972,794) received from Provincial grants and debentures which are held exclusively for approved Projects.

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2014</u>	<u>2013</u>
Current Taxes and Grants in Lieu	\$ 55,045	\$ 83,962
Arrears Taxes	<u>40,255</u>	<u>50,276</u>
	\$ <u>95,300</u>	\$ <u>134,238</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2014</u>	<u>2013</u>
Trade and Other Receivables	\$ 200,013	\$ 153,328
Insurance Proceeds Receivable	162,660	-
Receivable from other governments	568,147	549,257
Less: Allowance for Doubtful Accounts	<u>(118,205)</u>	<u>(82,496)</u>
	\$ <u>812,615</u>	\$ <u>620,089</u>

5. DEPOSIT LIABILITIES

	<u>2014</u>	<u>2013</u>
Water Deposits	\$ 17,885	\$ 18,107
Hall Deposits	3,140	1,683
Garbage Deposits	1,475	1,636
Land Option Deposits	<u>600</u>	<u>20,600</u>
	\$ <u>23,100</u>	\$ <u>42,026</u>

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2014

6. FUNDS HELD IN TRUST

	<u>2014</u>	<u>2013</u>
Tax Sale Surplus	\$ <u>134,147</u>	\$ <u>-</u>

7. DEFERRED REVENUE

	<u>2014</u>	<u>2013</u>
Provincial Capital Grants	\$ 1,110,253	\$ 967,794
Prepaid Taxes and Utilities	28,513	23,548
Provincial Operating Grants	<u>-</u>	<u>5,000</u>
	\$ <u>1,138,766</u>	\$ <u>996,342</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>2014</u>	<u>2013</u>
Tax Supported Debentures	\$ 2,476,757	\$ 2,571,465
Bank Loan	<u>105,771</u>	<u>-</u>
	\$ <u>2,582,528</u>	\$ <u>2,571,465</u>

Principal and interest repayments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 102,049	\$ 101,356	\$ 196,684
2016	124,553	96,851	196,684
2017	129,228	92,176	196,684
2018	134,080	87,324	196,685
2019	129,294	82,357	196,685
Thereafter	<u>1,963,324</u>	<u>847,811</u>	<u>2,989,819</u>
	\$ <u>2,582,528</u>	\$ <u>1,307,875</u>	\$ <u>3,973,241</u>

Debenture debt is repayable to Alberta Municipal Financing Corporation and bears interest at rates ranging from 3.49% to 4.157%, and mature in periods 2019 through 2041. The average annual interest rate is 3.97% (2013 - 4.00%). 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 \$103,447 (2013 - \$80,622)
The Town's total cash payments for interest in 2014 were \$107,650 (2013 - \$86,485)

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2014

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>2014</u>	<u>2013</u>
Total Debt Limit	\$ 5,139,462	\$ 3,655,703
Total Debt	<u>2,635,092</u>	<u>2,571,465</u>
	\$ <u>2,504,370</u>	\$ <u>1,084,238</u>
Service on Debt Limit	\$ 856,577	\$ 609,175
Service on Debt	<u>255,969</u>	<u>196,684</u>
	\$ <u>600,608</u>	\$ <u>412,491</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>2014</u>	<u>2013</u>
Tangible Capital Assets (Schedule 1)	\$ 18,735,432	\$ 18,376,571
Accumulated Amortization (Schedule 1)	(9,453,053)	(9,076,447)
Long Term Debt	<u>(2,582,528)</u>	<u>(2,571,465)</u>
	\$ <u>6,699,851</u>	\$ <u>6,728,659</u>

11. ACCUMULATED SURPLUS

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

	<u>2014</u>	<u>2013</u>
Unrestricted Surplus (Deficit)	\$ (87,948)	\$ (92,962)
Restricted Surplus	1,685,281	825,341
Equity in Tangible Capital Assets	<u>6,699,851</u>	<u>6,728,659</u>
	\$ <u>8,297,184</u>	\$ <u>7,461,038</u>

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2014

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:

				2014	2013
		Salary	Benefits & Allowances	Total	Total
Mayor	- Neufeld	15,425	3,132 ⁽²⁾	18,557	3,442
	- Sorochan	-	-	-	20,604
Councillors	- Babiuk	14,600	3,100	17,700	19,031
	- Gray	13,275	3,021	16,296	17,182
	- Rajoo	16,525	3,205	19,730	18,578
	- Saskiw	10,225	2,968	<u>13,193</u>	<u>14,035</u>
				85,476	92,872
Town Manager		88,405	24,651 ⁽³⁾	113,056	111,286

- (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)

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2014

13. LEASES

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

The Town of Two Hills is leasing a computer server. This lease calls for payments of \$171.62 monthly ending in May, 2016.

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:

2015	22,884
2016	11,195
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 Plan serves about 133,000 people and about 389 employers. The LAPP is financed by employer and employee contributions and investment earnings of the LAPP Fund.

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

The Town is required to make current service contributions to the LAPP of 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 2014 were \$41,659 (2013 - \$35,768). Total current service contributions by the employees of the Town to the LAPP in 2014 were \$38,086 (2012 - \$31,520).

At December 31, 2013, the LAPP disclosed an actuarial deficiency of \$4.86 billion.

TOWN OF TWO HILLS
NOTES TO FINANCIAL STATEMENT (Continued)
December 31, 2014

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.

