

# TOWN OF TWO HILLS

## FINANCIAL STATEMENTS

DECEMBER 31, 2012

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**JOHN M. BEALE, CMA**  
CERTIFIED MANAGEMENT ACCOUNTANT

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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, 2012 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.

**Auditors' 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, 2012, 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 23, 2013

  
John M. Beale, CMA  
Certified Management Accountant

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2012

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	<u>2012</u>	<u>2011</u>
<u>FINANCIAL ASSETS</u>		
Cash and temporary investments (Note 2)	\$ 398,807	\$ 1,335,757
Receivables		
Taxes and grants in place of taxes (Note 3)	159,877	187,077
Trade and Other Receivable (Note 4)	135,765	83,376
Receivable from Other Governments	538,465	165,211
Land for resale inventory	103,712	103,712
Investments Long Term	5,772	6,000
	<u>1,342,398</u>	<u>1,881,133</u>
 <u>LIABILITIES</u>		
Accounts Payable and accrued liabilities	\$ 319,131	\$ 189,501
Deposit Liabilities (Note 5)	51,236	52,428
Deferred Revenue (Note 6)	225,823	341,862
Long Term Debt (Note 7)	<u>2,013,984</u>	<u>2,131,950</u>
	<u>2,610,174</u>	<u>2,715,741</u>
 <u>NET FINANCIAL ASSETS (DEBT)</u>	 <u>(1,267,776)</u>	 <u>(834,608)</u>
 <u>NON-FINANCIAL ASSETS</u>		
Tangible Capital Assets (Schedule 2)	8,503,101	6,765,840
Inventory for consumption	9,742	15,647
Prepaid Expenses	8,430	3,985
	<u>8,521,273</u>	<u>6,785,472</u>
 <u>ACCUMULATED SURPLUS (Schedule 1)</u>	 <u>\$ 7,253,497</u>	 <u>\$ 5,950,864</u>

Approved by Council:

\_\_\_\_\_ Mayor

 Administrator

TOWN OF TWO HILLSCONSOLIDATED STATEMENT OF OPERATIONSfor the year ended the December 31, 2012

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	<u>2012</u> <u>ACTUAL</u>		<u>2012</u> <u>BUDGET</u>		<u>2011</u> <u>ACTUAL</u>
<u>REVENUES</u>					
Net Taxes Available for					
Municipal Purpose (Schedule 3) \$	961,159	\$	968,205	\$	908,315
Local Improvements	55,285		55,000		55,407
Sales to Other Governments	80,990		49,829		184,156
Sales and User Charges	656,773		781,355		526,334
Penalties and Costs	40,236		28,000		36,777
Licence & Permits	5,712		6,365		6,661
Concessions & Franchises	99,723		105,000		96,635
Return on Investments	4,519		2,900		2,640
Rentals	39,407		36,464		33,431
Gain on Sale of Tangible Capital Assets	-		-		-
Provincial Unconditional Grants	-		-		-
Provincial Conditional Grants	273,619		270,219		310,746
Local Government Transfers	18,390		18,890		14,701
Other	2,334		2,000		21,857
	<u>2,238,147</u>		<u>2,324,227</u>		<u>2,197,660</u>

TOWN OF TWO HILLS  
CONSOLIDATED STATEMENT OF OPERATIONS  
for the year ended the December 31, 2012

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<u>EXPENDITURES</u>	2012 <u>ACTUAL</u>	2012 <u>BUDGET</u>	2011 <u>ACTUAL</u>
Legislative	\$ 102,796	\$ 111,900	\$ 99,670
Administration	538,237	524,791	579,815
Fire	34,526	40,256	40,489
Disaster Services	4,177	7,061	3,388
By-Law Enforcement	13,494	11,500	10,392
Roads	627,818	676,930	689,845
Storm Sewers	26,254	22,000	19,654
Water Supply	345,166	403,500	194,925
Sanitary Sewer	105,174	126,936	90,688
Garbage Collection	128,512	132,734	124,078
Family & Community Services	76,814	76,528	77,279
Community Service	57,052	44,246	30,620
Subdivision Land	3,500	4,000	-
Hall Operations	86,471	65,363	73,129
Arena Operations	52,390	35,380	51,048
Curling Rink Operations	14,982	12,751	18,941
Parks	73,580	17,990	73,004
Library	33,127	32,140	36,412
	<u>2,324,070</u>	<u>2,346,006</u>	<u>2,213,377</u>
 Excess (shortfall) of Revenue over Expenses - before other	 (85,923)	 (21,779)	 (15,717)
 <u>OTHER</u>			
Government transfers for Capital	<u>1,388,556</u>	<u>2,834,176</u>	<u>1,427,360</u>
 Excess (shortfall) of Revenue over Expenses	 1,302,633	 2,812,397	 1,411,643
 ACCUMULATED SURPLUS, beginning of year	 <u>5,950,864</u>		 <u>4,539,221</u>
ACCUMULATED SURPLUS, end of year	\$ <u>7,253,497</u>		\$ <u>5,950,864</u>

TOWN OF TWO HILLS  
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)  
for the year ended the December 31, 2012

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	<u>2012</u> <u>ACTUAL</u>	<u>2011</u> <u>ACTUAL</u>
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ <u>1,302,633</u>	\$ <u>1,411,643</u>
Acquisition of tangible capital assets	(2,039,525)	(1,797,850)
Proceed on Sale of Tangible Capital Assets	-	-
Amortization of tangible capital assets	302,264	262,123
(Gain) Loss on sale of Tangible Capital Assets	<u>-</u>	<u>-</u>
	(434,628)	(124,084)
Acquisition of supplies inventory	-	-
Acquisition of prepaid assets	(4,445)	(122)
Use of supply inventory	5,905	-
Use of prepaid assets	<u>-</u>	<u>-</u>
	<u>1,460</u>	<u>(122)</u>
(INCREASE) DECREASE IN NET DEBT	(433,168)	(124,206)
NET FINANCIAL ASSETS (DEBT), Beginning of year	<u>(834,608)</u>	<u>(710,402)</u>
NET FINANCIAL ASSETS (DEBT), End of year	\$ <u>(1,267,776)</u>	\$ <u>(834,608)</u>

TOWN OF TWO HILLS  
CONSOLIDATED STATEMENT OF CASH FLOWS  
for the year ended the December 31, 2012

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	<u>2012</u> <u>ACTUAL</u>	<u>2011</u> <u>ACTUAL</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenue over expenditures	\$ 1,302,633	\$ 1,411,643
Non-cash items included:		
Amortization of tangible capital assets	302,264	262,123
Non-cash charges to operations:		
Decrease (Increase) in Taxes/Grant in Lieu Receivable	27,200	6,452
Decrease (Increase) in Trade and Other Receivables	(111,623)	(88,250)
Decrease (Increase) in Receivable other Governments	(314,020)	-
Decrease (Increase) in Land for resale inventory	-	(13,991)
Decrease (Increase) in Inventory for consumption	5,905	-
Decrease (Increase) in Prepaid Expenses	(4,445)	(122)
Increase (Decrease) in Accounts Payable	129,630	20,461
Increase (Decrease) in Deposit Liabilities	(1,192)	11,845
Increase (Decrease) in Deferred Revenue	(116,039)	64,010
Cash provided by operating transactions	<u>1,220,313</u>	<u>1,674,171</u>
CAPITAL		
Acquisition of tangible capital assets	(2,039,525)	(1,797,850)
INVESTING		
Decrease (Increase) in investments	<u>228</u>	<u>827</u>
FINANCING		
Long-term debt issued	-	1,855,421
Long-term Debt repaid	<u>(117,966)</u>	<u>(100,431)</u>
Cash provided by financing transactions	<u>(117,966)</u>	<u>1,754,990</u>
CHANGE IN CASH AND EQUIVALENTS DURING YEAR	(936,950)	1,632,138
Net Cash and Cash Equivalents at Beginning of Year	<u>1,335,757</u>	<u>(296,381)</u>
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>398,807</u>	\$ <u>1,335,757</u>
Cash and cash Equivalents is made up of:		
Cash and temporary investments	\$ 398,807	\$ 1,335,757
Temporary bank indebtedness	<u>-</u>	<u>-</u>
	\$ <u>398,807</u>	\$ <u>1,335,757</u>

**TOWN OF TWO HILLS**  
**SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS**  
**For the Year Ended December 31, 2012**  
**Schedule 1**

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2012	2011
BALANCE, Beginning of Year	(138,360)	1,455,334	4,633,890	5,950,864	4,539,221
Excess (deficiency) of Revenue over Expenses	1,302,633	-	-	1,302,633	1,411,643
Funds Designated for future use	(20,740)	20,740	-		
Restricted funds used for tangible capital assets	-	(629,990)	629,990	-	-
Current year funds used for tangible capital assets	(1,409,535)	-	1,409,535	-	-
Annual amortization expense	302,264	-	(302,264)	-	-
Long term debt repaid	(117,966)	-	117,966	-	-
Change in accumulated surplus	56,656	(609,250)	1,855,227	1,302,633	1,411,643
BALANCE, End of Year	(81,704)	846,084	6,489,117	7,253,497	5,950,864



**TOWN OF TWO HILLS**  
**SCHEDULE OF TANGIBLE CAPITAL ASSETS**  
For the Year Ended December 31, 2012  
Schedule 2

	Land	Land Improvements	Buildings	Engineered Structures	Machinery Equipment	Vehicles	Construction in Process	2012	2011
<b>COST:</b>									
BALANCE, Beginning of Year	99,701	58,883	2,753,708	9,969,600	979,799	71,638	1,254,958	15,188,287	13,390,437
Acquisition of tangible capital assets	-	5,045	18,420	490,596	21,484	-	1,503,980	2,039,525	1,797,850
Transfers	-	-	-	2,758,938	-	-	(2,758,938)	-	-
<b>BALANCE, End of Year</b>	<b>99,701</b>	<b>63,928</b>	<b>2,772,128</b>	<b>13,219,134</b>	<b>1,001,283</b>	<b>71,638</b>	<b>-</b>	<b>17,227,812</b>	<b>15,188,287</b>

**ACCUMULATED AMORTIZATION:**

BALANCE, Beginning of Year	-	35,063	2,196,640	5,774,341	355,594	60,809	-	8,422,447	8,160,324
Annual Amortization	-	4,052	54,777	179,284	60,184	3,967	-	302,264	262,123
Accumulated Amortization on disposals	-	-	-	-	-	-	-	-	-
<b>BALANCE, End of Year</b>	<b>-</b>	<b>39,115</b>	<b>2,251,417</b>	<b>5,953,625</b>	<b>415,778</b>	<b>64,776</b>	<b>-</b>	<b>8,724,711</b>	<b>8,422,447</b>

**NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS**

	99,701	24,813	520,711	7,265,509	585,505	6,862	-	8,503,101	6,765,840
<b>2011 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS (restated)</b>	<b>99,701</b>	<b>23,820</b>	<b>557,068</b>	<b>4,195,259</b>	<b>624,205</b>	<b>10,829</b>	<b>1,254,958</b>	<b>6,765,840</b>	<b>-</b>

TOWN OF TWO HILLS

Schedule of Property and Other Taxes  
for the year ended the December 31, 2012

Schedule 3

	*****		
	2012	2012	2011
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>
<u>LEVIES FOR REVENUE</u>			
Residential	\$ 767,270		\$ 731,314
Commercial	254,178		224,369
Industrial	36,593		27,070
Farm Land	<u>87</u>		<u>86</u>
Subtotal	\$ 1,058,128		\$ 982,839
Power, Pipe, Cable	76,213		80,414
Federal Grant in Lieu	15,678		15,699
Provincial Grant in Lieu	<u>15,205</u>		<u>13,865</u>
Total Taxes and Grant in Lieu	\$ <u>1,165,224</u>	\$ <u>1,172,270</u>	\$ <u>1,092,817</u>
<u>REQUISITIONS</u>			
Supplementary School	177,140	177,140	159,011
Eagle Hill Foundation	<u>26,925</u>	<u>26,925</u>	<u>25,491</u>
	<u>204,065</u>	<u>204,065</u>	<u>184,502</u>
Net Taxes for Municipal Purposes	\$ <u>961,159</u>	\$ <u>968,205</u>	\$ <u>908,315</u>

TOWN OF TWO HILLS

Schedule of Government Transfers  
for the year ended the December 31, 2012

Schedule 4

	*****		
	2012 <u>ACTUAL</u>	2012 <u>BUDGET</u>	2011 <u>ACTUAL</u>
TRANSFERS FOR OPERATING:			
Provincial Government	\$ 273,619	\$ 270,219	\$ 310,746
Other Local Governments	<u>18,390</u>	<u>18,890</u>	<u>14,701</u>
	<u>292,009</u>	<u>289,109</u>	<u>325,447</u>
 TRANSFERS FOR CAPITAL:			
Provincial Government	1,388,556	2,834,176	1,427,360
Federal Government	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,388,556</u>	<u>2,834,176</u>	<u>1,427,360</u>
 TOTAL GOVERNMENT TRANSFERS	 \$ <u>1,680,565</u>	 \$ <u>3,123,285</u>	 \$ <u>1,752,807</u>

TOWN OF TWO HILLSSTATEMENT OF CONSOLIDATED EXPENDITURES BY OBJECTfor the year ended December 31, 2012Schedule 5

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<u>EXPENDITURES BY OBJECT</u>	<u>2012 ACTUAL</u>	<u>2012 BUDGET</u>	<u>2011 ACTUAL</u>
Salaries, Wages, and Benefits	\$ 732,947	\$ 818,523	\$ 756,188
Contracted and General Service	494,133	538,485	449,066
Purchases from Other Governments	118,447	123,740	114,061
Materials, Goods, Supplies, and Utilities	457,004	400,812	455,403
Provision for Allowances	19,332	-	-
Transfers to Individuals and Organizations	110,907	112,406	106,614
Bank Charges and Short Term Interest	4,714	5,000	13,585
Interest on Capital Long Term Debt	84,323	83,840	50,800
Amortization of Tangible Capital Assets	302,264	263,200	262,123
Other Expenditures	-	-	5,537
Total Expenditures	\$ <u>2,324,070</u>	\$ <u>2,346,006</u>	\$ <u>2,213,377</u>

**TOWN OF TWO HILLS**  
**SCHEDULE OF SEGMENTED DISCLOSURE**  
For the Year Ended December 31, 2012  
Schedule 6

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	TOTAL
<b>REVENUE</b>								
Net Municipal Taxes	961,159	-	-	-	-	-	-	961,159
Local Improvements	-	-	-	-	-	55,285	-	55,285
Sales to Other Governments	37,110	43,880	-	-	-	-	-	80,990
User fees and sale of goods	34,559	8,985	8,331	30,036	26,429	548,433	-	656,773
Penalties & Costs on Taxes	38,184	-	-	-	-	2,052	-	40,236
Licence & Permits	4,925	787	-	-	-	-	-	5,712
Franchise & Concession Contracts	99,723	-	-	-	-	-	-	99,723
Investment income	4,519	-	-	-	-	-	-	4,519
Rentals	39,407	-	-	-	-	-	-	39,407
Gain on Sale of Tangible Capital Assets	-	-	-	-	-	-	-	-
Federal Government Conditional Transfers	-	-	-	-	-	-	-	-
Provincial Government Conditional Transfers	24,876	7,060	360,411	-	56,712	1,140,563	72,554	1,662,176
Local Government Transfers	-	-	-	7,890	10,500	-	-	18,390
Other Revenue	2,334	-	-	-	-	-	-	2,334
	<u>1,246,796</u>	<u>60,712</u>	<u>368,742</u>	<u>37,926</u>	<u>93,641</u>	<u>1,746,333</u>	<u>72,554</u>	<u>3,626,704</u>
<b>EXPENSES</b>								
Salaries & wages	409,094	1,675	197,185	-	71,755	53,238	-	732,947
Contracted & general Services	141,165	37,750	125,800	8,518	55,413	124,918	569	494,133
Purchases from other governments	-	-	-	3,000	-	115,447	-	118,447
Goods & Supplies	57,340	11,380	201,601	29,652	71,957	85,074	-	457,004
Provision for Allowances	17,975	-	-	-	-	1,357	-	19,332
Transfers to local boards	500	-	-	17,200	17,248	-	75,959	110,907
Bank Charges & Short term interest	4,714	-	-	-	-	-	-	4,714
Long term debt Interest	-	-	-	-	482	83,841	-	84,323
Other expenses	-	-	-	-	-	-	-	-
	<u>630,788</u>	<u>50,805</u>	<u>524,586</u>	<u>58,370</u>	<u>216,855</u>	<u>463,875</u>	<u>76,528</u>	<u>2,021,807</u>
<b>NET REVENUE, BEFORE AMORTIZATION</b>	616,008	9,907	(155,844)	(20,444)	(123,214)	1,282,458	(3,974)	1,604,897
Amortization Expense	10,244	1,391	109,787	-	46,212	134,630	-	302,264
<b>NET REVENUE</b>	<u>605,764</u>	<u>8,516</u>	<u>(265,631)</u>	<u>(20,444)</u>	<u>(169,426)</u>	<u>1,147,828</u>	<u>(3,974)</u>	<u>1,302,633</u>

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1. SIGNIFICANT ACCOUNTING POLICIES

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

a) Reporting Entity

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

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

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

b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenues as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or legal obligation to pay.

Funds from external parties and earnings there on restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

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

c) Use of Estimates

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

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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) Prepaid Local Improvement Charges

Construction and borrowing costs associated with local improvement projects are recovered through annual special property assessments during the period of the related borrowing. These levies are collectable from property owners for work performed by the municipality.

Where a taxpayer has elected to prepay the outstanding local improvement charges, such amounts are recorded as deferred revenue. Deferred revenue is amortized to revenue on a straight line basis over the remaining term of the related borrowing.

In the event that the prepaid amounts are applied against the related borrowing, the deferred revenue is amortized to revenue by an amount equal to the debt repayment.

i) GOVERNMENT TRANSFERS

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

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

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2012

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j) NON-FINANCIAL ASSETS

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

i) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributed to acquisition, construction, development or betterment of the asset. The cost less residual value, of the tangible capital asset is amortized on a straight line basis over the estimate useful life as follows:

Land Improvements	15-25 years
Buildings	25-50 years
Engineered Structures	
- Water Systems	45-75 years
- Wastewater Systems	45-75 years
- Other Engineered Structures	5-30 years
Machinery and Equipment	5-40 years
Vehicles	10-25 years

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, 2012

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2. CASH AND TEMPORARY INVESTMENTS

	<u>2012</u>	<u>2011</u>
Cash	\$ 377,709	\$ 963,242
Temporary Investments	<u>21,098</u>	<u>372,515</u>
	\$ <u>398,807</u>	\$ <u>1,335,757</u>

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

Included in cash and temporary investments is a restricted amount of \$522,415 (2011 - \$1,797,196) received from Provincial grants and debentures which are held exclusively for capital projects.

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2012</u>	<u>2011</u>
Current Taxes and Grants in Lieu	\$ 81,059	\$ 130,102
Arrears Taxes	<u>90,744</u>	<u>68,201</u>
	171,803	198,303
Less: Allowance for Doubtful Accounts	<u>(11,926)</u>	<u>(11,226)</u>
	\$ <u>159,877</u>	\$ <u>187,077</u>

4. TRADE AND OTHER RECEIVABLES

	<u>2012</u>	<u>2011</u>
Trade and Other Receivables	\$ 196,201	\$ 123,814
Receivable from other governments	538,465	80,286
Less: Allowance for Doubtful Accounts	<u>(60,436)</u>	<u>(43,763)</u>
	\$ <u>674,230</u>	\$ <u>160,337</u>

5. DEPOSIT LIABILITIES

	<u>2012</u>	<u>2011</u>
Land Option Deposits	\$ 29,600	\$ 29,600
Water Deposits	18,414	19,816
Garbage Deposits	1,636	1,995
Hall Deposits	<u>1,586</u>	<u>1,017</u>
	\$ <u>51,236</u>	\$ <u>52,428</u>

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2012

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6. DEFERRED REVENUE

	<u>2012</u>	<u>2011</u>
Provincial Capital Grants	\$ 207,727	\$ 330,150
Prepaid Taxes and Utilities	18,096	11,712
Provincial Operating Grants	<u>-</u>	<u>-</u>
	<u>\$ 225,823</u>	<u>\$ 341,862</u>

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

7. LONG TERM DEBT

	<u>2012</u>	<u>2011</u>
Tax Supported Debentures	\$ 2,013,984	\$ 2,104,187
Bank Loans	<u>-</u>	<u>27,763</u>
	<u>\$ 2,013,984</u>	<u>\$ 2,131,950</u>

Principal and interest repayments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 70,675	\$ 80,622	\$ 151,297
2014	73,401	77,896	151,297
2015	76,234	75,063	151,297
2016	79,176	72,121	151,297
2017	<u>82,232</u>	<u>69,065</u>	<u>151,297</u>
Thereafter	<u>1,632,266</u>	<u>828,036</u>	<u>2,460,302</u>
	<u>\$ 2,013,984</u>	<u>\$ 1,202,803</u>	<u>\$ 3,216,787</u>

Debenture debt is repayable to Alberta Municipal Financing Corporation and bears interest at rates ranging from 3.49% to 4.971%, and mature in periods 2013 through 2041. The average annual interest rate is 3.981% for 2012 (4.01% for 2011). Debenture debt is issued on the credit and security of the Town of Two Hills.

Interest on long term debt amounted to \$84,323 (2011 - \$50,800)  
The Town's total cash payments for interest in 2012 were \$89,037 (2011 - \$64,385)

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2012

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8. DEBT LIMITS

Section 276(2) of the Municipal Government Act requires that debt and debt limits as defined by Alberta Regulation 255/00 for the Town of Two Hills be disclosed as follows:

	<u>2012</u>	<u>2011</u>
Total Debt Limit	\$ 3,357,220	\$ 3,296,490
Total Debt	<u>2,013,984</u>	<u>2,131,950</u>
	\$ <u>1,343,236</u>	\$ <u>1,164,540</u>
Service on Debt Limit	\$ 559,537	\$ 549,415
Service on Debt	<u>151,297</u>	<u>201,807</u>
	\$ <u>408,240</u>	\$ <u>347,608</u>

9. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2012</u>	<u>2011</u>
Tangible Capital Assets (Schedule 1)	\$ 17,227,812	\$ 15,188,287
Accumulated Amortization (Schedule 1)	(8,724,711)	(8,422,447)
Long Term Debt	<u>(2,013,984)</u>	<u>(2,131,950)</u>
	\$ <u>6,489,117</u>	\$ <u>4,633,890</u>

10. ACCUMULATED SURPLUS

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

	<u>2012</u>	<u>2011</u>
Unrestricted Surplus (Deficit)	\$ (81,704)	\$ (138,360)
Restricted Surplus	846,084	1,455,334
Equity in Tangible Capital Assets	<u>6,489,117</u>	<u>4,633,890</u>
	\$ <u>7,253,497</u>	\$ <u>5,950,864</u>

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2012

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11. SALARY & BENEFITS DISCLOSURE

Disclosure of salaries and benefits for municipal officials, the chief administrative officer and designated officers as required by Alberta Regulation 313/2000 is as follows:

				2012	2011
		Salary	Benefits & Allowances <sup>(2)</sup>	Total	Total
Mayor	- Sorochan	20,700	2,665	23,365	23,934
Councillors	- Babiuk	15,325	2,279	17,604	14,288
	- Gray	14,260	2,365	16,625	13,752
	- Rajoo	13,475	2,269	15,744	15,905
	- Saskiw	11,650	2,339	<u>13,989</u>	<u>12,284</u>
				87,327	80,162
Town Manager		90,835	21,650 <sup>(3)</sup>	112,485	101,413

- (1) Salary includes regular base pay, bonuses, overtime, lump sum payments, gross honoraria and any other direct cash remuneration.
- (2) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, professional memberships and tuition.
- (3) Benefits and allowances figures also include the Employer's share of the costs of additional taxable benefits including special leave with pay, financial planning services, retirement planning services, travel allowances, and car allowances.

12. SEGMENTED DISCLOSURE

The Town of Two Hills provides a range of services to its ratepayers. For each reported segment, revenue and expenses represent both amounts that are directly attributable to the segment and amounts that allocated on a reasonable basis. The accounting policies used in there segments are consistent with those followed in the preparation of the financial statements as disclosed in Note 1.

Refer to the Schedule of Segmented Disclosure (schedule 6)

TOWN OF TWO HILLS  
NOTES TO FINANCIAL STATEMENT (Continued)  
December 31, 2012

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12. LEASES

The Town of Two Hills is leasing a 2009 International 3 Ton Truck. This lease calls for payments of \$1,738.87 monthly ending in September, 2013.

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

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

Future payments required:

2013	72,315
2014	38,820
2015	10,488

13. LOCAL AUTHORITIES PENSION PLAN

Employees of the Town of Two Hills participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pension Plans Act. The Plan serves about 133,000 people and about 389 employers. The LAPP is financed by employer and employee contributions and investment earnings of the LAPP Fund.

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

The Town is required to make current service contributions to the LAPP of 5.525% of pensionable earning up to the year's maximum pensionable earnings under the Canada Pension Plan and 7.4% for pensionable earnings above this amount. Employees of the Town are required to make current service contributions of 4.525% of pensionable salary up to the year's maximum pensionable salary and 6.4% on pensionable salary above this amount.

Total current service contributions by the Town to the LAPP in 2012 were \$36,789 (2011 - \$33,051). Total current service contributions by the employees of the Town to the LAPP in 2012 were \$33,236 (2011 - \$30,186).

At December 31, 2011, the LAPP disclosed an actuarial deficiency of \$4.635 billion.

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14. CONTINGENCIES

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

The Town is the defendant in a lawsuit related to a land transaction. At present, the outcome is not determinable. The amount of an future settlement would be accounted for as a current transaction in the year of the settlement.

15. FINANCIAL INSTRUMENTS

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

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

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

16. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by Council and Management.