

**TOWN OF THREE HILLS  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**TOWN OF THREE HILLS  
FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

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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 the Town of Three Hills, which comprise the statement of financial position as at December 31, 2014 and the statement 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 is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

##### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

##### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Town of Three Hills as at December 31, 2014, the results of its operations, change in its net financial assets (debt) and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

HANNA, ALBERTA  
APRIL 8, 2015

*Endeavor*  
CHARTERED ACCOUNTANTS

**TOWN OF THREE HILLS**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2014**

	<b>2014</b>	<b>2013 (Restated)</b>
<b>FINANCIAL ASSETS</b>		
Cash and temporary investments (Note 2)	\$ 4,131,440	\$ 4,226,641
Receivables		
Taxes and grants in place of taxes (Note 3)	62,116	118,962
Trade and other receivables	323,729	390,697
Receivables from other governments	158,758	34,405
Land inventory held for resale	587,888	666,628
Investments (Note 4)	294	294
Loans receivable (Note 5)	<u>98,865</u>	<u>          </u>
	<u>5,363,090</u>	<u>5,437,627</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	457,200	468,233
Deposit liabilities (Note 6)	273,005	566,447
Deferred revenue (Note 7)	486,512	1,088,167
Employee benefit obligations (Note 8)	121,078	129,422
Provision for landfill closure and post-closure costs (Note 9)	254,767	168,355
Long-term debt (Note 10)	<u>3,816,848</u>	<u>4,080,593</u>
	<u>5,409,410</u>	<u>6,501,217</u>
<b>NET FINANCIAL ASSETS (DEBT)</b>	<u>( 46,320)</u>	<u>( 1,063,590)</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	43,323,693	42,655,512
Inventory for consumption (Note 12)	109,705	131,747
Prepaid expenses	<u>87,119</u>	<u>108,261</u>
	<u>43,520,517</u>	<u>42,895,520</u>
<b>ACCUMULATED SURPLUS</b>	<u>\$ 43,474,197</u>	<u>\$ 41,831,930</u>

**COMMITMENTS (SEE NOTE 19)**  
**CONTINGENCIES (SEE NOTE 20)**

**TOWN OF THREE HILLS**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budget (Unaudited)	2014	2013 (Restated)
<b>REVENUE</b>			
Net municipal taxes (Schedule 2)	\$ 3,118,570	\$ 3,121,182	\$ 2,951,995
User fees and sale of goods	2,993,465	2,935,588	2,778,123
Government transfers for operating (Schedule 3)	291,510	297,548	320,006
Investment income	34,238	38,589	30,428
Penalties and costs on taxes	27,500	29,820	29,565
Development levies		12,180	3,205
Licenses and permits	48,575	68,042	50,468
Franchise and concession contracts	256,546	250,255	235,480
Insurance proceeds			23,272
Gain on disposal of capital assets		14,750	
Other	<u>10,970</u>	<u>384,436</u>	<u>64,350</u>
<b>Total Revenue</b>	<u>6,781,374</u>	<u>7,152,390</u>	<u>6,486,892</u>
<b>EXPENSES</b>			
Legislative	251,376	191,470	220,782
Administration	691,748	683,899	596,297
Protective services	209,840	244,568	230,259
Transportation	1,162,031	1,693,827	1,488,566
Water supply and distribution	1,092,472	1,322,233	1,263,693
Wastewater treatment and disposal	249,679	406,765	392,460
Waste management	672,573	731,819	680,089
Public health and welfare	93,165	75,739	84,557
Land use planning, zoning and development	125,602	174,870	107,118
Economic/agricultural development	137,074	124,426	111,077
Subdivision land and development	36,120	16,126	21,337
Parks and recreation	1,512,280	1,763,606	1,634,864
Culture	<u>228,194</u>	<u>226,675</u>	<u>257,600</u>
<b>Total Expenses</b>	<u>6,462,154</u>	<u>7,656,023</u>	<u>7,088,699</u>
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER</b>	319,220	(503,633)	(601,807)
Government transfers for capital (Schedule 3)	1,582,195	1,339,718	327,833
Contributed and donated assets		570,198	
Donations and other capital revenues	<u>300,635</u>	<u>235,984</u>	<u>367,865</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	2,202,050	1,642,267	93,891
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<u>41,831,930</u>	<u>41,831,930</u>	<u>41,738,039</u>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<u>\$ 44,033,980</u>	<u>\$ 43,474,197</u>	<u>\$ 41,831,930</u>

**TOWN OF THREE HILLS**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budget (Unaudited)	2014	2013 (Restated)
<b>EXCESS OF REVENUE OVER EXPENSES</b>	\$ <u>2,202,050</u>	\$ <u>1,642,267</u>	\$ <u>93,891</u>
Acquisition of tangible capital assets	(2,533,205)	(1,784,939)	(826,376)
Tangible capital assets received as contributions		(570,198)	
Proceeds on sale of tangible capital assets		31,900	
Amortization of tangible capital assets		1,662,602	1,632,763
Gain (loss) on sale of tangible capital assets	<u>                    </u>	<u>(7,547)</u>	<u>14,070</u>
	<u>(2,533,205)</u>	<u>(668,182)</u>	<u>820,457</u>
Change in prepaid expenses		21,142	(14,767)
Change in inventory for consumption	<u>                    </u>	<u>22,042</u>	<u>21,458</u>
		<u>43,184</u>	<u>6,691</u>
<b>DECREASE IN NET DEBT</b>	331,155	1,017,269	921,039
<b>NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR</b>	<u>(1,063,590)</u>	<u>(1,063,590)</u>	<u>(1,984,629)</u>
<b>NET FINANCIAL ASSETS (DEBT), END OF YEAR</b>	<u>\$ (1,394,745)</u>	<u>\$ (46,321)</u>	<u>\$ (1,063,590)</u>

**TOWN OF THREE HILLS**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>2014</b>	<b>2013</b> <b>(Restated)</b>
<b>NET INFLOW(OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Excess of revenues over expenses	\$ 1,642,267	\$ 93,891
Non-cash items included in excess(shortfall) of revenues over expenses:		
Amortization on tangible capital assets	1,662,602	1,632,763
Gain(loss) on sale of tangible capital assets	(7,547)	14,070
Tangible capital assets received as contributions	<u>(570,198)</u>	<u>                    </u>
	2,727,124	1,740,724
Changes in net financial asset(debt) items:		
Decrease(increase) in taxes and grants in place of taxes receivable	56,846	8,950
Decrease(increase) in trade and other receivables	66,968	48,730
Decrease(increase) in receivables from other governments	(124,353)	339,165
Decrease(increase) in inventory for consumption	22,042	21,458
Decrease(increase) in loan receivable	(98,865)	
Decrease(increase) in land inventory held for resale	78,740	
Decrease(increase) in prepaid expenses	21,142	(14,767)
Increase(decrease) in accounts payable and accrued liabilities	(11,032)	(76,028)
Increase(decrease) in deposit liabilities	(293,442)	40,915
Increase(decrease) in deferred revenue	(601,655)	472,331
Increase(decrease) in employee benefit obligations	(8,344)	(8,444)
Increase(decrease) in provision for landfill closure and post-closure care liability	<u>86,412</u>	<u>84,861</u>
Cash provided by (applied to) operating transactions	<u>1,921,583</u>	<u>2,657,895</u>
<b>CAPITAL</b>		
Acquisition of tangible capital assets	(1,784,939)	(826,376)
Proceeds on sale of tangible capital assets	<u>31,900</u>	<u>                    </u>
Cash provided by (applied to) capital transactions	<u>(1,753,039)</u>	<u>(826,376)</u>
<b>FINANCING</b>		
Proceeds from loans	172,372	
Repayment on loans	<u>(436,117)</u>	<u>(446,182)</u>
Cash provided by (applied to) financing transactions	<u>(263,745)</u>	<u>(446,182)</u>
<b>CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR</b>	(95,201)	1,385,337
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>4,226,641</u>	<u>2,841,304</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,131,440</u>	<u>\$ 4,226,641</u>
<b>Cash and cash equivalents is made up of:</b>		
Cash and temporary investments (Note 2)	<u>\$ 4,131,440</u>	<u>\$ 4,226,641</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,131,440</u>	<u>\$ 4,226,641</u>

**TOWN OF THREE HILLS**  
**SCHEDULE OF TANGIBLE CAPITAL ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**Schedule 1**

	Construction in Progress	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2014	2013 (Restated)
<b>COST:</b>									
BALANCE, BEGINNING OF YEAR	\$ 99,911	\$ 2,703,347	\$ 2,764,676	\$ 9,817,619	\$ 44,631,780	\$ 2,388,727	\$ 998,399	\$63,404,459	\$62,598,171
Acquisition of tangible capital assets	(12,876)		257,369	56,633	911,211	1,116,071	26,729	2,355,137	804,202
Construction-in-progress									22,174
Disposal of tangible capital assets					(39,919)	(296,955)	(45,050)	(381,924)	(20,088)
BALANCE, END OF YEAR	<u>87,035</u>	<u>2,703,347</u>	<u>3,022,045</u>	<u>9,874,252</u>	<u>45,503,072</u>	<u>3,207,843</u>	<u>980,078</u>	<u>65,377,672</u>	<u>63,404,459</u>
<b>ACCUMULATED AMORTIZATION:</b>									
BALANCE, BEGINNING OF YEAR			662,203	2,537,028	15,668,017	1,281,155	600,547	20,748,950	19,122,206
Annual amortization			147,485	295,878	1,008,990	148,089	62,161	1,662,603	1,632,763
Disposals					(39,905)	(274,872)	(42,798)	(357,575)	(6,019)
BALANCE, END OF YEAR			<u>809,688</u>	<u>2,832,906</u>	<u>16,637,102</u>	<u>1,154,372</u>	<u>619,910</u>	<u>22,053,978</u>	<u>20,748,950</u>
<b>NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS</b>	<u>\$ 87,035</u>	<u>\$ 2,703,347</u>	<u>\$ 2,212,357</u>	<u>\$ 7,041,346</u>	<u>\$ 28,865,970</u>	<u>\$ 2,053,471</u>	<u>\$ 360,168</u>	<u>\$43,323,694</u>	<u>\$42,655,509</u>
2013 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 99,911</u>	<u>\$ 2,703,347</u>	<u>\$ 2,102,473</u>	<u>\$ 7,280,591</u>	<u>\$ 28,963,763</u>	<u>\$ 1,107,572</u>	<u>\$ 397,852</u>	<u>\$42,655,509</u>	



**TOWN OF THREE HILLS**  
**SCHEDULE OF PROPERTY AND OTHER TAXES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**Schedule 2**

	Budget (Unaudited)	2014	2013
<b>TAXATION</b>			
Real property taxes	\$ 3,793,119	\$ 3,772,474	\$ 3,588,098
Linear property taxes	65,800	84,492	80,009
Government grants in place of property taxes	16,076	20,642	19,739
Special assessments and local improvement taxes	<u>50,135</u>	<u>50,134</u>	<u>80,206</u>
	<u>3,925,130</u>	<u>3,927,742</u>	<u>3,768,052</u>
<b>REQUISITIONS</b>			
Alberta School Foundation Fund	803,208	803,208	813,679
Golden Hills Lodge	<u>3,352</u>	<u>3,352</u>	<u>2,378</u>
	<u>806,560</u>	<u>806,560</u>	<u>816,057</u>
<b>NET MUNICIPAL TAXES</b>	<u>\$ 3,118,570</u>	<u>\$ 3,121,182</u>	<u>\$ 2,951,995</u>

**SCHEDULE OF GOVERNMENT TRANSFERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**Schedule 3**

	Budget (Unaudited)	2014	2013
<b>TRANSFERS FOR OPERATING</b>			
Provincial government	\$ 176,051	\$ 176,051	\$ 203,804
Federal government	2,788	1,992	
Local governments	<u>112,671</u>	<u>119,505</u>	<u>116,202</u>
	<u>291,510</u>	<u>297,548</u>	<u>320,006</u>
<b>TRANSFERS FOR CAPITAL</b>			
Provincial government	1,495,095	1,339,718	237,578
Federal government	87,100		
Local governments	<u>1,582,195</u>	<u>1,339,718</u>	<u>90,255</u>
	<u>1,582,195</u>	<u>1,339,718</u>	<u>327,833</u>
<b>TOTAL GOVERNMENT TRANSFERS</b>	<u>\$ 1,873,705</u>	<u>\$ 1,637,266</u>	<u>\$ 647,839</u>

**TOWN OF THREE HILLS**  
**SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**Schedule 4**

	Budget (Unaudited)	2014	2013 (Restated)
<b>CONSOLIDATED EXPENSES BY OBJECT</b>			
Salaries, wages and benefits	\$ 2,698,590	\$ 2,467,390	\$ 2,348,357
Contracted and general services	1,401,681	1,166,953	1,040,546
Materials, goods, supplies and utilities	1,933,442	1,973,238	1,629,167
Provision for allowances	4,000	5,640	870
Transfers to local boards and agencies	183,793	157,827	182,262
Transfers to individuals and organizations	79,200	50,825	67,366
Bank charges and short term interest	28,563	29,236	29,543
Interest on capital long term debt	131,885	130,077	142,843
Amortization of tangible capital assets		1,662,602	1,632,763
Loss on disposal of tangible capital assets		7,203	14,070
Other expenses	1,000	5,032	912
	<u>\$ 6,462,154</u>	<u>\$ 7,656,023</u>	<u>\$ 7,088,699</u>

**TOWN OF THREE HILLS**  
**SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**Schedule 5**

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2014	2013 (Restated)
<b>BALANCE, BEGINNING OF YEAR</b>	\$ <u>955,286</u>	\$ <u>1,972,212</u>	\$ <u>38,904,432</u>	\$ <u>41,831,930</u>	\$ <u>41,738,039</u>
Excess (deficiency) of revenues over expenses	1,642,267			1,642,267	93,891
Unrestricted funds designated for future use	(1,115,487)	1,115,487			
Restricted funds used for operations	41,255	(41,255)			
Restricted funds used for tangible capital assets		(296,741)	296,741		
Current year funds used for tangible capital assets	(1,315,828)		1,315,828		
Contributed tangible capital assets	(570,198)		570,198		
Disposal of tangible capital assets	24,352		(24,352)		
Annual amortization expense	1,662,602		(1,662,602)		
Long term debt repaid	(391,141)		391,141		
	<u>(22,178)</u>	<u>777,491</u>	<u>886,954</u>	<u>1,642,267</u>	<u>93,891</u>
Change in accumulated surplus					
<b>BALANCE, END OF YEAR</b>	\$ <u><u>933,108</u></u>	\$ <u><u>2,749,703</u></u>	\$ <u><u>39,791,386</u></u>	\$ <u><u>43,474,197</u></u>	\$ <u><u>41,831,930</u></u>

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Reporting Entity**

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, changes in fund balances and change in financial position of the reporting entity. This entity is comprised of the municipal operations plus all of the organizations that are owned or controlled by the Town and are, therefore, 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 revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay.

Funds from external parties and earnings thereon 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 only be 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 when 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.

**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 investments. When there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**1.. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 un-matured long-term debt, less actuarial requirements for the retirement of any sinking fund debentures.

**f) Requisition Over-levy and Under-levy**

Over-levies and under-levies arise from the difference between the actual property tax 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-levies or under-levies 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 water and wastewater services, roads, sidewalks and street lighting are recorded as tangible capital assets under the respective function.

**h) Prepaid Local Improvement Charges**

Construction and borrowing costs associated with local improvement projects are recovered through annual special assessments during the period of the related borrowings. 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 borrowings.

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

**i) Landfill Closure and Post-Closure Liability**

Pursuant to the Alberta Environmental Protection and Enhancement Act, the Town is required to fund the closure of its landfill site and provide for post-closure care of the facility. Closure and post-closure activities include the final clay cover, landscaping, as well as surface and ground water monitoring, leachate control, and visual inspection. The requirement is being provided for over the estimated remaining life of the landfill site based on usage.

**j) Government Transfers**

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, 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 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 THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**k) 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 intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides 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 attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	<b>YEARS</b>
Land improvements	10 - 25
Buildings	25 - 50
Engineering structures	
Roadway system	10 - 40
Water system	45 - 75
Wastewater system	45 - 75
Storm system	30 - 75
Other engineered structures	30 - 75
Machinery and equipment	5 - 25
Vehicles	10 - 25

Amortization is charged commencing the month following acquisition and for the appropriate number of months in the year of disposal or asset expiration. Assets under construction are not amortized until the asset is available for productive use.

**ii. Contributions 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 of the benefits and risks 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. Costs include expenses for development of landfill space for committing waste and the stockpiling of old cement and pavement for future use by the town.

**v. Cultural and Historical Tangible Capital Assets**

Works of art for display are not recorded as tangible capital assets but are disclosed.

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**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**2. CASH AND TEMPORARY INVESTMENTS**

	<b>2014</b>	<b>2013</b>
Cash	\$ 2,288,536	\$ 2,258,932
Temporary investments	1,842,904	1,967,709
	\$ 4,131,440	\$ 4,226,641

Temporary investments are short-term deposits earning interest between 1.6% and 2.1% and are either cashable or maturing between January and December 2015.

Of the cash and temporary investments \$759,517 (2013 - \$1,654,614) is considered restricted cash and not available for general use as it relates to developer surety deposits held on sub-divisions developments as well as conditional government grant revenue and other conditional contributions, that have not yet been expended for the purposes intended.

The Town has available to it an operating line of credit with the Royal Bank of Canada, having an authorized limit of \$500,000, which bears interest at prime plus 0.3%. As at December 31, 2014 - \$0 was drawn on this line of credit. The full amount of which is available for cash flow management as necessary.

**3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLE**

	<b>2014</b>	<b>2013</b>
Current taxes and grants in place receivables	\$ 41,384	\$ 58,527
Arrears taxes	20,732	60,435
	\$ 62,116	\$ 118,962

**4. INVESTMENTS**

	<b>2014</b>		<b>2013</b>	
	Cost	Market Value	Cost	Market Value
Other	\$ 294	\$ 294	\$ 294	\$ 294

**5. LOANS RECEIVABLE**

	<b>2014</b>	<b>2013</b>
Loan receivable	\$ 98,865	\$ _____

In the current year the Town sold a parcel of its land held for resale and in exchange received a cash deposit and loan receivable. The loan bears interest at 3.05% and is payable in semi annual blended instalments of \$10,735 maturing in October 2019.

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**6. DEPOSIT LIABILITIES**

In addition to utility and land sale deposits of \$3,550 (\$83,978 - 2013) and municipal planning deposits of \$56,749 (\$55,669 - 2013) the Town received deposits from developers for surety that will not be released to the developer until conditions of the Final Acceptance Certificate for the development has been issued. The amounts of surety deposits on hand at year end is \$212,706 (\$426,800 - 2013).

**7. DEFERRED REVENUE**

	<b>2014</b>	<b>2013</b>
Alberta Municipal Sustainability Initiative - Capital	\$ 404,326	\$ 698,982
Basic Municipal Transportation Grant	4,358	194,793
Donations - Tower Play Park	1,177	54,671
Donations - Anderson Park	17,515	43,582
Donations - Walking Paths Phase II		37,549
Kneehill County - Tower Play Park		25,900
Donations - Campground Play Park	10,495	2,003
Fire Department Donations	11,771	5,593
Permits - Operating	30,711	19,762
Arena - Operating		3,577
Trust - Habitat For Humanity Donations	342	342
Trust - Kids' Carnival (summer)	3,867	
Trust - Hanger Tax Agreement	1,770	1,278
Trust - History Book Sales	180	135
	<b>\$ 486,512</b>	<b>\$ 1,088,167</b>

**Municipal Sustainability Initiative - Capital**

Provincial government funding was received to undertake certain eligible capital projects within the Town that have not yet been expended.

**Donations**

During the year and in prior years, donations were received to assist with the construction of various projects throughout Town that have not yet been expended.

**8. EMPLOYEE BENEFIT OBLIGATIONS**

	<b>2014</b>	<b>2013</b>
Accrued vacation pay entitlements	\$ 113,236	\$ 121,157
Accrued sick leave payable	7,016	7,185
Accrued banked overtime hours payable	826	1,080
	<b>\$ 121,078</b>	<b>\$ 129,422</b>

The vacation, sick and overtime liability is comprised of the vacation, sick and overtime that employees are deferring to future years. Employees have either earned the benefits (and are vested) or are entitled to these benefits within the next budgetary year.



**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**9. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY**

Alberta environmental law requires closure and post-closure care of landfill sites, which includes final covering and landscaping, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspections and maintenance.

The estimated total liability is based on the sum of discounted future cash flows for closure and post-closure activities for 25 years after closure.

The accrued liability portion is based on the cumulative capacity used at year end compared to the estimated total landfill capacity. The total capacity of the site is estimated at 337,600 cubic metres. The estimated remaining capacity of the landfill site is 309,680 cubic meters. The existing landfill site is expected to reach capacity in approximately the year 2037.

The town has not designated assets for settling closure and post-closure liabilities.

	<u>2014</u>	<u>2013</u>
Estimated closure costs	\$ 326,969	\$ 326,969
Estimated post-closure costs	<u>682,260</u>	<u>682,260</u>
Estimated total liability	<u>\$ 1,009,229</u>	<u>\$ 1,009,229</u>
Estimated capacity remaining	<u>74.76 %</u>	<u>83.32 %</u>
Portion of total liability remaining to be recognized	<u>\$ 754,462</u>	<u>\$ 840,874</u>
Estimated capacity used	<u>25.24 %</u>	<u>16.68 %</u>
Accrued liability portion	<u>\$ 254,767</u>	<u>\$ 168,355</u>

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**10. LONG TERM DEBT**

	<b>2014</b>	<b>2013</b>
Tax supported debentures	\$ 1,254,689	\$ 1,343,569
Tax supported loans	1,828,969	2,058,206
Self supported debentures	448,650	349,302
Self supported loans	284,540	329,516
	<b>\$ 3,816,848</b>	<b>\$ 4,080,593</b>

The current portion of the long-term debt amounts to \$457,596 (2013 - \$428,306)

Principal and interest repayments are as follows:

	Principal	Interest	Total
2015	\$ 457,596	\$ 143,051	\$ 600,647
2016	381,603	126,969	508,572
2017	395,891	111,569	507,460
2018	334,331	97,484	431,815
2019	319,885	83,045	402,930
Thereafter	1,927,542	370,692	2,298,234
	<b>\$ 3,816,848</b>	<b>\$ 932,810</b>	<b>\$ 4,749,658</b>

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 3.804% to 6.375% per annum and mature in periods 2015 through 2030.

Debenture debt is issued on the credit and security of the Town at large.

Bank loans are repayable in monthly instalments of principal and interest with interest monthly and annual principal payments and bear interest between bank prime and 3.89%.

Interest on long-term debt amounted to \$142,044 (2013 - \$142,843).

The Town has financed certain land held for resale with long term debt. These loans amount to \$284,540 (2013 - \$329,516).

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**11. 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 Three Hills be disclosed as follows:

	<u>2014</u>	<u>2013</u>
Total debt limit	\$ 10,706,460	\$ 9,730,338
Total debt	<u>3,816,848</u>	<u>4,080,593</u>
Amount of debit limit unused	<u>\$ 6,889,612</u>	<u>\$ 5,649,745</u>
Debt servicing limit	\$ 1,784,410	\$ 1,621,723
Debt servicing	<u>600,647</u>	<u>568,159</u>
Amount of debt servicing limit unused	<u>\$ 1,183,763</u>	<u>\$ 1,053,564</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.

**12. INVENTORY FOR CONSUMPTION**

	<u>2014</u>	<u>2013</u>
Crushed concrete and pavement inventory	\$ 45,437	\$ 80,252
Landfill cell inventory	41,310	21,151
Airport fuel inventory	22,958	25,112
Economic development inventory	<u>5,232</u>	<u>5,232</u>
	<u>\$ 109,705</u>	<u>\$ 131,747</u>

**13. EQUITY IN TANGIBLE CAPITAL ASSETS**

	<u>2014</u>	<u>2013</u>
Tangible capital assets	\$ 65,377,672	\$ 63,404,459
Accumulated amortization	(22,053,978)	(20,748,950)
Long-term debt - capital (Note 10)	<u>(3,532,308)</u>	<u>(3,751,077)</u>
	<u>\$ 39,791,386</u>	<u>\$ 38,904,432</u>

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**14. ACCUMULATED SURPLUS**

	<u>2014</u>	<u>2013</u>
Unrestricted surplus	\$ 933,108	\$ 955,286
Restricted surplus:		
Operating - general fund	182,551	120,582
Operating - grant program	15,000	
Operating - transportation	9,285	
Operating - snow removal	50,267	50,000
Operating - airport	87,813	
Operating - water	132,434	130,678
Operating - water distribution	48,431	47,947
Operating - wastewater	145,184	143,350
Operating - solid waste	35,887	35,577
Operating - landfill environmental	46,489	45,741
Operating - health	11,105	
Operating - cemetery	14,304	13,189
Operating - landfill closure & post closure costs	271,120	267,133
Operating - aquatic centre	2,074	25,000
Operating - arena	12,017	25,000
Operating - library	10,000	
Capital - general fund	324,904	183,839
Capital - administration	14,395	47,622
Capital - fire	75	3,792
Capital - disaster services	25,000	
Capital - bylaw	20,000	
Capital - emergency service	318,131	
Capital - transportation	34,297	34,000
Capital - water	245,293	235,851
Capital - water offsite levy	29,555	29,075
Capital - water distribution offsite levy	13,903	13,677
Capital - wastewater	122,048	117,759
Capital - solid waste	17,931	68,701
Capital - cemetery expansion	27,506	25,735
Capital - land	183,850	
Capital - sub-division	210,065	207,319
Capital - recreation		27,011
Capital - campground	15,000	1,031
Capital - municipal reserve	73,789	72,603
Equity in tangible capital assets	<u>39,791,386</u>	<u>38,904,432</u>
	<u>\$ 43,474,197</u>	<u>\$ 41,831,930</u>

**15. TRUST FUNDS**

The Town of Three Hills administers the following trust:

	<u>2014</u>	<u>2013</u>
Tax sales trust account	<u>\$ 6,307</u>	<u>\$ 6,227</u>

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**16. BUDGET DATA**

The unaudited budget data presented in these financial statements is based upon the 2014 operating and capital budgets approved by Council. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	<u><b>Budget Amount</b></u>
<b>Revenue</b>	
Operating budget	\$ 7,106,369
Capital budget	2,533,205
Less	
Transfer to other funds	(795,370)
Proceeds on debt issue	<u>(180,000)</u>
Total revenues	<u>8,664,204</u>
<b>Expenses</b>	
Operating budget	7,106,369
Capital budget	2,533,205
Less:	
Transfer to other funds	(214,100)
Capital expenses	(2,533,205)
Debt principal payments	<u>(430,115)</u>
Total expenses	<u>6,462,154</u>
<b>Excess of revenue over expenses</b>	<u><u>\$ 2,202,050</u></u>

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**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**17. SALARY AND BENEFITS**

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:

	<b>2014</b>			<b>2013</b>
	<u>Salary</u>	<u>Benefits &amp; allowances</u>	<u>Total</u>	<u>Total</u>
Councillors:				
Councillor Campbell	\$ 16,825	\$ 613	\$ 17,438	\$ 16,284
Councillor Diack	14,080	5,388	19,468	3,732
Councillor Howe	15,879	5,091	20,970	17,936
Councillor Lee				13,040
Councillor Leo	10,135	1,256	11,391	12,110
Councillor Nadeau	10,990	5,286	16,276	16,236
Mayor Shearlaw	18,846	2,604	21,450	24,854
Councillor Wiebe	10,225	5,036	15,261	15,206
Chief Administrative Officer	125,980	25,292	151,272	142,611
Former Chief Administrative Officer				60,425

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.

**18. LOCAL AUTHORITIES PENSION PLAN**

Employees of the Town participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Public Sector Pension Plans Act. The LAPP is financed by employer and employee contributions and by 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 earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 15.84% on pensionable earnings above this amount.

Total current service contributions by the Town to the LAPP in 2014 were \$169,888 (2013 - \$152,476). Total current service contributions by the employees of the Town to the Local Authorities Pension Plan in 2014 were \$157,707 (2013 - \$143,634).

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

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**19.COMMITMENTS**

The Town has entered into an agreement with Enmax Energy Corporation for the provision of electrical energy. The agreement is from January 1, 2012 to December 31, 2016. The contract rate is fixed for the five year term at a rate of \$68.74 per mega watt.

On January 1, 2014 the Town entered into a lease agreement with the Three Hills Curling Club to lease certain Town owned facilities. The term of the lease is for 20 years with an annual rental payment of \$1.

The Town is committed under an agreement with the Marigold Library System to funding certain library initiatives annually based on a per capita formula. The town provided funding of \$18,088 in 2014 (2013 - \$16,958). It is the understanding of the town that it can withdraw from the agreement at anytime by giving a one-year notice period.

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**20.CONTINGENCIES**

The Town is a member of the Alberta Local Authorities Reciprocal Insurance Exchange (MUNIX). Under the terms of membership, the town 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.

During the current year damages were sustained at the Town's arena recreational facility. The repairs to the facility have not been corrected to a standard that is acceptable by the Town and as a result there may be additional work required in the future. Further there are additional insurance proceeds that may be receivable by the Town. The outcome nor the amount of the potential proceeds are not determinable at the present time.

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**21.FINANCIAL INSTRUMENTS**

The Town's financial instruments consist of cash and temporary investments, accounts receivable, investments, bank indebtedness, accounts payable and accrued liabilities, deposit liabilities and long-term debt. It is management's opinion that, except for certain bank demand loans bearing interest at floating rates, the Town is not exposed to significant interest or currency risks arising from these financial instruments.

The Town is subject to credit risk with respect to taxes and grants in place of taxes receivables 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 fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

Unless otherwise noted, the carrying value of the financial instrument approximates fair value.

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**22.PRIOR PERIOD ADJUSTMENTS**

The prior period financial statement have been restated to include certain tangible capital assets which were previously not included in the Town's financial records. As a result of the adjustment engineered structures (cost) has increased by \$107,276, accumulated amortization has increased by \$42,704, equity in tangible capital assets has increased by \$64,572, amortization expense has increased by \$2,460 and accumulated surplus has increased by \$2,460.

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**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**23.COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

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**24.APPROVAL OF FINANCIAL STATEMENTS**

Council and management have approved these financial statements.

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