

**TOWN OF THREE HILLS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

**TOWN OF THREE HILLS
FINANCIAL STATEMENTS
DECEMBER 31, 2015**

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	3
Consolidated Statement of Operations	4
Consolidated Statement of Changes in Net Financial Assets (Debt)	5
Consolidated Statement of Cash Flows	6
Schedule of Tangible Capital Assets	7
Schedule of Property and Other Taxes	8
Schedule of Government Transfers	8
Schedule of Consolidated Expenses by Object	9
Schedule of Changes in Accumulated Surplus	10
Notes to Financial Statements	11 - 24



410-2nd Avenue W.,
Box 2110, Hanna,
Alberta T0J 1P0

5015 Victoria Avenue,
Coronation,
Alberta T0C 1C0

103 - 2nd Avenue,
Oyen,
Alberta T0J 2J0

407 Main Street,
Three Hills,
Alberta T0M 2A0

CHARTERED ACCOUNTANTS

Jeff M. Faupel, B. Mgmt, C.A. *
Monica N. Faupel, B. Mgmt, C.A. *

Phone: (403) 854-4421
Toll Free: 1 (800) 267-5601
Fax: (403) 854-2023

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, 2015 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, 2015, 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
MARCH 23, 2016


CHARTERED ACCOUNTANTS

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

	2015	2014 (Restated)
FINANCIAL ASSETS		
Cash and temporary investments (Note 2)	\$ 4,290,696	\$ 4,131,440
Receivables		
Taxes and grants in place of taxes (Note 3)	117,078	62,116
Trade and other receivables	326,351	323,729
Receivables from other governments	1,600,177	563,327
Land inventory held for resale	587,888	587,888
Investments (Note 4)	294	294
Loans receivable (Note 5)	<u>209,092</u>	<u>98,865</u>
	<u>7,131,576</u>	<u>5,767,659</u>
LIABILITIES		
Accounts payable and accrued liabilities	365,472	457,201
Deposit liabilities (Note 6)	224,070	273,005
Deferred revenue (Note 7)	1,673,684	891,081
Employee benefit obligations (Note 8)	102,282	121,078
Provision for landfill closure and post-closure costs (Note 9)	341,859	254,767
Long-term debt (Note 10)	<u>3,360,887</u>	<u>3,816,848</u>
	<u>6,068,254</u>	<u>5,813,980</u>
NET FINANCIAL ASSETS (DEBT)	<u>1,063,322</u>	<u>(46,321)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets	42,319,259	43,370,347
Inventory for consumption (Note 12)	66,138	109,705
Prepaid expenses	<u>131,190</u>	<u>87,119</u>
	<u>42,516,587</u>	<u>43,567,171</u>
ACCUMULATED SURPLUS	<u>\$ 43,579,909</u>	<u>\$ 43,520,850</u>

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

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budget (Unaudited)	2015	2014 (Restated)
REVENUE			
Net municipal taxes (Schedule 2)	\$ 3,406,363	\$ 3,375,041	\$ 3,121,182
User fees and sale of goods	3,115,829	3,060,879	2,934,883
Government transfers for operating (Schedule 3)	405,960	407,556	297,548
Investment income	34,000	42,368	38,589
Penalties and costs on taxes	29,000	27,097	29,820
Development levies	67,965	3,205	12,180
Licenses and permits	46,500	92,608	68,042
Franchise and concession contracts	277,596	263,709	250,255
Insurance proceeds		35,782	
Gain on disposal of capital assets		13,124	14,750
Other	<u>20,300</u>	<u>107,611</u>	<u>385,141</u>
Total Revenue	<u>7,403,513</u>	<u>7,428,980</u>	<u>7,152,390</u>
EXPENSES			
Legislative	299,683	235,965	191,470
Administration	750,202	839,447	683,899
Protective services	258,549	321,762	244,568
Transportation	1,067,049	1,456,462	1,694,581
Water supply and distribution	1,086,921	1,328,529	1,322,233
Wastewater treatment and disposal	323,746	434,403	406,765
Waste management	743,149	745,007	731,819
Public health and welfare	96,567	77,853	75,739
Land use planning, zoning and development	163,024	133,693	179,153
Economic/agricultural development	150,082	117,342	120,143
Subdivision land and development	30,070	16,808	16,126
Parks and recreation	1,516,978	1,735,607	1,763,606
Culture	<u>216,334</u>	<u>212,236</u>	<u>226,675</u>
Total Expenses	<u>6,702,354</u>	<u>7,655,114</u>	<u>7,656,777</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	701,159	(226,134)	(504,387)
Government transfers for capital (Schedule 3)	1,796,321	253,455	1,339,718
Contributed and donated assets			570,198
Donations and other capital revenues	<u>31,260</u>	<u>31,738</u>	<u>235,984</u>
EXCESS OF REVENUE OVER EXPENSES	2,528,740	59,059	1,641,513
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>43,520,850</u>	<u>43,520,850</u>	<u>41,879,337</u>
ACCUMULATED SURPLUS, END OF YEAR	<u>\$ 46,049,590</u>	<u>\$ 43,579,909</u>	<u>\$ 43,520,850</u>

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budget (Unaudited)	2015	2014 (Restated)
EXCESS OF REVENUE OVER EXPENSES	\$ <u>2,528,740</u>	\$ <u>59,059</u>	\$ <u>1,641,513</u>
Acquisition of tangible capital assets	(2,533,205)	(1,004,787)	(1,784,939)
Tangible capital assets received as contributions			(570,198)
Proceeds on sale of tangible capital assets		186,724	31,900
Amortization of tangible capital assets		1,810,771	1,663,356
Gain (loss) on sale of tangible capital assets		<u>58,379</u>	<u>(7,547)</u>
	<u>(2,533,205)</u>	<u>1,051,087</u>	<u>(667,428)</u>
Change in prepaid expenses		(44,070)	21,142
Change in inventory for consumption		<u>43,567</u>	<u>22,042</u>
		<u>(503)</u>	<u>43,184</u>
DECREASE IN NET DEBT	4,465	1,109,643	1,017,269
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	<u>(46,321)</u>	<u>(46,321)</u>	<u>(1,063,590)</u>
NET FINANCIAL ASSETS (DEBT), END OF YEAR	<u>\$ (50,786)</u>	<u>\$ 1,063,322</u>	<u>\$ (46,321)</u>

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014 (Restated)
NET INFLOW(OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenues over expenses	\$ 59,059	\$ 1,641,513
Non-cash items included in excess(shortfall) of revenues over expenses:		
Amortization on tangible capital assets	1,810,771	1,663,356
Gain(loss) on sale of tangible capital assets	58,379	(7,547)
Tangible capital assets received as contributions	<u> </u>	<u>(570,198)</u>
	1,928,209	2,727,124
Changes in net financial asset(debt) items:		
Decrease(increase) in taxes and grants in place of taxes receivable	(54,962)	56,846
Decrease(increase) in trade and other receivables	(2,622)	66,968
Decrease(increase) in receivables from other governments	(1,441,419)	280,216
Decrease(increase) in inventory for consumption	43,567	22,042
Decrease(increase) in loan receivable	(110,227)	(98,865)
Decrease(increase) in land inventory held for resale		78,740
Decrease(increase) in prepaid expenses	(44,070)	21,142
Increase(decrease) in accounts payable and accrued liabilities	(91,729)	(11,032)
Increase(decrease) in deposit liabilities	(48,935)	(293,442)
Increase(decrease) in deferred revenue	1,187,172	(1,006,224)
Increase(decrease) in employee benefit obligations	(18,796)	(8,344)
Increase(decrease) in provision for landfill closure and post-closure care liability	<u>87,092</u>	<u>86,412</u>
Cash provided by (applied to) operating transactions	<u>1,433,280</u>	<u>1,921,583</u>
CAPITAL		
Acquisition of tangible capital assets	(1,004,787)	(1,784,939)
Proceeds on sale of tangible capital assets	<u>186,724</u>	<u>31,900</u>
Cash provided by (applied to) capital transactions	<u>(818,063)</u>	<u>(1,753,039)</u>
FINANCING		
Proceeds from loans		172,372
Repayment on loans	<u>(455,961)</u>	<u>(436,117)</u>
Cash provided by (applied to) financing transactions	<u>(455,961)</u>	<u>(263,745)</u>
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	159,256	(95,201)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,131,440</u>	<u>4,226,641</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,290,696</u>	<u>\$ 4,131,440</u>
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 2)	<u>\$ 4,290,696</u>	<u>\$ 4,131,440</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,290,696</u>	<u>\$ 4,131,440</u>

**TOWN OF THREE HILLS
SCHEDULE OF TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Schedule 1

	Construction in Progress	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2015	2014 (Restated)
COST:									
BALANCE, BEGINNING OF YEAR	\$ 87,035	\$ 2,703,347	\$ 3,022,045	\$ 9,874,252	\$ 45,559,659	\$ 3,207,843	\$ 980,078	\$ 65,434,259	\$ 63,461,046
Acquisition of tangible capital assets	56,773		39,791	7,896	9,670	791,555	99,099	1,004,784	2,355,137
Construction-in-progress	(6,799)					6,799			
Disposal of tangible capital assets	(64,036)	(110,450)		(43,337)	(14,362)	(63,351)		(295,536)	(381,924)
BALANCE, END OF YEAR	<u>72,973</u>	<u>2,592,897</u>	<u>3,061,836</u>	<u>9,838,811</u>	<u>45,554,967</u>	<u>3,942,846</u>	<u>1,079,177</u>	<u>66,143,507</u>	<u>65,434,259</u>
ACCUMULATED AMORTIZATION:									
BALANCE, BEGINNING OF YEAR			809,688	2,832,906	16,647,036	1,154,372	619,910	22,063,912	20,758,131
Annual amortization			161,716	297,038	1,024,033	265,718	62,266	1,810,771	1,663,356
Disposals				(8,234)	(14,074)	(28,127)		(50,435)	(357,575)
BALANCE, END OF YEAR			<u>971,404</u>	<u>3,121,710</u>	<u>17,656,995</u>	<u>1,391,963</u>	<u>682,176</u>	<u>23,824,248</u>	<u>22,063,912</u>
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 72,973</u>	<u>\$ 2,592,897</u>	<u>\$ 2,090,432</u>	<u>\$ 6,717,101</u>	<u>\$ 27,897,972</u>	<u>\$ 2,550,883</u>	<u>\$ 397,001</u>	<u>\$ 42,319,259</u>	<u>\$ 43,370,347</u>
2014 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 87,035</u>	<u>\$ 2,703,347</u>	<u>\$ 2,212,357</u>	<u>\$ 7,041,346</u>	<u>\$ 28,912,623</u>	<u>\$ 2,053,471</u>	<u>\$ 360,168</u>	<u>\$ 43,370,347</u>	

TOWN OF THREE HILLS
SCHEDULE OF PROPERTY AND OTHER TAXES
FOR THE YEAR ENDED DECEMBER 31, 2015
Schedule 2

	Budget (Unaudited)	2015	2014
TAXATION			
Real property taxes	\$ 4,081,637	\$ 4,023,806	\$ 3,772,474
Linear property taxes	66,423	84,818	84,492
Government grants in place of property taxes	15,293	19,528	20,642
Special assessments and local improvement taxes	<u>50,135</u>	<u>53,880</u>	<u>50,134</u>
	<u>4,213,488</u>	<u>4,182,032</u>	<u>3,927,742</u>
REQUISITIONS			
Alberta School Foundation Fund	802,125	802,125	803,208
Golden Hills Lodge	<u>5,000</u>	<u>4,866</u>	<u>3,352</u>
	<u>807,125</u>	<u>806,991</u>	<u>806,560</u>
NET MUNICIPAL TAXES	<u>\$ 3,406,363</u>	<u>\$ 3,375,041</u>	<u>\$ 3,121,182</u>

SCHEDULE OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31, 2015
Schedule 3

	Budget (Unaudited)	2015	2014
TRANSFERS FOR OPERATING			
Provincial government	\$ 173,625	\$ 173,625	\$ 176,051
Federal government	1,900	1,836	1,992
Local governments	<u>230,435</u>	<u>232,095</u>	<u>119,505</u>
	<u>405,960</u>	<u>407,556</u>	<u>297,548</u>
TRANSFERS FOR CAPITAL			
Provincial government	1,221,814	253,455	1,339,718
Federal government	351,072		
Local governments	<u>223,435</u>		
	<u>1,796,321</u>	<u>253,455</u>	<u>1,339,718</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 2,202,281</u>	<u>\$ 661,011</u>	<u>\$ 1,637,266</u>

TOWN OF THREE HILLS
SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2015

Schedule 4

	Budget (Unaudited)	2015	2014 (Restated)
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	\$ 3,038,211	\$ 2,720,457	\$ 2,467,390
Contracted and general services	1,363,898	1,083,707	1,223,931
Materials, goods, supplies and utilities	1,914,280	1,644,670	1,916,260
Provision for allowances	4,000	3,162	5,640
Transfers to local boards and agencies	172,013	148,340	157,827
Transfers to individuals and organizations	56,915	26,562	50,825
Bank charges and short term interest	27,479	17,360	17,269
Interest on capital long term debt	124,558	128,030	142,044
Amortization of tangible capital assets		1,810,771	1,663,356
Loss on disposal of tangible capital assets		71,503	7,203
Other expenses	1,000	552	5,032
	<u>\$ 6,702,354</u>	<u>\$ 7,655,114</u>	<u>\$ 7,656,777</u>

TOWN OF THREE HILLS
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2015

Schedule 5

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2015	2014 (Restated)
BALANCE, BEGINNING OF YEAR	\$ 933,108	\$ 2,749,703	\$ 39,838,039	\$ 43,520,850	\$ 41,879,337
Excess (deficiency) of revenues over expenses	59,059			59,059	1,641,513
Unrestricted funds designated for future use	(1,385,962)	1,385,962			
Restricted funds used for operations	95,677	(95,677)			
Restricted funds used for tangible capital assets		(559,295)	559,295		
Current year funds used for tangible capital assets	(445,492)		445,492		
Disposal of tangible capital assets	245,104		(245,104)		
Annual amortization expense	1,810,771		(1,810,771)		
Long term debt repaid	(407,701)		407,701		
Change in accumulated surplus	(28,544)	730,990	(643,387)	59,059	1,641,513
BALANCE, END OF YEAR	<u>\$ 904,564</u>	<u>\$ 3,480,693</u>	<u>\$ 39,194,652</u>	<u>\$ 43,579,909</u>	<u>\$ 43,520,850</u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 Chartered Professional Accountants of Canada. 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, 2015

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, 2015

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:

	YEARS
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.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

2. CASH AND TEMPORARY INVESTMENTS

	<u>2015</u>	<u>2014</u>
Cash	\$ 2,130,186	\$ 2,288,536
Temporary investments	2,160,510	1,842,904
	\$ 4,290,696	\$ 4,131,440

Temporary investments are short-term deposits earning interest between 1.20% and 1.90% and are either cashable or maturing between March and September 2016.

Of the cash and temporary investments \$749,004 (2014 - \$759,517) 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, 2015 - \$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

	<u>2015</u>	<u>2014</u>
Current taxes and grants in place receivables	\$ 79,871	\$ 41,384
Arrears taxes	37,207	20,732
	\$ 117,078	\$ 62,116

4. INVESTMENTS

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Other	\$ 294	\$ 294	\$ 294	\$ 294

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

5. LOANS RECEIVABLE

	<u>2015</u>	<u>2014</u>
Private company mortgage receivable	\$ 79,092	\$ 98,865
Mortgage receivable	<u>130,000</u>	<u> </u>
	<u>\$ 209,092</u>	<u>\$ 98,865</u>

The private mortgage receivable bears interest at 3.05% and is payable in semi annual principal instalments of \$9,887 plus interest, maturing in October 2019.

The mortgage receivable relates to the sale of certain Town owned property. No payments or interest is calculated on the mortgage until November 2017, at which point the mortgage will bear interest at 3% and is repayable in monthly blended payments of \$777. The mortgage matures in November 2035.

6. DEPOSIT LIABILITIES

In addition to utility and land sale deposits of \$3,500 (\$3,550 - 2014) and municipal planning deposits of \$51,539 (\$56,749 - 2014) 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 \$169,031 (\$212,706 - 2014).

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

7. DEFERRED REVENUE

	<u>2015</u>	<u>2014</u> <u>As Restated</u>
Alberta Municipal Sustainability Initiative - Capital	\$ 964,923	\$ 639,569
Basic Municipal Transportation Grant	4,420	4,358
Kneehill County	225,095	
Federal Gas Tax Fund	344,862	169,326
Donations - Tower Play Park	9,506	1,177
Donations - Anderson Park	15,701	17,515
Donations - Walking Paths Phase II		
Donations - Campground Play Park	12,610	10,495
Fire Department Donations	14,493	11,771
Permits - Operating	62,890	30,711
Arena - Operating	7,150	
Curling Club - Operating	18	
Trust - Arena Donations	4,729	
Trust - Anderson Park Lighting Donation	3,332	
Trust - Habitat For Humanity Donations	342	342
Trust - Kids' Carnival (summer)	203	3,867
Trust - Aquatic Centre Donations	51	
Trust - Hanger Tax Agreement	2,234	1,770
Trust - History Book Sales	225	180
Trust - Winter Celebration Donations	900	
	<u>\$ 1,673,684</u>	<u>\$ 891,081</u>

Municipal Sustainability Initiative - Capital

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

Kneehill County

Funding was received from Kneehill County in the current year to undertake certain approved capital projects within the next five years.

Federal Gas Tax Fund

Federal and provincial government funding is receivable or considered receivable in the current year to undertake certain eligible environmentally sustainable 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.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

8. EMPLOYEE BENEFIT OBLIGATIONS

	2015	2014
Accrued vacation pay entitlements	\$ 94,455	\$ 113,236
Accrued sick leave payable	7,474	7,016
Accrued banked overtime hours payable	353	826
	\$ 102,282	\$ 121,078

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.

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 223,255 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.

	2015	2014
Estimated closure costs	\$ 326,969	\$ 326,969
Estimated post-closure costs	682,260	682,260
Estimated total liability	\$ 1,009,229	\$ 1,009,229
Estimated capacity remaining	66.13 %	74.76 %
Portion of total liability remaining to be recognized	\$ 667,370	\$ 754,462
Estimated capacity used	33.87 %	25.24 %
Accrued liability portion	\$ 341,859	\$ 254,767

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

10. LONG TERM DEBT

	<u>2015</u>	<u>2014</u>
Tax supported debentures	\$ 1,170,013	\$ 1,254,689
Tax supported loans	1,596,742	1,828,969
Self supported debentures	357,852	448,650
Self supported loans	<u>236,280</u>	<u>284,540</u>
	<u>\$ 3,360,887</u>	<u>\$ 3,816,848</u>

The current portion of the long-term debt amounts to \$381,840 (2014 - \$457,596)

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 381,840	\$ 112,086	\$ 493,926
2017	395,616	98,012	493,628
2018	334,331	83,584	417,915
2019	319,885	71,716	391,601
2020	303,622	61,058	364,680
Thereafter	<u>1,625,593</u>	<u>338,922</u>	<u>1,964,515</u>
	<u>\$ 3,360,887</u>	<u>\$ 765,378</u>	<u>\$ 4,126,265</u>

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 4.046% to 6.375% per annum and mature in periods 2017 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 \$128,030 (2014 - \$142,044).

The Town has financed certain land held for resale with long term debt. These loans amount to \$236,280 (2014 - \$284,540).

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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>2015</u>	<u>2014</u>
Total debt limit	\$ 11,123,784	\$ 10,706,460
Total debt	<u>3,360,887</u>	<u>3,816,848</u>
Amount of debit limit unused	<u>\$ 7,762,897</u>	<u>\$ 6,889,612</u>
Debt servicing limit	\$ 1,853,964	\$ 1,784,410
Debt servicing	<u>493,926</u>	<u>600,647</u>
Amount of debt servicing limit unused	<u>\$ 1,360,038</u>	<u>\$ 1,183,763</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>2015</u>	<u>2014</u>
Crushed concrete and pavement inventory	\$ 28,440	\$ 45,437
Landfill cell inventory	26,059	41,310
Airport fuel inventory	11,639	22,958
Economic development inventory	<u>66,138</u>	<u>109,705</u>

13. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2015</u>	<u>2014</u>
Tangible capital assets	\$ 66,143,507	\$ 65,434,259
Accumulated amortization	(23,824,248)	(22,063,912)
Long-term debt - capital (Note 10)	<u>(3,124,607)</u>	<u>(3,532,308)</u>
	<u>\$ 39,194,652</u>	<u>\$ 39,838,039</u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

14. ACCUMULATED SURPLUS

	2015	2014
Unrestricted surplus	\$ 904,564	\$ 933,108
Restricted surplus:		
Operating - general fund	269,718	182,551
Operating - grant program	30,172	15,000
Operating - transportation		9,285
Operating - snow removal	50,845	50,267
Operating - airport	100,671	87,813
Operating - water	100,000	132,434
Operating - water distribution	49,009	48,431
Operating - wastewater	95,146	145,184
Operating - solid waste	36,300	35,887
Operating - landfill environmental	47,131	46,489
Operating - health	11,197	11,105
Operating - cemetery	15,800	14,304
Operating - landfill closure & post closure costs	224,378	271,120
Operating - aquatic centre		2,074
Operating - arena		12,017
Operating - library	10,041	10,000
Capital - general fund	823,929	324,904
Capital - administration		14,395
Capital - fire		75
Capital - disaster services	25,120	25,000
Capital - bylaw	99	20,000
Capital - emergency service	324,345	318,131
Capital - transportation	34,691	34,297
Capital - water	319,443	245,293
Capital - water offsite levy	29,929	29,555
Capital - water distribution offsite levy	14,077	13,903
Capital - wastewater	217,152	122,048
Capital - solid waste	60,821	17,931
Capital - cemetery expansion	6,056	27,506
Capital - land	344,729	183,850
Capital - sub-division	152,962	210,065
Capital - campground	12,123	15,000
Capital - municipal reserve	74,809	73,789
Equity in tangible capital assets	39,194,652	39,838,039
	\$ 43,579,909	\$ 43,520,850

15. TRUST FUNDS

The Town of Three Hills administers the following trust:

	2015	2014
Tax sales trust account	\$	\$ 6,307

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

16. BUDGET DATA

The unaudited budget data presented in these financial statements is based upon the 2015 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>Budget Amount</u>
Revenue	
Operating budget	\$ 8,009,981
Capital budget	3,025,069
Less	
Transfer to other funds	(1,115,964)
Proceeds on debt issue	<u>(180,809)</u>
Total revenues	<u>9,738,277</u>
Expenses	
Operating budget	8,009,981
Capital budget	3,025,069
Less:	
Transfer to other funds	(343,501)
Capital expenses	(3,025,069)
Debt principal payments	<u>(456,943)</u>
Total expenses	<u>7,209,537</u>
Excess of revenue over expenses	<u>\$ 2,528,740</u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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:

	2015			2014
	Salary	Benefits & allowances	Total	Total
Councillors:				
Councillor Campbell	\$ 17,946	\$ 6,853	\$ 24,799	\$ 17,438
Councillor Diack	15,057	5,633	20,690	19,468
Councillor Howe	15,524	5,298	20,822	20,970
Councillor Leo	11,228	387	11,615	11,391
Councillor Nadeau	15,758	5,656	21,414	16,276
Mayor Shearlaw	22,967	2,218	25,185	21,450
Councillor Wiebe	12,288	5,252	17,540	15,261
Chief Administrative Officer	145,006	25,039	170,045	151,272

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 2015 were \$186,105 (2014 - \$169,888). Total current service contributions by the employees of the Town to the Local Authorities Pension Plan in 2015 were \$171,059 (2014 - \$157,707).

At December 31, 2014, the LAPP disclosed an actuarial deficiency of \$3.95 billion.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 \$18,443 in 2015 (2014 - \$18,088). It is the understanding of the town that it can withdraw from the agreement at anytime by giving a one-year notice period.

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.

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.

22.PRIOR PERIOD ADJUSTMENTS

The prior period financial statements have been restated to include a tangible capital asset not previously recorded. As a result of the adjustment tangible capital asset cost has increased by \$56,587, tangible capital asset accumulated amortization has increased by \$9,934, amortization expense has increased by \$754, and equity in tangible capital assets has increased by \$46,653.

The prior period financial statements have been restated to include government grant entitlements and corresponding deferred government grant revenue to comply with management's current year reporting. As a result of the adjustment receivables from other governments increased by \$404,569 and deferred revenue increased by \$404,569.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

23.COMPARATIVE FIGURES

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

24.APPROVAL OF FINANCIAL STATEMENTS

Council and management have approved these financial statements.
