

**TOWN OF THREE HILLS  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**TOWN OF THREE HILLS  
FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

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# ENDEAVOR

## CHARTERED ACCOUNTANTS

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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, 2012 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, 2012, 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 28, 2013

*Endeavor*  
CHARTERED ACCOUNTANTS

**TOWN OF THREE HILLS**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2012**

	<b>2012</b>	<b>2011 (Restated)</b>
<b>FINANCIAL ASSETS</b>		
Cash and temporary investments (Note 2)	\$ 2,841,302	\$ 2,798,625
Receivables		
Taxes and grants in place of taxes (Note 3)	127,912	95,734
Trade and other receivables	439,427	294,400
Receivables from other governments	373,570	1,060,271
Land inventory held for resale	666,628	666,628
Investments (Note 4)	294	692
Loans receivable (Note 5)	<u>                    </u>	<u>1,969</u>
	<u>4,449,133</u>	<u>4,918,319</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	543,966	341,135
Payable to other governments	297	2,182
Deposit liabilities (Note 6)	525,532	494,692
Deferred revenue (Note 7)	615,836	1,411,447
Employee benefit obligations (Note 8)	137,866	119,256
Provision for landfill closure and post-closure costs (Note 9)	83,494	339,785
Long-term debt (Note 10)	<u>4,526,775</u>	<u>5,008,407</u>
	<u>6,433,766</u>	<u>7,716,904</u>
<b>NET FINANCIAL ASSETS (DEBT)</b>	<u>( 1,984,633)</u>	<u>( 2,798,585)</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	43,408,937	42,449,858
Inventory for consumption (Note 12)	153,205	137,391
Prepaid expenses	<u>93,494</u>	<u>91,270</u>
	<u>43,655,636</u>	<u>42,678,519</u>
<b>ACCUMULATED SURPLUS</b>	<u>\$ 41,671,003</u>	<u>\$ 39,879,934</u>

**COMMITMENTS (SEE NOTE 18)**  
**CONTINGENCIES (SEE NOTE 19)**

**TOWN OF THREE HILLS**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budget (Unaudited)	2012	2011 (Restated)
<b>REVENUE</b>			
Net municipal taxes (Schedule 2)	\$ 2,841,881	\$ 2,843,033	\$ 2,687,011
User fees and sale of goods	2,700,483	2,743,119	2,934,388
Government transfers for operating (Schedule 3)	274,970	310,679	298,626
Investment income	19,500	26,678	20,471
Penalties and costs on taxes	42,000	25,890	42,446
Development levies	55,000	3,205	227,708
Licenses and permits	46,500	47,007	47,233
Franchise and concession contracts	191,000	208,468	191,479
Insurance proceeds			2,080
Gain on disposal of capital assets		2,168	4,004
Other	<u>21,350</u>	<u>374,977</u>	<u>75,567</u>
<b>Total Revenue</b>	<u>6,192,684</u>	<u>6,585,224</u>	<u>6,531,013</u>
<b>EXPENSES</b>			
Legislative	261,211	202,269	200,023
Administration	561,196	557,543	735,404
Protective services	135,577	221,011	229,887
Transportation	811,378	1,446,122	1,384,818
Water supply and distribution	931,705	1,307,065	1,309,468
Wastewater treatment and disposal	213,517	411,318	421,241
Waste management	493,206	617,969	482,382
Public health and welfare	116,063	125,644	112,230
Land use planning, zoning and development	132,972	138,217	109,912
Economic/agricultural development	248,925	235,132	99,089
Subdivision land and development	27,099	46,704	193,836
Parks and recreation	1,298,334	1,535,103	1,565,130
Culture	<u>235,297</u>	<u>243,049</u>	<u>272,007</u>
<b>Total Expenses</b>	<u>5,466,480</u>	<u>7,087,146</u>	<u>7,115,427</u>
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER</b>	726,204	(501,922)	(584,414)
Government transfers for capital (Schedule 3)	2,278,807	1,989,890	1,568,482
Donations and other capital revenues	565,564	221,854	109,513
Developers' agreements and levies		<u>81,250</u>	
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES</b>	3,570,575	1,791,072	1,093,581
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<u>39,879,931</u>	<u>39,879,931</u>	<u>38,786,350</u>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<u>\$ 43,450,506</u>	<u>\$ 41,671,003</u>	<u>\$ 39,879,931</u>

**TOWN OF THREE HILLS**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budget (Unaudited)	2012	2011 (Restated)
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES</b>	\$ 3,570,575	\$ 1,791,072	\$ 1,093,581
Acquisition of tangible capital assets	(3,101,933)	(2,537,704)	(2,261,830)
Proceeds on sale of tangible capital assets		3,000	71,000
Amortization of tangible capital assets		1,568,644	1,434,600
Gain(loss) on sale of tangible capital assets		6,984	36,826
	<u>(3,101,933)</u>	<u>(959,076)</u>	<u>(719,404)</u>
Change in prepaid expenses		(2,224)	(85,437)
Change in inventory for consumption		<u>(15,814)</u>	<u>(12,911)</u>
		<u>(18,038)</u>	<u>(98,348)</u>
<b>DECREASE IN NET DEBT</b>	468,642	813,958	275,829
<b>NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR</b>	<u>(2,798,591)</u>	<u>(2,798,591)</u>	<u>(3,074,420)</u>
<b>NET FINANCIAL ASSETS (DEBT), END OF YEAR</b>	<u>\$ (2,329,949)</u>	<u>\$ (1,984,633)</u>	<u>\$ (2,798,591)</u>

**TOWN OF THREE HILLS**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>2012</b>	<b>2011</b> <b>(Restated)</b>
<b>NET INFLOW(OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Excess (shortfall) of revenues over expenses	\$ <u>1,791,072</u>	\$ <u>1,093,581</u>
Non-cash items included in excess(shortfall) of revenues over expenses:		
Amortization on tangible capital assets	1,568,644	1,434,600
Gain(loss) on sale of tangible capital assets	<u>6,984</u>	<u>36,826</u>
	<u>3,366,700</u>	<u>2,565,007</u>
Changes in net financial asset(debt) items:		
Decrease(increase) in taxes and grants in place of taxes receivable	(32,179)	125,450
Decrease(increase) in trade and other receivables	(145,027)	(3,454)
Decrease(increase) in receivables from other governments	686,701	1,491,109
Decrease(increase) on inventory for consumption	(15,814)	(12,911)
Decrease(increase) in land inventory held for resale		159,463
Decrease(increase) in prepaid expenses	(2,224)	(85,437)
Increase(decrease) in accounts payable and accrued liabilities	200,942	(760,669)
Increase(decrease) in deposit liabilities	30,840	(125,210)
Increase(decrease) in deferred revenue	(795,611)	(36,807)
Increase(decrease) in employee benefit obligations	18,610	3,401
Increase(decrease) in provision for landfill closure and post-closure care liability	<u>(256,291)</u>	<u>7,022</u>
Cash provided by (applied to) operating transactions	<u>3,056,647</u>	<u>3,326,964</u>
<b>CAPITAL</b>		
Acquisition of tangible capital assets	(2,537,704)	(2,261,830)
Proceeds on sale of tangible capital assets	<u>3,000</u>	<u>71,000</u>
Cash provided by (applied to) capital transactions	<u>(2,534,704)</u>	<u>(2,190,830)</u>
<b>INVESTING</b>		
increase (decrease) in investments	398	159
increase (decrease) in loans receivable	<u>1,969</u>	<u>62</u>
Cash provided by (applied to) investing transactions	<u>2,367</u>	<u>221</u>
<b>FINANCING</b>		
Long term debt issued	136,400	
Long term debt repaid	<u>(618,033)</u>	<u>(472,343)</u>
Cash provided by (applied to) financing transactions	<u>(481,633)</u>	<u>(472,343)</u>
<b>CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR</b>	42,677	664,012
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,798,625</u>	<u>2,134,613</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,841,302</u>	<u>\$ 2,798,625</u>
<b>Cash and cash equivalents is made up of:</b>		
Cash and temporary investments (Note 2)	<u>\$ 2,841,302</u>	<u>\$ 2,798,625</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,841,302</u>	<u>\$ 2,798,625</u>

**TOWN OF THREE HILLS**  
**SCHEDULE OF TANGIBLE CAPITAL ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Schedule 1

	Construction in Progress	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2012	2011 (Restated)
<b>COST:</b>									
BALANCE, BEGINNING OF YEAR	\$ 153,313	\$ 2,703,347	\$ 2,033,371	\$ 9,201,052	\$ 42,787,230	\$ 2,234,951	\$ 895,717	\$ 60,008,981	\$ 58,001,603
Acquisition of tangible capital assets	(45,146)		231,352	63,690	1,751,831	119,265	72,500	2,193,492	2,194,161
Construction-in-progress	344,212				(39,153)		(16,637)	344,212	67,669
Disposal of tangible capital assets								(55,790)	(254,452)
BALANCE, END OF YEAR	<u>452,379</u>	<u>2,703,347</u>	<u>2,264,723</u>	<u>9,264,742</u>	<u>44,499,908</u>	<u>2,354,216</u>	<u>951,580</u>	<u>62,490,895</u>	<u>60,008,981</u>
<b>ACCUMULATED AMORTIZATION:</b>									
BALANCE, BEGINNING OF YEAR			415,282	1,971,729	13,696,741	993,122	482,250	17,559,124	16,268,522
Annual amortization			116,478	278,263	966,228	141,358	66,317	1,568,644	1,434,600
Disposals					(30,001)		(15,805)	(45,806)	(143,998)
BALANCE, END OF YEAR			<u>531,760</u>	<u>2,249,992</u>	<u>14,632,968</u>	<u>1,134,480</u>	<u>532,762</u>	<u>19,081,962</u>	<u>17,559,124</u>
<b>NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS</b>	<u>\$ 452,379</u>	<u>\$ 2,703,347</u>	<u>\$ 1,732,963</u>	<u>\$ 7,014,750</u>	<u>\$ 29,866,940</u>	<u>\$ 1,219,736</u>	<u>\$ 418,818</u>	<u>\$ 43,408,933</u>	<u>\$ 42,449,857</u>
2011 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 153,313</u>	<u>\$ 2,703,347</u>	<u>\$ 1,618,089</u>	<u>\$ 7,229,323</u>	<u>\$ 29,090,489</u>	<u>\$ 1,241,829</u>	<u>\$ 413,467</u>	<u>\$ 42,449,857</u>	



**TOWN OF THREE HILLS**  
**SCHEDULE OF PROPERTY AND OTHER TAXES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**Schedule 2**

	Budget (Unaudited)	2012	2011
<b>TAXATION</b>			
Real property taxes	\$ 3,527,552	\$ 3,498,248	\$ 3,290,758
Linear property taxes	56,599	75,228	70,024
Government grants in place of property taxes	14,979	19,923	19,274
Special assessments and local improvement taxes	<u>74,924</u>	<u>81,794</u>	<u>74,924</u>
	<u>3,674,054</u>	<u>3,675,193</u>	<u>3,454,980</u>
<b>REQUISITIONS</b>			
Alberta School Foundation Fund	829,995	829,995	766,383
Golden Hills Lodge	<u>2,178</u>	<u>2,165</u>	<u>1,586</u>
	<u>832,173</u>	<u>832,160</u>	<u>767,969</u>
<b>NET MUNICIPAL TAXES</b>	<u>\$ 2,841,881</u>	<u>\$ 2,843,033</u>	<u>\$ 2,687,011</u>

**SCHEDULE OF GOVERNMENT TRANSFERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**Schedule 3**

	Budget (Unaudited)	2012	2011 (Restated)
<b>TRANSFERS FOR OPERATING</b>			
Provincial government	\$ 193,868	\$ 183,543	\$ 207,331
Federal government	4,553	7,887	6,666
Local governments	<u>76,549</u>	<u>119,249</u>	<u>84,629</u>
	<u>274,970</u>	<u>310,679</u>	<u>298,626</u>
<b>TRANSFERS FOR CAPITAL</b>			
Provincial government	2,182,362	972,211	1,325,581
Federal government		962,033	157,043
Local governments	<u>96,445</u>	<u>55,646</u>	<u>85,858</u>
	<u>2,278,807</u>	<u>1,989,890</u>	<u>1,568,482</u>
<b>TOTAL GOVERNMENT TRANSFERS</b>	<u>\$ 2,553,777</u>	<u>\$ 2,300,569</u>	<u>\$ 1,867,108</u>

**TOWN OF THREE HILLS**  
**SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**Schedule 4**

	Budget (Unaudited)	2012	2011
<b>CONSOLIDATED EXPENSES BY OBJECT</b>			
Salaries, wages and benefits	\$ 2,420,875	\$ 2,428,326	\$ 2,271,708
Contracted and general services	1,026,252	951,844	1,306,102
Materials, goods, supplies and utilities	1,417,738	1,559,612	1,476,770
Provision for allowances		8,425	
Transfers to local boards and agencies	325,281	294,875	279,017
Transfers to individuals and organizations	72,650	70,399	96,378
Bank charges and short term interest	32,591	31,412	34,183
Interest on capital long term debt	153,038	153,475	172,097
Amortization of tangible capital assets		1,568,644	1,434,600
Loss on disposal of tangible capital assets		9,152	40,830
Other expenses	18,055	10,982	3,742
	<u>\$ 5,466,480</u>	<u>\$ 7,087,146</u>	<u>\$ 7,115,427</u>

TOWN OF THREE HILLS

SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS  
FOR THE YEAR ENDED DECEMBER 31, 2012

Schedule 5

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2012	2011 (Restated)
<b>BALANCE, BEGINNING OF YEAR</b>	\$ 845,957	\$ 1,178,171	\$ 37,855,803	\$ 39,879,931	\$ 38,786,350
Excess (deficiency) of revenues over expenses	1,791,072			1,791,072	1,093,581
Unrestricted funds designated for future use	(546,079)	546,079			
Restricted funds used for operations	134,427	(134,427)			
Restricted funds used for tangible capital assets		(50,000)	50,000		
Current year funds used for tangible capital assets	(2,351,307)		2,351,307		
Disposal of tangible capital assets	9,984		(9,984)		
Annual amortization expense	1,568,644		(1,568,644)		
Long term debt repaid	(576,461)		576,461		
Change in accumulated surplus	30,280	361,652	1,399,140	1,791,072	1,093,581
<b>BALANCE, END OF YEAR</b>	\$ 876,237	\$ 1,539,823	\$ 39,254,943	\$ 41,671,003	\$ 39,879,931

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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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, 2012**

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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, 2012**

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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**  
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**2. CASH AND TEMPORARY INVESTMENTS**

	<u>2012</u>	<u>2011</u>
Cash	\$ 1,175,727	\$ 1,144,334
Temporary investments	<u>1,665,575</u>	<u>1,654,291</u>
	<u>\$ 2,841,302</u>	<u>\$ 2,798,625</u>

Temporary investments are short-term deposits earning interest between 1.45% and 2.3% and are either cashable or maturing between the period January 2013 to May 2013.

Of the cash and temporary investments \$1,141,368 (2011 - \$1,906,139) 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, 2012 - \$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>2012</u>	<u>2011</u>
Current taxes and grants in place receivables	\$ 84,780	\$ 65,963
Arrears taxes	<u>43,132</u>	<u>29,771</u>
	<u>\$ 127,912</u>	<u>\$ 95,734</u>

**4. INVESTMENTS**

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Other	<u>\$ 294</u>	<u>\$ 294</u>	<u>\$ 692</u>	<u>\$ 692</u>

**5. LOANS RECEIVABLE**

	<u>2012</u>	<u>2011</u>
Kneehill Historical Society loan	<u>\$</u>	<u>\$ 1,969</u>

**TOWN OF THREE HILLS**  
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**6. DEPOSIT LIABILITIES**

In addition to utility and land sale deposits of \$69,378 (\$29,350 - 2011) and municipal planning deposits of \$55,619 (\$61,967 - 2011) 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 \$400,535 (\$403,375 - 2011).

**7. DEFERRED REVENUE**

	2012	2011 (Restated)
Alberta Municipal Sustainability Initiative - Capital	\$ 334,265	\$ 566,165
Alberta Municipal Sustainability Initiative - Operating	10,326	12,283
Federal Gas Tax Fund		586,634
Kneehill County - Anderson Legacy	90,255	96,445
Donations - Anderson Pathway	111,652	
Donations - Anderson Park	34,450	
Donations - Community Centre Project		49,456
Pool Donation		39,708
Recreation Donation		50,000
Play Park Donations	2,000	
Fire Department Donations	7,400	4,050
Permits - Operating	19,941	3,506
Arena - Operating	3,200	3,200
Other Donations	2,347	
	\$ 615,836	\$ 1,411,447

**Municipal Sustainability Initiative - Capital**

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

**Municipal Sustainability Initiative - Operating**

Provincial government funding was received to undertake certain eligible expenditures of non-capital nature within the town that have not yet been expended.

**Kneehill County - Anderson Legacy**

Local government funding was received in the prior year to assist with the construction of Anderson Legacy park which has not yet been expended.

**Donations - Anderson Pathway**

Donated funding was received in the current year to assist with the construction of a pathway which has not yet been expended

**Donations - Anderson Park**

Private funding was received during the year for construction of the Anderson Park which has not yet been expended.



**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**8. EMPLOYEE BENEFIT OBLIGATIONS**

	<u>2012</u>	<u>2011</u>
Accrued vacation pay entitlements	\$ 112,950	\$ 99,016
Accrued sick leave payable	19,933	19,033
Accrued banked overtime hours payable	<u>4,983</u>	<u>1,207</u>
	<u>\$ 137,866</u>	<u>\$ 119,256</u>

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 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.

During the current year the Town reviewed its landfill plan and determined that certain revisions were required. As a result of the revision to the plan it was determined that the total landfill capacity and useful life would be re-evaluated and reduced. As a result of this revision it was determined that certain closure and post-closure care costs that were reflected in the Town's records needed to be re-evaluated given the change in plan. As a result the total estimated closure and post-closure costs have been reduced and treated as a charge to current year income due to the change in accounting estimate.

	<u>2012</u>	<u>2011</u>
Estimated closure costs	\$ 326,969	\$ 753,047
Estimated post-closure costs	<u>682,260</u>	<u>300,000</u>
Estimated total liability	<u>\$ 1,009,229</u>	<u>\$ 1,053,047</u>
Estimated capacity remaining	<u>91.73 %</u>	<u>67.73 %</u>
Portion of total liability remaining to be recognized	<u>\$ 925,735</u>	<u>\$ 713,284</u>
Estimated capacity used	<u>8.27 %</u>	<u>32.27 %</u>
Accrued liability portion	<u>\$ 83,494</u>	<u>\$ 339,785</u>

**TOWN OF THREE HILLS**  
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**10. LONG TERM DEBT**

	<u>2012</u>	<u>2011</u>
Tax supported debentures	\$ 1,436,544	\$ 1,609,756
Tax supported loans	2,280,696	2,443,091
Self supported debentures	436,756	541,209
Self supported loans	<u>372,779</u>	<u>414,351</u>
	<u>\$ 4,526,775</u>	<u>\$ 5,008,407</u>

The current portion of the long-term debt amounts to \$442,420 (2011 - \$467,709)

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 442,420	\$ 156,311	\$ 598,731
2014	428,306	139,853	568,159
2015	433,052	124,110	557,162
2016	356,767	109,227	465,994
2017	370,324	95,670	465,994
Thereafter	<u>2,495,906</u>	<u>442,966</u>	<u>2,938,872</u>
	<u>\$ 4,526,775</u>	<u>\$ 1,068,137</u>	<u>\$ 5,594,912</u>

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 2.538% to 11.625% per annum, before Provincial subsidy, and mature in periods 2010 through 2029. For qualifying debentures, the Province of Alberta rebates 60% of the interest in excess of 8%, 9% and 11% to a maximum annual rate of 12.5%, depending on the date borrowed.

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 5.4%.

Interest on long-term debt amounted to \$153,475 (2011 - \$172,097).

The town has financed certain land held for resale with long term debt. These loans amount to \$372,779 (2011 - \$414,351).

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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:

	<b>2012</b>	<b>2011</b>
Total debt limit	\$ 9,874,584	\$ 9,790,514
Total debt	4,526,775	5,008,407
Amount of debit limit unused	\$ 5,347,809	\$ 4,782,107
Debt servicing limit	\$ 1,645,764	\$ 1,631,752
Debt servicing	598,731	648,838
Amount of debt servicing limit unused	\$ 1,047,033	\$ 982,914

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**

	<b>2012</b>	<b>2011</b> <b>(Restated)</b>
Crushed concrete and pavement inventory	\$ 83,349	\$ 90,735
Landfill cell inventory	41,941	16,437
Airport fuel inventory	17,483	30,219
Economic development inventory	10,432	
	\$ 153,205	\$ 137,391

**13. EQUITY IN TANGIBLE CAPITAL ASSETS**

	<b>2012</b>	<b>2011</b> <b>(Restated)</b>
Tangible capital assets	\$ 62,490,895	\$ 60,008,981
Accumulated amortization	(19,081,962)	(17,559,124)
Long-term debt - capital (Note 10)	(4,153,996)	(4,594,056)
	\$ 39,254,937	\$ 37,855,801

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**14. ACCUMULATED SURPLUS**

	<u>2012</u>	<u>2011</u> <b>(Restated)</b>
Unrestricted surplus	\$ 876,241	\$ 845,960
Restricted surplus:		
Operating - general fund	127,000	
Operating - Centennial		25,892
Operating - water	128,560	128,560
Operating - water distribution	47,170	47,170
Operating - wastewater	107,076	107,076
Operating - solid waste	35,000	35,000
Operating - landfill environmental	45,000	45,000
Operating - cemetery	12,483	7,783
Operating - landfill closure & post closure costs	263,291	
Capital - general fund	131,038	
Capital - administration	50,376	50,376
Capital - fire	3,731	3,731
Capital - water	139,040	139,040
Capital - water offsite levy	28,668	28,668
Capital - water distribution offsite levy	13,486	13,486
Capital - wastewater	15,116	15,116
Capital - wastewater offsite levy		107,473
Capital - solid waste	69,550	70,612
Capital - cemetery expansion	24,580	17,530
Capital - sub-division	205,887	205,887
Capital - recreation	21,347	58,347
Capital - municipal reserve	71,426	71,426
Equity in tangible capital assets	<u>39,254,937</u>	<u>37,855,801</u>
	<u>\$ 41,671,003</u>	<u>\$ 39,879,934</u>

**15. TRUST FUNDS**

The Town of Three Hills administers the following trust:

	<u>2012</u>	<u>2011</u>
Tax sales trust account	\$ <u>6,156</u>	\$ <u>6,096</u>

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**16. 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:

	2012			2011
	Salary	Benefits & allowances	Total	Total
Councillors:				
Councillor Campbell	\$ 16,825	\$ 5,212	\$ 22,037	\$ 28,377
Councillor Howe	14,344	6,190	20,534	19,874
Councillor Lee	14,588	3,675	18,263	17,493
Councillor Leo	12,582	4,133	16,715	16,000
Councillor Nadeau	12,750	6,554	19,304	14,145
Mayor Shearlaw	23,339	4,877	28,216	29,135
Councillor Wiebe	13,369	5,843	19,212	13,891
Chief Administrative Officer	123,567	24,557	148,124	138,795

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 and retirement planning services, concessionary loans, travel allowances, car allowances and club memberships.

**17. 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 Alberta Public Sector Pension Plans Act. The LAPP serves about 133,000 people and 389 employers. 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 9.91% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.74% on pensionable earnings above this amount. Employees of the town are required to make current service contributions of 8.91% of pensionable salary up to the year's maximum pensionable salary and 12.74% on pensionable salary above this amount.

Total current service contributions by the town to the LAPP in 2012 were \$137,722 (2011 - \$114,870). Total current service contributions by the employees of the town to the Local Authorities Pension Plan in 2012 were \$127,658 (2011 - \$103,439).

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

**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**18.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.

The town has entered into an agreement with a local organization for the sale of town land held for resale. As part of the agreement the town has received deposits totalling \$50,000 and will finalize the sale upon receipt of the final deposit in 2013.

The town has entered into an agreement with a private company for the sale of town land held for resale. The purchaser has paid a deposit to the town of \$16,478 and will finalize the sale upon receipt of final payment.

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 \$16,278 in 2012 (2011 - \$15,613). 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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**19.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.

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**20.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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**TOWN OF THREE HILLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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**21. PRIOR PERIOD ADJUSTMENTS**

The prior period financial statement have been restated to correct the reporting of certain accounts receivable balances, deferred revenue balances, to include airport revenue and expenses previously not reported, and to correct amortization determinations on road infrastructure for a revision in accounting policy. As a result of the adjustment trade receivables have decreased by \$8,754, receivable from other governments has increased by \$568, accounts payable have decreased by \$67,645, deposit liabilities has increased by \$400, deferred revenues have increased by \$4,050, tangible capital assets has decreased by \$466,301, inventory has increased by \$30,219, prepaid expenses have increased by \$4,394, revenues have increased by \$114,612, expenses have increased by \$125,337, and accumulated surplus has decreased by \$365,955.

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**22. COMPARATIVE FIGURES**

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

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**23. APPROVAL OF FINANCIAL STATEMENTS**

Council and management have approved these financial statements.

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