

**TOWN OF THREE HILLS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

**TOWN OF THREE HILLS
FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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ENDEAVOR

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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, 2013 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, 2013, 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 13, 2014

Endeavor
CHARTERED ACCOUNTANTS

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013

	2013	2012
FINANCIAL ASSETS		
Cash and temporary investments (Note 2)	\$ 4,226,641	\$ 2,841,302
Receivables		
Taxes and grants in place of taxes (Note 3)	118,962	127,912
Trade and other receivables	390,697	439,427
Receivables from other governments	34,405	373,570
Land inventory held for resale	666,628	666,628
Investments (Note 4)	<u>294</u>	<u>294</u>
	<u>5,437,627</u>	<u>4,449,133</u>
LIABILITIES		
Accounts payable and accrued liabilities	468,234	543,965
Payable to other governments		297
Deposit liabilities (Note 5)	566,447	525,532
Deferred revenue (Note 6)	1,088,167	615,836
Employee benefit obligations (Note 7)	129,422	137,866
Provision for landfill closure and post-closure costs (Note 8)	168,355	83,494
Long-term debt (Note 9)	<u>4,080,593</u>	<u>4,526,775</u>
	<u>6,501,218</u>	<u>6,433,765</u>
NET FINANCIAL ASSETS (DEBT)	<u>(1,063,591)</u>	<u>(1,984,632)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets	42,590,937	43,408,936
Inventory for consumption (Note 11)	131,747	153,205
Prepaid expenses	<u>108,261</u>	<u>93,494</u>
	<u>42,830,945</u>	<u>43,655,635</u>
ACCUMULATED SURPLUS	<u>\$ 41,767,354</u>	<u>\$ 41,671,003</u>

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

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budget (Unaudited)	2013	2012
REVENUE			
Net municipal taxes (Schedule 2)	\$ 2,945,923	\$ 2,951,995	\$ 2,843,033
User fees and sale of goods	2,585,065	2,778,123	2,743,119
Government transfers for operating (Schedule 3)	310,370	320,006	310,879
Investment income	26,700	30,428	26,678
Penalties and costs on taxes	26,000	29,565	25,890
Development levies	6,000	3,205	3,205
Licenses and permits	46,800	50,468	47,007
Franchise and concession contracts	226,250	235,480	208,468
Insurance proceeds		23,272	
Gain on disposal of capital assets			2,168
Other	<u>15,895</u>	<u>64,350</u>	<u>374,977</u>
Total Revenue	<u>6,189,003</u>	<u>6,486,892</u>	<u>6,585,224</u>
EXPENSES			
Legislative	281,275	220,782	202,269
Administration	587,385	596,297	557,543
Protective services	142,615	230,259	221,011
Transportation	828,276	1,486,106	1,446,122
Water supply and distribution	945,025	1,263,693	1,307,065
Wastewater treatment and disposal	213,092	392,460	411,318
Waste management	639,800	680,089	617,969
Public health and welfare	77,458	84,557	125,644
Land use planning, zoning and development	127,742	107,118	138,217
Economic/agricultural development	107,355	111,077	235,132
Subdivision land and development	28,461	21,337	46,704
Parks and recreation	1,364,376	1,634,864	1,535,103
Culture	<u>237,930</u>	<u>257,600</u>	<u>243,049</u>
Total Expenses	<u>5,580,790</u>	<u>7,086,239</u>	<u>7,087,146</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	608,213	(599,347)	(501,922)
Government transfers for capital (Schedule 3)	1,003,759	327,833	1,989,890
Donations and other capital revenues	432,202	367,865	221,854
Developers' agreements and levies			<u>81,250</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	2,044,174	98,351	1,791,072
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>41,671,003</u>	<u>41,671,003</u>	<u>39,879,931</u>
ACCUMULATED SURPLUS, END OF YEAR	<u>\$ 43,715,177</u>	<u>\$ 41,767,354</u>	<u>\$ 41,671,003</u>

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budget (Unaudited)	2013	2012
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ <u>2,044,174</u>	\$ <u>96,351</u>	\$ <u>1,791,072</u>
Acquisition of tangible capital assets	(2,036,884)	(826,376)	(2,537,704)
Proceeds on sale of tangible capital assets		3,000	3,000
Amortization of tangible capital assets		1,630,303	1,568,644
Gain(loss) on sale of tangible capital assets	<u> </u>	<u>14,070</u>	<u>6,984</u>
	<u>(2,036,884)</u>	<u>817,997</u>	<u>(959,076)</u>
Change in prepaid expenses		(14,767)	(2,224)
Change in inventory for consumption	<u> </u>	<u>21,458</u>	<u>(15,814)</u>
		<u>6,691</u>	<u>(18,038)</u>
DECREASE IN NET DEBT	7,290	921,039	813,958
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	<u>(1,984,632)</u>	<u>(1,984,632)</u>	<u>(2,798,590)</u>
NET FINANCIAL ASSETS (DEBT), END OF YEAR	<u>\$ (1,977,342)</u>	<u>\$ (1,063,593)</u>	<u>\$ (1,984,632)</u>

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

2013

2012

NET INFLOW(OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:

OPERATING

Excess (shortfall) of revenues over expenses	\$ <u>96,351</u>	\$ <u>1,791,072</u>
Non-cash items included in excess(shortfall) of revenues over expenses:		
Amortization on tangible capital assets	1,630,303	1,568,644
Gain(loss) on sale of tangible capital assets	<u>14,070</u>	<u>6,984</u>
	1,740,724	3,366,700
Changes in net financial asset(debt) items:		
Decrease(increase) in taxes and grants in place of taxes receivable	8,950	(32,179)
Decrease(increase) in trade and other receivables	48,730	(145,027)
Decrease(increase) in receivables from other governments	339,165	686,701
Decrease(increase) on inventory for consumption	21,458	(15,814)
Decrease(increase) in prepaid expenses	(14,767)	(2,224)
Increase(decrease) in accounts payable and accrued liabilities	(76,026)	200,942
Increase(decrease) in deposit liabilities	40,915	30,840
Increase(decrease) in deferred revenue	472,331	(795,611)
Increase(decrease) in employee benefit obligations	(8,444)	18,610
Increase(decrease) in provision for landfill closure and post-closure care liability	<u>84,861</u>	<u>(256,291)</u>
Cash provided by (applied to) operating transactions	<u>2,657,897</u>	<u>3,056,647</u>

CAPITAL

Acquisition of tangible capital assets	(826,376)	(2,537,704)
Proceeds on sale of tangible capital assets	<u>3,000</u>	<u>3,000</u>
Cash provided by (applied to) capital transactions	<u>(826,376)</u>	<u>(2,534,704)</u>

INVESTING

Decrease in investments		398
Decrease in loans	<u>1,969</u>	<u>1,969</u>
Cash provided by (applied to) investing transactions	<u>2,367</u>	<u>2,367</u>

FINANCING

Proceeds from loans		136,400
Repayment on loans	<u>(446,182)</u>	<u>(618,033)</u>
Cash provided by (applied to) financing transactions	<u>(446,182)</u>	<u>(481,633)</u>

CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR

1,385,339 42,677

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

2,841,302 2,798,625

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 4,226,641 \$ 2,841,302

Cash and cash equivalents is made up of:

Cash and temporary investments (Note 2)	\$ <u>4,226,641</u>	\$ <u>2,841,302</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 4,226,641 \$ 2,841,302

**TOWN OF THREE HILLS
SCHEDULE OF TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Schedule 1

	Construction in Progress	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2013	2012
COST:									
BALANCE, BEGINNING OF YEAR	\$ 452,379	\$ 2,703,347	\$ 2,264,723	\$ 9,264,742	\$ 44,499,908	\$ 2,354,216	\$ 951,580	\$62,490,895	\$60,008,981
Acquisition of tangible capital assets	(374,392)		499,953	552,877	41,008	37,937	46,819	804,202	2,193,492
Construction-in-progress	22,174				(16,412)	(3,426)		22,174	344,212
Disposal of tangible capital assets	(250)							(20,088)	(55,790)
BALANCE, END OF YEAR	<u>99,911</u>	<u>2,703,347</u>	<u>2,764,676</u>	<u>9,817,619</u>	<u>44,524,504</u>	<u>2,388,727</u>	<u>998,399</u>	<u>63,297,183</u>	<u>62,490,895</u>
ACCUMULATED AMORTIZATION:									
BALANCE, BEGINNING OF YEAR			531,760	2,249,992	14,632,968	1,134,480	532,762	19,081,962	17,559,124
Annual amortization			130,443	287,036	995,582	149,457	67,785	1,630,303	1,568,644
Disposals					(3,237)	(2,782)		(6,019)	(45,806)
BALANCE, END OF YEAR			<u>662,203</u>	<u>2,537,028</u>	<u>15,625,313</u>	<u>1,281,155</u>	<u>600,547</u>	<u>20,706,246</u>	<u>19,081,962</u>
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>\$ 28,899,191</u>	<u>\$ 1,107,572</u>	<u>\$ 397,852</u>	<u>\$42,590,937</u>	<u>\$43,408,933</u>
2012 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<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>	

TOWN OF THREE HILLS
SCHEDULE OF PROPERTY AND OTHER TAXES
FOR THE YEAR ENDED DECEMBER 31, 2013
Schedule 2

	Budget (Unaudited)	2013	2012
TAXATION			
Real property taxes	\$ 3,609,786	\$ 3,588,098	\$ 3,498,248
Linear property taxes	60,519	80,009	75,228
Government grants in place of property taxes	14,878	19,739	19,923
Special assessments and local improvement taxes	<u>76,799</u>	<u>80,206</u>	<u>81,794</u>
	<u>3,761,980</u>	<u>3,768,052</u>	<u>3,875,193</u>
REQUISITIONS			
Alberta School Foundation Fund	813,679	813,679	829,995
Golden Hills Lodge	<u>2,378</u>	<u>2,378</u>	<u>2,165</u>
	<u>816,057</u>	<u>816,057</u>	<u>832,160</u>
NET MUNICIPAL TAXES	<u>\$ 2,945,923</u>	<u>\$ 2,951,995</u>	<u>\$ 2,843,033</u>

SCHEDULE OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31, 2013
Schedule 3

	Budget (Unaudited)	2013	2012
TRANSFERS FOR OPERATING			
Provincial government	\$ 193,405	\$ 203,804	\$ 183,543
Federal government	4,630		7,887
Local governments	<u>112,335</u>	<u>118,202</u>	<u>119,249</u>
	<u>310,370</u>	<u>320,008</u>	<u>310,679</u>
TRANSFERS FOR CAPITAL			
Provincial government	913,504	237,578	972,211
Federal government			962,033
Local governments	<u>90,255</u>	<u>90,255</u>	<u>55,646</u>
	<u>1,003,759</u>	<u>327,833</u>	<u>1,989,890</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 1,314,129</u>	<u>\$ 647,839</u>	<u>\$ 2,300,569</u>

TOWN OF THREE HILLS
SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2013

Schedule 4

	Budget (Unaudited)	2013	2012
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	\$ 2,551,304	\$ 2,348,357	\$ 2,428,326
Contracted and general services	1,061,921	1,040,546	951,844
Materials, goods, supplies and utilities	1,487,427	1,629,167	1,559,612
Provision for allowances		870	8,425
Transfers to local boards and agencies	229,624	182,262	294,875
Transfers to individuals and organizations	72,760	67,366	70,399
Bank charges and short term interest	30,183	29,543	31,412
Interest on capital long term debt	146,271	142,843	153,475
Amortization of tangible capital assets		1,630,303	1,568,644
Loss on disposal of tangible capital assets		14,070	9,152
Other expenses	1,300	912	10,982
	<u>\$ 5,580,790</u>	<u>\$ 7,086,239</u>	<u>\$ 7,087,146</u>

TOWN OF THREE HILLS
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2013

Schedule 5

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2013	2012
BALANCE, BEGINNING OF YEAR	<u>\$ 876,242</u>	<u>\$ 1,539,823</u>	<u>\$ 39,254,938</u>	<u>\$ 41,671,003</u>	<u>\$ 39,879,931</u>
Excess (deficiency) of revenues over expenses	96,351			96,351	1,791,072
Unrestricted funds designated for future use	(484,883)	484,883			
Restricted funds used for operations	28,953	(28,953)			
Restricted funds used for tangible capital assets	(802,831)	(23,545)	23,545		
Current year funds used for tangible capital assets	14,070		802,831		
Disposal of tangible capital assets	1,630,303		(14,070)		
Annual amortization expense	(402,919)		(1,630,303)		
Long term debt repaid	(402,919)		402,919		
Change in accumulated surplus	<u>79,044</u>	<u>432,385</u>	<u>(415,078)</u>	<u>96,351</u>	<u>1,791,072</u>
BALANCE, END OF YEAR	<u>\$ 955,286</u>	<u>\$ 1,972,208</u>	<u>\$ 38,839,860</u>	<u>\$ 41,767,354</u>	<u>\$ 41,871,003</u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013

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, 2013

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, 2013

2. CASH AND TEMPORARY INVESTMENTS

	<u>2013</u>	<u>2012</u>
Cash	\$ 2,258,932	\$ 1,175,727
Temporary investments	1,967,709	1,665,575
	\$ 4,226,641	\$ 2,841,302

Temporary investments are short-term deposits earning interest between 1.30% and 2.15% and are either cashable or maturing between January 2014 to May 2014.

Of the cash and temporary investments \$1,654,614 (2012 - \$1,141,368) 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, 2013 - \$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>2013</u>	<u>2012</u>
Current taxes and grants in place receivables	\$ 58,527	\$ 84,780
Arrears taxes	80,435	43,132
	\$ 118,962	\$ 127,912

4. INVESTMENTS

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Other	\$ 294	\$ 294	\$ 294	\$ 294

5. DEPOSIT LIABILITIES

In addition to utility and land sale deposits of \$83,978 (\$69,378 - 2012) and municipal planning deposits of \$55,669 (\$55,619 - 2012) 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 \$426,800 (\$400,535 - 2012).

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
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6. DEFERRED REVENUE

	<u>2013</u>	<u>2012</u>
Alberta Municipal Sustainability Initiative - Capital	\$ 698,982	\$ 334,265
Basic Municipal Transportation Grant	194,793	
Alberta Municipal Sustainability Initiative - Operating		10,326
Donations - Tower Play Park	54,671	
Donations - Anderson Park	43,582	34,450
Donations - Walking Paths Phase II	37,549	
Kneehill County - Tower Play Park	25,900	
Donations - Campground Play Park	2,003	2,000
Fire Department Donations	5,593	7,400
Other Donations	1,755	2,347
Donations - Anderson Pathway		111,652
Kneehill County - Anderson Legacy		90,255
Permits - Operating	19,762	19,941
Arena - Operating	<u>3,577</u>	<u>3,200</u>
	<u>\$ 1,088,167</u>	<u>\$ 615,836</u>

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.

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.

7. EMPLOYEE BENEFIT OBLIGATIONS

	<u>2013</u>	<u>2012</u>
Accrued vacation pay entitlements	\$ 121,157	\$ 112,950
Accrued sick leave payable	7,185	19,933
Accrued banked overtime hours payable	<u>1,080</u>	<u>4,983</u>
	<u>\$ 129,422</u>	<u>\$ 137,866</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.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
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8. 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>2013</u>	<u>2012</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>83.32 %</u>	<u>91.73 %</u>
Portion of total liability remaining to be recognized	<u>\$ 840,874</u>	<u>\$ 925,735</u>
Estimated capacity used	<u>16.68 %</u>	<u>8.27 %</u>
Accrued liability portion	<u>\$ 168,355</u>	<u>\$ 83,494</u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

9. LONG TERM DEBT

	2013	2012
Tax supported debentures	\$ 1,343,569	\$ 1,436,544
Tax supported loans	2,058,206	2,280,696
Self supported debentures	349,302	436,756
Self supported loans	329,516	372,779
	\$ 4,080,593	\$ 4,526,775

The current portion of the long-term debt amounts to \$428,306 (2012 - \$442,420)

Principal and interest repayments are as follows:

	Principal	Interest	Total
2014	\$ 428,306	\$ 139,853	\$ 568,159
2015	433,052	124,110	557,162
2016	356,767	109,227	465,994
2017	370,539	95,670	466,209
2018	308,451	81,769	390,220
Thereafter	2,183,478	362,120	2,545,598
	\$ 4,080,593	\$ 912,749	\$ 4,993,342

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 2.538% to 6.375% per annum and mature in periods 2014 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 \$142,843 (2012 - \$153,475).

The town has financed certain land held for resale with long term debt. These loans amount to \$329,516 (2012 - \$372,779).

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

10. 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>2013</u>	<u>2012</u>
Total debt limit	\$ 9,730,338	\$ 9,874,584
Total debt	<u>4,080,593</u>	<u>4,526,775</u>
Amount of debit limit unused	<u>\$ 5,649,745</u>	<u>\$ 5,347,809</u>
Debt servicing limit	\$ 1,621,723	\$ 1,645,764
Debt servicing	<u>568,159</u>	<u>598,731</u>
Amount of debt servicing limit unused	<u>\$ 1,053,564</u>	<u>\$ 1,047,033</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.

11. INVENTORY FOR CONSUMPTION

	<u>2013</u>	<u>2012</u>
Crushed concrete and pavement inventory	\$ 80,252	\$ 83,349
Landfill cell inventory	21,151	41,941
Airport fuel inventory	25,112	17,483
Economic development inventory	<u>5,232</u>	<u>10,432</u>
	<u>\$ 131,747</u>	<u>\$ 153,205</u>

12. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2013</u>	<u>2012</u>
Tangible capital assets	\$ 63,297,183	\$ 62,490,895
Accumulated amortization	(20,706,246)	(19,081,962)
Long-term debt - capital (Note 9)	<u>(3,751,077)</u>	<u>(4,153,996)</u>
	<u>\$ 38,839,860</u>	<u>\$ 39,254,937</u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

13. ACCUMULATED SURPLUS

	<u>2013</u>	<u>2012</u>
Unrestricted surplus	\$ 955,284	\$ 876,241
Restricted surplus:		
Operating - general fund	120,580	127,000
Operating - snow removal	50,000	
Operating - water	130,678	128,560
Operating - water distribution	47,947	47,170
Operating - wastewater	143,350	107,076
Operating - solid waste	35,577	35,000
Operating - landfill environmental	45,741	45,000
Operating - cemetery	13,189	12,483
Operating - landfill closure & post closure costs	267,133	263,291
Operating - aquatic centre	25,000	
Operating - arena	25,000	
Capital - general fund	183,839	131,038
Capital - administration	47,622	50,376
Capital - fire	3,792	3,731
Capital - transportation	34,000	
Capital - water	235,851	139,040
Capital - water offsite levy	29,075	28,668
Capital - water distribution offsite levy	13,677	13,486
Capital - wastewater	117,759	15,116
Capital - solid waste	68,701	69,550
Capital - cemetery expansion	25,735	24,580
Capital - sub-division	207,319	205,887
Capital - recreation	27,011	21,347
Capital - campground	1,031	
Capital - municipal reserve	72,603	71,426
Equity in tangible capital assets	<u>38,839,860</u>	<u>39,254,937</u>
	<u>\$ 41,767,354</u>	<u>\$ 41,671,003</u>

14. TRUST FUNDS

The Town of Three Hills administers the following trust:

	<u>2013</u>	<u>2012</u>
Tax sales trust account	\$ <u>6,227</u>	\$ <u>6,156</u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

15. BUDGET DATA

The unaudited budget data presented in these financial statements is based upon the 2013 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	\$ 6,256,003
Capital budget	2,036,884
Less	
Transfer to other funds	(537,923)
Proceeds on debt issue	<u>(130,000)</u>
Total revenues	<u>7,624,964</u>
Expenses	
Operating budget	6,256,003
Capital budget	2,036,884
Less:	
Transfer to other funds	(222,250)
Capital expenses	(2,036,884)
Debt principal payments	<u>(452,963)</u>
Total expenses	<u>5,580,790</u>
Excess of revenue over expenses	<u><u>\$ 2,044,174</u></u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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:

	<u>2013</u>			<u>2012</u>
	<u>Salary</u>	<u>Benefits & allowances</u>	<u>Total</u>	<u>Total</u>
Councillors:				
Councillor Campbell	\$ 14,721	\$ 1,563	\$ 16,284	\$ 17,726
Councillor Diack	2,914	818	3,732	
Councillor Howe	13,062	4,874	17,936	17,839
Councillor Lee	9,383	3,657	13,040	14,722
Councillor Leo	10,551	1,559	12,110	13,328
Councillor Nadeau	11,162	5,074	16,236	16,496
Mayor Shearlaw	20,145	4,709	24,854	24,073
Councillor Wiebe	10,385	4,821	15,206	16,825
Chief Administrative Officer	119,759	22,852	142,611	
Former Chief Administrative Officer	55,626	4,799	60,425	140,370

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.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 223,000 people and 428 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 10.43% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 14.47% on pensionable earnings above this amount. Employees of the town are required to make current service contributions of 9.43% of pensionable salary up to the year's maximum pensionable salary and 13.47% on pensionable salary above this amount.

Total current service contributions by the town to the LAPP in 2013 were \$152,476 (2012 - \$137,722). Total current service contributions by the employees of the town to the Local Authorities Pension Plan in 2013 were \$143,634 (2012 - \$127,658).

At December 31, 2012, the LAPP disclosed an actuarial deficiency of \$4.635 billion.

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 \$64,000 and will finalize the sale upon receipt of the final deposit in 2014.

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 acceptance of the agreement by both parties.

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 \$16,958 in 2013 (2012 - \$16,278). It is the understanding of the town that it can withdraw from the agreement at anytime by giving a one-year notice period.

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.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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.

21. APPROVAL OF FINANCIAL STATEMENTS

Council and management have approved these financial statements.
