

**TOWN OF THREE HILLS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

**TOWN OF THREE HILLS
FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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CHARTERED PROFESSIONAL
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, 2017 and the statement of operations, change in net financial assets 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, 2017, the results of its operations, change in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

HANNA, ALBERTA
MARCH 28, 2018

Endeavor
CHARTERED PROFESSIONAL ACCOUNTANTS

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	2017	2016
FINANCIAL ASSETS		
Cash and temporary investments (Note 2)	\$ 7,818,672	\$ 5,189,672
Receivables		
Taxes and grants in place of taxes (Note 3)	95,062	134,808
Trade and other receivables	345,705	329,984
Receivables from other governments	190,397	1,728,637
Land inventory held for resale	898,594	688,747
Investments (Note 4)	294	294
Loans receivable (Note 5)	<u>129,516</u>	<u>189,319</u>
	<u>9,478,240</u>	<u>8,261,461</u>
LIABILITIES		
Accounts payable and accrued liabilities	617,036	614,697
Deposit liabilities (Note 6)	187,237	186,003
Deferred revenue (Note 7)	1,628,949	1,576,871
Employee benefit obligations (Note 8)	140,605	135,063
Provision for landfill closure and post-closure costs (Note 9)	351,667	346,401
Long-term debt (Note 10)	<u>2,612,369</u>	<u>3,037,300</u>
	<u>5,537,863</u>	<u>5,896,335</u>
NET FINANCIAL ASSETS	<u>3,940,377</u>	<u>2,365,126</u>
NON-FINANCIAL ASSETS		
Tangible capital assets	41,702,394	42,275,096
Inventory for consumption (Note 12)	21,117	45,007
Prepaid expenses	<u>78,295</u>	<u>84,623</u>
	<u>41,801,806</u>	<u>42,404,726</u>
ACCUMULATED SURPLUS	<u>\$ 45,742,183</u>	<u>\$ 44,769,852</u>

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

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
REVENUE			
Net municipal taxes (Schedule 2)	\$ 3,597,720	\$ 3,594,324	\$ 3,458,698
User fees and sale of goods	3,219,741	3,483,828	3,097,873
Government transfers for operating (Schedule 3)	363,303	364,748	382,335
Investment income	34,000	76,673	60,715
Penalties and costs on taxes	33,000	28,596	33,803
Development levies	2,250		
Licenses and permits	52,700	64,732	97,838
Franchise and concession contracts	290,789	277,653	261,221
Gain on disposal of tangible capital assets			120,995
Other	<u>23,400</u>	<u>63,969</u>	<u>38,653</u>
Total Revenue	<u>7,616,903</u>	<u>7,954,523</u>	<u>7,552,131</u>
EXPENSES			
Legislative	336,498	333,476	440,324
Administration	882,889	822,058	813,839
Protective services	322,960	330,856	328,493
Transportation	1,029,272	1,410,459	1,476,701
Water supply and distribution	1,072,878	1,431,745	1,348,230
Wastewater treatment and disposal	316,542	499,087	460,325
Waste management	722,020	657,628	663,446
Public health and welfare	111,835	281,361	92,201
Land use planning, zoning and development	185,129	176,865	175,786
Economic development	124,308	103,158	90,575
Subdivision land and development	44,895	15,798	10,800
Parks and recreation	1,614,467	1,882,173	1,731,014
Culture	<u>218,835</u>	<u>235,236</u>	<u>214,285</u>
Total Expenses	<u>6,982,528</u>	<u>8,179,900</u>	<u>7,846,019</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER	634,375	(225,377)	(293,888)
Government transfers for capital (Schedule 3)	10,523,346	1,150,229	1,431,954
Contributed and donated assets			13,543
Donations and other capital revenues		<u>47,479</u>	<u>38,334</u>
EXCESS OF REVENUE OVER EXPENSES	11,157,721	972,331	1,189,943
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>44,769,852</u>	<u>44,769,852</u>	<u>43,579,909</u>
ACCUMULATED SURPLUS, END OF YEAR	<u>\$ 55,927,573</u>	<u>\$ 45,742,183</u>	<u>\$ 44,769,852</u>

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
EXCESS OF REVENUE OVER EXPENSES	\$ <u>11,157,721</u>	\$ <u>972,331</u>	\$ <u>1,189,943</u>
Acquisition of tangible capital assets	(17,334,413)	(1,318,748)	(1,829,948)
Tangible capital assets received as contributions			(13,543)
Proceeds on sale of tangible capital assets			130,755
Amortization of tangible capital assets		1,879,131	1,857,334
Gain (loss) on sale of tangible capital assets	<u> </u>	<u>12,319</u>	<u>(100,435)</u>
	<u>(17,334,413)</u>	<u>572,702</u>	<u>44,163</u>
Change in prepaid expenses		6,328	46,567
Change in inventory for consumption	<u> </u>	<u>23,890</u>	<u>21,131</u>
		<u>30,218</u>	<u>67,698</u>
DECREASE (INCREASE) IN NET ASSETS	(6,176,692)	1,575,251	1,301,804
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>2,365,126</u>	<u>2,365,126</u>	<u>1,063,322</u>
NET FINANCIAL ASSETS, END OF YEAR	<u>\$ (3,811,566)</u>	<u>\$ 3,940,377</u>	<u>\$ 2,365,126</u>

TOWN OF THREE HILLS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
NET INFLOW(OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenues over expenses	\$ 972,331	\$ 1,189,943
Non-cash items included in excess(shortfall) of revenues over expenses:		
Amortization on tangible capital assets	1,879,131	1,857,334
Gain(loss) on sale of tangible capital assets	12,319	(100,435)
Tangible capital assets received as contributions	<u> </u>	<u>(13,543)</u>
	2,863,781	2,933,299
Changes in net financial asset(debt) items:		
Decrease(increase) in taxes and grants in place of taxes receivable	39,746	(17,731)
Decrease(increase) in trade and other receivables	(15,722)	(3,632)
Decrease(increase) in receivables from other governments	1,538,240	(128,460)
Decrease(increase) in inventory for consumption	23,890	21,131
Decrease(increase) in loan receivable	59,803	19,773
Decrease(increase) in land inventory held for resale	(209,846)	(100,859)
Decrease(increase) in prepaid expenses	6,328	46,567
Increase(decrease) in accounts payable and accrued liabilities	2,339	249,224
Increase(decrease) in deposit liabilities	1,234	(38,067)
Increase(decrease) in deferred revenue	52,078	(96,813)
Increase(decrease) in employee benefit obligations	5,542	32,782
Increase(decrease) in provision for landfill closure and post-closure care liability	<u>5,266</u>	<u>4,542</u>
Cash provided by (applied to) operating transactions	<u>4,372,679</u>	<u>2,921,756</u>
CAPITAL		
Acquisition of tangible capital assets	(1,318,748)	(1,829,948)
Proceeds on sale of tangible capital assets	<u> </u>	<u>130,755</u>
Cash provided by (applied to) capital transactions	<u>(1,318,748)</u>	<u>(1,699,193)</u>
FINANCING		
Proceeds from loans	<u> </u>	85,000
Repayment on loans	(424,931)	(408,587)
Cash provided by (applied to) financing transactions	<u>(424,931)</u>	<u>(323,587)</u>
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	2,629,000	898,976
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,189,672</u>	<u>4,290,696</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,818,672</u>	<u>\$ 5,189,672</u>
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 2)	<u>\$ 7,818,672</u>	<u>\$ 5,189,672</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,818,672</u>	<u>\$ 5,189,672</u>

**TOWN OF THREE HILLS
SCHEDULE OF TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Schedule 1

	Construction in Progress	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	2017	2016
COST:									
BALANCE, BEGINNING OF YEAR	\$ 181,128	\$ 2,597,995	\$ 3,100,944	\$10,400,553	\$ 46,369,210	\$ 4,088,059	\$ 1,077,411	\$67,815,300	\$66,143,507
Acquisition of tangible capital assets	(172,618)		363,339	195,842	777,479	119,818	34,888	1,318,748	1,843,491
Disposal of tangible capital assets	(5,630)		(18,540)		(685)	(18,238)		(43,093)	(171,698)
BALANCE, END OF YEAR	<u>2,880</u>	<u>2,597,995</u>	<u>3,445,743</u>	<u>10,596,395</u>	<u>47,146,004</u>	<u>4,189,639</u>	<u>1,112,299</u>	<u>69,090,955</u>	<u>67,815,300</u>
ACCUMULATED AMORTIZATION:									
BALANCE, BEGINNING OF YEAR			1,123,896	3,412,210	18,667,272	1,631,336	705,490	25,540,204	23,824,248
Annual amortization			165,117	314,258	1,011,623	330,862	57,271	1,879,131	1,857,334
Disposals			(18,539)		(685)	(11,550)		(30,774)	(141,378)
BALANCE, END OF YEAR			<u>1,270,474</u>	<u>3,726,468</u>	<u>19,678,210</u>	<u>1,950,648</u>	<u>762,761</u>	<u>27,388,561</u>	<u>25,540,204</u>
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 2,880</u>	<u>\$ 2,597,995</u>	<u>\$ 2,175,269</u>	<u>\$ 6,869,927</u>	<u>\$ 27,467,794</u>	<u>\$ 2,238,991</u>	<u>\$ 349,538</u>	<u>\$ 41,702,394</u>	<u>\$ 42,275,096</u>
2016 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 181,128</u>	<u>\$ 2,597,995</u>	<u>\$ 1,977,048</u>	<u>\$ 6,988,343</u>	<u>\$ 27,701,938</u>	<u>\$ 2,456,723</u>	<u>\$ 371,921</u>	<u>\$ 42,275,096</u>	

TOWN OF THREE HILLS
SCHEDULE OF PROPERTY AND OTHER TAXES
FOR THE YEAR ENDED DECEMBER 31, 2017

Schedule 2

	Budget (Unaudited)	2017	2016
TAXATION			
Real property taxes	\$ 4,307,039	\$ 4,295,958	\$ 4,148,855
Linear property taxes	63,606	81,411	81,877
Government grants in place of property taxes	12,780	14,792	12,737
Special assessments and local improvement taxes	<u>50,135</u>	<u>50,133</u>	<u>48,203</u>
	<u>4,433,560</u>	<u>4,442,294</u>	<u>4,291,672</u>
REQUISITIONS			
Alberta School Foundation Fund	830,690	842,485	827,854
Golden Hills Lodge	<u>5,150</u>	<u>5,485</u>	<u>5,120</u>
	<u>835,840</u>	<u>847,970</u>	<u>832,974</u>
NET MUNICIPAL TAXES	<u>\$ 3,597,720</u>	<u>\$ 3,594,324</u>	<u>\$ 3,458,698</u>

SCHEDULE OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31, 2017

Schedule 3

	Budget (Unaudited)	2017	2016
TRANSFERS FOR OPERATING			
Provincial government	\$ 159,503	\$ 153,809	\$ 159,503
Federal government	1,800	7,222	6,656
Local governments	<u>202,000</u>	<u>203,717</u>	<u>216,176</u>
	<u>363,303</u>	<u>364,748</u>	<u>382,335</u>
TRANSFERS FOR CAPITAL			
Provincial government	10,122,976	821,063	769,918
Federal government	156,000	156,000	346,225
Local governments	<u>244,370</u>	<u>173,166</u>	<u>315,811</u>
	<u>10,523,346</u>	<u>1,150,229</u>	<u>1,431,954</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 10,886,649</u>	<u>\$ 1,514,977</u>	<u>\$ 1,814,289</u>

TOWN OF THREE HILLS
SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2017

Schedule 4

	Budget (Unaudited)	2017	2016
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	\$ 3,296,192	\$ 3,054,482	\$ 2,983,776
Contracted and general services	1,341,286	1,277,350	1,147,851
Materials, goods, supplies and utilities	1,917,802	1,549,815	1,473,132
Provision for allowances	1,000	251	290
Transfers to local boards and agencies	163,169	161,996	158,263
Transfers to individuals and organizations	140,637	126,513	72,755
Bank charges and short term interest	18,330	18,877	17,071
Interest on capital long term debt	102,386	96,714	111,555
Amortization of tangible capital assets		1,879,131	1,857,334
Loss on disposal of tangible capital assets		12,319	20,560
Other expenses	1,726	2,452	3,432
	<u>\$ 6,982,528</u>	<u>\$ 8,179,900</u>	<u>\$ 7,846,019</u>

TOWN OF THREE HILLS
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2017

Schedule 5

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2017	2016 (Restated)
BALANCE, BEGINNING OF YEAR	\$ 1,213,104	\$ 4,135,335	\$ 39,421,413	\$ 44,769,852	\$ 43,579,909
Excess (deficiency) of revenues over expenses	972,331			972,331	1,189,943
Unrestricted funds designated for future use	(1,444,926)	1,444,926			
Restricted funds used for operations	62,603	(62,603)			
Restricted funds used for tangible capital assets	(821,047)	(497,701)	497,701		
Current year funds used for tangible capital assets	12,319		821,047		
Disposal of tangible capital assets	1,879,131		(12,319)		
Annual amortization expense	(371,193)		(1,879,131)		
Long term debt repaid			371,193		
Change in accumulated surplus	289,218	884,622	(201,509)	972,331	1,189,943
BALANCE, END OF YEAR	\$ 1,502,322	\$ 5,019,957	\$ 39,219,904	\$ 45,742,183	\$ 44,769,852

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Three Hills are the representations of management prepared in accordance with Canadian public sector accounting standards. 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.

Significant financial statement areas requiring the use of management estimates include:

- Landfill closure and post closure liability;
- Employee benefits obligations;
- Useful life of tangible capital assets;
- Accrued liabilities;
- Fair value of contributed tangible capital assets

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1.. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on deposits with financial institutions and highly liquid investments.

e) 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.

f) 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.

g) 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.

h) 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.

i) 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.

j) 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.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1.. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Net Municipal Taxes

Property tax revenue is based on market value assessments determined in accordance with the Municipal Government Act (MGA) and tax rates established annually by Town Council. Taxation revenues are recorded at the time the tax billings are issued. Assessments may change due to appeal or as a result of adjustments made by assessors to correct errors or omissions. Gain or losses on assessment changes or appeals are recorded as adjustments to tax revenue and receivables when a written decision is received from the authorized board or a change is generated by the authorized assessor.

l) 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.

m) 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.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1.. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. CASH AND TEMPORARY INVESTMENTS

	2017	2016
Cash	\$ 3,963,997	\$ 1,394,324
Temporary investments	3,854,675	3,795,348
	\$ 7,818,672	\$ 5,189,672

Temporary investments are short-term deposits earning interest between 1.47% and 1.85% and are either cashable or maturing between June 2018 and December 2018.

Of the cash and temporary investments \$1,816,186 (2016 - \$830,955) 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, 2017 - \$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

	2017	2016
Current taxes and grants in place receivables	\$ 62,683	\$ 86,910
Arrears taxes	32,379	47,898
	\$ 95,062	\$ 134,808

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. INVESTMENTS

	2017		2016	
	Cost	Market Value	Cost	Market Value
Other	\$ <u>294</u>	\$ <u>294</u>	\$ <u>294</u>	\$ <u>294</u>

5. LOANS RECEIVABLE

	2017	2016
Private company mortgage receivable	\$	\$ 59,319
Mortgage receivable	<u>129,516</u>	<u>130,000</u>
	<u>\$ 129,516</u>	<u>\$ 189,319</u>

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 security deposits of \$3,350 (\$3,450 - 2016) and municipal planning deposits of \$42,389 (\$42,939 - 2016) 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 \$141,498 (\$139,614 - 2016).

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

7. DEFERRED REVENUE

	2017		2016
Alberta Municipal Sustainability Initiative - Capital	\$ 890,501	\$	956,497
Kneehill County	304,861		367,482
Federal Gas Tax Fund	351,270		174,139
Donations - Anderson Park	16,402		15,915
Fire Department Donations	23,285		19,258
Red Deer & District Community Grant			2,000
Permits - Operating	15,900		22,064
Curling Club - Operating	16		17
Unearned Revenue	9,321		9,275
Trust - Arena Donations	61		61
Trust - Anderson Park Lighting Donations	4,198		4,138
Trust - Habitat For Humanity Donations			342
Trust - Kids' Carnival/night Out	8,602		542
Trust - Aquatic Centre Donations	52		51
Trust - Hanger Tax Agreement	3,250		2,729
Trust - History Book Sales	230		
Trust - Winter Celebration Donations	1,000		2,361
	\$ 1,628,949	\$	1,576,871

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 or considered receivable 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 received 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, 2017

8. EMPLOYEE BENEFIT OBLIGATIONS

	<u>2017</u>		<u>2016</u>
Accrued vacation pay entitlements	\$ 132,827	\$	127,907
Accrued sick leave payable	7,213		6,226
Accrued banked overtime hours payable	<u>565</u>		<u>930</u>
	<u>\$ 140,605</u>	\$	<u>135,063</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.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

10. LONG TERM DEBT

	2017	2016
Tax supported debentures	\$ 1,001,265	\$ 1,087,707
Tax supported loans	1,312,754	1,500,543
Self supported debentures	168,471	265,433
Self supported loans	129,879	183,617
	\$ 2,612,369	\$ 3,037,300

The current portion of the long-term debt amounts to \$364,272 (2016 - \$424,979)

Principal and interest repayments are as follows:

	Principal	Interest	Total
2018	\$ 364,272	\$ 85,623	\$ 449,895
2019	323,019	73,718	396,737
2020	284,121	63,577	347,698
2021	221,189	54,603	275,792
2022	197,089	47,626	244,715
Thereafter	1,222,679	146,880	1,369,559
	\$ 2,612,369	\$ 472,027	\$ 3,084,396

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 2018 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 2.05% and 3.39%.

Interest on long-term debt amounted to \$96,714 (2016 - \$111,555).

The Town has financed certain land held for resale with long term debt. These loans amount to \$129,879 (2016 - \$183,617).

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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>2017</u>	<u>2016</u>
Total debt limit	\$ 11,931,785	\$ 11,146,704
Total debt	<u>2,612,369</u>	<u>3,037,300</u>
Amount of debit limit unused	<u>\$ 9,319,416</u>	<u>\$ 8,109,404</u>
Debt servicing limit	\$ 1,988,631	\$ 1,857,784
Debt servicing	<u>449,895</u>	<u>525,312</u>
Amount of debt servicing limit unused	<u>\$ 1,538,736</u>	<u>\$ 1,332,472</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>2017</u>	<u>2016</u>
Landfill cell inventory	\$ 10,713	\$ 17,374
Airport fuel inventory	<u>10,404</u>	<u>27,633</u>
	<u>\$ 21,117</u>	<u>\$ 45,007</u>

13. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2017</u>	<u>2016</u>
Tangible capital assets	\$ 69,090,955	\$ 67,815,300
Accumulated amortization	(27,388,561)	(25,540,204)
Long-term debt - capital (Note 10)	<u>(2,482,490)</u>	<u>(2,853,683)</u>
	<u>\$ 39,219,904</u>	<u>\$ 39,421,413</u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

14. ACCUMULATED SURPLUS

	<u>2017</u>	<u>2016</u>
Unrestricted surplus	\$ 1,502,322	\$ 1,213,104
Restricted surplus:		
Operating - general fund	263,237	271,128
Operating - grant program	81,062	30,602
Operating - mill rate stabilization	302,691	300,000
Operating - snow removal	52,344	51,569
Operating - airport	147,736	116,447
Operating - water	102,948	101,424
Operating - water distribution	50,454	49,707
Operating - wastewater	96,588	96,113
Operating - solid waste	63,526	62,711
Operating - landfill environmental	48,521	47,802
Operating - health	11,527	11,356
Operating - cemetery	20,282	17,625
Operating - landfill rate stabilization	129,845	177,181
Operating - library	10,337	10,184
Capital - general fund	1,342,366	996,431
Capital - disaster services	25,861	25,478
Capital - bylaw	8,935	5,697
Capital - emergency service	333,993	328,664
Capital - transportation	35,714	35,185
Capital - water	836,478	526,668
Capital - water offsite levy	30,861	30,371
Capital - water distribution offsite levy	14,516	14,285
Capital - wastewater	501,134	285,267
Capital - solid waste	138,181	75,935
Capital - cemetery expansion	12,259	8,542
Capital - land	210,568	329,247
Capital - sub-division	19,150	18,954
Capital - recreation	10,236	10,084
Capital - campground	41,593	24,804
Capital - municipal reserve	77,014	75,874
Equity in tangible capital assets	<u>39,219,904</u>	<u>39,421,413</u>
	<u>\$ 45,742,183</u>	<u>\$ 44,769,852</u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

15. BUDGET DATA

The unaudited budget data presented in these financial statements is based upon the 2017 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	\$ 8,222,555
Capital budget	17,334,413
Less	
Transfer to other funds	(1,101,757)
Proceeds on debt issue	<u>(5,860,262)</u>
Total revenues	<u>18,594,949</u>
Expenses	
Operating budget	8,222,555
Capital budget	17,334,413
Less:	
Transfer to other funds	(360,408)
Capital expenses	(17,334,413)
Debt principal payments	<u>(424,919)</u>
Total expenses	<u>7,437,228</u>
Excess of revenue over expenses	<u><u>\$ 11,157,721</u></u>

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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:

	2017			2016
	<u>Salary</u>	<u>Benefits & allowances</u>	<u>Total</u>	<u>Total</u>
Councillors:				
Councillor Campbell	\$ 15,640	\$ 2,874	\$ 18,514	\$ 22,986
Councillor Diack	12,455	5,122	17,577	22,570
Councillor Hamm	3,835	627	4,462	
Councillor Howe	11,829	4,815	16,644	22,257
Councillor Leo	13,051	5,803	18,854	12,972
Councillor Nadeau	8,790	4,986	13,776	18,501
Councillor Sept	3,113	102	3,215	
Mayor Shearlaw	21,713	736	22,449	29,497
Councillor Wiebe	13,516	5,778	19,294	22,538
Councillor Wildeman	2,448	1,022	3,470	
Chief Administrative Officer	150,037	33,909	183,946	178,836

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.

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 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 2017 were \$220,559 (2016 - \$200,621). Total current service contributions by the employees of the Town to the Local Authorities Pension Plan in 2017 were \$202,534 (2016 - \$184,244).

At December 31, 2016, the LAPP disclosed an actuarial deficit of \$637 million. This amount is not specifically allocated to the participating government organizations. The 2017 actuarial balance was not available at the date these financial statements were released.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

18.COMMITMENTS

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 \$19,186 in 2017 (2016 - \$18,831). 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 has entered into an agreement with Alberta Municipal Affairs under the Alberta Municipal Water/Wastewater Partnership program to receive grant funding for upgrades to the Town's water treatment plant. Alberta Municipal Affairs has committed to fund a maximum of \$8.9 million on the project and the expected budgeted cost of the project is approximately \$14.8 million.

The Town is presently working with their engineers as well as Alberta Environment to develop a long-term plan for the future use of the Town's landfill. As of the date of these financial statements the total capacity of the site and total remaining capacity of the landfill is not known. as a result the total landfill closure and post-closure care liability has been estimated based on the previous estimated total landfill capacity.

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.

No provision has been made for any lawsuits or legal claims filed against the Town as management believes the Town has minimal exposure to these actions at December 31, 2017.

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.

TOWN OF THREE HILLS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

21. BUDGET AMOUNTS

The 2017 budget for the Town was approved by council and has been reported in the consolidated financial statement for information purposes only. These budget amounts have not been audited, reviewed, or otherwise verified.

22. COMPARATIVE FIGURES

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

23. APPROVAL OF FINANCIAL STATEMENTS

Council and management have approved these financial statements.
