



**Town of Hinton**  
**STANDING COMMITTEE MEETING**  
**Agenda**  
**April 21, 2015 - 3:00 PM**  
**Committee Room, Hinton Government Centre**

**TOWN COUNCIL MISSION**  
*Council serves the interests of our citizens  
to enable our community to reach full  
potential.*

Page

**ORDER**

1. Call to Order

**ADOPTION OF AGENDA**

1. Standing Committee Agenda - April 21, 2015

**ACTION AND DISCUSSION ITEMS**

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1. Town of Hinton Consolidated Financial Statements Year Ended December 31, 2104 - Presented by Auditor Gerald Joly of Mergaert, Barford, Williams & Joly (60 minutes)

**IN CAMERA**

1. Confidential Consultations (FOIP) (15 minutes)

**ADJOURNMENT**

1. Adjournment

**Mergaert, Barford, Williams & Joly**  
Chartered Accountants

**TOWN OF HINTON**  
**Consolidated Financial Statements**  
**Year Ended December 31, 2014**

*Draft for discussion purposes only*

**TOWN OF HINTON**  
**Index to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

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Draft for discussion purposes only

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**INDEPENDENT AUDITOR'S REPORT**

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To the Councillors of Town of Hinton

We have audited the accompanying consolidated financial statements of Town of Hinton, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of operations, changes in accumulated surplus, changes 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 Town of Hinton as at December 31, 2014, and the results of its operations, changes in accumulated surplus, changes in net financial assets (debt) and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Edson, Alberta  
April 21, 2015

CHARTERED ACCOUNTANTS



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**TOWN OF HINTON**  
**Consolidated Statement of Financial Position**  
**December 31, 2014**

	2014	2013
<b>FINANCIAL ASSETS</b>		
Cash and temporary investments (Note 2)	\$ 9,140,256	\$ 13,319,387
Receivables		
Taxes and grants in place of taxes (Note 3)	765,777	800,044
Trade and other receivables (Note 4)	4,572,667	2,574,933
Land held for resale	1,545,524	1,982,595
	<b>16,024,224</b>	<b>18,676,959</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	3,531,795	3,300,410
Deposit liabilities	1,025,431	1,165,642
Deferred revenue (Note 6)	3,161,255	5,287,916
Landfill closure and post-closure liability	-	317,557
Due to West Yellowhead Regional Waste Management Authority (Note 7)	949,428	185,650
Long term debt (Note 8)	13,520,636	15,602,045
	<b>22,188,545</b>	<b>25,859,220</b>
NET FINANCIAL DEBT	<b>(6,164,321)</b>	<b>(7,182,261)</b>
<b>NON-FINANCIAL ASSETS</b>		
Prepaid expenses	3,947	4,870
Inventory for consumption	559,865	482,912
Long term investments (Note 10)	2,824,446	1,874,293
Tangible capital assets	147,797,837	143,153,418
	<b>151,186,095</b>	<b>145,515,493</b>
<b>ACCUMULATED SURPLUS</b> (Note 12)	<b>\$145,021,774</b>	<b>\$138,333,232</b>
CONTINGENT LIABILITY (Note 16)		

**APPROVED BY**

\_\_\_\_\_ *Member of Council*

\_\_\_\_\_ *Authorized Signing Officer*

See notes to financial statements

**Mergaert, Barford,  
Williams & Joly**

Chartered Accountants Page 5 of 40

**TOWN OF HINTON**  
**Consolidated Statement of Operations**  
**Year Ended December 31, 2014**

	(Unaudited) Budget	2014	2013
<b>REVENUE</b>			
Net municipal taxes ( <i>Schedule 2</i> )	\$ 11,413,096	\$ 11,360,221	\$ 11,050,799
Government transfers for operating ( <i>Schedule 3</i> )	3,318,858	3,523,834	2,722,898
User fees and sales of goods	5,717,010	5,852,933	5,525,214
Fines	1,535,000	1,880,362	1,599,824
Rentals	514,950	724,985	524,462
Franchise fees	1,087,119	1,246,497	1,099,955
Investment income	95,000	197,231	120,018
Licenses and permits	128,000	131,682	126,474
Development levies	-	499,744	111,710
Penalties and costs on taxes	180,000	236,013	220,737
Other	2,500	87,249	35,335
West Yellowhead Regional Waste Management Authority	-	-	446,580
Gain (loss) on disposal of tangible capital assets	43,982	(68,220)	94,322
	<u>24,035,515</u>	<u>25,672,531</u>	<u>23,678,328</u>
<b>EXPENSES</b>			
Legislative	566,060	472,885	420,790
Administration	2,826,208	2,775,622	2,832,846
Protective services	4,547,954	4,658,004	4,414,796
Roads, streets, and equipment	4,771,325	4,902,183	4,973,273
Water, wastewater and waste management	3,208,678	3,210,696	3,080,609
Family and community support	1,353,027	1,310,826	1,351,006
Planning and development	1,650,836	1,733,630	1,464,819
Recreation and parks	4,644,211	4,535,799	4,619,299
Culture	935,102	993,688	910,096
West Yellowhead Regional Waste Management Authority	-	-	493,702
	<u>24,503,401</u>	<u>24,593,333</u>	<u>24,561,236</u>
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES FROM OPERATIONS</b>	<u>(467,886)</u>	<u>1,079,198</u>	<u>(882,908)</u>
<b>OTHER INCOME</b>			
Government transfers for capital ( <i>Schedule 3</i> )	-	5,852,986	2,745,905
Contributed tangible capital assets	-	388,452	1,254,114
Equity income from investment in WYRWMA	-	174,542	-
	<u>-</u>	<u>6,415,980</u>	<u>4,000,019</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES</b>	<u>(467,886)</u>	<u>7,495,178</u>	<u>3,117,111</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR	138,333,232	138,333,232	135,216,121
Adjustment for change in accounting treatment for the Authority ( <i>Note 17</i> )	-	(806,636)	-
<b>ACCUMULATED SURPLUS, END OF YEAR</b> ( <i>Note 12</i> )	<u>\$137,865,346</u>	<u>\$145,021,774</u>	<u>\$138,333,232</u>

See notes to financial statements

**Mergaert, Barford,  
Williams & Joly**

**TOWN OF HINTON**  
**Consolidated Statement of Changes in Accumulated Surplus**  
**Year Ended December 31, 2014**

	Unrestricted Surplus	Restricted Surplus	Equity in TCA	<b>2014</b>	2013
<b>BALANCE - BEGINNING OF PERIOD</b>	\$ 1,262,080	\$ 9,519,779	\$127,551,373	<b>\$138,333,232</b>	\$135,216,121
Excess of revenue over expenses	7,495,178	-	-	<b>7,495,178</b>	3,117,111
Adjustment for change in accounting treatment for the Authority (Note 17)	-	569,813	(1,376,449)	<b>(806,636)</b>	-
Unrestricted funds designated for future use	(2,348,490)	2,348,490	-	-	-
Transfer unrestricted funds to equity in investments	(1,874,293)	1,874,293	-	-	-
Restricted funds used for tangible capital assets	-	(3,809,803)	3,809,803	-	-
Contributed tangible capital assets	(388,452)	-	388,452	-	-
Current year funds used for tangible capital assets	(6,293,798)	-	6,293,798	-	-
Disposal of tangible capital assets	115,220	-	(115,220)	-	-
Annual amortization expense	4,355,965	-	(4,355,965)	-	-
Long term debt repaid	(2,081,409)	-	2,081,409	-	-
<b>BALANCE - END OF PERIOD</b>	<b>\$ 242,001</b>	<b>\$ 10,502,572</b>	<b>\$134,277,201</b>	<b>\$145,021,774</b>	<b>\$138,333,232</b>

See notes to financial statements

**Mergaert, Barford,  
Williams & Joly**

**TOWN OF HINTON**  
**Consolidated Statement of Change in Net Financial Assets (Debt)**  
**Year Ended December 31, 2014**

	2014	2013
<b>NET EXCESS OF REVENUE OVER EXPENSES</b>	<b>\$ 7,495,178</b>	<b>\$ 3,117,111</b>
Acquisition of tangible capital assets	(10,103,602)	(4,986,040)
Contributed tangible capital assets	(388,452)	(1,254,114)
Amortization of tangible capital assets	4,355,965	4,528,820
Proceeds on disposal of tangible capital assets	47,000	478,993
(Gain) loss on disposal of tangible capital assets	68,220	(94,322)
Equity income from investment in WYRWMA	(174,542)	-
Adjustment to remove the 51% consolidated current assets and liabilities of the Authority	(205,798)	-
	<u>(6,401,209)</u>	<u>(1,326,663)</u>
Change in prepaid assets	924	(2,924)
Change in inventory for consumption	(76,953)	(15,154)
	<u>(76,029)</u>	<u>(18,078)</u>
<b>DECREASE IN NET DEBT</b>	<b>1,017,940</b>	<b>1,772,370</b>
<b>NET FINANCIAL ASSETS (DEBT) - BEGINNING OF YEAR</b>	<b>(7,182,261)</b>	<b>(8,954,631)</b>
<b>NET FINANCIAL ASSETS (DEBT) - END OF YEAR</b>	<b>\$ (6,164,321)</b>	<b>\$ (7,182,261)</b>

See notes to financial statements



**TOWN OF HINTON**  
**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2014**

	2014	2013
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses	\$ 7,495,178	\$ 3,117,111
Items not affecting cash:		
Amortization of tangible capital assets	4,355,965	4,528,820
(Gain) loss on disposal of tangible capital assets	68,220	(94,322)
Contributed tangible capital assets	(388,452)	(1,254,114)
Equity income from investment in WYRWMA	(174,542)	-
Adjustment to remove the 51% consolidated current assets and liabilities of the Authority (Note 17)	(205,798)	-
	<u>11,150,571</u>	<u>6,297,495</u>
Changes in non-cash working capital:		
Taxes and grants in place of taxes	34,267	23,052
Trade and other receivables	(1,997,734)	(241,067)
Land held for resale	437,071	(256,172)
Prepaid expenses	923	(2,924)
Inventory for consumption	(76,953)	(15,155)
Accounts payable and accrued liabilities	231,386	352,038
Due to West Yellowhead Regional Waste Management Authority	763,778	226,400
Deposit liabilities	(140,211)	128,338
Deferred revenue	(2,126,661)	(195,175)
Landfill closure and post-closure liability	(317,557)	31,422
	<u>(3,191,691)</u>	<u>50,757</u>
Cash flow from operating activities	<u>7,958,880</u>	<u>6,348,252</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of tangible capital assets	(10,103,602)	(4,986,040)
Proceeds on disposal of tangible capital assets	47,000	478,993
Cash flow used by investing activities	<u>(10,056,602)</u>	<u>(4,507,047)</u>
<b>FINANCING ACTIVITY</b>		
Repayment of long term debt	(2,081,409)	(2,081,766)
<b>DECREASE IN CASH FLOW</b>	<b>(4,179,131)</b>	<b>(240,561)</b>
Cash - beginning of year	<u>13,319,387</u>	<u>13,559,948</u>
<b>CASH - END OF YEAR (Note 2)</b>	<b>\$ 9,140,256</b>	<b>\$ 13,319,387</b>

See notes to financial statements

**Mergaert, Barford,  
Williams & Joly**

**Consolidated Schedule of Tangible Capital Assets**      *(Schedule 1)*  
**Year Ended December 31, 2014**

	Land	Land Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2014	2013
<b>COST</b>								
BALANCE, BEGINNING OF YEAR	\$ 18,153,548	\$ 14,686,273	\$ 39,101,524	\$ 129,526,364	\$ 8,272,432	\$ 3,030,780	<b>\$212,770,921</b>	\$206,942,863
Acquisition of tangible capital assets	-	388,616	134,791	4,219,717	117,241	160,853	<b>5,021,218</b>	2,337,012
Construction in progress	-	(174,469)	(4,960)	5,650,264	-	-	<b>5,470,835</b>	3,903,145
Disposal of tangible capital assets	-	-	-	-	-	(214,609)	<b>(214,609)</b>	(412,099)
Adjustment to remove the 51% consolidated assets of the Authority (Note 17)	-	(1,476,198)	(62,795)	(545,722)	(144,936)	-	<b>(2,229,651)</b>	-
BALANCE, END OF YEAR	<u>\$ 18,153,548</u>	<u>\$ 13,424,222</u>	<u>\$ 39,168,560</u>	<u>\$ 138,850,623</u>	<u>\$ 8,244,737</u>	<u>\$ 2,977,024</u>	<b><u>\$220,818,714</u></b>	<u>\$212,770,921</u>
<b>ACCUMULATED AMORTIZATION</b>								
BALANCE, BEGINNING OF YEAR	\$ -	\$ 6,278,265	\$ 11,358,992	\$ 45,330,666	\$ 5,082,522	\$ 1,567,058	<b>\$ 69,617,503</b>	\$ 65,116,107
Annual amortization	-	526,682	1,075,513	2,136,758	495,383	121,629	<b>4,355,965</b>	4,528,820
Accumulated amortization on disposals	-	-	-	-	-	(99,388)	<b>(99,388)</b>	(27,424)
Adjustment to remove the 51% consolidated assets of the Authority (Note 17)	-	(693,059)	(36,185)	(62,264)	(61,695)	-	<b>(853,203)</b>	-
BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ 6,111,888</u>	<u>\$ 12,398,320</u>	<u>\$ 47,405,160</u>	<u>\$ 5,516,210</u>	<u>\$ 1,589,299</u>	<b><u>\$ 73,020,877</u></b>	<u>\$ 69,617,503</u>
<b>NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS</b>	<u>\$ 18,153,548</u>	<u>\$ 7,312,334</u>	<u>\$ 26,770,240</u>	<u>\$ 91,445,463</u>	<u>\$ 2,728,527</u>	<u>\$ 1,387,725</u>	<b><u>\$147,797,837</u></b>	<u>\$143,153,418</u>
2013 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 18,153,548</u>	<u>\$ 8,408,008</u>	<u>\$ 27,742,532</u>	<u>\$ 84,195,698</u>	<u>\$ 3,189,910</u>	<u>\$ 1,463,722</u>		<u>\$143,153,418</u>

See notes to financial statements

**Mergaert, Barford,  
Williams & Joly**  
Chartered Accountants

**TOWN OF HINTON**  
**Consolidated Schedule of Property and Other Taxes**      *(Schedule 2)*  
**Year Ended December 31, 2014**

	<u>2014</u>	<u>2013</u>
<b>TAXATION</b>		
Real property taxes	\$ 15,443,439	\$ 15,067,443
Linear property taxes	295,235	298,350
Government grants in place of property taxes	85,196	77,806
Special assessments and local improvement taxes	<u>19,820</u>	<u>49,188</u>
	<u>15,843,690</u>	<u>15,492,787</u>
<b>REQUISITIONS</b>		
Education requisition	4,256,695	4,207,635
Evergreens Seniors Foundation	<u>226,774</u>	<u>234,353</u>
	<u>4,483,469</u>	<u>4,441,988</u>
<b>NET MUNICIPAL TAXES</b>	<u>\$ 11,360,221</u>	<u>\$ 11,050,799</u>

See notes to financial statements

**TOWN OF HINTON**  
**Consolidated Schedule of Government Transfers** **(Schedule 3)**  
**Year Ended December 31, 2014**

	<u>2014</u>	<u>2013</u>
<b>TRANSFERS FOR OPERATING</b>		
Federal government conditional transfers	\$ -	\$ 2,190
Provincial government conditional transfers	<b>1,263,011</b>	1,284,635
Local government transfers	<b>2,260,823</b>	1,436,073
	<u><b>3,523,834</b></u>	<u>2,722,898</u>
<b>TRANSFERS FOR CAPITAL</b>		
Federal government conditional transfers	<b>836,340</b>	87,618
Provincial government conditional transfer	<b>5,002,041</b>	2,549,670
Local government transfers	<b>14,605</b>	108,617
	<u><b>5,852,986</b></u>	<u>2,745,905</u>
<b>TOTAL GOVERNMENT TRANSFERS</b>	<u><b>\$ 9,376,820</b></u>	<u>\$ 5,468,803</u>

See notes to financial statements

**TOWN OF HINTON**  
**Consolidated Schedule of Expenses by Object** **(Schedule 4)**  
**Year Ended December 31, 2014**

	Budget (Unaudited)	2014	2013
<b>EXPENSES</b>			
Salaries, wages and benefits	\$ 10,130,657	\$ 9,859,292	\$ 9,786,258
Contracted and general services	5,571,603	6,109,687	5,310,127
Materials, goods, supplies and utilities	3,337,808	3,189,110	3,496,308
Provision for (recovery of) allowances	1,500	7,774	246
Transfers to other governments	277,462	299,640	213,204
Transfers to local boards and agencies	87,100	94,374	90,620
Transfers to individuals and organizations	62,200	62,547	58,907
Bank charges and short-term interest	4,700	4,412	4,205
Interest on capital long-term debt	630,371	610,532	698,688
West Yellowhead Regional Waste Management Authority	-	-	373,853
Amortization of tangible capital assets	4,400,000	4,355,965	4,528,820
	<u>\$ 24,503,401</u>	<u>\$ 24,593,333</u>	<u>\$ 24,561,236</u>

See notes to financial statements

**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Hinton 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:

Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, changes in accumulated surplus 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. Included with the municipality are the following:

Town of Hinton Municipal Library

Town of Hinton Family and Community Support Services

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.

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.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards 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.

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**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

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

Cash and temporary investments

Cash includes balances with banks and temporary investments are short-term deposits with original maturities of one year or less.

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.

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.

Land held 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 leveling charges. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks and street lighting are recorded as physical assets under the respective function.

Tax Revenue

Tax revenues are recognized when the tax has been authorized by bylaw and the taxable event has occurred.

Requisitions operate as a flow through and are excluded from municipal revenue.

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. The Town's waste disposal site is provided by the West Yellowhead Waste Management Authority which records this liability.

*(continues)*

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**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

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

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.

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.

1. 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.

2. 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.

3. Inventory for consumption

Inventories held for consumption are recorded at the lower of cost and replacement cost. Cost is determined by the first-in, first-out method.

4. Cultural and Historical Tangible Capital Assets

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

*(continues)*

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**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

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

Tangible capital assets

Tangible capital assets are stated at cost less accumulated amortization. Tangible capital assets are amortized over their estimated useful lives at the following rates and methods:

Land		non-amortizable
Land improvements	15 - 50 years	straight-line method
Buildings	50 years	straight-line method
Engineered structures:		
Roadway system	10 - 70 years	straight-line method
Water distribution system	45 - 100 years	straight-line method
Wastewater treatment system	45 - 100 years	straight-line method
Storm system	75 - 100 years	straight-line method
Machinery and equipment	5 - 25 years	straight-line method
Vehicles	5 - 25 years	straight-line method

2. CASH AND TEMPORARY INVESTMENTS

	<u>2014</u>	<u>2013</u>
Cash	\$ 319,466	\$ 1,123,639
Temporary investments	8,820,790	12,195,748
	<b>\$ 9,140,256</b>	<b>\$ 13,319,387</b>

Temporary investments are short-term deposits with original maturities of one year or less.

Included in cash and temporary investments is a restricted amount of \$3,150,557 (2013 - \$5,274,544) received from various government grants and held exclusively for the completion of approved projects (Note 5).

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLE

	<u>2014</u>	<u>2013</u>
Current taxes and grants in place of taxes	\$ 337,910	\$ 433,845
Tax arrears	427,867	366,199
	<b>\$ 765,777</b>	<b>\$ 800,044</b>

4. TRADE AND OTHER RECEIVABLES

	<u>2014</u>	<u>2013</u>
Trade accounts receivable	\$ 4,606,181	\$ 2,609,780
Allowance for doubtful accounts	(33,514)	(34,847)
	<b>\$ 4,572,667</b>	<b>\$ 2,574,933</b>

**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

5. BANK INDEBTEDNESS

The Alberta Treasury Branches revolving loan is authorized to a limit of \$1,900,000 of which \$ nil was used at December 31, 2014 (2013 - \$ nil). The account bears interest at prime, is due on demand and secured by a general security agreement.

6. DEFERRED REVENUE

	<b>2014</b>	<b>2013</b>
Prepaid local improvement charges	\$ 10,698	\$ 13,372
Parent Link West network grant	21,356	24,794
Municipal Policing Assistance grant	69,280	69,280
New Police Officer grant	25,000	25,000
Early childhood grant	46,813	16,556
Subtotal operating	<b>173,147</b>	149,002
Green Municipal Fund	-	836,340
Government of Alberta Municipal Housing and Capital Enhancement	412,093	407,488
Municipal Sustainability Initiative	1,544,229	1,864,103
Basic Municipal Transportation Grant	-	1,013,540
CFEP grant for performing arts centre	1,031,786	1,017,443
	<b>\$ 3,161,255</b>	<b>\$ 5,287,916</b>

7. DUE TO WEST YELLOWHEAD REGIONAL WASTE MANAGEMENT AUTHORITY

The amounts due to the West Yellowhead Regional Waste Management Authority are unsecured, non-interest bearing with no set terms of repayment.

During the year, the town of Hinton paid \$240,517 (2013 - \$210,000) to the Authority for landfill use and charged the Authority \$72,500 (2013 - \$74,500) in management fees. The transactions were measured at the exchange amount.

**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

8. LONG-TERM DEBT

	<b>2014</b>	2013
Tax supported debt	<b>\$ 13,386,604</b>	\$ 15,456,149
Self supported debt	<b>134,032</b>	145,896
	<b>\$ 13,520,636</b>	\$ 15,602,045

Principal and interest payments are due as follows:

	Principal	Interest	Total
2015	\$ 2,165,259	\$ 543,999	\$ 2,709,258
2016	2,252,719	456,539	2,709,258
2017	2,343,953	365,305	2,709,258
2018	2,439,134	270,124	2,709,258
2019	1,287,677	178,279	1,465,956
Thereafter	3,031,894	399,563	3,431,457
	<b>\$ 13,520,636</b>	<b>\$ 2,213,809</b>	<b>\$ 15,734,445</b>

Debenture debt is repayable to the Alberta Capital Financing Authority and bears interest at rates ranging from 2.226% to 6.625% per annum and matures in periods 2019 through 2025. Long term debt is issued on the credit and security of the town at large.

Self supported debt includes the amounts due to the Canada Mortgage and Housing Corporation that bear interest at rates of 8.25% and 1.67%, mature January 2022 and December 2026, and are repayable in blended annual instalments of \$13,203 and blended monthly instalments of \$508 respectively. Long term debt is issued on the credit and security of the town at large.

**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

9. 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 Hinton be disclosed as follows:

	2014	2013
Total debt limit	<b>\$ 38,792,515</b>	\$ 35,680,416
Total debt	<b>(13,520,636)</b>	(15,602,045)
Total debt guaranteed for other organizations	<b>(1,292,292)</b>	(1,318,991)
Amount of debt limit unused	<b>\$ 23,979,587</b>	\$ 18,759,380
Debt servicing limit	<b>\$ 6,465,419</b>	\$ 5,946,736
Debt servicing	<b>(2,709,258)</b>	(2,709,259)
Amount of debt servicing limit unused	<b>\$ 3,756,161</b>	\$ 3,237,477

The debt limit is calculated at 1.5 times revenue of the municipality (as defined in Alberta Regulations 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 which 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.

10. LONG TERM INVESTMENTS

	2014	2013
Investment in GP Highway Maintenance storage facility	<b>\$ 671,429</b>	\$ 671,429
Investment in Happy Creek Estates low income housing	<b>1,202,864</b>	1,202,864
Equity investment in West Yellowhead Regional Waste Management Authority	<b>950,153</b>	-
	<b>\$ 2,824,446</b>	\$ 1,874,293

The Town's share of the GP Highway Maintenance storage facility and the Happy Creek Estates low income housing investments are recorded at cost.

The Town of Hinton, Yellowhead County, Town of Edson, and Municipality of Jasper are all members of the West Yellowhead Regional Waste Management Authority which was established to construct, maintain, control and manage a regional solid waste disposal system. The members share in joint ownership, management, and liability for the waste management system. The voting structure assigns 25% of the vote to each member of the authority. The parties have agreed to share any annual net operating deficits according to the ratio of tonnes hauled and deposited by the members to the authority.

The Town's share of the West Yellowhead Regional Waste Management Authority investment is recorded by the modified equity method.

**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

11. EQUITY IN TANGIBLE CAPITAL ASSETS

	2014	2013
Tangible capital assets (Schedule 1)	<b>\$220,818,714</b>	\$212,770,921
Accumulated amortization (Schedule 1)	<b>(73,020,877)</b>	(69,617,503)
Long-term debt	<b>(13,520,636)</b>	(15,602,045)
	<b>\$134,277,201</b>	\$127,551,373

12. ACCUMULATED SURPLUS

Accumulated surplus consists of restricted and unrestricted amounts and equity in tangible capital assets as follows:

	2014	2013
Unrestricted	<b>\$ 242,001</b>	\$ 1,262,080
Family and community support services	<b>18,408</b>	18,408
Library	<b>43,516</b>	43,516
Operating - periodic project requests	<b>207,000</b>	-
Other operating	<b>208,053</b>	187,714
Automated traffic enforcement	<b>1,108,061</b>	765,905
Cemetery perpetual care	<b>50,509</b>	50,509
Equipment and fleet	<b>1,169,162</b>	1,092,168
Facilities and components	<b>63,672</b>	450,548
Fire department	<b>523,828</b>	501,755
Future land development	<b>(345,599)</b>	3,208
Information technology	<b>101,636</b>	81,675
Infrastructure major facility	<b>386,800</b>	666,800
Land sales	<b>-</b>	1,168,495
Municipal reserve	<b>719,954</b>	603,737
New infrastructure	<b>1,036,570</b>	550,055
Offsite levy fund	<b>1,891,456</b>	1,373,240
Parks and trails infrastructure	<b>438,148</b>	461,358
Performing arts theatre	<b>148,138</b>	148,138
Roads and sidewalks	<b>(607,589)</b>	907,459
Water and sewer	<b>359,219</b>	96,769
Other capital	<b>157,184</b>	142,524
West Yellowhead Regional Waste Management Authority (51% consolidated)	<b>-</b>	205,798
Equity in investments	<b>2,824,446</b>	-
Subtotal restricted and unrestricted surpluses	<b>10,744,573</b>	10,781,859
Equity in tangible capital assets	<b>134,277,201</b>	127,551,373
	<b>\$145,021,774</b>	\$138,333,232

**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

**13. SALARY AND BENEFITS DISCLOSURE**

Disclosure of salaries and benefits for municipal officials, the chief administrative officer (CAO) and designated officers as required by Alberta Regulation 313/2000 is as follows:

	Salary	Benefits	2014	2013
Mayor I. Duncan	\$ -	\$ -	\$ -	\$ 41,479
Mayor R. Mackin	53,249	2,292	<b>55,541</b>	11,411
Councillor G. Barrow	28,822	1,161	<b>29,983</b>	5,363
Councillor B. Bulger	-	-	-	23,230
Councillor J. Callihoo	-	-	-	7,205
Councillor D. Currie	28,661	1,155	<b>29,816</b>	33,042
Councillor L. Johnston-MacKay	-	-	-	30,515
Councillor J. Macridis	-	-	-	26,723
Councillor R. Maguhn	25,255	994	<b>26,249</b>	23,829
Councillor M. Michaels	31,667	1,291	<b>32,958</b>	8,772
Councillor S. Taylor	27,969	1,120	<b>29,089</b>	7,522
Councilor M. Young	27,417	109	<b>27,526</b>	6,726
Chief Administrative Officer 1	111,041	26,839	<b>137,880</b>	195,697
Chief Administrative Officer 2	52,057	8,705	<b>60,762</b>	-

Salary includes regular base pay, bonuses, overtime, lump sum payments, gross honoraria and any other direct cash remuneration.

Benefits include the 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.

**14. 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 Plan serves about 231,000 members and 418 employers. The LAPP is financed by employer and employee contributions and 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% of pensionable earnings above this amount. Employees of the town are required to make current service contributions of 10.39% of pensionable salary up to the year's maximum pensionable salary and 14.84% on pensionable salary above this amount.

Total current service contributions by the Town of Hinton to the LAPP in 2014 were \$732,194 (2013 - \$734,811). Total current service contributions by the employees of the Town of Hinton to the LAPP in 2013 were \$673,432 (2013 - \$670,518).

As at December 31, 2013, the Plan disclosed an actuarial deficiency of \$4.86 billion.

**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

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15. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The municipality is exposed to credit risk from customers. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The municipality has a significant number of customers which minimizes concentration of credit risk.

Fair Value

The municipality's carrying value of cash and temporary investments, receivables, accounts payable and accrued liabilities, and deposit liabilities approximates its fair value due to the immediate or short term maturity of these instruments.

The fair value of the amount due from (to) West Yellowhead Regional Waste Management Authority is less than carrying value because the amounts are non-interest bearing. However, because the amounts due to West Yellowhead Regional Waste Management Authority have no fixed repayment terms, the fair value and the exposure to related risk cannot be determined with any degree of certainty, and the amounts are therefore reported at their carrying value.

The carrying value of the long term debt approximates the fair value as the interest rates are consistent with the current rates offered to the municipality for debt with similar terms.

Interest Rate

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the municipality manages exposure through its normal operating and financing activities. The municipality is exposed to interest rate risk primarily through its floating interest rate on bank balances.

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16. CONTINGENT LIABILITY

The Town of Hinton is a member of the Alberta Local Authorities Reciprocal Insurance Exchange and MUNIX. Under the terms of membership, the Town of Hinton 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.

The Town of Hinton is a member of the West Yellowhead Regional Waste Management Authority and has agreed to share joint liability for the system. No liability exists currently and any liability incurred would be accounted for as a current transaction in the year they are determined.

The Town of Hinton has guaranteed a loan for the Hinton Golfing Society to construct a new Club House and consolidate an existing loan. At December 31, 2014, the outstanding balance was \$1,281,444 (2013 - \$1,453,393). The loan is guaranteed to a maximum of \$1,136,000 with a maximum amortization of 20 years and subject to interest at prime plus 0.75%.

The Town of Hinton has guaranteed a loan for the SPCA to construct a new building. At December 31, 2014 the outstanding balance was \$156,292 (2013 - \$182,991). The loan is guaranteed to a maximum of \$350,000 with a maximum amortization of 20 years and subject to interest at prime plus 1.50%.

**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

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17. ADJUSTMENT TO ACCUMULATED SURPLUS

As of January 31, 2014, the Town of Hinton's voting structure for the West Yellowhead Regional Waste Management Authority changed from 51% to 25%. This change means the Town of Hinton no longer controls its investment in the Authority. For accounting purposes, this investment has changed from a controlled government unit proportionately consolidated in these financial statements for 2013, to a government business enterprise accounted for by the modified equity method in 2014. According to PSAB 2510, the change in accounting treatment occurs from the date the status changes with any net investment increases or decreases accounted for as an adjustment to accumulated surplus.

The adjustments to the financial statements at January 1, 2014 are as follows:

	<b>2014</b>
<b>Adjustments to opening accumulated surplus</b>	
Adjustment to remove the 51% consolidated surplus of the Authority	\$ (205,798)
Adjustment to remove the 51% consolidated equity in tangible capital assets of the Authority	(1,376,449)
To record the surplus adjustment for the equity investment in the Authority at January 1, 2014	<u>775,611</u>
	<b><u>\$ (806,636)</u></b>
 <b>Adjustments to assets</b>	
Adjustment to remove the 51% consolidated current assets of the Authority	\$ (573,140)
Adjustment to remove the 51% consolidated tangible capital assets of the Authority	(1,376,448)
To record the equity investment in the Authority at January 1, 2014	<u>775,611</u>
	<b><u>\$ (1,173,977)</u></b>
 <b>Adjustments to liabilities</b>	
Adjustment to remove the 51% consolidated liabilities of the Authority	<b><u>\$ (367,341)</u></b>

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**TOWN OF HINTON**  
**Notes to Consolidated Financial Statements**  
**Year Ended December 31, 2014**

18. RECONCILIATION OF OPERATING RESULTS TO CASH BASED BUDGETING

The 2014 budget was prepared based on a cash basis which tracked all municipal activities including capital projects, debenture repayments and proceeds, and reserve transfers for future use. The reconciliation below to encompass these items is provided for information purposes only to provide users with supplementary comparative information. It should not be used as a replacement for the consolidated statement of financial activities and accumulated surplus and users should note that this information may not be appropriate for their purposes.

	Unaudited Budget	<b>2014</b>	2013
Excess of revenue over expenditures, per financial statements	\$ (467,886)	<b>\$ 7,495,178</b>	\$ 3,117,111
<u>Add back:</u>			
Amortization expense (non-consolidated)	4,400,000	<b>4,355,965</b>	4,408,971
<u>Deduct:</u>			
Government transfers for capital	-	<b>(5,852,986)</b>	(2,745,905)
Contributed tangible capital assets	-	<b>(388,452)</b>	(1,254,114)
Development levies for capital	-	<b>(499,744)</b>	(111,710)
Other capital revenues	(10,000)	<b>(9,288)</b>	(62,919)
Gain/loss on disposal of tangible capital assets	(43,982)	<b>68,220</b>	(94,322)
Net effect of 51% consolidation of the West Yellowhead Regional Waste Management Authority	-	-	(59,978)
Principal payments of capital debt	(2,081,539)	<b>(2,081,409)</b>	(2,081,766)
Net transfers (to) from reserves	(1,796,593)	<b>(2,348,490)</b>	(1,020,623)
	<b>\$ -</b>	<b>\$ 738,994</b>	<b>\$ 94,745</b>

19. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.

20. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

*A Quick Guide to Municipal  
Financial Statements*

***MUNICIPAL AFFAIRS***  
*June 2010*

**Government of Alberta ■**  
Municipal Affairs

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*This is an interpretation only. For specific advice consult  
with an accounting professional or legal counsel.*

## Introduction

This guide has been prepared by Alberta Municipal Affairs and is intended to provide examples and explanations of the typical information contained in a municipality's annual audited financial statements. It will be of interest to municipal officials and other stakeholders who would like to interpret the information provided in the annual financial statements.

Financial statements are intended to report on financial condition as at December 31<sup>st</sup> each year, to ensure accountability and transparency, and to assist municipalities with long-term and strategic planning. Financial statements are an important tool for a municipal council and administration to use to report to the taxpayers on the municipal services provided with the resources at their disposal.

## Legislative Requirements and Reporting Standards

The *Municipal Government Act* (MGA) requires that every Alberta municipality complete annual audited financial statements, a copy of which must be submitted to Municipal Affairs, by May 1 of each year. The financial statements must be prepared in accordance with generally accepted accounting principles for municipal governments in Canada.

Requirements for municipal financial reporting are standardized across Canada and are based on the *Public Sector Accounting Handbook*. As of 2009, municipal financial statements are to be prepared using the net financial assets (debt) model and must include reporting of tangible capital assets. This new approach provides a more complete picture of a municipality's financial condition.

Financial statements provide information on a municipality's financial position in terms of its assets and liabilities, its net debt, its accumulated surplus or deficit, and its tangible capital assets and other non-financial assets. Financial statements also provide a meaningful summary of the sources, allocation and consumption of municipal economic resources, how the activities of the period have affected the municipality's net debt, how municipal activities were financed, and how cash requirements were met. Each indicator gives the readers of the financial statements information about the status of the municipality's finances.

Financial statements must include a statement of financial position, a statement of operations, a statement of change in net debt and a statement of cash flow. Additional supplementary information is provided in schedules and notes to the financial statements.

## The Quick Guide to Municipal Financial Statements

A sample of each of the four required municipal financial statements is presented along with explanatory notes and helpful tips. A checklist to assist the readers of the financial statement with analysis and evaluation of the financial statements can be found near the end of this guide. A glossary of terms is also included.

Financial statements must be prepared by municipalities on an annual basis in accordance with provisions set out in the *Municipal Government Act* and its associated Regulations.

There are four main components to the financial statements of a municipality:

The **Statement of Financial Position** is a required statement that reports on:

- assets – what the municipality owns or controls;
- liabilities – what the municipality owes; and
- accumulated surplus – what remains after the assets have been used to meet the liabilities.

The **Statement of Operations** is a required statement that reports on:

- revenues;
- expenses; and
- results for a fiscal year or reporting period.

The **Statement of Change in Net Financial Assets (Debt)** is a required statement that:

- explains the difference between the annual surplus or deficit and the change in net financial assets (debt);
- reports spending to acquire tangible capital assets and inventories of supplies; and
- reports disposal of tangible capital assets and the use of inventory.

The **Statement of Cash Flow** is a required statement that:

- identifies where cash came from;
- shows how cash was used; and
- provides details on changes in cash and cash equivalents since the previous reporting period.

## Notes and Schedules

**Supplementary Schedules** to municipal financial statements contain additional detailed information for the reader. Although the schedules will vary depending on the size and complexity of the municipal operation there is generally some consistency in form and content.

The **Notes to the Financial Statements** contain important information and explanations, some of which are required by legislation and regulation. The notes highlight various aspects of the financial statements and provide background information and insight on the impacts of specific values in the financial statements. In fact, many users review the notes before examining the main statements.

Typical notes to financial statements include information on:

- accounting policies;
- cash and investments;
- deferred revenue;
- employee benefit obligations;
- debt and debt limit information;
- tangible capital assets; and
- accumulated surplus.

## Specimen Financial Statements

Municipal Affairs prepares a specimen financial statement each year for the fictional *Town of New Sampleford* and it forms the basis for this guide as well. It includes the four main statements, supplementary schedules and a comprehensive presentation of typical notes to the financial statements.

The complete Town of New Sampleford financial statement package is available for reference on the Ministry website at:

[www.municipalaffairs.gov.ab.ca/documents/ms/2009\\_New\\_Sampleford.pdf](http://www.municipalaffairs.gov.ab.ca/documents/ms/2009_New_Sampleford.pdf)

**Town of New Sampleford  
Statement of Financial Position  
As at December 31, 2009**

	2009 \$	2008 \$ (Restated)
<b>FINANCIAL ASSETS</b> <sup>1</sup>		
Cash and temporary investments (Note #)	199,000	69,000
Receivables		
Taxes and grants in place of taxes (Note #)	73,000	71,000
Trade and other receivables	21,000	30,000
Land for resale inventory	155,000	30,000
Investments (Note #)	280,000	480,000
Debt charges recoverable (Note #)	10,000	11,000
	<u>738,000</u>	<u>691,000</u>
<b>LIABILITIES</b>		
Temporary bank indebtedness <sup>2</sup>	46,000	---
Accounts payable and accrued liabilities	140,000	163,000
Deposit liabilities	8,000	7,000
Deferred revenue (Note #)	56,000	23,000
Employee benefit obligations (Note #)	50,000	40,000
Provision for landfill closure and post-closure costs (Note #)	20,000	2,000
Long-term debt (Note #) <sup>3</sup>	2,900,000	2,701,000
	<u>3,220,000</u>	<u>2,936,000</u>
<b>NET FINANCIAL ASSETS (DEBT)</b>	<u>(2,482,000)</u>	<u>(2,245,000)</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note #) <sup>4</sup>	7,865,675	6,854,400
Inventory for consumption	5,000	4,000
Prepaid expenses	1,000	1,000
	<u>7,871,675</u>	<u>6,859,400</u>
<b>ACCUMULATED SURPLUS (Note #)</b>	<u>5,389,675</u>	<u>4,614,400</u>

## Statement of Financial Position

The Statement of Financial Position reports on a municipality's assets, liabilities and accumulated surplus. A review of the Statement of Financial Position should be in the context of a long-term view of the municipality's financial health, and not focus solely on how much money is currently in the bank. A reader should consider whether the municipality has the necessary assets to provide future services, and whether there are sufficient future revenues to cover existing liabilities.



A net debt position does not necessarily mean the municipality is in financial difficulty. It is important that a viable debt management plan is in place to ensure that the debt is sufficiently funded and that municipal services are not jeopardized.



**1** Financial assets are comprised of cash or items that will eventually be turned into cash. Land for resale and long-term investments are examples of items that will eventually be turned into cash.



**2** Temporary bank indebtedness is the total of any unpaid short-term debt (loans, lines of credit or bank overdrafts) that the municipality is required to repay within one year.



**3** The amount of long-term debt (usually for capital purposes) is recorded separately from short-term debt. The notes to the financial statements provide important information regarding future debt repayments and how much of the legislated debt limit has been used.



**4** The amount recorded for tangible capital assets is the net book value, which is the actual cost less the accumulated amortization.



The accumulated surplus is the primary indicator of the financial resources the municipality has available to provide future services. It consists of both cash and non-cash components. The notes to the financial statements should identify what portions of the accumulated surplus are:

- unrestricted (including cash, accounts receivable and other non-cash financial assets);
- restricted (cash that can only be used for a pre-determined purpose); and
- equity in tangible capital assets.



**Town of New Sampleford  
Statement of Operations  
For the Year Ended December 31, 2009**

	Budget \$ (Unaudited)	2009 \$	2008 \$ (Restated)
<b>REVENUE</b>			
Net municipal taxes (Schedule 2)	1,425,000	<b>1,430,000</b>	1,278,000
User fees and sales of goods	775,000	<b>760,000</b>	742,000
Government transfers for operating (Schedule 3) <sup>1</sup>	25,000	<b>27,000</b>	23,000
Investment income	15,000	<b>13,000</b>	15,000
Penalties and costs of taxes	17,000	<b>20,000</b>	19,000
Development levies	15,000	<b>9,000</b>	25,000
Licenses and permits	8,000	<b>10,000</b>	8,000
Other	---	<b>29,000</b>	20,000
<b>Total Revenue</b>	<u>2,280,000</u>	<u><b>2,298,000</b></u>	<u>2,130,000</u>
<b>EXPENSES</b>			
Legislative	55,000	<b>58,000</b>	46,000
Administration	165,000	<b>152,000</b>	163,000
Bylaws enforcement	30,000	<b>30,000</b>	29,000
Roads, streets, walks, lighting	950,000	<b>926,000</b>	977,000
Water supply and distribution	425,000	<b>444,000</b>	381,000
Wastewater treatment and disposal	74,000	<b>75,000</b>	71,000
Waste management	110,000	<b>106,000</b>	115,000
Family and community support	110,000	<b>113,000</b>	104,000
Land use planning, zoning and development	42,000	<b>40,000</b>	38,000
Subdivision land development	75,000	<b>117,000</b>	43,000
Parks and recreation	60,000	<b>60,000</b>	64,000
Culture	30,000	<b>30,000</b>	30,000
Amortization (illustrative only) <sup>2</sup>	400,000	<b>463,725</b>	428,400
Loss on disposal of capital assets (illustrative only)	---	<b>8,000</b>	---
<b>Total Expenses</b>	<u>2,526,000</u>	<u><b>2,622,725</b></u>	<u>2,489,400</u>
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE OTHER</b>	(246,000)	<b>(324,725)</b>	(359,400)
<b>OTHER</b>			
Contributed assets <sup>3</sup>	800,000	<b>800,000</b>	---
Government transfers for capital (Schedule 3) <sup>1</sup>	300,000	<b>300,000</b>	268,000
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES</b>	<u>854,000</u>	<u><b>775,275</b></u>	<u>(91,400)</u>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b> <sup>4</sup>	<u>4,614,400</u>	<u><b>4,614,400</b></u>	<u>4,705,800</u>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<u>5,468,400</u>	<u><b>5,389,675</b></u>	<u>4,614,400</u>

## Statement of Operations

The Statement of Operations reports on revenues, expenses and the results for a fiscal year or reporting period. The Statement of Operations provides detailed information on what transactions have impacted the accumulated surplus from the beginning of the year to the end of the year. Non-cash items such as amortization expense and contributed assets are included.

→ **1** Federal and provincial governments provide grants to municipalities for operating and/or capital purposes. These grants are reported on two separate lines: government transfers for operating and government transfers for capital.

→ **2** The amortization expense is a non-cash amount that represents the portion of the historical cost of the municipality's tangible capital assets that is used up during the reporting period. Some municipalities report the amortization expense as a separate line, while others include the amortization expense in the costs of the specific service provided.

→ **3** Contributed assets are normally tangible capital assets that have been donated or transferred to the municipality. Contributed assets are reported as revenue on the Statement of Operations because they create an expected future economic benefit. As a result there is a corresponding increase in the accumulated surplus.

Although contributed assets are reported as revenue, they do not represent cash received by the municipality.

→ **4** The accumulated surplus may increase significantly without a corresponding increase in financial assets. For example, a subdivision turned over to the municipality by a developer would be recorded as contributed asset revenue, which would increase the accumulated surplus amount without any change in financial assets.

**Town of New Sampleford**  
**Statement of Change in Net Financial Assets (Debt)**  
**For the Year Ended December 31, 2009**

	Budget \$ (Unaudited)	2009 \$	2008 \$ (Restated)
<b>EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES</b>	854,000	<b>775,275</b>	(91,400)
Acquisition of tangible capital assets <sup>1</sup>	(700,000)	<b>(693,000)</b>	(411,000)
Contributed tangible capital assets	(800,000)	<b>(800,000)</b>	-
Proceeds on disposal of tangible capital assets	-	<b>10,000</b>	-
Amortization of tangible capital assets	400,000	<b>463,725</b>	428,400
(Gain) loss on sale of tangible capital assets <sup>2</sup>	-	<b>8,000</b>	-
	<u>(1,100,000)</u>	<u><b>(1,011,275)</b></u>	<u>17,400</u>
Acquisition of supplies inventories	(150,000)	<b>(167,000)</b>	(146,000)
Acquisition of prepaid assets	(40,000)	<b>(40,000)</b>	(35,000)
Use of supplies inventories	150,000	<b>166,000</b>	149,000
Use of prepaid assets	40,000	<b>40,000</b>	35,000
	<u>-</u>	<u><b>(1,000)</b></u>	<u>3,000</u>
<b>(INCREASE) DECREASE IN NET DEBT</b> <sup>3</sup>	(246,000)	<b>(237,000)</b>	(71,000)
<b>NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR</b>	<u>(2,245,000)</u>	<u><b>(2,245,000)</b></u>	<u>(2,174,000)</u>
<b>NET FINANCIAL ASSETS (DEBT), END OF YEAR</b>	<u><u>(2,491,000)</u></u>	<u><u><b>(2,482,000)</b></u></u>	<u><u>(2,245,000)</u></u>

## Statement of Change in Net Financial Assets (Debt)

The Statement of Change in Net Financial Assets (Debt) explains the difference between the annual surplus or deficit and the change in net financial assets (debt). It tracks what the municipality has spent to acquire tangible capital assets and inventories of supplies. It reports on the disposal of tangible capital assets and the use of inventory.

→ 1 Acquisition of tangible capital assets is the amount spent on tangible capital assets in the current year. Funding sources could include cash reserves, property taxes, long-term debt or government transfers.

→ 2 A gain is reported when a tangible capital asset is sold or disposed of and the proceeds are greater than the net book value of the asset. A loss is reported if the proceeds are less than the net book value of the asset.

These amounts are also reported on the Statement of Operations, with a gain reported as revenue and a loss reported as an expense.

→ 3 An increase in the net debt position is most likely the result of the municipality funding capital acquisitions with debt or with financial assets accumulated in a previous year.

A net debt position is not in itself an indicator the municipality is in financial difficulty. See the idea box below for a checklist of questions to consider about the implications of a net debt position.



To assess the impact of a net debt position on the financial health of a municipality, consider:

- Is there a debt management plan in place?
- What is the term of the debt?
- What portion of the municipality's debt limit does the net debt represent?
- Are the municipality's financial assets liquid and current?
- What portion, if any, of the municipality's financial assets are restricted?
- What portion of the net debt is funded by the annual tax levy? By user fees?
- Will projected future revenues be sufficient to pay the net debt?

**Town of New Sampleford  
Statement of Cash Flow  
For the Year Ended December 31, 2009**

	2009 \$	2008 \$ (Restated)
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Excess (shortfall) of revenues over expenses	775,275	(91,400)
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets      1	463,725	428,400
Loss on disposal of tangible capital assets	8,000	--
Tangible capital assets received as contributions      1	(800,000)	-
Non-cash charges to operations (net change):		
Decrease (increase) in taxes and grants in lieu receivable	(2,000)	10,000
Decrease (increase) in trade and other receivables	9,000	(1,000)
Decrease (increase) in land held for resale	(125,000)	-
Decrease (increase) in inventory for consumption	(1,000)	2,000
Decrease (increase) in prepaid expenses	-	(1,000)
Increase (decrease) in accounts payable and accrued liabilities	(23,000)	2,000
Increase (decrease) in deposit liabilities	1,000	-
Increase (decrease) in deferred revenue	33,000	-
Increase (decrease) in employee benefit obligations	10,000	-
Increase (decrease) in provision for landfill closure/post-closure	18,000	2,000
Cash provided by operating transactions	367,000	351,000
<b>CAPITAL</b>		
Acquisition of tangible capital assets      2	(693,000)	(411,000)
Sale of tangible capital assets	10,000	-
Cash applied to capital transactions	(683,000)	(411,000)
<b>INVESTING</b>		
Decrease (increase) in restricted cash or cash equivalents	(35,000)	-
Decrease (increase) in investments	200,000	(50,000)
Cash provided by (applied to) investing transactions	165,000	(50,000)
<b>FINANCING</b>		
Debt charges recovered      2	1,000	1,000
Long-term debt issued	300,000	-
Long-term debt repaid	(101,000)	(101,000)
Cash provided by (applied to) financing transactions	200,000	(100,000)
<b>CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR</b>	<b>49,000</b>	<b>(210,000)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>69,000</b>	<b>279,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>118,000</b>	<b>69,000</b>

## Statement of Cash Flow

The Statement of Cash Flow identifies where cash came from, shows how cash was used, and provides details on changes to cash and cash equivalents since the last reporting period.

1 The Statement of Cash Flow begins with the net results of municipal operations. This operational result includes amortization, which is a non-cash expense. To determine the change in the municipality's cash position, the amortization amount is added back into the operations result.

On the other hand, the value of tangible capital assets contributed is reflected as non-cash revenue in the Statement of Operations. To determine the change in the municipality's cash position, this amount is deducted from the operations result.

2 The Capital and Financing categories provide a summary of the capital transactions that took place and an indicator of what portion of the capital transactions were financed with long-term debt.

The Capital section provides information on the amount the municipality expended on tangible capital assets as well as the amount the municipality received from selling tangible capital assets during the reporting period.

The Financing section identifies funds received from long-term debt financing, as well as the amount of long-term debt principal repaid during the reporting period.



The Statement of Cash Flow provides detailed information on significant cash transactions that are not included in the Statement of Operations.

## Financial Statement Review Questions

- Are there long-range planning or budgetary issues the municipality needs to address?  
Financial indicators of concern may include:
  - a continued increase in the net debt
  - a restricted surplus not fully supported by financial assets;
  - a high level of short-term debt indicating working capital position is insufficient; or
  - a low net book value of tangible capital assets indicating useful life nearing an end.
  
- Are there some “red flags” in the financial statements? Potential red flags may include:
  - a significant decrease in the municipality’s cash position from the previous year;
  - a restricted surplus that exceeds the amount of cash and cash equivalents
  - a significant decrease in the net financial assets from the previous year;
  - a significant increase in net debt from the previous year; or
  - the unrestricted portion of the accumulated surplus is in a deficit position.
  
- Have there been any extraordinary or unusual financial transactions that may have future implications for the municipality?
  
- How did the current year’s financial decisions and operations impact the overall financial position of the municipality?
  - What are the costs of providing specific services?
  - What services have full or partial cost recovery associated with them?
  - What is the cash position and debt level?
  - Are there adequate operating and capital funds for future projects, or will borrowing be required?
  
- Does the municipality have sufficient working capital?
  - Is short term borrowing required before property tax revenues are received?
  
- What is the remaining useful life of the municipality’s tangible capital assets?
  - What are the financial and budgetary impacts of replacing or rehabilitating tangible capital assets nearing the end of their life?
  
- What is the content of the auditor’s management letter?
  - Is there a clean audit report?
  - Are there any items of concern that need to be mitigated or addressed?
  
- Have the municipality’s financial statements been sufficiently communicated to the residents and businesses in the municipality?

## Glossary of Terms

**Amortization** – the systematic allocation of the historical cost of a tangible capital asset over its useful life.

**Accumulated Amortization** – the total amortization pertaining to a tangible capital asset from the time the asset was placed into service until the date of the financial statement.

**Consolidated Financial Statements** – statements containing financial information for the municipality and its owned or controlled organizations (e.g., fire, utilities, library).

**Construction in Progress** – tangible capital assets under construction at the end of the fiscal year that have not been put into service (e.g., engineered structures, buildings, land improvements).

**Contributed Assets** – assets that have been transferred or donated to the municipality and that will provide a future economic benefit.

**Deferred Revenue** – income received that will not be recorded as revenue until certain transactions or events take place.

**Equity in Tangible Capital Assets** – the net book value of recorded tangible capital assets less capital debt.

**Expenditure** – an outlay of cash.

**Expense** – a cash or non-cash cost (e.g., wages, materials, amortization).

**Financial Assets** – current cash resources plus any items or holdings that are expected to be converted into cash in the future.

**Gain or Loss on Sale** – proceeds from the sale of a tangible capital asset that are greater than (gain) or less than (loss), the net book value of the asset.

**Government Transfers** – entitlements, transfers under cost-share agreements, and/or grants from other levels of government.

**Net Book Value** – the total cost of a tangible capital asset minus the accumulated amortization and any write-down of the asset.

**Net Financial Assets (Debt)** – an amount equal to the total financial assets less the total liabilities.

**Restricted Surplus** – the amount that results from excess revenues which have been internally designated for a specified future purpose, or externally restricted.

**Tangible Capital Assets** – non-financial assets having a physical substance that are held for use in the supply of goods and services, have economic lives beyond the accounting period, are used on a continuing basis and are not for sale in the ordinary course of operations.

**Unrestricted Surplus** - the portion of the accumulated surplus that results from excess revenue and expenses available for any future use.

**Working Capital** - the excess of current assets minus current liabilities. Positive working capital indicates an ability to meet short term obligations.