

TOWN OF DRUMHELLER
Consolidated Financial Statements
For the Year Ended December 31, 2014

TOWN OF DRUMHELLER

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Year Ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Members of Council of the Town of Drumheller

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

Other Matter

The consolidated financial statements for the prior year were audited by another firm of chartered accountants who expressed an unmodified opinion dated April 22, 2014.

Collins Barrow Edmonton LLP

Edmonton, Alberta
April 27, 2015

Chartered Accountants

TOWN OF DRUMHELLER
Consolidated Statement of Financial Position
December 31, 2014

	2014	2013
Financial assets		
Cash and cash equivalents (Note 3)	\$ 7,235,318	\$ 5,007,541
Taxes receivable (Note 4)	923,408	948,802
Accounts receivable (Note 5)	6,784,217	5,360,527
Accrued interest receivable	8,219	17,735
Inventory held for resale (Note 6)	846,250	785,249
Investments (Note 7)	<u>3,234,527</u>	<u>3,159,573</u>
	<u>19,031,939</u>	<u>15,279,427</u>
Liabilities		
Accounts payable and accrued liabilities	1,883,775	2,345,424
Employee benefit obligation (Note 8)	748,719	813,673
Deferred revenue (Note 9)	4,191,226	2,540,297
Long-term debt (Note 10)	<u>10,602,305</u>	<u>11,107,604</u>
	<u>17,426,025</u>	<u>16,806,998</u>
Net financial assets (debt)	<u>1,605,914</u>	<u>(1,527,571)</u>
Non-financial assets		
Tangible capital assets (Note 11)	143,302,807	143,606,343
Inventory for consumption	547,682	532,220
Prepaid expenses	<u>153,748</u>	<u>142,078</u>
	<u>144,004,237</u>	<u>144,280,641</u>
Accumulated surplus (Note 13)	<u>\$ 145,610,151</u>	<u>\$ 142,753,070</u>
Debenture debt limits (Note 20)		
Contingencies (Note 21)		
Commitments (Note 22)		

See accompanying notes to the consolidated financial statements

TOWN OF DRUMHELLER
Consolidated Statement of Operations
For the Year Ended December 31, 2014

	Budget 2014	2014	2013
Revenue			
Net municipal taxes (Note 15)	\$ 7,971,832	\$ 7,984,636	\$ 7,787,354
Government transfers for operating (Note 16)	865,876	1,709,834	1,527,596
Sales and user fees	5,984,113	6,976,080	6,301,725
Franchises and concessions	1,388,091	1,511,020	1,463,741
Investment income	25,000	241,950	171,240
Penalties and costs on taxes	145,000	173,560	155,982
Rentals	378,371	376,089	458,216
Other	2,300	667,090	363,981
Gain on disposal of tangible capital assets	---	---	170
	<u>16,760,583</u>	<u>19,640,259</u>	<u>18,230,005</u>
Expenses (Note 17)			
Legislative	234,378	225,255	200,085
Administration	1,516,150	1,825,012	1,728,490
Protective services	2,364,455	3,333,281	2,897,514
Transportation services	2,787,653	3,253,168	3,121,139
Water and wastewater	6,727,627	5,511,493	5,333,250
Waste management	386,529	379,524	369,650
Planning and development	572,564	556,388	576,211
Recreation and parks	4,100,275	4,451,872	4,643,050
Public health and welfare	513,320	516,089	471,886
	<u>19,202,951</u>	<u>20,052,082</u>	<u>19,341,275</u>
Deficiency of revenue over expenses – before capital revenue	(1,647,043)	(411,823)	(1,111,270)
Capital revenue			
Government transfers for capital (Note 16)	4,048,579	2,484,441	5,674,598
Other capital revenues	874,935	784,463	31,483
Excess of revenue over expenses	3,276,471	2,857,081	4,594,811
Accumulated surplus, beginning of year	<u>142,753,070</u>	<u>142,753,070</u>	<u>138,158,259</u>
Accumulated surplus, end of year	<u>\$ 146,029,541</u>	<u>\$ 145,610,151</u>	<u>\$ 142,753,070</u>

See accompanying notes to the consolidated financial statements

TOWN OF DRUMHELLER**Consolidated Statement of Changes in Net Financial Assets
For the Year Ended December 31, 2014**

	Budget 2014	2014	2013
Excess of revenue over expenses	\$ 3,276,471	\$ 2,857,081	\$ 4,594,811
Acquisition of tangible capital assets	(7,231,118)	(3,979,644)	(7,583,556)
Amortization of tangible capital assets	4,283,180	4,283,180	4,109,866
(Gain) loss on sale of tangible capital assets	---	---	(170)
Proceeds on sale of tangible capital assets	---	---	<u>61,429</u>
	328,533	3,160,617	1,182,380
Change in prepaid expenses	---	(11,670)	(10,564)
Change in inventory for consumption	---	(15,462)	<u>54,515</u>
Decrease in net debt	328,533	3,133,485	1,226,331
Net debt, beginning of year	<u>(1,527,571)</u>	<u>(1,527,571)</u>	<u>(2,753,902)</u>
Net financial assets (debt), end of year	<u>\$ (1,199,038)</u>	<u>\$ 1,605,914</u>	<u>\$ (1,527,571)</u>

See accompanying notes to the consolidated financial statements

TOWN OF DRUMHELLER
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2014

	2014	2013
Net Inflow (Outflow) of Cash related to the following activities:		
Operating activities		
Excess of revenue over expenses	\$ 2,857,081	\$ 4,594,811
Items not involving cash:		
Amortization	4,283,180	4,109,866
Gain on disposal of tangible capital assets	---	(170)
Changes in non-cash operating balances:		
Taxes receivable	25,394	(144,746)
Accounts receivable	(1,423,690)	(3,263,746)
Accrued interest receivable	9,516	(11,886)
Inventory held for resale	(61,001)	15,550
Prepaid expenses	(11,670)	(10,564)
Inventory for consumption	(15,462)	54,515
Accounts payable and accrued liabilities	(461,649)	172,432
Employee benefit obligation	(64,954)	61,057
Deferred revenue	<u>1,650,929</u>	<u>(1,258,973)</u>
	<u>6,787,674</u>	<u>4,318,146</u>
Capital activities		
Acquisition of tangible capital assets	(3,979,644)	(7,583,556)
Proceeds on sale of tangible capital assets	---	61,429
	<u>(3,979,644)</u>	<u>(7,522,127)</u>
Investing activities		
Increase (decrease) of investments	(74,954)	(697,672)
Restricted cash balances	<u>(1,650,929)</u>	<u>1,258,973</u>
	<u>(1,725,883)</u>	<u>561,301</u>
Financing activities		
Repayment of long-term debt	<u>(505,299)</u>	<u>(483,173)</u>
Net change in cash and cash equivalents	576,848	(3,125,853)
Cash and cash equivalents, beginning of year	<u>2,467,244</u>	<u>5,593,097</u>
Cash and cash equivalents, end of year	<u>\$ 3,044,092</u>	<u>\$ 2,467,244</u>
Cash and cash equivalents is comprised of:		
Cash and cash equivalents	\$ 7,235,318	\$ 5,007,541
Less: restricted (Note 3)	<u>(4,191,226)</u>	<u>(2,540,297)</u>
	<u>\$ 3,044,092</u>	<u>\$ 2,467,244</u>

See accompanying notes to the consolidated financial statements

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

1. Summary of Significant Accounting Policies

The consolidated financial statements of the Town of Drumheller ("Town") are the representations of management prepared in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB). 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 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 summary of taxes levied (Note 15) also includes requisitions for education and social organizations that are not part of the municipal reporting entity.

Cash and Cash Equivalents

Management considers all highly liquid investments with maturity of three months or less at acquisition to be cash equivalents.

Investments

Investments are recorded at 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 decline in the market value which is other than temporary in nature, the respective investments are written down to market value.

Inventory for Resale

Inventory for resale includes land and buildings. Inventory held for resale is recorded at 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 physical assets under their respective function.

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

1. **Summary of Significant Accounting Policies (Continued)**

Tangible Capital Assets

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue. Amortization is recorded on a straight-line basis over the estimated life of the tangible capital asset commencing once the asset is available for productive use as follows:

Land improvements	15 to 45 years
Buildings	25 to 50 years
Engineered Structures	
Water system	45 to 75 years
Wastewater system	45 to 75 years
Road system	5 to 65 years
Machinery and equipment	5 to 40 years
Vehicles	10 to 40 years

One-half of the annual amortization is charged in the year of acquisition. Work in process (assets under construction) is not amortized until the asset is available for productive use.

Excess Collections and Under-levies

Excess collections arise from the difference between the actual levy made to cover each requisition and the actual amount requisitioned. If the actual levy exceeds the requisition, the excess collection is accrued as a liability and as a reduction in property tax revenue. Requisition tax rates in the subsequent year are adjusted for any excess collections.

Collection of Taxes on Behalf of Other Taxation Authorities

The Town collects taxation revenue on behalf of other entities. Such levies, other revenues, expenses, assets and liabilities with respect to the operations of entities are not reflected in these financial statements.

The entities the Town collects taxation revenue on behalf of are:

Alberta School Foundation Fund
Drumheller and District Seniors Foundation

Retirement Benefits and Other Employee Benefits Plans

The Town's contributions due during the period to its multi-employer defined benefit plan are expensed as incurred.

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

1. **Summary of Significant Accounting Policies (Continued)**

Deferred Revenue

Funds received for specific purposes which are externally restricted by legislation, regulation or agreement and are not available for general municipal purposes are accounted for as deferred revenue on the consolidated statement of financial position. The revenue is recognized in the consolidated statement of operations in the year in which it is used for the specified purpose.

Government Transfers

Government transfers, which include legislative grants, are recognized in the financial statements 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 amount can be made.

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 excess of revenue over expenses, provides the consolidated Change in Net Financial Assets for the year.

Revenue Recognition

Revenues are accounted for in the period in which the transactions or events occurred that gave rise to the revenues.

Property tax revenue is based on market value assessments determined in accordance with the Municipal Government Act (MGA). Tax mill rates are established annually. Taxation revenues are recorded at the time the tax billings are issued. Assessments are subject to appeal. Losses on assessment appeals are recorded as adjustments to tax revenues and receivables when a written decision is received from the authorized board.

Charges for sewer and water usage are recorded as user fees. Connection fee revenues are recognized when the connection has been established.

Conditional grant revenue is recognized to the extent the conditions imposed on it have been fulfilled. Unconditional grant revenue is recognized when monies are receivable.

Grants for the acquisition of tangible capital assets are recognized in the period in which eligible expenditures are made.

Sales of service and other revenue is recognized on an accrual basis.

1. **Summary of Significant Accounting Policies (Continued)**

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants 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.

2. **Recent Accounting Pronouncements**

The following accounting standards have been issued by the Canadian Institute of Chartered Accountants ("CICA") but are not yet effective. The municipality is currently evaluating the effect of adopting these standards on their financial statements.

Section PS 3260 – Liability for Contaminated Sites

This new section establishes recognition, measurement, and disclosure standards for liabilities relating to contaminated sites of governments and those organizations applying the CICA Public Sector Accounting Handbook. This section is effective for fiscal periods beginning on or after April 1, 2014.

Section PS 3450 – Financial Instruments

The new section establishes recognition, measurement and disclosure requirements for derivative and non-derivative financial instruments. The standard requires fair value measurement of derivatives and equity instruments. All other financial instruments can be measured at cost/amortized cost or fair value at the election of the government. Unrealized gains and losses are presented in a new statement of re-measurement gains and losses. There is a requirement to disclose the nature and extent of risks arising from financial instruments and clarification is given for the de-recognition of financial liabilities.

Section PS 1201 – Financial Statement Presentation

This new section requires a new statement of re-measurement gains and losses separate from the statement of operations. Included in this new statement are the unrealized gains and losses arising for the re-measurement of financial instruments and items denominated in foreign currencies as well as government's proportionate share of other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. This standard is applicable for fiscal years beginning on or after April 1, 2016

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

2. **Recent Accounting Pronouncements (Continued)**

Section PS 2601 – Foreign Currency Translation

This section replaces PS2600 and is applicable for years beginning on or after April 1, 2016. This standard requires that monetary assets and liabilities denominated in a foreign currency be adjusted to reflect the exchange rates in effect at the financial statement date. Unrealized gains and losses are to be presented in the new statement of re-measurement gains and losses.

Section PS 3041 - Portfolio Investments

This section removes the distinction between temporary and portfolio investments. This section now includes pooled investments in its scope and was amended to conform to Financial Instruments PS3450. Upon adoption of PS3450 and PS3041, Temporary Investments PS3030 will no longer apply. This standard is applicable for fiscal years beginning on or after April 1, 2016.

3. **Cash and Cash Equivalents**

	<u>2014</u>	<u>2013</u>
Current accounts	\$ 4,340,185	\$ 2,230,085
Community Facility account	307,935	260,536
Investment margin accounts	119,731	71,234
Redeemable guaranteed investment certificate at 0.85%	<u>2,467,467</u>	<u>2,445,686</u>
	<u>\$ 7,235,318</u>	<u>\$ 5,007,541</u>

Included in the above amounts are the following restricted amounts received from the Government of Canada and the Province of Alberta as conditional grants held exclusively for future projects.

	<u>2014</u>	<u>2013</u>
Municipal Sustainability Initiative grant (MSI)	\$ 1,788,902	\$ 696,540
New Deal for Cities and Communities grant (NDCC)	357,157	---
Policing grant	91,058	65,864
Kneehill	1,125,510	1,200,544
Alberta Municipal Water/Wastewater Partnership (AMWWP)	---	99,589
Water for Life	113,949	---
Other	<u>714,650</u>	<u>477,760</u>
	<u>\$ 4,191,226</u>	<u>\$ 2,540,297</u>

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

4. **Taxes Receivable**

	<u>2014</u>	<u>2013</u>
Current taxes and grants in place	\$ 561,476	\$ 637,208
Non-current taxes and grants in place	<u>696,728</u>	<u>671,525</u>
	1,258,204	1,308,733
Less: Allowance for doubtful accounts	<u>334,796</u>	<u>359,931</u>
	<u>\$ 923,408</u>	<u>\$ 948,802</u>

5. **Accounts Receivable**

	<u>2014</u>	<u>2013</u>
Trade receivable	\$ 2,963,887	\$ 2,236,062
Government grants receivable	<u>4,000,955</u>	<u>3,272,140</u>
	6,964,842	5,508,202
Less: Allowance for doubtful accounts	<u>180,625</u>	<u>147,675</u>
	<u>\$ 6,784,217</u>	<u>\$ 5,360,527</u>

6. **Inventories for Resale**

	<u>2014</u>	<u>2013</u>
Airport fuel	\$ 19,626	\$ 12,040
Land held for resale	<u>826,624</u>	<u>773,209</u>
	<u>\$ 846,250</u>	<u>\$ 785,249</u>

7. **Investments**

	<u>2014</u>	<u>2013</u>
Long-term bonds, maturing at various dates	\$ 3,182,868	\$ 3,107,914
Equity in Alberta Local Authorities Reciprocal Insurance Exchange (ALARIE)	11,618	11,618
Shares	3,433	3,433
Guaranteed investment certificates at 2.25%, maturing July 2019	<u>36,608</u>	<u>36,608</u>
	<u>\$ 3,234,527</u>	<u>\$ 3,159,573</u>

The market value of the Town's marketable securities was \$3,248,291 (2013 – \$3,074,278).

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

8. Employee Benefit Obligation

	<u>2014</u>	<u>2013</u>
Accrued vacation pay	\$ 325,098	\$ 297,049
Accrued long-term service benefits	333,033	321,879
Accrued sick leave benefits	<u>90,588</u>	<u>194,745</u>
	<u>\$ 748,719</u>	<u>\$ 813,673</u>

Accrued vacation pay is comprised of the vacation that employees are deferring to future years. Accrued long-term service benefits is calculated per policy at 2 days per year of service over 5 years at the current rate of pay. Employees have either earned the benefits (and are vested) or are entitled to these benefits within the next budgetary year.

Sick Leave Benefits

The Town provides paid sick leave at a rate of 2 days per month. Sick leave can be accumulated from year to year to a total of 86 work days. Sick leave is not paid out upon termination.

9. Deferred Revenue

	<u>Opening Balance</u>	<u>Contributions Received</u>	<u>Revenue Recognized</u>	<u>Ending Balance</u>
MSI grant	\$ 696,540	\$ 1,496,922	\$ (404,560)	\$ 1,788,902
NDCC grant	---	878,390	(521,233)	357,157
Policing grant	65,864	91,058	(65,864)	91,058
Kneehill	1,200,544	---	(75,034)	1,125,510
AMWWP	99,589	---	(99,589)	---
Water for Life	---	3,451,009	(3,337,060)	113,949
Other	<u>477,760</u>	<u>258,260</u>	<u>(21,370)</u>	<u>714,650</u>
	<u>\$ 2,540,297</u>	<u>\$ 6,175,639</u>	<u>\$ (4,524,710)</u>	<u>\$ 4,191,226</u>

Grants

Under various grant agreements with the Government of Canada and the Province of Alberta, the Town is required to account for grants provided and to complete the projects or program in accordance with standards detailed in the various agreements. If these requirements are not adhered to, grants provided will become repayable to the source government. Unexpected funds are repayable to the source government upon final accounting. Funds are deferred until related expenditures under the specific grant agreement have been incurred.

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

10. Long-term Debt

Long-term debt reported on the statement of financial position is comprised of the following:

	<u>2014</u>	<u>2013</u>
Various Alberta Capital Finance Authority Debentures, bearing interest at 4.252% to 5.012% per year, with blended combined semi-annual payments of \$486,926 due 2021 through 2033. Debenture debt is issued on the credit and security of the Town of Drumheller at large.	\$ 10,499,251	\$ 10,979,528
CMHC mortgage payable, bearing interest at 12.50% per year, with annual blended payments of \$22,313, due 2021.	<u>103,054</u>	<u>128,076</u>
	<u>\$ 10,602,305</u>	<u>\$ 11,107,604</u>

Principal and interest payments relating to long-term debt of \$10,602,305 outstanding are due as follows:

	<u>Principal Repayments</u>	<u>Interest Payments</u>	<u>Total</u>
2015	\$ 528,456	\$ 467,709	\$ 996,165
2016	552,693	443,472	996,165
2017	578,063	418,102	996,165
2018	604,620	391,545	996,165
2019	631,880	364,285	996,165
Thereafter	<u>7,706,593</u>	<u>1,907,267</u>	<u>9,613,860</u>
	<u>\$ 10,602,305</u>	<u>\$ 3,992,380</u>	<u>\$ 14,594,685</u>

Interest on long-term debt amounted to \$489,492 (2013 – \$520,898).

TOWN OF DRUMHELLER

Notes to the Consolidated Financial Statements

December 31, 2014

11. Tangible Capital Assets

	2014							<u>Total</u>
	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings</u>	<u>Engineered Structures</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Work in Progress</u>	
Cost, beginning of year	\$ 13,066,168	\$ 3,734,883	\$ 36,274,220	\$ 152,961,467	\$ 6,569,359	\$ 2,470,842	\$ 3,005,294	\$ 218,082,233
Additions	---	---	58,681	1,856,865	571,977	---	1,492,121	3,979,644
Change in work in progress	---	---	---	199,016	---	---	(199,016)	---
Disposals	---	---	---	---	---	---	---	---
Cost, end of year	<u>\$13,066,168</u>	<u>\$3,734,883</u>	<u>\$36,332,901</u>	<u>\$155,017,348</u>	<u>\$7,141,336</u>	<u>\$2,470,842</u>	<u>\$4,298,399</u>	<u>\$222,061,877</u>
Accumulated amortization, beginning of year	---	2,358,791	7,775,609	59,751,858	3,285,826	1,303,806	---	74,475,890
Amortization	---	171,994	659,898	2,931,683	345,491	174,114	---	4,283,180
Disposals	---	---	---	---	---	---	---	---
Accumulated amortization, end of year	---	<u>\$2,530,785</u>	<u>\$8,435,507</u>	<u>\$62,683,541</u>	<u>\$3,631,317</u>	<u>\$1,477,920</u>	---	<u>\$78,759,070</u>
Net carrying amount, end of year	<u>\$ 13,066,168</u>	<u>\$ 1,204,098</u>	<u>\$ 27,897,394</u>	<u>\$ 92,333,807</u>	<u>\$ 3,510,019</u>	<u>\$ 992,922</u>	<u>\$ 4,298,399</u>	<u>\$ 143,302,807</u>

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

11. **Tangible Capital Assets** (Continued)

	2013							Total
	Land	Land Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	Work in Progress	
Cost, beginning of year	\$ 13,066,168	\$ 3,734,883	\$ 33,149,374	\$ 150,494,267	\$ 6,078,219	\$ 2,425,803	\$ 1,636,188	\$ 210,584,902
Additions	---	---	2,597,643	1,804,012	354,386	131,264	2,696,251	7,583,556
Change in work in progress	---	---	527,203	663,188	136,754	---	(1,327,145)	---
Disposals	---	---	---	---	---	(86,225)	---	(86,225)
Cost, end of year	<u>13,066,168</u>	<u>3,734,883</u>	<u>36,274,220</u>	<u>152,961,467</u>	<u>6,569,359</u>	<u>2,470,842</u>	<u>3,005,294</u>	<u>218,082,233</u>
Accumulated amortization, beginning of year	---	2,186,797	7,145,973	56,941,247	2,961,164	1,155,810	---	70,390,991
Amortization	---	171,994	629,636	2,810,611	324,662	172,963	---	4,109,866
Disposals	---	---	---	---	---	(24,967)	---	(24,967)
Accumulated amortization, end of year	---	<u>2,358,791</u>	<u>7,775,609</u>	<u>59,751,858</u>	<u>3,285,826</u>	<u>1,303,806</u>	---	<u>74,475,890</u>
Net carrying amount, end of year	<u>\$ 13,066,168</u>	<u>\$ 1,376,092</u>	<u>\$ 28,498,611</u>	<u>\$ 93,209,609</u>	<u>\$ 3,283,533</u>	<u>\$ 1,167,036</u>	<u>\$ 3,005,294</u>	<u>\$ 143,606,343</u>

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

12. Equity in Tangible Capital Assets

	<u>2014</u>	<u>2013</u>
Tangible capital assets (Note 11)	\$ 222,061,877	\$ 218,082,233
Accumulated amortization (Note 11)	(78,759,070)	(74,475,890)
Debenture debt (Note 10)	<u>(10,602,305)</u>	<u>(11,107,604)</u>
	<u>\$ 132,700,502</u>	<u>\$ 132,498,739</u>

13. Accumulated Surplus

	<u>2014</u>	<u>2013</u>
Equity in tangible capital assets	\$ 132,700,502	\$ 132,498,739
Unrestricted surplus (deficit)	<u>2,197,171</u>	<u>(413,267)</u>
	<u>134,897,673</u>	<u>132,085,472</u>
Restricted surplus (reserve funds)		
Ambulance	39,288	39,288
Management incentive fund	35,083	35,083
Scholarship	36,608	36,608
Building – long term	548,407	548,407
Municipal reserves	2,339	2,339
Utility energy savings	64,500	---
Contingencies	2,173,913	1,711,206
Contingency – long term	904,872	904,872
Equipment	1,352,441	1,167,101
Equipment – long term	466,146	466,146
Facilities	2,419,184	2,088,385
General capital	(223,659)	(23,454)
Land	(104,900)	(104,900)
Offsite	374,872	374,872
Sewer	1,722,927	1,938,191
Transportation – long term	240,478	240,478
Water	<u>659,979</u>	<u>1,242,976</u>
	<u>10,712,478</u>	<u>10,667,598</u>
	<u>\$ 145,610,151</u>	<u>\$ 142,753,070</u>

The investment in tangible capital assets represents amounts already spent and invested in infrastructure. Reserve funds represent funds set aside by bylaw or council resolution for specific purposes.

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

14. Change in Accumulated Surplus

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2014	2013
Balance, beginning of year	\$ (413,267)	\$ 10,667,598	\$132,498,739	\$142,753,070	\$138,158,259
Excess of revenue over expenses	2,857,081	---	---	2,857,081	4,594,811
Net operating transfers to restricted surplus	(1,996,312)	1,996,312	---	---	---
Debenture principal payments	(505,299)	---	505,299	---	---
Capital transfers from restricted surplus	1,951,432	(1,951,432)	---	---	---
Acquisition of capital	(3,979,644)	---	3,979,644	---	---
Disposals and write-down of assets	---	---	---	---	---
Amortization	<u>4,283,180</u>	<u>---</u>	<u>(4,283,180)</u>	<u>---</u>	<u>---</u>
Change in accumulated surplus	<u>2,610,438</u>	<u>44,880</u>	<u>201,763</u>	<u>2,857,081</u>	<u>4,594,811</u>
Balance, end of year	<u>\$ 2,197,171</u>	<u>\$ 10,712,478</u>	<u>\$132,700,502</u>	<u>\$145,610,151</u>	<u>\$142,753,070</u>

15. Property and other taxes

	Budget 2014	2014	2013
Real property	\$ 10,621,643	\$ 10,534,372	\$ 10,341,204
Machinery and equipment	39,605	38,418	38,260
Linear property	457,014	458,124	441,559
Special assessments and local improvement taxes	<u>69,512</u>	<u>45,642</u>	<u>70,684</u>
	<u>11,187,774</u>	<u>11,076,556</u>	<u>10,891,707</u>
Requisitions			
Alberta School Foundation Fund			
Christ the Redeemer Separate School Division	2,354,420	2,246,666	2,320,446
Sunshine Senior's Lodge	445,580	433,109	421,634
	<u>415,942</u>	<u>412,145</u>	<u>362,273</u>
	<u>3,215,942</u>	<u>3,091,920</u>	<u>3,104,353</u>
Net municipal taxes	<u>\$ 7,971,832</u>	<u>\$ 7,984,636</u>	<u>\$ 7,787,354</u>

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
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16. Government Transfers

	Budget 2014	2014	2013
Operating			
Federal government	\$ 4,000	\$ 4,000	\$ 4,000
Provincial government	<u>869,076</u>	<u>1,705,834</u>	<u>1,523,596</u>
	873,076	1,709,834	1,527,596
Capital			
Provincial government	<u>4,048,579</u>	<u>2,484,441</u>	<u>5,674,598</u>
Total government transfer	<u>\$ 4,921,655</u>	<u>\$ 4,194,275</u>	<u>\$ 7,202,194</u>

17. Expenses by Object

	Budget 2014	2014	2013
Salaries and wages	\$ 5,571,109	\$ 5,728,785	\$ 5,673,063
Contracted and general services	4,680,361	5,344,603	4,691,063
Purchases from other governments	1,174,209	1,189,438	1,085,383
Materials, goods and utilities	2,375,500	2,485,450	2,695,269
Transfer to local agencies	439,800	420,139	385,804
Transfer to individuals and organizations	2,500	1,500	1,000
Bank charges and short-term interest	6,000	20,859	7,526
Interest on long-term debt	581,192	489,492	520,898
Amortization	4,283,180	4,283,180	4,109,866
Other expenditures	<u>89,100</u>	<u>88,636</u>	<u>171,403</u>
	<u>\$ 19,202,951</u>	<u>\$ 20,052,082</u>	<u>\$ 19,341,275</u>

18. Local Authorities Pension Plan

Certain employees of the Town are eligible to be members of the Local Authorities Pension Plan ("LAPP"), a multi-employer pension plan which is covered by the Public Sector Pension Plans Act. The Plan serves about 200,000 people and over 400 employers. It is financed by employer and employee contributions and investment earnings of the LAPP Fund. The plan provides defined pension benefits to employees based on their length of service and rates of pay.

The Town contributes to the Plan at a rate of 11.39% of pensionable earnings up to the Canada Pension Plan Maximum Pensionable Earnings and 15.84% for the excess. Employees contribute to the Plan at a rate of 10.39% of pensionable earnings up to the Canada Pension Plan Maximum Pensionable Earnings and 14.84% for the excess. Annual maximum pensionable earnings for employer and employee contributions is \$157,025.

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

18. **Local Authorities Pension Plan (Continued)**

Contributions for the year were:

	<u>2014</u>	<u>2013</u>
Employer contributions	\$ 348,512	\$ 311,241
Employee contributions	<u>319,633</u>	<u>290,969</u>
	<u>\$ 668,145</u>	<u>\$ 602,210</u>

As this is a multi-employer pension plan, these contributions comprise the Town's pension benefit expense. No pension liability for this type of plan is included in the Town's financial statements. The most recent valuation as at December 31, 2013 indicates a deficit of \$4.862 billion (2012 - \$4.980 billion) for basic pension benefits. The actuary does not attribute portions of the unfunded liability to individual employers. LAPP has not yet disclosed the actuarial deficiency as at December 31, 2014.

19. **Salary and Benefits Disclosure**

Disclosure of salaries and benefits for elected municipal officials and designated officers as required by Alberta Regulation 313/2000 is as follows:

	<u>Salary</u>	<u>Benefits and Allowances</u>	<u>2014 Total</u>	<u>2013 Total</u>
Mayor Yemen	\$ 40,647	\$ 4,630	\$ 45,277	\$ 41,972
Councillor Berdahl	465	15	480	16,045
Councillor Hansen-Zacharuk	21,723	3,451	25,174	22,055
Councillor Kolafa	21,508	3,430	24,938	3,744
Councillor Garbutt	21,473	3,443	24,916	22,572
Councillor McMillan	21,508	3,430	24,938	3,744
Councillor Shoff	20,723	2,111	22,834	20,626
Councillor Stanford	465	---	465	17,018
Councillor Zariski	20,973	3,201	24,174	21,731
Chief Administrative Officer Romanetz (CAO)	181,655	8,331	189,987	191,791

Council salary includes regular base pay, gross honoraria and any other direct cash remuneration.

Council and CAO benefits and allowances include:

- a) employer's share of all employee benefits and contributions or payments made on behalf of employees, including retirement pension, Canada pension, employment insurance, health care, extended health care, vision coverage, group life insurance, accidental death and disability insurance and long and short-term disability plans.

CAO salary includes regular base pay, bonuses, overtime, lump sum payments, gross honoraria, and any other direct cash remuneration. CAO benefits and allowances also include the use of an automobile.

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

20. Debt Limits

Section 276(2) of the Municipal Government Act requires that debt and debt limits as defined by Alberta Regulation for the Town be disclosed as follows:

	<u>2014</u>	<u>2013</u>
Total debt limit	\$ 29,460,389	\$ 27,345,008
Total debt	<u>10,602,305</u>	<u>11,107,604</u>
	<u>\$ 18,858,084</u>	<u>\$ 16,237,404</u>
Debt servicing limit	\$ 4,910,065	\$ 4,557,501
Debt servicing	<u>996,165</u>	<u>996,165</u>
Amount of debt servicing limit unused	<u>\$ 3,913,900</u>	<u>\$ 3,561,336</u>

The debt limit is calculated at 1.5 times revenue of the Town (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 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.

21. Contingencies

The Town of Drumheller, in conduct of its normal activities can be named as a defendant in legal proceedings. The ultimate outcome of these proceedings can often not be determined until the proceedings are completed. Should any loss result from the resolution of these proceedings or if the amount of the loss can be determined, such amounts would be expensed as they become known to the Town.

The Town is a member of the Alberta Local Authorities Reciprocal Insurance Exchange. 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.

22. Commitments

The Town of Drumheller has ongoing capital projects that were not completed during the year. The estimated costs to the Town are \$1,778,315 for projects that will continue through 2015. These projects are to be funded by \$248,060 from reserves, \$1,357,595 from Provincial grants, \$12,660 from debt and \$160,000 from other income sources.

The Town has an agreement to obtain electricity, expiring December 31, 2018 at a fixed rate of \$56.23/MWh up to a maximum of 6,040 MWh.

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

22. **Commitments** (Continued)

The Town also has an agreement to obtain natural gas expiring December 31, 2017 at a fixed rate of \$3.70/GJ for 70% of its annual usage volume of 26,000 GJ. The remaining natural gas volumes required by the Town will be purchased at AECO's spot market rate which has been trending at an average of \$2.52/GJ.

23. **Budget**

The budget adopted by Council on March 10, 2014, was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards). The budget was prepared on a modified accrual basis while Public Sector Accounting Standards now require a full accrual basis. The deficit budget anticipated use of surpluses accumulated in previous years to fund current year operation and capital activities. Amortization was budgeted for the water and wastewater departments, but not funded. The budget expensed all tangible capital expenditures. As a result, the budget figures presented in the statements of operations and change in net debt represent the budget adopted by Council on March 10, 2014, with adjustments as follows:

	<u>Budget</u>	<u>Amortization Allocation</u>	<u>Budget per Financial Statements</u>	<u>Actual per Financial Statements</u>
Operating revenue	\$ 16,760,583	\$ ---	\$ 16,760,583	\$ 19,640,259
Capital revenues	<u>4,923,514</u>	<u>---</u>	<u>4,923,514</u>	<u>3,268,904</u>
Total revenues	<u>21,684,097</u>	<u>---</u>	<u>21,684,097</u>	<u>22,909,163</u>
Legislative	234,378	---		225,255
Administrative	1,342,307	173,843	1,516,150	1,825,012
Protective Services	2,241,544	122,911	2,364,455	3,333,281
Transportation Service	798,635	1,193,693	1,992,328	3,253,168
Water and wastewater	6,667,087	60,540	6,727,627	5,511,493
Waste management	386,529	---	386,529	379,524
Planning and developments	469,432	103,132	572,564	556,388
Recreation and park	3,467,099	633,176	4,100,275	4,451,872
Public health and welfare	<u>512,435</u>	<u>885</u>	<u>513,320</u>	<u>516,089</u>
Total expenditures	<u>16,119,446</u>	<u>2,288,180</u>	<u>18,173,248</u>	<u>20,052,082</u>
Excess of revenues over expenditures	<u>5,564,651</u>	<u>(2,288,180)</u>	<u>3,510,849</u>	<u>2,857,081</u>
Capital expenditures	(7,231,118)			
Proceeds on sale of capital	---			
Inter-fund transfers	303,200			
Debenture proceeds	---			
Debenture payments	(551,748)			
Budgeted amortization	<u>1,995,000</u>			
	<u>\$ 79,985</u>			

24. Segmented Information

The Town is a diversified municipal government institution that provides a wide range of services to its citizens. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

Protective Services

Protective services is comprised of police, bylaw enforcement and fire protection. This service area is responsible for the overall safety of the public through various prevention and enforcement activities.

Transportation Services

Transportation services is responsible for the delivery of municipal public works services related to the planning, development and maintenance of roadway systems, the maintenance of park and open space and street lighting.

Water and Wastewater Services

Water and wastewater provides drinking water to the Town's citizens and collects and treats wastewater. The Town processes and cleans sewage and ensures the water system meets all Provincial standards.

Waste Management Services

Waste management provides collection disposal and recycling programs.

Planning and Development

The planning department provides a number of services including town planning and enforcement of building and construction codes and review of all property development plans through its application process.

Recreation and Parks

This service area maintains recreation infrastructure such as parks, arenas, aquatic centres and community centres as well as provides recreational programs and cultural programs at those locations.

Public Health and Welfare

This service area provides and administers community support programs.

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
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24. **Segmented Information** (Continued)

General Government

This service area includes legislative and administrative support to all other service areas and also relates to the revenues and expenses that relate to the operations of the Town itself and cannot be directly attributed to a specific segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. In measuring and reporting segment revenue from transactions with other segments, inter-segment transfer have been eliminated. The revenues and expenses that are directly attributable to a particular segment are allocated to that segment. Taxation has been allocated to general government except where specific tax revenues can be directly allocated to a service area.

TOWN OF DRUMHELLER

Notes to the Consolidated Financial Statements

December 31, 2014

24. Segmented Information (Continued)

	2014								
	Protective Services	Transportation Services	Water and Wastewater	Waste Management	Planning and Development	Recreation and Parks	Public Health and Welfare	General Government	2014 Total
Revenue									
Taxation	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 7,984,636	\$ 7,984,636
Government transfers for operating	1,281,279	---	---	---	22,346	4,000	315,117	87,092	1,709,834
Government transfer for capital	464,592	683,480	931,809	---	---	323,264	---	81,296	2,484,441
Sales and user fees	514,718	231,414	5,115,771	89,312	182,968	570,617	91,897	179,383	6,976,080
Franchise and concessions	---	---	---	---	---	---	---	1,511,020	1,511,020
Investment income	---	---	---	---	---	---	---	241,950	241,950
Penalties and costs on taxes	---	---	34,758	---	---	---	---	138,802	173,560
Rentals	---	1,925	---	---	46,502	327,662	---	---	376,089
Other	7,816	769,018	325	---	---	541,120	1,042	132,232	1,451,553
Gain on disposal of assets	---	---	---	---	---	---	---	---	---
	<u>2,268,405</u>	<u>1,685,837</u>	<u>6,082,663</u>	<u>89,312</u>	<u>251,816</u>	<u>1,766,663</u>	<u>408,056</u>	<u>10,356,411</u>	<u>22,909,163</u>
Expenses									
Salaries and wages	692,493	755,309	1,314,547	32,247	67,715	1,803,560	322,461	740,453	5,728,785
Contracted and general services	806,230	716,297	1,225,502	347,277	163,664	935,012	152,523	998,098	5,344,603
Purchases from other governments	1,189,438	---	---	---	---	---	---	---	1,189,438
Materials, goods and utilities	504,324	579,519	651,116	---	30,577	629,956	14,920	75,038	2,485,450
Transfer to local agencies	5,184	---	---	---	170,697	218,958	25,300	---	420,139
Transfers to individuals and organizations	---	---	---	---	---	---	---	1,500	1,500
Bank charges and short-term interests	---	---	---	---	---	10,726	---	10,133	20,859
Interest on long-term debt	---	---	249,405	---	19,603	220,484	---	---	489,492
Amortization	122,911	1,193,693	2,055,540	---	103,132	633,176	885	173,843	4,283,180
Other	12,701	8,350	15,383	---	1,000	---	---	51,202	88,636
	<u>3,333,281</u>	<u>3,253,168</u>	<u>5,511,493</u>	<u>379,524</u>	<u>556,388</u>	<u>4,451,872</u>	<u>516,089</u>	<u>2,050,267</u>	<u>20,052,082</u>
Net surplus (deficit)	<u>\$ (1,064,876)</u>	<u>\$ (1,567,331)</u>	<u>\$ 571,170</u>	<u>\$ (290,212)</u>	<u>\$ (304,572)</u>	<u>\$ (2,685,209)</u>	<u>\$ (108,033)</u>	<u>\$ 8,306,144</u>	<u>\$ 2,857,081</u>

TOWN OF DRUMHELLER

Notes to the Consolidated Financial Statements

December 31, 2014

24. Segmented Information (Continued)

	2013								
	Protective Services	Transportation Services	Water and Wastewater	Waste Management	Planning and Development	Recreation and Parks	Public Health and Welfare	General Government	2013 Total
Revenue									
Taxation	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 7,787,354	\$ 7,787,354
Government transfers for operating	364,038	---	---	---	713,920	58,000	298,559	93,079	1,527,596
Government transfer for capital	---	680,000	3,337,502	---	---	---	---	1,657,096	5,674,598
Sales and user fees	350,943	266,287	4,698,046	88,809	30,823	626,654	67,587	172,576	6,301,725
Franchise and concessions	---	---	---	---	---	---	---	1,463,741	1,463,741
Investment income	---	---	13,854	---	---	---	---	157,386	171,240
Penalties and costs on taxes	---	---	25,740	---	---	---	---	130,242	155,982
Rentals	---	2,013	---	---	46,702	409,501	---	---	458,216
Other	562	17,480	---	---	1,600	19,883	---	355,939	395,464
Gain on disposal of assets	1,429	(1,259)	---	---	---	---	---	---	170
	<u>716,972</u>	<u>964,521</u>	<u>8,075,142</u>	<u>88,809</u>	<u>793,045</u>	<u>1,114,038</u>	<u>366,146</u>	<u>11,817,413</u>	<u>23,936,086</u>
Expenses									
Salaries and wages	675,264	758,745	1,252,091	36,469	88,165	1,875,120	285,527	701,682	5,673,063
Contracted and general services	925,234	431,581	953,656	333,181	159,166	880,930	147,935	859,380	4,691,063
Purchases from other governments	1,085,383	---	---	---	---	---	---	---	1,085,383
Materials, goods and utilities	84,365	811,484	853,210	---	46,625	822,851	11,287	65,447	2,695,269
Transfer to local agencies	5,266	---	---	---	153,593	201,136	25,809	---	385,804
Transfers to individuals and organizations	---	---	---	---	---	---	---	1,000	1,000
Bank charges and short-term interests	---	---	---	---	---	---	---	7,526	7,526
Interest on long-term debt	---	---	270,416	---	11,179	239,303	---	---	520,898
Amortization	122,632	1,119,329	1,988,872	---	103,083	624,877	1,508	149,565	4,109,866
Other	(630)	---	15,005	---	14,400	(1,167)	(180)	143,975	171,403
	<u>2,897,514</u>	<u>3,121,139</u>	<u>5,333,250</u>	<u>369,650</u>	<u>576,211</u>	<u>4,643,050</u>	<u>471,886</u>	<u>1,928,575</u>	<u>19,341,275</u>
Net surplus (deficit)	<u>\$ (2,180,542)</u>	<u>\$ (2,156,618)</u>	<u>\$ 2,741,892</u>	<u>\$ (280,841)</u>	<u>\$ 216,834</u>	<u>\$ (3,529,012)</u>	<u>\$ (105,740)</u>	<u>\$ 9,888,838</u>	<u>\$ 4,594,811</u>

TOWN OF DRUMHELLER
Notes to the Consolidated Financial Statements
December 31, 2014

25. Financial Instruments

The Town's financial instruments consist of cash and cash equivalents, receivables, investments, accounts payable and accrued liabilities, and long-term debt. It is management's opinion that the Town is not exposed to significant interest rate, currency, market, liquidity or credit risk arising from these financial instruments except as follows:

Interest rate risk

The Town is exposed to interest rate price risk as the cash and cash equivalents and interest bearing investments and long-term debt bear interest at fixed interest rates.

The Town is exposed to interest cash flow risk as the investments bear interest at variable interest rates.

Credit risk

The Town is exposed to credit risk with respect to taxes receivable 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 fulfil their obligations. The large number and diversity of taxpayers and certain rights granted to the Town under the Municipal Government Act minimizes the credit risk.

26. Comparative Figures

Whenever necessary, comparative figures have been reclassified to conform to the current year's financial statement presentation.

27. Approval of Financial Statements

Council and Management approved these financial statements.