

Town of Three Hills
Consolidated Financial Statements
For the year ended December 31, 2018

**Town of Three Hills
Consolidated Financial Statements
For the year ended December 31, 2018**

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Tel: 403-342-2500
Fax: 403-343-3070
www.bdo.ca

BDO Canada LLP
Millennium Centre
600, 4909 - 49th Street
Red Deer AB T4N 1V1 Canada

Independent Auditor's Report

To the Mayor and Council of the Town of Three Hills

Opinion

We have audited the consolidated financial statements of Town of Three Hills and its controlled organizations (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of operations, consolidated statement of changes in net financial assets, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and its consolidated financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements for the year ended December 31, 2017 were audited by another accounting firm and are presented for comparative purposes only.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report, continued

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants,
Red Deer, Alberta
April 8, 2019

Town of Three Hills
Consolidated Statement of Financial Position

December 31	2018	2017
Financial assets		
Cash and temporary investments (Note 1)	\$ 8,548,666	\$ 7,818,672
Receivables		
Taxes and grants in place of taxes (Note 3)	144,373	96,627
Trade and other receivables (Note 4)	10,464,173	534,182
Land inventory held for resale	898,594	898,594
Investments	294	294
Loans receivable (Note 5)	123,668	129,516
	20,179,768	9,477,885
Liabilities		
Accounts payable and accrued liabilities	921,574	632,329
Employee benefit obligation (Note 6)	164,143	140,605
Deposit liabilities	171,421	171,589
Deferred revenue (Note 7)	11,455,974	1,628,949
Long-term debt (Note 8)	2,248,451	2,612,369
Solid waste closure and post-closure liabilities (Note 9)	360,200	351,667
	15,321,763	5,537,508
Net financial assets	4,858,005	3,940,377
Non-financial assets		
Tangible capital assets (Note 10)	41,269,732	41,702,394
Inventory for consumption	38,186	21,117
Prepaid expenses	73,074	78,295
	41,380,992	41,801,806
Accumulated surplus (Note 12)	\$ 46,238,997	\$ 45,742,183
Debenture debt limits (Note 19)		
Contingencies (Note 20)		
Commitments (Note 20)		

Town of Three Hills
Consolidated Statement of Operations

For the year ended December 31	Budget 2018	2018	2017
Revenue			
Net municipal taxes (Note 14)	\$ 3,643,931	\$ 3,595,917	\$ 3,594,126
Government transfers for operating (Note 15)	237,918	239,238	366,748
Sales and user fees	3,667,882	3,415,209	3,316,633
Rental revenue	181,645	170,998	181,286
Franchises and concessions	303,453	291,461	277,653
Investment income	34,000	118,172	78,815
Penalties and costs on taxes	25,000	29,620	28,596
Fines and costs	50,415	57,175	57,953
Other	28,850	40,122	45,816
Contributed assets	-	2,873	46,126
Gain(loss) on disposal of assets	-	(5,603)	12,318
	<u>8,173,094</u>	<u>7,955,182</u>	<u>8,006,070</u>
Expenditures (Note 16)			
Legislative	323,931	299,017	333,752
Administration	1,044,345	926,162	819,659
Protective services	365,992	320,112	329,891
Transportation services	1,609,233	1,549,751	1,415,214
Water and wastewater	2,347,313	2,212,744	2,238,238
Waste management	612,514	484,718	528,011
Planning and development	436,383	233,757	293,239
Recreation and parks	2,273,559	2,085,117	2,117,409
Public health and welfare	130,731	66,122	108,555
	<u>9,144,001</u>	<u>8,177,500</u>	<u>8,183,968</u>
Deficiency of revenue over expenditures - before other	(970,907)	(222,318)	(177,898)
Other			
Government transfers for capital (Note 15)	9,883,586	719,132	1,150,229
Excess of revenue over expenditures	<u>8,912,679</u>	<u>496,814</u>	<u>972,331</u>
Accumulated surplus, beginning of year	<u>45,742,183</u>	<u>45,742,183</u>	<u>44,769,852</u>
Accumulated surplus, end of year	<u>\$ 54,654,862</u>	<u>\$ 46,238,997</u>	<u>\$ 45,742,183</u>

Town of Three Hills
Consolidated Statement of Change in Net Financial Assets (Debt)

For the year ended December 31	Budget 2018	2018	2017
Excess of revenue over expenditures	\$ 8,912,679	\$ 496,814	\$ 972,331
Acquisition of tangible capital assets	(16,998,363)	(1,548,741)	(1,318,748)
Amortization of tangible capital assets	1,932,322	1,932,322	1,879,131
Proceeds on sale of tangible capital assets	-	46,223	-
Loss on sale of tangible capital assets	-	5,604	12,319
	(6,153,362)	932,222	1,545,033
Change in prepaid expenses	-	5,221	6,328
Change in inventory for consumption	-	(19,815)	23,890
	-	(14,594)	30,218
Net change in net financial assets (debt)	(6,153,362)	917,628	1,575,251
Net financial assets, beginning of year	3,940,377	3,940,377	2,365,126
Net financial assets (debt), end of year	\$ (2,212,985)	\$ 4,858,005	\$ 3,940,377

Town of Three Hills
Consolidated Statement of Cash Flows

For the year ended December 31	2018	2017
Operating transactions		
Excess of revenue over expenditures	\$ 496,814	\$ 972,331
Items not involving cash		
Contributed assets	(2,873)	-
Amortization	1,932,322	1,879,131
Net loss on disposal of tangible capital assets	5,604	12,319
Changes in non-cash operating balances		
Taxes receivable	(47,746)	39,746
Accounts receivable	(9,929,991)	1,522,518
Inventory held for resale	-	(209,846)
Prepaid expenses	5,221	6,328
Accounts payable and accrued liabilities	300,900	2,339
Inventory for consumption	(17,069)	23,890
Employee benefit obligation	23,538	5,542
Loan receivable	(5,848)	59,803
Deposit liabilities	-	1,234
Deferred revenue	9,827,025	52,078
Solid waste closure and post closure liabilities	8,533	5,266
	2,596,430	4,372,679
Capital transactions		
Acquisition of tangible capital assets	(1,548,741)	(1,318,748)
Proceeds on sale of tangible capital assets	46,223	-
	(1,502,518)	(1,318,748)
Financing transactions		
Repayment of long-term debt	(363,918)	(424,931)
Net change in cash and cash equivalents	729,994	2,629,000
Cash and cash equivalents, beginning of year	7,818,672	5,189,672
Cash and cash equivalents, end of year	\$ 8,548,666	\$ 7,818,672
Cash and cash equivalents is comprised of:		
Cash and cash equivalents	\$ 8,548,666	\$ 7,818,672
Less: restricted (Note 1)	(1,231,262)	(1,816,186)
	\$ 7,317,404	\$ 6,002,486

Town of Three Hills
Summary of Significant Accounting Policies

December 31, 2018

1. Significant Accounting Policies

**Management's
Responsibility for the
Financial Statements**

The consolidated financial statements of the Town are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

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.

Reporting Entity

The consolidated financial statement reflect the assets, liabilities, revenue and expenses of all municipal organizations, committees and Boards which 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:

Three Hills Public Library

The schedule of taxes levied also includes operational requisitions for educational, health, social and other external organizations that are not part of the municipal reporting entity.

The statement excludes trust assets that are administered for the benefit of external parties. Interdepartmental and organizational transactions and balances are eliminated.

**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 unless there has been a decline in the market value which is other than temporary in nature in which case the investments are written down to market value.

Town of Three Hills
Summary of Significant Accounting Policies

December 31, 2018

Land Held for Resale Land 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 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 their respective function.

Inventory for Consumption Inventories of materials and supplies for consumption are valued at the lower of cost or replacement cost. Inventory of gravel is maintained by perpetual records and is recorded in the accounts to the extent of royalties, land costs, crushing costs incurred, hauling and equipment rentals.

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.

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	10 to 25 years
Buildings	25 to 50 years
Engineered Structures	
Roadway system	10 to 40 years
Water system	45 to 75 years
Wastewater system	45 to 60 years
Storm system	30 to 75 years
Other engineered structures	30 to 75 years
Machinery and equipment	5 to 25 years
Vehicles	10 to 25 years

Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets received as contributions are recorded at fair value at the date of receipt and are also recorded as revenue.

Leased Assets Leases entered into that transfer substantially all the benefits and risks associated with ownership are recorded as the acquisition of a tangible capital asset and the incurrence of an obligation. The asset is amortized in a manner consistent with tangible capital assets owned by

Town of Three Hills
Summary of Significant Accounting Policies

December 31, 2018

the Town, and the obligation, including interest thereon, is liquidated over the term of the lease. All other leases are accounted for as operating leases, and the rental costs are expensed as incurred.

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 transfers occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amount can be made.

Revenue Recognition Taxes are recognized as revenue in the year they are levied. 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.

Landfill Closure and Post Closure Liability Pursuant to 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, but are not limited to, 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 estimate of the remaining life of the landfill site based on usage. The Town did not identify any liabilities as a result of adopting PS3260.

Liability for Contaminated Sites A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the organization is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring.

Town of Three Hills
Summary of Significant Accounting Policies

December 31, 2018

The liability is recorded net of any expected recoveries.

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

2. Cash and Temporary Investments

	2018	2017
Cash	\$ 3,944,670	\$ 3,963,997
Temporary investments	4,603,996	3,854,675
	\$ 8,548,666	\$ 7,818,672

Temporary investments are short-term deposits earning interest between 2.40% and 2.82% and are either cashable or maturing between June, July and December 2019.

The town has available to it an operating line of credit with the Royal Bank of Canada, having an authorized limit of \$500,000, which bears interest at prime plus 0.3%. As at December 31, 2018 - \$0 was drawn on this line of credit. The full amount of which is available for cash flow management as necessary.

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

	2018	2017
MSI - Capital	\$ 641,814	\$ 890,501
Kneehill County	312,259	304,861
Federal Gas Tax Fund	538,023	195,270
	\$ 1,492,096	\$ 1,390,632

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

3. Taxes and Grants in place of taxes

	2018	2017
Current taxes and grants in place	\$ 101,606	\$ 64,248
Non-current taxes and grants in place	42,767	32,379
	\$ 144,373	\$ 96,627

4. Accounts Receivable

	2018	2017
Trade receivables	\$ 502,820	\$ 343,785
Receivables from other governments	9,961,353	190,397
	\$ 10,464,173	\$ 534,182

5. Loans Receivable

	2018	2017
Mortgage receivable	\$ 123,668	\$ 129,516

The mortgage receivable relates to the sale of certain Town owned property. The mortgage bears interest at 3% and is repayable in monthly blended payments of \$777. The mortgage matures in November 2035.

6. Employee Benefit Obligation

	2018	2017
Accrued vacation pay	\$ 155,077	\$ 132,827
Accrued sick leave benefit	7,375	7,213
Accrued flex time benefit	1,691	565
	\$ 164,143	\$ 140,605

The vacation and sick benefits liability is comprised of vacation and sick days credits that employees are deferring to future years. Employees have either earned the benefits (and are vested) or are entitled to these benefits within the next budget year.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

7. Deferred Revenue

	Opening balance	Contributions received	Revenue recognized	Ending balance
MSI - Capital	\$ 890,501	975,108	(269,746)	\$ 1,595,863
Kneehill County	304,861	7,398	-	312,259
Federal Gas Tax Fund	351,270	186,753	-	538,023
AMWWP	-	8,897,386	(449,386)	8,448,000
Community and Regional Economic Support	-	60,241	-	60,241
Artis	-	300,000	(158,311)	141,689
Other operating grants	82,317	557,161	(279,579)	359,899
	\$ 1,628,949	10,984,047	(1,157,022)	\$ 11,455,974

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. Unexpended 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 Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

8. Long-Term Debt

	2018	2017
Tax supported debentures	910,477	1,001,265
Tax supported loans	1,149,322	1,312,754
Self supported debentures	113,623	168,471
Self supported loans	75,029	129,879
	2,248,451	2,612,369

Principal and interest repayments are as follows:

	Principal Repayments	Interest Payments	Total
2019	\$ 332,417	\$ 64,411	\$ 396,828
2020	283,630	63,622	347,252
2021	220,611	54,513	275,124
2022	197,131	47,524	244,655
2023	203,741	40,914	244,655
Thereafter	1,010,921	102,379	1,113,300
	\$ 2,248,451	\$ 373,363	\$ 2,621,814

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 3.39% to 6.375% per annum and mature in periods 2019 through 2030.

Debenture debt is issued on the credit and security of the Town at Large.

Bank loans are repayable in monthly and annual blended payments that bear an interest rate ranging from 2.05% to 3.95%.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

9. Landfill Closure and Post-Closure Liabilities

Solid waste closure and post-closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, removal of ground water and leachates, and ongoing environmental monitoring, site inspection and maintenance. The estimated total liability is based on the sum of the discounted future cash flows for close and postclosure activities for 25 years.

The accrued liability portion is based on the cumulative capacity used at year end compared to the estimated total landfill capacity. The total capacity of the site is estimated at 2,000 cubic metres. As at year end there is no unused capacity.

	2018 (\$)	2017 (\$)
Estimated closure costs	104,040	104,040
Estimated post-closure costs	256,160	256,160
Estimated total liability	360,200	360,200
Liability accrued	(360,200)	(351,667)
Balance of estimated cost to accrue	-	8,533

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

	2018							
	Construction in Progress	Land	Land Improvements	Building	Engineered Structures	Machinery & Equipment	Vehicles	Total
Cost, beginning of year	\$ 2,880	\$ 2,597,995	\$ 3,445,743	\$ 10,596,395	\$ 47,146,004	\$ 4,189,639	\$ 1,112,299	\$ 69,090,955
Additions		45,479	8,040	66,090	93,607	381,475	237,791	832,482
Change in work in progress	719,132	-	-	-	-	-	-	719,132
Write-downs & disposals	-	-	-	(2,994)	(5,871)	(107,739)	(21,388)	(137,992)
Cost, end of year	\$ 722,012	\$ 2,643,474	\$ 3,453,783	\$ 10,659,491	\$ 47,233,740	\$ 4,463,375	\$ 1,328,702	\$ 70,504,577
Accumulated amortization, beginning of year	\$ -	\$ -	\$ 1,270,474	\$ 3,726,468	\$ 19,678,210	\$ 1,950,648	\$ 762,761	\$ 27,388,561
Amortization	-	-	174,854	317,353	1,033,873	337,273	68,969	1,932,322
Write-downs & disposals	-	-	-	(2,844)	(2,350)	(60,525)	(20,319)	(86,038)
Accumulated amortization, end of year	\$ -	\$ -	\$ 1,445,328	\$ 4,040,977	\$ 20,709,733	\$ 2,227,396	\$ 811,411	\$ 29,234,845
Net carrying amount, end of year	\$ 722,012	\$ 2,643,474	\$ 2,008,455	\$ 6,618,514	\$ 26,524,007	\$ 2,235,979	\$ 517,291	\$ 41,269,732

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

10. Tangible Capital Assets (continued)

	Construction in Progress	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	Total
Cost, beginning of year	\$ 181,128	\$ 2,597,995	\$ 3,100,944	\$ 10,400,553	\$ 46,369,210	\$ 4,088,059	\$ 1,077,411	\$ 67,815,300
Additions	(172,618)	-	363,339	195,842	777,479	119,818	34,888	1,318,748
Disposal of tangible capital assets	(5,630)	-	(18,540)	-	(685)	(18,238)	-	(43,093)
Cost, end of year	\$ 2,880	\$ 2,597,995	\$ 3,445,743	\$ 10,596,395	\$ 47,146,004	\$ 4,189,639	\$ 1,112,299	\$ 69,090,955
Accumulated amortization, beginning of year	\$ -	\$ -	\$ 1,123,896	\$ 3,412,210	\$ 18,667,272	\$ 1,631,336	\$ 705,490	\$ 25,540,204
Amortization	-	-	165,117	314,258	1,011,623	330,862	57,271	1,879,131
Disposals	-	-	(18,539)	-	(685)	(11,550)	-	(30,774)
Accumulated amortization, end of year	\$ -	\$ -	\$ 1,270,474	\$ 3,726,468	\$ 19,678,210	\$ 1,950,648	\$ 762,761	\$ 27,388,561
Net carrying amount, end of year	\$ 2,880	\$ 2,597,995	\$ 2,175,269	\$ 6,869,927	\$ 27,467,794	\$ 2,238,991	\$ 349,538	\$ 41,702,394

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

11. Equity in Tangible Capital Assets

	<u>2018</u>	<u>2017</u>
Tangible capital assets	\$ 70,504,577	\$ 69,090,955
Accumulated amortization	(29,234,845)	(27,388,561)
Long-term debt	(2,173,422)	(2,482,490)
	<u>\$ 39,096,310</u>	<u>\$ 39,219,904</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

12. Accumulated Surplus

	2018	2017
Equity in tangible capital assets (Note 11)	\$ 39,096,310	\$ 39,219,904
Unrestricted surplus	1,607,192	1,502,322
	40,703,502	40,722,226
Operating Reserves:		
General fund	243,678	263,237
Grant program	82,592	81,062
Mill rate stabilization	304,994	302,691
Snow removal	53,365	52,344
Water	104,956	102,948
Water distribution	27,836	50,454
Wastewater	52,785	96,588
Solid waste	64,779	63,526
Landfill environmental	49,467	48,521
Health	11,752	11,527
Cemetery	22,879	20,282
Landfill rate stabilization	82,139	129,845
Library	10,538	10,337
Airport	153,808	147,736
	1,265,568	1,381,098
Capital Reserves:		
General fund	1,580,549	1,342,366
Disaster services	26,365	25,861
Bylaw	13,856	8,935
Emergency service	340,266	333,993
Transportation	36,410	35,714
Water	1,038,493	836,478
Water offsite levy	31,437	30,861
Water distribution offsite levy	14,787	14,516
Wastewater	544,274	501,134
Solid waste	241,412	138,181
Cemetery expansion	7,651	12,259
Land	214,302	210,568
Sub-division	19,533	19,150
Recreation	10,435	10,236
Campground	71,641	41,593
Municipal reserve	78,516	77,014
	\$ 4,269,927	\$ 3,638,859
Total Reserves	5,535,495	5,019,957
	\$ 46,238,997	\$ 45,742,183

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

	Unrestricted surplus	Reserves	Equity in tangible capital assets	2018	2017
Balance, beginning of year	\$ 1,502,322	\$ 5,019,957	\$ 39,219,904	\$ 45,742,183	\$ 44,769,852
Excess of revenue over expenses	496,814	-	-	496,814	972,331
Net operating transfers to restricted surplus	(20,369)	20,369	-	-	-
Debtenture principal payments	(309,068)	-	309,068	-	-
Capital transfers from restricted surplus	(495,169)	495,169	-	-	-
Acquisition of capital	(1,551,614)	-	1,551,614	-	-
Disposals and write-down of assets	51,954	-	(51,954)	-	-
Amortization	1,932,322	-	(1,932,322)	-	-
Change in accumulated surplus	\$ 104,870	\$ 515,538	\$ (123,594)	\$ 496,814	\$ 972,331
Balance, end of year	\$ 1,607,192	\$ 5,535,495	\$ 39,096,310	\$ 46,238,997	\$ 45,742,183

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

14. Taxation - Net

	Budget 2018	2018	2017
Taxation			
Real property taxes	\$ 4,404,181	\$ 4,396,487	\$ 4,295,958
Linear	64,806	65,482	81,411
Grants in place for property taxes	13,941	13,959	14,792
Special assessments and local local improvement taxes	50,135	7,717	50,133
	<u>4,533,063</u>	<u>4,483,645</u>	<u>4,442,294</u>
Requisitions			
Alberta School Foundation Fund	883,090	881,701	842,683
Golden Hills Lodge	6,042	6,027	5,485
	<u>889,132</u>	<u>887,728</u>	<u>848,168</u>
Available for general municipal purposes	<u>\$ 3,643,931</u>	<u>\$ 3,595,917</u>	<u>\$ 3,594,126</u>

15. Government Transfers

	Budget 2018	2018	2017
Operating			
Provincial government	\$ 142,918	\$ 144,342	\$ 180,809
Federal government	5,000	4,896	7,222
Local government	90,000	90,000	178,717
	<u>\$ 237,918</u>	<u>\$ 239,238</u>	<u>\$ 366,748</u>
Capital			
Provincial government	\$ 9,883,586	\$ 719,132	\$ 821,063
Federal government	-	-	156,000
Local governments	-	-	173,166
	<u>\$ 9,883,586</u>	<u>\$ 719,132</u>	<u>\$ 1,150,229</u>
Total government transfers	<u>\$ 10,121,504</u>	<u>\$ 958,370</u>	<u>\$ 1,516,977</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

16. Expenses by Object

	Budget 2018	2018	2017
Salaries and wages	\$ 3,291,825	\$ 3,044,622	\$ 3,012,503
Contracted and general services	1,660,849	1,154,711	1,421,626
Materials, goods, supplies and utilities	1,874,926	1,664,056	1,466,607
Transfer to local boards and agencies	200,733	188,061	157,496
Transfer to individuals and organizations	-	83,163	131,013
Interest on capital long-term debt	183,346	110,567	115,591
Amortization	1,932,322	1,932,322	1,879,132
	\$ 9,144,001	\$ 8,177,502	\$ 8,183,968

17. Municipal Employees Pension Plans

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 259,714 people and 420 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 10.39% of pensionable earnings up to the Canada Pension Plan Maximum Pensionable Earnings and 14.84% for the excess. Employees contribute to the Plan at a rate of 9.39% of pensionable earnings up to the Canada Pension Plan Maximum Pensionable Earnings and 13.84% for the excess.

Contributions for the year were:

	2018	2017
Employer contributions	\$ 207,673	\$ 220,559
Employee contributions	189,148	202,534
	\$ 396,821	\$ 423,093

As this is a multi-employer pension plan, these contributions are 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, 2017 indicates a surplus of \$4,836 million (2016 - \$637 million deficit) for basic pension benefits. The actuary does not attribute portions of the unfunded liability to individual employers.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

18. Salary and Benefits Disclosure

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

	Salary	Benefits & Allowances	Total 2018	Total 2017
Mayor Shearlaw	\$ 22,700	\$ 731	\$ 23,431	\$ 22,450
Councilor Campbell	17,067	4,983	22,050	18,514
Councilor Diack	-	-	-	17,578
Councilor Hamm	16,684	3,953	20,637	4,462
Councilor Howe	-	-	-	16,644
Councilor Leo	15,228	2,150	17,378	18,853
Councilor Nadeau	-	-	-	13,776
Councilor Sept	15,566	3,933	19,499	3,215
Councilor Wiebe	14,918	5,776	20,694	19,294
Councilor Wildeman	18,119	6,763	24,882	3,471
Chief Administration Officer	150,168	33,259	183,427	183,946

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

Benefits and allowances includes the employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment, dental coverage, vision coverage, professional memberships, tuition, travel, cell phone, car allowances, and long and short term disability plans.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

19. Debt Limits

Section 276(2) of the Municipal Government Act requires that debt and debt limits as defined by Alberta Regulation 255/100 for the Town be disclosed as follows:

	2018	2017
Total debt limit	\$ 11,932,773	\$ 12,009,105
Total debt	2,248,451	2,612,369
Total debt limit available	<u>9,684,322</u>	<u>9,396,736</u>
Debt servicing limit	1,988,796	2,001,518
Debt servicing	396,828	449,895
Total debt servicing limit available	<u>1,591,968</u>	<u>1,551,623</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.

20. Contingencies

The Town is a member of the Alberta Local Municipal Insurance Exchange (Munix). Under the terms of membership, the Town could become liable for its proportionate share of any claim losses in excess of the funds held by the exchange. Any liability incurred would be accounted for as a current transaction in the year the losses are determined.

21. Commitments

On January 1, 2014 the Town entered into a lease agreement with the Three Hills Curling Club to lease certain Town owned facilities. The term of the lease is for 20 years with an annual rental payment of \$1.

The Town is committed under an agreement with the Marigold Library System to funding certain library initiatives annually based on a per capita formula. The Town provided funding of \$19,465 (2017 - \$19,186). It is the understanding of the Town that it can withdraw from the agreement at anytime by giving a one year notice period.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

22. Budget

The budget adopted by Council on April 25, 2018, 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 budget figures anticipated use of surpluses accumulated in previous years to fund current year operation and capital activities. In addition, the budget expensed all tangible capital asset expenditures rather than including amortization expense. As a result, the budget figures presented in the statements of operations and change in net financial assets (debt) represent the budget adopted by Council on April 25, 2018, with adjustments as follows:

Operating budget surplus	\$ -
Add:	
Debenture principal payments	424,048
Net operating transfers to reserves	<u>(717,148)</u>
Excess (deficiency) of revenue over expenditures before other	<u>\$ (293,100)</u>
Capital budget deficit	\$ -
Add:	
Capital expenditures	16,998,363
Less:	
Budgeted debt proceeds	(5,860,262)
Amortization	<u>(1,932,322)</u>
Budgeted capital surplus	<u>\$ 9,205,779</u>
Budgeted combined surplus per statement of operations	<u>\$ 8,912,679</u>

December 31, 2018

23. 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.

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.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

22 Segmented Information continued

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 transfers have been eliminated. The revenues and expenses that are directly attributable to a particular segment are allocated to that segment. Taxation revenue has been allocated to general government except where specific tax revenues can be directly allocated to a service area.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

23. Segmented Information (continued)

For the year ended December 31	Protective Services	Waste Management	Transportation Services	Water and Wastewater	Planning and Development	Parks and Recreation	Public Health and Welfare	General Government	2018 Total
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,595,917	\$ 3,595,917
Taxation									
Government transfers for operating	-	-	25,000	-	-	-	-	214,238	239,238
Government transfers for capital	23,819	245,927	-	449,386	-	-	-	-	719,132
Sales and user fees	83,393	548,966	97,820	2,315,656	36,671	284,720	22,925	25,057	3,415,208
Franchises and concessions	-	-	-	-	-	-	-	291,461	291,461
Investment income	-	-	-	-	3,752	-	-	114,420	118,172
Fines and costs	57,175	-	-	-	-	-	-	29,620	86,795
Rental revenue	1,225	-	18,928	1,356	-	135,512	-	13,977	170,998
Other	5,725	-	-	-	1,000	20,027	-	16,244	42,996
Gain on disposal of assets	-	-	(1,069)	(3,521)	-	127	-	(1,140)	(5,603)
	<u>171,337</u>	<u>794,893</u>	<u>140,679</u>	<u>2,762,877</u>	<u>41,423</u>	<u>440,386</u>	<u>22,925</u>	<u>4,299,794</u>	<u>8,674,314</u>
Expenses									
Salaries and wages	108,357	308,696	365,041	833,960	136,412	647,918	15,098	629,140	3,044,622
Contracted and general services	28,487	33,188	117,555	345,362	59,149	302,968	3,676	264,326	1,154,711
Materials, goods and utilities	72,017	62,727	504,279	328,444	20,015	517,204	14,337	145,033	1,664,056
Transfer to local agencies	1,000	-	-	-	5,200	116,597	29,300	35,964	188,061
Transfers to individuals and organizations	5,000	-	-	-	6,500	25,200	-	46,463	83,163
Interest on long-term debt	-	4,572	3,747	30,118	3,668	45,618	-	22,844	110,567
Amortization	105,250	81,457	558,060	665,416	2,814	429,740	3,711	85,872	1,932,320
	<u>320,111</u>	<u>490,640</u>	<u>1,548,682</u>	<u>2,203,300</u>	<u>233,758</u>	<u>2,085,245</u>	<u>66,122</u>	<u>1,229,642</u>	<u>8,177,500</u>
Net surplus (deficit)	\$ (148,774)	\$ 304,253	\$ (1,408,003)	\$ 559,577	\$ (192,335)	\$ (1,644,859)	\$ (43,197)	\$ 3,070,152	\$ 496,814

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

23. Segmented Information (continued)

For the year ended December 31	Protective Services	Waste Management	Transportation Services	Water and Wastewater	Planning and Development	Parks and Recreation	Public Health and Welfare	General Government	2017 Total
Revenue									
Taxation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,594,124	\$ 3,594,124
Government transfers for operating	-	-	28,178	-	-	4,044	-	334,526	366,748
Government transfers for capital	-	-	241,579	-	536,416	199,068	173,166	-	1,150,229
Sales and user fees	108,144	554,134	86,693	2,181,836	36,380	304,043	19,475	25,929	3,316,634
Franchises and concessions	-	-	-	-	-	-	-	277,653	277,653
Investment income	57,953	-	-	-	2,020	-	-	76,795	78,815
Fines and costs	150	-	25,540	1,140	-	140,480	-	28,596	86,549
Rentals	51,040	-	-	-	-	24,938	-	13,977	181,287
Other	-	-	-	-	-	572	11,746	15,964	91,942
	<u>217,287</u>	<u>554,134</u>	<u>381,990</u>	<u>2,182,976</u>	<u>574,816</u>	<u>673,145</u>	<u>204,387</u>	<u>4,367,564</u>	<u>9,156,299</u>
Expenses									
Salaries and wages	127,374	345,476	327,893	735,326	168,626	779,120	36,918	491,770	3,012,503
Contracted and general services	31,715	42,241	94,975	516,657	93,246	313,417	6,264	323,111	1,421,626
Materials, goods and utilities	59,564	58,200	447,516	296,517	23,118	433,143	20,723	127,826	1,466,607
Transfer to local agencies	500	-	-	-	6,500	105,856	29,300	15,340	157,496
Transfers to individuals and organizations	5,000	-	-	-	6,500	25,375	-	94,138	131,013
Interest on long-term debt	-	6,401	5,626	33,648	5,050	49,686	-	15,180	115,591
Amortization	105,737	81,468	539,205	650,315	2,519	410,240	3,604	86,044	1,879,132
Other	-	-	-	-	-	-	-	-	-
	<u>329,890</u>	<u>533,786</u>	<u>1,415,215</u>	<u>2,232,463</u>	<u>305,559</u>	<u>2,116,837</u>	<u>96,809</u>	<u>1,153,409</u>	<u>8,183,968</u>
Net surplus (deficit)	<u>\$ (112,603)</u>	<u>\$ 20,348</u>	<u>\$ (1,033,225)</u>	<u>\$ (49,487)</u>	<u>\$ 269,257</u>	<u>\$ (1,443,692)</u>	<u>\$ 107,578</u>	<u>\$ 3,214,155</u>	<u>\$ 972,331</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2018

24. Comparative Figures

Wherever necessary, comparative figures have been reclassified to conform with current year financial statement presentation.

25. Approval of Financial Statements

Council and Management approved these financial statements.
