

**Town of Three Hills  
Consolidated Financial Statements  
For the year ended December 31, 2022**

**Town of Three Hills**  
**Consolidated Financial Statements**  
**For the year ended December 31, 2022**

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## Independent Auditor's Report

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### To the Mayor and Council of the Town of Three Hills

#### Opinion

We have audited the consolidated financial statements of the Town of Three Hills and its controlled or owned organizations (the Group), which comprise the consolidated statement of financial position as at December 31, 2022, 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, 2022 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.

#### Emphasis of Matter - Restated Comparative Information

We draw attention to Note 18 of the financial statements, which explains that certain comparative information for the year ended December 31, 2021 has been restated. Our opinion is not modified with respect of this matter.

#### 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.

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## Independent Auditor's Report, continued

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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 24, 2023

**Town of Three Hills**  
**Consolidated Statement of Financial Position**

December 31	2022	2021 Restated (see Note 18)
<b>Financial assets</b>		
Cash and temporary investments (Note 1)	\$ 9,742,521	\$ 10,382,220
Receivables		
Taxes and grants in place of taxes (Note 2)	246,611	215,043
Trade and other receivables (Note 3)	3,977,175	1,520,263
Land inventory held for resale	689,990	806,675
Inventory held for resale	365,224	22,819
Investments	50	50
Loans receivable (Note 4)	323,891	323,891
	15,345,462	13,270,961
<b>Liabilities</b>		
Accounts payable and accrued liabilities	557,834	729,382
Employee benefit obligation (Note 5)	213,809	262,016
Deposit liabilities	63,051	93,915
Deferred revenue (Note 6)	2,983,601	2,610,872
Long-term debt (Note 7)	7,355,139	6,834,800
Solid waste closure and post-closure liabilities (Note 8)	326,798	451,404
	11,500,232	10,982,389
<b>Net financial assets</b>	<b>3,845,230</b>	<b>2,288,572</b>
<b>Non-financial assets</b>		
Tangible capital assets (Note 9)	55,801,049	56,553,890
Inventory for consumption	138,950	130,192
Prepaid expenses	34,676	300
	55,974,675	56,684,382
<b>Accumulated surplus (Note 11)</b>	<b>\$ 59,819,905</b>	<b>\$ 58,972,954</b>
<b>Debenture debt limits (Note 13)</b>		
<b>Contingencies (Note 14)</b>		
<b>Commitments (Note 15)</b>		

**Town of Three Hills**  
**Consolidated Statement of Operations**

For the year ended December 31	Budget 2022	2022	2021 Restated (see Note 18)
<b>Revenue</b>			
Net municipal taxes (Note 16)	\$ 3,376,980	\$ 3,328,793	\$ 3,285,722
Government transfers for operating (Note 17)	299,200	444,071	316,865
Sales and user fees	4,188,380	4,288,242	4,166,574
Rental revenue	135,950	146,808	71,157
Franchises and concessions	393,890	407,744	302,008
Investment income	53,400	246,537	89,821
Penalties and costs on taxes	73,620	44,441	68,826
Fines and costs	3,600	5,694	3,023
Insurance proceeds	-	2,370,716	-
Other	321,050	333,692	172,895
	<u>8,846,070</u>	<u>11,616,738</u>	<u>8,476,891</u>
<b>Expenditures (Note 19)</b>			
Legislative	198,250	180,934	191,248
Administration	1,068,993	971,284	1,101,558
Protective services	320,695	326,376	314,432
Transportation services	1,848,740	1,904,878	1,516,714
Water and wastewater	3,214,845	5,372,320	2,735,846
Waste management	326,448	215,127	582,518
Planning and development	217,117	221,613	277,802
Recreation and parks	2,220,622	2,357,278	1,933,066
Public health and welfare	52,467	48,157	39,539
Loss on disposal of assets	-	129,143	240,954
	<u>9,468,177</u>	<u>11,727,110</u>	<u>8,933,677</u>
<b>Deficiency of revenue over expenditures - before other</b>	(622,107)	(110,372)	(456,786)
<b>Other</b>			
Government transfers for capital (Note 17)	1,112,500	957,323	1,520,760
<b>Excess of revenue over expenditures</b>	<u>490,393</u>	<u>846,951</u>	<u>1,063,974</u>
<b>Accumulated surplus, beginning of year</b>	<u>58,972,954</u>	<u>58,972,954</u>	<u>57,908,980</u>
<b>Accumulated surplus, end of year</b>	<u>\$ 59,463,347</u>	<u>\$ 59,819,905</u>	<u>\$ 58,972,954</u>

**Town of Three Hills**  
**Consolidated Statement of Change in Net Financial Assets**

For the year ended December 31	Budget 2022	2022	2021 Restated (see Note 18)
Excess of revenue over expenditures	\$ 490,393	\$ 846,951	\$ 1,063,974
Acquisition of tangible capital assets	(1,620,350)	(1,811,916)	(5,608,981)
Amortization of tangible capital assets	2,331,116	2,331,116	2,123,203
Proceeds on sale of tangible capital assets	9,200	104,499	64,812
Loss on sale of tangible capital assets	-	129,142	240,954
	1,210,359	1,599,792	(2,116,038)
Change in prepaid expenses	-	(34,376)	6,059
Change in inventory for consumption	-	(8,758)	(13,105)
	-	(43,134)	(7,046)
<b>Net change in net financial assets</b>	<b>1,210,359</b>	<b>1,556,658</b>	<b>(2,123,084)</b>
<b>Net financial assets, beginning of year</b>	<b>2,288,572</b>	<b>2,288,572</b>	<b>4,411,656</b>
<b>Net financial assets, end of year</b>	<b>\$ 3,498,931</b>	<b>\$ 3,845,230</b>	<b>\$ 2,288,572</b>

**Town of Three Hills**  
**Consolidated Statement of Cash Flows**

For the year ended December 31	2022	2021 Restated (see Note 18)
<b>Operating transactions</b>		
Excess of revenue over expenditures	\$ 846,951	\$ 1,063,974
Items not involving cash		
Amortization	2,331,116	2,123,203
Net loss on disposal of tangible capital assets	129,142	240,954
Changes in non-cash operating balances		
Taxes receivable	(31,568)	105,122
Accounts receivable	(2,456,912)	2,441,764
Land inventory held for resale	116,685	(68,435)
Inventory held for resale	(342,405)	(17,683)
Loan receivable	-	(212,443)
Prepaid expenses	(34,376)	6,059
Accounts payable and accrued liabilities	(171,548)	(920,453)
Inventory for consumption	(8,758)	(13,105)
Employee benefit obligation	(48,207)	123,495
Deposit liabilities	(30,864)	(4,160)
Deferred revenue	372,729	(54,004)
Solid waste closure and post closure liabilities	(124,606)	-
	547,379	4,814,288
<b>Capital transactions</b>		
Acquisition of tangible capital assets	(1,811,916)	(5,608,981)
Proceeds on sale of tangible capital assets	104,499	64,812
	(1,707,417)	(5,544,169)
<b>Financing transactions</b>		
Proceeds from issuance of long-term debt	1,050,000	-
Repayment of long-term debt	(529,661)	(452,547)
	520,339	(452,547)
<b>Net change in cash and cash equivalents</b>	<b>(639,699)</b>	<b>(1,182,428)</b>
Cash and cash equivalents, beginning of year	10,382,220	11,564,648
<b>Cash and cash equivalents, end of year</b>	<b>\$ 9,742,521</b>	<b>\$ 10,382,220</b>



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**Town of Three Hills**  
**Summary of Significant Accounting Policies**

**December 31, 2022**

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**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 Municipal 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.

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**Town of Three Hills**  
**Summary of Significant Accounting Policies**

**December 31, 2022**

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**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.

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**Town of Three Hills**  
**Summary of Significant Accounting Policies**

**December 31, 2022**

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<b>Leased Assets</b>	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 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.
<b>Deferred Revenue</b>	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.
<b>Government Transfers</b>	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.
<b>Revenue Recognition</b>	<p>Taxes are recognized as revenue in the year they are levied.</p> <p>Charges for sewer and water usage are recorded as user fees. Connection fee revenues are recognized when the connection has been established.</p> <p>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.</p> <p>Grants for the acquisition of tangible capital assets are recognized in the period in which eligible expenditures are made.</p> <p>Sales of service and other revenue is recognized on an accrual basis.</p>
<b>Landfill Closure and Post Closure Liability</b>	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.

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**Town of Three Hills**  
**Summary of Significant Accounting Policies**

**December 31, 2022**

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**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. 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.

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

**1. Cash and Temporary Investments**

	2022	2021
Cash	<b>\$ 9,742,521</b>	<b>\$ 10,382,220</b>

The Town has available to it an operating line of credit with ATB Financial, having an authorized limit of \$1,060,000, which bears interest at prime plus 1.00%. As at December 31, 2022 - \$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:

	2022	2021
MSI - Capital	<b>\$ 1,258,439</b>	<b>\$ 1,389,187</b>
Kneehill County	<b>318,973</b>	<b>318,973</b>
Federal Gas Tax Fund	<b>955,121</b>	<b>686,031</b>
AMWWP	<b>200,000</b>	<b>-</b>
Other	<b>251,068</b>	<b>216,681</b>
	<b>\$ 2,983,601</b>	<b>\$ 2,610,872</b>

**2. Taxes and Grants in place of taxes**

	2022	2021
Current taxes and grants in place	<b>\$ 96,348</b>	<b>\$ 138,849</b>
Non-current taxes and grants in place	<b>150,263</b>	<b>76,194</b>
	<b>\$ 246,611</b>	<b>\$ 215,043</b>

**3. Accounts Receivable**

	2022	2021
Trade receivables	<b>\$ 2,096,815</b>	<b>\$ 401,425</b>
GST receivable	<b>108,658</b>	<b>71,490</b>
Receivables from other governments	<b>1,793,584</b>	<b>1,075,279</b>
Less: Allowance for doubtful accounts	<b>(21,882)</b>	<b>(27,931)</b>
	<b>\$ 3,977,175</b>	<b>\$ 1,520,263</b>

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**4. Loans Receivable**

	<u>2022</u>	<u>2021</u>
Three Hills Curling Club (THCC) loan receivable	<b>\$ 323,891</b>	<b>\$ 323,891</b>

The THCC loan relates to the reimbursement of costs incurred by the Town to upgrade an ice plant. The loan bears interest at 0% and is repayable in annual principal payments of \$11,169. The loan matures in December 2051.

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**5. Employee Benefit Obligation**

	<u>2022</u>	<u>2021</u>
Accrued vacation pay	<b>\$ 71,023</b>	<b>\$ 125,466</b>
Accrued sick leave benefit	<b>135,867</b>	<b>135,867</b>
Accrued flex time benefit	<b>6,919</b>	<b>683</b>
	<b><u>\$ 213,809</u></b>	<b><u>\$ 262,016</u></b>

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.

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

**6. Deferred Revenue**

	Opening balance	Contributions received or receivable	Revenue recognized	Ending balance
MSI - Capital	\$ 1,389,187	370,804	(501,552)	\$ 1,258,439
Kneehill County	318,973	120,000	(120,000)	318,973
Federal Gas Tax Fund	686,031	392,589	(123,500)	955,120
MSI - Operating	-	110,500	(110,500)	-
Municipal Stimulus Program	21,123	-	(21,123)	-
Artis	60,822	-	-	60,822
Regional Water Distribution System	-	150,000	(65,341)	84,659
AMWWP	-	200,000	-	200,000
Airport	-	25,000	(25,000)	-
Other	134,736	151,754	(180,902)	105,588
	<b>\$ 2,610,872</b>	<b>1,520,647</b>	<b>(1,147,918)</b>	<b>\$ 2,983,601</b>

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, 2022**

**7. Long-Term Debt**

	2022	2021
Tax supported debentures	6,730,598	6,083,660
Tax supported loans	624,541	751,140
	7,355,139	6,834,800

Principal and interest repayments are as follows:

	Principal Repayments	Interest Payments	Total
2023	\$ 644,154	\$ 217,824	\$ 861,978
2024	666,218	195,760	861,978
2025	689,091	172,887	861,978
2026	796,735	147,903	944,638
2027	475,379	124,124	599,503
Thereafter	4,083,562	883,020	4,966,582
	\$ 7,355,139	\$ 1,741,518	\$ 9,096,657

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 2.68% to 4.92% per annum and mature in periods 2027 through 2039.

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

Bank loan is repayable in monthly blended payments that bear an interest rate of 2.56% and matures in 2026.



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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**8. 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 an inflation rate of 5.69% and a discount rate of 5.59%. These rates are used to calculate 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.

	2022	2021
	(\$)	(\$)
Estimated closure costs	<u>73,888</u>	102,061
Estimated post-closure costs	<u>252,910</u>	349,343
Estimated total liability	<b>326,798</b>	451,404
Liability accrued	<u>(326,798)</u>	<u>(451,404)</u>

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

	2022							
	Construction in Progress	Land	Land Improvements	Building	Engineered Structures	Machinery & Equipment	Vehicles	Total
Cost, beginning of year	\$ 38,294	\$ 2,597,995	\$ 3,849,081	\$ 10,969,260	\$ 65,728,556	\$ 5,512,961	\$ 1,403,105	\$ 90,099,252
Additions		-	90,646	-	1,377,955	295,105	11,535	1,775,241
Change in work in progress	36,675	-	-	-	-	-	-	36,675
Write-downs & disposals	-	-	-	-	(445,553)	(831,328)	-	(1,276,881)
Cost, end of year	\$ 74,969	\$ 2,597,995	\$ 3,939,727	\$ 10,969,260	\$ 66,660,958	\$ 4,976,738	\$ 1,414,640	\$ 90,634,287
Accumulated amortization, beginning of year	\$ -	\$ -	\$ 1,956,816	\$ 4,744,326	\$ 23,169,882	\$ 2,950,423	\$ 723,915	\$ 33,545,362
Amortization	-	-	170,261	299,771	1,456,866	319,367	84,851	2,331,116
Write-downs & disposals	-	-	-	-	(348,860)	(694,380)	-	(1,043,240)
Accumulated amortization, end of year	\$ -	\$ -	\$ 2,127,077	\$ 5,044,097	\$ 24,277,888	\$ 2,575,410	\$ 808,766	\$ 34,833,238
Net carrying amount, end of year	\$ 74,969	\$ 2,597,995	\$ 1,812,650	\$ 5,925,163	\$ 42,383,070	\$ 2,401,328	\$ 605,874	\$ 55,801,049

**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

**9. Tangible Capital Assets (continued)**

	Construction in Progress	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	Total
Cost, beginning of year	\$ 13,027,171	\$ 2,597,995	\$ 3,849,081	\$ 11,157,608	\$ 49,311,059	\$ 4,705,029	\$ 1,501,133	\$ 86,149,076
Additions		-	-	11,106	4,515,784	1,006,917	36,880	5,570,687
Change in work in progress	(12,988,877)	-	-	-	13,027,171	-	-	38,294
Disposal of tangible capital assets	-	-	-	(199,454)	(1,125,458)	(198,985)	(134,908)	(1,658,805)
Cost, end of year	\$ 38,294	\$ 2,597,995	\$ 3,849,081	\$ 10,969,260	\$ 65,728,556	\$ 5,512,961	\$ 1,403,105	\$ 90,099,252
Accumulated amortization, beginning of year	-	-	\$ 1,785,383	\$ 4,634,091	\$ 22,769,477	\$ 2,819,000	\$ 767,247	\$ 32,775,198
Amortization		-	171,433	299,716	1,246,764	320,459	84,831	2,123,203
Write-downs & disposals		-	-	(189,481)	(846,359)	(189,036)	(128,163)	(1,353,039)
Accumulated amortization, end of year	\$ -	\$ -	\$ 1,956,816	\$ 4,744,326	\$ 23,169,882	\$ 2,950,423	\$ 723,915	\$ 33,545,362
Net carrying amount, end of year	\$ 38,294	\$ 2,597,995	\$ 1,892,265	\$ 6,224,934	\$ 42,558,674	\$ 2,562,538	\$ 679,190	\$ 56,553,890

2021  
Restated  
(see Note 18)

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**10. Equity in Tangible Capital Assets**

	2022	2021 Restated (see Note 18)
Tangible capital assets	\$ 90,634,287	\$ 90,099,253
Accumulated amortization	(34,833,238)	(33,545,362)
Long-term debt	(7,355,139)	(6,834,800)
	<u>\$ 48,445,910</u>	<u>\$ 49,719,091</u>

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

**11. Accumulated Surplus**

	2022	2021 Restated (see Note 18)
Equity in tangible capital assets (Note 10)	\$ 48,445,910	\$ 49,719,091
Unrestricted surplus	2,148,066	654,301
	<b>50,593,976</b>	<b>50,373,392</b>
Operating Reserves:		
General fund	806,528	763,527
Mill rate stabilization	304,994	304,994
Snow removal	63,365	63,365
Water	299,576	274,576
Landfill environmental	359,467	309,467
Cemetery	26,399	23,899
	<b>1,860,329</b>	<b>1,739,828</b>
Capital Reserves:		
General fund	1,236,152	1,169,010
Disaster services	126,365	101,365
Emergency service	503,730	490,266
Transportation	686,746	729,311
Water	1,667,679	1,457,616
Water offsite levy	31,437	31,437
Water distribution offsite levy	14,787	14,787
Wastewater	691,599	752,771
Solid waste	388,664	399,912
Cemetery expansion	20,000	15,000
Land	664,382	488,835
Recreation	352,752	310,435
Campground	88,141	83,141
Municipal reserve	98,516	93,516
Administration	55,000	52,500
Aquatic Centre	388,894	338,894
Arena	203,256	195,938
Community Centre	120,000	110,000
Library	27,500	25,000
	<b>\$ 7,365,600</b>	<b>\$ 6,859,734</b>
Total Reserves	<b>9,225,929</b>	<b>8,599,562</b>
	<b>\$ 59,819,905</b>	<b>\$ 58,972,954</b>

**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

**12. Change in Accumulated Surplus**

	Unrestricted surplus	Reserves	Equity in tangible capital assets	2022	2021 Restated (see Note 18)
Balance, beginning of year	\$ 654,301	\$ 8,599,562	\$ 49,719,091	\$ 58,972,954	\$ 57,908,980
Excess of revenue over expenses	846,951	-	-	846,951	1,063,974
Net operating transfers to restricted surplus	(118,000)	118,000	-	-	-
Debtenture principal payments	(529,660)	-	529,660	-	-
Capital transfers from restricted surplus	(508,367)	508,367	-	-	-
Acquisition of capital	(1,811,916)	-	1,811,916	-	-
Proceeds from issuance of long-term debt	1,050,000	-	(1,050,000)	-	-
Disposals and write-down of assets	233,641	-	(233,641)	-	-
Amortization	2,331,116	-	(2,331,116)	-	-
Change in accumulated surplus	\$ 1,493,765	\$ 626,367	\$ (1,273,181)	\$ 846,951	\$ 1,063,974
Balance, end of year	\$ 2,148,066	\$ 9,225,929	\$ 48,445,910	\$ 59,819,905	\$ 58,972,954

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**13. 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:

	2022	2021
Total debt limit	<b>\$17,425,107</b>	\$ 12,715,338
Total debt	<b>7,355,139</b>	6,834,800
Total debt limit available	<b>10,069,968</b>	5,880,538
Debt servicing limit	<b>2,904,185</b>	2,119,223
Debt servicing	<b>861,978</b>	625,986
Total debt servicing limit available	<b>2,042,207</b>	1,493,237

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.

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**14. 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.

In a prior year, The Town of Three Hills was served with a claim relating to a potential breach of contract. The case is currently going through depositions and discovery. The Town of Three Hills believes the claim is unlikely to proceed. The amount of the contingent loss is \$283,965.

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**15. 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 \$20,211 (2021 - \$20,053). It is the understanding of the Town that it can withdraw from the agreement at anytime by giving a one year notice period.

The Town has entered into an intermunicipal fire services agreement with Kneehill County commencing March 23, 2020 to December 31, 2024. Under the terms of the agreement the Town is responsible for their proportionate share of fire equipment and annual service costs based on predetermined cost sharing schedule.

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**16. Taxation - Net**

	Budget 2022	2022	2021
Taxation			
Real property taxes	\$ 4,204,890	\$ 4,158,780	\$ 4,090,421
Linear	63,900	63,288	62,221
Machinery and equipment	17,430	17,371	16,975
Grants in place for property taxes	17,590	12,594	12,687
	4,303,810	4,252,033	4,182,304
Requisitions			
Alberta School Foundation Fund	914,300	910,930	884,315
Golden Hills Lodge	12,530	12,310	12,267
	926,830	923,240	896,582
Available for general municipal purposes	\$ 3,376,980	\$ 3,328,793	\$ 3,285,722

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**17. Government Transfers**

	Budget 2022	2022	2021
Operating			
Provincial government	\$ 147,000	\$ 288,271	\$ 151,818
Federal government	7,200	10,800	20,047
Local government	145,000	145,000	145,000
	<u>\$ 299,200</u>	<u>\$ 444,071</u>	<u>\$ 316,865</u>
Capital			
Provincial government	\$ 1,112,500	\$ 522,676	\$ 1,455,416
Federal government	-	434,647	65,344
	<u>\$ 1,112,500</u>	<u>\$ 957,323</u>	<u>\$ 1,520,760</u>
Total government transfers	<u>\$ 1,411,700</u>	<u>\$ 1,401,394</u>	<u>\$ 1,837,625</u>

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

**18. Prior Period Adjustment**

During the year the Town noted that the disposal of redundant capital assets was not recorded and determined that the December 31, 2021 gross tangible capital asset balance was overstated by \$1,125,458. Accumulated amortization on these assets was also overstated by \$874,881, for a net overstatement on tangible capital assets of \$250,577. Additionally, the Town received an invoice from the prior year and determined that the December 31, 2021 accrued liabilities balance was understated by \$62,067. As such, the following adjustments have been made:

<u>Restated</u>	2021 as Reported	Adjustment	2021
Tangible capital assets (net)	\$ 56,804,467	\$ (250,577)	\$ 56,553,890
Accounts payable and accrued liabilities	667,315	62,067	729,382
Non-financial assets, December 31, 2021	\$ 56,934,959	\$ (250,577)	\$ 56,684,382
Net financial assets, December 31, 2021	2,350,639	(62,067)	2,288,572
Equity in tangible capital assets	\$ 49,969,668	\$ (250,577)	\$ 49,719,091
Unrestricted surplus	716,368	(62,067)	654,301
Accumulated surplus - December 31, 2021	\$ 59,285,598	\$ (312,644)	\$ 58,972,954
Protective services	\$ 252,365	\$ 62,067	\$ 314,432
Excess of revenue over expenditures	\$ 1,001,907	\$ (62,067)	\$ 1,063,974

**19. Expenses by Object**

	Budget 2022	2022	2021
Salaries and wages and benefits	\$ 3,074,831	\$ 2,909,314	\$ 2,906,449
Contracted and general services	1,727,830	1,817,510	1,394,800
Materials, goods, supplies and utilities	1,917,830	2,083,203	1,818,972
Transfer to local boards and agencies	175,090	167,767	177,707
Transfer to individuals and organizations	20,000	27,242	32,014
Bank charges and short term interest	10,080	11,414	15,430
Interest on capital long-term debt	205,300	222,745	191,288
Amortization	2,331,116	2,331,116	2,123,203
Other expenditures	6,100	2,027,656	32,860
	\$ 9,468,177	\$ 11,597,967	\$ 8,692,723

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**20. 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 280,000 people and 435 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 9.39% of pensionable earnings up to the Canada Pension Plan Maximum Pensionable Earnings and 12.84% for the excess. Employees contribute to the Plan at a rate of 8.39% of pensionable earnings up to the Canada Pension Plan Maximum Pensionable Earnings and 12.84% for the excess.

Contributions for the year were:

	<u>2022</u>	<u>2021</u>
Employer contributions	\$ 154,645	\$ 156,827
Employee contributions	137,623	141,328
	<u>\$ 292,268</u>	<u>\$ 298,155</u>

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, 2021 indicates a surplus of \$11.922 billion (2020 - \$4.961 billion) for basic pension benefits. The actuary does not attribute portions of the unfunded liability to individual employers.

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

**21. Salaries, Wages 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 2022	Total 2021
Mayor Shearlaw	\$ -	\$ -	\$ -	\$ 19,819
Mayor Wildeman	25,180	8,426	<b>33,606</b>	6,791
Councilor Campbell	-	-	-	16,156
Councilor Hamm	-	-	-	16,045
Councilor Hazelton	16,187	850	<b>17,037</b>	3,293
Councilor Kirk	18,241	967	<b>19,208</b>	3,330
Councilor Lamble	13,642	705	<b>14,347</b>	4,136
Councilor Leo	-	-	-	11,267
Councilor Sept	15,180	5,115	<b>20,295</b>	17,897
Councilor Wiebe	-	-	-	13,428
Councilor Wildeman	-	-	-	14,341
Chief Administrative Officer	146,588	28,443	<b>175,031</b>	161,052

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.

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**22. Budget**

The budget adopted by Council on February 28, 2022 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 represent the budget adopted by Council in 2022, with adjustments as follows:

Operating budget deficit	\$ (622,107)
Excess (deficiency) of revenue over expenditures before other	\$ (622,107)
Capital budget surplus (deficit)	\$ -
Add:	
Capital expenditures	1,620,350
Less:	
Budgeted transfers to reserves	<u>(507,850)</u>
Budgeted capital surplus	\$ <u>1,112,500</u>
Budgeted combined surplus per statement of operations	<u>\$ 490,393</u>

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**December 31, 2022**

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**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.

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**23. 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.

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

**23. Segmented Information (continued)**

For the year ended December 31	Protective Services	Waste Management	Transportatio n Services	Water and Wastewater	Planning and Development	Parks and Recreation	Public Health and Welfare	General Government	2022 Total
Revenue	\$	-	-	-	-	-	-	-	\$
Taxation									3,328,793
Government transfers for operating	1,850		78,474	67,501		51,415		244,831	444,071
Government transfers for capital			625,656	331,667					957,323
Sales and user fees	63,950	779,318	181,410	2,742,806	52,494	363,020	23,430	373,514	4,579,942
Franchises and concessions								407,744	407,744
Investment income								246,537	246,537
Fines and costs	5,694							44,441	50,135
Rental revenue	180					130,155		16,473	146,808
Other	6,315			2,370,716		22,414		13,263	2,412,708
	<u>77,989</u>	<u>779,318</u>	<u>885,540</u>	<u>5,512,690</u>	<u>52,494</u>	<u>567,004</u>	<u>23,430</u>	<u>4,675,596</u>	<u>12,574,061</u>
Expenses									
Salaries and wages	114,011	118,618	545,685	586,249	41,584	817,070		686,097	2,909,314
Contracted and general services	162,277	210,936	183,349	697,845	42,869	288,056	868	231,310	1,817,510
Materials, goods and utilities	68,304	74,031	602,946	531,086	18,813	670,355	1,573	116,095	2,083,203
Transfer to local agencies					1,011	125,986	40,770		167,767
Transfers to individuals and organizations								27,242	27,242
Bank charges and short-term interests								11,414	11,414
Interest on long-term debt		1,021	1,558	183,995		36,171			222,745
Amortization	97,605	82,988	571,340	1,082,845	1,517	430,972	4,946	58,903	2,331,116
Loss on sale of capital assets	2,596		22,204	83,176	1,542	3,906		15,719	129,143
Other		(124,367)		2,147,716		150		4,157	2,027,656
	<u>444,793</u>	<u>363,227</u>	<u>1,927,082</u>	<u>5,312,912</u>	<u>107,336</u>	<u>2,372,666</u>	<u>48,157</u>	<u>1,150,937</u>	<u>11,727,110</u>
<b>Net surplus (deficit)</b>	<b>\$</b>	<b>(366,804)</b>	<b>\$</b>	<b>199,778</b>	<b>\$</b>	<b>(1,805,662)</b>	<b>\$</b>	<b>3,524,659</b>	<b>\$</b>



**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

**23. Segmented Information (continued)**

For the year ended December 31	Protective Services	Waste Management	Transportatio n Services	Water and Wastewater	Planning and Development	Parks and Recreation	Public Health and Welfare	General Government	2021 Total Restated (see Note 18)
<b>Revenue</b>									
Taxation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,285,722	\$ 3,285,722
Government transfers for operating	2,000	-	27,946	2,946	-	16,544	-	267,429	316,865
Government transfers for capital	-	-	523,345	501,276	-	496,139	-	-	1,520,760
Sales and user fees	90,411	788,530	138,314	2,794,013	72,739	232,081	27,847	27,775	4,171,710
Franchises and concessions	-	-	-	-	-	-	-	302,008	302,008
Investment income	-	-	-	-	-	-	-	89,821	89,821
Fines and costs	2,898	-	-	-	-	-	-	68,826	71,724
Rentals	875	-	-	-	-	58,909	-	11,373	71,157
Other	1,641	-	-	141,965	-	11,959	-	12,319	167,884
	<u>97,825</u>	<u>788,530</u>	<u>689,605</u>	<u>3,440,200</u>	<u>72,739</u>	<u>815,632</u>	<u>27,847</u>	<u>4,065,273</u>	<u>9,997,651</u>
<b>Expenses</b>									
Salaries and wages	116,958	271,796	334,060	675,511	48,960	712,150	-	747,013	2,906,449
Contracted and general services	192,616	100,643	143,447	448,575	49,054	195,527	827	264,111	1,394,800
Materials, goods and utilities	60,046	250,241	467,232	424,819	15,318	464,221	2,409	134,686	1,818,972
Transfer to local agencies	-	-	-	-	6,430	139,920	31,357	-	177,707
Transfers to individuals and organizations	-	-	-	-	-	-	-	32,014	32,014
Bank charges and short-term interest	-	-	-	-	-	-	-	15,430	15,430
Interest on long-term debt	-	341	161	164,527	-	26,259	-	-	191,288
Amortization	100,037	83,303	564,175	888,241	2,814	411,089	4,947	68,597	2,123,203
Loss on sale of capital assets	-	(9,255)	-	240,236	-	9,973	-	-	240,954
Other	-	6,366	7,640	4,000	-	-	-	14,854	32,860
	<u>469,657</u>	<u>703,435</u>	<u>1,516,715</u>	<u>2,845,909</u>	<u>122,576</u>	<u>1,959,139</u>	<u>39,540</u>	<u>1,276,705</u>	<u>8,933,677</u>
<b>Net surplus (deficit)</b>	<b>\$ (371,832)</b>	<b>\$ 85,095</b>	<b>\$ (827,110)</b>	<b>\$ 594,291</b>	<b>\$ (49,837)</b>	<b>\$ (1,143,507)</b>	<b>\$ (11,693)</b>	<b>\$ 2,788,568</b>	<b>\$ 1,063,974</b>

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**Town of Three Hills**  
**Notes to Consolidated Financial Statements**

**December 31, 2022**

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**24. Comparative Figures**

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

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**25. Approval of Financial Statements**

Council and Management approved these financial statements.

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