

**Town of Three Hills
Consolidated Financial Statements
For the year ended December 31, 2021**

Town of Three Hills
Consolidated Financial Statements
For the year ended December 31, 2021

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

BDO Canada LLP
179D Leva Avenue
Suite 100
Red Deer County AB T4E 1B9

Independent Auditor's Report

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, 2021, 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, 2021 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.

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.

Chartered Professional Accountants,
Red Deer, Alberta
July 11, 2022

Town of Three Hills
Consolidated Statement of Financial Position

December 31	2021	2020
Financial assets		
Cash and temporary investments (Note 1)	\$ 10,382,220	\$ 11,564,648
Receivables		
Taxes and grants in place of taxes (Note 2)	215,043	320,165
Trade and other receivables (Note 3)	1,520,263	3,962,027
Land inventory held for resale	806,675	738,240
Inventory held for resale	22,819	5,136
Investments	50	50
Loans receivable (Note 4)	323,891	111,448
	13,270,961	16,701,714
Liabilities		
Accounts payable and accrued liabilities	667,315	1,649,835
Employee benefit obligation (Note 5)	262,016	138,521
Deposit liabilities	93,915	98,075
Deferred revenue (Note 6)	2,610,872	2,664,876
Long-term debt (Note 7)	6,834,800	7,287,347
Solid waste closure and post-closure liabilities (Note 8)	451,404	451,404
	10,920,322	12,290,058
Net financial assets	2,350,639	4,411,656
Non-financial assets		
Tangible capital assets (Note 9)	56,804,467	53,373,878
Inventory for consumption	130,192	117,087
Prepaid expenses	300	6,359
	56,934,959	53,497,324
Accumulated surplus (Note 11)	\$ 59,285,598	\$ 57,908,980
Debenture debt limits (Note 13)		
Contingencies (Note 14)		
Commitments (Note 15)		

Town of Three Hills
Consolidated Statement of Operations

For the year ended December 31	Budget 2021	2021	2020
Revenue			
Net municipal taxes (Note 16)	\$ 3,191,267	\$ 3,285,722	\$ 3,430,993
Government transfers for operating (Note 17)	366,494	316,865	624,032
Sales and user fees	3,558,309	4,171,709	3,712,340
Rental revenue	135,996	71,157	105,719
Franchises and concessions	313,000	302,008	298,298
Investment income	71,580	89,821	234,525
Penalties and costs on taxes	33,000	68,826	31,318
Fines and costs	8,718	3,023	6,610
Other	31,942	167,760	124,668
Gain (loss) on disposal of assets	-	38,145	5,589
	<u>7,710,306</u>	<u>8,515,036</u>	<u>8,574,092</u>
Expenditures (Note 19)			
Legislative	265,699	191,248	196,594
Administration	1,158,836	1,101,558	1,372,508
Protective services	350,685	314,432	334,130
Transportation services	1,560,616	1,516,714	1,800,826
Water and wastewater	2,222,357	2,764,368	2,119,227
Waste management	427,245	582,518	454,587
Planning and development	238,281	215,735	285,926
Recreation and parks	2,056,009	1,933,066	1,793,041
Public health and welfare	42,707	39,539	38,442
	<u>8,322,435</u>	<u>8,659,178</u>	<u>8,395,281</u>
Deficiency of revenue over expenditures - before other	(612,129)	(144,142)	178,811
Other			
Government transfers for capital (Note 17)	924,767	1,520,760	9,131,991
Excess of revenue over expenditures	<u>312,638</u>	<u>1,376,618</u>	<u>9,310,802</u>
Accumulated surplus, beginning of year	<u>57,908,980</u>	<u>57,908,980</u>	<u>48,598,178</u>
Accumulated surplus, end of year	<u>\$ 58,221,618</u>	<u>\$ 59,285,598</u>	<u>\$ 57,908,980</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

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

For the year ended December 31	Budget 2021	2021	2020
Excess of revenue over expenditures	\$ 312,638	\$ 1,376,618	\$ 9,310,802
Acquisition of tangible capital assets	(6,194,612)	(5,608,981)	(13,913,313)
Amortization of tangible capital assets	2,151,725	2,151,725	1,901,587
Proceeds on sale of tangible capital assets	9,200	64,812	91,117
(Gain) loss on sale of tangible capital assets	-	(38,145)	(5,590)
	(3,721,049)	(2,053,971)	(2,615,397)
Change in prepaid expenses	-	6,059	44,358
Change in inventory for consumption	-	(13,105)	54,702
	-	(7,046)	99,060
Net change in net financial assets	(3,721,049)	(2,061,017)	(2,516,337)
Net financial assets, beginning of year	4,411,656	4,411,656	6,927,993
Net financial assets, end of year	\$ 690,607	\$ 2,350,639	\$ 4,411,656

Town of Three Hills
Consolidated Statement of Cash Flows

For the year ended December 31	2021	2020
Operating transactions		
Excess of revenue over expenditures	\$ 1,376,618	\$ 9,310,802
Items not involving cash		
Amortization	2,151,725	1,901,587
Net gain on disposal of tangible capital assets	(38,145)	(5,590)
Changes in non-cash operating balances		
Taxes receivable	105,122	(168,128)
Accounts receivable	2,441,764	3,301,798
Land inventory held for resale	(68,435)	101,173
Inventory held for resale	(17,683)	20,890
Loan receivable	(212,443)	6,225
Prepaid expenses	6,059	44,358
Accounts payable and accrued liabilities	(982,520)	563,217
Inventory for consumption	(13,105)	54,702
Employee benefit obligation	123,495	21,425
Deposit liabilities	(4,160)	(70,681)
Deferred revenue	(54,004)	(7,620,214)
Solid waste closure and post closure liabilities	-	84,000
	<u>4,814,288</u>	<u>7,545,564</u>
Capital transactions		
Acquisition of tangible capital assets	(5,608,981)	(13,913,313)
Proceeds on sale of tangible capital assets	64,812	91,117
	<u>(5,544,169)</u>	<u>(13,822,196)</u>
Investing transactions		
Change of investments	-	20
Financing transactions		
Repayment of long-term debt	(452,547)	(510,017)
	<u>(452,547)</u>	<u>(510,017)</u>
Net change in cash and cash equivalents	(1,182,428)	(6,786,629)
Cash and cash equivalents, beginning of year	11,564,648	18,351,277
Cash and cash equivalents, end of year	\$ 10,382,220	\$ 11,564,648

Town of Three Hills
Summary of Significant Accounting Policies

December 31, 2021

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.

Town of Three Hills
Summary of Significant Accounting Policies

December 31, 2021

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, 2021

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.

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.

Town of Three Hills
Summary of Significant Accounting Policies

December 31, 2021

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, 2021

1. Cash and Temporary Investments

	2021	2020
Cash	\$ 10,382,220	\$ 11,564,648

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, 2021 - \$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:

	2021	2020
MSI - Capital	\$ 1,389,187	\$ 1,936,238
Kneehill County	318,973	318,973
Federal Gas Tax Fund	686,031	554,073
Other	216,681	-
	\$ 2,610,872	\$ 2,809,284

2. Taxes and Grants in place of taxes

	2021	2020
Current taxes and grants in place	\$ 138,849	\$ 238,418
Non-current taxes and grants in place	76,194	81,747
	\$ 215,043	\$ 320,165

3. Accounts Receivable

	2021	2020
Trade receivables	\$ 401,425	\$ 1,694,768
GST receivable	71,490	381,874
Receivables from other governments	1,075,279	1,913,316
Less: Allowance for doubtful accounts	(27,931)	(27,931)
	\$ 1,520,263	\$ 3,962,027

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

4. Loans Receivable

	2021	2020
Mortgage receivable	\$ -	\$ 111,448
Three Hills Curling Club (THCC) loan receivable	323,891	-
	\$ 323,891	\$ -

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 monthly principal payments of \$11,168.66. The loan matures in December 2051.

5. Employee Benefit Obligation

	2021	2020
Accrued vacation pay	\$ 125,466	\$ 128,882
Accrued sick leave benefit	135,867	7,488
Accrued flex time benefit	683	2,151
	\$ 262,016	\$ 138,521

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, 2021

6. Deferred Revenue

	Opening balance	Contributions received or receivable	Revenue recognized	Ending balance
MSI - Capital	\$ 1,242,622	856,237	(709,672)	\$ 1,389,187
Kneehill County	318,973	-	-	318,973
Federal Gas Tax Fund	554,073	197,302	(65,344)	686,031
Kneehill County Recreation Funding	-	120,000	(120,000)	-
Municipal Stimulus Program	381,808	-	(360,685)	21,123
Artis	60,822	-	-	60,822
MOST	10,652	-	(10,652)	-
MSI - Operating	-	110,500	(110,500)	-
Airport	-	25,000	(25,000)	-
THCC Funding	-	385,060	(385,060)	-
Other	95,926	121,199	(82,389)	134,736
	<u>\$ 2,664,876</u>	<u>1,815,298</u>	<u>(1,869,302)</u>	<u>\$ 2,610,872</u>

Grants

Under various grant agreements with the Government of Canada and the Province of Alberta, the Town is required to account for grants provided and to complete the projects or program in accordance with standards detailed in the various agreements. If these requirements are not adhered to, grants provided will become repayable to the source government. 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, 2021

7. Long-Term Debt

	2021	2020
Tax supported debentures	6,083,660	6,392,104
Tax supported loans	751,140	874,672
Self supported debentures	-	20,571
	6,834,800	7,287,347

Principal and interest repayments are as follows:

	Principal Repayments	Interest Payments	Total
2022	\$ 434,686	\$ 191,300	\$ 625,986
2023	447,676	178,309	625,985
2024	461,080	164,905	625,985
2025	474,912	151,074	625,986
2026	224,178	119,783	343,961
Thereafter	4,792,268	910,555	5,702,823
	\$ 6,834,800	\$ 1,715,926	\$ 8,550,726

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 2021 through 2039.

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 of 2.56%.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

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 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.

	2021	2020
	(\$)	(\$)
Estimated closure costs	<u>102,061</u>	102,061
Estimated post-closure costs	<u>349,343</u>	349,343
Estimated total liability	451,404	451,404
Liability accrued	<u>(451,404)</u>	<u>(451,404)</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

9. Tangible Capital Assets

	2021							
	Construction in Progress	Land	Land Improvements	Building	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
Write-downs & disposals	-	-	-	(199,454)	-	(198,985)	(134,908)	(533,347)
Cost, end of year	\$ 38,294	\$ 2,597,995	\$ 3,849,081	\$ 10,969,260	\$ 66,854,014	\$ 5,512,961	\$ 1,403,105	\$ 91,224,710
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	1,275,286	320,459	84,831	2,151,725
Write-downs & disposals	-	-	-	(189,481)	-	(189,036)	(128,163)	(506,680)
Accumulated amortization, end of year	\$ -	\$ -	\$ 1,956,816	\$ 4,744,326	\$ 24,044,763	\$ 2,950,423	\$ 723,915	\$ 34,420,243
Net carrying amount, end of year	\$ 38,294	\$ 2,597,995	\$ 1,892,265	\$ 6,224,934	\$ 42,809,251	\$ 2,562,538	\$ 679,190	\$ 56,804,467

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

9. Tangible Capital Assets (continued)

	2020							
	Construction in Progress	Land	Land Improvements	Buildings	Engineered Structures	Machinery & Equipment	Vehicles	Total
Cost, beginning of year	\$ 2,141,913	\$ 2,643,474	\$ 3,849,081	\$ 10,659,491	\$ 47,301,995	\$ 4,464,327	\$ 1,345,095	\$ 72,405,376
Additions		-	-	507,432	2,009,064	240,702	270,857	3,028,055
Change in work in progress	10,885,258	-	-	-	-	-	-	10,885,258
Disposal of tangible capital assets	-	(45,479)	-	(9,315)	-	-	(114,819)	(169,613)
Cost, end 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
Accumulated amortization, beginning of year	\$ -	\$ -	\$ 1,613,071	\$ 4,341,027	\$ 21,738,200	\$ 2,498,851	\$ 766,548	\$ 30,957,697
Amortization		-	172,312	294,342	1,031,277	320,149	83,507	1,901,587
Write-downs & disposals		-	-	(1,278)	-	-	(82,808)	(84,086)
Accumulated amortization, end of year	\$ -	\$ -	\$ 1,785,383	\$ 4,634,091	\$ 22,769,477	\$ 2,819,000	\$ 767,247	\$ 32,775,198
Net carrying amount, end of year	\$ 13,027,171	\$ 2,597,995	\$ 2,063,698	\$ 6,523,517	\$ 26,541,582	\$ 1,886,029	\$ 733,886	\$ 53,373,878

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

10. Equity in Tangible Capital Assets

	<u>2021</u>	<u>2020</u>
Tangible capital assets	\$ 91,224,711	\$ 86,149,076
Accumulated amortization	(34,420,243)	(32,775,198)
Long-term debt	(6,834,800)	(7,287,347)
	<u>\$ 49,969,668</u>	<u>\$ 46,086,531</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

11. Accumulated Surplus

	<u>2021</u>	<u>2020</u>
Equity in tangible capital assets (Note 10)	\$ 49,969,668	\$ 46,086,531
Unrestricted surplus	716,368	3,378,352
	<u>50,686,036</u>	<u>49,464,883</u>
Operating Reserves:		
General fund	763,527	488,528
Mill rate stabilization	304,994	304,994
Snow removal	63,365	63,365
Water	274,576	249,576
Landfill environmental	309,467	309,467
Cemetery	23,899	23,899
	<u>1,739,828</u>	<u>1,439,829</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

11. Accumulated Surplus (continued)

Capital Reserves:		
General fund	1,169,010	1,023,921
Disaster services	101,365	76,365
Emergency service	490,266	465,266
Transportation	729,311	679,311
Water	1,457,616	1,528,355
Water offsite levy	31,437	31,437
Water distribution offsite levy	14,787	14,787
Wastewater	752,771	652,771
Solid waste	399,912	491,412
Cemetery expansion	15,000	10,000
Land	488,835	483,835
Recreation	310,435	260,435
Campground	83,141	78,141
Municipal reserve	93,516	88,516
Administration	52,500	50,000
Aquatic Centre	338,894	300,000
Arena	195,938	644,716
Community Centre	110,000	100,000
Library	25,000	25,000
	<u>\$ 6,859,734</u>	<u>\$ 7,004,268</u>
 Total Reserves	 <u>8,599,562</u>	 <u>8,444,097</u>
	<u>\$ 59,285,598</u>	<u>\$ 57,908,980</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

12. Change in Accumulated Surplus

	Unrestricted surplus	Reserves	Equity in tangible capital assets	2021	2020
Balance, beginning of year	\$ 3,378,352	\$ 8,444,097	\$ 46,086,531	\$ 57,908,980	\$ 48,598,178
Excess of revenue over expenses	1,376,618	-	-	1,376,618	9,310,802
Net operating transfers to restricted surplus	(300,000)	300,000	-	-	-
Debenture principal payments	(452,548)	-	452,548	-	-
Capital transfers from restricted surplus	144,535	(144,535)	-	-	-
Acquisition of capital	(5,608,981)	-	5,608,981	-	-
Disposals and write-down of assets	26,667	-	(26,667)	-	-
Amortization	2,151,725	-	(2,151,725)	-	-
Change in accumulated surplus	\$ (2,661,984)	\$ 155,465	\$ 3,883,137	\$ 1,376,618	\$ 9,310,802
Balance, end of year	\$ 716,368	\$ 8,599,562	\$ 49,969,668	\$ 59,285,598	\$ 57,908,980

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

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:

	2021	2020
Total debt limit	\$ 12,715,338	\$ 12,852,755
Total debt	6,834,800	7,287,347
Total debt limit available	5,880,538	5,565,408
Debt servicing limit	2,119,223	2,142,126
Debt servicing	625,986	657,137
Total debt servicing limit available	1,493,237	1,484,989

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.

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.

During the 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.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

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 \$20,053 (2020 - \$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 rental equipment and annual service costs based on predetermined cost sharing schedule.

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16. Taxation - Net

	Budget 2021	2021	2020
Taxation			
Real property taxes	\$ 4,011,744	\$ 4,090,421	\$ 4,245,019
Linear	61,319	62,221	61,628
Machinery and equipment	16,891	16,975	16,891
Grants in place for property taxes	16,865	12,687	15,348
	4,106,819	4,182,304	4,338,886
Requisitions			
Alberta School Foundation Fund	903,725	884,315	896,066
Golden Hills Lodge	11,827	12,267	11,827
	915,552	896,582	907,893
Available for general municipal purposes	\$ 3,191,267	\$ 3,285,722	\$ 3,430,993

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

17. Government Transfers

	Budget 2021	2021	2020
Operating			
Provincial government	\$ 213,094	\$ 151,818	\$ 462,232
Federal government	8,400	20,047	16,800
Local government	145,000	145,000	145,000
	<u>\$ 366,494</u>	<u>\$ 316,865</u>	<u>\$ 624,032</u>
Capital			
Provincial government	\$ 924,767	\$ 1,455,416	\$ 9,131,991
Federal government	-	65,344	-
	<u>\$ 924,767</u>	<u>\$ 1,520,760</u>	<u>\$ 9,131,991</u>
Total government transfers	<u>\$ 1,291,261</u>	<u>\$ 1,837,625</u>	<u>\$ 9,756,023</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

18. Subsequent Event

On April 26 2022, one of the Town's pumphouses suffered a major pipe break. As of the date of these financial statements, there have been no costs incurred to repair the pumphouse. The Town has set up a temporary piping system to continue pumphouse operations and has incurred approximately \$300,000 to operate the temporary system.

19. Expenses by Object

	Budget 2021	2021	2020
Salaries and wages and benefits	\$ 2,945,667	\$ 2,906,449	\$ 2,820,790
Contracted and general services	1,282,548	1,332,733	1,381,210
Materials, goods, supplies and utilities	1,777,803	1,820,124	1,752,787
Transfer to local boards and agencies	174,622	177,707	158,948
Transfer to individuals and organizations	34,000	32,014	40,232
Bank charges and short term interest	12,000	15,430	44,388
Interest on capital long-term debt	204,524	191,288	218,160
Amortization	1,874,270	2,151,725	1,874,270
Other expenditures	17,000	31,708	104,496
	<u>\$ 8,322,434</u>	<u>\$ 8,659,178</u>	<u>\$ 8,395,281</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

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 260,000 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 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:

	2021	2020
Employer contributions	\$ 156,827	\$ 184,823
Employee contributions	141,328	166,991
	<u>\$ 298,155</u>	<u>\$ 351,814</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, 2020 indicates a surplus of \$4.961 billion (2019 - \$7.913 billion) 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, 2021

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 2021	Total 2020
Mayor Shearlaw	\$ 15,660	\$ 4,159	\$ 19,819	\$ 20,477
Mayor Wildeman	5,417	1,374	6,791	-
Councilor Campbell	7,472	8,684	16,156	12,554
Councilor Hamm	11,199	4,846	16,045	14,208
Councilor Hazelton	3,035	258	3,293	-
Councilor Kirk	3,183	147	3,330	-
Councilor Lammler	3,942	194	4,136	-
Councilor Leo	8,527	2,740	11,267	12,109
Councilor Sept	12,946	4,951	17,897	16,257
Councilor Wiebe	9,312	4,116	13,428	12,397
Councilor Wildeman	9,297	5,044	14,341	12,256
Chief Administrative Officer	138,966	22,086	161,052	170,515

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.

December 31, 2021

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, 2021

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.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

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	2021 Total
Revenue									
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
Rental revenue	875	-	-	-	-	58,909	-	11,373	71,157
Other	1,641	-	-	141,965	-	11,959	-	12,319	167,884
Gain (loss) on disposal of assets	-	9,255	-	38,863	-	(9,973)	-	-	38,145
	<u>97,825</u>	<u>797,785</u>	<u>689,605</u>	<u>3,479,063</u>	<u>72,739</u>	<u>805,659</u>	<u>27,847</u>	<u>4,065,273</u>	<u>10,035,796</u>
Expenses									
Salaries and wages	116,958	271,796	334,060	675,511	48,960	712,150	-	747,014	2,906,449
Contracted and general services	130,549	100,643	143,447	448,575	49,054	195,527	827	264,111	1,332,733
Materials, goods and utilities	60,046	250,241	467,232	424,819	15,318	464,221	2,409	135,838	1,820,124
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 interests	-	-	-	-	-	-	-	15,430	15,430
Interest on long-term debt	-	341	161	164,527	-	26,259	-	-	191,288
Amortization	100,037	83,303	564,175	916,763	2,814	411,089	4,947	68,597	2,151,725
Other	-	6,366	7,640	4,000	-	-	-	13,702	31,708
	<u>407,590</u>	<u>712,690</u>	<u>1,516,715</u>	<u>2,634,195</u>	<u>122,576</u>	<u>1,949,166</u>	<u>39,540</u>	<u>1,276,706</u>	<u>8,659,178</u>
Net surplus (deficit)	\$ (309,765)	\$ 85,095	\$ (827,110)	\$ 844,868	\$ (49,837)	\$ (1,143,507)	\$ (11,693)	\$ 2,788,567	\$ 1,376,618

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2021

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	2020 Total
Revenue									
Taxation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,430,993	\$ 3,430,993
Government transfers for operating	-	4,394	47,367	13,473	42,516	234,729	-	281,553	624,032
Government transfers for capital	145,106	-	1,860,361	6,926,524	-	200,000	-	-	9,131,991
Sales and user fees	73,188	662,512	133,961	2,598,831	35,354	159,202	24,100	25,192	3,712,340
Franchises and concessions	-	-	-	-	-	-	-	298,298	298,298
Investment income	-	-	-	-	-	-	-	234,525	234,525
Fines and costs	6,610	-	-	-	-	-	-	31,318	37,928
Rentals	1,875	-	4,500	1,026	-	87,516	-	10,802	105,719
Other	6,430	-	91,603	-	-	20,620	-	6,015	124,668
Gain (loss) on sale of assets	3,855	-	-	-	1,734	-	-	-	5,589
	<u>237,064</u>	<u>666,906</u>	<u>2,137,792</u>	<u>9,539,854</u>	<u>79,604</u>	<u>702,067</u>	<u>24,100</u>	<u>4,318,696</u>	<u>17,706,083</u>
Expenses									
Salaries and wages	103,490	266,254	355,160	523,605	78,110	664,522	-	829,649	2,820,790
Contracted and general services	37,129	96,255	404,452	278,184	37,626	193,535	781	333,248	1,381,210
Materials, goods and utilities	93,144	61,598	502,084	404,287	152,389	414,202	2,763	122,320	1,752,787
Transfer to local agencies	1,000	-	-	-	14,744	112,341	30,863	-	158,948
Transfers to individuals and organizations	-	-	-	-	-	-	-	40,232	40,232
Bank charges and short-term interest	-	-	-	-	-	-	-	44,388	44,388
Interest on long-term debt	-	981	1,243	179,894	243	35,799	-	-	218,160
Amortization	99,367	91,994	537,887	670,762	2,814	386,567	4,035	80,844	1,874,270
Other	-	-	-	-	-	-	-	104,496	104,496
	<u>334,130</u>	<u>517,082</u>	<u>1,800,826</u>	<u>2,056,732</u>	<u>285,926</u>	<u>1,806,966</u>	<u>38,442</u>	<u>1,555,177</u>	<u>8,395,281</u>
Net surplus (deficit)	\$ (97,066)	\$ 149,824	\$ 336,966	\$ 7,483,122	\$ (206,322)	\$ (1,104,899)	\$ (14,342)	\$ 2,763,519	\$ 9,310,802

December 31, 2021

24. Comparative Figures

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

25. Uncertainty due to COVID-19

The impact of COVID-19 in Canada and on the global economy continued throughout the 2021 fiscal year and subsequent to year-end. If the impacts of COVID-19 continue there could be further impact on the Municipality and its major customers, suppliers and other third party business associates that could impact the timing and amounts realized on the Municipality's assets and future profitability. At this time, the full potential impact of COVID-19 on the entity is not known.

26. Approval of Financial Statements

Council and Management approved these financial statements.
