

**Town of Three Hills
Consolidated Financial Statements
For the year ended December 31, 2019**

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Consolidated Financial Statements
For the year ended December 31, 2019**

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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, 2019, 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, 2019 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 13, 2020

Town of Three Hills
Consolidated Statement of Financial Position

December 31	2019	2018
Financial assets		
Cash and temporary investments (Note 2)	\$ 18,351,277	\$ 8,548,666
Receivables		
Taxes and grants in place of taxes (Note 3)	152,037	144,373
Trade and other receivables (Note 4)	7,263,825	10,464,453
Land inventory held for resale	839,413	898,594
Inventory held for resale	26,026	38,186
Investments	70	294
Loans receivable (Note 5)	117,673	123,668
	<u>26,750,321</u>	<u>20,218,234</u>
Liabilities		
Accounts payable and accrued liabilities	1,086,618	921,574
Employee benefit obligation (Note 6)	117,096	164,143
Deposit liabilities	168,756	171,421
Deferred revenue (Note 7)	10,285,090	11,455,974
Long-term debt (Note 8)	7,797,364	2,248,451
Solid waste closure and post-closure liabilities (Note 9)	367,404	360,200
	<u>19,822,328</u>	<u>15,321,763</u>
Net financial assets	<u>6,927,993</u>	<u>4,896,471</u>
Non-financial assets		
Tangible capital assets (Note 10)	41,447,679	41,269,732
Inventory for consumption	171,789	-
Prepaid expenses	50,717	73,074
	<u>41,670,185</u>	<u>41,342,806</u>
Accumulated surplus (Note 12)	<u>\$ 48,598,178</u>	<u>\$ 46,239,277</u>
Debenture debt limits (Note 19)		
Contingencies (Note 20)		
Commitments (Note 21)		

Town of Three Hills
Consolidated Statement of Operations

For the year ended December 31	Budget 2019	2019	2018
Revenue			
Net municipal taxes (Note 14)	\$ 3,674,698	\$ 3,699,792	\$ 3,596,113
Government transfers for operating (Note 15)	237,918	319,939	239,238
Sales and user fees	3,795,477	3,926,687	3,415,209
Rental revenue	169,720	157,966	170,998
Franchises and concessions	313,520	302,370	291,461
Investment income	65,092	171,085	118,172
Penalties and costs on taxes	30,000	32,689	29,620
Fines and costs	76,811	10,027	57,175
Other	32,555	209,973	40,122
Contributed assets	-	-	2,873
Gain (loss) on disposal of assets	-	(3,980)	(5,603)
	<u>8,395,791</u>	<u>8,826,548</u>	<u>7,955,378</u>
Expenditures (Note 16)			
Legislative	297,628	265,048	299,213
Administration	1,050,534	1,480,908	926,162
Protective services	422,507	257,202	320,112
Transportation services	1,663,848	1,490,254	1,549,751
Water and wastewater	2,586,295	1,775,631	2,212,744
Waste management	705,646	417,970	484,718
Planning and development	391,739	451,951	233,757
Recreation and parks	2,156,284	2,060,563	2,084,837
Public health and welfare	59,311	48,550	66,122
	<u>9,333,792</u>	<u>8,248,077</u>	<u>8,177,416</u>
Deficiency of revenue over expenditures - before other	(938,001)	578,471	(222,038)
Other			
Government transfers for capital (Note 15)	9,374,083	1,780,430	719,132
Excess of revenue over expenditures	<u>8,436,082</u>	<u>2,358,901</u>	<u>497,094</u>
Accumulated surplus, beginning of year	<u>46,239,277</u>	<u>46,239,277</u>	<u>45,742,183</u>
Accumulated surplus, end of year	<u>\$ 54,675,359</u>	<u>\$ 48,598,178</u>	<u>\$ 46,239,277</u>

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

For the year ended December 31	Budget 2019	2019	2018
Excess of revenue over expenditures	\$ 8,436,082	\$ 2,358,901	\$ 497,094
Acquisition of tangible capital assets	(17,153,950)	(2,107,065)	(1,548,741)
Amortization of tangible capital assets	1,918,202	1,918,202	1,932,322
Proceeds on sale of tangible capital assets	-	6,936	46,223
Loss on sale of tangible capital assets	-	3,980	5,604
	(6,799,666)	2,180,954	932,502
Change in prepaid expenses	-	22,357	5,221
Change in inventory for consumption	-	(171,789)	-
	-	(149,432)	5,221
Net change in net financial assets (debt)	(6,799,666)	2,031,522	937,723
Net financial assets, beginning of year	4,896,471	4,896,471	3,958,748
Net financial assets (debt), end of year	\$ (1,903,195)	\$ 6,927,993	\$ 4,896,471

Town of Three Hills
Consolidated Statement of Cash Flows

For the year ended December 31	2019	2018
Operating transactions		
Excess of revenue over expenditures	\$ 2,358,901	\$ 497,094
Items not involving cash		
Contributed assets	-	(2,873)
Amortization	1,918,202	1,932,322
Net loss on disposal of tangible capital assets	3,980	5,604
Changes in non-cash operating balances		
Taxes receivable	(7,664)	(47,746)
Accounts receivable	3,200,628	(9,930,271)
Land inventory held for resale	59,181	-
Inventory held for resale	12,160	(17,069)
Loan receivable	5,995	(5,848)
Prepaid expenses	22,357	5,221
Accounts payable and accrued liabilities	165,044	300,900
Inventory for consumption	(171,789)	-
Employee benefit obligation	(47,047)	23,538
Deposit liabilities	(2,665)	-
Deferred revenue	(1,170,884)	9,827,025
Solid waste closure and post closure liabilities	7,204	8,533
	6,353,603	2,596,430
Capital transactions		
Acquisition of tangible capital assets	(2,107,065)	(1,548,741)
Proceeds on sale of tangible capital assets	6,936	46,223
	(2,100,129)	(1,502,518)
Investing transactions		
Change of investments	224	-
Financing transactions		
Proceeds from issuance of long-term debt	5,871,767	-
Repayment of long-term debt	(322,854)	(363,918)
Net change in cash and cash equivalents	9,802,611	729,994
Cash and cash equivalents, beginning of year	8,548,666	7,818,672
Cash and cash equivalents, end of year	\$ 18,351,277	\$ 8,548,666

Town of Three Hills
Summary of Significant Accounting Policies

December 31, 2019

1. Significant Accounting Policies

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

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

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay. Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified. Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used for certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed or the tangible capital assets are acquired.

Reporting Entity

The consolidated financial statement reflect the assets, liabilities, revenue and expenses of all municipal organizations, committees and Boards which are owned or controlled by the Town and are, therefore, accountable to the Town Council for the administration of their financial affairs and resources. Included with the municipality are the following:

Three Hills Public Library

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

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

**Cash and Cash
Equivalents**

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

Investments

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

Town of Three Hills
Summary of Significant Accounting Policies

December 31, 2019

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, 2019

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, 2019

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, 2019

2. Cash and Temporary Investments

	2019	2018
Cash	\$ 18,351,277	\$ 3,944,670
Temporary investments	-	4,603,996
	\$ 18,351,277	\$ 8,548,666

The Town has available to it an operating line of credit with the Royal Bank of Canada, having an authorized limit of \$500,000, which bears interest at prime plus 0.3%. As at December 31, 2019 - \$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:

	2019	2018
MSI - Capital	\$ 1,942,161	\$ 641,814
Kneehill County	318,973	312,259
Federal Gas Tax Fund	912,548	538,023
	\$ 3,173,682	\$ 1,492,096

3. Taxes and Grants in place of taxes

	2019	2018
Current taxes and grants in place	\$ 96,312	\$ 101,606
Non-current taxes and grants in place	55,725	42,767
	\$ 152,037	\$ 144,373

4. Accounts Receivable

	2019	2018
Trade receivables	\$ 483,892	\$ 397,151
GST receivable	60,271	108,552
Receivables from other governments	6,744,270	9,961,353
Less: Allowance for doubtful accounts	(24,608)	(2,603)
	\$ 7,263,825	\$ 10,464,453

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

5. Loans Receivable

	<u>2019</u>	<u>2018</u>
Mortgage receivable	<u>\$ 117,673</u>	<u>\$ 123,668</u>

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

6. Employee Benefit Obligation

	<u>2019</u>	<u>2018</u>
Accrued vacation pay	<u>\$ 109,087</u>	<u>\$ 155,077</u>
Accrued sick leave benefit	<u>7,310</u>	<u>7,375</u>
Accrued flex time benefit	<u>699</u>	<u>1,691</u>
	<u>\$ 117,096</u>	<u>\$ 164,143</u>

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, 2019

7. Deferred Revenue

	Opening balance	Contributions received	Revenue recognized	Ending balance
MSI - Capital	\$ 1,595,863	525,368	(179,070)	\$ 1,942,161
Kneehill County	312,259	6,714	-	318,973
Federal Gas Tax Fund	538,023	374,525	-	912,548
AMWWP	8,448,000	79,884	(1,601,360)	6,926,524
Community and Regional Economic Support	60,241	1,012	(26,380)	34,873
Artis	141,689	60,822	(141,689)	60,822
Other operating grants	359,899	328,654	(599,364)	89,189
	\$ 11,455,974	1,376,979	(2,547,863)	\$ 10,285,090

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, 2019

8. Long-Term Debt

	2019	2018
Tax supported debentures	6,701,769	910,477
Tax supported loans	1,008,607	1,149,322
Self supported debentures	67,944	113,623
Self supported loans	19,044	75,029
	7,797,364	2,248,451

Principal and interest repayments are as follows:

	Principal Repayments	Interest Payments	Total
2020	\$ 510,086	\$ 219,493	\$ 729,579
2021	452,544	204,524	657,068
2022	434,686	191,299	625,985
2023	447,676	178,309	625,985
2024	461,080	164,905	625,985
Thereafter	5,491,292	1,113,078	6,604,370
	\$ 7,797,364	\$ 2,071,608	\$ 9,868,972

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 2.05% to 6.375% per annum and mature in periods 2020 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 ranging from 2.05% to 3.95%.

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

9. Landfill Closure and Post-Closure Liabilities

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

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

	2019	2018
	(\$)	(\$)
Estimated closure costs	<u>105,939</u>	104,040
Estimated post-closure costs	<u>261,465</u>	256,160
Estimated total liability	<u>367,404</u>	360,200
Liability accrued	<u>(367,404)</u>	(360,200)
Balance of estimated cost to accrue	<u>-</u>	-

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

10. Tangible Capital Assets

	2019							
	Construction in Progress	Land	Land Improvements	Building	Engineered Structures	Machinery & Equipment	Vehicles	Total
Cost, beginning of year	\$ 722,012	\$ 2,643,474	\$ 3,453,783	\$ 10,659,491	\$ 47,233,740	\$ 4,463,375	\$ 1,328,702	\$ 70,504,577
Additions		-	395,298	-	68,255	79,736	143,875	687,164
Change in work in progress	1,419,901	-	-	-	-	-	-	1,419,901
Write-downs & disposals	-	-	-	-	-	(78,784)	(127,482)	(206,266)
Cost, end 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
Accumulated amortization, beginning of year	\$ -	\$ -	\$ 1,445,328	\$ 4,040,977	\$ 20,709,733	\$ 2,227,396	\$ 811,411	\$ 29,234,845
Amortization	-	-	167,743	300,050	1,028,467	346,367	75,575	1,918,202
Write-downs & disposals	-	-	-	-	-	(74,912)	(120,438)	(195,350)
Accumulated amortization, end of year	\$ -	\$ -	\$ 1,613,071	\$ 4,341,027	\$ 21,738,200	\$ 2,498,851	\$ 766,548	\$ 30,957,697
Net carrying amount, end of year	\$ 2,141,913	\$ 2,643,474	\$ 2,236,010	\$ 6,318,464	\$ 25,563,795	\$ 1,965,476	\$ 578,547	\$ 41,447,679

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

10. Tangible Capital Assets (continued)

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

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

11. Equity in Tangible Capital Assets

	<u>2019</u>	<u>2018</u>
Tangible capital assets	\$ 72,405,376	\$ 70,504,577
Accumulated amortization	(30,957,697)	(29,234,845)
Long-term debt	(7,797,364)	(2,248,451)
	<u>\$ 33,650,315</u>	<u>\$ 39,021,281</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

12. Accumulated Surplus

	2019	2018
Equity in tangible capital assets (Note 11)	\$ 33,650,315	\$ 39,021,281
Unrestricted surplus	7,529,279	1,682,501
	41,179,594	40,703,782
Operating Reserves:		
General fund	268,658	243,678
Grant program	82,592	82,592
Mill rate stabilization	304,994	304,994
Snow removal	63,365	53,365
Water	168,956	104,956
Water distribution	27,836	27,836
Wastewater	52,785	52,785
Solid waste	64,779	64,779
Landfill environmental	219,467	49,467
Health	11,752	11,752
Cemetery	23,899	22,879
Landfill rate stabilization	82,139	82,139
Library	10,538	10,538
Airport	148,155	153,808
	1,529,915	1,265,568

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

12. Accumulated Surplus (continued)

Capital Reserves:		
General fund	1,133,193	1,580,549
Disaster services	51,365	26,365
Bylaw	13,856	13,856
Emergency service	365,266	340,266
Transportation	135,300	36,410
Water	1,528,355	1,038,493
Water offsite levy	31,437	31,437
Water distribution offsite levy	14,787	14,787
Wastewater	552,771	544,274
Solid waste	491,412	241,412
Cemetery expansion	10,000	7,651
Land	464,302	214,302
Sub-division	19,533	19,533
Recreation	260,435	10,435
Campground	78,141	71,641
Municipal reserve	88,516	78,516
Administration	25,000	-
Aquatic Centre	250,000	-
Arena	250,000	-
Community Centre	100,000	-
Library	25,000	-
	<u>\$ 5,888,669</u>	<u>\$ 4,269,927</u>
 Total Reserves	 <u>7,418,584</u>	 <u>5,535,495</u>
	<u>\$ 48,598,178</u>	<u>\$ 46,239,277</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

13. Change in Accumulated Surplus

	Unrestricted surplus		Reserves		Equity in tangible capital assets		2019	2018		
Balance, beginning of year	\$	1,682,501	\$	5,535,495	\$	39,021,281	\$	46,239,277	\$	45,742,183
Excess of revenue over expenses		2,358,901		-		-		2,358,901		497,094
Net operating transfers to restricted surplus		(264,347)		264,347		-		-		-
Debenture principal payments		(322,854)		-		322,854		-		-
Capital transfers from restricted surplus		(1,618,742)		1,618,742		-		-		-
Acquisition of capital		(2,107,065)		-		2,107,065		-		-
Proceeds from issuance of long-term debt		5,871,767		-		(5,871,767)		-		-
Disposals and write-down of assets		10,916		-		(10,916)		-		-
Amortization		1,918,202		-		(1,918,202)		-		-
Change in accumulated surplus	\$	5,846,778	\$	1,883,089	\$	(5,370,966)	\$	2,358,901	\$	497,094
Balance, end of year	\$	7,529,279	\$	7,418,584	\$	33,650,315	\$	48,598,178	\$	46,239,277

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

14. Taxation - Net

	Budget 2019	2019	2018
Taxation			
Real property taxes	\$ 4,479,323	\$ 4,486,542	\$ 4,404,204
Linear	66,261	67,508	65,482
Grants in place for property taxes	16,662	14,147	13,959
Special assessments and local local improvement taxes	-	-	-
	<u>4,562,246</u>	<u>4,568,197</u>	<u>4,483,645</u>
Requisitions			
Alberta School Foundation Fund	881,506	856,742	881,505
Golden Hills Lodge	6,042	11,663	6,027
	<u>887,548</u>	<u>868,405</u>	<u>887,532</u>
Available for general municipal purposes	<u>\$ 3,674,698</u>	<u>\$ 3,699,792</u>	<u>\$ 3,596,113</u>

15. Government Transfers

	Budget 2019	2019	2018
Operating			
Provincial government	\$ 142,918	\$ 223,639	\$ 144,342
Federal government	5,000	6,300	4,896
Local government	90,000	90,000	90,000
	<u>\$ 237,918</u>	<u>\$ 319,939</u>	<u>\$ 239,238</u>
Capital			
Provincial government	\$ 9,374,083	\$ 1,780,430	\$ 719,132
Total government transfers	<u>\$ 9,612,001</u>	<u>\$ 2,100,369</u>	<u>\$ 958,370</u>

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

16. Expenses by Object

	Budget 2019	2019	2018
Salaries and wages and benefits	\$ 3,394,120	\$ 3,039,281	\$ 3,044,621
Contracted and general services	1,677,190	1,455,673	1,154,628
Materials, goods, supplies and utilities	1,870,072	1,475,562	1,664,056
Transfer to local boards and agencies	86,815	184,192	188,061
Transfer to individuals and organizations	-	69,443	83,163
Interest on capital long-term debt	199,097	105,724	110,567
Amortization	1,918,202	1,918,202	1,932,322
	\$ 9,145,496	\$ 8,248,077	\$ 8,177,418

17. Municipal Employees Pension Plans

Local Authorities Pension Plan

Certain employees of the Town are eligible to be members of the Local Authorities Pension Plan (LAPP), a multi-employer pension plan which is covered by the Public Sector Pension Plans Act. The Plan serves about 259,714 people and 420 employers. It is financed by employer and employee contributions and investment earnings of the LAPP Fund. The plan provides defined pension benefits to employees based on their length of service and rates of pay.

The Town contributes to the Plan at a rate of 9.39% of pensionable earnings up to the Canada Pension Plan Maximum Pensionable Earnings and 13.84% 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:

	2019	2018
Employer contributions	\$ 178,642	\$ 207,673
Employee contributions	167,864	189,148
	\$ 346,506	\$ 396,821

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, 2018 indicates a surplus of \$3,469 million (2017 - \$4,836 million) 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, 2019

18. 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 2019	Total 2018
Mayor Shearlaw	\$ 23,927	\$ 870	\$ 24,797	\$ 23,431
Councilor Campbell	16,713	45	16,758	22,050
Councilor Hamm	17,851	826	18,677	20,637
Councilor Leo	12,728	564	13,292	17,378
Councilor Sept	15,179	689	15,868	19,499
Councilor Wiebe	15,294	45	15,339	20,694
Councilor Wildeman	18,068	832	18,900	24,882
Chief Administrative Officer (2)	136,289	8,646	144,935	183,427

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

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

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

19. Debt Limits

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

	2019	2018
Total debt limit	\$ 13,239,822	\$ 11,933,067
Total debt	7,797,364	2,248,451
Total debt limit available	<u>5,442,458</u>	<u>9,684,616</u>
Debt servicing limit	2,206,637	1,988,845
Debt servicing	729,579	396,828
Total debt servicing limit available	<u>1,477,058</u>	<u>1,592,017</u>

The debt limit is calculated at 1.5 times revenue of the Town (as defined in Alberta Regulation 255/00) and the debt service limit is calculated at 0.25 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify municipalities which could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the municipality. Rather, the financial statements must be interpreted as a whole.

20. Contingencies

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

21. Commitments

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

The Town is committed under an agreement with the Marigold Library System to funding certain library initiatives annually based on a per capita formula. The Town provided funding of \$19,754 (2018 - \$19,465). It is the understanding of the Town that it can withdraw from the agreement at anytime by giving a one year notice period.

December 31, 2019

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, 2019

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, 2019

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	2019 Total
Revenue									
Taxation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3,699,791	\$ 3,699,791
Government transfers for operating	-	-	25,000	-	-	6,300	-	288,639	319,939
Government transfers for capital	57,963	121,107	-	1,601,360	-	-	-	-	1,780,430
Sales and user fees	83,744	603,718	103,077	2,668,634	136,708	307,830	13,625	25,234	3,942,570
Franchises and concessions	-	-	-	-	-	-	-	302,370	302,370
Investment income	-	-	-	-	-	-	-	171,085	171,085
Fines and costs	10,027	-	-	-	-	-	-	32,689	42,716
Rental revenue	2,822	-	9,570	1,011	-	130,337	-	14,226	157,966
Other	3,981	-	-	-	2,700	21,183	-	182,109	209,973
Gain (loss) on disposal of assets	(1,052)	-	(1,320)	(3,851)	-	2,049	-	194	(3,980)
	<u>157,485</u>	<u>724,825</u>	<u>136,327</u>	<u>4,267,154</u>	<u>139,408</u>	<u>467,699</u>	<u>13,625</u>	<u>4,716,337</u>	<u>10,622,860</u>
Expenses									
Salaries and wages	60,952	201,652	374,807	527,802	174,175	683,762	10,032	1,006,099	3,039,281
Contracted and general services	31,749	71,959	152,103	350,737	175,941	292,865	2,411	377,908	1,455,673
Materials, goods and utilities	62,162	57,174	408,675	186,612	83,668	480,557	1,660	195,054	1,475,562
Transfer to local agencies	1,000	-	-	-	6,000	124,355	30,437	22,400	184,192
Transfers to individuals and organizations	-	-	-	-	7,500	25,300	-	36,643	69,443
Interest on long-term debt	-	2,637	2,020	33,578	1,852	40,494	-	25,143	105,724
Amortization	101,339	91,669	552,649	669,782	2,814	413,230	4,010	82,709	1,918,202
	<u>257,202</u>	<u>425,091</u>	<u>1,490,254</u>	<u>1,768,511</u>	<u>451,950</u>	<u>2,060,563</u>	<u>48,550</u>	<u>1,745,956</u>	<u>8,248,077</u>
Net surplus (deficit)	\$ (99,717)	\$ 299,734	\$ (1,353,927)	\$ 2,498,643	\$ (312,542)	\$ (1,592,864)	\$ (34,925)	\$ 2,970,381	\$ 2,374,783

Town of Three Hills
Notes to Consolidated Financial Statements

December 31, 2019

23. Segmented Information (continued)

For the year ended December 31	Protective Services	Waste Management	Transportation Services	Water and Wastewater	Planning and Development	Parks and Recreation	Public Health and Welfare	General Government	2018 Total
Revenue									
Taxation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,596,114	\$ 3,596,114
Government transfers for operating	-	-	25,000	-	-	-	-	214,238	239,238
Government transfers for capital	23,819	245,927	-	449,386	-	-	-	-	719,132
Sales and user fees	83,393	561,878	97,820	2,315,655	36,671	284,720	22,925	25,057	3,428,119
Franchises and concessions	-	-	-	-	-	-	-	291,461	291,461
Investment income	-	-	-	-	3,752	-	-	114,420	118,172
Fines and costs	57,175	-	-	-	-	-	-	29,620	86,795
Rentals	1,225	-	18,928	1,356	-	135,512	-	13,977	170,998
Other	5,725	-	-	-	1,000	20,027	-	16,244	42,996
Gain (loss) on sale of assets	-	-	(1,069)	(3,521)	-	127	-	(1,140)	(5,603)
	<u>171,337</u>	<u>807,805</u>	<u>140,679</u>	<u>2,762,876</u>	<u>41,423</u>	<u>440,386</u>	<u>22,925</u>	<u>4,299,991</u>	<u>8,687,422</u>
Expenses									
Salaries and wages	108,357	308,696	365,041	833,960	136,412	647,918	15,098	629,139	3,044,621
Contracted and general services	28,487	33,188	117,555	345,362	59,149	302,688	3,676	264,523	1,154,628
Materials, goods and utilities	72,017	62,727	504,279	328,444	20,015	517,204	14,337	145,033	1,664,056
Transfer to local agencies	1,000	-	-	-	5,200	116,597	29,300	35,964	188,061
Transfers to individuals and organizations	5,000	-	-	-	6,500	25,200	-	46,463	83,163
Interest on long-term debt	-	4,572	3,747	30,118	3,668	45,618	-	22,844	110,567
Amortization	105,250	81,457	558,060	665,416	2,814	429,740	3,711	85,872	1,932,320
Other	-	-	-	-	-	-	-	-	-
	<u>320,111</u>	<u>490,640</u>	<u>1,548,682</u>	<u>2,203,300</u>	<u>233,758</u>	<u>2,084,965</u>	<u>66,122</u>	<u>1,229,838</u>	<u>8,177,416</u>
Net surplus (deficit)	\$ (148,774)	\$ 317,165	\$ (1,408,003)	\$ 559,576	\$ (192,335)	\$ (1,644,579)	\$ (43,197)	\$ 3,070,153	\$ 510,006

December 31, 2019

24. Comparative Figures

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

25. Subsequent Events

Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly.

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.
