

TOWN OF PENHOLD
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

Management's Responsibility for Financial Reporting

Management of the Town of Penhold is responsible for the preparation, accuracy, objectivity and integrity of the accompanying consolidated financial statements and all other information contained in this Financial Report. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) and applicable legislation, and management believes they present fairly, in all material respects, the Town's financial position as at December 31, 2025 and the results of its operations for the year then ended.

The consolidated financial statements include amounts based on estimates and judgments. These estimates are based on management's best information and have been determined on a reasonable basis.

Management is responsible for establishing and maintaining systems of internal control designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and reliable financial information is available on a timely basis for the preparation of the consolidated financial statements.

Council is composed entirely of individuals who are neither management nor employees of the Town. Council is responsible for overseeing management in the performance of its financial reporting responsibilities and for approving the consolidated financial statements. Council fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. Council is also responsible for the appointment of the Town's external auditors.

The external auditors have full access to Council, with and without the presence of management. The consolidated financial statements have been approved by Council.

The consolidated financial statements have been audited by Pivotal LLP, Chartered Professional Accountants, independent external auditors appointed by the Town. Their report outlines the scope of their examination and their opinion on the consolidated financial statements.

Chief Administrative Officer

April 13, 2026

TOWN OF PENHOLD
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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of Council of:
Town of Penhold

Opinion

We have audited the consolidated financial statements of the Town of Penhold (the "Town"), which comprise the consolidated statement of financial position as at December 31, 2025 and the consolidated statements of operations, changes in net financial assets, and cash flows for the year then ended, notes to the consolidated financial statements, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Town of Penhold as at December 31, 2025, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian 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 Consolidated Financial Statements* section of our report. We are independent of the Town in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

3.

In preparing the consolidated financial statements, management is responsible for assessing the Town'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 Town or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Town'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 consolidated financial statements. 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 Town'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 Town'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 Town 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.

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.

Pivotal LLP

Red Deer County, Alberta
April 13, 2026

Chartered Professional Accountants

TOWN OF PENHOLD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2025

	2025	2024
FINANCIAL ASSETS		
Cash and cash equivalents (Note 2)	\$ 2,463,973	\$ 6,426,479
Accounts receivable:		
Taxes receivable (Note 3)	230,081	203,692
Trade and other receivables (Note 4)	<u>945,829</u>	<u>1,473,710</u>
	<u>3,639,883</u>	<u>8,103,881</u>
LIABILITIES		
Accounts payable and accrued liabilities	829,676	795,489
Employee benefit obligation (Note 6).....	244,609	203,686
Deferred revenue (Note 7).....	792,387	861,358
Long term debt (Note 8).....	<u>1,878,163</u>	<u>2,148,905</u>
	<u>3,744,835</u>	<u>4,009,438</u>
NET FINANCIAL ASSETS (DEBT)	<u>(104,952)</u>	<u>4,094,443</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2)	53,120,711	49,072,535
Prepaid expenses	<u>19,241</u>	<u>31,350</u>
	<u>53,139,952</u>	<u>49,103,885</u>
ACCUMULATED SURPLUS (Schedule 1, Note 11).....	\$ <u>53,035,000</u>	\$ <u>53,198,328</u>

CONTINGENCIES (Note 14)

On Behalf of the Council:

_____ Deputy Mayor

_____ Town Chief Administrative Officer

TOWN OF PENHOLD
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2025

	Budget (Unaudited) (Note 17)	2025	2024
REVENUE			
Net municipal taxes (Schedule 3).....	\$ 4,249,399	\$ 4,242,675	\$ 4,015,107
User fees and sales of goods	4,195,653	4,195,479	4,136,420
Government transfers for operating (Schedule 4)	808,228	727,730	1,029,425
Investment income	200,000	363,107	342,834
Penalties and costs of taxes	60,000	49,815	55,589
Penalties and fines	105,000	46,652	75,194
Franchise fees	<u>600,000</u>	<u>611,871</u>	<u>612,560</u>
	<u>10,218,280</u>	<u>10,237,329</u>	<u>10,267,129</u>
EXPENSES			
Legislative	539,597	549,193	496,009
Administration	869,548	771,934	748,837
Family and community services	815,790	913,920	827,104
Fire department and bylaw enforcement	778,730	782,344	823,317
Land use planning, zoning and development ...	268,856	208,784	199,018
Parks and recreation	2,594,755	2,691,121	2,519,784
Roads, streets, walks, lighting	869,644	906,763	893,148
Waste management	328,969	230,263	250,505
Wastewater treatment and disposal	1,625,343	1,319,525	1,292,958
Water supply and distribution	524,105	473,473	405,242
Amortization of tangible assets	<u>-</u>	<u>2,573,424</u>	<u>2,442,437</u>
	<u>9,215,337</u>	<u>11,420,744</u>	<u>10,898,359</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES - BEFORE CAPITAL REVENUE ...	1,002,943	(1,183,415)	(631,230)
CAPITAL REVENUE			
Government transfers for tangible capital assets (Schedule 4)	<u>998,405</u>	<u>1,020,087</u>	<u>1,254,669</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	<u>\$ 2,001,348</u>	<u>(163,328)</u>	<u>623,439</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR		<u>53,198,328</u>	<u>52,574,889</u>
ACCUMULATED SURPLUS, END OF YEAR		<u>\$ 53,035,000</u>	<u>\$ 53,198,328</u>

See accompanying notes to consolidated financial statements

TOWN OF PENHOLD
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
YEAR ENDED DECEMBER 31, 2025

	Budget (Unaudited) (Note 17)	2025	2024
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ 2,001,348	\$ (163,328)	\$ 623,439
Acquisition of tangible capital assets	(10,613,899)	(6,621,600)	(2,547,099)
Proceeds on sale of tangible capital assets	-	-	60,000
Gain on disposal of tangible capital assets	-	-	(34,642)
Amortization of tangible capital assets	-	2,573,424	2,442,437
	(10,613,899)	(4,048,176)	(79,304)
Acquisition of prepaid expenses	-	12,109	(9,693)
	(10,613,899)	(4,036,067)	(88,997)
Increase (decrease) in net financial assets	(8,612,551)	(4,199,395)	534,442
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>3,560,001</u>	<u>4,094,443</u>	<u>3,560,001</u>
NET FINANCIAL ASSETS (DEBT), END OF YEAR	<u>\$ (5,052,550)</u>	<u>\$ (104,952)</u>	<u>\$ 4,094,443</u>

See accompanying notes to consolidated financial statements

TOWN OF PENHOLD
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2025

	2025	2024
NET INFLOW (OUTFLOW) OF CASH AND CASH EQUIVALENTS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING ACTIVITIES		
Surplus (deficit) from operations	\$ (163,328)	\$ 623,439
Non-cash items included in annual surplus:		
Amortization of tangible capital assets	2,573,424	2,442,437
Gain on disposal of tangible capital assets	<u>-</u>	<u>(34,642)</u>
	2,410,096	3,031,234
Non-cash charges to operations (net change):		
Taxes and grants in place of taxes receivable	(26,389)	45,641
Trade and other receivables	527,881	(377,327)
Accounts payable and accrued liabilities	34,187	(308,549)
Employee benefit obligation	40,923	11,669
Deferred revenue	(68,971)	(403,327)
Increase in prepaid expenses	<u>12,109</u>	<u>(9,693)</u>
Cash provided by operating transactions	<u>2,929,836</u>	<u>1,989,648</u>
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(6,621,600)	(2,547,099)
Proceeds on sale of tangible capital assets	<u>-</u>	<u>60,000</u>
Cash applied to capital transactions	<u>(6,621,600)</u>	<u>(2,487,099)</u>
FINANCING ACTIVITIES		
Repayment of long term debt	<u>(270,742)</u>	<u>(263,242)</u>
Cash applied to financing transactions	<u>(270,742)</u>	<u>(263,242)</u>
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(3,962,506)	(760,693)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,426,479</u>	<u>7,187,172</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,463,973</u>	<u>\$ 6,426,479</u>

See accompanying notes to consolidated financial statements

TOWN OF PENHOLD
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
YEAR ENDED DECEMBER 31, 2025

	Unrestricted Surplus	Designated Surplus	Equity in Tangible Capital Assets	2025	2024
BALANCE, BEGINNING OF YEAR	\$ 498,724	\$ 5,775,974	\$ 46,923,630	\$ 53,198,328	\$ 52,574,889
Surplus (deficit) from operations	(163,328)	-	-	(163,328)	623,439
Net unrestricted funds designated for future use	(910,739)	910,739	-	-	-
Restricted funds used for tangible capital assets	5,381,923	(5,381,923)	-	-	-
Acquisition of tangible capital assets	(6,621,600)	-	6,621,600	-	-
Amortization of tangible capital assets	2,573,424	-	(2,573,424)	-	-
Repayment of long term debt	(270,742)	-	270,742	-	-
Change in accumulated surplus	(11,062)	(4,471,184)	4,318,918	(163,328)	623,439
BALANCE, END OF YEAR	\$ 487,662	\$ 1,304,790	\$ 51,242,548	\$ 53,035,000	\$ 53,198,328

See accompanying notes to consolidated financial statements

TOWN OF PENHOLD
SCHEDULE OF TANGIBLE CAPITAL ASSETS
YEAR ENDED DECEMBER 31, 2025

	Land	Land Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2025	2024
COST								
Balance, beginning of year	\$ 2,525,141	\$ 8,571,402	\$ 18,799,565	\$ 37,837,897	\$ 5,234,470	\$ 3,591,647	\$ 76,560,122	\$ 74,102,524
Acquisition of tangible capital assets	-	224,263	5,406,840	387,114	420,549	182,834	6,621,600	2,547,099
Disposal of tangible capital assets	-	-	-	-	-	-	-	(89,500)
Balance, end of year	<u>2,525,141</u>	<u>8,795,665</u>	<u>24,206,405</u>	<u>38,225,011</u>	<u>5,655,019</u>	<u>3,774,481</u>	<u>83,181,722</u>	<u>76,560,123</u>
ACCUMULATED AMORTIZATION								
Balance, beginning of year	-	2,374,056	5,895,669	13,917,563	3,460,226	1,840,073	27,487,587	25,109,293
Amortization of tangible capital assets	-	365,170	485,192	981,883	401,540	339,639	2,573,424	2,442,437
Accumulated amortization on disposals	-	-	-	-	-	-	-	(64,142)
Balance, end of year	-	<u>2,739,226</u>	<u>6,380,861</u>	<u>14,899,446</u>	<u>3,861,766</u>	<u>2,179,712</u>	<u>30,061,011</u>	<u>27,487,588</u>
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS								
	<u>\$ 2,525,141</u>	<u>\$ 6,056,439</u>	<u>\$ 17,825,544</u>	<u>\$ 23,325,565</u>	<u>\$ 1,793,253</u>	<u>\$ 1,594,769</u>	<u>\$ 53,120,711</u>	<u>\$ 49,072,535</u>
2024 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS								
	<u>\$ 2,525,141</u>	<u>\$ 6,197,346</u>	<u>\$ 12,903,896</u>	<u>\$ 23,920,334</u>	<u>\$ 1,774,244</u>	<u>\$ 1,751,574</u>	<u>\$ 49,072,535</u>	

See accompanying notes to consolidated financial statements

TOWN OF PENHOLD
SCHEDULE OF PROPERTY AND OTHER TAXES
YEAR ENDED DECEMBER 31, 2025

	Budget (Unaudited)	2025	2024
TAXATION			
Real property taxes	\$ 5,677,101	\$ 5,678,271	\$ 5,281,086
Linear property taxes	<u>93,693</u>	<u>97,105</u>	<u>94,432</u>
	<u>5,770,794</u>	<u>5,775,376</u>	<u>5,375,518</u>
REQUISITIONS			
Alberta School Foundation Fund	1,507,115	1,278,476	1,120,648
Police	-	239,945	226,963
Autumn Glen Seniors Lodge.....	<u>14,280</u>	<u>14,280</u>	<u>12,800</u>
	<u>1,521,395</u>	<u>1,532,701</u>	<u>1,360,411</u>
NET MUNICIPAL TAXES	<u>\$ 4,249,399</u>	<u>\$ 4,242,675</u>	<u>\$ 4,015,107</u>

TOWN OF PENHOLD
SCHEDULE OF GOVERNMENT TRANSFERS
YEAR ENDED DECEMBER 31, 2025

	Budget (Unaudited)	2025	2024
TRANSFERS FOR OPERATING			
Provincial government.....	242,062	242,062	839,276
Other local governments.....	<u>566,166</u>	<u>485,668</u>	<u>190,149</u>
	<u>808,228</u>	<u>727,730</u>	<u>1,029,425</u>
TRANSFERS FOR CAPITAL			
Federal government.....	307,220	338,679	-
Provincial government.....	<u>691,185</u>	<u>681,408</u>	<u>1,254,669</u>
	<u>998,405</u>	<u>1,020,087</u>	<u>1,254,669</u>
TOTAL GOVERNMENT TRANSFERS.....	\$ 1,806,633	\$ 1,747,817	\$ 2,284,094

TOWN OF PENHOLD
SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT
YEAR ENDED DECEMBER 31, 2025

	Budget (Unaudited)	2025	2024
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	\$ 4,405,234	\$ 4,472,254	\$ 3,944,885
Contracted and general services	2,471,593	2,237,127	2,592,608
Materials, goods and utilities	850,743	993,562	809,699
Purchases from other governments	227,315	853,260	839,550
Transfers to local boards and agencies	227,315	212,315	214,196
Bank charges and short-term interest	23,821	6,919	15,229
Interest on long-term debt	64,604	71,883	74,398
Other expenditures	944,712	-	-
Amortization of tangible capital assets	-	2,573,424	2,442,436
Gain on disposal of tangible capital assets	-	-	<u>(34,642)</u>
	<u>\$ 9,215,337</u>	<u>\$ 11,420,744</u>	<u>\$ 10,898,359</u>

TOWN OF PENHOLD
SCHEDULE OF SEGMENTED DISCLOSURE
YEAR ENDED DECEMBER 31, 2025

	General Government	Protective Services	Transportation Services	Planning and Development	Recreation & Culture	Environmental Services	Public Health & Welfare	Total
REVENUE								
Net municipal taxes	\$ 4,242,675	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,242,675
Government transfers for operating	242,062	60,248	-	-	425,420	-	-	727,730
User fees and sales of goods	41,668	227,750	4,474	117,106	991,099	2,751,895	61,487	4,195,479
Investment income	363,107	-	-	-	-	-	-	363,107
Other revenues	<u>661,686</u>	<u>46,652</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>708,338</u>
	<u>5,551,198</u>	<u>334,650</u>	<u>4,474</u>	<u>117,106</u>	<u>1,416,519</u>	<u>2,751,895</u>	<u>61,487</u>	<u>10,237,329</u>
EXPENSES								
Salaries, wages and benefits	600,304	519,822	413,900	111,492	1,577,091	603,710	645,935	4,472,254
Contracted and general services	647,657	161,044	242,347	81,770	549,820	470,061	84,428	2,237,127
Materials, goods and utilities	66,214	101,478	250,516	15,523	269,564	144,314	145,953	993,562
Purchases from other governments	-	-	-	-	-	817,909	35,351	853,260
Transfers to local boards and agencies	-	-	-	-	212,315	-	-	212,315
Bank charges and short-term interest	6,919	-	-	-	-	-	-	6,919
Interest on long term debt	4,222	-	-	-	53,450	14,211	-	71,883
Gain on disposition of tangible capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,325,316</u>	<u>782,344</u>	<u>906,763</u>	<u>208,785</u>	<u>2,662,240</u>	<u>2,050,205</u>	<u>911,667</u>	<u>8,847,320</u>
ANNUAL SURPLUS (DEFICIT), BEFORE AMORTIZATION AND OTHER	<u>4,225,882</u>	<u>(447,694)</u>	<u>(902,289)</u>	<u>(91,679)</u>	<u>(1,245,721)</u>	<u>701,690</u>	<u>(850,180)</u>	<u>1,390,009</u>
Amortization on tangible capital assets	(32,399)	(245,666)	(1,036,728)	-	(922,740)	(332,943)	(2,948)	(2,573,424)
Government transfers for tangible capital assets	<u>-</u>	<u>-</u>	<u>681,408</u>	<u>-</u>	<u>218,041</u>	<u>120,638</u>	<u>-</u>	<u>1,020,087</u>
ANNUAL SURPLUS (DEFICIT)	<u>\$ 4,193,483</u>	<u>\$ (693,360)</u>	<u>\$ (1,257,609)</u>	<u>\$ (91,679)</u>	<u>\$ (1,950,420)</u>	<u>\$ 489,385</u>	<u>\$ (853,128)</u>	<u>\$ (163,328)</u>

See accompanying notes to consolidated financial statements

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Penhold (the "Town") are the representations of management prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS") established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant aspects of the accounting policies adopted by the Town are as follows:

Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, and changes in reserve balances and change in financial position of the reporting entity. This entity is comprised of the municipal operations plus all of the organizations that are owned or controlled by the town and are, therefore, accountable to the town council for the administration of their financial affairs and resources.

Included with the municipality are the following:

- Penhold & District Public Library

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

The consolidated financial statements exclude trust assets that are administered for the benefit for external parties. Interdepartmental and organizational transactions and balances are eliminated.

Basis of Accounting

The consolidated financial statements are prepared using the accrual basis of accounting. Revenues are accounted for in the period in which they are earned and measurable. Expenses are recognized as they are incurred and measurable based on 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.

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian Public Sector Accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenditures during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

For each reported segment, the revenues and expenses represent both amounts that are directly attributable to the segment and the amounts considered allocated on a reasonable basis.

Tax Revenue

The Town recognizes tax revenues when the tax has been authorized by bylaw and the taxable event has occurred. Requisitions operate as a flow through and are excluded from municipal revenue.

Government Transfers

Government transfers and the associated externally restricted investment income are recorded as deferred revenues if the terms for use of the transfer, or the terms along with the Town's actions and communications as to the use of the transfer, create a liability. These transfers are recognized as revenue as the terms are met and, when applicable, the Town complies with its communicated use of the transfer. Government transfers without terms for the use of the transfer are recorded as revenue when the Town is eligible to receive the funds.

Requisition Over-Levy and Under-Levy

Over-levies and under-levies arise from the difference between the actual property tax levy made to cover each requisition and the actual amount requisitioned.

If the actual levy exceeds the requisition, the over-levy is accrued as a liability and the property tax revenue is reduced. Where the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property tax revenue.

Requisition tax rates in the subsequent year are adjusted for any over-levies or under-levies of the prior year.

External Contributions

Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Developer contributions received from third parties are recognized as revenue when the related expenditures have been incurred. Developer and customer contribution revenue from external developers is deferred in the appropriate offsite deferred revenue account and recognized as revenue as the Town constructs the related offsite projects.

Financial Instruments

Financial assets measured at amortized cost consists of cash and cash equivalents and accounts receivable.

Financial liabilities reported at amortized cost include accounts payable and accrued liabilities and long term debt.

The Town does not hold financial instruments measured at fair value and therefore no remeasurement gains or losses have been recognized.

Financial assets are tested annually for impairment. Impairment losses are recorded in statement of operations. Any write-downs resulting from impairment are not reversed for subsequent increases in value.

Non-Financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets, together with the annual surplus or deficit, provides the consolidated change in net financial assets for the year.

Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to the acquisition, construction, development, or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

Land improvements	- 10 to 25 years
Buildings	- 20 to 50 years
Engineered structures:	
Roadway system	- 30 years
Water distribution system	- 10 to 75 years
Wastewater treatment system	- 45 to 75 years
Other engineered structures	- 45 to 75 years
Machinery and equipment	- 5 to 40 years
Vehicles	- 10 to 20 years

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

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions of Tangible Capital Assets

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

Cultural and Historical Tangible Assets

Works of art for display are not recorded as tangible capital assets but are disclosed.

Intangibles

All intangibles of the Town, including items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, are not recognized in the financial statements because the costs, benefits and economic value of such items cannot be reasonably and verifiably quantified using existing methods. Purchased natural resources and Crown lands would be recognized in the financial statements where applicable.

Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

Reserves

Certain amounts, as approved by the Town Council, are set aside in accumulated surplus for future operating and capital purposes. Transfers to or from reserves are adjustments to the respective fund when approved.

Deferred Revenue

Deferred revenue represent government transfers, donations and other amounts which have been collected, but for which the related services have yet to be performed or agreement stipulations have not been met. These amounts will be recognized as revenues when revenue recognition criteria have been met. Interest earned on deferred revenues, reserves and offsite levies are calculated using an average investment earnings monthly.

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Retirement Obligation

A liability for an asset retirement obligation is recognized at the best estimate of the amount required to retire a tangible capital asset at the financial statement date when there is a legal obligation for the Town to incur retirement costs, the past transaction or event giving rise to the liability has occurred, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount can be made. The best estimate of the liability includes all costs directly attributable to asset retirement activities, based on information available at year-end. The best estimate of an asset retirement obligation incorporates a present value technique, when the cash flows required to settle or otherwise extinguish an asset retirement obligation are expected to occur over extended future periods.

When a liability for an asset retirement obligation is initially recognized, a corresponding asset retirement cost is capitalized to the carrying amount of the related tangible capital asset. The asset retirement cost is amortized over the useful life of the related asset. Asset retirement obligations which are incurred incrementally with use of the asset are recognized in the period incurred with a corresponding asset retirement cost expensed in the period.

At each financial reporting date, the Town reviews the carrying amount of the liability. The Town recognizes period-to-period changes to the liability due to the passage of time as accretion expense. Changes to the liability arising from revisions to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate are recognized as an increase or decrease to the carrying amount of the related tangible capital asset. The Town continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made. No asset retirement obligations were identified by the Town as at year-end.

2. CASH AND CASH EQUIVALENTS

	2025	2024
Cash	\$ 2,463,973	\$ 2,815,773
Temporary investments	<u>-</u>	<u>3,610,706</u>
	<u>\$ 2,463,973</u>	<u>\$ 6,426,479</u>

Temporary investments are short-term deposits with maturities of one year or less. The temporary investments were utilized during the year to fund capital expenditures.

Management has designated funds of \$676,890 (2024 - \$5,775,974) included in the above amounts for future expenditures and \$792,387 (2024 - \$861,358) are amounts at year end that will fund expenditures in relation to the revenue deferred.

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

3. TAXES RECEIVABLE

	2025	2024
Current taxes	\$ 195,720	\$ 170,365
Arrears taxes	<u>34,361</u>	<u>33,327</u>
	<u>\$ 230,081</u>	<u>\$ 203,692</u>

4. TRADE AND OTHER RECEIVABLES

	2025	2024
Utility accounts receivable	\$ 197,383	\$ 175,606
Goods and services tax recoverable	3,678	17,230
Trade and other receivables	<u>744,768</u>	<u>1,280,874</u>
	<u>\$ 945,829</u>	<u>\$ 1,473,710</u>

5. LINE OF CREDIT

The Town has a line of credit of \$5,120,000 to assist with cash flow requirements. The line of credit requires monthly interest payments at ATB Financial's prime lending rate plus 0.30% per annum. The effective interest rate at December 31, 2025, is 4.75% (2024 - 5.75%). The line of credit is issued on the credit and security of the Town at large and is reviewed annually. There was no balance drawn on as of December 31, 2025 (2024 - \$nil).

6. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations represent vacation and overtime 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 budgetary year.

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

7. DEFERRED REVENUE

	Balance, beginning of year	Received	Recognized	Balance, end of year
Requisition over-levy	\$ 76,176	\$ -	\$ 76,176	\$ -
Municipal Sustainability Initiative – Capital	8,836	-	8,836	-
Community Building Fund	317,109	140,968	45,527	412,550
Developer and customer contributions	206,232	8,164	-	214,396
Other	<u>253,005</u>	<u>-</u>	<u>87,564</u>	<u>165,441</u>
	<u>\$ 861,358</u>	<u>\$ 149,132</u>	<u>\$ 218,103</u>	<u>\$ 792,387</u>

Under certain grant agreements with the Government of Canada and the Government of Alberta, the Town is required to account for grants provided and to complete the projects or program in accordance with standards detailed in said 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.

8. LONG TERM DEBT

	2025	2024
Debentures, as described below	\$ 1,611,257	\$ 1,856,545
Enmax loan repayable in monthly instalments of \$2,823 bearing 3.00% fixed interest, due 2034	<u>266,906</u>	<u>292,360</u>
	<u>\$ 1,878,163</u>	<u>\$ 2,148,905</u>

Principal and interest repayments are as follows:

	Principal	Interest	Total
2026	\$ 280,626	\$ 63,144	\$ 343,770
2027	290,878	52,892	343,770
2028	301,513	42,257	343,770
2029	312,547	31,223	343,770
2030	323,993	19,777	343,770
Thereafter	<u>368,606</u>	<u>17,143</u>	<u>385,749</u>
	<u>\$ 1,878,163</u>	<u>\$ 226,436</u>	<u>\$ 2,104,599</u>

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

8. LONG TERM DEBT (Continued)

Debentures consists of amounts payable to the Alberta Capital Finance Authority. There are currently three debentures outstanding. One debenture bears interest fixed at 4.124% per annum and matures in 2030. Two debentures each bear interest fixed at 3.023% per annum and matures in 2032.

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

Interest on long term debt amounted to \$71,883 (2024 - \$74,398).

9. DEBT LIMITS

Section 276(2) of the Municipal Government Act requires that debt and debt servicing limits as defined by Alberta Regulation 255/2000 for the Town be disclosed as follows:

	2025	2024
Total debt limit	\$ 15,355,994	\$ 15,400,694
Total debt (Note 8)	<u>1,878,163</u>	<u>2,148,905</u>
Amount of debt limit unused	<u>\$ 13,477,831</u>	<u>\$ 13,251,789</u>
Percentage used	12%	14%
Debt servicing limit	\$ 2,559,332	\$ 2,566,782
Debt servicing (Note 8)	<u>343,770</u>	<u>343,770</u>
Amount of debt servicing limit unused	<u>\$ 2,215,562</u>	<u>\$ 2,223,012</u>

The debt limit is calculated at 1.50 times the revenue of the Town (as defined in Alberta Regulations 255/2000) 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 that 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 consolidated financial statements must be interpreted as a whole.

Total debt includes long-term debt less debt charges recoverable. Debt servicing includes principal and interest payments due on long-term debt in the 12 months subsequent to year end less amounts that are recoverable

10. EQUITY IN TANGIBLE CAPITAL ASSETS

	2025	2024
Tangible capital assets (Schedule 2)	\$ 83,181,722	\$ 76,560,123
Accumulated amortization (Schedule 2)	(30,061,011)	(27,487,588)
Long term debt (Note 8)	<u>(1,878,163)</u>	<u>(2,148,905)</u>
Equity in tangible capital assets (Schedule 1)	<u>\$ 51,242,548</u>	<u>\$ 46,923,630</u>

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

11. ACCUMULATED SURPLUS

Accumulated surplus consists of designated and unrestricted amounts and equity in tangible capital assets as follows:

	2025	2024
Unrestricted surplus	\$ 487,662	\$ 498,724
Designated surplus		
Fire, ambulance and bylaw	-	176,709
Multiplex	389,637	389,637
Recreation	71,200	135,729
Transportation	556,700	5,069,486
Water and sewer	287,253	4,413
Equity in tangible capital assets (Note 10)	<u>51,242,548</u>	<u>46,923,630</u>
Accumulated surplus (Schedule 1)	<u>\$ 53,035,000</u>	<u>\$ 53,198,328</u>

12. SALARY AND BENEFITS DISCLOSURE

Disclosure of salaries and benefits for municipal officials and the Chief Administrative Officer as required by Alberta Regulation 313/2000 is as follows:

	Salary ¹	Benefits ²	2025 Total	2024 Total
Mayor Yargeau	\$ 41,252	\$ 1,200	\$ 42,452	\$ 39,461
Councillor Cunningham	26,756	1,200	27,956	25,634
Councillor Denson	20,909	1,200	22,109	23,399
Councillor Galisky	21,403	1,200	22,603	16,823
Councillor Kranenborg	24,403	1,200	25,603	22,278
Councillor Muller	22,561	1,200	23,761	18,221
Councillor Sitter	6,484	1,200	7,684	20,031
Chief Administrative Officer	<u>272,316</u>	<u>6,234</u>	<u>278,550</u>	<u>261,102</u>
	<u>\$ 436,084</u>	<u>\$ 14,634</u>	<u>\$ 450,718</u>	<u>\$ 426,949</u>

- Salary includes regular base pay, overtime, lump sum payments, gross honoraria, and any other direct cash remuneration.
- 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 insurance, long and short term disability plans, professional memberships and tuition.

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

13. LOCAL AUTHORITIES PENSION PLAN

Employees of the Town participate in the Local Authorities Pension Plan ("LAPP"), which is one of the plans covered by the Public Sector Pension Plans Act. The LAPP is financed by employer and employee contributions and by investment earnings of the LAPP fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

The Town is required to make current service contributions to the LAPP of 8.45% (2024 - 8.45%) of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 11.65% (2024 - 11.65%) for the excess.

Total current and past service contributions by the Town to the LAPP in 2025 were \$235,660 (2024 - \$206,456). Total current and past service contributions by the employees of the Town to the LAPP in 2025 were \$209,959 (2024 - \$183,995).

At December 31, 2024, the Local Authorities Pension Plan disclosed an actuarial surplus of \$19.60 billion (2023 - \$15.10 billion). The 2025 LAPP annual report has not yet been issued.

14. CONTINGENCIES

The Town is a stakeholder in the Central Alberta Regional Waste Management Commission. The Commission's ability to continue as a going concern is dependent on securing sufficient funding to meet its future liabilities and other financial obligations related to the Riverview solid waste management site. To address these obligations, including long-term liabilities and debenture payments, the Commission expects to rely on requisitions from its member municipalities.

The Town is also one of six municipal stakeholders in the South Red Deer Regional Waste Water Commission. The Commission's ability to continue as a going concern is dependent on securing sufficient funding to meet its future liabilities and financial obligations related to the regional wastewater pipeline. To fund these liabilities and related debt servicing costs, the Commission expects to rely on requisitions from its member municipalities.

The Town has not accrued any liability for its stake in either Commission. If a liability is created, it will be recorded in the year the liability is confirmed.

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

15. SEGMENTED DISCLOSURE

The Town provides a range of services to its ratepayers. For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1.

Refer to the Schedule of Segmented Disclosure (Schedule 6).

General government includes council and other legislative, and general administration. Protective services include bylaw enforcement, police, and fire. Transportation services includes roads, streets, walks and lighting. Planning and development includes land use planning, zoning and subdivision land and development. Public health and welfare includes family and community support. Recreation and culture include parks and recreation, libraries, museums and halls. Environmental services includes water supply and distribution, wastewater treatment and disposal, and waste management.

16. FINANCIAL INSTRUMENTS

Credit Risk

The Town is subject to credit risk with respect to taxes and grants in place of taxes receivables and trade and other receivables. Credit risk arises from the possibility that taxpayers and entities to which the Town provides services may experience financial difficulty and be unable to fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

Liquidity Risk

Liquidity risk is the risk that the Town will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Town manages its liquidity risk by monitoring its operating requirements and using various funding sources to ensure its financial flexibility. The Town prepares budget and cash forecasts to ensure that it has sufficient funds to fulfill its obligations. In recent years, the Town financed the growth of its capacity and sales primarily through cash flows from operations and used its revolving credit on a regular basis.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Town is exposed to interest rate risk through its long-term debt.

The Municipality manages interest rate risk on its long-term debt by holding all debt through the Government of Alberta and Enmax at a fixed rate. Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to long-term debt. See Note 8 for interest rates and maturity dates for long term debt.

TOWN OF PENHOLD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025

17. BUDGETED FIGURES AND COMPARATIVE INFORMATION

The unaudited budget figures are provided to present a comparison of the results for the accounting period with those originally planned. The Town did not budget for amortization. The reconciliation below is provided for information purposes to provide users with supplementary comparative information. It should not be used as a replacement for the consolidated statement of operations and change in net financial assets and users should note that this information may not be appropriate for their purposes.

	Budget (Unaudited)	2025	2024
Approved budget surplus	845	-	-
Transfers to reserves	(8,858,685)	-	-
Acquisition of tangible capital assets	10,613,899	-	-
Debenture principal payments	<u>245,289</u>	<u>-</u>	<u>-</u>
Annual surplus (deficit) per consolidated financial statements	\$ 2,001,348	\$ (163,328)	\$ 623,439
Add amortization of tangible capital assets	-	2,573,424	2,442,437
Gain on disposal of tangible capital assets	-	-	(34,642)
Results of operations, adjusted for non-budgeted items	\$ <u>2,001,348</u>	\$ <u>2,410,096</u>	\$ <u>3,031,234</u>

18. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements on April 13, 2026.