

**CITY OF COLD LAKE
FINANCIAL STATEMENTS**

DECEMBER 31, 2018

CITY OF COLD LAKE

FINANCIAL STATEMENTS

December 31, 2018

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CITY OF COLD LAKE

December 31, 2018

MANAGEMENT'S REPORT

The accompanying financial statements and other information contained in this financial report are the responsibility of the management of the City of Cold Lake.

The financial statements have been prepared by management. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The City of Cold Lake maintains systems of internal accounting and administrative controls that are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the City of Cold Lake's assets are properly accounted for and adequately safeguarded.

The elected council of the City of Cold Lake are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

Councillors meet annually with management and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to satisfy themselves that each party is properly discharging its responsibilities. Councillors consider the engagement or reappointment of the external auditors and also review monthly financial reports.

The financial statements have been audited by Faber LLP, Chartered Professional Accountants, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of Council, residents and ratepayers of the City of Cold Lake. Faber LLP, Chartered Professional Accountants, has full and free access to Council.

Cold Lake, Alberta
April 23, 2019

Kevin Nagoya
CAO

INDEPENDENT AUDITORS' REPORT

To the Members of Council of the City of Cold Lake:

Opinion

We have audited the financial statements of the **City of Cold Lake**, which comprise the **Statement of Financial Position** as at December 31, 2018, and the **Statement of Operations, Statement of Change in Net Financial Assets** and the **Statement of Cash Flows** for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the City of Cold Lake as at December 31, 2018 and the results of its operations, the change in its net financial assets 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 Financial Statements* section of our report. We are independent of the Municipality 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 those 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatements, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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. 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 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, misrepresentation, 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 Municipality'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 Municipality'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 Municipality to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

Edmonton, Alberta
April 23, 2019



Chartered Professional Accountants

CITY OF COLD LAKE**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

	Note Reference	2018	2017
FINANCIAL ASSETS			
Cash and Temporary Investments	2	\$ 24,836,877	\$ 28,146,783
Receivables	3		
Taxes and Grants in Place of Taxes		1,119,253	1,127,479
Trade and other receivables		6,553,098	4,186,764
Land Held for Resale		1,233,400	1,233,400
Investments	4	45,445,614	30,447,516
		\$ 79,188,242	\$ 65,141,942
LIABILITIES			
Accounts Payable and Accrued Liabilities		\$ 7,572,947	\$ 7,061,480
Deposit Liabilities		1,283,909	1,696,063
Deferred Revenues	6	736,846	1,078,984
Employee Benefit Obligations	7	950,708	771,410
Long-term Debt	8	53,308,135	34,263,387
		63,852,545	44,871,324
NET FINANCIAL ASSETS (Statement 3)		15,335,697	20,270,618
NON-FINANCIAL ASSETS			
Tangible Capital Assets (Schedule 2)		321,395,534	303,241,851
Inventory of Supplies and Materials		416,815	436,944
Prepaid Expenses		74,141	46,236
		321,886,490	303,725,031
ACCUMULATED SURPLUS (Schedule 1)	11	\$ 337,222,187	\$ 323,995,649

Contingencies - See Note 15.

CITY OF COLD LAKE
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget	2018	2017
	(Unaudited)		
Revenues			
Net Municipal Taxes (Schedule 3)	\$ 20,482,643	\$ 21,299,559	\$ 19,460,869
Sales and User Charges	9,522,030	9,309,304	8,801,438
Government Transfers (Schedule 4)	9,882,393	9,864,774	9,966,552
Rentals	992,028	961,200	940,906
Franchise and Concession Contracts	1,004,783	939,967	993,198
Licenses and Permits	309,000	223,683	339,150
Other	366,500	2,072,701	602,221
Investment Income	250,000	1,171,939	1,423,984
Penalties and Costs on Taxes	290,000	2,062,561	1,701,697
Fines	300,000	352,954	368,454
Development Levies	-	103,182	408,580
Total Revenues	43,399,377	48,361,824	45,007,049
Expenses (Schedule 5)			
Administration	6,456,162	8,172,016	7,678,518
Fire and Emergency Services	1,243,203	1,237,260	1,195,618
Legislative	478,460	417,313	400,443
Other	3,845,214	125,000	111,000
Planning and Development	1,629,180	2,232,173	2,123,805
Police and By-law Enforcement	3,816,593	3,406,902	3,514,919
Public Health and Welfare	1,269,666	1,235,750	1,272,719
Recreation and Culture	9,136,718	8,891,782	8,350,496
Transportation Systems	7,411,412	7,216,514	7,284,001
Utility Systems	8,112,769	7,493,867	7,509,681
Amortization of Tangible Capital Assets	-	9,106,923	8,637,615
Loss on Disposal of Assets	-	16,070	436,388
Total Expenses	43,399,377	49,551,570	48,515,203
(Deficiency) Excess of Revenues Over Expenses Before			
Other Revenues	-	(1,189,746)	(3,508,154)
Other Revenues			
Contributed Assets	-	71,042	642,756
Government Transfers for Capital (Schedule 4)	8,000,000	14,345,242	24,667,247
Excess of Revenues Over Expenses	8,000,000	13,226,538	21,801,849
Accumulated Surplus, Beginning of Year		323,995,649	302,193,800
Accumulated Surplus, End of Year (Schedule 1)		\$ 337,222,187	\$ 323,995,649

The accompanying notes are an integral part of these financial statements

CITY OF COLD LAKE

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
Excess of Revenues Over Expenses	\$ 13,226,538	\$ 21,801,849
Acquisition of Tangible Capital Assets	(27,319,763)	(27,348,292)
Contributed Tangible Capital Assets	(71,042)	(642,756)
Proceeds on Disposal of Tangible Capital Assets	114,129	170,331
Amortization of Tangible Capital Assets	9,106,923	8,637,615
Loss on Sale of Tangible Capital Assets	16,070	436,388
	(18,153,683)	(18,746,714)
Acquisition of Supplies Inventories	20,129	31,808
Use of Prepaid Assets	(27,905)	155,414
	(7,776)	187,222
(Decrease) Increase in Net Financial Assets	(4,934,921)	3,242,357
Net Financial Assets, Beginning of Year	20,270,618	17,028,261
Net Financial Assets, End of Year	\$ 15,335,697	\$ 20,270,618

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED PROFESSIONAL ACCOUNTANTS

CITY OF COLD LAKE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Excess of Revenues Over Expenditures	\$ 13,226,538	\$ 21,801,849
Add (Deduct) Non-cash Items		
Amortization of tangible capital assets	9,106,923	8,637,615
Loss on disposal of tangible capital assets	16,070	436,388
Tangible capital assets received as contributions	(71,042)	(642,756)
Non-cash charges to operations (net change):		
Decrease in taxes and grants in place of taxes receivable	8,226	23,695
(Increase) Decrease in trade and other receivables	(2,366,334)	2,332,532
(Increase) Decrease in prepaid expenses	(27,905)	155,414
Decrease in land held for resale	-	122,700
Decrease in inventories	20,129	31,808
Increase in accounts payable and accrued liabilities	511,467	1,774,189
(Decrease) in deposit liabilities	(412,154)	(212,334)
(Decrease) in deferred revenue	(342,138)	(424,222)
Increase in employee benefit obligations	179,298	17,020
	19,849,078	34,053,898
CASH FLOWS FROM (USED IN) CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(27,319,763)	(27,348,292)
Proceeds on disposal of tangible capital assets	114,129	170,331
	(27,205,634)	(27,177,961)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
(Increase) Decrease in long-term investments	(14,998,098)	71,400
	(14,998,098)	71,400
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Increase (Decrease) in long-term debt	17,532,499	(3,063,262)
Interest paid on long-term debt	1,512,249	1,309,820
	19,044,748	(1,753,442)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,309,906)	5,193,895
NET CASH AND CASH EQUIVALENTS, beginning of year	28,146,783	22,952,888
NET CASH AND CASH EQUIVALENTS, end of year	\$ 24,836,877	\$ 28,146,783
NET CASH AND CASH EQUIVALENTS IS MADE UP OF:		
Cash and Short-term Deposits	\$ 24,836,877	\$ 28,146,783
	\$ 24,836,877	\$ 28,146,783

The accompanying notes are an integral part of these financial statements

CITY OF COLD LAKE

SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2018	2017
BALANCE, BEGINNING OF YEAR	\$ 9,695,812	\$ 45,321,373	\$ 268,978,464	\$ 323,995,649	\$ 302,193,800
Excess of revenues over expenses	13,226,538	-	-	13,226,538	21,801,849
Unrestricted funds designated for future use	(17,119,785)	17,119,785	-	-	-
Restricted funds used for operations	1,146,859	(1,146,859)	-	-	-
Restricted funds used for tangible capital assets	-	(11,767,825)	11,767,825	-	-
Current year funds used for tangible capital assets	(15,551,938)	-	15,551,938	-	-
Contributed tangible capital assets	(71,042)	-	71,042	-	-
Disposal of tangible capital assets (net of amortization)	130,199	-	(130,199)	-	-
Annual amortization expense	9,106,923	-	(9,106,923)	-	-
Debtenture purchases	21,000,000	-	(21,000,000)	-	-
Long term debt repaid	(1,955,252)	-	1,955,252	-	-
Change in accumulated surplus	9,912,502	4,205,101	(891,065)	13,226,538	21,801,849
BALANCE, END OF YEAR (Note 11)	\$ 19,608,314	\$ 49,526,474	\$ 268,087,399	\$ 337,222,187	\$ 323,995,649

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED PROFESSIONAL ACCOUNTANTS

CITY OF COLD LAKE

SCHEDULE OF TANGIBLE CAPITAL ASSETS FOR THE YEAR ENDED DECEMBER 31, 2018

	Land	Land Improvement	Buildings	Engineering Structures	Work in Progress	Machinery and Equipment	Vehicles	2018	2017
COST:									
Balance, Beginning of the year	38,457,625	10,644,461	70,058,289	241,334,371	40,468,064	15,837,518	5,736,753	422,537,081	396,143,618
Acquisition of tangible capital assets	-	3,030,204	61,494	2,553,630	25,057,668	1,207,599	2,396,271	34,306,866	55,510,471
Reclassification	-	-	-	-	(684,462)	-	-	(684,462)	(1,066,158)
Construction-in-progress (Transferred to Land Improvement, Buildings, Engineering Structures, and Machinery and Equipment)	-	-	-	-	(6,231,599)	-	-	(6,231,599)	(26,453,265)
Disposal of tangible capital assets	-	-	-	(3,053)	-	(93,786)	(181,565)	(278,404)	(1,597,585)
Balance, End of the year	38,457,625	13,674,665	70,119,783	243,884,948	58,609,671	16,951,331	7,951,459	449,649,482	422,537,081
ACCUMULATED AMORTIZATION:									
Balance, Beginning of the year	-	1,915,049	9,620,848	99,419,496	-	5,543,439	2,796,398	119,295,230	111,648,481
Annual amortization	-	576,575	1,737,733	5,473,586	-	952,857	366,172	9,106,923	8,637,615
Accumulated amortization on disposals	-	-	-	(2,443)	-	(687)	(145,075)	(148,205)	(990,866)
Balance, End of the year	-	2,491,624	11,358,581	104,890,639	-	6,495,609	3,017,495	128,253,948	119,295,230
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	38,457,625	11,183,041	58,761,202	138,994,309	58,609,671	10,455,722	4,933,964	321,395,534	303,241,851
2017 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	38,457,625	8,729,412	60,437,441	141,914,874	40,468,064	10,294,079	2,940,354	303,241,851	

The accompanying notes are an integral part of these financial statements

CITY OF COLD LAKE

SCHEDULE OF PROPERTY AND OTHER TAXES FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
Taxation			
Real Property Taxes	\$ 27,647,556	\$ 20,671,380	\$ 20,431,061
Linear Property Taxes	-	379,361	367,282
Government Grants in Place of Property Taxes	-	6,603,871	6,235,892
	27,647,556	27,654,612	27,034,235
Requisitions			
Alberta School Foundation Fund	6,962,181	6,152,117	7,370,086
Lakeland Lodge and Housing Foundation	201,915	202,115	203,280
Designated Industrial Property	817	821	-
	7,164,913	6,355,053	7,573,366
Net Taxes Available for Municipal Purposes	\$ 20,482,643	\$ 21,299,559	\$ 19,460,869

The accompanying notes are an integral part of these financial statements

CITY OF COLD LAKE

SCHEDULE OF GOVERNMENT TRANSFERS FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
Transfers for Operating:			
Provincial Government	\$ 780,645	\$ 878,405	\$ 806,142
Federal Government	325,000	319,688	325,888
Other Local Governments	748,748	638,681	806,522
Other Local Governments (ID 349)	8,028,000	8,028,000	8,028,000
	9,882,393	9,864,774	9,966,552
Transfers for Capital:			
Provincial Government	-	6,228,284	4,156,820
Other Local Governments (ID 349)	8,000,000	8,116,958	20,510,427
	8,000,000	14,345,242	24,667,247
Total Government Transfers	\$ 17,882,393	\$ 24,210,016	\$ 34,633,799

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED PROFESSIONAL ACCOUNTANTS

CITY OF COLD LAKE

SCHEDULE OF EXPENSES BY OBJECT FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
Expenses			
Salaries, Wages and Benefits	\$ 15,220,930	\$ 14,665,143	\$ 13,738,613
Contracted and General Services	10,429,329	10,511,489	11,019,371
Purchases from Other Governments	5,271,800	4,592,134	4,647,801
Materials, Goods, Supplies and Utilities	4,368,949	4,150,529	4,158,909
Provision for Allowances	1,208,000	3,428,581	2,969,839
Transfers to Individuals and Organizations	1,326,224	1,264,098	1,485,112
Bank Charges and Short-term Interest	45,300	33,566	38,084
Interest on Capital Long-term Debt	1,568,981	1,512,249	1,309,820
Amortization of Tangible Capital Assets	-	9,106,923	8,637,615
Loss on Disposal of Tangible Capital Assets	-	16,070	436,388
Other Expenditures	3,959,864	270,788	73,651
Total Expenses	\$ 43,399,377	\$ 49,551,570	\$ 48,515,203

The accompanying notes are an integral part of these financial statements

CITY OF COLD LAKE

SCHEDULE OF SEGMENTED DISCLOSURE FOR THE YEAR ENDED DECEMBER 31, 2018

	General Government	Protective Services	Utility Systems	Transportation Services	Public Health & Welfare	Planning & Development	Recreation & Culture	Total
REVENUE								
Net Municipal Taxes	21,299,559	-	-	-	-	-	-	21,299,559
Government Transfers	16,741,226	584,688	-	6,228,284	563,132	67,000	25,688	24,210,018
User Fees and Sale of Goods	968,078	325,565	7,632,395	139,935	62,664	326,195	1,979,321	11,434,153
Investment Income	1,171,939	-	-	-	-	-	-	1,171,939
Contributed Assets	-	-	-	71,042	-	-	-	71,042
Other Revenues	2,137,598	352,954	154,742	1,580,521	164,519	120,287	80,776	4,591,397
	42,318,400	1,263,207	7,787,137	8,019,782	790,315	513,482	2,085,785	62,778,108
EXPENSES								
Salaries, Wages and Benefits	3,224,533	1,719,687	2,321,871	2,562,480	791,989	857,717	3,186,865	14,665,142
Contracted and General Services	1,815,393	441,708	1,809,272	2,633,940	142,326	1,321,514	2,347,336	10,511,489
Materials, Goods, Supplies and Utilities	96,688	239,118	564,131	1,713,774	183,147	14,542	1,339,129	4,150,529
Purchases from Other Governments	-	1,842,964	2,749,171	-	-	-	-	4,592,135
Transfers to Individuals and Organizations	-	169,081	-	-	17,550	38,400	1,039,067	1,264,098
Interest on Capital Long-term Debt	-	230,343	29,117	301,600	100,453	-	850,737	1,512,250
Other Expenses	3,577,715	4,010	20,917	17,429	285	-	128,648	3,749,004
	8,714,329	4,646,911	7,494,479	7,229,223	1,235,750	2,232,173	8,891,782	40,444,647
NET REVENUE, BEFORE AMORTIZATION	33,604,071	(3,383,704)	292,658	790,559	(445,435)	(1,718,691)	(6,805,997)	22,333,461
Amortization Expense	151,826	517,208	1,485,669	4,993,942	164,277	8,230	1,785,771	9,106,923
NET REVENUE	33,452,245	(3,900,912)	(1,193,011)	(4,203,383)	(609,712)	(1,726,921)	(8,591,768)	13,226,538

**FABER LLP,
CHARTERED PROFESSIONAL ACCOUNTANTS**

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the municipality are the representations of management prepared in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant aspects of the accounting policies adopted by the municipality are as follows:

(a) Reporting Entity

The financial statements reflect the assets, liabilities, revenues and expenditures, changes in fund 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 municipality and are, therefore, accountable to the City Council for the administration of their financial affairs and resources. Included with the municipality are the following:

City of Cold Lake
Cold Lake Family and Community Support Services

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

(b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting.

Revenues are recognized in the period in which the transactions or events occurred that give rise to the revenues. 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 purposes specified.

Government transfers are recognized in the financial statements as revenues in the period that the events giving rise to the transfer occurred, providing the transfers are authorized, the municipality has met any eligibility criteria, and reasonable estimates of the amounts can be made.

(c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses 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.

(d) Investments

Investments are recorded at amortized cost. Investment premiums and discounts are amortized on the net present value basis over the term of the respective investments. When there has been a loss of value that is other than a temporary decline, the respective investment is written down to recognize the loss.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

(e) *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 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.

(f) *Inventories*

Inventories of materials and supplies for consumption are valued at the lower of cost or net realizable value with cost determined by the average cost and first-in-first-out methods.

Land held for resale is recorded at the lower of cost or net realizable value. Cost includes cost 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 capital assets under their respective function.

(g) *Prepaid Local Improvements Charges*

Construction and borrowing costs associated with local improvement projects are recovered through annual special assessments during the period of the related borrowings. These levies are collectable from property owners for work performed by the municipality.

Where a taxpayer has elected to prepay the outstanding local improvement charges, such amounts are recorded as deferred revenue. Deferred revenue is amortized to revenue on a straight line basis over the remaining term of the related borrowings.

In the event that the prepaid amounts are applied against the related borrowings, the deferred revenue is amortized to revenue by an amount equal to the debt repayment.

(h) *Tax Revenue*

Tax revenues are recognized 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.

(i) *Landfill Closure and Post-Closure Liability*

Pursuant to the Alberta Environmental Protection and Enhancement Act, the municipality 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 the 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 estimated remaining life of the landfill site based on usage.

(j) *Contaminated Sites Liability*

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of a contaminated site is recognized when a site is not in productive use and is management's estimate of the cost of post-remediation including operation, maintenance and monitoring.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

(k) Government Transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, and are not the result of a direct financial return.

Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be determined.

(l) 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 during the year, together with the excess of revenues over expenses, provides the Change in Net Financial Assets (Debt) for the year.

I) Tangible Capital Assets

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

	YEARS
Land Improvements	15-20
Buildings	40
Engineered structures	
Roadway system	20-40
Water system	50
Wastewater system	50
Other engineered structures	5-30
Machinery and equipment	10
Vehicles	10-25

Annual amortization is charged in the first full year after an asset is acquired. Assets under construction are not amortized until the asset is available for productive use.

II) Contributions of Tangible Capital Assets

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

III) 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.

IV) Inventories

Inventories held for consumption are recorded at the lower of cost and replacement cost.

V) Cultural and Historical Tangible Capital Assets

Works of art for display are not recorded as tangible capital assets and are not amortized. Costs for public art are expensed in the period they are incurred.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

2. CASH AND TEMPORARY INVESTMENTS

	2018	2017
Cash Floats and Undeposited Receipts	\$ 3,025	\$ 2,775
Bank Accounts	5,833,852	5,144,008
Temporary investments	19,000,000	23,000,000
	\$ 24,836,877	\$ 28,146,783

Temporary investments consist of Cashable GICs at cost which approximates market value. These investments have effective interest rates of 2.51% (2017 - 1.66% to 1.95%) and generally mature within 1 year from the date of purchase. Temporary investments are capable of reasonably prompt liquidation and may be used to manage the City's cash position throughout the year from the date of purchase.

3. RECEIVABLES

	2018	2017
Taxes and grants in place of taxes		
Current taxes and grants in place of taxes	\$ 2,646,391	\$ 2,593,631
Arrears (Note 16)	14,705,878	11,344,321
Allowance for doubtful accounts (Note 16)	(16,233,016)	(12,810,473)
	1,119,253	1,127,479
Trade and other receivables		
Local improvement levies	\$ 30,242	\$ 41,210
Trade accounts	6,592,940	4,391,724
Goods and services tax rebate	447,565	247,377
Allowance for doubtful accounts	(517,649)	(493,547)
	6,553,098	4,186,764
	\$ 7,672,351	\$ 5,314,243

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

4. INVESTMENTS

	2018	2017
Cash and cash equivalents	\$ 10,040	\$ 10,040
Fixed income securities	37,772,574	21,854,476
Principal protected notes	7,663,000	8,583,000
	\$ 45,445,614	\$ 30,447,516

The fixed income securities have a yield from 2.30% to 3.38% (2017 - 2.23% to 3.38%) and mature in periods 2019 through 2031. Principal protected notes have various interest rates tied to the market with maturity periods 2022 to 2027. The market value of the investments at December 31, 2018 was \$43,852,695 (2017 - \$29,329,374). A decline in quoted market value below cost or amortized cost of investments with fixed maturity amounts is temporary in nature.

5. BANK INDEBTEDNESS

The City has an authorized overdraft limit in the amount of \$1,000,000 which bears interest at prime minus 0.25% and is secured by an overdraft protection agreement. At year end, the City had used no part of this limit (2017 - nil).

6. DEFERRED REVENUES

	2018	2017
Alberta Municipal Sustainability Initiative Capital Grant	\$ 387,874	\$ 284,962
Alberta Basic Municipal Transportation Grant	-	69,470
Water/Sewer Special Grant - Province	-	387,874
Other	348,972	336,678
Deferred Revenues	\$ 736,846	\$ 1,078,984

Deferred revenue represents amounts received which will be taken into revenue in the period in which they are earned and corresponding expenditures are incurred.

7. EMPLOYEE BENEFIT OBLIGATIONS

	2018	2017
Vacation and Overtime	\$ 950,708	\$ 771,410

The vacation and overtime liability is comprised of the vacation and overtime costs 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.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

8. LONG-TERM DEBT

	2018	2017
Tax Supported Debentures	\$ 53,308,135	\$ 34,263,387

The current portion of the long-term debt amounts to \$2,454,041 (2017 - \$1,825,050).

Principal and interest payments are as follows:

	Principal	Interest	Total
2019	\$ 2,454,041	\$ 1,871,655	\$ 4,325,696
2020	2,550,432	1,775,264	4,325,696
2021	2,650,758	1,674,938	4,325,696
2022	2,755,183	1,570,513	4,325,696
2023	2,863,890	1,461,806	4,325,696
Thereafter	40,033,831	11,681,535	51,715,366
	<u>\$ 53,308,135</u>	<u>\$ 20,035,711</u>	<u>\$ 73,343,846</u>

Debenture debt is payable to the Alberta Capital Finance Authority and bears interest at rates ranging from 2.881% to 6.250% per annum, before Provincial subsidy, and matures in various amounts between 2025 through 2043. The average annual interest rate is 3.950% for 2018 (2017 - 3.727%). For qualifying debentures, the Province of Alberta rebates 60% of interest in excess of 8%, 9% and 11% to a maximum annual rate of 12.5%, depending on the date borrowed. Debenture debt is issued on the credit and security of the City of Cold Lake.

Interest paid during the year amounted to \$1,512,249 (2017 - \$1,309,820).

9. DEBT LIMITS

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

	2018	2017
Total long-term debt limit	\$ 84,718,173	\$ 98,276,214
Total long-term debt actual	53,308,135	34,263,387
Amount of debt limit unused	\$ 31,410,038	\$ 64,012,827
Debt servicing limit	\$ 14,119,696	\$ 16,379,369
Debt servicing actual	4,325,696	3,082,531
Amount of debt servicing limit unused	\$ 9,794,000	\$ 13,296,838

The debt limit is calculated at 1.5 times revenue of the municipality (as defined in Alberta Regulation 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 financial statements must be interpreted as a whole.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

10. EQUITY IN TANGIBLE CAPITAL ASSETS

	2018	2017
Tangible Capital Assets (Schedule 2)	\$ 449,649,482	\$ 422,537,081
Accumulated Amortization (Schedule 2)	(128,253,948)	(119,295,230)
Long-term Debt (Note 8)	(53,308,135)	(34,263,387)
	\$ 268,087,399	\$ 268,978,464

11. ACCUMULATED SURPLUS

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

	2018	2017
Restricted surplus by agreement or legislation:		
MD waterline	\$ 288,960	\$ 255,023
Offsites - Uncommitted	4,164,683	4,061,501
Offsites - Committed	381,477	381,477
Provincial grants (2008)	24,463	24,463
MSI	82,398	82,398
Developer Contribution	385,678	385,678
Municipal reserve	132,648	132,648
Electrical Utility Contribution	342,615	342,615
	5,802,922	5,665,803
Internally Restricted:		
General Government	3,944,372	2,558,263
Public Works and Infrastructure	31,160,087	24,276,104
Community Services	8,544,093	12,148,106
Planning and Development	75,000	673,097
	43,723,552	39,655,570
Restricted	49,526,474	45,321,373
Unrestricted Funds	19,608,314	9,695,812
Restricted and unrestricted	69,134,788	55,017,185
Equity in tangible capital assets (Note 10)	268,087,399	268,978,464
ACCUMULATED SURPLUS	\$ 337,222,187	\$ 323,995,649

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

12. SALARY AND BENEFITS DISCLOSURE

Disclosure of salaries and benefits for elected municipal officials, the chief administrative officer and other designated officers as required by Alberta Regulation 313/2000 is as follows:

	Name of Person	Salary (a)	Allowances and Benefits (b) & (c)	2018 Total	2017 Total
Mayor	Craig Copeland	\$ 58,384	\$ 1,792	\$ 60,176	\$ 61,661
	Subsistence	-	-	5,074	9,738
Councillors:	Robert Buckle	41,164	1,224	42,388	39,502
	Duane Lay	33,914	1,340	35,254	34,921
	Kirk Soroka	28,914	819	29,733	2,688
	Jurgen Grau	28,164	795	28,959	3,850
	Vicky Lefebvre	33,538	972	34,510	38,260
	Chris Vining	28,789	815	29,604	30,461
	Darrell MacDonald	-	-	-	25,028
	Subsistence	-	-	38,100	37,382
Chief Administrative Officer	Kevin Nagoya	257,572	42,259	299,831	269,717
		\$ 510,439	\$ 50,016	\$ 603,629	\$ 553,208

- (a) Salary includes regular base pay, bonuses, overtime, lump sum payments, gross honoraria and any other direct cash remuneration.
- (b) The employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans, professional memberships and tuition.
- (c) Allowances and benefit figures include the employer's share of the costs of additional taxable benefits including special leave with pay, financial planning services, retirement planning services, concessionary loans, travel allowances, car allowances, and club memberships.

13. SEGMENTED DISCLOSURE

The municipality 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 financial statements as disclosed in Note 1.

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

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

14. LOCAL AUTHORITIES PENSION PLAN

Employees of the municipality participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pension Plans Act. LAPP serves over 259,000 members and 420 employers. 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 municipality is required to make current service contributions to the plan of 10.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 14.84% for the excess. Employees of the municipality are required to make current service contributions of 9.39% of pensionable salary up to the year's maximum pensionable salary and 13.84% for the excess.

Total current service contributions by the municipality to the Local Authorities Pension Plan in 2018 were \$1,071,849 (2017 - \$1,055,659). Total current service contributions by the employees of the municipality to the Local Authorities Pension Plan in 2018 were \$979,436 (2017 - \$971,350).

At December 31, 2017, the LAPP disclosed an actuarial surplus of \$4.8 billion.

15. CONTINGENCIES

The municipality is a member of the Alberta Municipal Insurance Exchange (MUNIX). Under the terms of membership, the City 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.

16. ARREARS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The municipality received the final payment from PSPC (Public Services and Procurement Canada) for the PILT (Payment in Lieu of Taxes) in February 2017. There is disputed balance of \$3,422,543 (2017 - \$2,962,914) between the municipality and PSPC and the total disputed shortfall amount of \$16,215,016 included in allowance for doubtful accounts is being appealed. The significant increase in both Arrears and Allowance for doubtful accounts (Note 3) is due to an allowance for PILT.

17. TAXATION REVENUE

The municipality expected a substantial decrease in taxation revenue expected from Cold Lake Air Weapons Range (Improvement District No. 349) in future years beginning in 2018. The taxation revenue was initially based on a memorandum of understanding to achieve the sustainability objective of the municipality. The actual amount of the decrease in taxation revenue for the year is \$9.272 million.

18. INTEREST RATE RISK

Certain debt bears interest which fluctuates with the prime rate, as described in Note 5 and Note 8, thus exposing the City to interest rate fluctuations.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

19. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

Alberta environmental law requires closure and post-closure care of landfill sites, which includes final covering and landscaping, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspections and maintenance.

Construction of the transfer station has been completed in conjunction with the Beaver River Waste Management Commission and is presently being operated by the City. The City will determine the estimated costs of closure and post-closure of the landfill site and had budgeted to fund \$500,000 of the closure through a debenture.

There is presently inadequate information available to determine the accrued liability related to the cost of closure and post-closure care for the landfill site. Neither the estimated total landfill capacity nor the remaining landfill capacity is known, either at the year end date or at the date of the Auditors' Report.

20. CONTAMINATED SITES LIABILITY

The municipality adopted PS3260 Liability for Contaminated Sites. The municipality did not identify any financial liabilities in 2018 (2017 - nil) as a result of this standard.

21. FINANCIAL INSTRUMENTS

The municipality's financial instruments consist of cash and temporary investments, taxes and grants in place of taxes, trade and other accounts receivables, investments, accounts payable and accrued liabilities, deposit liabilities, deferred revenues, employee benefit obligation, and long-term debt. It is management's opinion that the municipality is not exposed to significant interest or currency risks arising from these financial instruments.

The municipality is subject to credit risk with respect to taxes and grants in place of taxes and other receivables and other receivables. Credit risk arises from the possibility that taxpayers and entities to which the municipality 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.

Unless otherwise noted, the carrying value of the financial instruments approximates fair value.

22. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by Council and Management.