

**CITY OF COLD LAKE
FINANCIAL STATEMENTS**

DECEMBER 31, 2012

CITY OF COLD LAKE

FINANCIAL STATEMENTS

December 31, 2012

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AUDITORS' REPORT

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

We have audited the financial statements of the **City of Cold Lake**, which comprise the **Statement of Financial Position** as at December 31, 2012, and the **Statement of Operations, Statement of Change in Net Financial Assets (Debt)** and the **Statement of Cash Flows** for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of these 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 misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the City of Cold Lake as at December 31, 2012 and the results of its operations, the change in its net financial assets (debt) and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Edmonton, Alberta
April 8, 2013

A handwritten signature in black ink, appearing to read "Faber LLP".

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CITY OF COLD LAKE

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

	Note Reference	2012	2011 Restated
FINANCIAL ASSETS			
Cash and Short-term Deposits	2	\$ 7,606,697	\$ 17,580,575
Taxes and Grants in Place of Taxes	3	822,146	830,807
Other Accounts Receivable		4,473,875	5,323,570
Land Held for Resale		1,433,200	1,792,000
Long-term Investments	4	25,216,018	14,002,975
		39,551,936	39,529,927
		\$ 39,551,936	\$ 39,529,927
LIABILITIES			
Accounts Payable and Accrued Liabilities		\$ 9,058,709	\$ 9,285,701
Deposit Liabilities		888,952	1,479,641
Deferred Revenue	6	4,846,672	10,173,174
Employee Benefit Obligations	7	586,244	604,265
Long-term Debt	8	29,108,115	19,707,934
		44,488,692	41,250,715
NET FINANCIAL DEBT		(4,936,756)	(1,720,788)
NON-FINANCIAL ASSETS			
Tangible Capital Assets		200,729,336	175,155,884
Inventory of Supplies and Materials		302,934	204,127
Prepaid Expenses		10,965	22,197
		201,043,235	175,382,208
ACCUMULATED SURPLUS (Schedule 1)	11	\$196,106,479	\$173,661,420

Contingencies - See Note 14.

CITY OF COLD LAKE
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget	2012	2011
	(Unaudited)		Restated
Revenues			
Development Levies	\$ -	\$ 841,593	\$ 745,283
Fines	120,000	200,037	110,361
Franchise and Concession Contracts	716,000	702,554	661,029
Government Transfers (Schedule 4)	1,155,756	1,335,807	1,360,633
Licenses and Permits	418,000	518,921	410,191
Net Taxes Available for Municipal Purposes (Schedule 3)	18,629,054	25,956,675	15,740,622
Other	182,750	354,150	232,412
Penalties and Costs on Taxes	172,000	254,346	208,931
Rentals	745,800	721,733	685,772
Return on Investments	80,000	875,771	406,930
Sales and User Charges	6,261,170	6,635,224	6,394,318
Total Revenues	28,480,530	38,396,811	26,956,482
Expenses (Schedule 5)			
Administration	3,558,115	3,325,345	2,814,521
Amortization of Tangible Capital Assets	-	4,531,662	4,588,638
Fire and Emergency Services	729,796	671,114	609,718
Legislative	361,300	358,899	336,526
Other	3,633,706	690,000	32,500
Planning and Development	1,309,257	1,409,777	1,177,978
Police and By-law Enforcement	2,445,461	2,242,097	2,247,740
Public Health and Welfare	666,929	881,156	813,771
Recreation and Culture	5,080,107	5,007,651	3,964,818
Transportation Systems	4,997,056	4,088,502	3,922,211
Utility Systems	5,698,803	5,475,956	6,343,968
Loss on disposal of assets	-	5,359	378,688
Total Expenses	28,480,530	28,687,518	27,231,077
Excess (Deficiency) of Revenues Over Expenses Before			
Other	-	9,709,293	(274,595)
Other			
Government Transfers for Capital (Schedule 4)	-	11,402,964	11,633,105
Public Contributions for Capital	-	1,332,802	4,159,389
Excess (Deficiency) of Revenues Over Expenses	-	22,445,059	15,517,899
Accumulated Surplus, Beginning of Year, as Previously Stated	-	172,823,940	158,143,521
Prior Period Adjustment (Note 18)	-	837,480	-
Accumulated Surplus, Beginning of Year, Restated	-	173,661,420	-
Accumulated Surplus, End of Year (Schedule 1)	\$ -	\$ 196,106,479	\$ 173,661,420

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED ACCOUNTANTS

CITY OF COLD LAKE

STATEMENT OF CHANGE IN NET FINANCIAL DEBT
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
		Restated
Excess of Revenues Over Expenses	\$ 22,445,059	\$ 15,517,899
Acquisition of Tangible Capital Assets	(30,160,475)	(18,596,139)
Disposal of Tangible Capital Assets	55,360	1,088,388
Amortization of Tangible Capital Assets	4,531,662	4,588,638
	(25,573,453)	(12,919,113)
Acquisition of Supplies Inventories	(98,808)	(54,184)
Acquisition of Prepaid Assets	11,234	8,647
	(87,574)	(45,537)
Increase (Decrease) in Net Debt	(3,215,968)	2,553,249
Net Financial Debt, Beginning of Year	(1,720,788)	(4,274,037)
Net Financial Debt, End of Year	\$ (4,936,756)	\$ (1,720,788)

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED ACCOUNTANTS

CITY OF COLD LAKE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011 Restated
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Excess of Revenues Over Expenditures	\$ 22,445,059	\$ 15,517,899
Add (Deduct) Non-cash Items		
Amortization of tangible capital assets	4,531,662	4,588,638
Decrease (Increase) in taxes and grants in place of taxes receivable	8,661	(209,204)
Decrease (Increase) in other accounts receivable	849,695	(3,123,956)
Decrease in prepaid expenses	11,232	8,647
Decrease in land held for resale	358,800	343,800
Increase in inventories	(98,808)	(54,184)
(Decrease) Increase in accounts payable and accrued liabilities	(226,993)	2,419,312
(Decrease) Increase in deposit liabilities	(590,689)	737,946
Increase in deferred revenue	(5,326,499)	(2,194,174)
(Increase) Decrease in employee benefit obligations	(18,021)	120,554
	21,944,099	18,155,278
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Acquisition of tangible capital assets	(30,160,475)	(18,596,139)
Sale of tangible capital assets	55,360	1,088,388
	(30,105,115)	(17,507,751)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Increase in long-term investments	(11,213,043)	(9,484,826)
	(11,213,043)	(9,484,826)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Increase (Decrease) in long-term debt	8,222,082	(2,111,367)
Interest paid on long-term debt	1,178,099	966,636
	9,400,181	(1,144,731)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,973,878)	(9,982,030)
NET CASH AND CASH EQUIVALENTS, beginning of year	17,580,575	27,562,605
NET CASH AND CASH EQUIVALENTS, end of year	\$ 7,606,697	\$ 17,580,575
NET CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash and Short-term Deposits (Note 2)	\$ 7,606,697	\$ 17,580,575
	\$ 7,606,697	\$ 17,580,575

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED ACCOUNTANTS

CITY OF COLD LAKE

SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2012	2011 Restated
BALANCE, BEGINNING OF YEAR, AS PREVIOUSLY STATED	\$ 10,693,402	\$ 7,520,068	\$154,610,470	\$172,823,940	\$158,143,521
Prior Period Adjustment (Note 18)	-	-	837,480	837,480	-
BALANCE, BEGINNING OF YEAR, AS RESTATE	10,693,402	7,520,068	155,447,950	173,661,420	158,143,521
Excess of revenues over expenses	22,445,059	-	-	22,445,059	15,517,899
Unrestricted funds designated for future use	(10,834,449)	10,834,449	-	-	-
Restricted funds used for operations	1,966,139	(1,966,139)	-	-	-
Restricted funds used for tangible capital assets	-	(690,000)	690,000	-	-
Current year funds used for tangible capital assets	(28,702,884)	-	28,702,884	-	-
Contributed tangible capital assets	(767,590)	-	767,590	-	-
Disposal of tangible capital assets (net of amortization)	55,360	-	(55,360)	-	-
Annual amortization expense	4,531,662	-	(4,531,662)	-	-
Debtenture purchases	10,750,000	-	(10,750,000)	-	-
Long term debt repaid	(1,349,819)	-	1,349,819	-	-
Change in accumulated surplus	(1,906,522)	8,178,310	16,173,271	22,445,059	15,517,899
BALANCE, END OF YEAR	\$ 8,786,880	\$ 15,698,378	\$171,621,221	\$196,106,479	\$173,661,420

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED ACCOUNTANTS

CITY OF COLD LAKE

SCHEDULE OF TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Land	Land Improvement	Buildings	Engineered Structures	Work in Progress	Machinery and Equipment	Vehicles	2012	2011 Restated
COST:									
BALANCE, BEGINNING OF YEAR	\$35,933,500	\$1,316,545	\$22,436,023	\$196,911,097	-	\$3,867,865	\$3,803,550	\$264,268,580	\$247,856,446
Reclassification	-	-	655,228	(1,542,959)	-	887,731	-	-	-
Work In Progress	-	-	-	(37,521,808)	37,521,808	-	-	-	-
BALANCE (restated), BEGINNING OF YEAR	35,933,500	1,316,545	23,091,251	157,846,330	37,521,808	4,755,596	3,803,550	264,268,580	247,856,446
Acquisition of tangible capital assets	654,690	2,315,389	146,081	2,741,858	22,335,299	1,671,955	295,204	30,160,475	4,543,269
Construction-in-progress	-	-	-	-	-	-	-	-	14,052,870
Write down of tangible capital assets	-	-	-	(246,040)	-	(220,447)	-	(466,487)	-
Adjustments	-	-	-	168,440	-	-	-	168,440	(2,184,005)
BALANCE, END OF YEAR	36,588,190	3,631,934	23,237,332	160,510,587	59,857,107	6,207,103	4,098,754	294,131,007	264,268,580
ACCUMULATED AMORTIZATION:									
BALANCE, BEGINNING OF YEAR	-	1,253,624	4,399,578	79,299,424	-	2,506,318	1,653,752	89,112,696	85,619,675
Reclassification	-	(602,245)	-	-	-	602,245	-	-	-
BALANCE (restated), BEGINNING OF YEAR	-	651,379	4,399,578	79,299,424	-	3,108,563	1,653,752	89,112,696	85,619,675
Annual amortization	-	53,510	575,958	3,463,831	-	337,549	269,256	4,700,103	4,588,638
Accumulated amortization on disposals	-	-	-	(190,681)	-	(220,447)	-	(411,128)	(1,095,617)
BALANCE, END OF YEAR	-	704,890	4,975,536	82,572,573	-	3,225,665	1,923,008	93,401,671	89,112,696
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$36,588,190	\$2,927,044	\$18,261,796	\$77,938,014	\$59,857,107	\$2,981,438	\$2,175,746	\$200,729,336	\$175,155,884
2011 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$35,933,500	\$62,921	\$18,690,672	\$116,957,445	-	\$1,361,547	\$2,149,799	\$175,155,884	

The accompanying notes are an integral part of these financial statements.

FABER LLP,
CHARTERED ACCOUNTANTS

CITY OF COLD LAKE

SCHEDULE OF TAXES LEVIED
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget (Unaudited)	2012	2011
Taxation			
Real Property Taxes	\$ 18,759,441	\$ 26,019,236	\$ 16,424,473
Linear Property Taxes	263,881	339,596	263,881
Government Grants in Place of Property Taxes	4,413,856	4,413,856	3,318,709
Local Improvements	235,064	252,992	256,631
	23,672,242	31,025,680	20,263,694
Requisitions			
Alberta School Foundation Fund	4,931,720	4,956,928	4,429,001
Bonnyville District Foundation	111,468	112,077	94,071
	5,043,188	5,069,005	4,523,072
Net Taxes Available for Municipal Purposes	\$ 18,629,054	\$ 25,956,675	\$ 15,740,622

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED ACCOUNTANTS

CITY OF COLD LAKE

SCHEDULE OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget (Unaudited)	2012	2011
Transfers for Operating:			
Provincial Government	\$ 759,012	\$ 766,050	\$ 842,911
Federal Government	312,000	311,392	311,392
Other Local Governments	84,744	258,365	206,330
	1,155,756	1,335,807	1,360,633
Transfers for Capital:			
Provincial Government	-	11,402,964	11,633,105
Total Government Transfers	\$ 1,155,756	\$ 12,738,771	\$ 12,993,738

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED ACCOUNTANTS

CITY OF COLD LAKE

SCHEDULE OF EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget (Unaudited)	2012	2011
Expenses			
Salaries, Wages and Benefits	\$ 11,096,875	\$ 9,664,604	\$ 8,374,914
Contracted and General Services	5,655,338	5,713,674	4,948,332
Materials, Goods, Supplies and Utilities	2,988,937	2,813,763	2,598,484
Purchases from Other Governments	3,544,400	3,527,690	3,392,512
Provision for Allowances	8,000	-	-
Transfers to Other Governments	-	-	17,336
Transfers to Local Boards and Agencies	-	-	308,200
Transfers to Individuals and Organizations	1,124,393	1,174,838	1,590,746
Interest on Capital Long-term Debt	1,332,797	1,178,099	966,636
Bank Charges and Short-term Interest	31,000	29,464	22,316
Other Expenditures	2,698,790	48,365	44,275
Amortization of Tangible Capital Assets	-	4,531,662	4,588,638
Loss on disposal of tangible capital assets	-	5,359	378,688
Total Expenses	\$ 28,480,530	\$ 28,687,518	\$ 27,231,077

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED ACCOUNTANTS

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

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 Canadian Institute of Chartered Accountants. 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, 2012

(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) *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.

(i) *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.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

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	10-40
Water system	50
Wastewater system	50
Other engineered structures	5-30
Machinery and equipment	10
Vehicles	10-25

No annual amortization is charged in the year of acquisition however, a full year will be amortized in the year of disposition. 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 but are disclosed.

2. CASH AND SHORT-TERM DEPOSITS

	2012	2011
Cash Floats and Undeposited Receipts	\$ 2,400	\$ 2,600
Bank Accounts	7,604,297	7,390,477
Term Deposits and Guaranteed Investment Certificates	-	10,187,498
	\$ 7,606,697	\$ 17,580,575

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

3. TAXES AND GRANTS IN PLACE OF TAXES AND OTHER RECEIVABLES

	2012	2011
Current taxes and grants in place of taxes	\$ 1,284,146	\$ 973,007
Non-current taxes and grants in place of taxes	-	(92,200)
	1,284,146	880,807
Less allowance for doubtful accounts	(462,000)	(50,000)
	\$ 822,146	\$ 830,807

4. LONG-TERM INVESTMENTS

	2012	2011
Shares, Alberta Municipal Finance Corporation	\$ 40	\$ 40
Shares, Lakeland Credit Union	10,028	10,028
Ontario Hydro coupon bond, annual equivalent yield rate of 4.17%, maturing April 11, 2017	200,172	192,159
CPN C.I.B.C coupon bonds, annual equivalent yield rate of 6.00%, maturing on December 6, 2015	226,757	213,922
RES C.I.B.C. coupon bonds, annual equivalent yield of 3.15%, maturing on November 2, 2015	2,229,410	2,162,301
RES Bank of Montreal coupon bonds, annual equivalent yield of 4.87%, maturing on April 22, 2015	292,525	278,940
CPN Bank of Montreal coupon bonds, annual equivalent yield of 6.17%, maturing on September 28, 2016	473,338	445,832
Renaissance High Interest Account yield rate of 1.78%	4,282,109	3,878,149
Province of Nova Scotia coupon bonds, annual equivalent yield rate of 2.00%, maturing January 10, 2022	922,000	-
Scotiabank Capital Trust coupon bonds, annual equivalent yield rate of 6.28%, maturing June 30, 2013	14,689,714	-
TD Capital Trust III coupon bonds, annual equivalent yield rate of 7.24%, maturing on December 29, 2049	883,765	-
RBC Investment Savings Account yield rate of 1.78%	1,006,160	-
Bank of Nova Scotia coupon bonds, annual equivalent yield rate of 4.63%, maturing December 31, 2012	-	878,890
Province of Manitoba coupon bonds, annual equivalent yield rate of 2.5%, maturing on January 1, 2012	-	913,128
B2B Trust High Interest Account yield rate of 1.78%	-	5,029,586
	\$ 25,216,018	\$ 14,002,975

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

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 (2011 - nil).

6. DEFERRED REVENUE

	2012	2011
Prepaid Local Improvement Charges	\$ 66,748	\$ 84,674
Municipal Sustainability Initiative	-	1,536,723
Affordable Housing Grant	351,145	351,145
Provincial Special Grant Highway 28	-	4,531,691
Alberta Municipal Infrastructure Program	963,084	963,084
Basic Capital Grant	1,434,083	1,526,351
NDCC/Fed Gas	59,432	984,432
Water/Sewer Special Grant - Province	1,438,970	-
Other Deferred Revenue	533,210	195,074
Deferred Revenue	4,779,924	10,088,500
	\$ 4,846,672	\$ 10,173,174

Prepaid Local Improvement Charges

Prepaid local improvement charges are being amortized to revenue at rates ranging from \$123 to \$7,529 per year over the next 1 to 16 years.

Deferred Revenue

Deferred revenue represents amounts received which will be taken into revenue in the period in which they are earned and corresponding expenditures are incurred. Unexpended funds related to the advance are supported by investments held for these projects.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

7. EMPLOYEE BENEFIT OBLIGATIONS

	2012	2011
Vacation and Overtime	\$ 586,244	\$ 604,265

Vacation and Overtime

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.

8. LONG-TERM DEBT

	2012	2011
Tax Supported Debentures	\$ 29,108,115	\$ 19,707,934
	<u>\$ 29,108,115</u>	<u>\$ 19,707,934</u>

The current portion of the long-term debt amounts to \$1,304,604 (2011 - \$1,209,064).

Principal and interest payments are as follows:

	Principal	Interest	Total
2013	\$ 1,304,604	\$ 1,194,648	\$ 2,499,252
2014	1,289,592	1,136,920	2,426,512
2015	1,285,970	1,078,072	2,364,042
2016	1,341,702	1,022,340	2,364,042
2017	1,399,911	964,131	2,364,042
Thereafter	<u>22,486,336</u>	<u>6,757,413</u>	<u>29,243,749</u>
	<u>\$ 29,108,115</u>	<u>\$ 12,153,524</u>	<u>\$ 41,261,639</u>

Debenture debt is payable to the Alberta Capital Finance Authority and bears interest at rates ranging from 3.046% to 9.63% per annum, before Provincial subsidy, and matures in various amounts between 2012 through 2030. The average annual interest rate is 7.20% for 2012 (7.21% for 2011). 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 \$1,178,099 (2011 - \$966,636).

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

9. DEBT LIMITS

Section 276(2) of the Municipal Government Act requires that debt limits as defined by Alberta Regulation 255/00 for the City of Cold Lake be disclosed as follows:

	2012	2011
Total long-term debt limit	\$ 55,591,506	\$ 38,393,774
Total long-term debt actual	29,108,115	19,707,934
Amount of debt limit unused	\$ 26,483,391	\$ 18,685,840
Debt servicing limit	\$ 9,265,251	\$ 6,398,962
Debt servicing actual	2,499,252	2,128,297
Amount of debt servicing limit unused	\$ 6,765,999	\$ 4,270,665

The debt limit is calculated at 1.5 times revenue of the municipality (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 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, 2012

10. EQUITY IN TANGIBLE CAPITAL ASSETS

	2012	2011
Tangible Capital Assets (Schedule 2)	\$ 294,131,007	\$ 264,268,580
Accumulated Amortization (Schedule 2)	(93,401,671)	(89,112,696)
Long-term Debt (Note 8)	(29,108,115)	(19,707,934)
	\$ 171,621,221	\$ 155,447,950

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

11. ACCUMULATED SURPLUS

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

	2012	2011
Restricted surplus by agreement or legislation:		
MD waterline	\$ 54,036	\$ 34,296
CLR3	-	-
Slope remediation	333,255	933,255
Offsites	3,149,357	1,867,504
Storm Pond	175,000	175,000
Provincial grants (2008)	27,392	117,392
Developer Contribution	385,678	385,678
Municipal reserve	132,648	132,648
	4,257,366	3,645,773
Internally Restricted:		
Corporate Services	63,000	63,000
Annexation Analysis	29,268	100,000
Bench Marketing Project	30,000	-
Non Profit Groups	151,136	295,677
Waste/Water Systems	3,105,267	-
General Storm	762,430	42,140
IST	277,066	300,411
Municipal Development Plan	75,000	-
Photo Radar Initiative	40,112	-
Snow Removal	214,000	214,000
Airport	191,250	66,250
Waste Landfill	295,053	217,897
Cemetery	7,850	7,850
Parks and Sportsfields	730,271	118,986
Trail Maintenance	75,000	-
Arena Replacement	2,090,000	-
EDC Air Expansion	6,026	6,026
Vehicles and Equipment	968,446	717,859
Roads	1,347,998	452,722
Sidewalk Project	200,000	-
Lights	51,500	51,500
Buildings	586,561	586,561
Water	123,278	123,278
Electronic Sign	20,500	69,878
	11,441,012	3,434,035
Total Restricted	15,698,378	7,079,808
Total Unrestricted Funds	8,786,880	11,133,662
Restricted and unrestricted total	24,485,258	18,213,470
Equity in tangible capital assets (Note 10)	171,621,221	155,447,950
ACCUMULATED SURPLUS	\$196,106,479	\$173,661,420

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

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)	2012 Total	2011 Total
Mayor	Craig Copeland	\$ 48,412	\$ 1,448	\$ 49,860	\$ 51,836
	Subsistence	-	-	7,801	11,958
Councillors:	Robert Buckle	33,037	943	33,980	31,421
	Duane Lay	29,550	826	30,376	25,960
	Kelvin Plain	24,487	661	25,148	26,435
	Vicky Lefebvre	26,512	726	27,238	30,027
	Darrell MacDonald	25,836	703	26,539	25,727
	Chris Vining	26,625	731	27,356	28,284
	Subsistence	-	-	26,956	40,068
Chief Administrative Officer	Kevin Nagoya	185,585	35,801	221,386	227,969
		\$ 400,044	\$ 41,839	\$ 476,640	\$ 499,685

- (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.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

13. 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 about 200,000 people and 428 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 9.91% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.74% for the excess. Employees of the municipality are required to make current service contributions of 8.91% of pensionable salary up to the year's maximum pensionable salary and 12.74% for the excess.

Total current service contributions by the municipality to the Local Authorities Pension Plan in 2012 were \$568,337 (2011 - \$498,860). Total current service contributions by the employees of the municipality to the Local Authorities Pension Plan in 2012 were \$515,278 (2011 - \$450,082).

14. 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.

15. 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.

16. 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.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

17. FINANCIAL INSTRUMENTS

The municipality's financial instruments consist of cash and short-term deposits, taxes and grants in place of taxes, other accounts receivable, long-term investments, accounts payable and accrued liabilities, deposit liabilities, 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.

18. PRIOR PERIOD ADJUSTMENTS

In the prior year, the City airport and its additions were not capitalized. The cost of the land portion of the airport is \$818,400 and the building portion is \$19,080. The total cost of tangible capital assets understated in the prior year is \$837,480. In Schedule 2 the prior year has been restated to account for the change.

19 COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

20. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by Council and Management.
