

City of Lacombe
Consolidated Financial Statements
For the year ended December 31, 2018

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Consolidated Financial Statements
For the year ended December 31, 2018

Contents

Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position	2
Consolidated Statement of Operations	3
Consolidated Statement of Change in Net Financial Debt	4
Consolidated Statement of Cash Flows	5
Summary of Significant Accounting Policies	6 - 9
Notes to the Consolidated Financial Statements	10 - 29



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Independent Auditor's Report

To the Mayor and Council of the City of Lacombe

Opinion

We have audited the consolidated financial statements of City of Lacombe and its controlled or owned organizations (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of operations, consolidated statement of changes in net financial debt, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and its consolidated financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Independent Auditor's Report, continued

- obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants,
Red Deer, Alberta
April 23, 2019

City of Lacombe
Consolidated Statement of Financial Position

December 31	2018	2017
Financial assets		
Cash and cash equivalents (Note 1)	\$ 3,080,371	\$ 10,248,612
Short-term investment (Note 2)	18,000,000	-
Taxes receivable (Note 3)	854,003	761,112
Accounts receivable (Note 4)	5,786,134	4,420,470
Inventory held for resale	3,798,839	3,798,839
	31,519,347	19,229,033
Liabilities		
Accounts payable and accrued liabilities	2,343,856	3,267,584
Employee benefit obligation (Note 5)	728,721	718,174
Deposit liabilities	3,398,725	3,070,363
Deferred revenue (Note 6)	7,398,472	4,099,455
Long-term debt (Note 7)	21,543,370	16,176,619
	35,413,144	27,332,195
Net debt	(3,893,797)	(8,103,162)
Non-financial assets		
Tangible capital assets (Note 8)	165,761,128	167,787,856
Inventory for consumption	335,372	306,337
Prepaid expenses	40,374	50,210
	166,136,874	168,144,403
Accumulated surplus (Note 10)	\$ 162,243,077	\$ 160,041,241
Debenture debt limits (Note 16)		

City of Lacombe
Consolidated Statement of Operations

For the year ended December 31	Budget 2018	2018	2017
Revenue			
Net municipal taxes (Note 11)	\$ 14,241,889	\$ 14,177,606	\$ 13,726,614
Government transfers (Note 12)	20,890,434	3,974,639	7,223,466
Sales and user fees	13,089,961	12,185,803	10,812,899
Rental revenue	261,967	255,185	251,308
Franchises and concessions	1,190,474	1,105,564	1,179,164
Return on investments	125,955	234,707	73,522
Penalties and costs on taxes	226,144	243,834	204,607
Fines	322,455	251,012	273,532
Licenses and permits	449,800	437,547	474,712
Development levies	-	2,445,623	753,669
Contributed assets	-	175,000	-
Other	1,674,849	1,239,164	446,771
	<u>52,473,928</u>	<u>36,725,684</u>	<u>35,420,264</u>
Expenditures (Note 13)			
General government services	3,412,579	3,482,104	3,242,204
Protective services	5,614,196	5,736,299	5,019,370
Transportation services	7,313,686	7,127,955	7,206,616
Water, wastewater and waste management	9,812,716	9,722,094	7,456,998
Environmental development services	1,620,444	1,577,976	1,649,933
Recreation and culture services	6,378,609	6,303,631	5,980,603
Public health and welfare	574,431	573,788	553,671
	<u>34,726,661</u>	<u>34,523,847</u>	<u>31,109,395</u>
Excess of revenue over expenditures	<u>17,747,267</u>	<u>2,201,837</u>	<u>4,310,869</u>
Accumulated surplus, beginning of the year	<u>160,041,240</u>	<u>160,041,240</u>	<u>155,730,371</u>
Accumulated surplus, end of year	<u>\$ 177,788,507</u>	<u>\$ 162,243,077</u>	<u>\$ 160,041,240</u>

City of Lacombe
Consolidated Statement of Change in Net Financial Debt

For the year ended December 31	Budget 2018	2018	2017
Excess of revenue over expenditures	\$ 17,747,267	\$ 2,201,837	\$ 4,310,869
Acquisition of tangible capital assets	(22,919,946)	(4,190,139)	(13,716,125)
Amortization of tangible capital assets	5,848,919	6,072,628	5,848,919
Net (gain) loss on sale of tangible capital assets	-	28,022	(82,701)
Proceeds on sale of tangible capital assets	-	116,218	154,067
	676,240	4,228,566	(3,484,971)
Change in prepaid expenses	-	9,836	(31,710)
Use/consumption of inventory of supplies	-	(29,037)	47,341
Net change in net debt	676,240	4,209,365	(3,469,340)
Net debt, beginning of year	(8,103,162)	(8,103,162)	(4,633,822)
Net debt, end of year	\$ (7,426,922)	\$ (3,893,797)	\$ (8,103,162)

City of Lacombe
Consolidated Statement of Cash Flows

For the year ended December 31	2018	2017
Operating transactions		
Excess of revenue over expenditures	\$ 2,201,837	\$ 4,310,869
Items not involving cash		
Contributed assets	(175,000)	-
Amortization	6,072,628	5,848,919
Net loss (gain) on disposal of tangible capital assets	28,022	(82,701)
Changes in non-cash operating balances		
Taxes receivable	(92,891)	(288,833)
Accounts receivable	(1,365,664)	7,980,690
Inventory held for resale	-	(150)
Prepaid expenses	9,836	31,711
Accounts payable and accrued liabilities	(923,730)	(3,514,079)
Inventory for consumption	(29,035)	(16,081)
Employee benefit obligation	10,547	(154,768)
Deposit liabilities	328,362	(180,141)
Deferred revenue	3,299,017	(1,265,919)
	9,363,929	12,669,517
Capital transactions		
Acquisition of tangible capital assets	(4,015,139)	(13,716,125)
Proceeds on sale of tangible capital assets	116,218	154,067
	(3,898,921)	(13,562,058)
Investing transactions		
Change of investments	(18,000,000)	-
Restricted cash balances	(3,325,361)	3,098,049
	(21,325,361)	3,098,049
Financing transactions		
Proceeds from issuance of debt	6,852,000	3,765,931
Repayment of debt	(1,485,249)	(1,195,247)
	5,366,751	2,570,684
Net change in cash and cash equivalents	(10,493,602)	4,776,192
Cash and cash equivalents, beginning of year	6,330,690	1,554,498
Cash and cash equivalents, end of year	\$ (4,162,912)	\$ 6,330,690
Cash and cash equivalents is comprised of:		
Cash and cash equivalents	\$ 3,080,371	\$ 10,248,612
Less: restricted (Note 1)	(7,243,283)	(3,917,922)
	\$ (4,162,912)	\$ 6,330,690

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

City of Lacombe
Summary of Significant Accounting Policies

December 31, 2018

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

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

Reporting Entity

The financial statement reflect the assets, liabilities, revenue and expenditures, changes in funds balances and change in financial position of the reporting entity. This entity is comprised of the municipal operations plus all of the organizations owned or control by the City and are, therefore, accountable to the City Council for the administration of their financial affairs and resources.

Included in the municipality is the City of Lacombe Police Department, the City of Lacombe Fire Department and the Lacombe Public Library.

The schedule of property taxes levied also includes requisitions for education and seniors' housing that are not part of the municipal reporting entity.

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

Basis of Accounting

Revenue and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable. Expenses are recognized in the period goods and services are acquired and a liability is incurred or transfers due.

Funds from external parties and earning 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.

Expenditures are recognized in the period the goods or services are acquired and a liability is incurred or transfers are due.

Investments

Investments are recorded at amortized cost. Investment premiums and discounts are amortized using the effective interest rate method over the term of the respective investments. When there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

City of Lacombe
Summary of Significant Accounting Policies

December 31, 2018

Land held for Resale Land held for resale is recorded at lower of cost or net realizable value. Cost includes costs for land acquisition and improvements required to prepare the land for servicing such as clearing, stripping and leveling charges. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks and street lighting are recorded as physical assets under their respective function.

Inventory of Supplies Inventories of materials and supplies for consumption are valued at the lower of cost or replacement cost.

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

Tangible Capital Assets

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue. Amortization is recorded on a straight-line basis over the estimated life of the tangible capital asset commencing once the asset is available for productive use as follows:

Land improvements	15 to 40 years
Buildings	20 to 25 years
Engineered Structures	
Roadway system	15 to 60 years
Water system	30 to 75 years
Wastewater system	30 to 75 years
Storm Sewer	45 to 75 years
Machinery, equipment and furnishings	5 to 30 years
Vehicles	10 to 25 years

City of Lacombe
Summary of Significant Accounting Policies

December 31, 2018

Leased Assets Leases entered into that transfer substantially all the benefits and risks associated with ownership are recorded as the acquisition of a tangible capital asset and the incurrence of an obligation. The asset is amortized in a manner consistent with tangible capital assets owned by the City, and the obligation, including interest thereon, is liquidated over the term of the lease. All other leases are accounted for as operating leases, and the rental costs are expensed as incurred.

Prepaid Local Improvement Charges Construction and borrowing costs associated with local improvements projects are recovered through annual special assessments during the period of the related borrowings. These levies are collectible 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.

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, or the result of direct financial return.

Government transfers are recognized in the financial statements as revenue in the period 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.

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.

City of Lacombe
Summary of Significant Accounting Policies

December 31, 2018

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

**Liability for
Contaminated Sites**

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the organization is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring.

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

1. Cash and Cash Equivalents

	2018	2017
Cash	\$ 3,080,341	\$ 10,248,582
Temporary Investments	30	30
	\$ 3,080,371	\$ 10,248,612

The City has a line of credit with an authorized limit of \$3,500,000 at an interest rate of Bank Prime less 0.50%. Bank prime at year end was 3.20%. The City had not utilized this line of credit at year end. The line of credit is secured by a general security agreement, and overdraft agreement and a borrowing resolution passed by Council.

Included in the above amounts are restricted funds held exclusively for the following:

	2018	2017
Basic Municipal Transportation Grant	\$ -	\$ 9,760
Federal Gas Tax	726,399	118,409
Municipal Sustainability Initiative Grants	5,843,841	2,956,885
Municipal Sustainability Housing Grants	237,891	231,594
Other Provincial Government Grants	435,152	601,274
	\$ 7,243,283	\$ 3,917,922

2. Short-term Investments

	2018	2017
Guaranteed investment certificates, bearing interest at rates of 2.49% to 2.94% and maturing on dates ranging from July 2019 through October 2019.	\$ 18,000,000	\$ -

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

3. Taxes Receivable

	2018	2017
Current taxes and grants in place	\$ 648,056	\$ 657,560
Non-current taxes and grants in place	205,947	103,552
	<u>\$ 854,003</u>	<u>\$ 761,112</u>

4. Accounts Receivable

	2018	2017
Trade receivables	\$ 5,784,482	\$ 4,310,733
Receivables from Other Governments	1,652	109,737
	<u>\$ 5,786,134</u>	<u>\$ 4,420,470</u>

5. Employee Benefit Obligation

Accrued vacation pay	\$ 412,434	\$ 386,396
Accrued overtime	1,680	6,298
Accrued retirement benefits	138,616	147,631
Accrued sick leave	175,991	177,849
	<u>\$ 728,721</u>	<u>\$ 718,174</u>

The vacation and overtime liability is comprised of the vacation and overtime that employees are deferring to future years. Employees have either earned the benefits (and are vested) or are entitled to those benefits within the next budgetary year. Employees hired prior to February 28, 2011 with over 5 years of service are eligible for a retirement benefit based on 2.5 days per year of service to the date of retirement. Employees that meet the criteria in the policy will be eligible for these benefits in a future year. Sick leave benefits accumulate at a rate of 1.5 days per month to a maximum of 12 days per year. Sick leave benefits can be carried over from year to year to a maximum of 180 days, depending on years of service. Sick leave benefits are not paid out. The sick leave liability is estimated based on the estimated future utilization of sick leave accrued to year end.

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

6. Deferred Revenue

	2018	2017
Prepaid Local Improvement Charges	\$ 50,911	\$ 54,548
Deferred Grants	7,243,283	3,917,924
Other Deferred Revenue	104,278	126,983
	\$ 7,398,472	\$ 4,099,455

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

Prepaid local improvement charges are being amortized to revenue on a straight-line basis. Annual amortization for 2018 is \$3,637 (2017 -\$3,637)

Deferred grants consist of funds received during the year for eligible capital projects as approved by the Province, which are scheduled for completion in the future. These grants cannot be used for any other purpose but the designated capital project.

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

7. Long-Term Debt

Net long-term debt reported on the statement of financial position is comprised of the following:

	2018	2017
Alberta Capital Finance Authority Debt	17,125,561	11,940,119
Bank loans	4,417,809	4,236,500
	\$21,543,370	\$ 16,176,619

Principal and interest payments relating to net debt of \$21,543,370 outstanding are due as follows:

	Principal Repayments	Interest Payments	Total
2019	\$ 1,398,809	\$ 678,732	\$ 2,077,541
2020	1,256,030	675,828	1,931,858
2021	1,273,486	629,887	1,903,373
2022	1,228,265	583,624	1,811,889
2023	1,216,301	540,490	1,756,791
Thereafter	15,170,479	3,479,552	18,650,031
	\$ 21,543,370	\$ 6,588,113	\$ 28,131,483

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 3.058% to 5.39% per annum, before Provincial subsidy, and matures in periods 2018 to 2038. Debenture debt is issued on credit and security of the City at large.

The bank loans of \$4,417,809 is comprised of a promissory note to Servus Credit Union with interest being calculated at bank prime minus 0.50%. Annual equalized repayments are \$248,350 and interest is paid monthly. One loan is secured by a General Security Agreement dated October 1, 2001 under borrowing bylaw 276. In the event of default, all monies become due and payable at the discretion of the Credit Union.

Bank loans are secured by the credit and security of the City of Lacombe at large. The City of Lacombe anticipates future developer contributions will retire the current bank loan.

December 31, 2018

8. Tangible Capital Assets

								2018
	Land	Land Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	Work in Progress	Total
Cost, beginning of year	\$ 12,894,320	\$ 7,372,804	\$ 52,564,190	\$ 146,421,050	\$ 6,905,377	\$ 5,821,306	\$ 6,261,051	\$ 238,240,098
Additions	1,050	802,891	556,844	-	621,623	456,050	1,751,681	4,190,139
Change in Work in Progress	-	15,253	319,319	1,158,955	77,266	-	(1,570,793)	-
Write-downs & disposals	-	-	-	-	(371,635)	(308,465)	-	(680,100)
Cost, end of year	\$ 12,895,370	\$ 8,190,948	\$ 53,440,353	\$ 147,580,005	\$ 7,232,631	\$ 5,968,891	\$ 6,441,939	\$ 241,750,137
Accumulated amortization, beginning of year	\$ -	\$ 3,283,194	\$ 10,819,037	\$ 49,648,083	\$ 3,217,562	\$ 3,484,366	\$ -	\$ 70,452,242
Amortization	-	258,172	1,381,871	3,542,004	552,587	337,994	-	6,072,628
Write-downs & disposals	-	-	-	-	(256,740)	(279,121)	-	(535,861)
Accumulated amortization, end of year	\$ -	\$ 3,541,366	\$ 12,200,908	\$ 53,190,087	\$ 3,513,409	\$ 3,543,239	\$ -	\$ 75,989,009
Net carrying amount, end of year	\$ 12,895,370	\$ 4,649,582	\$ 41,239,445	\$ 94,389,918	\$ 3,719,222	\$ 2,425,652	\$ 6,441,939	\$ 165,761,128

December 31, 2018

8. Tangible Capital Assets (continued)

								2017
	Land	Land Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	Work in Progress	Total
Cost, beginning of year	\$ 12,336,621	\$ 6,970,057	\$ 35,817,527	\$ 142,323,735	\$ 6,225,022	\$ 5,774,750	\$ 15,472,779	\$ 224,920,491
Additions	281,576	-	-	-	947,293	176,136	12,311,120	13,716,125
Change in work in progress	276,123	402,747	16,746,663	4,097,315	-	-	(21,522,848)	-
Disposals	-	-	-	-	(266,938)	(129,580)	-	(396,518)
Cost, end of year	\$ 12,894,320	\$ 7,372,804	\$ 52,564,190	\$ 146,421,050	\$ 6,905,377	\$ 5,821,306	\$ 6,261,051	\$ 238,240,098
Accumulated amortization, beginning of year, restated	\$ -	\$ 2,935,758	\$ 9,718,120	\$ 46,048,589	\$ 2,931,180	\$ 3,294,828	\$ -	\$ 64,928,475
Amortization		347,436	1,100,917	3,599,494	483,485	317,587	-	5,848,919
Write-downs & disposals		-	-	-	(197,103)	(128,049)	-	(325,152)
Accumulated amortization, end of year	\$ -	\$ 3,283,194	\$ 10,819,037	\$ 49,648,083	\$ 3,217,562	\$ 3,484,366	\$ -	\$ 70,452,242
Net carrying amount, end of year	\$ 12,894,320	\$ 4,089,610	\$ 41,745,153	\$ 96,772,967	\$ 3,687,815	\$ 2,336,940	\$ 6,261,051	\$ 167,787,856

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

9. Equity in Tangible Capital Assets

	<u>2018</u>	<u>2017</u>
Tangible capital assets	\$ 241,750,137	\$ 238,240,098
Accumulated amortization	(75,989,009)	(70,452,242)
Long-term debt	(21,543,370)	(16,176,619)
	<u>\$ 144,217,758</u>	<u>\$ 151,611,237</u>

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

10. Accumulated Surplus

	2018	2017
Equity in tangible capital assets	\$ 144,217,758	\$ 151,611,237
Unrestricted surplus	11,879,117	5,589,002
	156,096,875	157,200,239
Restricted surplus		
General Capital Reserves	1,055,126	186,499
General Government Reserves	26,596	26,596
IT Equipment Replacement Reserve	(9,941)	(11,671)
Lacombe Police Reserve	295,420	121,074
Lacombe Fire Department	102,854	102,854
Safety Committee Reserve	33,723	33,723
Equipment Replacement Reserve	196,161	296,424
Streets and Road Reserve	1,922,327	1,542,829
Public Transportation Reserve	59,972	44,972
Storm Sewer Reserve	197,081	164,799
Water System Reserve	2,237,440	1,882,097
Wastewater System Reserve	1,551,798	1,481,220
Solid Waste Reserve	406,469	441,460
Cemetery Reserve	211,747	209,247
Economic Development Reserve	13,148	13,148
Offsite Levy Reserve	101,475	(2,141,354)
Land Held for Resale Reserve	(2,133,608)	(1,879,777)
Recreation Facility Reserve	(190,855)	250,937
Parks and Recreation Reserve	(98,346)	(118,346)
Municipal Dedication Reserve	155,123	155,123
Municipal Art Bank Reserve	12,492	39,148
	6,146,202	2,841,002
	\$ 162,243,077	\$ 160,041,241

The equity in tangible capital assets represents amounts already spent and invested in infrastructure. Restricted surplus represents funds set aside by bylaw or council resolution for specific purposes.

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

11. Taxation - Net

	Budget 2018	2018	2017
Real property	\$ 18,963,314	\$18,910,160	\$ 18,312,217
Linear property	134,945	133,741	132,676
Government grants in place of property taxes	110,910	111,141	111,600
Special assessments and local improvement taxes	18,495	18,495	20,311
	<u>19,227,664</u>	<u>19,173,537</u>	<u>18,576,804</u>
Requisitions			
Separate School Requisition	151,306	151,306	153,213
Alberta School Foundation Fund	4,720,934	4,731,021	4,584,262
Lacombe Foundation Requisition	113,535	113,604	112,715
	<u>4,985,775</u>	<u>4,995,931</u>	<u>4,850,190</u>
Available for general municipal purposes	<u>\$ 14,241,889</u>	<u>\$14,177,606</u>	<u>\$ 13,726,614</u>

12. Government Transfers

	Budget 2018	2018	2017
Operating			
General Government Services	\$ 26,016	\$ 73,241	\$ 28,432
Protective Services	679,565	661,532	709,471
Transportation Services	41,626	45,228	38,895
Waste Management Services	98,400	117,528	29,711
Family Community Support Services	331,914	333,234	317,914
Public Health and Welfare Services	15,540	15,540	22,905
Environmental Development Services	-	-	34,470
Recreation and Cultural Services	721,088	856,862	680,171
	<u>\$ 1,914,149</u>	<u>\$ 2,103,165</u>	<u>\$ 1,861,969</u>
Capital			
Protective Services	\$ 61,700	\$ 67,249	\$ 220,348
Transportation Services	8,926,901	1,260,920	1,788,415
Water and Wastewater Services	8,491,585	177,996	785,868
Recreation and Cultural Services	1,496,099	365,309	2,566,866
	<u>\$ 18,976,285</u>	<u>\$ 1,871,474</u>	<u>\$ 5,361,497</u>
Total government transfers	<u>\$ 20,890,434</u>	<u>\$ 3,974,639</u>	<u>\$ 7,223,466</u>

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

13. Expenditures by Object

	Budget 2018	2018	2017
Salaries and wages	\$ 13,349,009	\$ 13,258,691	\$ 12,733,537
Contracted and general services	6,794,842	7,417,905	5,011,730
Materials, goods and utilities	5,220,090	4,786,367	4,827,798
Transfer to local agencies	2,230,998	2,106,776	1,993,625
Transfer to individuals and organizations	139,339	140,946	142,504
Bank charges and short term interest	110,755	49,752	41,824
Interest on long-term debt	808,997	690,783	509,457
Amortization	6,072,631	6,072,628	5,848,918
	\$ 34,726,661	\$ 34,523,848	\$ 31,109,393

14. Municipal Employees Pension Plans

Local Authorities Pension Plan

Certain employees of the City are eligible to be members of the Local Authorities Pension Plan (LAPP), a multi-employer pension plan which is covered by the Public Sector Pension Plans Act. The Plan serves about 260,000 people and over 420 employers. It is financed by employer and employee contributions and investment earnings of the LAPP Fund. The plan provides defined pension benefits to employees based on their length of service and rates of pay.

The City contributes to the Plan at a rate of 10.39% of pensionable earnings up to the Canada Pension Plan Maximum Pensionable Earnings and 14.84% for the excess. Employees contribute to the Plan at a rate of 9.39% of pensionable earnings up to the Canada Pension Plan Maximum Pensionable Earnings and 13.84% for the excess.

Contributions for the year were:

	2018	2017
Employer contributions	\$ 770,343	\$ 834,089
Employee contributions	703,617	767,854
	\$ 1,473,960	\$ 1,601,943

As this is a multi-employer pension plan, these contributions are the City's pension benefit expense. No pension liability for this type of plan is included in the City's financial statements. The most recent valuation as at December 31, 2017 indicates a surplus of \$4,836 million (2016- deficit of \$637 million) for basic pension benefits. The actuary does not attribute portions of the unfunded liability to individual employers.

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

14. Municipal Employees Pension Plans (continued)

Alberta Urban Municipalities Association Apex Supplementary Pension Plan

Previously, any City of Lacombe employees that were in a position class as Level E or higher had the choice to participate in the APEX Supplementary Pension Plan, which is covered by the Alberta Employment Pensions Plan Act. Effective January 1, 2011 APEX is only available for those employees in a management position. APEX serves as an enhancement to the LAPP base pension, matches pensions provided to other public sector senior management and professional employees, and provides pensions that are reflective of total earnings.

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

The City of Lacombe is required to make current service contributions to APEX of 3.78% of the member's earnings up to the APEX earnings Maximum, which is \$144,722 for 2018.

Contributing employees of the City are required to make current service contributions of 2.84% of earnings up to the APEX Earnings Maximum

Contributions for the year were:

	2018	2017
Employer contributions	\$ 42,294	\$ 48,521
Employee contributions	31,776	36,455
	\$ 74,070	\$ 84,976

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

14. Municipal Employees Pension Plans (continued)

Special Forces Pension Plan

Municipal Police Officers of the City of Lacombe participate in the Special Forces Pension Plan (SFPP), which is covered by the Alberta Public Sector Pensions Plan Act. The Plan serves about 7,285 officers from seven municipalities. It is financed by employer and employee contributions and investments earnings of the SFPP fund.

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

The City of Lacombe was required to make current service contributions of 114.55% of pensionable salary for 2018.

Police Officers of the City were required to make current service contributions of 13.45% of pensionable salary for 2018.

Contributions for the year were:

	2018	2017
Employer contributions	\$ 273,600	\$ 237,455
Employee contributions	252,916	219,504
	<u>\$ 526,516</u>	<u>\$ 456,959</u>

As this is a multi-employer pension plan, these contributions are the City's pension benefit expense. No pension liability for this type of plan is included in the City's financial statements. The most recent valuation as at December 31, 2016 indicates a deficit of \$109 million for basic pension benefits. The actuary does not attribute portions of the unfunded liability to individual employers.

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

15. Salary and Benefits Disclosure

Disclosure of salaries and benefits for municipal officials and designated officers as required by Alberta Regulation 313/2000 is as follows:

	<u>Salary</u>	<u>Benefits & Allowances</u>	<u>Total 2018</u>	<u>Total 2017</u>
Mayor Christie	\$ -	\$ -	\$ -	\$ 47,823
Mayor Creasey	57,063	1,710	58,773	11,210
Councilor Konnik	24,671	641	25,312	25,211
Councilor Rempel	-	-	-	20,396
Councilor Armishaw	-	-	-	20,396
Councilor Harder	-	-	-	20,396
Councilor McQuesten	-	-	-	20,396
Councilor Gullekson	24,671	641	25,312	4,800
Councilor Hibbs	24,671	641	25,312	4,800
Councilor Jacobson	24,671	641	25,312	4,800
Councilor Ross	24,671	641	25,312	4,800
Councilor Hoekstra	24,671	641	25,312	4,800
Councilor Bouwsema	-	-	-	20,395
Chief Administration				
Officer Pollard	-	-	-	110,901
Chief Administration	-	-	-	51,748
Officer MacQuarrie				
Chief Administration	164,279	30,331	194,610	-
Officer Goudy				

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

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

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

16. Debt Limits

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

	2018	2017
Total debt limit	\$52,018,817	\$ 45,088,150
Total debt	21,543,370	16,176,619
Total debt limit available	30,475,447	28,911,531
Debt servicing limit	8,669,803	7,313,701
Debt servicing	2,077,541	1,698,443
Total debt servicing limit available	6,592,262	5,615,258

The debt limit is calculated at 1.5 times revenue of the City (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 which could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the municipality. Rather, the financial statements must be interpreted as a whole.

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

17. Budget

Municipal Affairs encourages the creation of a budget on the basis of Public Sector Accounting. The approved budget for 2018 was, however, created using the historical methods which reflects a balanced budget. Cash inflows and outflows includes such items as debt proceeds, transfers to and from reserves, and debt principal repayment. These items are not recognized as revenues and expenses in the Statement of Operations as they do not meet the Public Sector Accounting Standards requirement.

The approved Council budget does not include funding for non-cash items such as amortization or contributed assets. These items are recognized as revenues and expenses in the Statement of Operations as required by Public Sector Accounting Standards.

The following provides detail related to the differences between the Council approved budget and budget figures included with the financial statements.

	<u>2018 Budget</u>	<u>2018 Actual</u>	<u>2017 Actual</u>
EXCESS OF REVENUE OVER EXPENSES	17,747,267	2,201,837	4,310,869
Adjustments for non-cash items			
Contributed Assets	-	(175,000)	-
Amortization of Tangible Capital Assets	6,072,628	6,072,628	5,848,919
Loss (Gain) on Disposal of Tangible Capital Assets	-	28,022	(82,701)
Adjustments for cash items not recognized as revenue or expense			
Proceeds on Disposal of Tangible Capital Assets	-	116,218	154,067
Acquisition of Tangible Capital Assets	(22,919,946)	(4,015,139)	(13,716,125)
Long Term Debt Principal Payments	(1,547,825)	(1,485,249)	(1,195,247)
New Debt	-	6,852,000	3,765,931
Adjustments for Non-cash Items from Inter-Fund Allocations			
Transfer from Reserves	3,079,170	2,498,527	2,142,125
Transfer to Reserves	(2,431,294)	(5,243,970)	(3,407,967)
Council approved Balance	<u>-</u>	<u>6,849,874</u>	<u>(2,180,129)</u>
Operating Surplus	-	318,907	697,357
Capital Surplus (Deficit)	<u>-</u>	<u>6,530,967</u>	<u>(2,877,485)</u>
Total Surplus (Deficit)	-	6,849,874	(2,180,128)

December 31, 2018

18. Segmented Information

The City is a diversified municipal government institution that provides a wide range of services to its citizens. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

Protective Services

Protective services is comprised of police, bylaw enforcement and fire protection. This service area is responsible for the overall safety of the public through various prevention and enforcement activities.

Transportation Services

Transportation services is responsible for the delivery of municipal public works services related to the planning, development and maintenance of roadway systems, the maintenance of park and open space, and street lighting.

Water and Wastewater Services

Water and wastewater provides drinking water to the Town's citizens and collects and treats wastewater. The City processes and cleans sewage and ensures the water system meets all Provincial standards.

Waste Management Services

Waste management provides collection disposal and recycling programs.

Environmental Development Services

The planning department provides a number of services including town planning and enforcement of building and construction codes and review of all property development plans through its application process.

Recreation, Parks and Culture

This service area maintains recreation infrastructure such as parks, arenas, aquatic centres and community centres as well as provides recreational programs and cultural programs at those locations.

Public Health and Welfare

This service area provides and administers community support programs.

General Government

This service area includes legislative and administrative support to all other service areas and also relates to the revenues and expenses that relate to the operations of the City itself and cannot be directly attributed to a specific segment.

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

18. Segmented Information (continued)

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers have been eliminated. The revenues and expenses that are directly attributable to a particular segment are allocated to that segment. Taxation revenue has been allocated to general government except where specific tax revenues can be directly allocated to a service area.

December 31, 2018

18. Segmented Information (continued)

For the year ended December 31	Protective Services	Transportation Services	Water, Wastewater and Waste Management	Environmental Development Services	Recreation, Parks, Culture	Public Health and Welfare	General Government	2018 Total
Revenue								
Taxation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	14,177,606	\$ 14,177,606
Government transfers	688,450	1,305,519	295,524	15,540	1,222,171	333,234	114,201	3,974,639
Other	36,221	477,038	262,524	5,476	327,257	15,696	88,549	1,212,761
Sales and user fees	636,917	156,886	10,075,728	92,250	1,028,304	63,585	132,133	12,185,803
Franchises and concessions	-	-	-	-	-	-	1,105,564	1,105,564
Investment income	-	-	-	-	-	-	234,707	234,707
Penalties and costs on taxes	-	-	46,120	-	-	-	197,714	243,834
Rental Revenue	13,670	-	-	-	241,515	-	-	255,185
Licences and permits	171,614	30,495	-	261,841	-	-	-	463,950
Fines	251,012	-	-	-	-	-	-	251,012
Contributed assets	-	-	-	-	175,000	-	-	175,000
Offsite Levies	-	-	-	2,445,623	-	-	-	2,445,623
	<u>1,797,884</u>	<u>1,969,938</u>	<u>10,679,896</u>	<u>2,820,730</u>	<u>2,819,247</u>	<u>412,515</u>	<u>16,050,474</u>	<u>36,725,684</u>
Expenses								
Salaries and wages	4,373,414	1,571,500	1,246,956	836,073	2,747,593	89,266	2,393,889	13,258,691
Contracted and general services	447,235	524,448	5,563,385	100,463	339,125	14,063	429,186	7,417,905
Materials, goods and utilities	444,490	1,387,163	941,315	297,915	1,181,616	9,284	524,580	4,786,363
Transfer to local agencies	6,500	88,366	994,156	220,933	393,092	403,729	-	2,106,776
Transfers to individuals and organizations	-	96,939	-	-	9,007	35,000	-	140,946
Bank charges and short-term interests	1,436	-	8,958	-	15,318	-	24,040	49,752
Interest on long-term debt	87,909	93,750	85,766	101,727	313,526	-	8,105	690,783
Amortization	375,316	3,350,424	881,559	20,865	1,304,354	22,447	117,666	6,072,631
	<u>5,736,300</u>	<u>7,112,590</u>	<u>9,722,095</u>	<u>1,577,976</u>	<u>6,303,631</u>	<u>573,789</u>	<u>3,497,466</u>	<u>34,523,847</u>
Net surplus (deficit)	<u>\$ (3,938,416)</u>	<u>\$ (5,142,652)</u>	<u>\$ 957,801</u>	<u>\$ 1,242,754</u>	<u>\$ (3,484,384)</u>	<u>\$ (161,274)</u>	<u>\$ 12,553,008</u>	<u>\$ 2,201,837</u>

December 31, 2018

18. Segmented Information (continued)

For the year ended December 31	Protective Services	Transportation Services	Water, Wastewater and Waste Management	Environmental Development Services	Recreation, Parks, Culture	Public Health and Welfare	General Government	2017 Total
Revenue								
Taxation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,726,614	\$ 13,726,614
Government transfers	958,251	1,827,610	887,631	34,470	3,246,737	340,819	-	7,295,518
Rental Revenue	13,670	-	-	-	237,563	-	-	251,233
User fees and Sale of Good	321,418	244,961	8,976,501	115,856	1,045,541	53,181	55,441	10,812,899
Franchises and concessions	-	-	-	-	-	-	1,179,164	1,179,164
Investment income	-	-	-	-	-	-	73,522	73,522
Development levies	-	-	-	692,610	61,059	-	-	753,669
Penalties and fines	-	-	40,452	-	-	-	164,155	204,607
Licences and permits	176,501	34,581	-	-	263,630	-	-	474,712
Other	60,684	90,790	88,043	13,666	25,908	12,452	94,771	386,314
Fines	262,012	-	-	-	-	-	-	262,012
	<u>1,792,536</u>	<u>2,197,942</u>	<u>9,992,627</u>	<u>856,602</u>	<u>4,880,438</u>	<u>406,452</u>	<u>15,293,667</u>	<u>35,420,264</u>
Expenses								
Salaries and wages	3,797,438	1,692,889	1,259,865	845,923	2,700,323	70,466	2,366,633	12,733,537
Contracted and general services	379,154	621,057	3,096,833	107,906	282,578	22,570	465,009	4,975,107
Materials, goods and utilities	417,689	1,337,986	1,245,923	382,885	1,183,628	9,460	286,847	4,864,418
Transfer to local agencies	11,353	25,000	910,207	222,084	421,252	403,729	-	1,993,625
Transfers to individuals and organizations	-	108,939	-	-	8,565	25,000	-	142,504
Bank charges and short- term interest	1,415	-	3,686	-	11,384	-	25,339	41,824
Interest on long-term debt	57,121	44,660	66,741	78,062	250,365	-	12,508	509,457
Amortization	354,901	3,359,740	873,744	10,433	1,125,145	22,447	102,513	5,848,923
	<u>5,019,071</u>	<u>7,190,271</u>	<u>7,456,999</u>	<u>1,647,293</u>	<u>5,983,240</u>	<u>553,672</u>	<u>3,258,849</u>	<u>31,109,395</u>
Net surplus (deficit)	<u>\$ (3,226,535)</u>	<u>\$ (4,992,329)</u>	<u>\$ 2,535,628</u>	<u>\$ (790,691)</u>	<u>\$ (1,102,802)</u>	<u>\$ (147,220)</u>	<u>\$ 12,034,818</u>	<u>\$ 4,310,869</u>

City of Lacombe
Notes to Consolidated Financial Statements

December 31, 2018

19. Comparative Figures

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

20. Approval of Financial Statements

Council and Management approved these financial statements.
