

**CITY OF COLD LAKE
FINANCIAL STATEMENTS**

DECEMBER 31, 2019

DRAFT

CITY OF COLD LAKE

FINANCIAL STATEMENTS

December 31, 2019

CONTENTS

	<u>Page</u>
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING	1
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS	
Statement "1" Statement of Financial Position	4
Statement "2" Statement of Operations	5
Statement "3" Statement of Change in Net Financial Assets	6
Statement "4" Statement of Cash Flows	7
Schedule "1" Schedule of Changes in Accumulated Surplus	8
Schedule "2" Schedule of Tangible Capital Assets	9
Schedule "3" Schedule of Property and Other Taxes	10
Schedule "4" Schedule of Government Transfers	11
Schedule "5" Schedule of Expenses by Object	12
Schedule "6" Schedule of Segmented Disclosure	13
Notes to the Financial Statements	14-24

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CITY OF COLD LAKE

December 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of the City of Cold Lake is responsible for the preparation, accuracy, objectivity and integrity of the accompanying consolidated financial statements and all other information contained within this Financial Report. Management believes that the financial statements present fairly the City's financial position as at December 31, 2019 and the results of its operations for the year then ended.

The financial statements have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards (PSAS).

The financial statements include certain amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has designed and maintains a system of internal controls to produce reliable information and to meet reporting requirements on a timely basis. The system is designed to provide management with reasonable assurance that transactions are properly authorized and assets are properly accounted for and safeguarded.

These systems are monitored and evaluated by management and reliable financial information is available for presentation of the financial statements.

The City Council carries out its responsibilities for review of the financial statements principally through its Audit Committee. This committee meets regularly with management and external auditors to discuss the results of audit examinations and financial reporting matters.

The external auditors have full access to the Audit Committee and without the presence of management. The City Council has approved the financial statements.

The financial statements have been audited by Faber LLP, Chartered Professional Accountants, independent external auditors appointed by the City. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the City's financial statements.

Cold Lake, Alberta
May 26, 2020

Kevin Nagoya
CAO

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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, 2019, 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, 2019 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
May 26, 2020

Chartered Professional Accountant

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CITY OF COLD LAKE

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

	Note Reference	2019	2018
FINANCIAL ASSETS			
Cash and Temporary Investments	2	\$ 13,515,068	\$ 24,836,877
Receivables	3		
Taxes and Grants in Place of Taxes		1,225,700	1,119,253
Trade and other receivables		19,828,492	6,553,098
Land Held for Resale		1,233,400	1,233,400
Investments	4	46,219,185	45,445,614
		\$ 82,021,845	\$ 79,188,242
LIABILITIES			
Accounts Payable and Accrued Liabilities		\$ 6,196,669	\$ 7,572,947
Deposit Liabilities		1,474,696	1,283,909
Deferred Revenues	6	3,409,090	736,846
Employee Benefit Obligations	7	1,061,522	950,708
Long-term Debt	8	50,854,094	53,308,135
		62,996,071	63,852,545
NET FINANCIAL ASSETS (Statement 3)		19,025,774	15,335,697
NON-FINANCIAL ASSETS			
Tangible Capital Assets (Schedule 2)		326,838,072	321,395,534
Inventory of Supplies and Materials		413,343	416,815
Prepaid Expenses		84,120	74,141
		327,335,535	321,886,490
ACCUMULATED SURPLUS (Schedule 1)	11	\$ 346,361,309	\$ 337,222,187

Contingencies - See Note 15.

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED PROFESSIONAL ACCOUNTANTS**DRAFT**

CITY OF COLD LAKE
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Budget	2019	2018
	(Unaudited)		
Revenues			
Net Municipal Taxes (Schedule 3)	\$ 20,555,238	\$ 20,941,184	\$ 21,299,559
Sales and User Charges	9,870,056	9,508,254	9,309,304
Government Transfers (Schedule 4)	10,401,865	10,145,545	9,864,774
Penalties and Costs on Taxes	305,000	2,450,624	2,062,561
Licenses and Permits	249,000	288,591	223,683
Fines	260,000	118,511	352,954
Franchise and Concession Contracts	985,000	990,577	939,967
Investment Income	250,000	626,653	1,171,939
Rentals	1,056,094	1,165,243	961,200
Development Levies	-	174,635	103,182
Other	228,000	676,988	2,072,701
Total Revenues	44,160,253	47,086,805	48,361,824
Expenses (Schedule 5)			
Legislative	457,671	487,560	417,313
Administration	6,653,182	8,488,519	8,172,016
Police and By-law Enforcement	3,883,596	3,446,584	3,406,902
Fire and Emergency Services	1,332,512	1,350,246	1,237,260
Transportation Systems	7,595,983	7,865,505	7,216,514
Utility Systems	7,979,741	7,889,155	7,493,867
Public Health and Welfare	1,284,108	1,294,206	1,235,750
Planning and Development	1,549,680	1,459,250	2,232,173
Recreation and Culture	9,629,918	9,668,827	8,891,782
Other	3,793,862	-	125,000
Amortization of Tangible Capital Assets	-	9,683,268	9,106,923
Loss on Disposal of Assets	-	545,323	16,070
Total Expenses	44,160,253	52,178,443	49,551,570
(Deficiency) Excess of Revenues Over Expenses Before			
Other Revenues	-	(5,091,638)	(1,189,746)
Other Revenues			
Contributed Assets	-	1,218,102	71,042
Government Transfers for Capital (Schedule 4)	18,046,046	13,012,658	14,345,242
Excess of Revenues Over Expenses	18,046,046	9,139,122	13,226,538
Accumulated Surplus, Beginning of Year	337,222,187	337,222,187	323,995,649
Accumulated Surplus, End of Year (Schedule 1)	\$ 355,268,233	\$ 346,361,309	\$ 337,222,187

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, 2019

	Budget	2019	2018
	(Unaudited)		
Excess of Revenues Over Expenses	\$ 18,046,046	\$ 9,139,122	\$ 13,226,538
Acquisition of Tangible Capital Assets	(19,761,851)	(14,627,563)	(27,319,763)
Contributed Tangible Capital Assets	-	(1,218,102)	(71,042)
Proceeds on Disposal of Tangible Capital Assets	-	174,536	114,129
Amortization of Tangible Capital Assets	-	9,683,268	9,106,923
Loss on Sale of Tangible Capital Assets	-	545,323	16,070
	(19,761,851)	(5,442,538)	(18,153,683)
Use of Supplies Inventories	-	3,472	20,129
Acquisition of Prepaid Assets	-	(9,979)	(27,905)
	-	(6,507)	(7,776)
Increase (Decrease) in Net Financial Assets	(1,715,805)	3,690,077	(4,934,921)
Net Financial Assets, Beginning of Year	15,335,697	15,335,697	20,270,618
Net Financial Assets, End of Year	\$ 13,619,892	\$ 19,025,774	\$ 15,335,697

The accompanying notes are an integral part of these financial statements

CITY OF COLD LAKE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Excess of Revenues Over Expenditures	\$ 9,139,122	\$ 13,226,538
Add (Deduct) Non-cash Items		
Amortization of tangible capital assets	9,683,268	9,106,923
Loss on disposal of tangible capital assets	545,323	16,070
Tangible capital assets received as contributions	(1,218,102)	(71,042)
Non-cash charges to operations (net change):		
(Increase) Decrease in taxes and grants in place of taxes receivable	(106,447)	8,226
(Increase) in trade and other receivables	(13,275,394)	(2,366,334)
(Increase) in prepaid expenses	(9,979)	(27,905)
Decrease in inventories	3,472	20,129
(Decrease) Increase in accounts payable and accrued liabilities	(1,376,278)	511,467
Increase (Decrease) in deposit liabilities	190,787	(412,154)
Increase (Decrease) in deferred revenue	2,672,244	(342,138)
Increase in employee benefit obligations	110,814	179,298
	6,358,830	19,849,078
CASH FLOWS FROM (USED IN) CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(14,627,563)	(27,319,763)
Proceeds on disposal of tangible capital assets	174,536	114,129
	(14,453,027)	(27,205,634)
CASH FLOWS USED IN INVESTING ACTIVITIES		
(Increase) in long-term investments	(773,571)	(14,998,098)
	(773,571)	(14,998,098)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
(Decrease) Increase in long-term debt	(2,454,041)	19,044,748
	(2,454,041)	19,044,748
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,321,809)	(3,309,906)
NET CASH AND CASH EQUIVALENTS, beginning of year	24,836,877	28,146,783
NET CASH AND CASH EQUIVALENTS, end of year	\$ 13,515,068	\$ 24,836,877

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, 2019

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2019	2018
BALANCE, BEGINNING OF YEAR	\$ 19,608,314	\$ 49,526,474	\$ 268,087,399	\$ 337,222,187	\$ 323,995,649
Excess of revenues over expenses	9,139,122	-	-	9,139,122	13,226,538
Unrestricted funds designated for future use	(7,109,046)	7,109,046	-	-	-
Restricted funds used for operations	806,806	(806,806)	-	-	-
Restricted funds used for tangible capital assets	-	(6,529,281)	6,529,281	-	-
Current year funds used for tangible capital assets	(8,098,281)	-	8,098,281	-	-
Contributed tangible capital assets	(1,218,102)	-	1,218,102	-	-
Disposal of tangible capital assets (net of amortization)	719,858	-	(719,858)	-	-
Annual amortization expense	9,683,268	-	(9,683,268)	-	-
Long term debt repaid	(2,454,041)	-	2,454,041	-	-
Change in accumulated surplus	1,469,584	(227,041)	7,896,579	9,139,122	13,226,538
BALANCE, END OF YEAR (Note 11)	\$ 21,077,898	\$ 49,299,433	\$ 275,983,978	\$ 346,361,309	\$ 337,222,187

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED PROFESSIONAL ACCOUNTANTS**DRAFT**

CITY OF COLD LAKE

SCHEDULE OF TANGIBLE CAPITAL ASSETS FOR THE YEAR ENDED DECEMBER 31, 2019

	Land	Land Improvement	Buildings	Engineering Structures	Work in Progress	Machinery and Equipment	Vehicles	2019	2018
COST:									
Balance, Beginning 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
Acquisition of tangible capital assets	-	929,915	711,916	15,849,785	13,960,488	2,912,896	388,580	34,753,580	34,306,866
Reclassification	-	-	-	-	(635,949)	-	-	(635,949)	(684,462)
Construction-in-progress (Transferred to Land Improvement, Buildings, Engineering Structures, and Machinery and Equipment)	-	-	-	-	(18,271,966)	-	-	(18,271,966)	(6,231,599)
Disposal of tangible capital assets	-	(76,235)	-	(1,880,101)	-	(609,806)	(195,858)	(2,762,000)	(278,404)
Balance, End of the year	38,457,625	14,528,345	70,831,699	257,854,632	53,662,244	19,254,421	8,144,181	462,733,147	449,649,482
ACCUMULATED AMORTIZATION:									
Balance, Beginning of the year	-	2,491,624	11,358,581	104,890,639	-	6,495,609	3,017,495	128,253,948	119,295,230
Annual amortization	-	768,351	1,743,883	5,576,955	-	1,022,863	571,216	9,683,268	9,106,923
Accumulated amortization on disposals	-	(57,612)	-	(1,371,226)	-	(464,451)	(148,852)	(2,042,141)	(148,205)
Balance, End of the year	-	3,202,363	13,102,464	109,096,368	-	7,054,021	3,439,859	135,895,075	128,253,948
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	38,457,625	11,325,982	57,729,235	148,758,264	53,662,244	12,200,400	4,704,322	326,838,072	321,395,534
2018 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	

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, 2019

	Budget (Unaudited)	2019	2018
Taxation			
Real Property Taxes	\$ 20,633,338	\$ 20,783,468	\$ 20,671,380
Linear Property Taxes	378,662	390,506	379,361
Government Grants in Place of Property Taxes	6,591,718	6,448,144	6,603,871
	27,603,718	27,622,118	27,654,612
Requisitions			
Alberta School Foundation Fund	6,846,263	6,478,376	6,152,117
Lakeland Lodge and Housing Foundation	200,263	200,604	202,115
Designated Industrial Property	1,954	1,954	821
	7,048,480	6,680,934	6,355,053
Net Taxes Available for Municipal Purposes	\$ 20,555,238	\$ 20,941,184	\$ 21,299,559

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, 2019

	Budget (Unaudited)	2019	2018
Transfers for Operating:			
Provincial Government	\$ 827,717	\$ 1,075,712	\$ 878,405
Federal Government	325,000	319,688	319,688
Other Local Governments	1,221,148	722,145	638,681
Other Local Governments (ID 349)	8,028,000	8,028,000	8,028,000
	10,401,865	10,145,545	9,864,774
Transfers for Capital:			
Provincial Government	6,919,640	1,926,530	5,109,874
Federal Government	-	260,921	-
Other Local Governments	1,550,000	1,699,808	1,118,410
Other Local Governments (ID 349)	9,576,406	9,125,399	8,116,958
	18,046,046	13,012,658	14,345,242
Total Government Transfers	\$ 28,447,911	\$ 23,158,203	\$ 24,210,016

The accompanying notes are an integral part of these financial statements

CITY OF COLD LAKE

SCHEDULE OF EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2019

	Budget	2019	2018
	(Unaudited)		
Expenses			
Salaries, Wages and Benefits	\$ 15,507,641	\$ 15,173,064	\$ 14,665,143
Contracted and General Services	10,388,473	10,662,959	10,511,489
Purchases from Other Governments	5,325,400	4,777,735	4,592,134
Materials, Goods, Supplies and Utilities	4,768,901	4,447,665	4,150,529
Provision for Allowances	1,208,000	3,650,637	3,428,581
Transfers to Individuals and Organizations	1,316,731	1,323,793	1,264,098
Bank Charges and Short-term Interest	51,300	32,756	33,566
Interest on Capital Long-term Debt	1,685,330	1,847,701	1,512,249
Amortization of Tangible Capital Assets	-	9,683,268	9,106,923
Loss on Disposal of Tangible Capital Assets	-	545,323	16,070
Other Expenditures	3,908,477	33,542	270,788
Total Expenses	\$ 44,160,253	\$ 52,178,443	\$ 49,551,570

The accompanying notes are an integral part of these financial statements

FABER LLP,
CHARTERED PROFESSIONAL ACCOUNTANTS**DRAFT**

CITY OF COLD LAKE

SCHEDULE OF SEGMENTED DISCLOSURE
FOR THE YEAR ENDED DECEMBER 31, 2019

	General Government	Protective Services	Utility Systems	Transportation Services	Public Health & Welfare	Planning & Development	Recreation & Culture	Total
REVENUE								
Net Municipal Taxes	20,941,184	-	-	-	-	-	-	20,941,184
Government Transfers	16,746,132	808,990	82,710	4,462,479	563,132	208,538	286,222	23,158,203
User Fees and Sale of Goods	1,017,212	329,688	7,974,237	152,271	49,559	405,992	2,023,706	11,952,665
Investment Income	626,653	-	-	-	-	-	-	626,653
Contributed Assets	-	-	-	1,218,102	-	-	-	1,218,102
Other Revenues	2,469,706	143,422	389,083	168,289	176,316	19,487	54,455	3,420,758
	41,800,887	1,282,100	8,446,030	6,001,141	789,007	634,017	2,364,383	61,317,565
EXPENSES								
Salaries, Wages and Benefits	3,358,964	1,795,858	2,360,406	2,514,970	771,557	809,997	3,561,309	15,173,061
Contracted and General Services	1,858,256	383,804	2,117,102	3,417,049	221,394	594,342	2,071,342	10,663,289
Materials, Goods, Supplies and Utilities	89,141	231,313	591,819	1,653,038	165,355	16,511	1,700,480	4,447,657
Purchases from Other Governments	-	1,993,552	2,784,184	-	-	-	-	4,777,736
Transfers to Individuals and Organizations	-	169,081	-	-	37,832	38,400	1,078,480	1,323,793
Interest on Capital Long- term Debt	-	221,267	28,158	275,081	97,144	-	1,226,052	1,847,702
Other Expenses	3,669,717	20,389	7,486	558,634	924	-	4,787	4,261,937
	8,976,078	4,815,264	7,889,155	8,418,772	1,294,206	1,459,250	9,642,450	42,495,175
NET REVENUE, BEFORE AMORTIZATION	32,824,809	(3,533,164)	556,875	(2,417,631)	(505,199)	(825,233)	(7,278,067)	18,822,390
Amortization Expense	165,043	589,188	1,464,767	5,262,180	164,277	8,230	2,029,583	9,683,268
NET REVENUE	32,659,766	(4,122,352)	(907,892)	(7,679,811)	(669,476)	(833,463)	(9,307,650)	9,139,122

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

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, 2019

(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, 2019

(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, 2019

2. CASH AND TEMPORARY INVESTMENTS

	2019	2018
Cash Floats and Undeposited Receipts	\$ 3,025	\$ 3,025
Bank Accounts	3,866,461	5,833,852
Temporary investments	9,645,582	19,000,000
	\$ 13,515,068	\$ 24,836,877

Temporary investments consist of Cashable GICs at cost which approximates market value. These investments have effective interest rates of 2.40% (2018 - 2.51%) 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

	2019	2018
Taxes and grants in place of taxes		
Current taxes and grants in place of taxes	\$ 2,476,616	\$ 2,646,391
Arrears (Note 16)	18,610,667	14,705,878
Allowance for doubtful accounts (Note 16)	(19,861,583)	(16,233,016)
	1,225,700	1,119,253
Trade and other receivables		
Local improvement levies	\$ 19,274	\$ 30,242
Trade accounts	3,904,690	3,472,890
Due from Province	-	3,120,050
Due from Other Local Government (ID 349)	16,153,399	-
Goods and services tax rebate	226,625	447,565
Allowance for doubtful accounts	(475,496)	(517,649)
	19,828,492	6,553,098
	\$ 21,054,192	\$ 7,672,351

Due from Other Local Government (ID 349) of \$16,153,399 was received in May 2020.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

4. INVESTMENTS

	2019	2018
Cash and cash equivalents	\$ 10,040	\$ 10,040
Fixed income securities	35,624,745	37,772,574
Principal protected notes	10,584,400	7,663,000
	\$ 46,219,185	\$ 45,445,614

The fixed income securities have a yield from 2.10% to 3.38% (2018 - 2.30% to 3.38%) and mature in periods 2020 through 2032. Principal protected notes have various interest rates tied to the market with maturity periods 2022 to 2029. The market value of the investments at December 31, 2019 was \$46,027,870 (2018 - \$43,852,695). 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 (2018 - nil).

6. DEFERRED REVENUES

	2019	2018
Alberta Municipal Sustainability Initiative Capital Grant	\$ 2,933,363	\$ -
Federal Gas Tax Fund	62,382	-
Water/Sewer Special Grant - Province	-	387,874
Short-term Grants	163,404	-
Other Deferred Revenue	249,941	348,972
Deferred Revenues	\$ 3,409,090	\$ 736,846

The capital funding for Municipal Sustainability Capital Grant (MSI) allocated to the City for 2019 was \$2,337,068 (2018 - \$2,373,992). During 2019, the City received \$4,973,586 (2018 - \$1,960,787) which included allocations outstanding from 2017 and 2018. We have yet to receive the 2019 funding allocation. Grant funding allocations are not recognized as deferred revenue. The City records deferred revenue when the funding has been received but the project is not fully expensed or completed but is expected to be completed in the future.

The capital funding for Gas Tax Fund allocated to the City for 2019 was \$1,690,601 (2018 - \$825,160). In 2019, the City received \$1,676,305 (2018 - \$0) which included allocations outstanding from 2017 and 2018. We have yet to receive the 2019 funding allocation. Grant funding allocations are not recognized as deferred revenue. The City records deferred revenue when the funding has been received but the project is not fully expensed or completed but is expected to be completed in the future.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Short-term Grants includes various grants paid to the City. The deferred revenue includes any grants that are unspent at December 31, 2019 and the revenue will be realized as the grant is utilized in the following year.

Other deferred revenue includes amounts received in advance for business licenses, advertising, rent and memberships.

7. EMPLOYEE BENEFIT OBLIGATIONS

	2019	2018
Vacation and Overtime	\$ 1,061,522	\$ 950,708

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

	2019	2018
Tax Supported Debentures	\$ 50,854,094	\$ 53,308,135

The current portion of the long-term debt amounts to \$2,550,432 (2018 - \$2,454,041).

Principal and interest payments are as follows:

	Principal	Interest	Total
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
2024	2,977,053	1,348,643	4,325,696
Thereafter	<u>37,056,778</u>	<u>10,332,892</u>	<u>47,389,670</u>
	\$ 50,854,094	\$ 18,164,056	\$ 69,018,150

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 3.548% for 2019 (2018 - 3.950%). 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 \$ 1,847,701 (2018 - \$1,512,249).

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

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:

	2019	2018
Total long-term debt limit	\$ 86,868,018	\$ 86,395,788
Total long-term debt actual	50,854,094	53,308,135
Amount of debt limit unused	\$ 36,013,924	\$ 33,087,653
Debt servicing limit	\$ 14,478,003	\$ 14,399,298
Debt servicing actual	4,325,696	4,325,696
Amount of debt servicing limit unused	\$ 10,152,307	\$ 10,073,602

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.

10. EQUITY IN TANGIBLE CAPITAL ASSETS

	2019	2018
Tangible Capital Assets (Schedule 2)	\$ 462,733,147	\$ 449,649,482
Accumulated Amortization (Schedule 2)	(135,895,075)	(128,253,948)
Long-term Debt (Note 8)	(50,854,094)	(53,308,135)
	\$ 275,983,978	\$ 268,087,399

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

11. ACCUMULATED SURPLUS

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

	2019	2018
Internally Restricted:		
Public Works and Infrastructure	32,352,110	31,160,087
Community Services	6,426,747	8,544,093
Offsites - Uncommitted	4,339,318	4,164,683
General Government	4,131,683	3,944,372
Planning and Development	438,339	75,000
Electrical Utility Contribution	387,509	342,615
Developer Contribution	385,678	385,678
Offsites - Committed	381,477	381,477
MD waterline	323,924	288,960
Municipal reserve	132,648	132,648
MSI	-	82,398
Provincial grants (2008)	-	24,463
Total Restricted	49,299,433	49,526,474
Unrestricted Funds	21,077,898	19,608,314
Restricted and unrestricted	70,377,331	69,134,788
Equity in tangible capital assets (Note 10)	275,983,978	268,087,399
ACCUMULATED SURPLUS	\$ 346,361,309	\$ 337,222,187

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

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)	2019 Total	2018 Total
Mayor	Craig Copeland	\$ 64,883	\$ 2,778	\$ 67,661	\$ 60,176
	Subsistence	-	-	14,195	5,074
Councillors:	Robert Buckle	44,685	2,126	46,811	42,388
	Duane Lay	37,685	1,231	38,916	35,254
	Kirk Soroka	27,310	1,240	28,550	29,733
	Jurgen Grau	30,060	1,380	31,440	28,959
	Vicky Lefebvre	33,935	1,578	35,513	34,510
	Chris Vining	30,185	1,387	31,572	29,604
	Subsistence	-	-	59,860	38,100
Chief Administrative Officer	Kevin Nagoya	242,472	34,578	277,050	299,831
		\$ 511,215	\$ 46,298	\$ 631,568	\$ 603,629

- (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, 2019

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 275,000 members and over 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 9.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.84% for the excess. Employees of the municipality are required to make current service contributions of 8.39% of pensionable salary up to the year's maximum pensionable salary and 12.84% for the excess.

Total current service contributions by the municipality to the Local Authorities Pension Plan in 2019 were \$1,023,257 (2018 - \$1,071,849). Total current service contributions by the employees of the municipality to the Local Authorities Pension Plan in 2019 were \$926,354 (2018 - \$979,436).

At December 31, 2019, the LAPP disclosed an actuarial surplus of \$7.8 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 June 2019. There is disputed balance of \$3,628,567 (2018 - \$3,422,543) between the municipality and PSPC and the total disputed shortfall amount of \$19,847,583 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. The municipality does not budget for the penalty on this disputed balance however, does charge the penalty in accordance with the bylaw and sets up an allowance as PSPC is disputing the balance.

17. 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.

18. CONTAMINATED SITES LIABILITY

The municipality adopted PS3260 Liability for Contaminated Sites. The municipality did not identify any financial liabilities in 2019 (2018 - nil) as a result of this standard.

CITY OF COLD LAKE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

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. 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 trade 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.

21. SUBSEQUENT EVENTS

The following event occurred subsequent to the municipality's fiscal year end:

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread in Canada and around the world.

The municipality is closely monitoring the situation. The municipality relies primarily on government funding and various sales and charges to its residences and although there is uncertainty about the length and potential impact of various restrictions in place, the municipality believes the ongoing effects on the municipality's operations may be temporary. The overall effects of this event on the municipality and its ongoing operations is uncertain and cannot be estimated at this time.

22. COMPARATIVE FIGURES

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

23. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by Council and Management.