



2018 Annual Financial Report

The Corporation of the City of Red Deer
Red Deer, Alberta
For the Year Ended December 31, 2018
April 2019

TABLE OF CONTENTS

INTRODUCTORY INFORMATION

MAYOR AND CITY COUNCIL.....	4
ORGANIZATIONAL CHART.....	5
REPORT FROM THE CHIEF FINANCIAL OFFICER.....	6

FINANCIAL INFORMATION

MANAGEMENT REPORT.....	22
INDEPENDENT AUDITORS' REPORT.....	23
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	26
CONSOLIDATED STATEMENT OF OPERATIONS.....	27
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT.....	28
CONSOLIDATED STATEMENT OF CASH FLOWS.....	29
SCHEDULE 1 - CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS.....	30
SCHEDULE 2 - CONSOLIDATED SCHEDULE OF CHANGE IN ACCUMULATED SURPLUS.....	31
SCHEDULE 3 - CONSOLIDATED SCHEDULE OF SEGMENTED DISCLOSURE.....	32
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	34

STATISTICAL INFORMATION

STATISTICAL REVIEW FOR THE YEARS 2014 to 2018.....	67
--	----

INTRODUCTORY INFORMATION

MAYOR AND CITY COUNCIL

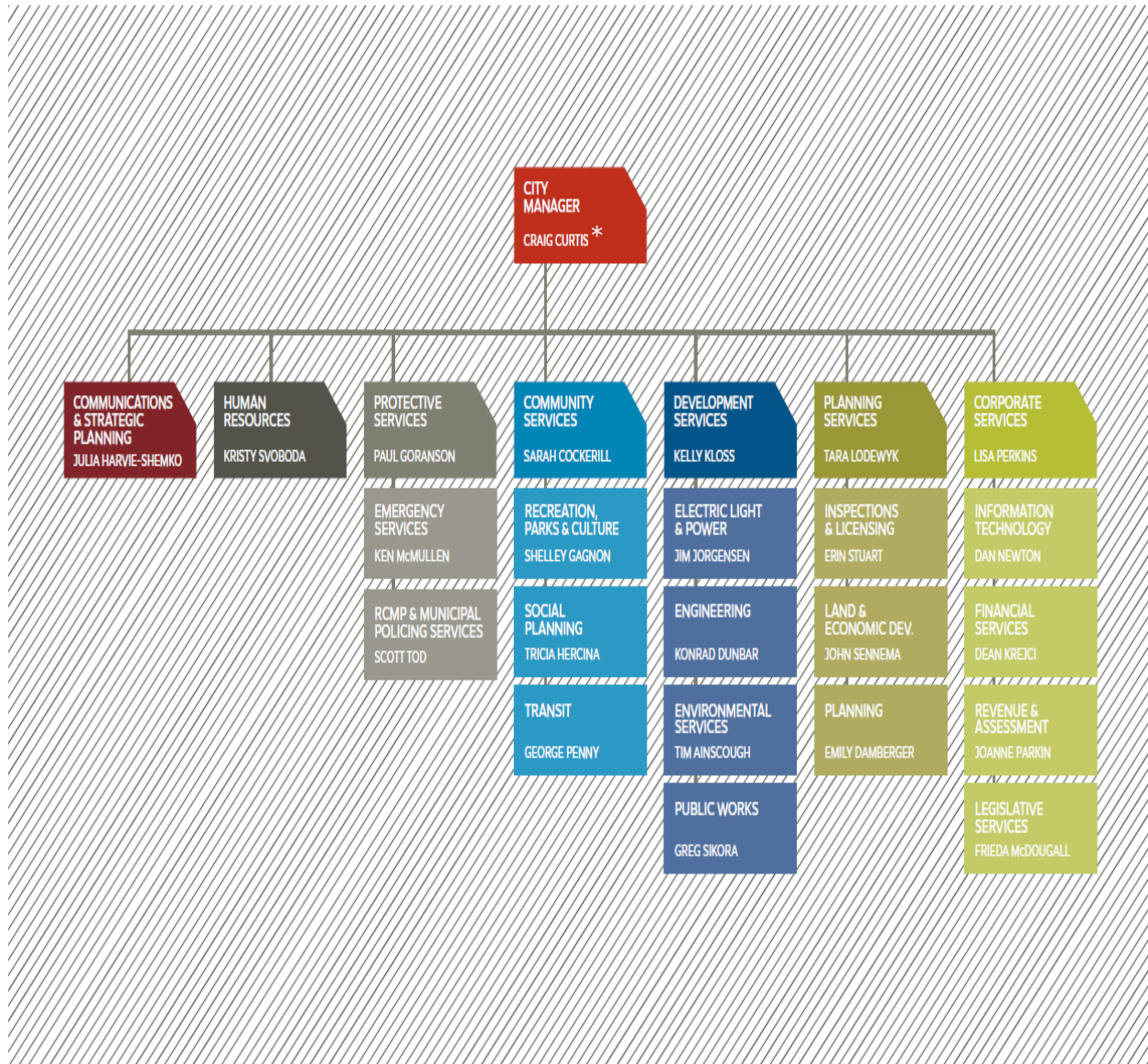


Left to Right: Councillor L. Lee, Councillor F. Wong, Councillor D. Wyntjes, Councillor M. Dawe, Mayor T. Veer, Councillor K. Johnston, Councillor V. Higham, Councillor T. Handley, Councillor S. Buchanan.

The City of Red Deer is governed by an elected City Council comprised of a Mayor and eight Councillors. Through the City Manager, this group provides governance and leadership to City Administration. The Mayor and all Councillors are members in a number of Committees and Boards that address specific topics.

Each Councillor is elected on an 'at large' basis, meaning that Councillors are not elected on a geographic basis or in a ward. Each Councillor is available to any citizen who wishes to discuss an issue. City Council meetings are held in Council Chambers every second Monday. The meetings are open to the public.

ORGANIZATIONAL CHART



*Retired as of March 3, 2019

REPORT FROM THE CHIEF FINANCIAL OFFICER

The City of Red Deer

Introduction

Mayor Tara Veer, Members of Council of The City of Red Deer, I am pleased to present the 2018 Annual Financial Report of The City of Red Deer. The attached report provides information to taxpayers and other members of the public about The City's 2018 financial performance. In addition, this report describes some of The City's major financial policies, provides an assessment of The City's general economic condition and highlights significant accomplishments in meeting Strategic Plan objectives.

The financial statements of The City of Red Deer and all other information contained in the Annual Financial Report are prepared and presented by management, which is responsible for their accuracy, objectivity, and completeness. The responsibility includes presenting the statements in accordance with Canadian Public Sector Accounting Standards and in conformance to the requirements of the Municipal Government Act of the Province of Alberta. The preparation of the statements necessarily involves the use of estimates, which are made using careful judgment.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

City Council has the ultimate responsibility for these consolidated financial statements and oversees management's responsibilities for financial reporting through an Audit Committee, which is composed of the Mayor and three councillors. The Audit Committee, chaired by Councillor Handley, reviews the consolidated financial statements and recommends them to City Council for approval. To carry out its duties, the Audit Committee reviews the annual consolidated financial statements, as well as issues related to them. The Audit Committee's review of financial reports includes an assessment of key management estimates and judgments material to the financial results. KPMG LLP, the external auditor appointed by City Council, has audited the financial statements and their Independent Auditors' Report is attached. They have full unrestricted access to the Audit Committee to discuss their findings, including the fairness of financial reporting and the adequacy of internal controls.

Strategic Plan

Based on the 2015 – 2018 strategic direction, Administration continued work on the 3 themes that Council has identified as requiring significant change or shift:

- Dialogue – engaging our community and enhancing our relationships
 - The next phase is Dialogue 2.0 which includes a government relations strategy, an advocacy strategy, and role clarification with arm's length agencies.
- Community Amenities – planning great spaces and places for community living
 - The public consultation has been completed and projects have been included in the 10 Year Capital Plan as approved by Council
 - The Discovery Canyon Upgrades project and Memorial Center Building Enhancements project were previously completed
 - The Bower Ponds Pavilion Expansion project was completed in 2018
 - Riverlands Development River Walk – Phase 1 – design and construction planning occurred
 - The City has committed to building or upgrading several facilities as part of the Games bid totaling \$26 million. This includes a contribution to Red Deer College for the Gary W. Harris Canada Games Centre. The City is also working closely with the Games society and committed to \$2 million in value in kind towards Games operations. The Servus Arena and Setter's Place opened early in 2018.
- Financial Leadership – creating a sustainable financial foundation
 - The financial leadership framework was presented to Council and approved in June 2017
 - 2018 implementation activities included:
 - Assessment of the gaps in budget policy
 - Start of the creation of a corporate asset management framework.
 - Development and implementation of a corporate administrative policy for integrated risk management
 - Establishment of a Risk Management Advisory Committee

These 3 themes are priorities for the 2015 – 18 timeframe and complement the work still being completed on 5 of the themes from the previous strategic plan:

- Design
- Economy
- Identity
- Movement
- Safety

A Corporate Planning Architecture project is ongoing which is intended to provide an overarching framework that will tie the five pillars of sustainability together with the Strategic Plan.

Financial Statement Discussion & Analysis

1. HIGHLIGHTS

Net debt decreased by \$2.3 million mainly due decrease in tangible capital asset purchases which resulted in less reliance on long term debt and more funds available to set aside in short term investments. The small increase in long term debt of \$0.7 million resulted in the debt limit usage remaining at 53%. The overall amount of reserves decreased by \$1.0 million, bringing the balance to \$220 million. Expenses increased by \$7.5 million with operating revenues increasing by \$6.0 million. Revenues were \$10.7 million lower than budgeted and expenses were \$11.1 M lower than budget.

2. OPERATING RESULTS

Operating results are on the Consolidated Statement of Operations and in Note 19 - Expenses by Object in the Notes to Consolidated Financial Statements.

Revenue

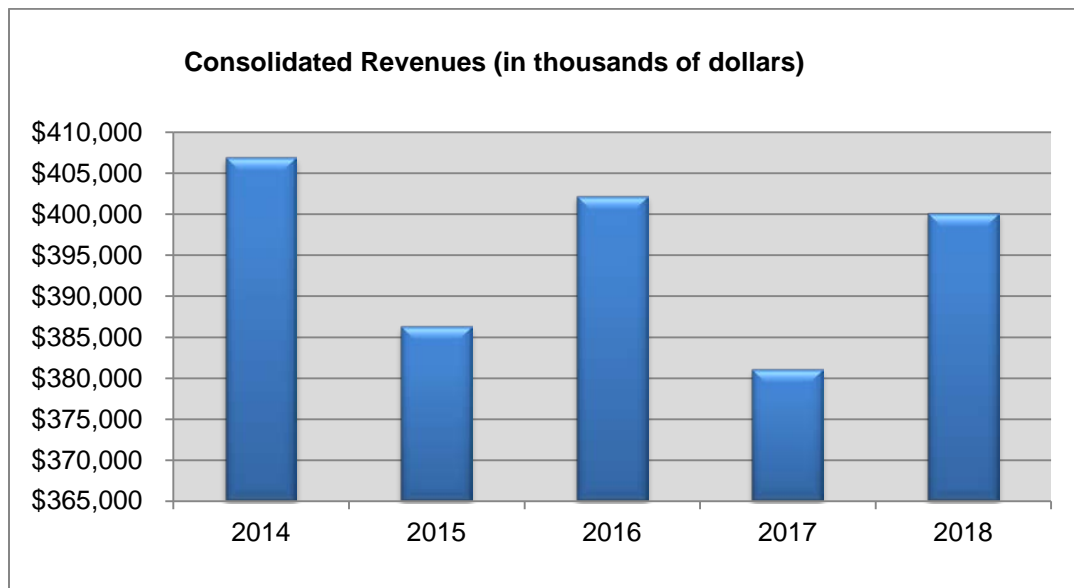
Operating revenues increased by \$6.0 million over 2017. There was an increase in property tax revenue of \$4.3 million, user fees and sale of goods and services of \$1.6 million and other operating revenue of \$1.7 million. These were offset by a decrease in operating government transfers of \$1.5 million. Tax revenue changes are due to the addition of new properties in the community and Council initiated changes.

Within user fees and sale of goods and services, the significant differences from 2017 to 2018 revenues was an increase in utility user fees of \$6.7 million offset by a decrease in land sales of \$5.1 million.

Capital revenues increased by \$13.1 million over 2017 due to increases in capital government transfers of \$3.7 million and contributed tangible capital assets of \$12.0 million offset by a small decrease in developer and customer contributions of \$1.9 million.

Government transfers increased due to more claims through GreenTRIP and PTIF grants in order to fund bus purchases and related transit projects. Contributed tangible capital assets increased due to The City taking ownership of the Central Intermediate School and the oversize capacity in the regional wastewater trunk. Developer and customer contributions decreased due to less development in the community.

Capital revenues can vary greatly from year to year depending on the amount of capital work funded from grants completed, and the amount of tangible capital assets contributed by developers.



Expenses

2018 operating expenses increased by \$7.5 million over 2017 expenses.

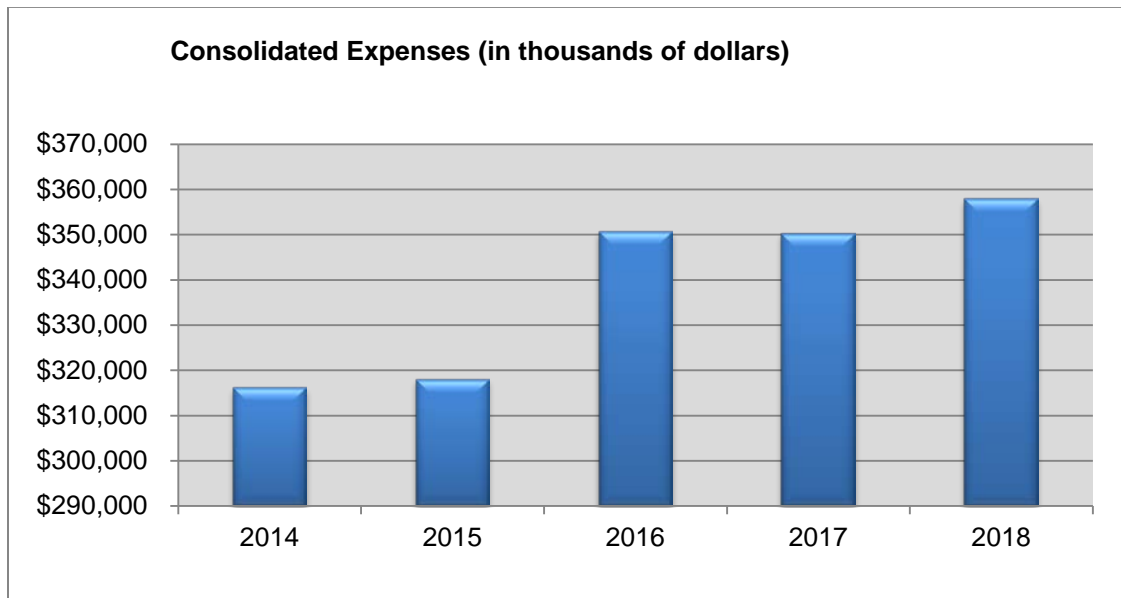
On a functional basis, the following areas saw increases in expenses compared to 2017:

- General government services increased by \$6.9 million due to catch up on depreciation on software additions and reclassification of expenditures from the new protective services directorate.
- Electric Light & Power increased by \$1.7 million due to an increase in transmission charges.

The following areas saw decreases in expenses compared to 2017:

- Community services decreased by \$2.7 due to grants paid to organizations being less than in the previous year.

On an object basis, salaries, wages, and benefits increased by \$2.4 million due to collective agreement settlements. Grants to organizations decreased by \$4.0 million due to payments for the RDC Multiplex having lessened since last year . Amortization of tangible capital assets increased by \$7.9 million due to additions of tangible capital assets, particularly in system software, as well as amortization corrections for tangible capital asset additions from previous years).



3. FINANCIAL POSITION

Financial position is shown on the Consolidated Statement of Financial Position.

The City's Financial Assets increased in 2018 by \$17.6 million over 2017. This was due to an increase in investments of \$46.6 million as cash flows were more favourable. This is offset by decreases in cash and cash equivalents of \$15.8 million and receivables of \$11.8 million. Cash decreased as it was placed in

investments to earn higher rates of interest. Accounts receivable decreased due GTF grant receivable being accrued in 2018 whereas both MSI and GTF was accrued in 2017.

Liabilities increased by \$15.2 million over 2017. This was due to an increase in deferred revenue of \$19.9 million due to decreased amount of capital purchases eligible for grant funding in. This is offset by decrease in Accounts payable and accrued liabilities of \$7.3 million.

The City's Net Debt decreased by \$2.3 million over 2017. Financial assets increased by a larger amount than liabilities and the increase in long-term debt was small. During 2018, \$97.6 million of tangible capital assets were acquired and \$19.3 million was contributed.

Tangible capital assets net book value is \$40.1 million. Overall increase in non-financial assets comes to \$39.9 million.

Long Term Debt

Additional information is included in Note 11 Long-Term Debt and Note 12 Debt Limit in the Notes to Consolidated Financial Statements as well as the Statistical Information section.

Debt is used to finance capital projects and capital leases. Self-supported debt is included in rate setting to ensure that repayments will be made. Where rate setting does not result in debt repayments being covered, internal borrowing from other reserves is used to ensure the debt repayments are made. The internal borrowing will be repaid from future surpluses within the individual self-supported operations. The Parking operation has internally borrowed \$0.85 million as of December 31, 2017. A repayment of \$0.1 million was made in 2018. Projections indicate that the internal borrowing will be fully repaid by 2027.

For offsite related debt, the ability to make repayments is dependent on the amount of land developed each year. In years where insufficient land is developed to make debt repayments, internal borrowing from other reserves is used to ensure the debt payments are made. The borrowing will be repaid from future development revenues. During 2018 there was \$10.5 million of internal borrowing from other reserves for offsite levies. Projections indicate that the internal borrowing will be fully repaid by 2028.

For tax-supported debt, a contribution to a reserve is made annually to ensure that repayments are made. The reserve is reviewed annually, with debt repayments and contributions forecast for the next 10 years, to ensure the reserve is sustainable. The reserve is forecast to be sustainable for the period 2019 – 2028.

The Municipal Government Act (MGA) limits the total debt that a municipality may have. In September 2013, Council approved a policy that The City shall not exceed 90% of the debt limit. In July 2015, Council amended the policy so that The City shall not exceed 75% of the debt limit. As of December 31, 2018 The City reached 53% of the debt limit.

Based on the 2018 Capital Budget, the debt balance at December 31, 2018 was estimated to be \$313.3 million. The estimate of debt limit used was 58%. The actual debt at December 31, 2018 is \$275.2 million due to delays in borrowing for capital projects. The actual debt limit used is 53%. This is due to the combination of debt limit increasing in 2018 as revenues have increased and long term debt has increased very little. The debt is split approximately 53% tax supported and 47% self-supported.

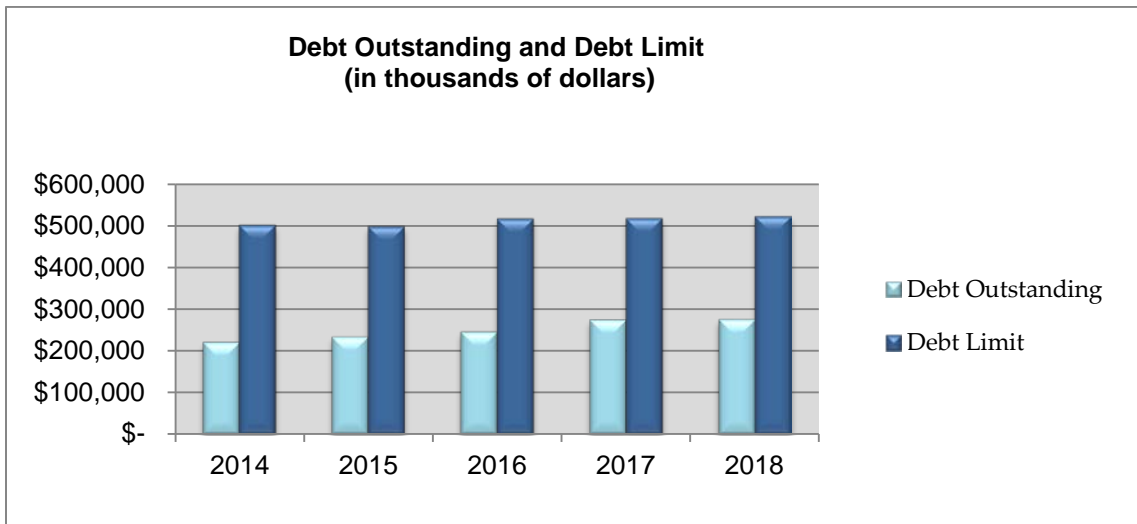
Based on the 2019 budget the debt balance at December 31, 2019 is estimated to be \$302.2 million. Borrowing planned for previously approved projects include the following:

- Water Treatment Plant Upgrades \$20.9 million
- Central Intermediate School \$2.2 million
- Offsite Levy Projects \$7.0 million

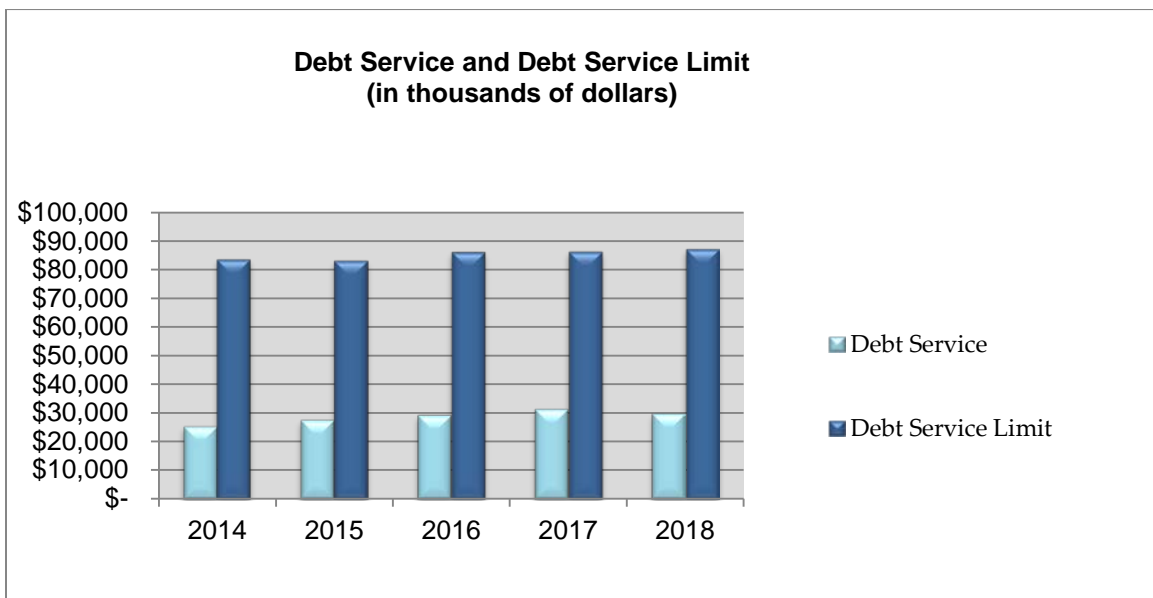
The 2019 projects where borrowing is planned are as follows:

- EL&P Substations and SCADA \$1.0 million
- Riverside Meadows / Fairview Infrastructure \$2.2 million
- Roads Projects \$5.9 million
- Snow Dump Sediment Pond \$0.5 million
- Recreation Centres Enhancements \$3.8 million
- Offsite Levy Projects \$3.0 million

The estimated debt limit used would be 56%.



The MGA also limits the total debt servicing a municipality may have. Due to the current low interest rate environment, The City has not exceeded 40% of the debt servicing limit in the last 5 years. All debt has fixed interest rates so the City is not exposed to the risk of changes in interest rate on its existing debt. The actual debt servicing limit used in 2018 is 34%.



Reserves

Additional information is included in Note 15 Accumulated Surplus in the Notes to Consolidated Financial Statement and the Statistical Information section.

Reserves decreased by \$1.0 million from 2017, resulting in an ending balance of \$220 million.

The following self-supported reserves increased in 2018 as capital expenditures funded were less than contributions to the reserves:

- Parking \$1.3 million
- Offsite \$3.8 million
- Power Utility \$4.3 million
- Water Utility \$0.5 million
- Wastewater Utility \$5.9 million

The following self-supported reserves decreased in 2018 as capital expenditures funded were greater than contributions to the reserves:

- Capital Asset Replacement \$7.0 million
- Land Development \$2.4 million
- Solid Waste Management \$1.1 million

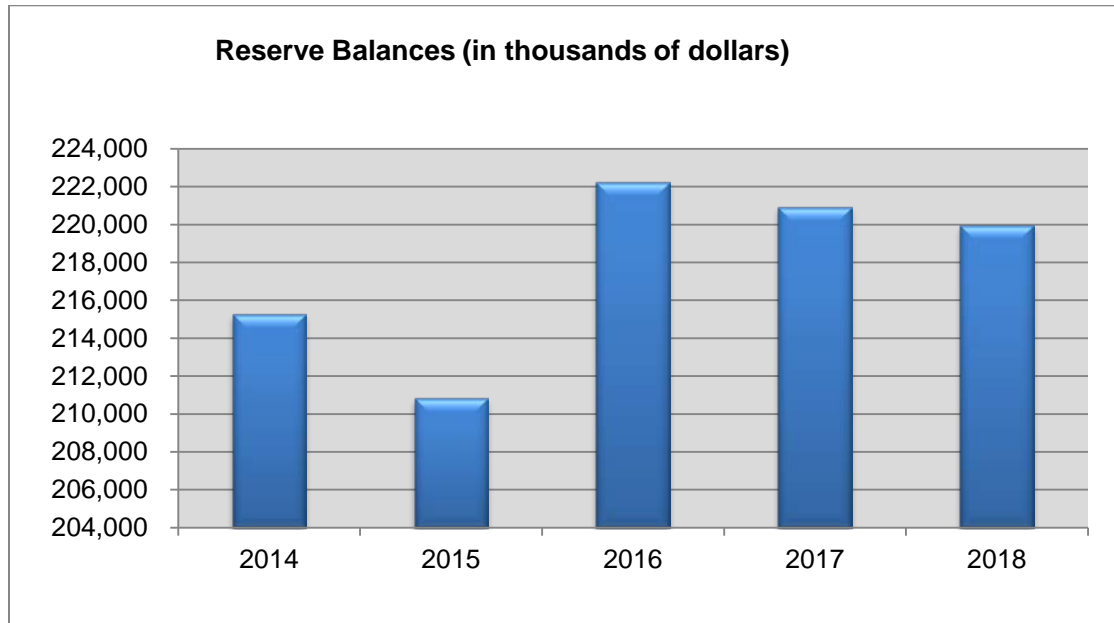
The Parking reserve received additional funds from the sale of the parking lot located beside the old RCMP building. These funds will be partially invested in replacement parking assets.

Offsite reserves were provided additional funds from internal borrowing from other reserves in the amount of \$10.5 million. When combined with offsite related deferred revenue the Offsite Fund has a balance of \$10.4 million.

It is anticipated that further reductions will occur in the Offsite Fund in future years in excess of their current balances. There will be future internal borrowings in the short term to assist this fund. Council is reviewing options for longer term funding of the Offsite Fund.

Tax supported reserves decreased by \$6.2 million mainly due to the Capital Projects – Tax Supported Reserve decreasing by \$7.6 million offset by the Operating – Tax Supported Reserve increasing by \$2.1 million. The Capital Projects – Tax Supported Reserve decreased due to funding for capital projects exceeding the current year contribution and interest earnings. The Operating – Tax Supported Reserve increased due to the 2018 surplus exceeding draws on the reserve for one-time payments.

Additional information on reserves will be available when the 2018 reserve report is presented to Council in May / June 2019.



4. VARIANCES – BUDGET TO ACTUAL

Additional information on budget to actual variances will be available when the annual variance report is presented to Council in May / June 2019.

5. RISKS & UNCERTAINTIES

Provincial Government Funding – due to the current economic situation the Provincial Government may reduce funding to municipalities. The City will continue to monitor future Provincial budgets to determine the impact.

2019 Canada Winter Games – The City was successful in its bid to be the Host City of the 2019 Games. Council has approved a resolution to assume responsibility for any operating deficit associated with hosting the Games. Details of commitments and guarantees in regards to the Games can be found in Note 29 Disclosure Summary for the 2019 Canada Winter Games in the Notes to the Consolidated Financial Statements.

Land Expropriations – as per Note 26 Contingencies in the Notes to Consolidated Financial Statements there are currently seven applications for Determination of Compensation which have been submitted to the Land Compensation Board. While the amount or likelihood of compensation in these

cases is not known, a contingency amount has been provided in future draws on the Capital Projects – Tax Supported Reserve for these items.

Development Related Revenues – there has been a substantial drop in development contributions and land sale revenue. The future outlook for the economy is for oil prices to stabilize at a much lower rate than previous levels. The City will continue to monitor actual revenues to determine if further reductions in budgeted revenues may be required in the future.

Development Related Expenditures – as the city grows, the City front ends the cost for trunk services for water, wastewater, storm, and roads infrastructure. Due to lower development related revenues, it will be necessary to consider the amount of cost that can be front ended. The amount of work completed will have a significant impact on long term debt, including internal borrowing from non-development related reserves. The City has extended the borrowing term of offsite related borrowing bylaws to improve cash flows, will consider other options to improve sustainability including increases to rates, and will continue to monitor the sustainability of the Offsite Fund on an annual basis.

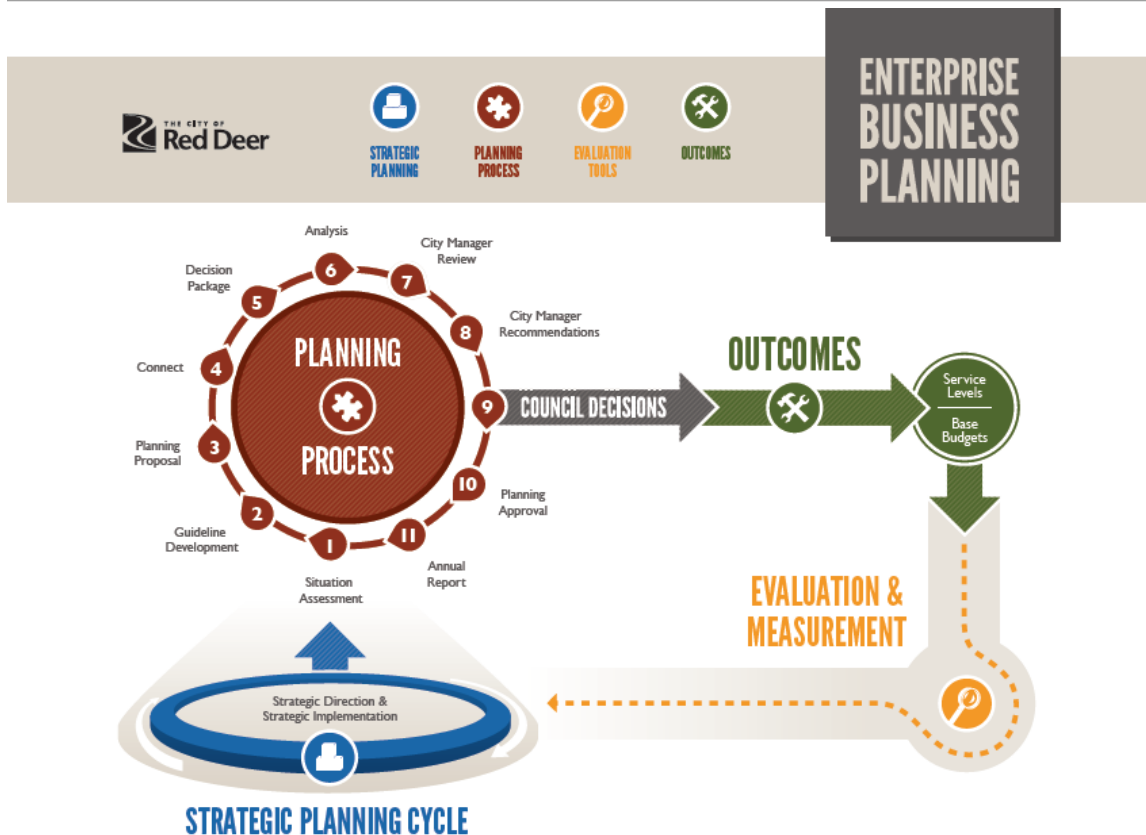
Asset Management – an asset management plan was completed for roads. As anticipated it showed a backlog of work to maintain, rehabilitate, and replace roads. The City has begun to address this issue over the last eight years as budgets related to road work have increased from \$2 million to over \$13 million. There is still a large volume of work to be done to tie asset management into financial reporting and budgeting and to complete additional asset management plans. The anticipated results of the work will be a shortfall in maintenance and capital budgets to maintain, rehabilitate, and replace capital assets.

Agreements – the City has many agreements with other organizations. Due to the economy there is an increased risk for insolvency in these other organizations which may have substantial impacts to City operations and finances.

Public Performance Reporting

6. ENTERPRISE BUSINESS PLANNING

The intent of the model is to increase the effectiveness, efficiency, integration to other processes, and relevance to decision making of the business planning and budget process. The model is shown below.



Step 11 of this model includes the Annual Report. The report is intended to be summary of our progress in a given year for Council and the community. The Communications and Strategic Planning department is the lead for this step of the model. This report is scheduled to be released shortly after this Annual Financial Report on May 1, 2019.

Work is continuing on the Outcomes and Evaluation & Measurement components of the model. Departments continue to develop and report performance measures to Council in their service plans and in quarterly reporting. The City also participated with 9 other Alberta municipalities in 2017 on the Alberta Municipal Benchmarking Initiative (AMBI) to build benchmarking measures in 10 functional areas. The City has received approval from the Audit Committee to withdraw from this initiative and is evaluating joining the Municipal Benchmarking Network Canada group.

Assessment of Tangible Capital Assets

Tangible capital assets information is included in Schedule 1 – Consolidated Schedule of Tangible Capital Assets, Note 13 Tangible Capital Assets and Note

14 Equity in Tangible Capital Assets of the Notes to Consolidated Financial Statements.

7. ASSET MANAGEMENT

Slow progress continues to be made by most departments on asset management initiatives.

Corporate progress included completion of an asset management plan for vertical assets in Recreation, Parks, and Culture. A consultant has been engaged to assist with creating a framework for asset management, which will guide future asset management activities. The framework is expected to be completed in 2019.

8. FINANCIAL INDICATORS

Financial indicators can be used to measure a municipality's overall financial condition. The following indicators were selected to measure Sustainability, Flexibility, and Vulnerability.

	2018	2017	2016	2015	2014	2013	2012
Sustainability:							
Financial Assets to Liabilities	0.80	0.78	0.86	0.92	1.04	0.99	0.84
Total Expense to Assessments	2.28%	2.22%	2.19%	2.03%	2.12%	2.18%	1.92%
Flexibility:							
Debt Charges to Revenues	8.53%	9.07%	8.48%	8.27%	7.54%	6.90%	7.08%
Vulnerability:							
Government Transfers to Total Revenue	3.40%	3.96%	4.77%	3.18%	2.72%	2.69%	2.61%

Sustainability indicators measure the degree to which The City can maintain its existing service and financial commitments without increasing debt or tax burden on its citizens. In 2016, land held not ready for sale was reclassified from Non-Financial Assets to Financial Assets; therefore the Financial Asset to Liabilities ratio has been recalculated for all of the years for consistency. The ratio remains below 1.0 in 2018. This is expected to continue as long term debt continues to be utilized to fund the Capital Budget and Capital Plan. Annual tax supported contributions are being built into the Operating Budget to ensure the City has the ability to repay tax supported debt. Despite acquiring \$97.6 million of tangible capital assets in 2018, debt levels only increased by \$0.7 million. The City remains at 53% of the Provincial approved debt limit for municipalities to date.

Total Expenses to Assessment compares the economic activity in The City using assessments to total expenses for the organization. The increase in City expenses should not outpace increases in assessments over time. The City's

ratio has increased over the last 3 years but is comparable to 2013 levels. This ratio is expected to rise in periods of economic slowdown as expenses are subject to inflation and assessments decline or remain constant. Increasing expenses related to the annual contributions for debt payments, operating expenses related to the capital acquisitions and other issues such as additional police resources will also contribute to expenses increasing faster than assessments.

Flexibility indicators measure the degree to which The City uses debt instead of increased taxation to meet its capital commitments. In 2018, The City committed 8.53% of revenue to service debt. This is the first decline after four years of increases. The overall debt remained constant while revenues increased resulting in the decline. The debt charges remain well within the debt servicing limit set for municipalities by the Province.

Vulnerability indicators measure the degree to which The City depends on other levels of government for operating funding. In 2018 this indicator decreased to 3.4%. This indicator reflects that a lower percentage of revenue came from other governments than in previous years. This is primarily due to less funding being recognized under the Outreach and Support Services Initiative (OSSI) grant. The City had become more reliant on grant funding in recent years mainly due to increases in grants such as the 911 grant, Family and Community Support Services (FCSS) and the Outreach and Support Services Initiative (OSSI) grant. With many of these grants The City could cease providing these services if the grants are reduced or eliminated.

Conclusion

The City continues to monitor the impacts to budget of various external factors. Ongoing advocacy with the Province will be necessary as all levels of government deal with budget pressures. Reserves and debt levels will continue to be monitored for sustainability. The continued development and implementation of a financial sustainability framework is important to ensure we have the resiliency to absorb future impacts.

The City's financial position held relatively steady in 2018. Both financial assets and financial liabilities increased resulting in the ratio of financial assets to financial liabilities changing very little. The total amount of debt remained constant and the percentage of expenditures used for debt servicing declined from last year. The net debt position decreased even though there was a substantial acquisition of tangible capital assets. Both the debt limit used and the overall amount of reserves remained constant.

All of the sustainability measures are reasonable considering a slower pace of economic growth and the capital growth related to the Community Amenities charter. The flexibility measure declined after several years of increases and debt limit used and debt servicing are well within Provincial limits. Council has also created a reserve to ensure that tax supported debt payments will be made. This reserve is sustainable over the next 10 years. The vulnerability measure also declined again this year after several years of increases before 2017. Adjustments to services can be made as required if grant levels change.

The City remains in sound financial shape overall. Continued monitoring of reserves and capital funding sources and adjustments to plans will be done to ensure sustainability and adapt to a changing environment.

Respectfully submitted,



Dean Krejci, CPA, CA
Chief Financial Officer
April 26, 2019

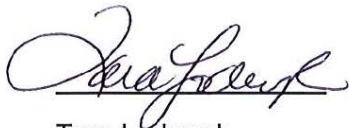
FINANCIAL INFORMATION

MANAGEMENT REPORT

The accompanying consolidated financial statements are the responsibility of management of The City of Red Deer. The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards. The preparation of the consolidated financial statements includes best estimates and judgments of management. Financial information contained throughout this annual report is consistent with these financial statements.

Management is responsible for maintaining an adequate system of internal control that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report operating and financial results, and that assets are properly accounted for and safeguarded. As well, it is the policy of The City of Red Deer to maintain the highest standard of ethics in all its activities. The audit committee has approved the financial statements.

KPMG LLP, an independent firm of chartered professional accountants, was appointed by a vote of City Council to audit the consolidated financial statements and provide an independent auditors' opinion in accordance with Canadian generally accepted auditing standards.



Tara Lodewyk
Interim City Manager



Dean Krejci
Chief Financial Officer



KPMG LLP
2200, 10175 – 101 Street
Edmonton, AB T5J 0H3
Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To Her Worship the Mayor and Members of Council of The City of Red Deer

Opinion

We have audited the consolidated financial statements of The City of Red Deer (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated results of operations, its consolidated changes in net debt and its consolidated 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 “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors’ report thereon, included in the Annual Financial Report.



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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Financial Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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 misstatement, whether due to fraud or error.

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

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

Auditors' 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 auditors' 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 the 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, 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants

Edmonton, Canada

April 29, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

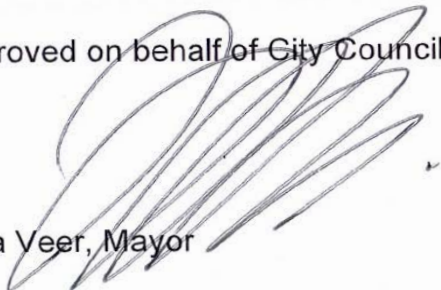
As at December 31, 2018 (in thousands of dollars)

	2018	2017
Financial Assets		
Cash and cash equivalents (Note 2)	\$ 2,870	\$ 18,623
Accounts receivable (Note 3)	47,854	59,663
Land held for sale (Note 4)	48,718	50,190
Investments (Note 5)	216,461	169,842
Loans receivable (Note 6)	4,310	4,327
	320,213	302,645
Liabilities		
Accounts payable and accrued liabilities (Note 7)	37,557	44,856
Deposits	3,192	2,670
Deferred revenue (Note 8)	63,931	44,048
Employee benefit obligations (Note 9)	15,880	14,724
Landfill closure and post-closure liability (Note 10)	5,288	4,973
Long-term debt (Note 11)	275,214	274,564
	401,062	385,835
Net Debt	(80,849)	(83,190)
Non-financial Assets		
Tangible capital assets (Schedule 1, Note 13)	2,062,830	2,022,765
Inventory held for consumption	8,302	9,809
Prepaid expenses	1,996	637
	2,073,128	2,033,211
Accumulated Surplus (Schedule 2, Note 15)	\$ 1,992,279	\$ 1,950,021

Contractual rights and obligations (Note 25)
 Contingencies (Note 26)
 Guarantees (Note 27)
 Segmented disclosure (Schedule 3, Note 28)

Approved on behalf of City Council:

Tara Veer, Mayor



Tanya Handley, Councillor



See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2018 (in thousands of dollars)

	Budget (Note 30)	2018	2017
Revenues (Schedule 3)			
Net municipal taxes (Note 16)	\$ 131,615	\$ 130,975	\$ 126,701
User fees and sale of goods (Note 17)	181,143	170,279	168,674
Operating government transfers (Note 18)	13,303	13,615	15,110
Investment earnings	5,643	2,793	3,177
Fines and penalties	6,224	6,650	5,937
Franchise fees	8,873	8,418	9,225
Licenses and permits	3,259	3,624	3,249
Other operating revenue	3,930	6,977	5,255
	353,990	343,331	337,328
Expenses (Schedule 3, Note 19)			
General government services	44,865	43,511	36,641
Protective services and parking	79,010	77,884	76,679
Transportation and fleet	77,025	79,998	78,367
Community services	13,515	12,645	15,376
Recreation, parks, and culture	49,765	50,328	50,896
Water and wastewater	40,427	35,258	36,187
Waste management	17,432	14,064	14,642
Subdivisions, land, and development	2,282	3,198	2,277
Electric light and power	44,734	41,030	39,322
	369,055	357,916	350,387
Annual Deficit before Other	(15,065)	(14,585)	(13,059)
Other			
Capital government transfers (Note 18)	23,679	32,185	28,481
Contributed tangible capital assets (Note 13)	7,497	19,325	7,325
Developer and customer contributions	3,725	5,088	6,995
Other capital revenue	138	245	956
Annual Surplus	19,974	42,258	30,698
Accumulated Surplus, beginning of year	1,950,021	1,950,021	1,919,323
Accumulated Surplus, end of year	\$ 1,969,995	\$ 1,992,279	\$ 1,950,021

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

For the Year Ended December 31, 2018 (in thousands of dollars)

	Budget (Note 30)	2018	2017
Annual Surplus	\$ 19,974	\$ 42,258	\$ 30,698
Acquisition of tangible capital assets	(103,353)	(97,585)	(126,850)
Contributed tangible capital assets	(7,497)	(19,325)	(7,325)
Proceeds on disposal of tangible capital assets	-	4,293	1,195
Amortization of tangible capital assets	63,867	74,536	66,686
Gain on disposal of tangible capital assets	-	(1,984)	(2)
	(46,983)	(40,065)	(66,296)
Net use of inventory held for consumption	-	1,507	171
Net use (acquisition) of prepaid expenses	-	(1,359)	3,537
	-	148	3,708
Decrease (Increase) in Net Debt	(27,009)	2,341	(31,890)
Net Debt, beginning of year	(83,190)	(83,190)	(51,300)
Net Debt, end of year	\$ (110,199)	\$ (80,849)	\$ (83,190)

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018 (in thousands of dollars)

	2018	2017
Net inflow (outflow) of cash related to the following activities:		
Operating Activities		
Annual surplus	\$ 42,258	\$ 30,698
Non-cash items included in annual surplus:		
Amortization of tangible capital assets	74,536	66,686
Gain on disposal of tangible capital assets	(1,984)	(2)
Contributed tangible capital assets	(19,325)	(7,325)
Non-cash charges to operations:		
Accounts receivable	11,809	(19,493)
Land held for sale	1,472	(1,479)
Loans receivable	17	548
Accounts payable and accrued liabilities	(7,299)	(703)
Deposits	522	(331)
Deferred revenue	19,883	2,772
Employee benefit obligations	1,156	600
Landfill closure and post-closure liability	315	680
Inventory held for consumption	1,507	171
Prepaid expenses	(1,359)	3,537
	123,508	76,359
Capital Activities		
Acquisition of tangible capital assets	(97,585)	(126,850)
Proceeds on disposal of tangible capital assets	4,293	1,195
	(93,292)	(125,655)
Investing Activities		
Net sales of investments	(46,619)	44,570
	(46,619)	44,570
Financing Activities		
Long-term debt issued	22,212	49,741
Long-term debt repaid	(21,562)	(20,447)
	650	29,294
Change in cash and cash equivalents during the year	(15,753)	24,568
Cash and cash equivalents (bank indebtedness), beginning of year	18,623	(5,945)
Cash and cash equivalents, end of year	\$ 2,870	\$ 18,623

See accompanying Notes to the Consolidated Financial Statements

SCHEDULE 1 - CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS

For the Year Ended December 31, 2018 (in thousands of dollars)

	Land	Land Improvements	Buildings	Machinery, Equipment, and Furnishings	Vehicles	Engineered Structures	Assets Under Construction		
								2018	2017
Cost:									
Balance, beginning of year	\$ 352,426	\$ 107,062	\$ 373,231	\$ 92,433	\$ 50,369	\$ 1,877,097	\$ 123,442	\$ 2,976,060	\$ 2,849,406
Acquisition and contributions of tangible capital assets	1,013	17,045	22,863	19,499	18,045	65,955	(27,510)	116,910	134,175
Disposal of tangible capital assets	-	(153)	(2,696)	(1,700)	(3,896)	-	-	(8,445)	(7,521)
Balance, end of year	353,439	123,954	393,398	110,232	64,518	1,943,052	95,932	3,084,525	2,976,060
Accumulated Amortization:									
Balance, beginning of year	-	(46,601)	(113,538)	(47,479)	(24,355)	(721,322)	-	(953,295)	(892,937)
Amortization of tangible capital assets	-	(4,850)	(10,668)	(9,957)	(5,197)	(43,864)	-	(74,536)	(66,686)
Accumulated amortization on disposals	-	110	2,173	1,199	2,654	-	-	6,136	6,328
Balance, end of year	-	(51,341)	(122,033)	(56,237)	(26,898)	(765,186)	-	(1,021,695)	(953,295)
Net book value of tangible capital assets	\$ 353,439	\$ 72,613	\$ 271,365	\$ 53,995	\$ 37,620	\$ 1,177,866	\$ 95,932	\$ 2,062,830	\$ 2,022,765
2017 Net Book Value of Tangible Capital Assets	\$ 352,426	\$ 60,461	\$ 259,693	\$ 44,954	\$ 26,014	\$ 1,155,775	\$ 123,442	\$ 2,022,765	

See accompanying Notes to the Consolidated Financial Statements (Note 13)

SCHEDULE 2 - CONSOLIDATED SCHEDULE OF CHANGE IN ACCUMULATED SURPLUS

For the Year Ended December 31, 2018 (in thousands of dollars)

	Unrestricted deficit and capital to be financed	Reserves	Equity in Tangible Capital Assets	2018	2017
Balance, beginning of year	(46,663)	220,943	1,775,741	1,950,021	1,919,323
Annual Surplus	42,258	-	-	42,258	30,698
Unrestricted funds designated for future use	(79,569)	79,569	-	-	-
Restricted funds designated for operations	38,433	(38,433)	-	-	-
Restricted funds used for tangible capital assets	-	(42,142)	42,142	-	-
Current year funds used for tangible capital assets	(55,443)	-	55,443	-	-
Contributed tangible capital assets	(19,325)	-	19,325	-	-
Disposal of tangible capital assets	2,309	-	(2,309)	-	-
Amortization of tangible capital assets	74,536	-	(74,536)	-	-
Long term debt related to tangible capital assets issued	22,212	-	(22,212)	-	-
Long term debt related to tangible capital assets repaid	(19,346)	-	19,346	-	-
Change in accumulated surplus	6,065	(1,006)	37,199	42,258	30,698
Balance, end of year	(40,598)	219,937	1,812,940	1,992,279	1,950,021

See accompanying Notes to the Consolidated Financial Statements (Note 15)

SCHEDULE 3 - CONSOLIDATED SCHEDULE OF SEGMENTED DISCLOSURE

For the Year Ended December 31, 2018 (in thousands of dollars)

	General government services	Protective services and parking	Transportation and fleet	Community services	Recreation, parks, and culture	Water and wastewater	Waste management	Subdivisions, land, and development	Electric light and power	Total
Revenues										
Net municipal taxes	\$ 8,220	\$ 54,395	\$ 32,423	\$ 5,717	\$ 30,220	\$ -	\$ -	\$ -	\$ -	\$ 130,975
User fees and sale of goods	299	14,595	6,077	471	9,305	57,832	18,024	2,952	60,724	170,279
Operating government transfers	720	3,562	549	7,732	1,052	-	-	-	-	13,615
Investment earnings	1,422	8	365	43	153	172	191	226	213	2,793
Fines and penalties	1,053	4,883	-	-	124	350	64	-	176	6,650
Franchise fees	8,343	-	-	-	75	-	-	-	-	8,418
Licenses and permits	100	3,474	28	22	-	-	-	-	-	3,624
Other operating revenue	364	2,471	(110)	1,344	1,950	159	394	393	12	6,977
	20,521	83,388	39,332	15,329	42,879	58,513	18,673	3,571	61,125	343,331
Expenses										
Salaries, wages, and benefits	23,229	43,801	28,465	4,075	29,241	10,604	1,149	645	5,171	146,380
Contracted services	7,568	4,422	5,153	703	4,642	3,034	11,259	33	3,673	40,487
Materials and supplies	1,197	1,398	7,849	324	5,540	4,722	176	2,154	27,681	51,041
Purchases from other governments	-	24,661	-	-	-	-	-	-	-	24,661
Grants to organizations	470	-	369	7,340	2,037	-	-	-	-	10,216
Financial charges	5,610	463	1,027	-	121	1,884	3	366	597	10,071
Amortization of tangible capital assets	5,298	2,984	37,078	206	8,711	15,014	1,241	-	4,004	74,536
Other expenses	139	155	57	(3)	36	-	236	-	(96)	524
	43,511	77,884	79,998	12,645	50,328	35,258	14,064	3,198	41,030	357,916
Annual surplus (deficit) before other	(22,990)	5,504	(40,666)	2,684	(7,449)	23,255	4,609	373	20,095	(14,585)
Other										
Capital government transfers	107	-	27,861	-	1,510	1,000	-	-	1,707	32,185
Contributed tangible capital assets	-	-	5,636	-	4,605	9,084	-	-	-	19,325
Developer and customer contributions	-	-	1,297	-	330	1,287	-	22	2,152	5,088
Other capital revenue	-	-	36	-	189	20	-	-	-	245
Annual surplus (deficit)	\$ (22,883)	\$ 5,504	\$ (5,836)	\$ 2,684	\$ (815)	\$ 34,646	\$ 4,609	\$ 395	23,954	\$ 42,258

See accompanying Notes to the Consolidated Financial Statements (Note 28)

SCHEDULE 3 - CONSOLIDATED SCHEDULE OF SEGMENTED DISCLOSURE

For the Year Ended December 31, 2017 (in thousands of dollars)

	General government services	Protective services and parking	Transportation and fleet	Community services	Recreation, parks, and culture	Water and wastewater	Waste management	Subdivisions, land, and development	Electric light and power	Total
Revenues										
Net municipal taxes	\$ 5,517	\$ 51,704	\$ 33,555	\$ 5,623	\$ 30,302	\$ -	\$ -	\$ -	\$ -	\$ 126,701
User fees and sale of goods	365	14,557	5,943	465	9,469	54,655	17,738	8,035	57,447	168,674
Operating government transfers	973	3,472	273	9,310	1,082	-	-	-	-	15,110
Investment earnings	1,497	-	659	55	160	134	252	105	315	3,177
Fines and penalties	1,014	4,270	-	-	93	262	58	44	196	5,937
Franchise fees	9,153	-	-	-	72	-	-	-	-	9,225
Licenses and permits	79	3,118	25	27	-	-	-	-	-	3,249
Other operating revenue	1,665	416	1,337	96	810	433	479	16	3	5,255
	20,263	77,537	41,792	15,576	41,988	55,484	18,527	8,200	57,961	337,328
Expenses										
Salaries, wages, and benefits	21,205	43,346	28,095	4,636	29,207	10,671	1,022	501	5,331	144,014
Contracted services	7,287	4,598	5,384	878	5,335	3,628	11,703	(59)	3,626	42,380
Materials and supplies	1,120	1,765	8,755	333	4,758	5,109	71	1,574	26,009	49,494
Purchases from other governments	-	23,534	-	-	-	-	-	-	-	23,534
Grants to organizations	483	-	410	9,209	4,163	-	-	-	-	14,265
Financial charges	4,839	491	1,125	-	149	2,037	3	261	603	9,508
Amortization of tangible capital assets	2,062	2,765	34,679	221	7,429	14,567	1,196	-	3,767	66,686
Other expenses	(355)	180	(81)	99	(145)	175	647	-	(14)	506
	36,641	76,679	78,367	15,376	50,896	36,187	14,642	2,277	39,322	350,387
Annual surplus (deficit) before other	(16,378)	858	(36,575)	200	(8,908)	19,297	3,885	5,923	18,639	(13,059)
Other										
Capital government transfers	50	-	26,251	-	592	186	-	-	1,402	28,481
Contributed tangible capital assets	-	-	2,949	-	3,400	976	-	-	-	7,325
Developer and customer contributions	-	-	4,986	-	421	592	-	-	996	6,995
Other capital revenue	-	-	58	-	895	2	-	1	-	956
Annual surplus (deficit)	\$ (16,328)	\$ 858	\$ (2,331)	\$ 200	\$ (3,600)	\$ 21,053	\$ 3,885	\$ 5,924	\$ 21,037	\$ 30,698

See accompanying Notes to the Consolidated Financial Statements (Note 28)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements (the "financial statements") of The City of Red Deer ("The City") are prepared by management in accordance with Canadian public sector accounting standards ("PSAS"). Significant aspects of the accounting policies adopted by The City are as follows:

(a) Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenses, changes in reserve balances, and change in financial position of the reporting entity. This entity is comprised of the municipal operations as well as all the organizations and committees that are controlled and therefore, accountable to City Council for the administration of their financial affairs and resources. They include the following:

City Municipal and Utility Operations

- ◆ General government services;
- ◆ Protective services and parking;
- ◆ Transportation and fleet;
- ◆ Community services;
- ◆ Recreation, parks, and culture;
- ◆ Water and wastewater;
- ◆ Waste management;
- ◆ Subdivisions, land, and development; and
- ◆ Electric light and power.

Societies and Boards

- ◆ Red Deer Public Library;
- ◆ Red Deer Downtown Business Association;
- ◆ Waskasoo Environmental Education Society;
- ◆ Red Deer and District Museum Society; and
- ◆ Red Deer River Bend Golf & Recreation Society ("River Bend Golf Course").

Interdepartmental and inter-entity transactions and balances are eliminated on consolidation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

(b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are accounted for in the period in which they are earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay.

i. Net Municipal Taxes

Property tax revenue is based on market value assessments determined in accordance with the Municipal Government Act (MGA) and tax rates established annually by City Council. Taxation revenues are recorded at the time the tax billings are issued, except for local improvement taxes which are recognized as revenue in the year the capital project is completed and the Local Improvement Bylaw is approved. Assessments may change due to appeal or as a result of adjustments made by assessors to correct errors or omissions. Gains or losses on assessment changes or appeals are recorded as adjustments to tax revenue and tax receivables when a written decision is received from the authorized board or a change is generated by authorized assessment staff.

ii. Government Transfers

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

iii. External Contributions

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

Developer contributions received from third parties are recognized as revenue when the related expenditures have been incurred. Offsite levy revenue from external developers is deferred in the appropriate offsite deferred revenue account and recognized as revenue as The City constructs the related offsite basins.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

(c) Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates and assumptions.

Significant financial statement areas requiring the use of management estimates include:

- ◆ landfill closure and post-closure liability;
- ◆ valuation of inventory;
- ◆ employee benefit obligations;
- ◆ useful life of tangible capital assets;
- ◆ accrued liabilities;
- ◆ liabilities for potential environmental obligations;
- ◆ allowance for doubtful accounts receivable; and
- ◆ fair value of contributed tangible capital assets.

(d) Financial Instruments

Financial assets are measured at amortized cost and consist of cash and cash equivalents, accounts receivable, investments, and loans receivable. Financial assets are tested annually for impairment. Impairment losses are recorded in the statement of operations. Any write-downs resulting from impairment are not reversed for subsequent increases in value.

Financial liabilities are measured at amortized cost and include accounts payable and accrued liabilities, deposits, and long-term debt.

i. Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposits with financial institutions including bank indebtedness and highly liquid investments with original term to maturity of three months or less.

ii. Investments

Investment income is recognized as revenue in the period earned. When required by an external funder, investment income earned on deferred revenue is allocated to the deferred revenue balance. Investment premiums and discounts are amortized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

iii. Loans Receivable

Loans are classified as impaired when, in management's opinion, there is no reasonable assurance of the timely collection of the full amount of principal and interest. The allowance for impairment is recorded against loans receivable. Changes in the allowance are recognized in the statement of operations. Interest is accrued on loans receivable to the extent it is deemed collectable.

The allowance for impairment represents management's best estimate of losses due to impaired loans. The provision is determined based on management's identification and evaluation of the doubtful accounts and estimated losses that exist in the portfolio. Loan write-offs must be approved by City Council.

(e) Land Held for Sale

Land held for sale is recorded at the lower of cost or net realizable value. Cost includes the acquisition costs of the land and the improvements required to prepare the land for servicing such as clearing, stripping, and leveling.

(f) 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. If 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.

(g) Employee Benefit Obligations

The cost of employment benefits, pension benefits, compensated absences, and termination benefits are recorded as an expense at the time the event giving rise to the obligation occurs.

(h) Local Improvement Charges

Construction costs associated with local improvement projects are recovered through annual tax levies collectible from property owners for work performed by The City. Taxpayers may elect to pay over a number of years or immediately prepay the outstanding local improvement charges.

(i) Liability for Contaminated Sites

Contaminated sites are a result of contamination being introduced into air, soil, water, sediment, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

(j) Landfill Closure and Post-Closure Liability

Pursuant to the Alberta Environmental Protection and Enhancement Act, The City is required to fund the closure of its landfill sites and provide for post-closure care of the facility. Closure and post-closure activities include final clay cover, landscaping, as well as surface and ground water monitoring, leachate control, and site inspection and maintenance. This requirement is being provided for over the estimated remaining life of the landfill site based on usage.

(k) 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 annual surplus, provides the Consolidated Change in Net 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. Government contributions for the acquisition of tangible capital assets are reported as revenue and do not reduce the related tangible capital asset costs.

The cost, less residual value of the tangible capital assets, excluding land and landfill cells, are amortized on a straight-line basis over the estimated useful life as follows:

ASSET TYPE	Years
Land improvements	7-50
Buildings	10-50
Machinery, equipment, and furnishings	4-40
Vehicles	8-18
Engineered structures	
Roadway system	7-90
Water system	7-75
Wastewater system	7-75
Storm system	45-75
Electrical system	20-40
Fibre optics system	30

Amortization begins in the month the tangible capital asset is placed in service and ends in the month the tangible capital asset is disposed. Tangible capital assets under construction or development are reported as assets under construction with no amortization recorded until the asset is available for productive use. Tangible capital assets are written down when conditions indicate that they no longer contribute to The City's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. Net write-downs are accounted for as expenses in the Consolidated Statement of Operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

ii. Contributed Tangible Capital Assets

Tangible capital assets received as contributions such as privately developed subdivisions including water systems, sanitary systems, storm systems, roads, and landscaping are recorded at their fair value at the date of completion and recorded as revenue on the Consolidated Statement of Operations.

iii. Cultural and Historical Tangible Capital Assets

Works of art for display, archived municipal records, and municipal historical artifacts are not recorded as tangible capital assets since a reasonable estimate of the future economic benefits associated with such property cannot be made. Acquisitions of cultural and historical assets are expensed in the period the related costs are incurred.

iv. 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.

v. Inventory Held for Consumption

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

(l) Reserves

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

(m) Adoption of New Accounting Standards

The following accounting standards were adopted in 2018:

i. Contractual Rights

PS3380, *Contractual Rights* are defined as economic resources arising from agreements that will result in both an asset and revenue in the future. This standard was adopted on a prospective basis. Contractual rights for 2018 are disclosed in Note 25.

ii. Related Party Disclosure

PS2200, *Related Party Disclosure* requires the disclosure of the effect of financially material transactions between related parties, which include entities under common or shared control and key management personnel along with their affiliations and close family members. This standard was adopted on a prospective basis. No material transactions have occurred between The City and its identified related parties, therefore there is no requirement to disclose those transactions in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

iii. Inter-Entity Transactions

PS3420, *Inter-Entity Transactions*, specifically covers how to account for and report transactions between entities controlled by a government from both a provider and a recipient perspective. These transactions have been eliminated on consolidation and therefore this new standard has little impact on these financial statements.

(n) Future Accounting Pronouncements

The following summarizes upcoming changes to PSAS put forward by the Public Sector Accounting Board ("PSAB"). In the coming years, The City will assess the impact and prepare for the adoption of these standards. While the timing of adopting each new standard can vary, certain standards must be adopted concurrently.

i. Restructuring Transactions

PS3430, *Restructuring Transactions*, provides guidance in accounting for transactions arising from restructuring type transactions such as: amalgamation of entities or operations within the reporting entity, amalgamation of local governments, annexation or boundary alterations, transfers of operations or programs from one entity to another, and/or shared service arrangements entered into by local governments. The net effect of restructuring transactions should be presented as separate revenue and expense items in the Statement of Operations and sufficient detail of the nature and financial effects on financial position and operations should be disclosed. This standard is applicable for fiscal years beginning on or after April 1, 2018.

ii. Financial Statement Presentation

PS1201, *Financial Statement Presentation*, requires a new statement of re-measurement gains and losses separate from the statement of operations. Included in this new statement are the unrealized gains and losses arising from the re-measurement of financial instruments and items denominated in foreign currencies, as well as the government's proportionate share of other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. This standard is applicable for the fiscal years beginning on or after April 1, 2021.

iii. Financial Instruments

PS3450, *Financial Instruments*, establishes recognition, measurement, and disclosure requirements for derivative and non-derivative financial instruments. The standard requires fair value measurement of derivatives and equity instruments; all other financial instruments can be measured at cost, amortized cost, or fair value at the election of the government. There is the requirement to disclose the nature and extent of risks arising from financial instruments and clarification is given for the de-recognition of financial liabilities. This standard is applicable for fiscal years beginning on or after April 1, 2021.

iv. Foreign Currency Translation

PS2601, *Foreign Currency Translation* must be adopted in conjunction with PS3450. It requires that monetary assets and liabilities be denominated in a foreign currency and non-monetary items included in the fair value category that are denominated in a foreign currency, be adjusted to reflect the exchange rates in effect at the financial statement date. Unrealized gains and losses are to be presented in the new statement of re-measurement gains and losses. This standard is applicable for fiscal years beginning on or after April 1, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

v. Portfolio Investments

PS3041, *Portfolio Investments* has removed the distinction between temporary and portfolio investments and was amended to conform to *Financial Instruments*, PS3450. Once PS3450 and PS3041 are adopted, *Temporary Investments* PS3030 will no longer apply. This standard is applicable for fiscal years beginning on or after April 1, 2021.

vi. Asset Retirement Obligations

PS3280, *Asset Retirement Obligations* defines which activities would be included in a liability for retirement of a tangible capital asset, establishes when to recognize and how to measure a liability for asset retirement, and provides the related financial statement presentation and disclosure requirements. This new standard will effectively replace PS3270, *Solid Waste Landfill Closure and Post-closure Liability*. This standard is applicable for fiscal years beginning on or after April 1, 2021.

vii. Revenue

PS3400, *Revenue* establishes standards on how to account for and report on revenue, specifically in regards to revenue arising from transactions with performance obligations (exchange transactions) and those without performance obligations (non-exchange transactions). This standard is applicable for fiscal years beginning on or after April 1, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018 (in thousands of dollars)

2 CASH AND CASH EQUIVALENTS

	2018	2017
Cash	\$ 2,870	\$ 18,539
Cash in investment accounts	-	84
	\$ 2,870	\$ 18,623

The City has access to an unsecured line of credit of up to \$30,000 (2017 - \$25,000) with an interest rate of prime minus 0.75%, resulting in an effective rate of 3.20% (2017 - 2.45%) to cover any bank overdraft arising from day to day cash transactions. As at December 31, 2018, there was no amount outstanding on the line of credit overdraft (2017 - Nil).

3 ACCOUNTS RECEIVABLE

	2018	2017
Property Taxes:		
Current taxes and grants in place of taxes	\$ 2,855	\$ 2,401
Arrears	523	503
Local improvement levies	3,694	3,902
	7,072	6,806
General	5,209	5,807
Utilities	17,789	11,560
Government transfers	14,683	32,746
Interest on investments	780	552
Other receivables	2,457	2,332
Allowance for doubtful accounts	(136)	(140)
	40,782	52,857
	\$ 47,854	\$ 59,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

4 LAND HELD FOR SALE

	2018		2017	
Residential	\$	1,412	\$	1,050
Industrial and commercial		4,017		4,399
Land held ready for sale		5,429		5,449
Residential		26,403		27,855
Industrial and commercial		16,886		16,886
Land held not ready for sale	\$	43,289	\$	44,741
		48,718		50,190

Land held ready for sale is land in a condition to be sold, marketed for sale, and reasonably anticipated to be sold within one year. Land held not ready for sale is land held for future development and is not reasonably anticipated to be sold within one year.

5 INVESTMENTS

	2018		2017	
	Cost	Market Value	Cost	Market Value
Short-term investments	\$ 69,181	\$ 69,452	\$ 24,272	\$ 24,328
Federal government	13,961	13,883	12,653	12,507
Provincial government	78,455	78,387	77,553	77,021
Municipal government	3,311	3,259	3,067	3,147
Canadian banks	40,000	38,869	39,182	39,311
Corporate	10,460	10,163	12,057	11,939
Other	1,093	1,085	1,058	1,048
	\$ 216,461	\$ 215,098	\$ 169,842	\$ 169,301

Short-term investments are reasonably liquid investments held in various financial institutions, notably Canadian Treasury Bills and Guaranteed Income Certificates. These investments have interest rates of 0.00% to 2.81% (2017 - 0.00% to 1.65%) with maturities of generally one year or less.

The remaining investments have interest rates of 0.50% to 6.47% (2017 - 1.00% to 10.25%) and mature in periods from January 14, 2019 to April 12, 2054 (2017 - April 2, 2018 to June 30, 2108).

Any declines in market value below cost are considered to be temporary and therefore no write-downs have been recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

6 LOANS RECEIVABLE

	2018	2017
Central Alberta Theatre	\$ 12	\$ 17
Red Deer Gymnastics Club	-	22
Red Deer Curling Centre	45	-
Red Deer and District SPCA	701	736
2019 Canada Winter Games Host Society	3,552	3,552
	\$ 4,310	\$ 4,327

Principal amounts due are as follows:

2019	\$ 3,616
2020	66
2021	43
2022	41
2023	43
Thereafter	501
	\$ 4,310

(a) The City provided a loan to Central Alberta Theatre to pay for servicing and fire suppression apparatus to meet the requirements of the Alberta Building Code. The original term of the loan was 4 years and with an interest rate of 5.33% per annum. In 2014, City Council approved an amended loan bylaw that extended the loan term to 7 years and reduced the interest rate to 2.96%.

(b) The City had provided a loan to Red Deer Gymnastics Club for space in the Collicutt Centre. The term of the loan was 17 years bearing interest at an initial rate of 6.00% per annum and reduced to 3.75% effective January 2, 2012. This loan was paid in full in 2018.

(c) The City Council approved a loan to Red Deer Curling Centre to help make their facility exterior consistent with the adjacent Servus Arena. The original loan issued in 2018 was \$68, representing 50% of the Centre's share of installation costs. The loan terms are 3 equal payments of \$23 due October 1 of 2018, 2019, and 2020 and bearing 0.00% interest per annum.

(d) The City provided a loan to The Red Deer & District SPCA for the construction of a new facility. The term of the loan is 25 years and bears interest at a rate of 3.60% per annum, changed from 5.06% per annum upon an amended loan agreement signed in October of 2015. The interest rate is to be reviewed every three years on the anniversary date of the original agreement.

(e) In 2016, The City advanced funds to the 2019 Canada Winter Games Host Society (Host Society) for capital projects related to the 2019 Canada Winter Games (Games). The entire advance will be repaid by the end of 2019 with an interest rate of 0.00% per annum. For more information related to the Games and the Host Society, see Note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018 (in thousands of dollars)

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018		2017
Trade	\$ 29,753	\$	35,917
Payroll and remittances	3,603		3,953
Goods and Services Tax	350		603
Liability for contaminated sites	2,771		2,922
Accrued interest	991		954
Other	89		507
	\$ 37,557	\$	44,856

The City owns properties that have undergone initial Environmental Site Assessments. Where the site assessments identified environmental contamination, liabilities for future environmental remediation were established.

Remediation activity for each contaminated site is as follows:

		2017	Remediation Costs		2018
Riverlands Development	\$	1,272	\$ 146	\$	1,126
P2 Parking Lot		450	-		450
P10 Parking Lot		1,200	5		1,195
Liability for contaminated sites	\$	2,922	\$ 151	\$	2,771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

8 DEFERRED REVENUE

Deferred revenue is comprised of the funds noted below, the use of which are externally restricted or subject to stipulations from the funders.

	2017	Restricted contributions received including interest earned	Revenue recognized	2018
Deferred Government Transfers				
Basic Municipal Transportation Grant	\$ 998	\$ 2	\$ 935	\$ 65
Municipal Sustainability Initiative	14,659	32,485	14,225	32,919
Federal Gas Tax Fund	6,079	6,293	6,621	5,751
GreenTRIP	-	2,015	-	2,015
Water for Life Grant	450	1,000	1,000	450
Family and Community Support Services	229	3,108	3,121	216
Outreach Support Services Initiative	2,557	3,835	3,681	2,711
Other government	343	5,873	5,866	350
	25,315	54,611	35,449	44,477
Other Deferred Revenue				
Recreation amenity	2,774	279	331	2,722
Developer and customer contributions	11,584	6,450	4,757	13,277
Other	4,375	5,014	5,934	3,455
	18,733	11,743	11,022	19,454
	\$ 44,048	\$ 66,354	\$ 46,471	\$ 63,931

The Municipal Sustainability Initiative (MSI) is made up of capital and operating components. The capital component, in conjunction with Federal Gas Tax Fund are restricted to eligible capital projects as approved by the Province of Alberta and scheduled for completion in future years. MSI's operating component makes up \$650 (2017 - \$701) of the amount received in 2018.

For more information on government transfers received during the year, see Note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018 (in thousands of dollars)

9 EMPLOYEE BENEFIT OBLIGATIONS

	2018	2017
Vacation, overtime, and earned days off	\$ 8,514	\$ 7,577
Retiring allowance	2,609	2,439
Other employment benefits	4,757	4,708
	\$ 15,880	\$ 14,724

(a) Vacation, Overtime, and Earned Days Off

The liability is comprised of vacation, overtime, and earned days off that employees are deferring to future years. Employees are entitled to these benefits within the next fiscal year.

(b) Retiring Allowance

The City provides a retiring allowance to employees consisting of one day of pay for each year of employment with The City as long as the employee has 15 years of service with The City and they retire into the Local Authorities Pension Plan. The retiring allowance is not currently funded. An actuarial valuation for the retiring allowance was completed by an independent actuary as at December 31, 2018 and extrapolated to December 31, 2020. Key actuarial assumptions used in the valuation were based on a number of assumptions about future events, which reflect management's best estimates.

The expected discount rate of 3.40% (2017 - 3.00%) and the expected salary escalations of 2.75% are used to determine the accrued benefit obligation. The accrued benefit obligation is \$2,811 (2017 - \$2,609) using projected benefit method prorated on services. The net actuarial loss of \$202 (2017 - \$170) is amortized on a straight line basis over 13 years starting with the year following its determination.

(c) Other Employee Benefits

Employees accumulate sick day entitlements up to maximums set in the various union agreements that may be used for casual or short term benefits. Employees are also eligible for Employee Disability Support Plan (EDSP) and sick plan benefits for longer-term disability. The liability is recorded on an accrual basis based on the most recent five-year average usage of sick time, EDSP, and sick plan benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

10 LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

The estimated total landfill liability is based on the sum of discounted future cash flows for closure and post-closure activities for 40 years after closure using a discount rate of 2.84% (2017 - 2.94%) and annual inflation of 1.80% (2017 - 1.59%). The reported liability is based on estimates and assumptions with respect to events using the best information available to management. Future events, such as changes to regulatory requirements, may result in significant changes to the estimated total expenses and will be recognized prospectively as a change in estimate when applicable.

The 1972 landfill site reached its full capacity and was permanently closed in 2002. It is estimated that post-closure care will be required for a period of 40 years from the time of closure. The present value of estimated future post-closure costs has been calculated and accrued.

The new waste management facility commenced operation in 2001 and consists of three phases of development. All three phases combined are estimated to provide capacity to 2050. Closure activities will be ongoing as the landfill reaches final design elevation. Closure and post-closure costs are based on an independent study conducted in 2012. Phase one of the landfill has an estimated capacity of 737,412 (2017 - 778,624) cubic metres remaining, which is projected to last until 2022 based on current growth and usage. It is estimated that post closure care will be required for a period of 40 years from closure. The present value of estimated future closure and post closure costs has been calculated and accrued.

The City has not designated assets for settling closure and post-closure liabilities.

The following summarizes the total net present value for the estimated costs of closure and post-closure care:

	1972 Site	2001 Site Phase One	2018	2017
Total estimated closure and post-closure costs	1,853	4,350	6,203	5,885
Estimated capacity used	100 %	79 %	79 %	77 %
Liability recognized as of December 31, 2018	1,853	3,435	5,288	4,973
Estimated capacity remaining	-%	21 %	21 %	23 %
Remaining estimated costs to be recognized	\$ -	\$ 915	\$ 915	\$ 912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

11 LONG-TERM DEBT

Long-term debt is comprised of :

	2018	2017
Tax-supported debt	\$ 145,479	\$ 137,945
Self-supported debt:		
Offsites	34,142	39,697
Utilities	62,641	61,063
Land and other	32,952	35,859
	\$ 275,214	\$ 274,564

Current portion of long-term debt amounts to \$19,960 (2017 - \$21,547).

Tax-supported debt represents the amount funded by municipal taxes. Self-supported debt represents the amount funded through self-supported municipal operations including fleet, subdivisions, parking, offsite levies collected from developers, wastewater, waste management, and electric light and power.

Principal and interest repayments are as follows:

	Principal	Interest	Total
2019	\$ 19,960	\$ 9,764	\$ 29,724
2020	19,018	9,103	28,121
2021	19,662	8,459	28,121
2022	18,727	7,799	26,526
2023	18,564	7,146	25,710
Thereafter	179,283	58,312	237,595
	\$ 275,214	\$ 100,583	\$ 375,797

Long-term debt consists of debentures payable to Alberta Capital Finance Authority (ACFA).

Debentures mature in annual amounts to 2048 (2017 – 2047). Interest rates on these debentures range from 1.84% to 5.38% (2017 - 1.84% to 5.38%) per annum. The average annual interest rate is 3.54% (2017 - 3.55%). Debenture debt is issued on the credit and security of The City at large.

During the year, a total of \$22,212 (2017- \$49,741) was added through new debenture borrowings to fund capital projects. Interest expenses on long-term debt amounted to \$9,824 (2017 - \$9,212). Cash payments for interest and principal were \$9,786 (2017 - \$9,197) and \$21,562 (2017 - 20,447) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018 (in thousands of dollars)

12 DEBT LIMIT

Section 276(2) of the MGA requires that debt and debt limits as defined by Alberta Regulation 255/2000 for The City be disclosed as follows:

	2018	2017
Total debt limit	\$ 522,996	\$ 517,919
Total debt	275,214	274,564
Percentage used	53 %	53 %
Total debt service limit	87,166	86,320
Total debt service	29,724	31,309
Percentage used	34 %	36 %

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 that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of The City. Rather, the financial statements must be interpreted as a whole.

Pursuant to section 6(1) of the Regulation, The City has elected to include revenue, total debt and debt service costs for controlled organizations in its debt limit and debt service limit calculations. The controlled organizations that have been included are Red Deer Public Library, Red Deer Downtown Business Association, Waskasoo Environmental Education Society, Red Deer and District Museum Society, and River Bend Golf Course.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018 (in thousands of dollars)

13 TANGIBLE CAPITAL ASSETS

	2018	2017
Net book value		
Land	\$ 353,439	\$ 352,426
Land improvements	72,613	60,461
Buildings	271,365	259,693
Machinery, equipment, and furnishings	53,995	44,954
Vehicles	37,620	26,014
Engineered structures		
Roadway system	414,906	412,537
Water system	208,882	206,898
Wastewater system	242,148	233,573
Storm system	215,667	211,705
Electrical system	94,902	90,033
Fibre optics system	1,361	1,029
	1,966,898	1,899,323
Assets under construction	95,932	123,442
	\$ 2,062,830	\$ 2,022,765

In 2018, \$19,325 (2017 - \$7,325) in land, building, and engineered structures were contributed to The City and were recorded at their fair value at the time received.

In 2018, \$249 (2017 - \$7) of works of art for display were acquired and then expensed as materials and supplies.

For additional information, see Schedule 1 - Consolidated Schedule of Tangible Capital Assets.

14 EQUITY IN TANGIBLE CAPITAL ASSETS

	2018	2017
Tangible capital assets (Schedule 1)	\$ 3,084,525	\$ 2,976,060
Accumulated amortization (Schedule 1)	(1,021,695)	(953,295)
Long-term debt related to tangible capital assets	(249,890)	(247,024)
Equity in tangible capital assets (Schedule 2)	\$ 1,812,940	\$ 1,775,741

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018 (in thousands of dollars)

15 ACCUMULATED SURPLUS

Accumulated surplus consists of restricted and unrestricted amounts including operating surplus, reserves, and equity invested in tangible capital assets.

	2018	2017
Unrestricted surplus in controlled agencies	\$ 148	\$ 170
Capital to be financed	(40,746)	(46,833)
Reserves		
Finance a specific purpose	1,854	1,783
Capital projects - tax supported	33,133	40,743
Municipal parkland	6,922	6,984
Operating - tax supported	33,838	31,757
Debt repayment	3,155	3,816
Capital asset replacement	20,234	27,209
Land development	63,009	65,430
Parking	1,637	372
Offsite	(6,257)	(10,012)
Power	24,148	19,878
Water	3,873	3,373
Wastewater	18,042	12,191
Solid waste management	16,349	17,419
Total reserves (Schedule 2)	219,937	220,943
Equity in tangible capital assets (Note 14)	1,812,940	1,775,741
Accumulated surplus (Schedule 2)	\$ 1,992,279	\$ 1,950,021

Effective in 2018, City Council approved of internal borrowing transfers of \$6,000 from the power reserve and \$4,500 from the capital asset replacement reserve to temporarily cover some of the shortfall in the offsite reserve. All internal loans have a term of 10 years and pay interest of 2.50% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018 (in thousands of dollars)

16 NET MUNICIPAL TAXES

	Budget (Note 30)	2018	2017
Taxation			
Real property taxes	\$ 172,621	\$ 172,068	\$ 169,616
Grants in place of taxes	1,561	1,561	1,504
Local improvement levies	-	-	(768)
Linear and other property taxes	3,286	3,286	1,681
	177,468	176,915	172,033
Requisitions			
Public schools	39,782	39,763	39,421
Catholic schools	5,566	5,672	5,511
Piper Creek Foundation	500	500	400
Designated industrial property	5	5	-
	45,853	45,940	45,332
	\$ 131,615	\$ 130,975	\$ 126,701

17 USER FEES AND SALE OF GOODS

	Budget (Note 30)	2018	2017
Utility user fees	\$ 133,765	\$ 131,927	\$ 125,249
Land sales	10,741	2,871	7,975
Transit revenue	5,974	5,829	5,751
Ambulance and dispatch revenue	12,166	12,184	12,260
Facility user fees	6,428	5,133	5,374
Equipment and facility rental	3,900	4,026	3,651
Electrical transmission recovery	4,320	4,320	4,320
Other	3,849	3,989	4,094
	\$ 181,143	\$ 170,279	\$ 168,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018 (in thousands of dollars)

18 GOVERNMENT TRANSFERS

	Budget (Note 30)	2018	2017
Operating transfers			
Provincial	\$ 12,212	\$ 12,509	\$ 13,540
Federal	730	729	887
Other local	361	377	683
	13,303	13,615	15,110
Capital transfers			
Provincial	13,163	21,349	23,826
Federal	10,516	10,607	4,633
Other local	-	229	22
	23,679	32,185	28,481
	\$ 36,982	\$ 45,800	\$ 43,591

(a) The Homelessness Partnering Strategy (HPS) is a program offered by the Government of Canada to address local homelessness issues. It is run from April 1, 2017 to March 31, 2020. The revenue is recognized quarterly on a claim basis submitted to the Federal Government. In 2018, the amount claimed was \$729 (2017 – \$887) and has been recognized as operating government transfers.

(b) In 2018, the Green Transit Incentives Program (GreenTRIP) has paired with Public Transit Infrastructure Fund (PTIF) to support municipalities in providing sustainable public transit alternatives. For GreenTRIP, The City recognized \$6,365 (2017 - \$4,468) as provincial capital government transfers for 2018 and accrued \$5,933 (2017 - \$2,932) of that amount. For PTIF, The City recognized \$3,986 in federal capital government transfers for 2018 and accrued \$2,023 in government transfer receivable.

(c) Alberta Solicitor General and Public Security provides annual funding for supporting municipalities with the costs of policing services. The City received \$1,607 in 2018 (2017 - \$1,597), and the full amount was recognized as operating government transfers in 2018.

(d) Alberta Emergency Management Agency provides funding to The City under the 911 Grant Program, which must only be used in relation to 911 call answering services. In 2018, The City received \$1,496 (2017 - \$1,425) for the 911 Grant Program and recognized the entire amount in operating government transfers for 2018.

For government transfers deferred to future years, see Note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018 (in thousands of dollars)

19 EXPENSES BY OBJECT

	Budget (Note 30)	2018	2017
Salaries, wages, and benefits	\$ 151,694	\$ 146,380	\$ 144,014
Contracted services	48,937	40,487	42,380
Materials and supplies	55,102	51,041	49,494
Purchases from other governments	24,921	24,661	23,534
Grants to organizations	11,508	10,216	14,265
Financial charges	12,511	10,071	9,508
Amortization of tangible capital assets	63,867	74,536	66,686
Other expenses	515	524	506
	\$ 369,055	\$ 357,916	\$ 350,387

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

20 SALARIES AND BENEFITS DISCLOSURE

The following City Council and executive salaries and benefits are disclosed as required by Alberta Regulation 313/2000 of the MGA.

	Salaries (a)	Benefits (b), (c)	2018	2017
Mayor:				
T. Veer	\$ 105	\$ 20	\$ 125	\$ 123
Councillors:				
S. Buchanan	58	13	71	70
M. Dawe	60	10	70	10
T. Handley	58	13	71	70
P. Harris	-	-	-	55
V. Higham	58	9	67	10
K. Johnston	58	13	71	70
L. Lee	64	13	77	71
L. Mulder	-	-	-	61
F. Wong	58	9	67	66
D. Wyntjes	58	13	71	70
	472	93	565	553
City Manager	419	26	445	307
Designated Officer	123	26	149	162
	\$ 1,119	\$ 165	\$ 1,284	\$ 1,145

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

(b) 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, long and short-term disability plans, professional memberships, tuition, and car allowance. Benefits and allowances also include supplementary employee retirement plan payments and moving and relocation allowances.

(c) Benefits for City Councillors include accidental death and dismemberment, group life, health care, dental coverage, registered savings plan, internet and phone allowances, transit, and Canada Pension Plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

21 LOCAL AUTHORITIES PENSION PLAN

Employees of The City participate in the Local Authorities Pension Plan (LAPP), which is a multi-employer plan governed by the Alberta Public Sector Pension Plans Act. The LAPP is financed by employer and employee contributions and by investment earnings of the LAPP Fund. Contributions for current service are recorded as expenditures in the year in which they become due.

The City is required to make current service contributions to LAPP of 10.39% of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) and 14.84% for the excess. Employees of The City are required to make current service contributions of 9.39% to the YMPE and 13.84% thereafter.

Total current service contributions by The City to LAPP in 2018 were \$12,592 (2017 - \$13,498). Total contributions by the employees of The City to LAPP in 2018 were \$11,538 (2017 - \$12,428).

As at December 31, 2017, LAPP reported an actuarial surplus of \$4.8 million (actuarial deficit 2017 - \$637 million). This amount is not specifically allocated to the participating government organizations. The 2018 actuarial balance was not available at the date these financial statements were released.

22 APEX SUPPLEMENTARY PENSION PLAN

The APEX supplementary pension plan, an Alberta Urban Municipality Association (AUMA) sponsored defined benefit pension plan covered under the provisions of the Alberta Employment Pension Plans Act, commenced on January 1, 2003, and provides supplementary pension benefits to a prescribed class of employees. The plan supplements the LAPP.

Contributions are made by the prescribed class of employees and The City. Employees and The City are required to make current service contributions to APEX of 2.84% and 3.78% respectively (2017 - 2.84%, 3.78%) of individual pensionable earnings up to \$147 (2017 - \$146).

Total current service contributions by The City to APEX were \$543 (2017 - \$551). Total current service contributions by the employees of The City were \$408 (2017 - \$414).

The cost of post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of salary and benefit escalation and retirement age of employees. The costs of post-retirement benefits are fully funded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

23 MUNI SUPPLEMENTARY EMPLOYEE RETIREMENT PLAN

Muni SERP is a supplementary employee retirement plan (SERP) defined by The City and administered by the Alberta Municipal Services Corporation (AMSC). The plan commenced on January 1, 2003, and provides supplementary retirement benefits to a prescribed class of employees in excess of the limits of the Income Tax Act (Canada). The supplementary benefit takes the form of a lump sum cash payment upon retirement or death. Muni SERP supplements APEX and LAPP and is a voluntary, non-contributory defined benefit employee retirement plan. The total current and past service liability to The City as at December 31, 2018 is estimated at \$702 (2017 - \$1,245).

A projected accrued benefit cost with prorating on service method is used to determine the accrued benefit obligation. Key actuarial assumptions used in the valuation were based on actuarial estimates. Those assumptions involve forecasts of expected future inflation rates, discount rates, wage and salary increases, maximum pension limit under the Income Tax Act, and employee turnover and mortality. Key assumptions are as follows: expected discount rate of 4.75% (2017 - 4.75%), expected salary escalations of 3.50% (2017 - 3.50%) per year, and inflation rate of 2.25% (2017 - 2.25%).

24 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

The City's financial instruments consist of cash and cash equivalents, accounts receivable, investments, loans receivable, accounts payable and accrued liabilities, deposits, and long term debt. It is management's opinion that The City is not exposed to significant interest or currency risks arising from these financial instruments.

The City is subject to credit risk with respect to taxes and grants in place of tax receivables, loans receivable, and trade and other receivables. Credit risk arises from the possibility that taxpayers and entities to which The City provides services may experience financial difficulty and be unable to fulfil 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

25 CONTRACTUAL RIGHTS AND OBLIGATIONS

As at December 31, 2018, The City had the following capital contractual rights and obligations:

Construction Contracts	Commitment Amount
Infrastructure projects	\$ 6,458
Water and Wastewater treatment plant upgrades	5,694
Parks and facility improvements	3,250
Transit system upgrades	2,874
Commercial development	2,840
Street Improvements	2,680
North highway connector	2,492
Power substation upgrades	2,330
Fleet purchases	2,266
Roadway rehabilitation	1,169
Network and IT Upgrades	794
Subdivision development	576
City Hall Improvements	392
Central Elementary School	383
CNG Fuelling station and bus purchases	161
Other minor projects	960
	\$ 35,319

The City entered into various developer agreements where engineered structures will be contributed to The City as at the date of their completion. Developer agreements in effect in 2018 that will result in future contributed assets total \$1,101.

The following are The City's significant operating contractual rights and obligations:

(a) Solid Waste and Recyclables Collection Contracts

The City's solid waste and recyclables collection contracts are based on a percentage of the utility billing for the year and will expire in May 2019 to make way for the new green, blue, and black cart programs. The green cart program is already in effect and expires March 31, 2023 with an option to renew for another two years. The black and blue cart programs are set to commence May 6, 2019. The estimated annual costs for the contracts in effect in 2018 total \$7,254 (2017 - \$9,546). The Waste Management Facility operations contract has an annual estimated cost of \$2,107 (2017 - \$2,074) and an expiry date of December 31, 2020.

(b) RCMP Contract

The City pays 90% of the operating costs for RCMP services through to March 31, 2032. The estimated annual contract cost for 2018 is \$25,637 (2017 - \$24,776).

(c) ENMAX Contract

In 2017, The City entered into a two year agreement with ENMAX Power Corporation to provide Meter Data Management Services to The City until February 29, 2020. The estimated remaining cost of the contract is \$3,093 (2017 - \$5,587).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

(d) Red Deer College

In 2016, The City entered into a contract with Red Deer College to provide \$11,500 over nine years toward the construction of sporting facilities related to the Games. As at December 31, 2018, The City has paid \$5,500 (2017 - \$4,500) of this contractual obligation.

The payment schedule is as follows:

2019	\$	1,000
2020		1,000
2021		1,000
2022		1,000
2023		1,000
2024		1,000
	\$	6,000

The Host Society will provide The City with \$5,000 for their portion of the contract amount in 2019. For contractual rights and obligations related to the Games and the Host Society, see Note 29.

(e) Traffic Enforcement Program

In 2017, The City entered into a four year agreement with Conduent Business Services Canada Inc. (formerly Xerox Business Services Canada Inc.) to provide services as they relate to the Automated Traffic Enforcement Program until April 9, 2021. The estimated remaining cost of the contract is \$1,436 (2017 - \$2,419).

(f) Lease Obligation

In 2013, The City entered into a ten year lease agreement with Gold Bar Investments Ltd. for three floors in the Professional Building in downtown Red Deer. The annual lease amount is \$2,687 (2017 - \$3,304) until December 31, 2022.

(g) Lease Rights

The City has agreements to lease land to the Westerner Exposition Association with an expiry date of May 1, 2059 and to the Alberta Sports Hall of Fame Museum Society with an expiry date of November 9, 2042. At the time of expiry or lease termination, all buildings and other improvements on these properties will be contributed to The City.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

26 CONTINGENCIES

(a) Environmental Contingencies

i. A pre-existing, non-PCB hydrocarbon plume was discovered beneath Substation 12 as a result of an initial incident in 2009 that was remediated. A plan has been submitted to Alberta Environment to allow The City to continue to monitor the contamination. No official response has been received as at the date of these financial statements, therefore, no estimation for the cost of monitoring can be made at this time.

ii. Subsurface contamination has been found as part of the Ross Street and Taylor Drive project. More delineation is required by The City's geotechnical consultant. Initial reports state that in-site remediation will be possible. The extent of the remediation requirements is still unknown, therefore, no estimation for the cost of remediation can be made at this time.

iii. The Queen's Business Park - NE and SE, the current fire training grounds, the Bellevue Reservoir, and the NE corner of 46 Street and 49 Avenue all have contamination issues. The extent of the remediation requirements for these sites is still unknown, therefore, no estimation for the cost of remediation can be made at this time.

iv. The City has had significant, ongoing transactions and agreements with an oil company that has gone into receivership filing for protection under the Companies' Arrangement Act in 2016. Several abandoned wells and battery sites have potential contamination issues. The City may face detriment should the Receiver fail to continue with their commitments and representations made to The City. The extent of remediation costs as well as the potential impact on The City's financial position is still unknown as at the date of these financial statements.

v. The City received notification that high levels of contamination had been found on a landowner's property adjacent to City land previously used for rail operations. The City is performing additional tests to determine the extent of the contamination and cost of remediation if necessary. No estimation for the cost of remediation can be made at this time.

(b) Land Expropriation Compensation

In 2009, The City acquired land under the Expropriation Act from several property owners in connection with various road development projects. Seven property owners have since filed with the Alberta Land Compensation Board for compensation to which they believe they are entitled. At this time, The City cannot determine the amount or the likelihood of the remaining compensation in these cases, therefore, no liability has been accrued in these financial statements.

(c) Active Lawsuits

During 2018, there were various legal claims pending against The City, arising in the ordinary course of its operations. The City defends all claims made against it, but the outcome of these cases is presently indeterminable. At this time, The City cannot estimate the financial impact of these cases and therefore, no liability has been accrued in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

27 GUARANTEES

The City has issued an irrevocable standby letter of credit for \$5,800 (2017 - \$5,500) as required by its supplier, The Alberta Electric System Operator, in the event of payment default for electrical distribution charges. The letter of credit has not been utilized to date.

The City has issued two irrevocable standby letters of credit for \$584 and \$884 to the Receiver General of Canada on behalf of Fisheries and Oceans Canada. The letter of credit is for two separate projects in waterways in The City to guarantee work completion and quality. The letters have not been utilized to date.

For guarantees related to the Games and the Host Society, see Note 29.

28 SEGMENTED DISCLOSURE

The City is a diversified municipal government that provides a wide range of services to its citizens. For management reporting purposes, The City's operations and activities are organized and reported by functions and services provided. For each reported segment, revenues and expenses represent amounts that are directly attributable to the segments and amounts that are allocated on a reasonable basis. Investment earnings are allocated to each segment based on an average of fund balances. Net tax revenue is allocated to each tax-supported segment based on the budgeted expenditures in those segments.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1. For additional information, see Schedule 3 - Consolidated Schedule of Segmented Disclosure.

Certain functions that have been disclosed in the segmented information, along with the services provided, are as follows:

(a) General Government Services

This category of functions is used to report activities that provide for the overall operation of The City, which are common to, or affect all of the services provided by The City, including Council and legislative, general administration, property assessment, taxation administration, licensing, elections, and municipal census.

(b) Protective Services and Parking

This category of functions is used to report activities that provide for the public safety of the inhabitants of The City, including police, bylaw enforcement, and disaster management services as well as fire, ambulance, and parking authority.

(c) Transportation and Fleet

This category of functions is used to report activities related to public transportation, including roads and streets, public transit, storm sewers and drainage, and the equipment pool.

(d) Community Services

This function is used to report activities related to the development and management of social issues in the community, including public housing, research, and addressing at-risk group needs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

(e) Recreation, Parks, and Culture

This function is used to report activities related to providing recreational and cultural opportunities to the community.

(f) Water and Wastewater

These functions report activities related to acquiring, treating, and supplying water as well as collection or removal and treatment and disposal of sanitary sewage.

(g) Waste Management

This function is used to report activities related to the collection of recyclables, garbage, and other waste material, the maintenance and operation of sanitary landfill sites, and management of solid waste landfill closure and post-closure.

(h) Subdivisions, Land, and Development

This function is used to report activities related to the development of land and infrastructure for use by The City or for resale.

(i) Electric Light and Power

This function is used to report activities related to the operation and maintenance of electric transmission and distribution facilities and delivery of power.

29 DISCLOSURE SUMMARY FOR THE 2019 CANADA WINTER GAMES

The City was selected by the Canada Winter Games Council as Host City for the 2019 Canada Winter Games (Games). This commitment includes capital and operating components from 2014 through to 2019. The Host Society was formed in 2015 to manage and deliver the Games. The City has entered into an agreement with the Host Society, signed March 2017 and amended March 2018 and December 2018, that outlines the roles and responsibilities of the two parties and the transactions between them.

The agreement is summarized as follows:

(b) Contribution from the Host Society

The Host Society has committed to contribute \$9,552 to The City to fund various capital projects related to the Games. The funding is allocated as follows:

Capital Project	Allocation Amount
Red Deer College (Note 25)	\$ 5,000
Great Chief Park	3,000
Canyon Ski Resort	558
River Bend Golf Course	426
Other	568
	9,552

The City received \$3,000 to date from the Host Society for Great Chief Park. The remainder will be received in separate instalments: \$2,600 on April 1, 2019 and \$3,952 on December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

(c) Contribution to the Games

The City has committed to a contribution of \$5,923 toward various capital projects related to the Games on the Host Society's behalf. As at December 31, 2018, \$3,552 (2017 - \$3,552) remains on this commitment.

(d) Loan to Host Society

In 2016, The City advanced \$5,355 to the Host Society in which a loan receivable was established. As at December 31, 2018, the ending balance of this loan was \$3,552 (2017 - \$3,552) and will be received in full by December 31, 2019. See Note 6.

(e) Value in Kind

The City has agreed to provide value in kind up to \$2,000 for the Games through its operations. In 2018, \$157 (2017 - \$114) worth of administrative support services was provided to the Host Society. As at December 31, 2018, \$1,675 (2017 - \$1,832) remains on this commitment.

(f) Games Plaza

In 2016, The City has contributed \$1,000 to the Host Society toward the construction of a permanent Games Plaza. The plaza will become property of The City upon the Plaza's completion in 2019. The estimated value of the contributed asset to be contributed at that time will be \$2,600.

(g) Guarantee

In 2014, The City signed an Agreement to Undertake with the Canada Games Council, which The City has agreed to assume responsibility for the financial deficit, if any, associated with the operating and capital expenses incurred by the Host Society. It is management's assessment that the risk of significant loss to The City is low.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018 (in thousands of dollars)

30 BUDGET

The reported budget information has been derived from the capital cash flow budget and the operating budget approved by Council on September 4, 2018. These budgets do not include subsequent amendments by Council, internal fund transfers, debt issuance and repayment, and other internal recoveries. The table below reconciles The City's final budget to the reported budget presented in the financial statements.

	Operating	Capital	Total
Reported budget surplus (deficit)	\$ (15,065)	\$ 35,039	\$ 19,974
Contributed tangible capital assets	7,497	(7,497)	-
Net amendments	(1,907)	-	(1,907)
Final budget surplus (deficit) before funding transfers	(9,475)	27,542	18,067
Add (less) funding transfers:			
Net transfers between capital and operating	(22,241)	927	(21,314)
Net reserve transfers	(4,627)	53,447	48,820
Internal recoveries from capital	3,201	-	3,201
Tangible capital asset transfers	56,371	-	56,371
Long term debt repaid	(23,229)	-	(23,229)
Long term debt issued	-	21,437	21,437
Final budget surplus	\$ -	\$ 103,353	\$ 103,353

31 COMPARATIVE INFORMATION

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year annual surplus.

32 APPROVAL OF FINANCIAL STATEMENTS

City Council has approved these financial statements on April 29, 2019.

STATISTICAL INFORMATION

GENERAL MUNICIPAL DATA - UNAUDITED
(2014-2018) (in thousands of dollars)

	2018	2017	2016	2015	2014
Population	99,832	99,832	99,832	100,807	98,585
Assessed valuation	\$ 15,724,614	\$ 15,756,231	\$ 15,987,628	\$ 15,666,694	\$ 14,882,334
Per capita assessed valuation	\$ 158	\$ 158	\$ 160	\$ 155	\$ 151
Mill rates (commercial)					
Municipal	13.7448	13.4570	13.1457	12.6665	12.2177
Education Foundation	3.8047	3.7298	3.6836	3.6200	3.5416
Piper Creek Foundation	0.0321	0.0256	0.0273	0.0107	0.0079
	17.5816	17.2124	16.8566	16.2972	15.7672
Taxes paid by the largest single taxpayer	\$ 3,275	\$ 3,177	\$ 3,146	\$ 3,059	\$ 2,942
Percent of taxes	1.84 %	1.83 %	1.86 %	1.89 %	1.93 %
Property taxes					
Current levy	\$ 178,423	\$ 174,065	\$ 169,570	\$ 162,199	\$ 152,819
Current collected	\$ 176,315	\$ 172,017	\$ 167,917	\$ 160,628	\$ 152,661
Percent of current levy	99 %	99 %	99 %	99 %	100 %
Gross tax collections	\$ 178,491	\$ 173,924	\$ 170,524	\$ 161,702	\$ 153,780
Taxes outstanding	\$ 2,676	\$ 2,335	\$ 1,954	\$ 2,255	\$ 2,198

No municipal census was conducted in the last two years. The 2016 census results are being used for 2016-2018 statistical information.

CAPITAL FUND ACTIVITIES - UNAUDITED

2014-2018 (in thousands of dollars)

	2018	2017	2016	2015	2014
Capital expenditure by segment:					
General government services	\$ 3,077	\$ 3,873	\$ 4,046	\$ 4,102	\$ 2,420
Protective services and parking	2,167	5,339	13,704	1,814	1,036
Transportation and fleet	37,285	46,618	63,943	51,235	46,772
Water and wastewater	16,820	14,681	15,649	30,897	39,474
Waste management	3,373	1,095	1,632	2,576	164
Community services	131	-	(4)	289	162
Subdivisions, land, and development	3,390	6,374	2,741	13,045	13,722
Recreation, parks, and culture	20,708	36,330	16,065	6,334	6,855
Electric light and power	9,390	10,688	9,430	19,427	11,537
Total Capital Spending	\$ 96,341	\$ 124,998	\$ 127,206	\$ 129,719	\$ 122,142
Financing Sources Applied:					
Developer contributions	5,088	6,995	6,442	8,777	10,015
Government transfers	32,185	28,481	50,218	44,179	38,120
Other capital revenue	848	2,094	3,458	891	1,172
Debt issued	24,427	45,852	26,664	10,000	27,247
From (to) operating	(2,262)	1,808	(2,222)	(635)	7,678
From (to) reserves	42,142	30,636	20,809	50,680	44,879
Total Funding	102,428	115,866	105,369	113,892	129,111
Increase (decrease) in fund balance	6,087	(9,132)	(21,837)	(15,827)	6,969
Capital fund balance, beginning of year	(46,833)	(37,701)	(15,864)	(37)	(7,006)
Capital fund balance, end of year	\$ (40,746)	\$ (46,833)	\$ (37,701)	\$ (15,864)	\$ (37)

In 2018 and 2017, comparative information has been reclassified to conform to the current year's presentation.

CONSOLIDATED REVENUE BY SOURCE - UNAUDITED

2014-2018 (in thousands of dollars)

	2018	2017	2016	2015	2014
Operating Revenue:					
Net municipal taxes	\$ 130,975	\$ 126,701	\$ 124,346	\$ 123,923	\$ 112,537
User fees and sale of goods	170,279	168,674	161,388	161,889	172,911
Operating government transfers	13,615	15,110	19,198	12,301	11,061
Investment earnings	2,793	3,177	6,981	4,893	5,151
Fines and penalties	6,650	5,937	6,148	5,928	5,870
Franchise fees	8,418	9,225	7,848	7,394	7,441
Licenses and permits	3,624	3,249	3,558	3,283	3,690
Other operating revenue	6,977	5,255	5,935	4,092	5,521
Total Operating Revenue	343,331	337,328	335,402	323,703	324,182
Capital Revenue:					
Capital government transfers	32,185	28,481	50,218	44,179	38,120
Contributed tangible capital assets	19,325	7,325	7,330	9,389	34,284
Other capital contributions	5,333	7,951	9,301	9,108	10,406
Consolidated Revenue	\$ 400,174	\$ 381,085	\$ 402,251	\$ 386,379	\$ 406,992

CONSOLIDATED OPERATING EXPENSES BY FUNCTION - UNAUDITED

2014-2018 (in thousands of dollars)

	2018	2017	2016	2015	2014
Operating Expenses:					
General government services	\$ 43,511	\$ 36,641	\$ 37,545	\$ 34,146	\$ 33,260
Protective services and parking	77,884	76,679	74,421	66,949	65,796
Transportation and fleet	79,998	78,367	85,706	76,805	73,741
Community services	12,645	15,376	13,572	11,504	11,401
Recreation, parks, and culture	50,328	50,896	51,924	46,892	45,074
Water and wastewater	35,258	36,187	34,542	31,710	29,979
Waste management	14,064	14,642	14,524	13,991	12,410
Subdivisions, land, and development	3,198	2,277	2,534	2,023	11,640
Electric light and power	41,030	39,322	35,884	34,048	32,933
Total operating expenses	\$ 357,916	\$ 350,387	\$ 350,652	\$ 318,068	\$ 316,234

In 2018, comparative information has been reclassified to conform to the current year's presentation.

CONSOLIDATED EXPENSES BY OBJECT - UNAUDITED

2014-2018 (in thousands of dollars)

	2018	2017	2016	2015	2014
Operating Expenses:					
Salaries, wages, and benefits	\$ 146,380	\$ 144,014	\$ 141,093	\$ 133,027	\$ 127,294
Contracted services	40,487	42,380	41,998	41,084	44,533
Materials and supplies	51,041	49,494	48,784	47,996	52,135
Purchases from other governments	24,661	23,534	23,217	18,754	18,869
Grants to organizations	10,216	14,265	20,970	8,687	8,955
Financial charges	10,071	9,508	9,317	9,130	9,037
Amortization of tangible capital assets	74,536	66,686	63,758	58,576	53,809
Other expenses	524	506	1,515	814	1,602
Total operating expenses	\$ 357,916	\$ 350,387	\$ 350,652	\$ 318,068	\$ 316,234

FINANCIAL POSITION AND ANNUAL SURPLUS - UNAUDITED

2014-2018 (in thousands of dollars)

	2018	2017	2016	2015	2014
Financial assets	\$ 320,213	\$ 302,645	\$ 308,168	\$ 328,313	\$ 342,988
Liabilities	401,062	385,835	359,468	357,745	358,589
Net debt	(80,849)	(83,190)	(51,300)	(29,432)	(15,601)
Non-financial assets	2,073,128	2,033,211	1,970,623	1,897,156	1,815,014
Accumulated surplus	1,992,279	1,950,021	1,919,323	1,867,724	1,799,413
Annual surplus	\$ 42,258	\$ 30,698	\$ 51,599	\$ 68,311	\$ 90,758

Land held not ready for sale had been reclassified from non-financial assets to financial assets in 2016. Comparative information has been reclassified to conform to the current year's presentation.

CONSOLIDATED ACCUMULATED SURPLUS - UNAUDITED

2014-2018 (in thousands of dollars)

	2018	2017	2016	2015	2014
Unrestricted deficits in controlled agencies	148	170	10,979	20,168	(135)
Capital to be financed	\$ (40,746)	\$ (46,833)	\$ (37,701)	\$ (15,864)	\$ (37)
Reserves	219,937	220,943	222,260	210,830	215,273
Equity in tangible capital assets	1,812,940	1,775,741	1,723,785	1,652,590	1,584,312
Total	\$ 1,992,279	\$ 1,950,021	\$ 1,919,323	\$ 1,867,724	\$ 1,799,413

In 2018 and 2017, long term debt not used to purchase tangible capital assets has been reclassified from equity in tangible capital assets to capital to be financed. Comparative information has been reclassified to conform to the current year's presentation.

**CONSOLIDATED RESERVES - UNAUDITED
2014-2018 (in thousands of dollars)**

	2018	2017	2016	2015	2014
Finance a specific purpose	\$ 1,854	\$ 1,783	\$ 2,388	\$ 2,287	\$ 2,211
Capital projects - tax supported	33,133	40,743	41,060	31,589	25,033
Municipal parkland	6,922	6,984	6,710	6,464	5,450
Operating - tax supported	33,838	31,757	33,454	33,294	24,441
Debt repayment	3,155	3,816	2,471	4,718	12,642
Tax-supported reserves	78,902	85,083	86,083	78,352	69,777
Capital asset replacement	20,234	27,209	36,317	31,356	27,499
Land development	63,009	65,430	54,447	48,593	50,363
Parking	1,637	372	158	663	1,369
Offsite	(6,257)	(10,012)	(2,068)	7,947	12,659
Self-supported reserves	78,623	82,999	88,854	88,559	91,890
Power	24,148	19,878	17,997	16,885	21,534
Water	3,873	3,373	3,383	7,858	9,385
Wastewater	18,042	12,191	8,949	3,001	6,169
Solid waste management	16,349	17,419	16,994	16,175	16,518
Utility-supported reserves	62,412	52,861	47,323	43,919	53,606
Total reserves	\$ 219,937	\$ 220,943	\$ 222,260	\$ 210,830	\$ 215,273

In 2014, City Council approved a reserve consolidation for tax-supported and self-supported operations. Comparative information has been reclassified to conform to the current year's presentation.

LONG-TERM DEBT ISSUED BY FUNCTION - UNAUDITED

2014-2018 (in thousands of dollars)

	2018	2017	2016	2015	2014
Protective services and parking	\$ -	\$ 1,082	\$ 15,030	\$ -	\$ -
Transportation and fleet	1,500	8,042	9,500	3,000	4,968
Recreation, parks, and culture	10,235	33,482	895	11,500	-
Water and wastewater	4,971	1,565	-	3,800	14,579
Subdivisions, land, and development	-	5,570	4,600	11,990	-
Electric light and power	5,506	-	-	-	8,000
Total	\$ 22,212	\$ 49,741	\$ 30,025	\$ 30,290	\$ 27,547

In 2016, comparative information has been reclassified to conform to the current year's presentation.

LONG-TERM DEBT - UNAUDITED

2014-2018 (in thousands of dollars)

	2018	2017	2016	2015	2014
Tax-supported debt	\$ 145,479	\$ 137,945	\$ 107,041	\$ 84,043	\$ 67,434
Self-supported debt	129,735	136,619	138,228	149,835	152,744
Total long-term debt	275,214	274,564	245,269	233,878	220,178
Population	99,832	99,832	99,832	100,807	98,585
Long-term debt per capita	2,757	2,750	2,457	2,320	2,233
Debt limit per regulation	522,996	517,919	517,055	499,217	501,882
Debt limit unused	247,782	243,355	271,786	265,339	281,704
Percentage of debt limit used	53 %	53 %	47 %	47 %	44 %
Service on debt limit	87,166	86,320	86,176	83,203	83,647
Service on existing debt	29,724	31,309	29,223	27,536	25,233
Service on debt limit unused	57,442	55,011	56,953	55,667	58,414
Percentage of service on debt limit used	34 %	36 %	34 %	33 %	30 %
Percentage of expenses	8 %	9 %	8 %	9 %	8 %