



Consolidated Financial Statements of

The City of Spruce Grove

For the Year Ended December 31, 2018

CONTENTS

Independent Auditors' Report

Management's Report.....	1
Consolidated Statement of Financial Position.....	2
Consolidated Statement of Operations and Accumulated Surplus.....	3
Consolidated Statement of Changes in Net Debt.....	4
Consolidated Statement of Cash Flows.....	5
Notes to the Consolidated Financial Statements.....	6
Schedules:	
Schedule 1 - Property Taxes.....	29
Schedule 2 - Government Transfers.....	29
Schedule 3 - Sales and User Fees.....	30
Schedule 4 - Expenses by Object.....	30
Schedule 5 - Expenses by Department.....	31

MANAGEMENT'S REPORT

The consolidated financial statements of the City of Spruce Grove (the "City") are the responsibility of management and have been prepared in accordance with Canadian Public Sector Accounting Standards. The consolidated financial statements include amounts that are based on the best estimates and judgments of management. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

Management maintains systems of accounting and administrative controls to provide reasonable assurance that the transactions are appropriately authorized, accurately recorded, that assets are properly accounted for and safeguarded and that the consolidated financial statements reliably report the City's operating and financial results.

City Council has approved the information contained in the consolidated financial statements.

KPMG LLP, have been appointed by City Council to provide an independent audit opinion on the consolidated financial statements.

Louise Frostad, CPA, CMA
Chief Financial officer

Robert Cotterill, P.Eng.
City Manager

April 23, 2019
Spruce Grove, Canada

CITY OF SPRUCE GROVE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2018
(in thousands of dollars)

	2018	2017
Financial Assets		
Cash and Cash Equivalents	4,375	6,100
Accounts Receivable (Note 3)	15,387	18,842
Investments (Note 4)	37,216	31,391
Land Held for Resale (Note 5)	1,746	1,746
	58,724	58,079
Liabilities		
Accounts Payable and Accrued Liabilities (Note 6)	16,952	14,598
Deferred Revenue (Note 7)	25,577	22,995
Liability for Contaminated Sites (Note 8)	4,180	4,180
Long-Term Debt (Notes 9, 10)	38,464	24,533
	85,173	66,306
Net Debt	(26,449)	(8,227)
Non-Financial Assets		
Consumable Inventory and Prepaid Expenses	1,097	791
Tangible Capital Assets (Note 11)	518,610	494,874
	519,707	495,665
Accumulated Surplus (Note 12)	493,258	487,438

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

CITY OF SPRUCE GROVE
CONSOLIDATED STATEMENT OF OPERATIONS AND
ACCUMULATED SURPLUS

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

	2018 Budget (Note 2)	2018 Actual	2017 Actual
Revenue			
Property Taxes (Schedule 1)	37,997	37,962	35,563
Government Transfers - Operating (Schedule 2)	2,857	3,529	3,318
Sales and User Fees (Schedule 3)	47,502	41,096	44,110
Local Improvement Levies	-	6	60
Interest	215	115	388
	88,571	82,708	83,439
Expenses (Schedule 4, 5)			
Council	724	646	597
City Manager	649	668	566
Economic and Business Development	1,132	1,397	993
Corporate Communications	1,150	971	971
Community and Protective Services	31,598	30,435	28,288
Corporate Services	10,896	10,688	9,804
Planning and Infrastructure	31,220	30,397	26,579
Utilities	18,118	17,665	16,009
	95,487	92,867	83,807
Annual Deficit Before the Undernoted	(6,916)	(10,159)	(368)
Gain (Loss) on Disposal of Tangible Capital Assets	146	(106)	17
Government Transfers - Capital (Schedule 2)	7,760	5,529	7,669
Contributed Tangible Capital Assets	17,065	9,651	16,432
Developer Contributions and Levies	4,956	905	6,050
	29,927	15,979	30,168
Annual Surplus	23,011	5,820	29,800
Accumulated Surplus, Opening	487,438	487,438	457,638
Accumulated Surplus, Closing	510,449	493,258	487,438

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

CITY OF SPRUCE GROVE
CONSOLIDATED STATEMENT OF CHANGES IN
NET DEBT

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

	2018 Budget (Note 2)	2018 Actual	2017 Actual
Annual Surplus	23,011	5,820	29,800
Consumable Inventory and Prepaid Expenses			
Acquisition	(843)	(1,097)	(791)
Consumption	782	791	929
	<u>(61)</u>	<u>(306)</u>	<u>138</u>
Tangible Capital Assets			
Contributed	(17,065)	(9,651)	(16,432)
Purchased	(33,899)	(29,846)	(28,206)
Proceeds on Disposal	1,250	205	595
(Gain) Loss on Disposal	(146)	106	(17)
Amortization	14,792	15,450	14,416
	<u>(35,068)</u>	<u>(23,736)</u>	<u>(29,644)</u>
Change in Net Debt	<u>(12,118)</u>	<u>(18,222)</u>	<u>294</u>
Net Debt, Opening	<u>(8,227)</u>	<u>(8,227)</u>	<u>(8,521)</u>
Net Debt, Closing	<u>(20,345)</u>	<u>(26,449)</u>	<u>(8,227)</u>

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

CITY OF SPRUCE GROVE
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018
(in thousands of dollars)

	2018 Actual	2017 Actual
Cash Provided by (Used For):		
Operating Activities		
Annual Surplus	5,820	29,800
Adjustments:		
Amortization	15,450	14,416
(Gain) Loss on Disposal of Tangible Capital Assets	106	(17)
Contributed Tangible Capital Assets	(9,651)	(16,432)
Decrease (Increase) in Accounts Receivable	3,455	(1,072)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	2,354	(189)
Increase (Decrease) in Deferred Revenue	2,582	(4,537)
(Decrease) in Liability for Contaminated Sites	-	(200)
(Increase) Decrease in Consumable Inventory and Prepaid Expenses	(306)	138
	19,810	21,907
Capital Activities		
Purchased Tangible Capital Assets	(29,846)	(28,206)
Proceeds on Disposal of Tangible Capital Assets	205	595
	(29,641)	(27,611)
Investing Activities		
Purchased Investments	(23,445)	(32,598)
Proceeds on Disposal of Investments	17,620	22,505
	(5,825)	(10,093)
Financing Activities		
Long-Term Debt Issued	15,129	7,000
Long-Term Debt Repaid	(1,198)	(1,236)
	13,931	5,764
Decrease in Cash and Cash Equivalents	(1,725)	(10,033)
Cash and Cash Equivalents, Opening	6,100	16,133
Cash and Cash Equivalents, Closing	4,375	6,100

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

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

The consolidated financial statements of the City of Spruce Grove ("the City") are the representations of management prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS").

1. Significant Accounting Policies

(a) Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses, and accumulated surplus of the reporting entity. The reporting entity is comprised of all organizations which are owned or controlled by the City, and are, therefore, accountable for the administration of their financial affairs and resources.

The reporting entity includes all divisions and departments that comprise City operations, the City of Spruce Grove Library Board (the "Library") and the TransAlta Tri Leisure Centre (the "TLC"). Inter-organizational transactions and balances between these entities have been eliminated.

The City is associated with various other boards, commissions and other organizations that are not part of the government reporting entity.

Property taxes levied also include requisitions for education and seniors housing organizations that are not part of the government reporting entity. The consolidated financial statements exclude any trusts under administration for the benefit of external parties.

(b) Financial Assets

(i) Investments

Investments are recorded at amortized cost. Should there be a loss in value that is not considered temporary, the respective investment is written down to recognize the loss.

Investment income is reported as revenue in the period earned. When required by the funding government or related Act, investment income earned on deferred revenue is added to the investment and forms a part of the deferred revenue balance.

(ii) Land Held for Resale

Land held for resale is recorded at the lower of cost or net realizable value. Cost includes amounts for acquisition, sales commission and interest. Interest is capitalized whenever external debt is issued to finance the acquisition of land held for resale. Repayments of interest from third parties reduces the amount of capitalized interest.

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

1. Significant Accounting Policies (Continued)

(c) Non-Financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They are not intended for sale in the ordinary course of operations.

(i) Tangible Capital Assets

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

Asset	Useful Life in Years
Engineering Structures	20 - 75
Equipment	4 - 20
Facilities	25 - 50
Fleet	8 - 25
Land Improvements	15 - 25
Leasehold Improvements	Life of the Lease

Amortization is charged in the year of acquisition and no amortization is charged in the year of disposal. Construction in progress is not amortized until the asset is available for productive use.

(ii) Contributions of Tangible Capital Assets

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

(iii) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

(iv) Works of Art and Cultural and Historic Assets

Works of art and cultural and historic assets are not recorded as tangible capital assets in these consolidated financial statements.

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

1. Significant Accounting Policies (Continued)

(v) Consumable Inventory

Consumable inventory is comprised of supplies held for consumption and are recorded at the lower of cost and replacement cost.

(d) Revenue Recognition

(i) Revenues

Revenues are recognized in the period in which they are earned and measurable. Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified. Deferred revenue consists of government transfers, developer contributions and levies, and other unearned revenues.

(ii) Tax Revenue

Tax revenues are recognized when the tax has been authorized by bylaw and the taxable event has occurred.

Requisition over-levies and under-levies arise from the difference between the actual tax levy made to cover each requisition and the actual amount requisitioned. Where the actual levy differs from the requisition, the requisition tax rate is adjusted in the subsequent year.

(iii) Developer Contributions

Developer Contributions are recorded as a liability upon signing of a development agreement and these amounts are recognized as revenue in the period they are used for the purpose specified.

(iv) Developer Levies

Offsite levies are collected from developers upon the execution of a development agreement as per the offsite levy bylaw. These funds are restricted to fund the construction of specific infrastructure and are recognized as revenue once the infrastructure has been built and the City has provided a construction completion certificate.

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

1. Significant Accounting Policies (Continued)

(v) Government Transfers

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used for certain programs, in the completion of specific work, or for the purchase of tangible capital assets. These transfers are not the result of an exchange transaction, and are not expected to be repaid in the future, or the result of a direct financial return. Revenue is recognized in the period when events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be determined.

(e) Expenses

Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(f) Liability for Contaminated Sites

A liability for remediation of a contaminated site is recognized at the financial statement date, when:

- a) an environmental standard exists;
- b) contamination exceeds the environmental standard;
- c) the municipality owns the land; or is directly responsible; or accepts responsibility.
- d) it is expected that future economic benefits will be given up; and
- e) the liability can be reasonably estimated.

The liability is estimated to cover remediation, post remediation operation, maintenance and monitoring costs based on information available at the financial statement date.

In some cases, environmental standards are created by internal policy and voluntary compliance with such environmental standards may create a liability.

(g) Use of Estimates

The preparation of the consolidated financial statements of the City 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 consolidated financial statements, and the reported amounts of revenue and expenses during the period. Where measurement uncertainty exists, the consolidated financial statements have been prepared within reasonable limits of materiality. Actual results may differ from those estimates.

Estimates have been used to determine provisions for accrued liabilities, liability for contaminated sites, useful lives of tangible capital assets, historic costs of certain tangible capital assets, fair values of contributed tangible capital assets, and provisions made for allowances for doubtful receivable accounts.

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

1. Significant Accounting Policies (Continued)

(g) Use of Estimates (Continued)

Revenue recognition related to developer contributions and levies utilizes forecasted development costs, staging and financing requirements.

(h) Changes in Accounting Policies

The City has adopted the following accounting standards effective January 1, 2018:

(i) PS 2200, Related Party Disclosure

PS 2200 defines a related party as well as establishes the disclosure requirements for related party transactions. The standard requires disclosure of sufficient information about the terms and conditions of related party transactions and related party relationships to enable users to assess the effect they have had or, if not recognized, may have had on a public sector entity's reported financial position and changes in it. Requirements of this standard are considered in conjunction with requirements of PS 3420.

(ii) PS 3420, Inter-entity Transactions

PS 3420 establishes standards of how to account for and report transactions between public sector entities that comprise a government reporting entity from both a provider and a recipient perspective. Inter-entity transactions may involve the transfer of assets and liabilities, cost allocations and recoveries or unallocated costs. Requirements of this standard are considered in conjunction with requirements of PS 2200.

(iii) PS 3210, Assets

PS 3210 provides guidance for applying the definition of asset, and establishes general disclosure standards for assets, including disclosure of information about the major categories of assets that are not recognized. When an asset is not recognized because a reasonable estimate of the amount involved cannot be made, a disclosure should be provided.

(iv) PS 3320, Contingent Assets

PS 3320 defines and establishes disclosure standards for contingent assets. Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely.

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

1. Significant Accounting Policies (Continued)

(h) Changes in Accounting Policies (Continued)

(v) PS 3380, Contractual Rights

PS 3380 defines and establishes disclosure standards for contractual rights. Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. Disclosure of information about contractual rights is required including a description of their nature and extent, and the timing.

The adoption of these standards has resulted in certain changes to disclosures in the consolidated financial statements.

(i) Future Accounting Standard Pronouncements

The following summarizes upcoming changes to public sector accounting standards issued by the Public Sector Accounting Standards Board. In 2019, the City will continue to assess the impact and prepare for the adoption of these standards. While the timing of standard adoption may vary, certain standards must be adopted concurrently. The requirements in Financial Statement Presentation (PS1201), Financial Instruments (PS3450), Foreign Currency Translation (PS2601) and Portfolio Investments (PS3041) must be implemented at the same time.

Standard	Name	Effective Date
PS3430	Restructuring Transactions	April 1, 2018
PS1201	Financial Statement Presentation	April 1, 2021
PS3450	Financial Instruments	April 1, 2021
PS2601	Foreign Currency Translation	April 1, 2021
PS3041	Portfolio Investments	April 1, 2021
PS3280	Asset Retirement Obligations	April 1, 2021
PS3400	Revenue	April 1, 2022

2. Budget

City Council approved the 2018 - 2020 Corporate Plan on November 27, 2017, which formally approved revenues, expenses and tangible capital asset acquisitions for 2018.

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

3. Accounts Receivable

	2018	2017
Property Taxes		
Current Taxes and Grants in Place of Taxes	1,859	2,027
Arrears	618	450
Allowance for Doubtful Accounts	-	(6)
	<u>2,477</u>	<u>2,471</u>
Other		
Developer Contributions and Levies	2,210	3,967
Goods and Services Tax	677	523
Local Improvements	4,271	4,651
Trade and Other Amounts	3,923	4,674
Utilities	2,059	2,787
Allowance for Doubtful Accounts	(230)	(231)
	<u>12,910</u>	<u>16,371</u>
	<u>15,387</u>	<u>18,842</u>

4. Investments

	Amortized Cost 2018	Market Value 2018	Amortized Cost 2017	Market Value 2017
Bonds	12,662	12,419	8,847	8,758
GICs	12,995	13,015	2,545	2,557
Notes	6,267	5,933	4,891	4,834
PIA	5,292	5,301	15,108	15,108
	<u>37,216</u>	<u>36,668</u>	<u>31,391</u>	<u>31,257</u>

Investments in bonds have effective interest rates of 2.30% to 3.33% with maturity dates from June 2021 to July 2028. Investments in guaranteed investment certificates (GICs) have effective interest rates ranging from 1.75% to 2.49% and with maturity dates from July 2019 to September 2019.

Note investments have variable interest rates and maturity dates. Three of these notes are based on any positive price return of the S&P/TSX 60 Index, with maturity dates ranging from May 2022 to July 2023. Another note is auto callable, with an interest rate based on Canadian Growers Index with a maturity date as of August 2028. The City also has an investment in a low volatility index deposit note earning variable returns based on the CDN Equity index with a maturity date of August 2022.

Premier investment account (PIA), a tiered-rate interest account with interest based on monthly

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

4. Investments (Continued)

average prime less a percentage based on the average monthly balance held in the account. Included in this investment is a high interest notice account, which is currently paying 0.85% and requires 31 days' notice to redeem.

The market value of certain investments is less than amortized cost at December 31, 2018. Management is of the opinion that the decrease in value is temporary.

5. Land Held for Resale

The City holds an interest in lands in the amount of \$1,746 (2017 - \$1,746) representing the costs related to the Westwind land assembly undertaken by the City. The City has entered into an option agreement with the developer to dispose of the assembled land in parcels.

During the year, interest on long-term debt in the amount of \$17 (2017 - \$14) was capitalized and subsequently reimbursed by the developer.

6. Accounts Payable and Accrued Liabilities

	2018	2017
Debenture Interest	54	53
Deposits	1,081	807
Developer Commitments	1,601	1,716
Holdbacks	3,456	1,596
Trade and Accrued Liabilities	7,996	7,804
Wages and Benefits	2,764	2,622
	16,952	14,598

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

7. Deferred Revenue

	2017	Amounts Received	Interest and Other	Amounts Recognized	2018
Developer Contributions					
Administration	72	13	1	-	86
Neighborhood Parks	956	74	18	78	970
Municipal Reserve	182	-	4	-	186
Parks - South	1,618	-	41	-	1,659
Parks - North	-	75	-	75	-
Cash in Lieu of Parking	101	-	3	-	104
Downtown Redevelopment	2	-	-	-	2
	<u>2,931</u>	<u>162</u>	<u>67</u>	<u>153</u>	<u>3,007</u>
Developer Levies					
Water	-	173	226	173	226
Transportation	-	502	-	502	-
Sewer	-	77	-	77	-
	<u>-</u>	<u>752</u>	<u>226</u>	<u>752</u>	<u>226</u>
Developer Contributions and Levies					
	<u>2,931</u>	<u>914</u>	<u>293</u>	<u>905</u>	<u>3,233</u>
Government Transfers - Capital					
Gas Tax Fund	2,505	1,924	62	2,419	2,072
Other	-	1,302	18	1	1,319
Sustainability	15,784	3,846	474	3,109	16,995
	<u>18,289</u>	<u>7,072</u>	<u>554</u>	<u>5,529</u>	<u>20,386</u>
Government Transfers - Operating					
Policing	26	688	-	688	26
Social	-	821	-	821	-
Sustainability	-	237	-	237	-
Other	143	1,780	3	1,783	143
	<u>169</u>	<u>3,526</u>	<u>3</u>	<u>3,529</u>	<u>169</u>
Other Revenue					
Sponsorships	623	1,378	-	1,103	898
Property Taxes	209	2,068	-	2,088	189
User Fees	774	5,714	-	5,786	702
	<u>1,606</u>	<u>9,160</u>	<u>-</u>	<u>8,977</u>	<u>1,789</u>
	<u>22,995</u>	<u>20,672</u>	<u>850</u>	<u>18,940</u>	<u>25,577</u>

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

8. Liability for Contaminated Sites

	2018	2017
Historic Public Works Yard - salt impacted soil	2,480	2,480
Pioneer Cemetery - salt impacted soil	1,100	1,100
Historic Nuisance Grounds - site closure and post closure	600	600
	4,180	4,180

The fair value of the liability for contaminated sites is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted using the consumer price index. Subsequent to the initial measurement, the obligation will be adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation are recognized in the consolidated statement of operations and accumulated surplus.

The estimated undiscounted future remediation expenditures is \$4.0 million and a discount rate of 3% (2017 - 3%) has been used. The City plans to remediate the sites over a 5-year period with an expected completion date of December 31, 2023 (2017 - December 31, 2022).

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

9. Long-Term Debt

	2018	2017
Alberta Capital Financing Authority		
Agrena	1,023	1,184
Library	943	1,080
Local Improvements	4,256	4,748
Public Works Facility	4,812	4,970
TransAlta Tri Leisure Centre	858	1,099
Protective Services Facility	6,000	-
	<u>17,892</u>	<u>13,081</u>
CIBC		
Development Facility	12,250	11,000
RCMP Facility	7,650	-
	<u>19,900</u>	<u>11,000</u>
Other		
Equipment Financing	220	-
Westwind Land Assembly	452	452
	<u>672</u>	<u>452</u>
	<u><u>38,464</u></u>	<u><u>24,533</u></u>

The required repayments for the Alberta Capital Financing Authority debt and expected repayments for all other debt are as follows:

	Principal	Interest	Total
2019	2,040	1,208	3,248
2020	2,690	1,134	3,824
2021	2,319	1,022	3,341
2022	2,138	938	3,076
2023	2,160	867	3,027
Subsequent	27,117	6,094	33,211
	<u>38,464</u>	<u>11,263</u>	<u>49,727</u>

Debenture debt is repayable to the Alberta Capital Financing Authority and bears interest at rates ranging from 2.79% to 6.38% per annum and matures in periods 2021 to 2038. Debenture debt is issued on the credit and security of the City.

In 2016, the City signed an infrastructure loan facility with Canadian Imperial Bank of Canada ("CIBC") to provide funds for new development transportation, water and sewer infrastructure projects. The facility is available as Canadian Dollar Bankers Acceptances ("bankers acceptances")

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

9. Long-Term Debt (Continued)

with terms renewable from 1 to 6 months subject to a stamping fee of .90% and interest at prime rate plus 0% per annum. The bankers acceptances can be converted to a fixed term loan for 20 years.

The City signed a second infrastructure loan facility with CIBC toward the end of 2016 to provide funds to pay for its share of the costs to build a new RCMP facility to be constructed at the cost and expense shared by the City and the Town of Stony Plain and is secured by the City's interest in the building being constructed with expected completion in 2019. The loan facility is available as bankers acceptances with terms and conditions identical to those under the development facility. The bankers acceptances can be converted to fixed term loan for 25 years.

In 2010 the City borrowed \$8,900 from Versabank to finance the purchase of the Westwind Lands. This loan bears interest at prime plus 0.9%. The terms of this loan are interest only payments for 10 years, with principal payments due when land is sold and not later than March 2020. The City has entered into an agreement with a developer to reimburse any interest incurred on this loan.

The City has existing revolving demand facilities with Royal Bank of Canada and CIBC for \$5 million each. The City does not have an outstanding balance on either facility as of December 31, 2018.

Interest on long-term debt amounted to \$915 (2017 - \$648). The City's interest expense for the year is \$898 (2017 - \$634) while the remaining \$17 (2017 - \$14) relates to the Westwind lands and was capitalized as part of land held for resale during the year. The City's total cash payments for interest in 2018 is \$951 (2017 - \$682).

10. Debt Limits

Section 276 (2) of the Municipal Government Act requires that debt and debt limits as defined by Alberta Regulation 255/200 for the City be disclosed as follows:

	2018	2017
Total Debt Limit (1.5 times revenue, as defined in the regulation)	125,261	134,259
Total Debt	(38,464)	(24,533)
Amount of Debt Limit Unused	86,797	109,726
Debt Servicing Limit (0.25 times revenue, as defined in the regulation)	20,877	22,377
Debt Servicing	(3,248)	(1,956)
Amount of Debt Servicing Limit Unused	17,629	20,421

Revenue as defined in Alberta Regulation 255/2000 is calculated using the total revenue for the reporting year less capital government transfers and contributed tangible capital assets recognized in the year.

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

11. Tangible Capital Assets

	2018			2018
	2017	Purchased/ Contributed	Disposals	
Cost				
Engineering Structures	366,422	25,849	(360)	391,911
Equipment	24,543	2,278	(2,046)	24,775
Facilities	66,675	-	-	66,675
Fleet	8,855	335	(272)	8,918
Land	153,434	2,793	-	156,227
Land Improvements	23,787	594	(35)	24,346
Leasehold Improvements	872	-	-	872
Construction in Progress	14,973	7,648	-	22,621
	659,561	39,497	(2,713)	696,345
	2017	Disposals	Amortization	2018
Accumulated Amortization				
Engineering Structures	125,216	(306)	9,941	134,851
Equipment	13,139	(1,795)	2,084	13,428
Facilities	14,244	-	1,471	15,715
Fleet	2,910	(265)	577	3,222
Land Improvements	8,306	(36)	1,377	9,647
Leasehold Improvements	872	-	-	872
	164,687	(2,402)	15,450	177,735
	2017			2018
Net Book Value				
Engineering Structures	241,206			257,060
Equipment	11,404			11,347
Facilities	52,431			50,960
Fleet	5,945			5,696
Land	153,434			156,227
Land Improvements	15,481			14,699
Construction in Progress	14,973			22,621
	494,874			518,610

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

11. Tangible Capital Assets (Continued)

	2017			2017
	2016	Purchased/ Contributed	Disposals	
Cost				
Engineering Structures	335,141	31,810	(529)	366,422
Equipment	23,254	1,972	(683)	24,543
Facilities	65,478	1,197	-	66,675
Fleet	6,872	2,362	(379)	8,855
Land	145,019	8,688	(273)	153,434
Land Improvements	19,964	3,823	-	23,787
Leasehold Improvements	872	-	-	872
Construction in Progress	20,187	(5,214)	-	14,973
	616,787	44,638	(1,864)	659,561
Accumulated Amortization				
Engineering Structures	116,177	(509)	9,548	125,216
Equipment	11,719	(403)	1,823	13,139
Facilities	12,773	-	1,471	14,244
Fleet	2,734	(374)	550	2,910
Land Improvements	7,282	-	1,024	8,306
Leasehold Improvements	872	-	-	872
	151,557	(1,286)	14,416	164,687
Net Book Value				
Engineering Structures	218,964			241,206
Equipment	11,535			11,404
Facilities	52,705			52,431
Fleet	4,138			5,945
Land	145,019			153,434
Land Improvements	12,682			15,481
Construction in Progress	20,187			14,973
	465,230			494,874

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

11. Tangible Capital Assets (Continued)

(a) Construction in Progress

Construction in progress having a value of \$22,621 (2017 - \$14,973) has not been amortized. Amortization of these assets will commence when the assets are put into service.

(b) Contributed Tangible Capital Assets

Contributed tangible capital assets have been recognized at fair value at the date of contribution. Contributed tangible capital assets consisting of land, roads, drainage, water and wastewater infrastructure received during the year have a value of \$9,651 (2017 - \$16,432).

(c) Cultural and Historical Tangible Capital Assets

The City owns original artworks that are on permanent display at City Center. The artworks were purchased by the City and have significant cultural and historical value in perpetuity. The artworks are not recorded as tangible capital assets in the financial statements and are not amortized.

12. Accumulated Surplus

	Budget (Note 2)	2018	2017
Municipal	9,365	16,954	18,712
Utility	9,119	8,792	8,620
Developer Deficit (Note 13)	(13,550)	(13,084)	(10,684)
Segmented Surplus Total	4,934	12,662	16,648
Investment in Tangible Capital Assets	505,515	480,596	470,790
	510,449	493,258	487,438

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

13. Developer Deficit

	2017	Transfers In	Transfers Out	Other Adjustments	2018
Transportation	(1,313)	502	(4,767)	2,179	(3,399)
Sewer	(6,831)	77	(349)	(277)	(7,380)
Water	(160)	173	(95)	82	-
Parks - North	(2,380)	75	-	-	(2,305)
Neighborhood Parks	-	78	(78)	-	-
	<u>(10,684)</u>	<u>905</u>	<u>(5,289)</u>	<u>1,984</u>	<u>(13,084)</u>

Other adjustments include long-term debt issued to fund transportation and water projects, as well as adjustments made to appropriately present contributions and costs in the City's offsite levy reserves.

The City paid costs for certain transportation and water infrastructure projects on behalf of developers and financed this development with long-term debt in order to advance the construction of these projects. The developer deficits are expected to be repaid with proceeds from future developer contributions and levies. Long-term debt in the amount of \$12.3 million (2017 - \$11.0 million) was taken out by the City as offsite levy reserve balances are currently insufficient to pay for future development's share of these project costs.

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

14. Segmented Disclosure

	2018			Total
	Municipal	Utility	Development	
Revenue				
Property Taxes	37,962	-	-	37,962
Government Transfers - Operating	3,529	-	-	3,529
Sales and User Fees	21,731	19,365	-	41,096
Local Improvement Levies	6	-	-	6
Interest	115	-	-	115
	<u>63,343</u>	<u>19,365</u>	<u>-</u>	<u>82,708</u>
Expenses				
Amortization	12,052	3,398	-	15,450
Contracted Services	14,241	12,292	-	26,533
General	8,249	276	-	8,525
Grants	843	-	-	843
Human Resources	34,178	1,488	-	35,666
Interest on Long-Term Debt	591	-	307	898
Materials, Equipment and Supplies	4,663	211	78	4,952
	<u>74,817</u>	<u>17,665</u>	<u>385</u>	<u>92,867</u>
Annual (Deficit) Surplus Before the Undernoted	<u>(11,474)</u>	<u>1,700</u>	<u>(385)</u>	<u>(10,159)</u>
Gain (Loss) on Disposal of Tangible Capital Assets	(34)	(72)	-	(106)
Government Transfers - Capital	5,529	-	-	5,529
Contributed Tangible Capital Assets	61	-	9,590	9,651
Developer Contributions and Levies	-	-	905	905
	<u>5,556</u>	<u>(72)</u>	<u>10,495</u>	<u>15,979</u>
Annual (Deficit) Surplus	<u>(5,918)</u>	<u>1,628</u>	<u>10,110</u>	<u>5,820</u>

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

14. Segmented Disclosure (Continued)

	2017			Total
	Municipal	Utility	Development	
Revenue				
Property Taxes	35,563	-	-	35,563
Government Transfers - Operating	3,318	-	-	3,318
Sales and User Fees	26,007	18,103	-	44,110
Local Improvement Levies	60	-	-	60
Interest	388	-	-	388
	<u>65,336</u>	<u>18,103</u>	<u>-</u>	<u>83,439</u>
Expenses				
Amortization	11,183	3,233	-	14,416
Contracted Services	11,357	10,841	-	22,198
General	7,589	198	-	7,787
Grants	250	-	-	250
Human Resources	32,437	1,430	-	33,867
Interest on Long-Term Debt	527	-	107	634
Materials, Equipment and Supplies	4,343	308	4	4,655
	<u>67,686</u>	<u>16,010</u>	<u>111</u>	<u>83,807</u>
Annual (Deficit) Surplus Before the Undernoted	<u>(2,350)</u>	<u>2,093</u>	<u>(111)</u>	<u>(368)</u>
Gain on Disposal of Tangible Capital Assets	20	(3)	-	17
Government Transfers - Capital	7,669	-	-	7,669
Contributed Tangible Capital Assets	33	-	16,399	16,432
Developer Contributions and Levies	-	-	6,050	6,050
	<u>7,722</u>	<u>(3)</u>	<u>22,449</u>	<u>30,168</u>
Annual Surplus	<u>5,372</u>	<u>2,090</u>	<u>22,338</u>	<u>29,800</u>

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

14. Segmented Disclosure (Continued)

Segmented information has been identified above based upon lines of service provided by the City. The services that are disclosed in the segmented information are referred to as:

- (a) Municipal, for operating and capital activities other than those designated as Utility and Development.
- (b) Utility, for water, solid waste and wastewater services.
- (c) Development, for developer-funded projects and activities.

15. Salary and Benefits Disclosure

Disclosure of salaries and benefits for municipal officials and the chief administrative officer is required by Alberta Regulation 313/2000. This information is not presented in thousands of dollars.

	2018 Salaries	2018 Benefits	2017 Salaries	2017 Benefits
Mayor Houston	111,740	15,944	98,883	14,531
Alderman Baxter	-	-	35,398	7,133
Councillor Thebaud-Gruhlke	49,272	11,715	7,973	2,335
Alderman Kesanko	-	-	41,009	5,581
Councillor Mckenzie	51,197	11,872	9,511	2,169
Alderman Mclean	-	-	41,859	8,840
Councillor Oldham	48,772	11,836	8,998	2,382
Councillor Rothe	50,527	11,748	43,222	10,849
Alderman Steinburg	-	-	37,180	5,135
Councillor Stevenson	56,365	9,022	10,793	1,931
Councillor Turton	46,545	11,639	47,223	11,010
	414,418	83,776	382,049	71,896
Chief Administrative Officer	237,585	46,802	237,727	47,407
	652,003	130,578	619,776	119,303

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

15. Salary and Benefits Disclosure (Continued)

Salaries include remuneration and per diem paid to elected officials, including a basic honorarium, and a meeting per diem. Benefits include the employer's share of all benefits paid on behalf of elected officials and include Canada Pension Plan, health care, extended health care, dental, group life, accidental death and dismemberment insurance, dependant life insurance, a home office expense allowance, car allowance, and WCB coverage. Employees are also eligible for Employment Insurance, Long Term Disability, Local Authorities Pension Plan, APEX Plus Pension Plan and memberships to the TransAlta Tri Leisure Centre. Council is eligible for a matching RRSP contribution of up to 4% of their annual salary.

16. Local Authorities Pension Plan

Employees of the City participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Public Sector Pension Plans Act. LAPP is financed by employer and employee contributions and by investment earnings of the LAPP fund.

The City is required to make current service contributions to LAPP of 10.39% (2017 - 11.39%) of eligible pensionable earnings up to the Year's Maximum Pension Earnings and 14.84% (2017 - 15.84%) on pensionable earnings above this amount. Employees are required to make current service contributions of 9.39% (2017 - 10.39%) of pensionable salary up to the Year's Maximum Pensionable Earnings and 13.84% (2017 - 14.84%) on pensionable salary above this amount. Contributions for current service are recorded as expenses in the year in which they become due.

Total current service contributions by the City to LAPP in 2018 were \$2,458 (2017 - \$2,588). Total current service contributions by the employees of the City to LAPP in 2018 were \$2,254 (2017 - \$2,388). Total optional service contributions by the City to LAPP in 2018 were \$158 (2017 - \$96).

City employees are able to buy back their first year of service within five years from their start date with LAPP. The City is obligated to pay the employer portion of any prior service buy-back. In 2018 the City's potential liability for optional service buy-back is \$86 (2017 - \$139).

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

17. 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 (approximately 106 beneficiaries). The plan supplements the Local Authorities Pension Plan.

The prescribed class of employees and the City make contributions. Employees and the City are required to make current service contributions to APEX of 2.84% and 3.78% respectively of pensionable earnings up to \$147 (2017 - \$145).

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

17. APEX Supplementary Pension Plan (Continued)

Total current service contributions by the City to APEX in 2018 were \$378 (2017 - \$370). Total current service contributions by the employees of the City in 2018 were \$284 (2017 - \$278).

18. TransAlta Tri Leisure Centre

The City of Spruce Grove, Parkland County and the Town of Stony Plain have jointly developed, constructed, and are now operating the TransAlta Tri Leisure Centre (the "TLC"). The building is jointly owned by the City of Spruce Grove, Parkland County and the Town of Stony Plain.

The Tri-Municipal Leisure Facility Corporation (the "Corporation") was incorporated on December 19, 2001 under the Companies Act (Alberta) as a not-for-profit Part IX corporation to operate and manage the TLC. The City of Spruce Grove, Parkland County and Town of Stony Plain contributed a total of \$1,852 (2017 - \$1,985) to support the operations of the Centre, with the City's proportionate share being 49.5% (2017 - 45.4%) or \$917 (2017 - \$901).

A financial summary of the City's proportionate share of the financial position and operations of the TLC is as follows:

	2018	2017
Financial Position		
Financial Assets	1,259	864
Liabilities	(754)	(499)
Net Financial Assets	505	365
Non-Financial Assets	1,283	849
Accumulated Surplus	1,788	1,214
Operations		
Revenue	4,689	3,766
Expenses	(4,115)	(3,684)
Annual Surplus	574	82
Accumulated Surplus, Opening	1,214	1,132
Accumulated Surplus, Closing	1,788	1,214
Change in Net Financial Assets		
Annual Surplus	574	82
Acquisition of Tangible Capital Assets	(536)	(308)
Amortization	186	177
Gain on Disposal of Tangible Capital Assets	(76)	-
Consumption (Acquisition) of Inventory	(8)	5
	140	(44)
Net Financial Assets, Opening	365	409
	505	365
Net Financial Assets, Closing	505	365

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

19. Related Parties

Transactions with related parties are included within these consolidated financial statements.

Related parties include key management personnel which the City has determined to include the Mayor, Council and members of the City's senior leadership team. In the normal course of operations, key management personnel incur various costs on behalf of the City. Such transactions between the City and key management personnel are recorded at a value similar to that which would have been arrived at if the parties were unrelated.

20. Alberta Municipal Insurance Exchange

The City is a member of the Alberta Municipal Insurance Exchange (MUNIX). Under the terms of the membership, the City could become liable for its proportionate share of any claim losses in excess of the funds held by the exchange. Any liability incurred would be accounted for as a current transaction in the year the losses are determined.

21. Developer Agreements

Developers have entered into agreements with the City in the amount of approximately \$175 million and are committed to installing and constructing certain works to serve the development of lands within the City. The City has taken security from the developers in the form of letters of credit in the amount of \$28 million to secure the performance by the developers under the agreements.

22. Financial Instruments

The City's financial instruments consist of accounts receivable, investments, accounts payable and accrued liabilities, liability for contaminated sites, 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 accounts receivable. 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 of diversity of taxpayers and customers minimizes the credit risk.

Unless otherwise noted, the carrying values of all the City's financial instruments approximate their fair value.

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

23. Commitments

As at December 31, 2018; authorized costs for capital projects and transfers committed through a purchase order or other contractual agreement, but not yet expended, amounted to \$12,206.

The City has ongoing operating leases for facilities. The future minimum lease payments are as follows:

Year	Basic Rent
2019	347
2020	298
2021	230
2022	230
2023	122
Thereafter	474
Total	1,701

24. Contingent Liabilities

The City is defendant in various lawsuits as at December 31, 2018. Where the occurrence of future events is considered likely to result in a loss with respect to an existing condition, and the amount of the loss can be reasonably estimated, amounts have been included within accrued liabilities. Where the resulting losses, if any, cannot be determined or the occurrence of future events is unknown, amounts have not been recorded.

The City is currently undergoing union negotiations that may result in retroactive payments being made. The outcome of these negotiations are not determinable as at December 31, 2018, and accordingly, no provision has been made in these consolidated financial statements for any liability that may result.

25. Comparative Information

Certain comparative information has been reclassified to conform with the financial statement presentation adopted for the current year.

CITY OF SPRUCE GROVE
SCHEDULE 1 - PROPERTY TAXES
For the Year Ended December 31, 2018
(in thousands of dollars)

	2018 Budget (Note 2)	2018 Actual	2017 Actual
Property Taxes			
Residential	41,254	41,650	39,262
Non-Residential			
Commercial	10,272	10,023	9,546
Industrial	2,362	2,274	2,270
Linear	315	318	291
Agricultural	2	2	2
	54,205	54,267	51,371
Less Requisitions			
Alberta Education	13,619	13,734	13,256
Evergreen Catholic Schools	2,360	2,296	2,298
Meridian Foundation	229	275	254
	16,208	16,305	15,808
	37,997	37,962	35,563

CITY OF SPRUCE GROVE
SCHEDULE 2 - GOVERNMENT TRANSFERS
For the Year Ended December 31, 2018
(in thousands of dollars)

	2018 Budget (Note 2)	2018 Actual	2017 Actual
Government Transfers - Capital			
Gas Tax Fund	2,429	2,419	2,558
Other	400	1	1,448
Sustainability	4,931	3,109	3,663
	7,760	5,529	7,669
Government Transfers - Operating			
Policing	648	688	671
Social	821	821	821
Sustainability	231	237	241
Other	1,157	1,783	1,585
	2,857	3,529	3,318
	10,617	9,058	10,987

CITY OF SPRUCE GROVE
SCHEDULE 3 - SALES AND USER FEES
For the Year Ended December 31, 2018
(in thousands of dollars)

	2018 Budget (Note 2)	2018 Actual	2017 Actual
Donations and Sponsorships	429	135	237
Fines and Permits	7,814	5,766	7,031
Electrical Franchise Fees	3,498	3,542	3,377
Gas Franchise Fees	1,200	1,037	1,220
Goods and Services	8,013	7,900	7,461
Other	3,898	1,202	4,821
Rental Revenue	1,075	1,343	1,120
Tax Penalties	733	806	740
Utility Charges	20,842	19,365	18,103
	47,502	41,096	44,110

CITY OF SPRUCE GROVE
SCHEDULE 4 - EXPENSES BY OBJECT
For the Year Ended December 31, 2018
(in thousands of dollars)

	2018 Budget (Note 2)	2018 Actual	2017 Actual
Amortization	14,792	15,450	14,416
Contracted Services	27,905	26,533	22,198
General	8,748	8,525	7,794
Grants	298	843	250
Human Resources	36,622	35,666	33,867
Interest on Long-Term Debt	1,149	898	634
Materials, Equipment and Supplies	5,973	4,952	4,648
	95,487	92,867	83,807

CITY OF SPRUCE GROVE
SCHEDULE 5 - EXPENSES BY DEPARTMENT
For the Year Ended December 31, 2018
(in thousands of dollars)

	2018 Budget (Note 2)	2018 Actual	2017 Actual
Council	724	646	597
City Manager	649	668	566
Economic and Business Development	1,132	1,397	993
Corporate Communications	1,150	971	971
Community and Protective Services			
Administration	1,176	1,040	574
Agrena / Sports Park	1,755	1,757	1,646
Culture	1,559	1,554	1,577
Family and Community Support Services	1,932	1,778	1,691
Fire	7,754	7,871	7,395
Leisure Centre	4,500	4,879	3,937
Library	1,750	1,754	1,632
Municipal Enforcement and Safe City	4,191	3,156	3,408
Police	5,297	5,004	4,759
Recreation	1,684	1,642	1,669
	31,598	30,435	28,288
Corporate Services			
Administration	697	746	649
City Clerk	1,619	1,512	1,501
Finance	3,032	3,092	3,147
Human Resources	1,585	1,559	1,433
Information Systems	3,963	3,779	3,074
	10,896	10,688	9,804
Planning and Infrastructure			
Administration	633	635	457
Asset Management	5,676	5,295	5,053
Engineering	1,831	2,294	1,481
Planning and Development	2,178	2,160	2,050
Public Works	18,061	17,765	15,407
Transit and Sustainability	2,841	2,248	2,131
	31,220	30,397	26,579
Utilities			
Waste	3,040	2,968	2,791
Wastewater	4,634	4,616	4,049
Water	10,444	10,081	9,169
	18,118	17,665	16,009
	95,487	92,867	83,807