



# **CITY COUNCIL ADDITIONAL AGENDA**

Monday, April 18, 2011 – Council Chambers, City Hall

|                    |                    |
|--------------------|--------------------|
| Call to Order:     | 3:00 PM            |
| Recess:            | 5:00 PM to 6:00 PM |
| Public Hearing(s): | 6:00 PM            |

## **I. UNFINISHED BUSINESS**

- I.1. Council Policy 5352-C: Debenture Interest Rates  
Department: Financial Services

(Agenda Pages 1 – 5)

## **2. REPORTS**

- 2.1. 2010 Annual Financial Report  
Department: Financial Services

(Agenda Pages 6 – 57)



Date: April 13, 2011

To: Craig Curtis, City Manager

From: Dean Krejci, Financial Services Manager

Subject: Interest Rates on Debentures

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### Background

At the Council meeting of September 13, 2010, the following resolution was made:

“**Resolved** that Council of the City of Red Deer having considered the confidential report related to Interest Rates on Debentures hereby directs that administration prepare a policy framework regarding interest rates on debentures for review by the Audit Committee with said policy to be brought back to Council by January 31, 2011.”

At the Audit Committee meeting of December 10, 2010, the following resolution was made:

“**RESOLVED** that the Audit Committee have received and reviewed the Interest Rates on Debentures Procedure and Report hereby requests that Administration bring back to the Audit Committee a draft interest rate policy.”

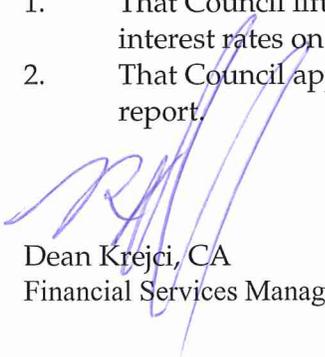
Administration requested that Council table this item until April 2011 and the following resolution was made:

“**Resolved** that Council of The City of Red Deer having considered the report from the Financial Services Manager, dated January 13, 2011, re: Interest Rates on Debentures, hereby agrees to table the preparation of a policy framework regarding interest rates on debentures for review by the Audit Committee and to bring back the policy for Council’s consideration prior to the end of April, 2011.”

The draft Interest Rates on Debentures Council Policy 5352-C is attached for Council’s consideration. The Audit Committee has reviewed the policy and a letter regarding the recommendation of the Audit Committee is attached.

### Recommendation

1. That Council lift from the table consideration of a policy framework regarding interest rates on debentures.
2. That Council approve Debenture Interest Rates Council Policy 5352-C attached to this report.

  
Dean Krejci, CA  
Financial Services Manager



## Debenture Interest Rates

### **Purpose:**

This policy sets out the maximum interest rates that will apply to all City debenture borrowings.

### **Policy Statement(s):**

The maximum interest rate chosen will be no more than 3% above the prevailing Alberta Capital Finance Authority rate at the time the borrowing bylaw is created or amended.

### **Scope/Application:**

This policy applies to all City Divisions and Departments.

### **Policy Monitoring and Evaluation:**

The Debenture Interest Rate Council Policy will be reviewed yearly based on the date of approval. The review may occur any time prior to the one year evaluation date.

### **Authority/Responsibility to Implement:**

The authority to establish and monitor compliance to this policy is the responsibility of the City Manager.

### **References/Links:**

1. Municipal Government Act, S. 251 - 263
2. Alberta Capital Finance Authority Borrowing Manual
3. Corporate Borrowing Policy
4. Corporate Capital Borrowing Bylaw Creation Procedure
5. Corporate Capital Borrowing Bylaw Amendment Procedure



## Debenture Interest Rates

### Inquiries/Contact Person:

Financial Services Manager  
Corporate Controller, Budgets & Investments  
Revenue & Assessment Manager  
Corporate Controller, Revenue & Collections  
Financial Accountants, Revenue & Collections

### Document History:

|                                   |
|-----------------------------------|
| Council Resolution Date:          |
| Council Resolution Revision Date: |

DRAFT



AUDIT COMMITTEE

Date: April 13, 2011  
To: City Council  
From: Audit Committee  
Subject: Debenture Interest Rates Council Policy 5352-C

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At the April 13, 2011 Audit Committee meeting, the Audit Committee considered the Debenture Interest Rates Council Policy 5352-C, as presented by the Financial Analyst. Following consideration, the motion as set out below was introduced and passed:

“Resolved that the Audit Committee, having considered the Debenture Interest Rates Council Policy 5352-C, as presented by the Financial Analyst at the April 13, 2011 Audit Committee meeting, hereby supports the statements as presented and recommends Council approval.”

A copy of the Debenture Interest Rates Council Policy 5352-C as reviewed by the Audit Committee at the April 13, 2011 meeting is attached for your information.

Regards,

A handwritten signature in blue ink, appearing to read 'T. Veer'.

Councillor T. Veer  
Chair, Audit Committee

Attachment

- c. D. Krejci, Financial Services Manager  
L. Poth, Director of Corporate Services

*Comments:*

I support the recommendation of the Audit Committee that Council consider approval of Council Policy 5352-C: Debenture Interest Rates.

“Craig Curtis”  
City Manager

ORIGINAL



Council Decision – April 18, 2011

**DATE:** April 20, 2011  
**TO:** Dean Krecji, Financial Services Manager  
**FROM:** Elaine Vincent, Legislative & Governance Services Manager  
**SUBJECT:** Draft Interest Rates on Debentures Council Policy 5352-C

---

**Reference Report:**

Financial Services Manager, dated April 13, 2011.

**Resolution:**

The following resolution was passed during the regular Council meeting held on Monday, April 18, 2011:

“**Resolved** that Council of The City of Red Deer having considered the report from the Financial Services Manager, dated April 13, 2011, re: Interest Rates on Debentures, hereby approves Debenture Interest Rates Council Policy 5352-C as presented at the April 18, 2011 Council Meeting.”

**Report Back to Council:** No

**Comments/Further Action:**

Copies of the Debenture Interest Rates Council Policy 5352-C to be circulated at a later date.

A handwritten signature in black ink, appearing to read 'Elaine Vincent'.

Elaine Vincent  
Legislative & Governance Services Manager

- c Director of Corporate Services, Lorraine Poth
- Research and Policy Coordinator, Kim Woods
- Corporate Controller, Michelle Andrew



## Submission Request For Inclusion on a Council Agenda

Requests to include a report on a Council Agenda must be received by 4:30pm two Wednesdays prior to the scheduled Council meeting.

**PLEASE NOTE:** If reports are not received by two Wednesdays prior to the scheduled meeting/hearing the report may be moved to the next Agenda.

| CONTACT INFORMATION  |  |                                |   |
|--|--|--------------------------------|---|
| Name of Report Writer:   | Dean Krejci, Financial Services Manager                |                                |   |
| Department & Telephone Number:   | Financial Services, 403.342.8204                       |                                |   |
| REPORT INFORMATION   |  |                                |   |
| Preferred Date of Agenda:  | April 18, 2011   |                                |   |
| Subject of the Report<br>(provide a brief description)   | Proposed Council Policy – Interest Rates on Debentures |                                |   |
| Is this Time Sensitive? Why?   | Council has requested this report by the end of April. |                                |   |
| What is the Decision/Action required from Council?   | Approval of the Policy                                 |                                |   |
| Please describe Internal/ External Consultation, if any.   | This will have been reviewed by Audit Committee        |                                |   |
| Is this an In-Camera item?   | No   |                                |   |
| Is Advertising Required?   | No   |                                |   |
| How does the Report link to the Strategic Plan and other existing Plans & Policies?  |  |                                |   |
| Has Legal Counsel been consulted? Are there any outstanding issues? Please describe.   |  |                                |   |
| Legal Counsel first raised this issue in early 2009.   |  |                                |   |
| Are there any financial/budget implications? Please describe. Are there other organizational implications? Please describe.  |  |                                |   |
| No   |  |                                |   |
| Presentation:<br>(10 Min Max.)   |  | No                             | Presenter Name and Contact Information: |
| <b>COMMUNITY IMPACT</b>  |  |                                |   |
| Should External Stakeholder(s) be advised of the Agenda item?<br>(e.i. Community Groups, Businesses, Community Associations)<br>If Yes, please provide the Contact Information for the External Stakeholder(s) |  |                                | <input type="checkbox"/> NO             |
| External Stakeholder(s) Contact Information:<br>(please provide, name, mailing address, telephone number and e-mail address)   |  |                                |   |
| <b>FOR LEGISLATIVE &amp; GOVERNANCE SERVICES USE ONLY</b>  |  |                                |   |
| Has this been to CLT / City Manager Briefings/ Committees: MPC, EAC, CPAC (Please circle those that apply)   |  |                                |   |
| <b>CLT</b>   | <b>City Manager Briefings</b>                          | <b>Board(s) / Committee(s)</b> |   |
| When/describe: _____   | When/Describe: _____                                   | When/Describe: _____           |   |
|  |  |                                |   |
| Do we need Communications Support?   |  | <input type="checkbox"/> YES   | <input type="checkbox"/> NO             |

Please return completed form, along with report and any additional information to Legislative & Governance Services.

Date: April 13, 2011

To: Craig Curtis, City Manager

From: Dean Krejci, Financial Services Manager

Subject: Interest Rates on Debentures

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**Background**

At the Council meeting of September 13, 2010, the following resolution was made:

“**Resolved** that Council of the City of Red Deer having considered the confidential report related to Interest Rates on Debentures hereby directs that administration prepare a policy framework regarding interest rates on debentures for review by the Audit Committee with said policy to be brought back to Council by January 31, 2011.”

At the Audit Committee meeting of December 10, 2010, the following resolution was made:

“**RESOLVED** that the Audit Committee have received and reviewed the Interest Rates on Debentures Procedure and Report hereby requests that Administration bring back to the Audit Committee a draft interest rate policy.”

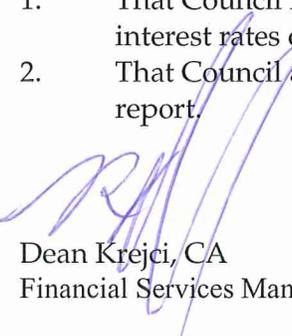
Administration requested that Council table this item until April 2011 and the following resolution was made:

“**Resolved** that Council of The City of Red Deer having considered the report from the Financial Services Manager, dated January 13, 2011, re: Interest Rates on Debentures, hereby agrees to table the preparation of a policy framework regarding interest rates on debentures for review by the Audit Committee and to bring back the policy for Council’s consideration prior to the end of April, 2011.”

The draft Interest Rates on Debentures Council Policy 5352-C is attached for Council’s consideration. The Audit Committee has reviewed the policy and a letter regarding the recommendation of the Audit Committee is attached.

**Recommendation**

1. That Council lift from the table consideration of a policy framework regarding interest rates on debentures.
2. That Council approve Debenture Interest Rates Council Policy 5352-C attached to this report.

  
Dean Krejci, CA  
Financial Services Manager

AUDIT COMMITTEE

Date: April 13, 2011  
To: City Council  
From: Audit Committee  
Subject: Debenture Interest Rates Council Policy 5352-C

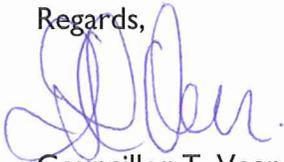
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At the April 13, 2011 Audit Committee meeting, the Audit Committee considered the Debenture Interest Rates Council Policy 5352-C, as presented by the Financial Analyst. Following consideration, the motion as set out below was introduced and passed:

*“Resolved that the Audit Committee, having considered the Debenture Interest Rates Council Policy 5352-C, as presented by the Financial Analyst at the April 13, 2011 Audit Committee meeting, hereby supports the statements as presented and recommends Council approval.”*

A copy of the Debenture Interest Rates Council Policy 5352-C as reviewed by the Audit Committee at the April 13, 2011 meeting is attached for your information.

Regards,



Councillor T. Veer  
Chair, Audit Committee

Attachment

- c. D. Krejci, Financial Services Manager  
L. Poth, Director of Corporate Services

Legislative & Governance Services

**DATE:** April, 2011  
**TO:** Craig Curtis, City Manager  
**FROM:** Elaine Vincent, Legislative & Governance S  
**SUBJECT:** Interest Rates on Debentures

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Memo not  
needed?

**History**

At the Monday, September 13, 2010 Council Meeting the above referenced report was presented for Council's consideration and the following resolution was passed:

**"Resolved** that Council of the City of Red Deer having considered the confidential report related to Interest Rates on Debentures hereby directs that administration prepare a policy framework regarding interest rates on debentures for review by the Audit Committee with said policy to be brought back to Council by January 31, 2011."

At the Audit committee meeting of December 10, 2010, the following resolution was made:

**"Resolved** that the Audit Committee have received and reviewed the Interest Rates on Debentures Procedure and Report hereby requests that Administration bring back to the Audit Committee a draft interest rate policy."

Administration noted that the report would not be complete until mid-March and requested Council to table the item until April 2011.

At the Monday, January 24, 2011 Council Meeting, the following resolution was passed:

**"Resolved** that Council of The City of Red Deer having considered the report from the Financial Services Manager, dated January 13, 2011, re: Interest Rates on Debentures, hereby agrees to table the preparation of a policy framework regarding interest rates on debentures for review by the Audit Committee and to bring back the policy for Council's consideration prior to the end of April, 2011."

**Discussion**

Administration has prepared the policy framework regarding interest rates on debentures and the report is attached.

...2/

**Recommendation**

That Council:

- 1) Lift from the table discussion of Interest Rates on Debentures.
- 2)

A handwritten signature in cursive script, appearing to read "Elaine Vincent".

Elaine Vincent  
Manager



Council Decision – September 20, 2010

**DATE:** September 21, 2010  
**TO:** Dean Krejci, Financial Services Manager  
**FROM:** Elaine Vincent, Legislative & Governance Services Manager  
**SUBJECT:** Interest Rates on Debentures

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***Reference Report:***

Financial Services Manager, dated September 13, 2010

***Resolutions:***

***Resolved*** that Council of the City of Red Deer having considered the confidential report related to Interest Rates on Debentures hereby directs that administration prepare a policy framework regarding interest rates on debentures for review by the Audit Committee with said policy to be brought back to Council by January 31, 2011."

***Report Back to Council:*** Yes

***Comments/Further Action:***

Submit policy framework regarding interest rates on debentures for review by the Audit Committee and have the policy brought back to Council by January 31, 2011.

A handwritten signature in cursive script, appearing to read 'Elaine Vincent'.

Elaine Vincent  
Legislative & Governance Services Manager

- c Director of Corporate Services
- Michelle Andrew, Corporate Controller
- Audit Committee Chair
- Committees Coordinator
- Corporate Meeting Coordinator

**DATE:** January 25, 2011  
**TO:** Dean Krejci, Financial Services Manager  
**FROM:** Elaine Vincent, Legislative & Governance Services Manager  
**SUBJECT:** Interest Rates on Debentures

---

***Reference Report:***

Financial Services Manager, dated January 13, 2011.

***Resolution:***

The following resolution was passed during the Regular Council Meeting held on Monday, January 24, 2011:

**“Resolved** that Council of The City of Red Deer having considered the report from the Financial Services Manager, dated January 13, 2011, re: Interest Rates on Debentures, hereby agrees to table the preparation of a policy framework regarding interest rates on debentures for review by the Audit Committee and to bring back the policy for Council’s consideration prior to the end of April, 2011.”

***Report Back to Council:*** Yes

***Comments/Further Action:***

Policy Framework regarding interest rates on debentures is to be prepared for review by the Audit Committee and brought back for Council’s review prior to the end of April 2011.



Elaine Vincent  
Legislative & Governance Services Manager

- c Lorraine Poth, Director of Corporate Services
- Councillor Tara Veer, Chair, Audit Committee
- Committees Coordinator
- Corporate Meeting Coordinator



## **Debenture Interest Rates**

### **Purpose:**

This policy sets out the maximum interest rates that will apply to all City debenture borrowings.

### **Policy Statement(s):**

The maximum interest rate chosen will be no more than 3% above the prevailing Alberta Capital Finance Authority rate at the time the borrowing bylaw is created or amended.

### **Scope/Application:**

This policy applies to all City Divisions and Departments.

### **Policy Monitoring and Evaluation:**

The Debenture Interest Rate Council Policy will be reviewed yearly based on the date of approval. The review may occur any time prior to the one year evaluation date.

### **Authority/Responsibility to Implement:**

The authority to establish and monitor compliance to this policy is the responsibility of the City Manager.

### **References/Links:**

1. Municipal Government Act, S. 251 - 263
2. Alberta Capital Finance Authority Borrowing Manual
3. Corporate Borrowing Policy
4. Corporate Capital Borrowing Bylaw Creation Procedure
5. Corporate Capital Borrowing Bylaw Amendment Procedure

## Debenture Interest Rates

### Inquiries/Contact Person:

Financial Services Manager  
Corporate Controller, Budgets & Investments  
Revenue & Assessment Manager  
Corporate Controller, Revenue & Collections  
Financial Accountants, Revenue & Collections

### Document History:

|                                   |
|-----------------------------------|
| Council Resolution Date:          |
| Council Resolution Revision Date: |

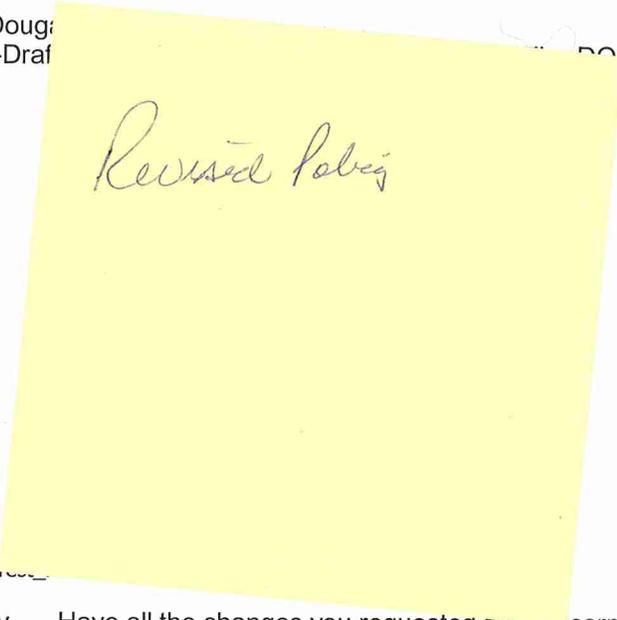
DRAFT

**Christine Kenzie**

**From:** Elaine Vincent  
**Sent:** April 08, 2011 1:35 PM  
**To:** Christine Kenzie; Frieda McDougall  
**Subject:** RE: DMPROD-#1075833-v1-Draft\_Debenture\_Interest\_Rates\_Council\_Policy.DOC - FOR ADDITIONAL AGENDA

Okay to proceed....

*Elaine Vincent*  
Manager, Legislative and Governance Services  
The City of Red Deer  
Phone: 403-342-8134  
Fax: 403-346-6195  
elaine.vincent@reddeer.ca



---

**From:** Christine Kenzie  
**Sent:** Friday, April 08, 2011 1:30 PM  
**To:** Elaine Vincent; Frieda McDougall  
**Subject:** FW: DMPROD-#1075833-v1-Draft\_Debenture\_Interest\_Rates\_Council\_Policy.DOC - FOR ADDITIONAL AGENDA

Here is the revised Debenture Interest Rate Council Policy --- Have all the changes you requested been incorporated?

Thanks.

**Christine Kenzie | Corporate Meeting Coordinator**  
Legislative & Governance Services | The City of Red Deer  
D 403.356.8978 | F 403.346.6195  
[christine.kenzie@reddeer.ca](mailto:christine.kenzie@reddeer.ca)

---

**From:** Michelle Andrew  
**Sent:** April 08, 2011 1:10 PM  
**To:** Christine Kenzie  
**Subject:** RE: DMPROD-#1075833-v1-Draft\_Debenture\_Interest\_Rates\_Council\_Policy.DOC - FOR ADDITIONAL AGENDA

That means I can stay at my desk. Perfect.  
<< File: DMPROD-#1075833-v1-Draft\_Debenture\_Interest\_Rates\_Council\_Policy.DOC >>

Michelle  
403.309.8584

---

**From:** Christine Kenzie  
**Sent:** April 08, 2011 1:07 PM  
**To:** Michelle Andrew  
**Subject:** RE: DMPROD-#1075833-v1-Draft\_Debenture\_Interest\_Rates\_Council\_Policy.DOC - FOR ADDITIONAL AGENDA

You could send it to me electronically?

Thanks.

**Christine Kenzie | Corporate Meeting Coordinator**

Legislative & Governance Services | The City of Red Deer

D 403.356.8978 | F 403.346.6195

christine.kenzie@reddeer.ca

---

**From:** Michelle Andrew  
**Sent:** April 08, 2011 1:01 PM  
**To:** Christine Kenzie  
**Subject:** RE: DMPROD-#1075833-v1-Draft\_Debenture\_Interest\_Rates\_Council\_Policy.DOC - FOR ADDITIONAL AGENDA

Hi Christine,  
I've already adjusted the wording required. I will bring you a new copy.  
Thanks

Michelle  
403.309.8584

---

**From:** Christine Kenzie  
**Sent:** April 08, 2011 1:00 PM  
**To:** Michelle Andrew  
**Subject:** FW: DMPROD-#1075833-v1-Draft\_Debenture\_Interest\_Rates\_Council\_Policy.DOC - FOR ADDITIONAL AGENDA

After review of the agenda items for the April 18th Council meeting with Elaine and the City Solicitor this morning, there will be some changes being made to this draft Policy. Kim Woods should be getting a revised copy to you. Please check with her on the status of the revision so that you have a current copy for the Audit Committee Agenda for next week's meeting.

**Christine Kenzie | Corporate Meeting Coordinator**

Legislative & Governance Services | The City of Red Deer

D 403.356.8978 | F 403.346.6195

christine.kenzie@reddeer.ca

---

**From:** Michelle Andrew  
**Sent:** April 07, 2011 12:36 PM  
**To:** Christine Kenzie  
**Subject:** DMPROD-#1075833-v1-Draft\_Debenture\_Interest\_Rates\_Council\_Policy.DOC - FOR ADDITIONAL AGENDA

<< File: DMPROD-#1075833-v1-Draft\_Debenture\_Interest\_Rates\_Council\_Policy.DOC >>

Hi Christine,  
Here is the Debenture Interest Rates Policy Draft.  
When I write the memo, do I have to put in all the Legislative history? This one has really made the rounds and that part would be two pages on its own.  
Thanks!

**Christine Kenzie**

**From:** Michelle Andrew  
**Sent:** April 07, 2011 8:00 AM  
**To:** Christine Kenzie  
**Subject:** RE: Reports for April 18th Council meeting

*Next report  
Both of these  
are additional  
agenda.*

Hi Christine,  
I have the proposed Interest Rates on Debentures item (and have not yet written the covering memo to Craig). The Audit Committee has to approve it first, on the 13<sup>th</sup>.  
The financials are going to be presented to Audit Committee on the 13<sup>th</sup> as well, and we are still working on them. It is very likely that we won't have the final copy until the 13<sup>th</sup>, as the auditors are still doing their processes (2<sup>nd</sup> partner review) and are hesitant to allow us to release them before then.  
Please let me know how I should proceed.  
Thanks!

Michelle  
403.309.8584

**From:** Christine Kenzie  
**Sent:** April 06, 2011 5:17 PM  
**To:** Dean Krejci  
**Cc:** Michelle Andrew  
**Subject:** Reports for April 18th Council meeting

Looking for reports re Financial Statements and the Inter  
Let me know the status please and thank you. Need the

*- Financial statements not ready  
Need a date (tell Sunday)  
Talk to Dean / Michelle  
may have to hold out at Council Meeting or Monday?  
Latest Date  
27<sup>th</sup> or 28<sup>th</sup> (2 hrs)  
Need to have print room print statements for the public*

Council Meeting.

**Christine Kenzie | Corporate Meeting Co**  
**Legislative & Governance Services | The City of F**  
D 403.356.8978 | F 403.346.6195  
[christine.kenzie@reddeer.ca](mailto:christine.kenzie@reddeer.ca)

*Need letters from  
Audit Committee  
reports from Michelle  
Andrew re  
Financial statements*



**Date:** April 14, 2011  
**To:** Craig Curtis, City Manager  
**From:** Dean Krejci, Financial Services Manager  
**Subject:** 2010 Annual Financial Report

---

### **Background**

Section 276(1) of the Municipal Government Act (MGA) requires that municipalities prepare annual financial statements in accordance with generally accepted accounting principles for municipal governments.

Section 276(3) requires that each municipality make its financial statements, or a summary of them, and the auditor's report on the financial statements, available to the public.

Section 281(1) requires that the auditor for the municipality report to Council on the annual financial statements and the annual financial return.

### **Discussion**

Enclosed with the Council agenda, is the 2010 Annual Financial Report which includes the financial statements for the 2010 fiscal year and the auditor's report on those financial statements.

Also enclosed is correspondence from the Audit Committee, recommending the acceptance of the 2010 financial statements and annual financial report for distribution to the public and other interested parties.

### **Summary**

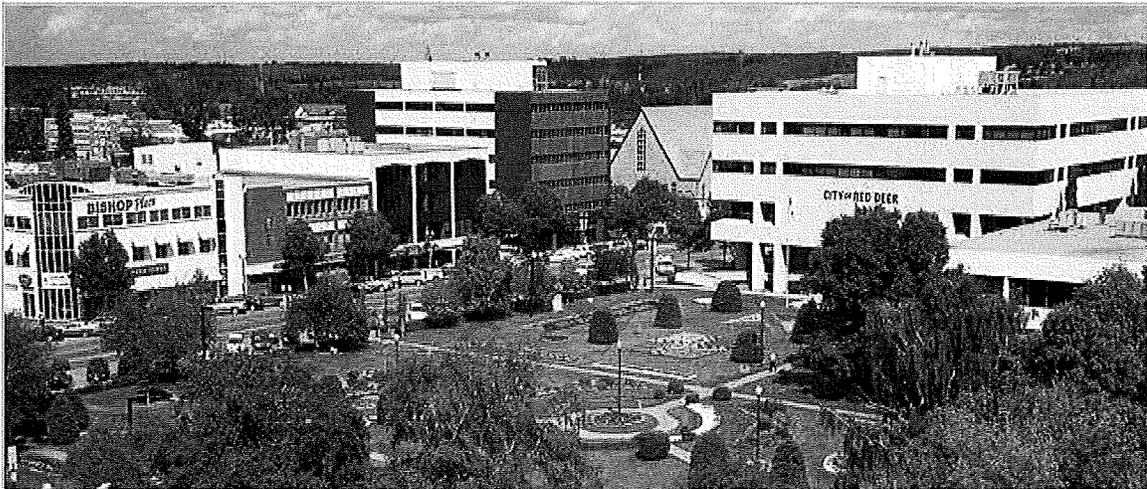
The auditors have presented their audit report to the Audit Committee and the City of Red Deer has received an unqualified audit opinion on their 2010 financial statements.

### **Recommendation**

That Council:

1. Accept the 2010 financial statements and annual financial report for distribution to the public and other interested parties;
2. Authorize the Mayor and one Councillor from the Audit Committee to sign the 2010 Financial Statements on behalf of Council; and
3. Authorize Administration to forward the 2010 Financial Statements to Alberta Municipal Affairs by May 1, 2011.

  
Dean Krejci, CA  
Financial Services Manager



## 2010 Annual Financial Report

April 2011

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DRAFT

**INTRODUCTORY INFORMATION**

## **CITY COUNCIL**

### **MAYOR M. FLEWWELLING**

**Councillor B. Buchanan  
Councillor T. Veer  
Councillor C. Stephan  
Councillor F. Wong**

**Councillor D. Wyntjes  
Councillor P Harris  
Councillor C. Jefferies  
Councillor L. Mulder**

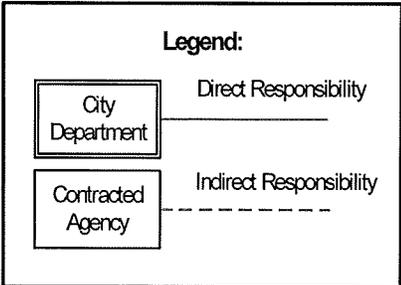
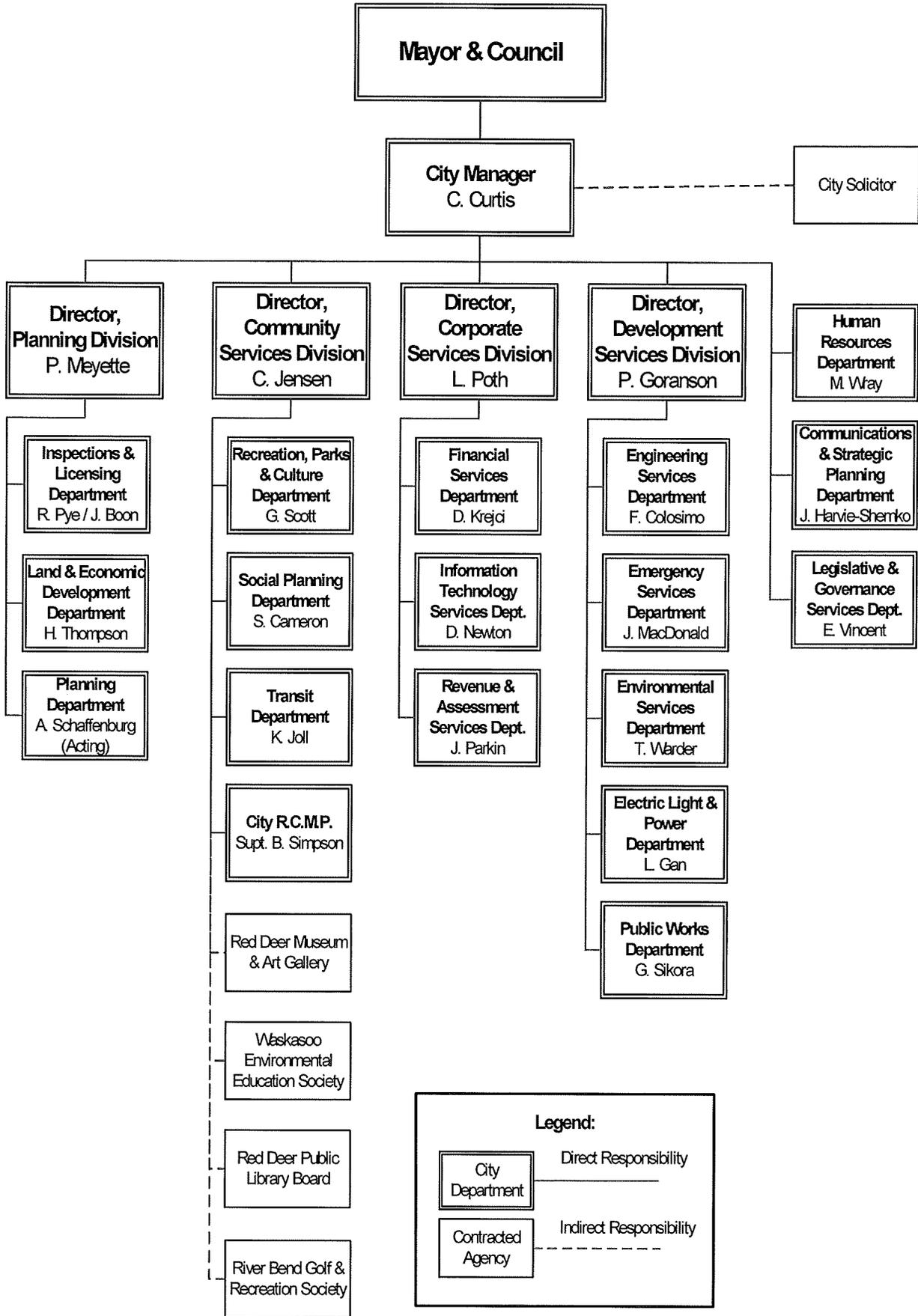
The City of Red Deer is governed by an elected City Council comprised of a Mayor and eight Councillors. Through the City Manager, this group provides governance and leadership to City Administration. The Mayor and all Councillors are members in a number of Committees and Boards that address specific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

Each of the Councillors are elected on an 'at large' basis, meaning that Councillors are not elected on a geographic basis. Each Councillor is available to any citizen to wishes to discuss an issue.

City Council meetings are held in Council Chambers twice a month. The meetings are open to the public.

DRAFT

# THE CITY OF RED DEER ORGANIZATIONAL CHART



**City Solicitor**  
Chapman Riebeek

**City External Auditor**  
Deloitte & Touche LLP

## CITY PROFILE

The City of Red Deer is a thriving, modern city of just over 90,000 people located between Calgary and Edmonton. The City provides its citizens with a wide range of services. Property taxes, user fees and grants fund these services.

**GENERAL OPERATIONS** - The City's GENERAL OPERATIONS include:

**COMMUNITY SERVICES** - The Community Services Division coordinates the delivery of recreation, culture, parks, transit and social services in Red Deer through the Recreation, Parks & Culture, Transit, and Social Planning departments. Services include development and maintenance of The City's extensive parks and open space system, playground and rink maintenance, operation of The City's two cemeteries, operation of a wide variety of recreational and cultural activities and facilities and family and community support services. Transit offers fixed transit routes throughout the City, special transportation and some charter services. The Community Services Division is also responsible for policing, through a contract with the Royal Canadian Mounted Police (RCMP) and provides police services including general investigation, traffic, community policing and victim services. The City provides a building, furnishings, and a number of municipal employees to support the RCMP in providing these police services.

**PLANNING SERVICES** - The Planning Division includes the Land & Economic Development, Inspections & Licensing and Planning departments. Land & Economic Development includes land development and economic promotion. Inspections & Licensing includes development approvals, building inspections, parking services, licensing, animal control and enforcement. The Planning Department provides subdivision Land Use Bylaw updates and approvals as well as providing the opportunity for public input into planning activities.

**CORPORATE SERVICES** - The Corporate Services Division provides financial and information services to The City through the Information Technology, Financial Services and Revenue & Assessment departments. Services include administering and coordinating City investments, Budgets and reserves, The City's insurance program, Risk Management, long term borrowing, financial analysis and reporting, information systems operations and support, assessing and levying property and business taxes, records management and many other financial and administrative services.

**DEVELOPMENT SERVICES** - The Development Services Division includes the Engineering, Public Works, Emergency Services, Electric Light & Power and Environmental Services departments. In addition to providing engineering services, roadway and bridge maintenance, sidewalk repair and meter maintenance, the division is also responsible for the operation of the water, wastewater, solid waste utilities and recycling program and the operation of The City's Equipment Pool and Electric Utility. Emergency Services provides a number of services including Fire Suppression, Emergency Medical Services and Fire Prevention.

**OTHER** - The City has a Human Resources department and a Communications & Strategic Planning department which both provide service to all departments. Legal services are provided to The City by a local law firm.

**SELF FUNDING UTILITIES** - The City operates a number of self funding utilities.

**WATER UTILITY** - The City obtains water from the Red Deer River and provides water treatment and distribution through a water treatment plant to a system of water reservoirs, booster stations and a water distribution system which distributes water to the residents of Red Deer and supplements the water system for the gasoline alley business area of Red Deer County as well as the North Red Deer Water Services Commission. Services include water main maintenance, hydrant and valve inspection, hydrant and valve repair and water meter maintenance. The utility is funded primarily through utility charges to customers.

**WASTEWATER UTILITY** - The City provides a wastewater collection and treatment system through a series of wastewater lines and mains and the operation of a wastewater treatment plant. The utility is funded through utility charges to customers.

**PARKING UTILITY** - The City provides parking in the downtown area through on-street metered parking, and metered and spittered off street parking lots in a number of locations. The City also provides 400 stalls of parking in the Sorenson Station parkade, which opened to the public in September 2010. The parking utility is administered by the Inspections & Licensing Department and is funded primarily through fines and parking revenues.

**SUBDIVISIONS** - The City's Subdivision Fund provides extension of major services to new areas of the city and recovers such costs through charges to developers connecting to these services. The City is also involved in the development and marketing of commercial, industrial and residential land in Red Deer. The Land & Economic Development Department is responsible for the coordination of The City's land development activities. Funding of the Subdivision Fund is primarily through the sale of commercial, industrial and residential land.

**EQUIPMENT POOL** - City equipment, such as trucks, emergency vehicles, sweepers, buses and graders are the responsibility of The City's equipment pool. Operating and maintenance costs are charged to the equipment pool, with such costs being recovered through user fees charged to departments and the public using the equipment. These user fees include a surcharge to help provide for the eventual replacement of the equipment. These funds are held in an equipment replacement reserve.

**SOLID WASTE UTILITY** - The City provides solid waste collection recycling and landfill operation within the solid waste utility. These services are largely carried out by contracts with the private sector. The City also has a household hazardous waste site at the landfill site that is available year round. The solid waste utility is funded through user fees.

**ELECTRIC UTILITY** - The City is an entitled electric distribution system which is subject to the obligations and entitlements set out in of the Electric Utilities Act of the Province of Alberta. The utility is not a retailer of electricity and only distributes electricity to the citizens of Red Deer through its distribution and transmission system comprised of substations, transformers and overhead and underground distribution lines. This utility is operated by the Electric Light & Power Department as a self supporting utility with funding provided through distribution service rates regulated by City Council and charged to customers.

### **Report from the Director of Corporate Services**

I am pleased to submit the Annual Financial Statements for The City of Red Deer for the year ended December 31, 2010 in accordance with Section 276 of the Municipal Government Act of the Province of Alberta.

The preparation and presentation of the Financial Statements and related information in the Annual Financial Report is the responsibility of management of The City of Red Deer. The statements have been prepared in conformity with Canadian generally accepted accounting standards for municipalities as established by the Public Sector Accounting Board (PSAB) and are consistent with other information presented in the Annual Financial Report. The accounting firm of Deloitte & Touche LLP has been appointed as auditors, by City Council, and is responsible directly to Council with their audit results.

In his address to Council in January 2010, the City Manager presented a theme for the operating budget. It was "Adjusting to the New Economic Reality". This meant that administration would endeavour to continue to work toward the vision of Red Deer as outlined in the Strategic Plan while being sensitive to economic pressures that were being felt in the City, regional, national and global economies.

A number of strategies continue their way toward implementation:

- Staff have implemented a number of asset classes into new software as a step in the Enterprise Asset Management program. Benefits are already being gained that allow Environmental Services to record and monitor repair and maintenance costs for their linear assets. The road system and recreation facilities are in the process of implementation.
- In 2010, after an organizational review, Council approved a plan to re-introduce the planning function to the City. This function had been provided under contract to the City for a number of years by Parkland Community Planning Services. This change will integrate improved planning for land use and subdivision approvals into the work that we do in a timelier manner.
- From a financial perspective, it was apparent that the economic situation meant that we could not be guaranteed that revenues would continue to increase as they had in the years of growth experienced in 2005-2009. To that end, administration worked diligently to improve revenues and reduce expenses where they would not negatively affect the services provided to citizens. For example, every staff vacancy is reviewed to determine if it is required to continue to provide a consistent service level. Those that can be left vacant with no impact will be until further review.

We feel that the financial results support these initiatives.

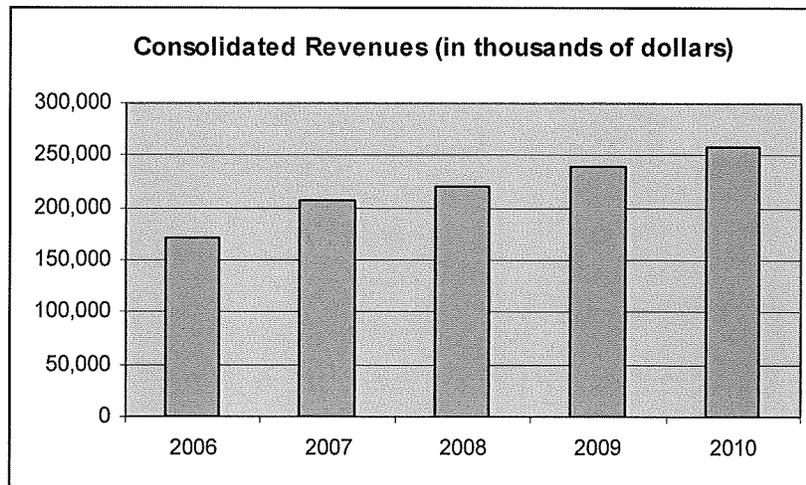
## 1. Operating Results:

### Revenues:

For 2010, revenues were higher than budget by \$4.8 million, due largely to utility user fees and an increase in tax revenue. Some one time items were up compared to budget; these were the addition of \$3.9 in revenue due to the consolidation of River Bend Golf Course.

When compared to 2009, revenues were also improved, in this case by \$18.6 million. This amount is composed of:

- tax revenue up by \$3.0 million
- land sales improved by \$3.4 million
- utility revenues improved by \$5.7 million



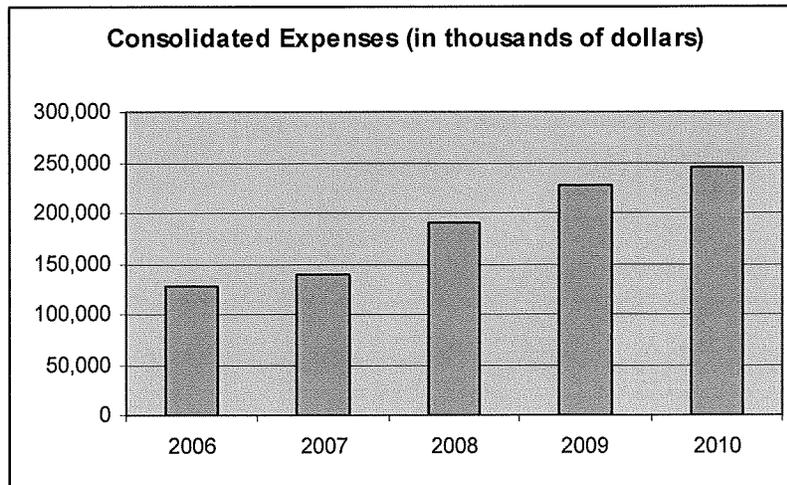
### Expenses:

For 2010, amortization for the organization in the amount of \$41.7 million was not budgeted. Had this amount been included in the budget, the expenses would have been \$253.9 million, creating a \$8.0 million favourable variance. A number of items explain this variance:

- A savings in salaries of \$6.5 million;
- Fewer financial charges, in the amount of \$1.5 million; and,
- A reduction in contracted services in the amount of \$3.1 million.

Amortization will be included in the 2011 budget figures.

When compared to 2009, operating expenses increased by \$18.3, due to an increase in salaries of \$8.4 million, and an increase in contracted services of \$3.5 million.



The excess of revenues over expenses before other items was lower than budgeted as reported due to amortization expenses not being included in expenses. If this number had been included in expenses, our budgeted position would have been a shortfall of \$806 thousand and would have created a favourable operating excess of \$12.8 million.

When compared to 2009, a small increase of excess of revenues over expenses occurred of \$300 thousand.

**Other Items:**

2010 proved to be less economically active, as evidenced by a reduction in assets contributed to the City by developers of \$43.0 million from 2009. The City continued to invest in capital assets in 2010, but at a reduced rate from 2009. 2009 saw capital transfers of \$55.6 million, but only \$21.3 million in 2010, a net reduction of \$43.3 million.

**2. Financial Position:**

For 2010, the City ended the year with an increase of financial assets over 2009 of \$1.9 million. Investments were adjusted to increase the long term position as the rates achieved in this portfolio are higher than in short term holdings. A restatement was made to 2009 and 2010 to reclassify land that is not yet ready for sale to the non-financial assets section of this statement. The impact was a reduction of financial assets in 2009 of \$23.3 million and \$22.0 million in 2010.

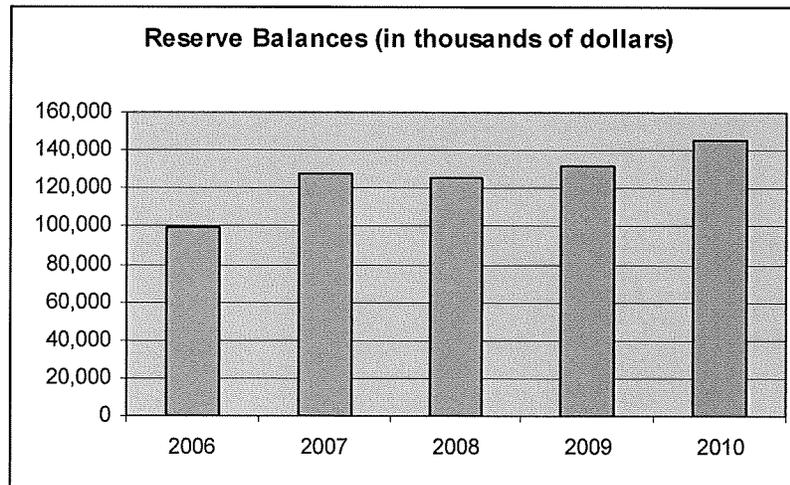
Liabilities increased by \$15.4 million over 2009. Most notably, deferred revenue, which are generally grants that are capital in nature, increased by \$13.0 million. When the expenditures for these projects are incurred, this amount will decrease. Long term debt increased in 2010 by \$4.2 million, as debt financing is used for projects.

The City is in a 'Net Debt' position for 2010 of (\$43.9 million), which is a decrease of Net Debt from 2009 of (\$13.9 million). This is not unusual as significant capital investments have been made in the year.

The increase in capital asset stock over 2009 at net book value was \$62.0 million.

### Reserve Balances:

Reserves continue to grow to allow The City to balance financing of capital projects with a combination of reserves and debt in the future.



### 3. Financial Indicators:

Financial Indicators can be used to measure a municipality's overall financial condition. These indicators are of three types: Sustainability, Flexibility and Vulnerability. The application of these indicators is presented below.

|   | 2010  | 2009  | 2008  | 2007  | 2006  |
|---|-------|-------|-------|-------|-------|
| <b>Sustainability:</b>                            |       |       |       |       |       |
| Financial Assets to Liabilities                   | 0.84* | 0.89* | 1.01  | 1.40  | 1.91  |
| Total Expenses to Assessment                      | 1.92% | 1.80% | 1.54% | 1.48% | 1.86% |
| <b>Flexibility:</b>                               |       |       |       |       |       |
| Debt Charges to Revenues                          | 7.26% | 5.74% | 2.29% | 1.77% | 2.74% |
| <b>Vulnerability:</b>                             |       |       |       |       |       |
| Government Transfers to Total Revenue (Operating) | 5.05% | 6.76% | 7.71% | 5.28% | 4.94% |

\*Financial assets were restated in 2009 and 2010 by a reduction in land for resale to the non-financial assets category.

Sustainability measures the degree to which the City can maintain its existing service and financial commitments without increasing the debt or tax burden on its citizens. The assets to liabilities ratio has declined in recent years, and is now less than 1. This indicates that we have been using debt to finance capital activity. While this indicator has declined, it is not a cause for alarm, as we have planned for the additional debt financing and our debt remains below the debt limits set for municipalities by the Province.

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, and ours does not.

Flexibility measures the degree to which the City has chosen to employ debt over increased taxation to meet its capital program commitments. The City now commits 7.26% of its revenues to service debt. This is an increased amount over previous years, however, the debt servicing remains well below the limits set out for Municipalities by the Province.

The vulnerability measure indicates the degree that the City is dependent on other levels of government for operating funding. From a high of 7.71% in 2008, we now receive 5.05% of our operating revenue from other levels of government. This could indicate that we are at some risk if these grants erode further.

#### **4. Risk Management:**

A number of areas demand continued vigilance from our organization:

- The risk of further erosion of grant allocations from other levels of government continues to impact our ability to plan in a conclusive manner for both our operating and capital budgets. We work to mitigate this risk through appropriate balance between grants and other funding types and to actively advocate for stable, adequate grant funding from other levels of government.
- Investment earnings have been lower than traditionally experienced for a number of years, impacting our revenues. We work to maximize this amount through careful cash management.
- The needs of the community for new and refurbishment of existing facilities is always with us as we manage our debt and reserve levels. Like any household, business or other government organization, we understand that attaining the right balance of financial inputs and results is an ongoing process.
- We must remain vigilant against increases in expenses that are out of line when compared to our revenue increases. Council and our citizens expect that we are as careful with municipal finances as they are with their own funds.

- Environmental matters present certain risks to the organization. A number of sites owned by the City have been assessed for environmental issues. Liabilities have been recognized in past years' financial statements, with additional adjustments where required. We have also developed an Environmental Master Plan and are implementing it so that we may prevent any issues in the future.

### **Conclusion**

It has been my great pleasure to continue to support Council and the City Manager in the past year. The professionalism and dedication that the Corporate Services Division staff and City Staff as a whole demonstrate, and the solid support I receive from them, allows me to look forward to any future challenges with confidence and optimism.

Respectfully submitted,

Lorraine Poth, CMA  
Director of Corporate Services  
April 18, 2011

**FINANCIAL INFORMATION**

DRAFT

## **MANAGEMENT REPORT**

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management of The City of Red Deer. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants. 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.

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

Craig Curtis  
City Manager

Lorraine Poth  
Director of Corporate Services

Deloitte & Touche LLP  
2000 Manulife Place  
10180 - 101 Street  
Edmonton AB T5J 4E4  
Canada

Tel: 780-421-3611  
Fax: 780-421-3782  
www.deloitte.ca

## Independent Auditor's Report

To the Members of Council

We have audited the accompanying consolidated financial statements of The City of Red Deer, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of operations, changes in net financial assets (debt) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The City of Red Deer as at December 31, 2010, and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

April 18, 2011

**CONSOLIDATED FINANCIAL STATEMENTS**

DRAFT

**STATEMENT 1 - CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2010 (in thousands of dollars)**

|  | 2010                | 2009                |
|--|---------------------|---------------------|
| <b>FINANCIAL ASSETS</b>  |                     | (Restated Note 28)  |
| Cash   | \$ 24,581           | \$ 22,409           |
| Temporary investments- Note 2.                                   | 52,351              | 65,873              |
| Receivables- Note 3.   | 26,755              | 26,203              |
| Land for sale- Note 4.   | 2,795               | 1,804               |
| Long-term investments- Note 5.                                   | 126,598             | 112,794             |
| Loans receivable- Note 6.  | 2,557               | 2,409               |
| Investment in River Bend Golf Course - Note 7.                   |                     | 2,725               |
|  | <u>235,637</u>      | <u>234,217</u>      |
| <b>LIABILITIES</b>   |                     |                     |
| Accounts payable and accrued liabilities                         | 26,059              | 29,001              |
| Other liabilities  | 1,816               | 2,601               |
| Deferred revenue - Note 8.                                       | 53,684              | 40,699              |
| Employee benefit obligations - Note 9.                           | 10,305              | 9,151               |
| Provision for Landfill closure and post-closure costs - Note 10. | 2,952               | 2,183               |
| Long-term debt - Note 11.  | 184,714             | 180,536             |
|  | <u>279,530</u>      | <u>264,171</u>      |
| <b>NET FINANCIAL (DEBT) ASSETS</b>                               | <u>(43,893)</u>     | <u>(29,954)</u>     |
| <b>NON-FINANCIAL ASSETS</b>                                      |                     |                     |
| Tangible capital assets - Schedule 1                             | 1,500,465           | 1,438,443           |
| Land held not ready for sale - Note 4.                           | 22,007              | 23,389              |
| Capital lease  | 244                 |                     |
| Prepaid expenses   | 588                 | 794                 |
| Inventories  | 8,111               | 5,214               |
|  | <u>1,531,415</u>    | <u>1,467,840</u>    |
| <b>ACCUMULATED SURPLUS - Note 15.</b>                            | <u>\$ 1,487,522</u> | <u>\$ 1,437,886</u> |

**Commitments - See Note 25.**

**Contingencies - See Note 26.**

**Guarantee - See Note 27.**

**STATEMENT 2 - CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|   | Budget<br>(Unaudited) | 2010                | 2009<br>(Restated Note 28) |
|---|-----------------------|---------------------|----------------------------|
| <b>REVENUES</b>   |                       |                     |                            |
| Net municipal taxes - Note 16.                                    | \$ 84,804             | \$ 86,808           | \$ 83,727                  |
| Operating government transfers - Note 17.                         | 12,191                | 13,034              | 16,160                     |
| User fees and sales of goods and services<br>- Note 18.           | 138,211               | 129,241             | 116,591                    |
| Investment income - Note 5.                                       | 1,396                 | 7,306               | 6,391                      |
| Fines and penalties   | 5,152                 | 5,417               | 5,035                      |
| Franchise fees  | 5,989                 | 6,392               | 5,577                      |
| Licenses and permits  | 3,268                 | 2,350               | 2,304                      |
| Other revenue   | 2,091                 | 7,310               | 3,672                      |
| Investment (loss) income from River Bend Golf<br>Course - Note 7. |                       |                     | (243)                      |
|   | <u>253,102</u>        | <u>257,858</u>      | <u>239,214</u>             |
| <b>EXPENSES- NOTE 19.</b>   |                       |                     |                            |
| Legislative and administrative                                    | 29,703                | 28,912              | 27,053                     |
| Police and other protective                                       | 26,269                | 25,717              | 24,014                     |
| Fire and ambulance  | 23,741                | 23,701              | 21,637                     |
| Transportation  | 16,746                | 33,008              | 33,936                     |
| Public transit  | 10,477                | 11,640              | 9,785                      |
| Social planning   | 3,896                 | 3,838               | 3,891                      |
| Community   | 7,494                 | 8,627               | 6,853                      |
| Recreation parks and culture                                      | 32,391                | 37,647              | 32,453                     |
| Parking   | 1,365                 | 1,635               | 1,148                      |
| Equipment pool  | 7,440                 | 9,901               | 8,830                      |
| Water   | 9,544                 | 12,340              | 12,939                     |
| Wastewater  | 9,073                 | 14,543              | 10,412                     |
| Solid waste collection  | 5,825                 | 5,910               | 5,784                      |
| Recycling   | 1,846                 | 1,810               | 1,746                      |
| Solid waste disposal  | 3,310                 | 3,778               | 1,990                      |
| Subdivisions  | 2,627                 | 1,290               | 4,905                      |
| Electric light and power  | <u>20,461</u>         | <u>21,617</u>       | <u>20,237</u>              |
|   | <u>212,208</u>        | <u>245,914</u>      | <u>227,613</u>             |
| <b>EXCESS OF REVENUE OVER EXPENSES<br/>BEFORE OTHER</b>           | <u>40,894</u>         | <u>11,944</u>       | <u>11,601</u>              |
| <b>OTHER</b>  |                       |                     |                            |
| Contributed assets  |                       | 16,382              | 59,421                     |
| Government transfers for capital - Note 17.                       | <u>27,516</u>         | <u>21,310</u>       | <u>55,604</u>              |
| <b>EXCESS OF REVENUE OVER EXPENSES</b>                            | <u>68,410</u>         | <u>49,636</u>       | <u>126,626</u>             |
| <b>ACCUMULATED SURPLUS, BEGINNING OF<br/>YEAR</b>                 |                       | <u>1,437,886</u>    | <u>1,311,260</u>           |
| <b>ACCUMULATED SURPLUS, END OF YEAR</b>                           |                       | <u>\$ 1,487,522</u> | <u>\$ 1,437,886</u>        |

**STATEMENT 3 - CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|   | Budget<br>(Unaudited) | 2010               | 2009<br>(Restated Note 28) |
|---|-----------------------|--------------------|----------------------------|
| <b>EXCESS OF REVENUES OVER EXPENSES</b>         | \$ 68,410             | \$ 49,636          | \$ 126,626                 |
| Change of:                                      |                       |                    |                            |
| Change associated with River Bend Golf Course   |                       | (6,904)            |                            |
| Acquisition of tangible capital assets          | (194,228)             | (83,883)           | (115,524)                  |
| Contributed tangible capital assets             |                       | (16,382)           | (59,421)                   |
| Proceeds on disposal of tangible capital assets |                       | 306                | 107                        |
| Amortization of tangible capital assets         |                       | 41,632             | 38,274                     |
| Loss on disposal of tangible capital assets     |                       | 2,888              | 896                        |
|   | <u>(194,228)</u>      | <u>(62,343)</u>    | <u>(135,668)</u>           |
| Net change of inventories                       |                       | (2,735)            | 419                        |
| Net change of capital lease                     |                       | (99)               |                            |
| Net change of land held not ready for sale      |                       | 1,382              | (1,419)                    |
| Net change of prepaid assets                    |                       | 220                | 77                         |
|   |                       | <u>(1,232)</u>     | <u>(923)</u>               |
| <b>DECREASE IN NET FINANCIAL ASSETS</b>         | (125,818)             | (13,939)           | (9,965)                    |
| <b>NET FINANCIAL DEBT, BEGINNING OF YEAR</b>    | <u>(29,954)</u>       | <u>(29,954)</u>    | <u>(19,989)</u>            |
| <b>NET FINANCIAL DEBT, END OF YEAR</b>          | <u>\$ (155,772)</u>   | <u>\$ (43,893)</u> | <u>\$ (29,954)</u>         |

**STATEMENT 4 - CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|  | 2010             | 2009               |
|--|------------------|--------------------|
| <b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:</b> |                  | (Restated Note 28) |
| <b>OPERATING</b>   |                  |                    |
| Excess of revenues over expenses   | \$ 49,636        | \$ 126,626         |
| Change associated with River Bend Golf Course                            | (3,324)          |                    |
| Amortization of tangible capital assets                                  | 41,632           | 38,274             |
| Loss on disposal of tangible capital assets                              | 2,888            | 896                |
| Tangible capital assets received as contributions                        | (16,382)         | (59,421)           |
| Decrease (increase) in receivables                                       | (545)            | 2,070              |
| Decrease (increase) in land inventory                                    | 391              | (2,052)            |
| Increase in loans receivable   | (148)            | (1,058)            |
| Decrease (increase) in inventory for consumption                         | (2,735)          | 419                |
| Decrease in prepaid expenses   | 220              | 77                 |
| Decrease in accounts payable and accrued liabilities                     | (3,484)          | (22,464)           |
| Decrease in other liabilities  | (785)            | (158)              |
| Increase (decrease) in deferred revenue                                  | 12,665           | (28,588)           |
| Increase in employee benefit obligations                                 | 1,154            | 1,849              |
| Increase (decrease) in provision for landfill closure/post-closure       | 769              | (17)               |
| Cash provided by operating transactions                                  | <u>81,952</u>    | <u>56,453</u>      |
| <b>CAPITAL</b>   |                  |                    |
| Acquisition of tangible capital assets                                   | (83,883)         | (115,524)          |
| Proceeds on disposal of tangible capital assets                          | 306              | 107                |
| Cash applied to capital transactions                                     | <u>(83,577)</u>  | <u>(115,417)</u>   |
| <b>INVESTING</b>   |                  |                    |
| Increase in long-term investments  | (13,804)         | (11,332)           |
| Decrease (increase) in temporary investments                             | 13,522           | (11,097)           |
| Decrease in investment in River Bend Golf Course                         |                  | 8                  |
| Cash applied to investing transactions                                   | <u>(282)</u>     | <u>(22,421)</u>    |
| <b>FINANCING</b>   |                  |                    |
| Long-term debt issued  | 14,313           | 67,972             |
| Long-term debt repaid  | (10,135)         | (6,912)            |
| Change of capital lease  | (99)             |                    |
| Cash provided by financing transactions                                  | <u>4,079</u>     | <u>61,060</u>      |
| <b>CHANGE IN CASH DURING THE YEAR</b>                                    | <u>2,172</u>     | <u>(20,325)</u>    |
| <b>CASH, BEGINNING OF YEAR</b>   | <u>22,409</u>    | <u>42,734</u>      |
| <b>CASH, END OF YEAR</b>   | <u>\$ 24,581</u> | <u>\$ 22,409</u>   |

**SCHEDULE 1 - TANGIBLE CAPITAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|  | Land              | Land Improvement | Buildings         | Machinery & Equipment | Vehicles         | Engineered Structures | Work-in-progress | 2010                | 2009                |
|--|-------------------|------------------|-------------------|-----------------------|------------------|-----------------------|------------------|---------------------|---------------------|
|  |                   |                  |                   |                       |                  |                       |                  |                     | (Restated Note 28)  |
| <b>Cost:</b>                                     |                   |                  |                   |                       |                  |                       |                  |                     |                     |
| Balance, beginning of year                       | \$ 337,599        | \$ 35,137        | \$ 230,325        | \$ 44,596             | \$ 37,096        | \$ 1,168,910          | \$ 158,261       | \$ 2,011,924        | \$ 1,843,507        |
| Work-in-progress                                 |                   |                  |                   |                       |                  |                       | (63,479)         | (63,479)            | (50,933)            |
| Acquisition of tangible capital assets           | 12,606            | 8,587            | 53,980            | 5,387                 | 5,964            | 83,941                |                  | 170,465             | 225,878             |
| Disposal of tangible capital assets              |                   | (2)              | (517)             | (2,017)               | (1,228)          | (9,331)               |                  | (13,095)            | (6,528)             |
| <b>Balance, end of year</b>                      | <b>350,205</b>    | <b>43,722</b>    | <b>283,788</b>    | <b>47,966</b>         | <b>41,832</b>    | <b>1,243,520</b>      | <b>94,782</b>    | <b>2,105,815</b>    | <b>2,011,924</b>    |
| <b>Accumulated Amortization:</b>                 |                   |                  |                   |                       |                  |                       |                  |                     |                     |
| Balance, beginning of year                       |                   | (15,638)         | (52,630)          | (23,221)              | (16,148)         | (465,844)             |                  | (573,481)           | (540,732)           |
| Annual amortization                              |                   | (1,467)          | (7,501)           | (3,726)               | (2,426)          | (26,512)              |                  | (41,632)            | (38,274)            |
| Accumulated amortization on disposals            |                   | 2                | 292               | 1,819                 | 1,173            | 6,477                 |                  | 9,763               | 5,525               |
| <b>Balance, end of year</b>                      |                   | <b>(17,103)</b>  | <b>(59,839)</b>   | <b>(25,128)</b>       | <b>(17,401)</b>  | <b>(485,879)</b>      |                  | <b>(605,350)</b>    | <b>(573,481)</b>    |
| <b>Net book value of tangible capital assets</b> | <b>\$ 350,205</b> | <b>\$ 26,619</b> | <b>\$ 223,949</b> | <b>\$ 22,838</b>      | <b>\$ 24,431</b> | <b>\$ 757,641</b>     | <b>\$ 94,782</b> | <b>\$ 1,500,465</b> | <b>\$ 1,438,443</b> |

Work in progress represents costs of assets under construction and are not yet in service. Capital assets included in work in progress is not amortized until the asset is put into use and the costs are transferred to the respective asset category.

**SCHEDULE 2 - CONSOLIDATED SEGMENTED DISCLOSURE  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|   | General Government | Protective Services | Transportation  | Community Services | Recreation, Parks & Culture | Water and Wastewater | Waste Management | Subdivision   | Electric Light & Power | Total         |
|---|--------------------|---------------------|-----------------|--------------------|-----------------------------|----------------------|------------------|---------------|------------------------|---------------|
| <b>Revenues</b>                                     |                    |                     |                 |                    |                             |                      |                  |               |                        |               |
| Net municipal taxes                                 | \$ 87,659          | \$                  | \$ (177)        | \$                 | \$ (25)                     | \$ 63                | \$               | \$            | \$ (712)               | \$ 86,808     |
| User fees and sale of goods and services            | 371                | 10,853              | 6,553           | 458                | 9,706                       | 37,946               | 14,387           | 13,756        | 35,211                 | 129,241       |
| Government transfers                                | 2,108              | 2,474               | 11,372          | 8,542              | 9,870                       | (22)                 |                  |               | -                      | 34,344        |
| Investment income                                   | 2,066              | 94                  | 1,402           | 65                 | 166                         | 1,219                | 595              | 1,570         | 129                    | 7,306         |
| Fines and penalties                                 | 754                | 4,150               |                 |                    | 46                          | 74                   | 20               | 96            | 277                    | 5,417         |
| Franchise fees                                      | 6,317              |                     |                 |                    | 75                          |                      |                  |               |                        | 6,392         |
| License and permits                                 | 8                  | 2,304               | 17              | 21                 |                             |                      |                  |               |                        | 2,350         |
| Other revenue                                       | 406                | 219                 | 725             | 130                | 5,508                       | 43                   | 247              | 29            | 3                      | 7,310         |
| Revenue from contributed assets                     |                    |                     | 11,628          |                    |                             | 4,754                |                  |               |                        | 16,382        |
|   | 99,689             | 20,094              | 31,520          | 9,216              | 25,346                      | 44,077               | 15,249           | 15,451        | 34,908                 | 295,550       |
| <b>Expenses</b>                                     |                    |                     |                 |                    |                             |                      |                  |               |                        |               |
| Salaries, wages and benefits                        | 16,852             | 29,002              | 18,613          | 2,583              | 21,730                      | 6,919                | 640              | 427           | 3,081                  | 99,847        |
| Contracted services                                 | 6,263              | 3,642               | 4,665           | 878                | 4,570                       | 1,681                | 9,805            | 219           | 2,897                  | 34,620        |
| Purchases from other government                     |                    | 15,499              |                 |                    |                             |                      |                  |               |                        | 15,499        |
| Materials and supplies                              | 994                | 1,391               | 6,873           | 207                | 4,866                       | 4,799                | 62               | 617           | 11,880                 | 31,689        |
| Financial charges                                   | 3,032              | 410                 | 1,375           | 17                 | 232                         | 2,867                | 2                | 16            | 1,034                  | 8,985         |
| Grants to organizations                             | 757                |                     | 237             | 8,661              | 1,128                       |                      |                  | 11            |                        | 10,794        |
| Amortization expenses                               | 2,040              | 941                 | 22,923          | 119                | 4,822                       | 7,515                | 275              |               | 3,111                  | 41,746        |
| Other   | (1,026)            | 168                 | (136)           |                    | 298                         | 3,102                | 714              |               | (386)                  | 2,734         |
|   | 28,912             | 51,053              | 54,550          | 12,465             | 37,646                      | 26,883               | 11,498           | 1,290         | 21,617                 | 245,914       |
| <b>EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES</b> | <b>70,777</b>      | <b>(30,959)</b>     | <b>(23,030)</b> | <b>(3,249)</b>     | <b>(12,300)</b>             | <b>17,194</b>        | <b>3,751</b>     | <b>14,161</b> | <b>13,291</b>          | <b>49,636</b> |

**SCHEDULE 2 - CONSOLIDATED SEGMENTED DISCLOSURE  
FOR THE YEAR ENDED DECEMBER 31, 2009 (in thousands of dollars)  
(Restated Note 28)**

|   | General<br>Government | Protective<br>Services | Transportation | Community<br>Services | Recreation,<br>Parks &<br>Culture | Water and<br>Wastewater | Waste<br>Management | Subdivision   | Electric Light &<br>Power | Total          |
|---|-----------------------|------------------------|----------------|-----------------------|-----------------------------------|-------------------------|---------------------|---------------|---------------------------|----------------|
| <b>Revenues</b>   |                       |                        |                |                       |                                   |                         |                     |               |                           |                |
| Net municipal taxes   | \$ 84,595             | \$                     | \$ (208)       | \$                    | \$ (22)                           | \$ 63                   | \$                  | \$ (1)        | \$ (700)                  | \$ 83,727      |
| User fees and sale of<br>goods and services                 | 341                   | 9,202                  | 8,332          | 604                   | 6,824                             | 34,263                  | 15,383              | 10,474        | 31,168                    | 116,591        |
| Government transfers  | 253                   | 12,299                 | 26,002         | 7,515                 | 21,845                            | 3,850                   | 334                 | 1,398         | 244                       | 71,764         |
| Investment income   | 2,061                 | 138                    | 974            | 119                   | 268                               | 855                     | 16                  | 42            | 123                       | 6,391          |
| Fines and venalities  | 626                   | 4,170                  |                |                       | 87                                | 58                      |                     |               |                           | 5,035          |
| Franchise fees  | 5,490                 |                        |                |                       |                                   |                         |                     |               |                           | 5,577          |
| License and permits   | 7                     | 2,260                  | 17             | 20                    |                                   |                         |                     |               |                           | 2,304          |
| Other revenue   | 633                   | 215                    | 878            | 129                   | 1,301                             | 118                     | 209                 | 179           | 10                        | 3,672          |
| Revenue from contributed<br>assets                          |                       |                        | 10,601         |                       | (236)                             | 5,220                   |                     | 43,600        |                           | 59,421         |
| Riverbend investment  | (7)                   |                        |                |                       |                                   |                         |                     |               |                           | (243)          |
|   | 93,999                | 28,284                 | 46,596         | 8,387                 | 30,067                            | 44,427                  | 15,942              | 55,692        | 30,845                    | 354,239        |
| <b>Expenses</b>   |                       |                        |                |                       |                                   |                         |                     |               |                           |                |
| Salaries, wages and<br>benefits                             | 16,445                | 26,450                 | 17,825         | 2,018                 | 18,811                            | 6,490                   | 239                 | 373           | 2,801                     | 91,452         |
| Contracted services   | 6,111                 | 3,242                  | 3,460          | 1,157                 | 4,314                             | 1,783                   | 9,056               | 74            | 2,738                     | 31,935         |
| Purchases from other<br>government                          |                       | 14,326                 |                |                       |                                   |                         |                     |               |                           | 14,326         |
| Materials and supplies                                      | 1,177                 | 1,488                  | 6,717          | 172                   | 3,883                             | 5,293                   | (37)                | 4,439         | 10,752                    | 33,884         |
| Financial charges   | 807                   | 235                    | 1,936          | 18                    | 552                               | 2,637                   | 2                   | 5             | 849                       | 7,041          |
| Grants to organizations                                     | 315                   |                        | 1,279          | 7,321                 | 330                               |                         |                     | 14            |                           | 9,259          |
| Amortization expenses                                       | 1,636                 | 866                    | 21,073         | 58                    | 4,563                             | 7,134                   | 292                 |               | 2,652                     | 38,274         |
| Other   | 562                   | 192                    | 261            |                       |                                   | 14                      | (32)                |               | 445                       | 1,442          |
|   | 27,053                | 46,799                 | 52,551         | 10,744                | 32,453                            | 23,351                  | 9,520               | 4,905         | 20,237                    | 227,613        |
| <b>EXCESS (SHORTFALL)<br/>OF REVENUES OVER<br/>EXPENSES</b> | <b>66,946</b>         | <b>(18,515)</b>        | <b>(5,955)</b> | <b>(2,357)</b>        | <b>(2,386)</b>                    | <b>21,076</b>           | <b>6,422</b>        | <b>50,787</b> | <b>10,608</b>             | <b>126,626</b> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements ("the financial statements") of The City of Red Deer ("The City") are the representations of management prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS"). Significant aspects of the accounting policies of The City are as follows:

**(a) Reporting Entity**

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity which comprises all the organizations and committees that are accountable to City Council for the administration of their financial affairs and resources and are owned or controlled by The City. The entities include the following:

**City Municipal and Utility Operations:**

- General municipal operations
- Subdivision development
- Water supply
- Equipment pool
- Wastewater treatment
- Solid waste collection and disposal
- Parking services
- Electric power distribution

**Societies and Boards:**

- Red Deer Public Library
- Red Deer Downtown Business Association
- Waskasoo Environmental Education Society
- Red Deer Museum and Art Gallery
- Red Deer River Bend Golf & Recreation Society ("River Bend Golf Course")

Interdepartmental and organizational transactions are eliminated.

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

**(b) Basis of Accounting**

The City follows the accrual method of accounting for revenues and expenses. Revenues are recognized in the period in which they are earned and measurable. The exception is parking fine revenue which is recorded on a cash basis. Expenses are recognized as they are incurred and measurable as a result of goods or services and/or the creation of a legal obligation to pay.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

Property tax revenue is based on market value assessments determined in accordance with the Municipal Government Act (MGA). Tax mill rates are established annually. Taxation revenues are recorded at the time the tax billings are issued. 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.

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction and are not expected to be repaid in the future or a result of a direct financial return. Government transfers to The City are recognized in the financial statements as revenues in the period in which events giving rise to the transfers occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be determined. Prior to that time, any amounts received along with restricted interests are recorded as deferred revenue.

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

Contributions specified for capital purposes are recorded as capital asset contributions when a certificate of construction completion for the capital asset has been submitted to The City.

**(c) Use of Estimates**

The preparation of financial statements in conformity with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Significant financial statement areas requiring the use of estimates include:

- costs and revenues associated with electrical services acquired and provided by The City;
- landfill closure and post-closure care obligations;
- allowance for obsolete inventory;
- employee benefits obligations;
- environmental contingencies;
- tangible capital assets useful life;
- accrued liabilities;
- allowance for doubtful accounts receivable; and
- fair value of contributed assets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**(d) Investments**

Investments are recorded at amortized cost. Premiums or discounts arising on the purchase of these investments are amortized over the term of the investments. Where impairment in value is other than a temporary decline, a valuation allowance is recorded.

**(e) Land for Sale**

Land 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. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks and street lighting are recorded as capital assets under their respective function. Land held for resale is classified as a financial asset when the land is in a condition to be sold, is marketed for sale and is reasonably anticipated the land will be sold within one year.

**(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.

**(g) 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. Prepayments are recorded as revenue in the year they are paid.

**(h) 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 visual inspection. The requirement is being provided for the estimated remaining life of the landfill site and the estimated post-closure care period. (see note 10)

**(i) Non-Financial Assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the consolidated Change in Net Financial Assets (Debt) for the year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

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 capital assets are reported as capital revenue and do not reduce the related capital asset costs.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

| <b>ASSET TYPE</b>       | <b>YEARS</b> |
|-------------------------|--------------|
| Land improvements       | 7 - 50       |
| Buildings               | 10 - 50      |
| Engineered structures   |              |
| Water system            | 7 - 75       |
| Wastewater system       | 7 - 75       |
| Roadway system          | 7 - 90       |
| Storm system            | 45 - 75      |
| Electric light          | 20 - 40      |
| Fibre optic system      | 30           |
| Machinery and equipment | 4 - 30       |
| Vehicles                | 8 - 20       |

ii. Contributions of Tangible Capital Assets

Tangible capital assets received as contributions such as privately developed subdivisions including water systems, sanitary systems, storm systems and roads are recorded at their fair value at the date of receipt. Equivalent amounts are recorded as contributed assets in the year on the Consolidated Statement of Operations.

iii. Leases

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

iv. Inventories

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

v. Cultural and Historical Tangible Capital Assets

Works of art for display, archived municipal records and municipal historical artifacts are not included as capital assets, but are disclosed. Acquisitions of cultural and historical assets are expensed in the current period.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**2. TEMPORARY INVESTMENTS**

|                                 | 2010      | 2009      |
|---------------------------------|-----------|-----------|
| Temporary investments - Note 5. | \$ 52,351 | \$ 65,873 |

Temporary investments are short-term deposits with maturities of one year or less. Temporary investments have effective rates of 0.83% to 4.64% (2009- 0.40% to 6.70%).

**3. ACCOUNTS RECEIVABLE**

|                                   | 2010             | 2009             |
|-----------------------------------|------------------|------------------|
| General accounts receivable       | \$ 8,131         | \$ 5,261         |
| Utilities                         | 10,211           | 9,082            |
| Taxes and grants in lieu of taxes | 4,610            | 2,490            |
| Other governments                 | 1,825            | 3,681            |
| Interest on investments           | 1,364            | 726              |
| Other                             | 1,329            | 5,208            |
|                                   | <u>27,470</u>    | <u>26,448</u>    |
| Allowance for doubtful accounts   | (715)            | (245)            |
|                                   | <u>\$ 26,755</u> | <u>\$ 26,203</u> |

**4. LAND INVENTORY**

|                              | 2010          |                             | 2009<br>(Restated Note 28) |                             |
|------------------------------|---------------|-----------------------------|----------------------------|-----------------------------|
|                              | Cost          | Market Value<br>(Unaudited) | Cost                       | Market Value<br>(Unaudited) |
| Residential                  | \$ 8,920      | \$ 10,718                   | \$ 8,769                   | \$ 10,718                   |
| Industrial and commercial    | <u>13,087</u> | <u>26,952</u>               | <u>14,620</u>              | <u>34,631</u>               |
| Land held not ready for sale | <u>22,007</u> | <u>37,670</u>               | <u>23,389</u>              | <u>45,349</u>               |
| Residential                  | 120           | 9,206                       | 264                        | 19,732                      |
| Industrial and commercial    | <u>2,675</u>  | -                           | <u>1,540</u>               | -                           |
| Land held for sale           | <u>2,795</u>  | <u>9,206</u>                | <u>1,804</u>               | <u>19,732</u>               |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**5. LONG TERM INVESTMENTS**

|                       | 2010              |                             | 2009              |                             |
|-----------------------|-------------------|-----------------------------|-------------------|-----------------------------|
|                       | Cost              | Market Value<br>(Unaudited) | Cost              | Market Value<br>(Unaudited) |
| Federal government    | \$ 6,389          | \$ 6,343                    | \$ 8,308          | \$ 8,348                    |
| Provincial government | 88,903            | 90,641                      | 65,485            | 65,369                      |
| Municipal government  | 369               | 390                         | 369               | 374                         |
| Canadian banks        | 71,036            | 71,926                      | 91,655            | 92,879                      |
| Corporate             | 7,776             | 7,950                       | 7,887             | 7,910                       |
| Other                 | 4,476             | 4,510                       | 4,963             | 4,962                       |
|                       | <u>178,949</u>    | <u>181,760</u>              | <u>178,667</u>    | <u>179,842</u>              |
| LESS:                 |                   |                             |                   |                             |
| Temporary investments | <u>52,351</u>     | <u>52,384</u>               | <u>65,873</u>     | <u>65,945</u>               |
|                       | <u>\$ 126,598</u> | <u>\$ 129,376</u>           | <u>\$ 112,794</u> | <u>\$ 113,897</u>           |

Long-term investments have effective interest rates of 0.30% to 11.00% (2009 - 0.30 % to 11.00 %) and mature in periods from January 10, 2011 to June 1, 2043.

In July 2007, The City purchased a non-bank sponsored asset-backed commercial paper investment at a cost of \$4,929 with a maturity value of \$5,000 from Aurora Trust. On January 12, 2009, the Ontario Superior Court of Justice issued the Plan Implementation Order with respect to the Companies' Creditors Arrangement Act restructuring of the third-party asset-backed commercial paper market. This resulted in The City receiving replacement paper through Master Asset Vehicle 2 ("MAVII").

The replacement notes received are as follows:

|           |    |              |
|-----------|----|--------------|
| Class A-1 | \$ | 1,518        |
| Class A-2 |    | 2,766        |
| Class B   |    | 502          |
| Class C   |    | <u>148</u>   |
|           | \$ | <u>4,934</u> |

The Dominion Bond Rating Service ("DBRS") has upgraded the MAVII Class A-1 to a rating of "A" and confirmed MAVII Class A-2 with a rating of "BBB". The Class B and C notes have not been rated by DBRS. All notes have an expected maturity date of January 22, 2017, but a legal maturity date of July 15, 2056.

In 2008, there was a write-down in the amount of \$1,960. The estimated carrying value in 2008, was based on an average of no expected cash flows until 2017, for Class A-1 and Class A-2 paper. The carrying value of these investments remained unchanged in 2009.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

In 2010, interest was received in the amount of \$288. The estimated carrying value as of December 31, 2010, was \$3,098, which was based on the values supplied in an online report by GMP Investment Management L.P., and therefore no additional write-down is required. The resulting net carrying value of \$2,969 is included in the long-term investments balance of \$126,598.

The performance of the assets underlying the MAVII notes results in a lack of measurement certainty in management's estimate of the carrying value of this investment. Since the timing and amount of cash flows relating to this investment may vary from management's estimate, it is possible that further adjustments to the carrying value may be required in future years.

**6. LOANS RECEIVABLE**

|                            | 2010            | 2009            |
|----------------------------|-----------------|-----------------|
| Red Deer Gymnastics Club   | \$ 293          | \$ 324          |
| Central Alberta Theatre    | 171             | 171             |
| Red Deer County            | 754             | 784             |
| Red Deer College           | 330             | 330             |
| Red Deer and District SPCA | 1,009           | 800             |
|                            | <u>\$ 2,557</u> | <u>\$ 2,409</u> |

Principal amounts due are as follows:

|            |                 |
|------------|-----------------|
| 2011       | \$ 447          |
| 2012       | 108             |
| 2013       | 115             |
| 2014       | 121             |
| 2015       | 128             |
| Thereafter | 1,638           |
|            | <u>\$ 2,557</u> |

The City has undertaken a partnership agreement with Red Deer Gymnastics Club for space in the Collicutt Centre. The term of the loan is 17 years with a 6.00% annual interest rate.

The City provided a loan to the Central Alberta Theatre for the expansion of the Memorial Centre. The term of the loan is 19 years and bears interest at a rate of 6.50% per annum.

The City provided a loan to Red Deer County in lieu of offsite levies for supply of potable water. The term of the loan is 20 years and bears interest at a rate of 5.713% per annum.

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 5.058% per annum.

The City provided a loan to Red Deer College for access improvements constructed on 32 Street. The term of the loan is 3 years and bears no interest.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**7. INVESTMENT IN RIVER BEND GOLF COURSE**

River Bend Golf Course is a non-profit organization incorporated under the Societies Act of the Province of Alberta for the purpose of managing and operating a high standard publicly accessible golf course, cross country ski course, biathlon course and other recreational activities. For the year ended December 31, 2009 and prior years, River Bend Golf Course was reported as a Government Business Enterprise using the modified equity method, in which its accounting policies were not adjusted to comply with those of The City and inter-organizational transactions were not eliminated.

At the beginning of 2010, The City reviewed the River Bend Golf Course financial position, and it was determined that the organization is unable to continue its operations without The City's financial assistance. According to provisions of PSAS section 1300 - *Government Reporting Entity*, The City has assessed that River Bend Golf Course no longer meets the criteria of a Government Business Enterprise and it has now been treated as a governmental unit. With this change, River Bend Golf Course is fully consolidated with The City and inter-organizational transactions are eliminated. As a result of this change, in 2010 \$3,938 has been recognized as other revenue to adjust the organization's accounting policy to conform to The City's policies, and \$4,555 in net assets have been consolidated with The City's financial statements.

The following table provides condensed supplementary financial information reported separately by River Bend Golf Course for the year ended December 31, 2009:

|                                 | <u>2009</u>     |
|---------------------------------|-----------------|
| Financial Position              |                 |
| Assets                          |                 |
| Cash                            | \$ 76           |
| Accounts receivable             | 12              |
| Inventory                       | 171             |
| Prepaid expenses                | 6               |
| Capital assets                  | <u>6,717</u>    |
|                                 | <u>\$ 6,982</u> |
| Liabilities                     |                 |
| Accounts payable                | 138             |
| Deferred revenue                | 155             |
| Long-term debt                  | 1,544           |
| Deferred capital contributions  | 27              |
| Unamortized capital allocations | <u>3,938</u>    |
|                                 | <u>5,802</u>    |
| Net assets                      | <u>\$ 1,180</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

|  | <u>2009</u>     |
|--|-----------------|
| Results of Operations                        |                 |
| Revenues                                     | \$ 2,548        |
| Operating expenses                           | <u>2,791</u>    |
| (Shortfall) excess of revenues over expenses | <u>\$ (243)</u> |

The following summarizes The City's related party transactions and balances with River Bend Golf Course:

|                                 | <u>2009</u> |
|---------------------------------|-------------|
| Related party transactions      |             |
| Capital payments by The City    | \$ 171      |
| Related party balances          |             |
| Clubhouse loan receivable       | 1,545       |
| Operating advance to River Bend | 100         |

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the two parties.

**8. DEFERRED REVENUE**

Deferred Revenue is comprised of the funds noted below, the use of which are externally restricted. These funds are recognized as revenue in the period they are used for the purpose specified.

|   | <u>2010</u>      | <u>2009</u>      |
|---|------------------|------------------|
| Basic capital grant                                 | \$ 10,226        | \$ 11,521        |
| Municipal Sustainability Initiative grant           | 12,006           | 4,164            |
| Alberta Municipal Infrastructure Program            | 2,533            | 3,472            |
| New Deal for Cities, Communities and Public Transit | 8,231            | 1,640            |
| Recreation amenity                                  | 4,247            | 4,716            |
| Land sales  | 60               | 674              |
| Major Community Facilities Program                  | -                | 124              |
| Developer and customer contributions                | 10,409           | 8,551            |
| Other   | 5,972            | 5,837            |
|   | <u>\$ 53,684</u> | <u>\$ 40,699</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**9. EMPLOYEE BENEFIT OBLIGATIONS**

|  | 2010             | 2009            |
|--|------------------|-----------------|
| Vacation, overtime and earned days off | \$ 5,367         | \$ 4,786        |
| Retiring allowance                     | 1,751            | 1,597           |
| Other Employment Benefits              | 3,187            | 2,768           |
|  | <u>\$ 10,305</u> | <u>\$ 9,151</u> |

i. 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.

ii. 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 Gooden & Kerr Actuarial Consultants Ltd as at December 31, 2009. 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 4.75% and the expected salary escalations of 4.50% are used to determine the accrued benefit obligation. The accrued benefit obligation is \$2,158 (2009 - \$2,038) using projected benefit method prorated on services. The accrued benefit liability is \$1,751 (2009 - \$1,597) and the net actuarial loss is \$407 at the end of 2010. The net actuarial loss is amortized on a straight line basis over 13 years beginning in 2010.

iii. Other Employment Benefits

Employees accumulate sick day entitlements up to maximums set in the various union agreements. Employees are also eligible for sick plan benefits for short-term disability. The liability is recorded on an accrual basis based on the most recent five-year average usage of sick time and sick plan benefits.

**10. LANDFILL CLOSURE AND POST CLOSURE LIABILITY**

Alberta environmental law requires closure and post-closure care of landfill sites, which includes final covering and landscaping, pumping of ground water and leachates from the site and ongoing environmental monitoring, site inspections and maintenance.

The estimated total 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 3.55% and assuming annual inflation of 2.44%. The accrued liability portion is based on the cumulative capacity used at year end compared to the estimated total landfill capacity.

The 1972 landfill site reached its full capacity and was permanently closed in 2002. In 2010 the construction of the off-leash dog park on the north half of the landfill site was completed. All structures and vegetation were designed to not breach the landfill cap. In accordance with the Landfill Approval, groundwater and landfill gas risk assessment and mitigation plans were prepared and submitted to

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

Alberta Environment. The landfill gas assessment and mitigation plan was approved by Alberta Environment on October 14, 2010, and the recommended changes to the landfill gas monitoring plan will be implemented in 2011. We will continue to work with Alberta Environment to have the groundwater plan approved. As well, a post closure care plan was prepared and Alberta Environment issued their approval of the plan on October 14, 2010. As such, the post closure care plan will be implemented in 2011.

The new waste management facility commenced its operation in 2001, and is expected to provide capacity to 2041. The total capacity of this site estimated at 3,327 cubic metres and has capacity of 1,960 cubic metres remaining (as of April 2010 volume study), which is projected to last until 2020 based on current city rates of growth and usage. Alberta Environment approved the previously submitted subsurface gas monitoring plan for the WMF on October 27, 2010, and in 2011, The City will begin monitoring the subsoil for landfill gas. Also, Alberta Environment approved the previously submitted storm water management plan on December 10, 2010, so the recommendations from that plan will be implemented in 2011.

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:

|                                      | Old Site     | New Site<br>Phase 1 | 2010         | 2009         |
|--------------------------------------|--------------|---------------------|--------------|--------------|
| Estimated closure costs              | \$ -         | \$ 867              | \$ 867       | \$ 767       |
| Estimated post-closure costs         | 1,924        | 1,635               | 3,559        | 2,673        |
| Estimated total liability            | <u>1,924</u> | <u>2,502</u>        | <u>4,426</u> | <u>3,440</u> |
| Liability as of December 31, 2010    | 1,924        | 1,028               | 2,952        | 2,183        |
| Remaining liability to be recognized | \$ -         | \$ 1,474            | \$ 1,474     | \$ 1,257     |
| Estimated capacity used              |              |                     | 70 %         | 67 %         |

**11. LONG TERM DEBT**

Long-term debt is comprised of :

|                     | 2010              | 2009              |
|---------------------|-------------------|-------------------|
| Self-supported debt | \$ 92,247         | \$ 90,408         |
| Tax-supported debt  | 92,467            | 90,128            |
|                     | <u>\$ 184,714</u> | <u>\$ 180,536</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

Principal and interest repayments are as follows:

|            | Principal         | Interest         | Total             |
|------------|-------------------|------------------|-------------------|
| 2011       | \$ 10,837         | \$ 8,438         | \$ 19,275         |
| 2012       | 10,958            | 8,003            | 18,961            |
| 2013       | 11,095            | 7,549            | 18,644            |
| 2014       | 11,569            | 7,075            | 18,644            |
| 2015       | 10,479            | 6,592            | 17,071            |
| Thereafter | <u>129,776</u>    | <u>60,564</u>    | <u>190,340</u>    |
|            | <u>\$ 184,714</u> | <u>\$ 98,221</u> | <u>\$ 282,935</u> |

Long-term debt consists of debentures payable to Alberta Capital Finance Authority (ACFA) and a loan payable to Canada Mortgage and Housing Corporation (CMHC) for the construction of public housing units.

Debentures mature in annual amounts to 2040 (2009 – 2039). Interest rates on these debentures range from 2.28% to 5.38% per annum. The average annual interest rate is for 2010 is 4.46% (2009 - 4.53% ). Debenture debt is issued on the credit and security of The City at large.

The loan payable to CMHC was issued January 1, 1972, for a term of 50 years at an interest rate of 8.25%, with an annual repayment of interest and principal of \$26,925.

Interest expenses on long-term debt amounted to \$8,592(2009 -\$6,815). Total cash payments for interest were \$8,480 (2009 - \$6,611).

## 12. DEBT LIMIT

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

|                                 | 2010              | 2009                                    |
|---------------------------------|-------------------|---|
| Total Debt Limit                | \$ <u>386,787</u> | (Restated Note 28)<br>\$ <u>358,821</u> |
| Long-term debt                  | <u>184,714</u>    | <u>180,536</u>                          |
| Debt limit available            | \$ <u>202,073</u> | \$ <u>178,285</u>                       |
| Service on debt limit           | \$ 64,465         | \$ 59,804                               |
| Service on existing debt        | <u>19,275</u>     | <u>18,231</u>                           |
| Service on debt limit available | \$ <u>45,190</u>  | \$ <u>41,573</u>                        |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

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 municipality. Rather, the financial statements must be interpreted as a whole.

**13. TANGIBLE CAPITAL ASSETS**

|                                      | 2010                | 2009<br>(Restated)  |
|--------------------------------------|---------------------|---------------------|
| Net book value                       |                     |                     |
| Land                                 | 350,205             | 337,599             |
| Land improvement                     | 26,619              | 19,499              |
| Buildings                            | 223,949             | 177,695             |
| Engineered structures                |                     |                     |
| Roadway system                       | 288,382             | 276,204             |
| Water system                         | 147,765             | 142,821             |
| Wastewater system                    | 126,988             | 95,121              |
| Storm system                         | 159,244             | 156,594             |
| Electrical system                    | 33,846              | 30,870              |
| Fiber optics system                  | 1,416               | 1,456               |
|                                      | <u>757,641</u>      | <u>703,066</u>      |
| Machinery, equipment and furnishings | 22,838              | 21,375              |
| Vehicles                             | 24,431              | 20,948              |
| Assets under construction            | 94,782              | 158,261             |
|                                      | <u>\$ 1,500,465</u> | <u>\$ 1,438,443</u> |

**14. EQUITY IN TANGIBLE CAPITAL ASSETS**

|                                       | 2010                | 2009<br>(Restated Note 28) |
|---------------------------------------|---------------------|----------------------------|
| Tangible capital assets (Schedule 1)  | \$ 2,105,815        | \$ 2,011,924               |
| Accumulated amortization (Schedule 1) | (605,350)           | (573,481)                  |
| Long-term debt (Note 11)              | (184,714)           | (180,536)                  |
|                                       | <u>\$ 1,315,751</u> | <u>\$ 1,257,907</u>        |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**15. ACCUMULATED SURPLUS**

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

|   | 2010                | 2009<br>(Restated Note 28) |
|---|---------------------|----------------------------|
| Unrestricted surplus                      | \$ 26,544           | \$ 47,310                  |
| Restricted surplus                        |                     |                            |
| Perpetual care                            | 1,152               | 1,091                      |
| Future expenditures                       | 5,257               | 3,830                      |
| Parking                                   | 1,941               | 1,287                      |
| Landfill reserve                          | 9,753               | 8,095                      |
| Power utility                             | 1,888               | 4,076                      |
| Water utility                             | 8,981               | 7,559                      |
| Wastewater utility                        | 15,594              | 11,948                     |
| Solid waste utility                       | 934                 | 676                        |
| Tax rate stabilization                    | 8,264               | 9,156                      |
| Equipment replacement                     | 12,622              | 11,392                     |
| Debt repayment                            | 3,990               |                            |
| Capital projects                          | 26,639              | 27,961                     |
| Land development                          | 46,500              | 43,907                     |
| Public                                    | 1,712               | 511                        |
|   | <u>145,227</u>      | <u>131,489</u>             |
| Equity in River Bend Golf Course (Note 7) |                     | 1,180                      |
| Equity in tangible capital assets         | 1,315,751           | 1,257,907                  |
| Accumulated surplus                       | <u>\$ 1,487,522</u> | <u>\$ 1,437,886</u>        |

**16. NET TAXES AVAILABLE FOR MUNICIPAL PURPOSES**

|                          | Budget<br>(Unaudited) | 2010             | 2009             |
|--------------------------|-----------------------|------------------|------------------|
| Taxes:                   |                       |                  |                  |
| Property taxes           | \$ 114,755            | \$ 116,850       | \$ 112,675       |
| Revenue in lieu of taxes | 2,253                 | 2,253            | 2,043            |
| Local improvement levies | 185                   | 185              | 183              |
| Other                    | 1,150                 | 1,150            | 1,194            |
|                          | <u>118,343</u>        | <u>120,438</u>   | <u>116,095</u>   |
| Less tax on behalf of:   |                       |                  |                  |
| Public schools           | 29,334                | 29,426           | 28,595           |
| Catholic schools         | 3,970                 | 3,969            | 3,773            |
| Piper Creek              | 235                   | 235              |                  |
|                          | <u>33,539</u>         | <u>33,630</u>    | <u>32,368</u>    |
|                          | <u>\$ 84,804</u>      | <u>\$ 86,808</u> | <u>\$ 83,727</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**17. GOVERNMENT TRANSFERS**

|                            | Budget<br>(Unaudited) | 2010             | 2009             |
|----------------------------|-----------------------|------------------|------------------|
| <b>OPERATING TRANSFERS</b> |                       |                  |                  |
| Provincial                 | \$ 11,254             | \$ 12,140        | \$ 15,184        |
| Federal                    | 459                   | 422              | 550              |
| Other                      | 478                   | 472              | 426              |
|                            | <u>12,191</u>         | <u>13,034</u>    | <u>16,160</u>    |
| <b>CAPITAL TRANSFERS</b>   |                       |                  |                  |
| Provincial                 | 21,497                | 16,799           | 49,599           |
| Federal                    | 6,019                 | 4,511            | 6,005            |
| Other                      |                       |                  |                  |
|                            | <u>27,516</u>         | <u>21,310</u>    | <u>55,604</u>    |
|                            | <u>\$ 39,707</u>      | <u>\$ 34,344</u> | <u>\$ 71,764</u> |

**18. USER FEES AND SALE OF GOODS AND SERVICES**

|                                  | Budget<br>(Unaudited) | 2010           | 2009<br>(Restated Note 28) |
|----------------------------------|-----------------------|----------------|----------------------------|
| Utility user fees                | \$ 85,560             | \$ 83,005      | \$ 77,259                  |
| Land sales                       | 17,335                | 10,526         | 7,137                      |
| Transit revenue                  | 4,692                 | 4,433          | 4,010                      |
| Ambulance and dispatch revenue   | 7,872                 | 8,167          | 6,961                      |
| Facility user fees               | 5,328                 | 4,841          | 3,774                      |
| Equipment and facility rental    | 2,805                 | 3,456          | 3,071                      |
| Electrical transmission recovery | 2,070                 | 2,264          | 1,804                      |
| Other                            | 4,279                 | 4,671          | 6,069                      |
| Developer contributions          | 8,270                 | 7,878          | 6,506                      |
|                                  | <u>138,211</u>        | <u>129,241</u> | <u>116,591</u>             |

**19. EXPENSES BY OBJECT**

|                                      | Budget<br>(Unaudited) | 2010           | 2009<br>(Restated Note28) |
|--------------------------------------|-----------------------|----------------|---------------------------|
| Salaries, wages and benefits         | \$ 106,399            | \$ 99,847      | \$ 91,452                 |
| Contracted services                  | 37,721                | 34,620         | 31,935                    |
| Purchases from other governments     | 15,593                | 15,499         | 14,326                    |
| Purchases of materials and supplies  | 31,663                | 31,689         | 33,884                    |
| Grants to organizations and agencies | 9,937                 | 10,794         | 9,259                     |
| Financial charges                    | 10,473                | 8,985          | 7,041                     |
| Amortization expenses                | 60                    | 41,746         | 38,274                    |
| Other expenses                       | 362                   | 2,734          | 1,442                     |
|                                      | <u>212,208</u>        | <u>245,914</u> | <u>227,613</u>            |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( 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.

|                     | 2010              |                 |                                   | 2009            |                   |                 |
|---------------------|-------------------|-----------------|-----------------------------------|-----------------|-------------------|-----------------|
|                     | No. of<br>Persons | Salary (a)      | Benefits and<br>Allowances<br>(b) | Total           | No. of<br>Persons | Total           |
| Mayor:              | 1                 |                 |                                   |                 | 1                 |                 |
| M. Flewwelling      |                   | \$ 81           | \$ 12                             | \$ 93           |                   | \$ 95           |
| Councillors:        | 11                |                 |                                   |                 | 8                 |                 |
| S. Buchanan         |                   | 48              | 6                                 | 54              |                   | 55              |
| P. Harris           |                   | 9               | 1                                 | 10              |                   | -               |
| C. Jefferies        |                   | 45              | 6                                 | 51              |                   | 52              |
| L. Mulder           |                   | 47              | 5                                 | 52              |                   | 51              |
| G. Parks            |                   | 39              | 4                                 | 43              |                   | 54              |
| L. Pimm             |                   | 35              | 4                                 | 39              |                   | 49              |
| C. Stephan          |                   | 9               | 1                                 | 10              |                   | -               |
| T. Veer             |                   | 44              | 4                                 | 48              |                   | 50              |
| L. Watkinson-Zimmer |                   | 37              | 5                                 | 42              |                   | 53              |
| F. Wong             |                   | 46              | 5                                 | 51              |                   | 53              |
| D. Wyntjes          |                   | 8               | 1                                 | 9               |                   | -               |
|                     |                   | <u>367</u>      | <u>42</u>                         | <u>409</u>      |                   | <u>417</u>      |
| City Manager        | 1                 | 193             | 33                                | 226             | 1                 | 230             |
| Designated Officers | 6                 | 847             | 151                               | 998             | 4                 | 647             |
|                     |                   | <u>\$ 1,488</u> | <u>\$ 238</u>                     | <u>\$ 1,726</u> |                   | <u>\$ 1,389</u> |

- (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.

**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 Plan serves over 400 employer groups and approximately 200,000 members and retirees. LAPP is financed by employer and employee contributions and investment earnings of the LAPP Fund.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The City is required to make current service contributions to LAPP of 9.06 % of pensionable payroll up to the yearly maximum pensionable earnings (YMPE) and 12.53% thereafter. Employees of The City are required to make current service contributions of 8.06% to the YMPE and 11.53% thereafter.

Total current service contributions by The City to LAPP in 2010 were \$7,100 (2009 - \$6,287). Total contributions by the employees of The City to LAPP in 2010 were \$6,399 (2009 - \$5,624).

At December 31, 2009, LAPP disclosed an actuarial deficiency of \$ 4.0 billion in total. This amount is not specifically allocated to the participating government organizations. The 2010 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 2.50% and 3.00% respectively of individual pensionable earnings up to \$125 (2009 - \$122).

Total current service contributions by The City to APEX were \$312 (2009 - \$295). Total current service contributions by the employees of The City were \$260 (2009 - \$246).

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.

**23. MUNI SUPPLEMENTARY EMPLOYEE RETIREMENT PLAN**

Muni SERP, formerly APEX PLUS, 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 specified employees whose retirement income would be affected by the Income Tax Act cap on pension contributions. 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 expense for the year recorded by The City is \$207 (2009 - \$25).

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 6.50%, expected salary escalations of 4.50% per year, and inflation rate of 2.50%.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**24. FINANCIAL INSTRUMENTS**

The City's financial instruments consist of cash and temporary investments, accounts receivable, investments, accounts payable and accrued liabilities, deposit liabilities, requisition over-levy 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 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 fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

Unless otherwise noted the carrying value of the financial instrument approximates fair value.

**25. COMMITMENTS**

As at December 31, 2010, The City has the following commitments:

| Construction Contracts:                                | Commitment Amount: |        |
|--|--------------------|--------|
| Roadway and Subdivision Development Projects (Various) | \$                 | 10,495 |
| Water and Wastewater Treatment Plant Upgrade           |                    | 6,902  |
| North Highway Connector Project                        |                    | 6,462  |
| Fleet Purchases  |                    | 4,470  |
|  | \$                 | 28,329 |

Solid Waste Collection and Recyclables Collection Contract – this contract is based on a percentage of the utility billing until October 31, 2015. The estimated annual contract cost is \$7,077.

RCMP Contract – The City pays 90% of the operating costs for RCMP services through to March 31, 2012. The estimated annual contract cost is \$15,499.

Recreation Amenity Funds – \$4,247 has been collected which will be spent for recreation related capital projects. There is no fixed timeline for making these expenditures.

Offsite Levies – \$8,570 has been collected and will be spent for water and sanitary sewer related capital projects. There is no fixed timeline for making these expenditures.

Subdivision Maintenance - The City becomes responsible for the maintenance of private subdivisions once the construction completion certificate is obtained. This includes maintenance of water, sanitary, storm, roads, and electrical infrastructure.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**26. CONTINGENCIES**

**Insurance Agreement**

The City was a member of a reciprocal insurance agreement known as the Alberta Local Authorities Reciprocal Insurance Exchange (ALARIE), licensed by the Superintendent of Insurance of Alberta on October 1, 1990, and dissolved on December 31, 2002.

A portion of prior year payments, in excess of the cost of purchasing liability insurance, has been accumulated in a self insurance fund administered by ALARIE. Any balance of the self-insurance fund will be utilized for the settlement of the joint venture claims liability outstanding. If there is a residual balance in the fund it will be refunded to The City once the claims are settled.

**Environmental Issues**

The City owns properties that have undergone initial Environmental Site Assessments. Where the site assessments identified environmental contamination, liabilities for future environmental remediation were set up. In 2010, based on a new assessment report, the liability amount was increased to \$1,378 (2009 - \$350).

There was a PCB spill at a transformer station. The spill has been remediated and any amount of fines The City may pay will be determined in the future.

There was an ammonia spill at a recreation facility in November 2010. The incident was reported to Alberta Environment and The City is awaiting for recommendations that may be provided.

**Land Expropriation Compensation**

In 2009, The City acquired land from seven property owners in connection with the Gaetz Avenue and 32 Street intersection and the North Highway Connector projects. In three cases The City had to expropriate, and in the other four cases, The City acquired the lands by way of Section 30 Agreements with the landowners.

In all seven cases, the landowners have the right to seek compensation determined under the Expropriation Act. Three Applications for Determination of Compensation have been submitted to the Land Compensation Board. At this time The City can not determine the amount or likelihood of the compensation in these cases.

**27. GUARANTEE**

The City has issued an irrevocable standby letter of credit for \$1,350 as required by its supplier, The Alberta Electric System Operator (AESO), in the event of payment default for electrical distribution charges. The letter of credit has not been utilized to date.

**28. RESTATEMENT OF COMPARATIVE FIGURES**

In 2010, as a result of continued usage and refinement of evolving capital asset accounting and management systems, certain defined asset balances were identified that required corrections. These asset balances included roads engineered structures and land improvements, water business engineered structures and work-in-progress.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The nature of the discrepancies are as follows:

- Road assets were overstated due to incorrect year capitalized and unit cost calculation;
- Water, Waste Water and Storm assets were incorrect due to overstated unit costs applied to new construction;
- Work-in-progress tangible capital assets were overstated as a result of incomplete reconciliation between job cost information and the opening inventory for 2009; and
- Waste water treatment plant was understated due to the value of the asset not being included in the opening inventory for 2009.

In addition, included in the comparative financial statements is a retroactive restatement for land inventory and associated costs of land sold which have been adjusted to comply with The City's accounting policy.

These restated amounts relate solely to the accounting for tangible capital assets and had no effect on The City's cash balances, property tax revenues or any other balances influencing The City's operating budget, capital budget, grants received, property tax assessments or any other related balances.

The effect of correcting these misstatements is outlined as follows:

**Restatement of 2009 opening accumulated surplus:**

|  |                         |
|--|-------------------------|
| As previously reported                                   | \$ 1,673,224            |
| Adjustments to net book value of tangible capital assets | <u>(361,964)</u>        |
| As restated  | <u><u>1,311,260</u></u> |

**Restatement of 2009 excess (shortfall) of revenue over expenses:**

|  |                       |
|--|-----------------------|
| As previously reported   | 116,233               |
| Adjustments to amortization expenses                                 | 10,930                |
| Adjustments to other expenses  | 92                    |
| Operating expenses previously reported as tangible capital assets    | (1,094)               |
| Tangible capital assets previously expensed                          | 4,738                 |
| Subdivisions expenses previously reported as tangible capital assets | <u>(4,273)</u>        |
| As restated  | <u><u>126,626</u></u> |

**Restatement of 2009 tangible capital assets:**

|  |                         |
|--|-------------------------|
| As previously reported   | 1,792,378               |
| Adjustments to cost of tangible capital assets                       | (474,009)               |
| Adjustments to amortization recorded                                 | 122,974                 |
| Adjustments to disposal recorded                                     | 92                      |
| Tangible capital assets previously expensed                          | 4,738                   |
| Subdivisions expenses previously reported as tangible capital assets | (4,273)                 |
| Land inventory previously reported as tangible capital assets        | (2,363)                 |
| Operating expenses previously reported as tangible capital assets    | <u>(1,094)</u>          |
| As restated  | <u><u>1,438,443</u></u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**Restatement of 2009 land inventory:**

|   |                 |
|---|-----------------|
| Land held for sale as previously reported                     | 22,830          |
| Land inventory previously reported as tangible capital assets | 2,363           |
| Land held for sale reclassified as non-financial assets       | <u>(23,389)</u> |
| As restated   | <u>1,804</u>    |
| Land held not ready for sale as previously reported           |                 |
| Land held for sale reclassified as non-financial assets       | <u>23,389</u>   |
| As restated   | <u>23,389</u>   |

**29. SEGMENTED INFORMATION**

The City is a diversified municipal government that provides a wide range of services to its citizens, including fire, ambulance, public transit, water, waste management and electric light and power. For management reporting purposes, The City's operations and activities are organized and reported by functions and services provided. Certain functions that have been disclosed in the segmented information, along with the services provided, are as follows:

**General Government**

This category of functions is used to report activities that provide for the overall operation of The City and 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.

**Protective Services**

This category of functions is used to report activities that provide for the public safety of the inhabitants of the Municipality, including police protection, fire and ambulance, emergency and disaster prevention and recovery and bylaw enforcement.

**Transportation Services**

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

**Water and Wastewater**

This category of functions is used to report activities related to acquiring, treating and supplying water, collection or removal, treatment and disposal of sanitary sewage.

**Waste Management**

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

**Community Services**

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

**Subdivision**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**Recreation, Parks & Culture**

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

**Electric Light & Power**

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

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. Internal charges and recoveries among segments are recorded at exchange amounts.

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 the Consolidated Schedule of Segment Disclosure - Schedule 2.

**30. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the 2010 financial statement presentation.

**31. BUDGET**

The 2010 Budget information is presented for information purposes only and has not been audited. The 2010 Budget was approved by City Council on January 31, 2010.

The City does not adopt an annual budget in a format that is consistent with its financial statements. The differences and reconciliation between the budgeted information and the actual results of financial activity reported in the Consolidated Statement of Operations are summarized as follows:

|   |                  |
|---|------------------|
| Actual excess of revenue over expenses reported on Consolidated Statement of Operations   | \$ <u>49,636</u> |
| Unbudgeted amortization expenses  | 41,632           |
| Unbudgeted revenue from contributed assets  | (16,382)         |
| Unbudgeted loss on assets disposal  | 2,798            |
| Public art expenses budgeted under capital  | <u>16</u>        |
| Adjusted actual excess of revenue over expenses   | \$ 77,700        |
| Budgeted excess of revenue over expenses reported on Consolidated Statement of Operations | \$ 68,410        |

**32. APPROVAL OF FINANCIAL STATEMENTS**

Council and Management have approved these financial statements.

**STATISTICAL INFORMATION**

DRAFT

**TAX AND OTHER STATISTICS  
(2006-2010) (in thousands of dollars)  
Unaudited**

|  | 2010           | 2009           | 2008           | 2007           | 2006           |
|--|----------------|----------------|----------------|----------------|----------------|
| Population                                   | 90,084         | 89,891         | 87,816         | 85,705         | 82,971         |
| Assessed valuation                           | \$ 12,799,553  | \$ 12,629,017  | \$ 12,309,375  | \$ 9,462,745   | \$ 6,865,112   |
| Per capita assessed valuation                | \$ 142         | \$ 140         | \$ 140         | \$ 110         | \$ 83          |
| Mill rates (commercial)                      |                |                |                |                |                |
| Municipal                                    | 12.3938        | 12.2695        | 12.6335        | 13.0486        | 12.8435        |
| Education foundation                         | 3.3220         | 3.4743         | 4.1580         | 4.8000         | 5.4600         |
| Other  | 0.0185         | 0.0000         | 0.0000         | 0.0000         | 0.5100         |
|  | <u>15.7343</u> | <u>15.7438</u> | <u>16.7915</u> | <u>17.8486</u> | <u>18.8135</u> |
| Taxes paid by the largest single taxpayer    | \$ 2,590       | \$ 2,200       | \$ 2,001       | \$ 1,609       | \$ 1,241       |
| Percent of taxes                             | 2.10 %         | 1.88 %         | 1.85 %         | 1.67 %         | 1.45 %         |
| Property taxes                               |                |                |                |                |                |
| Current levy                                 | \$ 123,458     | \$ 116,914     | \$ 108,335     | \$ 96,259      | \$ 85,405      |
| Current collected                            | \$ 121,519     | \$ 115,417     | \$ 107,002     | \$ 95,337      | \$ 84,709      |
| Percent of current levy                      | 98 %           | 99 %           | 99 %           | 99 %           | 99 %           |
| Gross tax collections                        | \$ 121,519     | \$ 116,208     | \$ 108,020     | \$ 99,390      | \$ 85,715      |
| Taxes outstanding                            | \$ 3,629       | \$ 2,232       | \$ 1,661       | \$ 1,347       | \$ 1,397       |
| Reserve balance                              | \$ 145,227     | \$ 131,489     | \$ 125,165     | \$ 127,613     | \$ 99,379      |
| Long-term debt                               |                |                |                |                |                |
| Tax supported long-term debt                 | \$ 92,467      | \$ 90,128      | \$ 58,219      | \$ 35,131      | \$ 1,669       |
| Self supported long-term debt                | <u>92,247</u>  | <u>90,408</u>  | <u>61,258</u>  | <u>30,311</u>  | <u>17,462</u>  |
|  | <u>184,714</u> | <u>180,536</u> | <u>119,477</u> | <u>65,442</u>  | <u>19,131</u>  |
| Legal debt limit                             | \$ 386,787     | \$ 358,821     | \$ 327,873     | \$ 310,023     | \$ 281,469     |
| Tax supported debt as % of assessment        | 0.7 %          | 0.7 %          | 0.5 %          | 0.4 %          | %              |
| Gross tax supported debt per capita          | \$ 1,026       | \$ 1,003       | \$ 663         | \$ 410         | \$ 20          |
| Total gross debt per capita                  | \$ 2,050       | \$ 2,008       | \$ 1,361       | \$ 764         | \$ 231         |
| Debt service costs (Gross)                   |                |                |                |                |                |
| Tax supported long-term debt                 | \$ 7,527       | \$ 6,684       | \$ 1,570       | \$ 1,204       | \$ 1,713       |
| Self supported long-term debt                | <u>11,200</u>  | <u>7,043</u>   | <u>3,412</u>   | <u>2,454</u>   | <u>2,966</u>   |
|  | <u>18,727</u>  | <u>13,727</u>  | <u>4,982</u>   | <u>3,658</u>   | <u>4,679</u>   |
| Operating debt costs % of operating expenses | 7.62 %         | 6.00 %         | 3.04 %         | 2.61 %         | 3.67 %         |



---

## Q&A BACKGROUNDER

April 18, 2011

### Financial Statement Restatement

**1. What is a financial statement restatement?**

The Public Sector Accounting Board (PSAB) operates under the Canadian Institute of Chartered Accountants and is responsible for setting standards and providing guidance for financial and other performance information reported by the public sector.

PSAB requires that assets currently owned by The City be reflected on The City's financial statements beginning in January 2009, and also requires adherence to guidelines for reporting capital assets on an ongoing basis.

A restatement occurs when City administration determines that the underlying information from a previous fiscal year can no longer be considered to have been fairly presented. This can happen for a variety of reasons, including unintentional errors or changes in accounting policies.

In such cases, management will change any previous years' financial information that is presented with the current year as if the change had been made in the past to allow readers to understand the impact of the change.

**2. Why did The City issue a financial restatement?**

After the financial statements were completed and approved in early 2010, it was discovered that some capital asset classes for the 2009 opening inventory were overstated. A full review was completed of these asset classes and corrections were made. Another correction made by management was land bank inventories were reclassified to conform to the applicable accounting standards.

**3. Is this a common financial practice?**

Yes, especially when an organization is applying new accounting standards. 2009 was the first year that municipalities were required to account for and disclose the value of the assets that they own. In many cases, alternate methods for calculating asset values were used, because historical records did not exist for all asset classes.

**4. How does this effect The City's financial statement?**

These restated amounts relate solely to the accounting for tangible capital assets and had no effect on The City's cash balances, property tax revenues or any other balances influencing The City's operating budget, capital budget, grants received, property tax assessments or any other related balances.

**5. Where can I find more information?**

Specific details on the accounts and amounts affected are disclosed in the financial statements and are identified in Note 28. The financial statements are available at [www.reddeer.ca](http://www.reddeer.ca).

For more information please contact:

Dean Krejci  
Financial Services Manager  
The City of Red Deer  
403-342-8204  
[dean.krejci@reddeer.ca](mailto:dean.krejci@reddeer.ca)



AUDIT COMMITTEE

Date: April 13, 2011  
To: City Council  
From: Audit Committee  
Subject: 2010 Financial Statements

---

At the April 13, 2011 Audit Committee meeting, the Audit Committee considered the 2010 Financial Statements, as presented by the Financial Analyst. Following consideration, the motion as set out below was introduced and passed:

*“Resolved that the Audit Committee, having considered the 2010 Financial Statements recommends to Council for approval, subject to further finalization from the external auditors to the Audit Committee Chair and feedback from Audit Committee members and, if issues arise from the April 18, 2011 Council meeting, the issue be tabled to a special meeting of Council prior to April 28, 2011.”*

Regards,

A handwritten signature in blue ink, appearing to read 'T. Veer', written over the word 'Regards,'.

Councillor T. Veer  
Chair, Audit Committee

Attachment

- c. D. Krejci, Financial Services Manager  
L. Poth, Director of Corporate Services

*Comments:*

I support the recommendation of the Audit Committee.

“Craig Curtis”  
City Manager

ORIGINAL

**DATE:** April 20, 2011  
**TO:** Dean Krecji, Financial Services Manager  
**FROM:** Elaine Vincent, Legislative & Governance Services Manager  
**SUBJECT:** 2010 Annual Financial Report

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**Reference Report:**

Financial Services Manager, dated April 14, 2011.

**Resolution:**

The following resolution was passed during the regular Council meeting held on Monday, April 18, 2011:

**“Resolved** that Council of The City of Red Deer having considered the report from the Financial Services Manager, dated April 14, 2011, re: 2010 Annual Financial Report, hereby:

1. Accepts the 2010 Financial Statements and Annual Financial Report for distribution to the public and other interested parties,
2. Authorizes the Mayor and one Councillor from the Audit Committee to sign the 2010 Financial Statements on behalf of Council; and
3. Authorizes Administration to forward the 2010 Financial Statements to Alberta Municipal Affairs by May 1, 2011. “

**Report Back to Council:** No

**Comments/Further Action:**

Administration to arrange for the Mayor and one Councillor from the Audit Committee to sign the 2010 Financial Statements on behalf of Council and forward to Alberta Municipal Affairs by May 1, 2011.



Elaine Vincent  
Legislative & Governance Services Manager

c Director of Corporate Services, Lorraine Poth  
Corporate Controller, Michelle Andrew

ORIGINAL



### Submission Request For Inclusion on a Council Agenda

Requests to include a report on a Council Agenda must be received by 4:30pm two Wednesdays prior to the scheduled Council meeting.

**PLEASE NOTE:** If reports are not received by two Wednesdays prior to the scheduled meeting/hearing the report may be moved to the next Agenda.

| CONTACT INFORMATION  |  |  |  |
|--|--|--|--|
| Name of Report Writer:   |  | Dean Krejci, Financial Services Manager  |  |
| Department & Telephone Number:   |  | Financial Services, 403.342.8204   |  |
| REPORT INFORMATION   |  |  |  |
| Preferred Date of Agenda:  |  | April 18, 2011   |  |
| Subject of the Report<br>(provide a brief description)   |  | 2011 Annual Report (City of Red Deer Financial Statements)   |  |
| Is this Time Sensitive? Why?   |  | The F/S must be approved by Council before the Municipal Affairs deadline for submission of May 1, 2011. |  |
| What is the Decision/Action required from Council?   |  | Approval of the statements and submission to Municipal Affairs.  |  |
| Please describe Internal/ External Consultation, if any.   |  |  |  |
| Is this an In-Camera item?   |  | No   |  |
| Is Advertising Required?   |  | Yes  |  |
| How does the Report link to the Strategic Plan and other existing Plans & Policies?  |  |  |  |
| Has Legal Counsel been consulted? Are there any outstanding issues? Please describe.   |  |  |  |
| Not a specific requirement.  |  |  |  |
| Are there any financial/budget implications? Please describe. Are there other organizational implications? Please describe.  |  |  |  |
| Presentation:<br>(10 Min Max.)   |  | <input type="checkbox"/> YES   | Presenter Name and Contact Information:<br>Dean Krejci,<br>John Anderlic, Deloitte |
| COMMUNITY IMPACT   |  |  |  |
| Should External Stakeholder(s) be advised of the Agenda item?<br>(e.i. Community Groups, Businesses, Community Associations)<br>If Yes, please provide the Contact Information for the External Stakeholder(s) |  |  | <input type="checkbox"/> NO  |
| External Stakeholder(s) Contact Information:<br>(please provide, name, mailing address, telephone number and e-mail address)   |  |  |  |
| FOR LEGISLATIVE & GOVERNANCE SERVICES USE ONLY   |  |  |  |
| Has this been to CLT / City Manager Briefings/ Committees: MPC, EAC, CPAC (Please circle those that apply)   |  |  |  |
| <b>CLT</b><br>When/describe: _____   |  | <b>City Manager Briefings</b><br>When/Describe: _____  | <b>Board(s) / Committee(s)</b><br>When/Describe: _____                             |
|  |  |  |  |
| Do we need Communications Support?   |  | <input type="checkbox"/> YES   | <input type="checkbox"/> NO  |

**Date:** April 14, 2011  
**To:** Craig Curtis, City Manager  
**From:** Dean Krejci, Financial Services Manager  
**Subject:** 2010 Annual Financial Report

---

**Background**

Section 276(1) of the Municipal Government Act (MGA) requires that municipalities prepare annual financial statements in accordance with generally accepted accounting principles for municipal governments.

Section 276(3) requires that each municipality make its financial statements, or a summary of them, and the auditor's report on the financial statements, available to the public.

Section 281(1) requires that the auditor for the municipality report to Council on the annual financial statements and the annual financial return.

**Discussion**

Enclosed with the Council agenda, is the 2010 Annual Financial Report which includes the financial statements for the 2010 fiscal year and the auditor's report on those financial statements.

Also enclosed is correspondence from the Audit Committee, recommending the acceptance of the 2010 financial statements and annual financial report for distribution to the public and other interested parties.

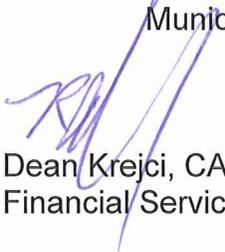
**Summary**

The auditors have presented their audit report to the Audit Committee and the City of Red Deer has received an unqualified audit opinion on their 2010 financial statements.

**Recommendation**

That Council:

1. Accept the 2010 financial statements and annual financial report for distribution to the public and other interested parties;
2. Authorize the Mayor and one Councillor from the Audit Committee to sign the 2010 Financial Statements on behalf of Council; and
3. Authorize Administration to forward the 2010 Financial Statements to Alberta Municipal Affairs by May 1, 2011.

  
Dean Krejci, CA  
Financial Services Manager

AUDIT COMMITTEE

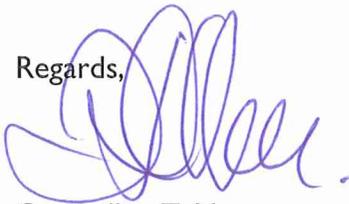
Date: April 13, 2011  
To: City Council  
From: Audit Committee  
Subject: 2010 Financial Statements

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“Resolved that the Audit Committee, having considered the 2010 Financial Statements recommends to Council for approval, subject to further finalization from the external auditors to the Audit Committee Chair and feedback from Audit Committee members and, if issues arise from the April 18, 2011 Council meeting, the issue be tabled to a special meeting of Council prior to April 28, 2011.”

Regards,



Councillor T. Veer  
Chair, Audit Committee

Attachment

- c. D. Krejci, Financial Services Manager  
L. Poth, Director of Corporate Services

April 18, 2011

## **Financial Statement Restatement**

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### **2. Why did The City issue a financial restatement?**

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### **3. Is this a common financial practice?**

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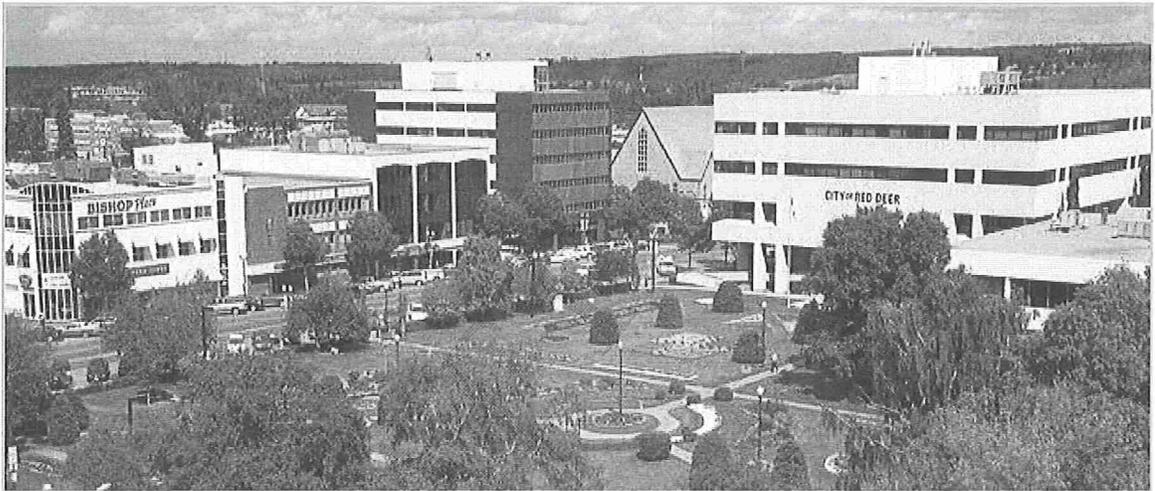
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ORIGINAL



## 2010 Annual Financial Report

April 2011

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## **INTRODUCTORY INFORMATION**

# CITY COUNCIL

## MAYOR M. FLEWWELLING

**Councillor B. Buchanan**  
**Councillor T. Veer**  
**Councillor C. Stephan**  
**Councillor F. Wong**

**Councillor D. Wyntjes**  
**Councillor P Harris**  
**Councillor C. Jefferies**  
**Councillor L. Mulder**

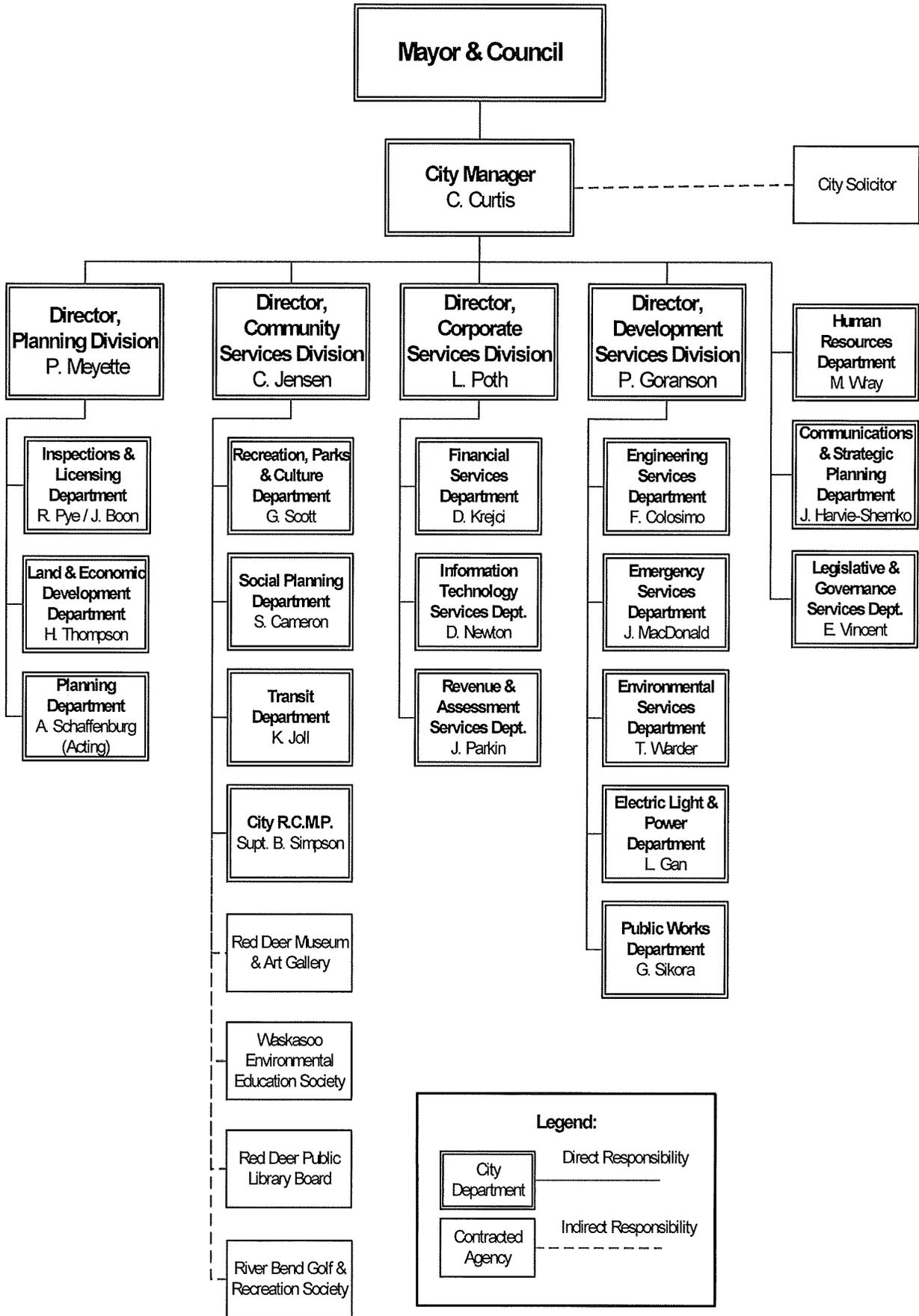
The City of Red Deer is governed by an elected City Council comprised of a Mayor and eight Councillors. Through the City Manager, this group provides governance and leadership to City Administration. The Mayor and all Councillors are members in a number of Committees and Boards that address specific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

Each of the Councillors are elected on an 'at large' basis, meaning that Councillors are not elected on a geographic basis. Each Councillor is available to any citizen to wishes to discuss an issue.

City Council meetings are held in Council Chambers twice a month. The meetings are open to the public.

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# THE CITY OF RED DEER ORGANIZATIONAL CHART



**City Solicitor**  
Chapman Riebeek

**City External Auditor**  
Deloitte & Touche LLP

## CITY PROFILE

The City of Red Deer is a thriving, modern city of just over 90,000 people located between Calgary and Edmonton. The City provides its citizens with a wide range of services. Property taxes, user fees and grants fund these services.

**GENERAL OPERATIONS** - The City's GENERAL OPERATIONS include:

**COMMUNITY SERVICES** - The Community Services Division coordinates the delivery of recreation, culture, parks, transit and social services in Red Deer through the Recreation, Parks & Culture, Transit, and Social Planning departments. Services include development and maintenance of The City's extensive parks and open space system, playground and rink maintenance, operation of The City's two cemeteries, operation of a wide variety of recreational and cultural activities and facilities and family and community support services. Transit offers fixed transit routes throughout the City, special transportation and some charter services. The Community Services Division is also responsible for policing, through a contract with the Royal Canadian Mounted Police (RCMP) and provides police services including general investigation, traffic, community policing and victim services. The City provides a building, furnishings, and a number of municipal employees to support the RCMP in providing these police services.

**PLANNING SERVICES** - The Planning Division includes the Land & Economic Development, Inspections & Licensing and Planning departments. Land & Economic Development includes land development and economic promotion. Inspections & Licensing includes development approvals, building inspections, parking services, licensing, animal control and enforcement. The Planning Department provides subdivision Land Use Bylaw updates and approvals as well as providing the opportunity for public input into planning activities.

**CORPORATE SERVICES** - The Corporate Services Division provides financial and information services to The City through the Information Technology, Financial Services and Revenue & Assessment departments. Services include administering and coordinating City investments, Budgets and reserves, The City's insurance program, Risk Management, long term borrowing, financial analysis and reporting, information systems operations and support, assessing and levying property and business taxes, records management and many other financial and administrative services.

**DEVELOPMENT SERVICES** - The Development Services Division includes the Engineering, Public Works, Emergency Services, Electric Light & Power and Environmental Services departments. In addition to providing engineering services, roadway and bridge maintenance, sidewalk repair and meter maintenance, the division is also responsible for the operation of the water, wastewater, solid waste utilities and recycling program and the operation of The City's Equipment Pool and Electric Utility. Emergency Services provides a number of services including Fire Suppression, Emergency Medical Services and Fire Prevention.

**OTHER** - The City has a Human Resources department and a Communications & Strategic Planning department which both provide service to all departments. Legal services are provided to The City by a local law firm.

**SELF FUNDING UTILITIES** - The City operates a number of self funding utilities.

**WATER UTILITY** - The City obtains water from the Red Deer River and provides water treatment and distribution through a water treatment plant to a system of water reservoirs, booster stations and a water distribution system which distributes water to the residents of Red Deer and supplements the water system for the gasoline alley business area of Red Deer County as well as the North Red Deer Water Services Commission. Services include water main maintenance, hydrant and valve inspection, hydrant and valve repair and water meter maintenance. The utility is funded primarily through utility charges to customers.

**WASTEWATER UTILITY** - The City provides a wastewater collection and treatment system through a series of wastewater lines and mains and the operation of a wastewater treatment plant. The utility is funded through utility charges to customers.

**PARKING UTILITY** - The City provides parking in the downtown area through on-street metered parking, and metered and spittered off street parking lots in a number of locations. The City also provides 400 stalls of parking in the Sorenson Station parkade, which opened to the public in September 2010. The parking utility is administered by the Inspections & Licensing Department and is funded primarily through fines and parking revenues.

**SUBDIVISIONS** - The City's Subdivision Fund provides extension of major services to new areas of the city and recovers such costs through charges to developers connecting to these services. The City is also involved in the development and marketing of commercial, industrial and residential land in Red Deer. The Land & Economic Development Department is responsible for the coordination of The City's land development activities. Funding of the Subdivision Fund is primarily through the sale of commercial, industrial and residential land.

**EQUIPMENT POOL** - City equipment, such as trucks, emergency vehicles, sweepers, buses and graders are the responsibility of The City's equipment pool. Operating and maintenance costs are charged to the equipment pool, with such costs being recovered through user fees charged to departments and the public using the equipment. These user fees include a surcharge to help provide for the eventual replacement of the equipment. These funds are held in an equipment replacement reserve.

**SOLID WASTE UTILITY** - The City provides solid waste collection recycling and landfill operation within the solid waste utility. These services are largely carried out by contracts with the private sector. The City also has a household hazardous waste site at the landfill site that is available year round. The solid waste utility is funded through user fees.

**ELECTRIC UTILITY** - The City is an entitled electric distribution system which is subject to the obligations and entitlements set out in of the Electric Utilities Act of the Province of Alberta. The utility is not a retailer of electricity and only distributes electricity to the citizens of Red Deer through its distribution and transmission system comprised of substations, transformers and overhead and underground distribution lines. This utility is operated by the Electric Light & Power Department as a self supporting utility with funding provided through distribution service rates regulated by City Council and charged to customers.

## **Report from the Director of Corporate Services**

I am pleased to submit the Annual Financial Statements for The City of Red Deer for the year ended December 31, 2010 in accordance with Section 276 of the Municipal Government Act of the Province of Alberta.

The preparation and presentation of the Financial Statements and related information in the Annual Financial Report is the responsibility of management of The City of Red Deer. The statements have been prepared in conformity with Canadian generally accepted accounting standards for municipalities as established by the Public Sector Accounting Board (PSAB) and are consistent with other information presented in the Annual Financial Report. The accounting firm of Deloitte & Touche LLP has been appointed as auditors, by City Council, and is responsible directly to Council with their audit results.

In his address to Council in January 2010, the City Manager presented a theme for the operating budget. It was "Adjusting to the New Economic Reality". This meant that administration would endeavour to continue to work toward the vision of Red Deer as outlined in the Strategic Plan while being sensitive to economic pressures that were being felt in the City, regional, national and global economies.

A number of strategies continue their way toward implementation:

- Staff have implemented a number of asset classes into new software as a step in the Enterprise Asset Management program. Benefits are already being gained that allow Environmental Services to record and monitor repair and maintenance costs for their linear assets. The road system and recreation facilities are in the process of implementation.
- In 2010, after an organizational review, Council approved a plan to re-introduce the planning function to the City. This function had been provided under contract to the City for a number of years by Parkland Community Planning Services. This change will integrate improved planning for land use and subdivision approvals into the work that we do in a timelier manner.
- From a financial perspective, it was apparent that the economic situation meant that we could not be guaranteed that revenues would continue to increase as they had in the years of growth experienced in 2005-2009. To that end, administration worked diligently to improve revenues and reduce expenses where they would not negatively affect the services provided to citizens. For example, every staff vacancy is reviewed to determine if it is required to continue to provide a consistent service level. Those that can be left vacant with no impact will be until further review.

We feel that the financial results support these initiatives.

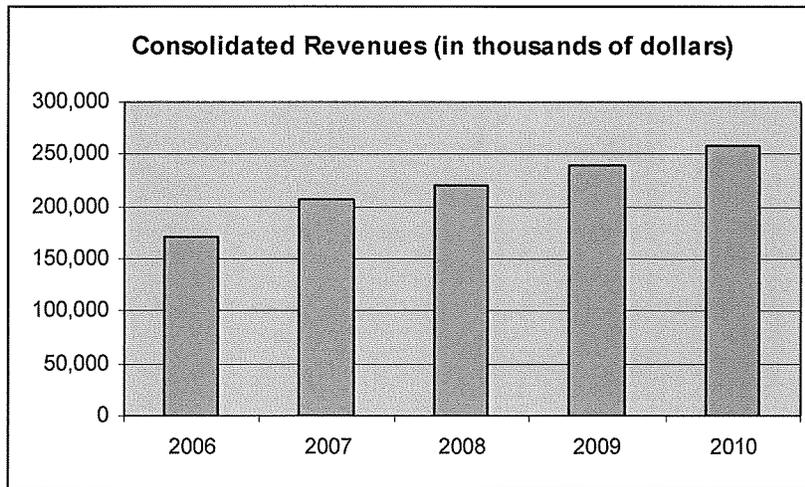
## 1. Operating Results:

### Revenues:

For 2010, revenues were higher than budget by \$4.8 million, due largely to utility user fees and an increase in tax revenue. Some one time items were up compared to budget; these were the addition of \$3.9 in revenue due to the consolidation of River Bend Golf Course.

When compared to 2009, revenues were also improved, in this case by \$18.6 million. This amount is composed of:

- tax revenue up by \$3.0 million
- land sales improved by \$3.4 million
- utility revenues improved by \$5.7 million



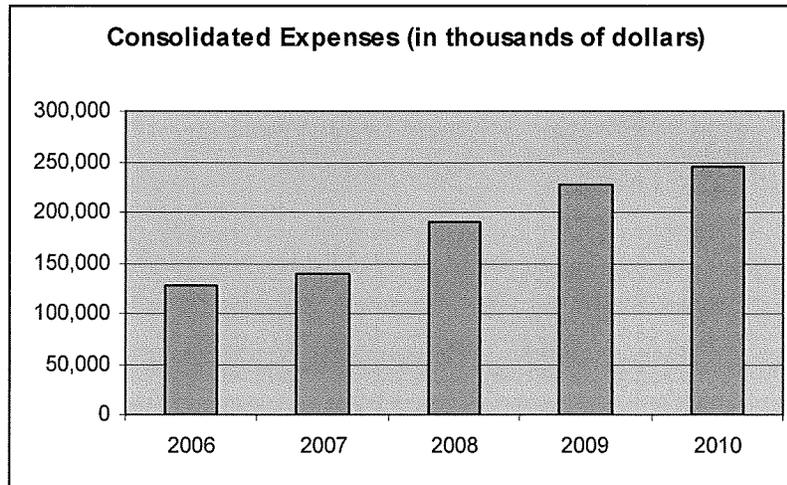
### Expenses:

For 2010, amortization for the organization in the amount of \$41.7 million was not budgeted. Had this amount been included in the budget, the expenses would have been \$253.9 million, creating a \$8.0 million favourable variance. A number of items explain this variance:

- A savings in salaries of \$6.5 million;
- Fewer financial charges, in the amount of \$1.5 million; and,
- A reduction in contracted services in the amount of \$3.1 million.

Amortization will be included in the 2011 budget figures.

When compared to 2009, operating expenses increased by \$18.3, due to an increase in salaries of \$8.4 million, and an increase in contracted services of \$3.5 million.



The excess of revenues over expenses before other items was lower than budgeted as reported due to amortization expenses not being included in expenses. If this number had been included in expenses, our budgeted position would have been a shortfall of \$806 thousand and would have created a favourable operating excess of \$12.8 million.

When compared to 2009, a small increase of excess of revenues over expenses occurred of \$300 thousand.

**Other Items:**

2010 proved to be less economically active, as evidenced by a reduction in assets contributed to the City by developers of \$43.0 million from 2009. The City continued to invest in capital assets in 2010, but at a reduced rate from 2009. 2009 saw capital transfers of \$55.6 million, but only \$21.3 million in 2010, a net reduction of \$43.3 million.

**2. Financial Position:**

For 2010, the City ended the year with an increase of financial assets over 2009 of \$1.9 million. Investments were adjusted to increase the long term position as the rates achieved in this portfolio are higher than in short term holdings. A restatement was made to 2009 and 2010 to reclassify land that is not yet ready for sale to the non-financial assets section of this statement. The impact was a reduction of financial assets in 2009 of \$23.3 million and \$22.0 million in 2010.

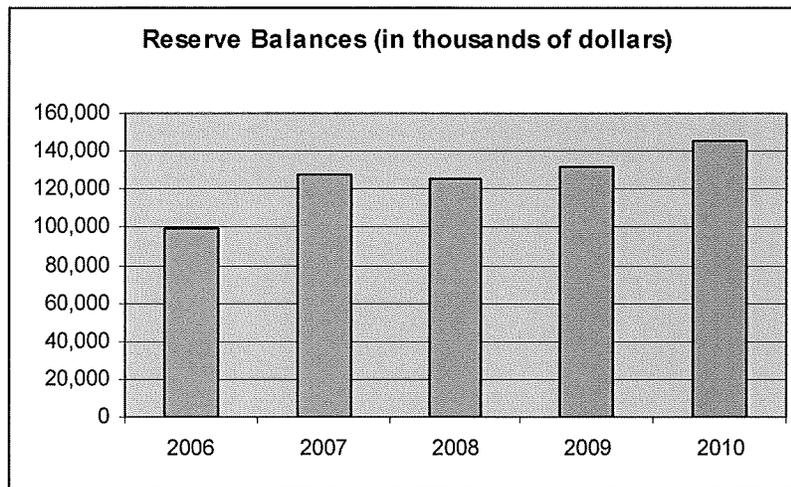
Liabilities increased by \$15.4 million over 2009. Most notably, deferred revenue, which are generally grants that are capital in nature, increased by \$13.0 million. When the expenditures for these projects are incurred, this amount will decrease. Long term debt increased in 2010 by \$4.2 million, as debt financing is used for projects.

The City is in a 'Net Debt' position for 2010 of (\$43.9 million), which is a decrease of Net Debt from 2009 of (\$13.9 million). This is not unusual as significant capital investments have been made in the year.

The increase in capital asset stock over 2009 at net book value was \$62.0 million.

**Reserve Balances:**

Reserves continue to grow to allow The City to balance financing of capital projects with a combination of reserves and debt in the future.



**3. Financial Indicators:**

Financial Indicators can be used to measure a municipality's overall financial condition. These indicators are of three types: Sustainability, Flexibility and Vulnerability. The application of these indicators is presented below.

|   | 2010  | 2009  | 2008  | 2007  | 2006  |
|---|-------|-------|-------|-------|-------|
| <b>Sustainability:</b>                            |       |       |       |       |       |
| Financial Assets to Liabilities                   | 0.84* | 0.89* | 1.01  | 1.40  | 1.91  |
| Total Expenses to Assessment                      | 1.92% | 1.80% | 1.54% | 1.48% | 1.86% |
| <b>Flexibility:</b>                               |       |       |       |       |       |
| Debt Charges to Revenues                          | 7.26% | 5.74% | 2.29% | 1.77% | 2.74% |
| <b>Vulnerability:</b>                             |       |       |       |       |       |
| Government Transfers to Total Revenue (Operating) | 5.05% | 6.76% | 7.71% | 5.28% | 4.94% |

\*Financial assets were restated in 2009 and 2010 by a reduction in land for resale to the non-financial assets category.

Sustainability measures the degree to which the City can maintain its existing service and financial commitments without increasing the debt or tax burden on its citizens. The assets to liabilities ratio has declined in recent years, and is now less than 1. This indicates that we have been using debt to finance capital activity. While this indicator has declined, it is not a cause for alarm, as we have planned for the additional debt financing and our debt remains below the debt limits set for municipalities by the Province.

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, and ours does not.

Flexibility measures the degree to which the City has chosen to employ debt over increased taxation to meet its capital program commitments. The City now commits 7.26% of its revenues to service debt. This is an increased amount over previous years, however, the debt servicing remains well below the limits set out for Municipalities by the Province.

The vulnerability measure indicates the degree that the City is dependent on other levels of government for operating funding. From a high of 7.71% in 2008, we now receive 5.05% of our operating revenue from other levels of government. This could indicate that we are at some risk if these grants erode further.

#### **4. Risk Management:**

A number of areas demand continued vigilance from our organization:

- The risk of further erosion of grant allocations from other levels of government continues to impact our ability to plan in a conclusive manner for both our operating and capital budgets. We work to mitigate this risk through appropriate balance between grants and other funding types and to actively advocate for stable, adequate grant funding from other levels of government.
- Investment earnings have been lower than traditionally experienced for a number of years, impacting our revenues. We work to maximize this amount through careful cash management.
- The needs of the community for new and refurbishment of existing facilities is always with us as we manage our debt and reserve levels. Like any household, business or other government organization, we understand that attaining the right balance of financial inputs and results is an ongoing process.
- We must remain vigilant against increases in expenses that are out of line when compared to our revenue increases. Council and our citizens expect that we are as careful with municipal finances as they are with their own funds.

- Environmental matters present certain risks to the organization. A number of sites owned by the City have been assessed for environmental issues. Liabilities have been recognized in past years' financial statements, with additional adjustments where required. We have also developed an Environmental Master Plan and are implementing it so that we may prevent any issues in the future.

## **Conclusion**

It has been my great pleasure to continue to support Council and the City Manager in the past year. The professionalism and dedication that the Corporate Services Division staff and City Staff as a whole demonstrate, and the solid support I receive from them, allows me to look forward to any future challenges with confidence and optimism.

Respectfully submitted,

Lorraine Poth, CMA  
Director of Corporate Services  
April 18, 2011

**FINANCIAL INFORMATION**

DRAFT

## **MANAGEMENT REPORT**

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management of The City of Red Deer. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants. 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.

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

Craig Curtis  
City Manager

Lorraine Poth  
Director of Corporate Services

Deloitte & Touche LLP  
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Canada

Tel: 780-421-3611  
Fax: 780-421-3782  
www.deloitte.ca

## **Independent Auditor's Report**

To the Members of Council

We have audited the accompanying consolidated financial statements of The City of Red Deer, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of operations, changes in net financial assets (debt) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The City of Red Deer as at December 31, 2010, and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

April 18, 2011

**CONSOLIDATED FINANCIAL STATEMENTS**

DRAFT

**STATEMENT 1 - CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2010 (in thousands of dollars)**

|  | 2010                | 2009                |
|--|---------------------|---------------------|
| <b>FINANCIAL ASSETS</b>  |                     | (Restated Note 28)  |
| Cash   | \$ 24,581           | \$ 22,409           |
| Temporary investments- Note 2.                                   | 52,351              | 65,873              |
| Receivables- Note 3.   | 26,755              | 26,203              |
| Land for sale- Note 4.   | 2,795               | 1,804               |
| Long-term investments- Note 5.                                   | 126,598             | 112,794             |
| Loans receivable- Note 6.  | 2,557               | 2,409               |
| Investment in River Bend Golf Course - Note 7.                   |                     | <u>2,725</u>        |
|  | <u>235,637</u>      | 234,217             |
| <b>LIABILITIES</b>   |                     |                     |
| Accounts payable and accrued liabilities                         | 26,059              | 29,001              |
| Other liabilities  | 1,816               | 2,601               |
| Deferred revenue - Note 8.                                       | 53,684              | 40,699              |
| Employee benefit obligations - Note 9.                           | 10,305              | 9,151               |
| Provision for Landfill closure and post-closure costs - Note 10. | 2,952               | 2,183               |
| Long-term debt - Note 11.  | <u>184,714</u>      | <u>180,536</u>      |
|  | <u>279,530</u>      | 264,171             |
| <b>NET FINANCIAL (DEBT) ASSETS</b>                               | <u>(43,893)</u>     | <u>(29,954)</u>     |
| <b>NON-FINANCIAL ASSETS</b>                                      |                     |                     |
| Tangible capital assets - Schedule 1                             | 1,500,465           | 1,438,443           |
| Land held not ready for sale - Note 4.                           | 22,007              | 23,389              |
| Capital lease  | 244                 |                     |
| Prepaid expenses   | 588                 | 794                 |
| Inventories  | 8,111               | 5,214               |
|  | <u>1,531,415</u>    | <u>1,467,840</u>    |
| <b>ACCUMULATED SURPLUS - Note 15.</b>                            | <u>\$ 1,487,522</u> | <u>\$ 1,437,886</u> |
| <b>Commitments - See Note 25.</b>                                |                     |                     |
| <b>Contingencies - See Note 26.</b>                              |                     |                     |
| <b>Guarantee - See Note 27.</b>                                  |                     |                     |

**STATEMENT 2 - CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|   | Budget<br>(Unaudited) | 2010                | 2009<br>(Restated Note 28) |
|---|-----------------------|---------------------|----------------------------|
| <b>REVENUES</b>   |                       |                     |                            |
| Net municipal taxes - Note 16.                                    | \$ 84,804             | \$ 86,808           | \$ 83,727                  |
| Operating government transfers - Note 17.                         | 12,191                | 13,034              | 16,160                     |
| User fees and sales of goods and services<br>- Note 18.           | 138,211               | 129,241             | 116,591                    |
| Investment income - Note 5.                                       | 1,396                 | 7,306               | 6,391                      |
| Fines and penalties   | 5,152                 | 5,417               | 5,035                      |
| Franchise fees  | 5,989                 | 6,392               | 5,577                      |
| Licenses and permits  | 3,268                 | 2,350               | 2,304                      |
| Other revenue   | 2,091                 | 7,310               | 3,672                      |
| Investment (loss) income from River Bend Golf<br>Course - Note 7. |                       |                     | (243)                      |
|   | <u>253,102</u>        | <u>257,858</u>      | <u>239,214</u>             |
| <b>EXPENSES- NOTE 19.</b>   |                       |                     |                            |
| Legislative and administrative                                    | 29,703                | 28,912              | 27,053                     |
| Police and other protective                                       | 26,269                | 25,717              | 24,014                     |
| Fire and ambulance  | 23,741                | 23,701              | 21,637                     |
| Transportation  | 16,746                | 33,008              | 33,936                     |
| Public transit  | 10,477                | 11,640              | 9,785                      |
| Social planning   | 3,896                 | 3,838               | 3,891                      |
| Community   | 7,494                 | 8,627               | 6,853                      |
| Recreation parks and culture                                      | 32,391                | 37,647              | 32,453                     |
| Parking   | 1,365                 | 1,635               | 1,148                      |
| Equipment pool  | 7,440                 | 9,901               | 8,830                      |
| Water   | 9,544                 | 12,340              | 12,939                     |
| Wastewater  | 9,073                 | 14,543              | 10,412                     |
| Solid waste collection  | 5,825                 | 5,910               | 5,784                      |
| Recycling   | 1,846                 | 1,810               | 1,746                      |
| Solid waste disposal  | 3,310                 | 3,778               | 1,990                      |
| Subdivisions  | 2,627                 | 1,290               | 4,905                      |
| Electric light and power  | 20,461                | 21,617              | 20,237                     |
|   | <u>212,208</u>        | <u>245,914</u>      | <u>227,613</u>             |
| <b>EXCESS OF REVENUE OVER EXPENSES<br/>BEFORE OTHER</b>           | <u>40,894</u>         | <u>11,944</u>       | <u>11,601</u>              |
| <b>OTHER</b>  |                       |                     |                            |
| Contributed assets  |                       | 16,382              | 59,421                     |
| Government transfers for capital - Note 17.                       | 27,516                | 21,310              | 55,604                     |
| <b>EXCESS OF REVENUE OVER EXPENSES</b>                            | <u>68,410</u>         | <u>49,636</u>       | <u>126,626</u>             |
| <b>ACCUMULATED SURPLUS, BEGINNING OF<br/>YEAR</b>                 |                       | <u>1,437,886</u>    | <u>1,311,260</u>           |
| <b>ACCUMULATED SURPLUS, END OF YEAR</b>                           |                       | <u>\$ 1,487,522</u> | <u>\$ 1,437,886</u>        |

**STATEMENT 3 - CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|   | Budget              | 2010               | 2009               |
|---|---------------------|--------------------|--------------------|
|   | (Unaudited)         |                    | (Restated Note 28) |
| <b>EXCESS OF REVENUES OVER EXPENSES</b>         | \$ 68,410           | \$ 49,636          | \$ 126,626         |
| Change of:                                      |                     |                    |                    |
| Change associated with River Bend Golf Course   |                     | (6,904)            |                    |
| Acquisition of tangible capital assets          | (194,228)           | (83,883)           | (115,524)          |
| Contributed tangible capital assets             |                     | (16,382)           | (59,421)           |
| Proceeds on disposal of tangible capital assets |                     | 306                | 107                |
| Amortization of tangible capital assets         |                     | 41,632             | 38,274             |
| Loss on disposal of tangible capital assets     |                     | 2,888              | 896                |
|   | <u>(194,228)</u>    | <u>(62,343)</u>    | <u>(135,668)</u>   |
| Net change of inventories                       |                     | (2,735)            | 419                |
| Net change of capital lease                     |                     | (99)               |                    |
| Net change of land held not ready for sale      |                     | 1,382              | (1,419)            |
| Net change of prepaid assets                    |                     | 220                | 77                 |
|   |                     | <u>(1,232)</u>     | <u>(923)</u>       |
| <b>DECREASE IN NET FINANCIAL ASSETS</b>         | (125,818)           | (13,939)           | (9,965)            |
| <b>NET FINANCIAL DEBT, BEGINNING OF YEAR</b>    | <u>(29,954)</u>     | <u>(29,954)</u>    | <u>(19,989)</u>    |
| <b>NET FINANCIAL DEBT, END OF YEAR</b>          | \$ <u>(155,772)</u> | \$ <u>(43,893)</u> | \$ <u>(29,954)</u> |

**STATEMENT 4 - CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|  | 2010             | 2009               |
|--|------------------|--------------------|
| <b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:</b> |                  | (Restated Note 28) |
| <b>OPERATING</b>   |                  |                    |
| Excess of revenues over expenses   | \$ 49,636        | \$ 126,626         |
| Change associated with River Bend Golf Course                            | (3,324)          |                    |
| Amortization of tangible capital assets                                  | 41,632           | 38,274             |
| Loss on disposal of tangible capital assets                              | 2,888            | 896                |
| Tangible capital assets received as contributions                        | (16,382)         | (59,421)           |
| Decrease (increase) in receivables                                       | (545)            | 2,070              |
| Decrease (increase) in land inventory                                    | 391              | (2,052)            |
| Increase in loans receivable   | (148)            | (1,058)            |
| Decrease (increase) in inventory for consumption                         | (2,735)          | 419                |
| Decrease in prepaid expenses   | 220              | 77                 |
| Decrease in accounts payable and accrued liabilities                     | (3,484)          | (22,464)           |
| Decrease in other liabilities  | (785)            | (158)              |
| Increase (decrease) in deferred revenue                                  | 12,665           | (28,588)           |
| Increase in employee benefit obligations                                 | 1,154            | 1,849              |
| Increase (decrease) in provision for landfill closure/post-closure       | 769              | (17)               |
| Cash provided by operating transactions                                  | <u>81,952</u>    | <u>56,453</u>      |
| <b>CAPITAL</b>   |                  |                    |
| Acquisition of tangible capital assets                                   | (83,883)         | (115,524)          |
| Proceeds on disposal of tangible capital assets                          | 306              | 107                |
| Cash applied to capital transactions                                     | <u>(83,577)</u>  | <u>(115,417)</u>   |
| <b>INVESTING</b>   |                  |                    |
| Increase in long-term investments  | (13,804)         | (11,332)           |
| Decrease (increase) in temporary investments                             | 13,522           | (11,097)           |
| Decrease in investment in River Bend Golf Course                         |                  | 8                  |
| Cash applied to investing transactions                                   | <u>(282)</u>     | <u>(22,421)</u>    |
| <b>FINANCING</b>   |                  |                    |
| Long-term debt issued  | 14,313           | 67,972             |
| Long-term debt repaid  | (10,135)         | (6,912)            |
| Change of capital lease  | (99)             |                    |
| Cash provided by financing transactions                                  | <u>4,079</u>     | <u>61,060</u>      |
| <b>CHANGE IN CASH DURING THE YEAR</b>                                    | <u>2,172</u>     | <u>(20,325)</u>    |
| <b>CASH, BEGINNING OF YEAR</b>   | <u>22,409</u>    | <u>42,734</u>      |
| <b>CASH, END OF YEAR</b>   | <u>\$ 24,581</u> | <u>\$ 22,409</u>   |

**SCHEDULE 1 - TANGIBLE CAPITAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|  | Land              | Land Improvement | Buildings         | Machinery & Equipment | Vehicles         | Engineered Structures | Work-in-progress | 2010                | 2009                |
|--|-------------------|------------------|-------------------|-----------------------|------------------|-----------------------|------------------|---------------------|---------------------|
|  |                   |                  |                   |                       |                  |                       |                  |                     | (Restated Note 28)  |
| <b>Cost:</b>                                     |                   |                  |                   |                       |                  |                       |                  |                     |                     |
| Balance, beginning of year                       | \$ 337,599        | \$ 35,137        | \$ 230,325        | \$ 44,596             | \$ 37,096        | \$ 1,168,910          | \$ 158,261       | \$ 2,011,924        | \$ 1,843,507        |
| Work-in-progress                                 |                   |                  |                   |                       |                  |                       | (63,479)         | (63,479)            | (50,933)            |
| Acquisition of tangible capital assets           | 12,606            | 8,587            | 53,980            | 5,387                 | 5,964            | 83,941                |                  | 170,465             | 225,878             |
| Disposal of tangible capital assets              |                   | (2)              | (517)             | (2,017)               | (1,228)          | (9,331)               |                  | (13,095)            | (6,528)             |
| <b>Balance, end of year</b>                      | <b>350,205</b>    | <b>43,722</b>    | <b>283,788</b>    | <b>47,966</b>         | <b>41,832</b>    | <b>1,243,520</b>      | <b>94,782</b>    | <b>2,105,815</b>    | <b>2,011,924</b>    |
| <b>Accumulated Amortization:</b>                 |                   |                  |                   |                       |                  |                       |                  |                     |                     |
| Balance, beginning of year                       |                   | (15,638)         | (52,630)          | (23,221)              | (16,148)         | (465,844)             |                  | (573,481)           | (540,732)           |
| Annual amortization                              |                   | (1,467)          | (7,501)           | (3,726)               | (2,426)          | (26,512)              |                  | (41,632)            | (38,274)            |
| Accumulated amortization on disposals            |                   | 2                | 292               | 1,819                 | 1,173            | 6,477                 |                  | 9,763               | 5,525               |
| <b>Balance, end of year</b>                      |                   | <b>(17,103)</b>  | <b>(59,839)</b>   | <b>(25,128)</b>       | <b>(17,401)</b>  | <b>(485,879)</b>      |                  | <b>(605,350)</b>    | <b>(573,481)</b>    |
| <b>Net book value of tangible capital assets</b> | <b>\$ 350,205</b> | <b>\$ 26,619</b> | <b>\$ 223,949</b> | <b>\$ 22,838</b>      | <b>\$ 24,431</b> | <b>\$ 757,641</b>     | <b>\$ 94,782</b> | <b>\$ 1,500,465</b> | <b>\$ 1,438,443</b> |

Work in progress represents costs of assets under construction and are not yet in service. Capital assets included in work in progress is not amortized until the asset is put into use and the costs are transferred to the respective asset category.

**SCHEDULE 2 - CONSOLIDATED SEGMENTED DISCLOSURE  
FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands of dollars)**

|   | General Government | Protective Services | Transportation  | Community Services | Recreation, Parks & Culture | Water and Wastewater | Waste Management | Subdivision   | Electric Light & Power | Total         |
|---|--------------------|---------------------|-----------------|--------------------|-----------------------------|----------------------|------------------|---------------|------------------------|---------------|
| <b>Revenues</b>                                     |                    |                     |                 |                    |                             |                      |                  |               |                        |               |
| Net municipal taxes                                 | \$ 87,659          | \$                  | \$ (177)        | \$                 | \$ (25)                     | \$ 63                | \$               | \$            | \$ (712)               | \$ 86,808     |
| User fees and sale of goods and services            | 371                | 10,853              | 6,553           | 458                | 9,706                       | 37,946               | 14,387           | 13,756        | 35,211                 | 129,241       |
| Government transfers                                | 2,108              | 2,474               | 11,372          | 8,542              | 9,870                       | (22)                 |                  |               |                        | 34,344        |
| Investment income                                   | 2,066              | 94                  | 1,402           | 65                 | 166                         | 1,219                | 595              | 1,570         | 129                    | 7,306         |
| Fines and penalties                                 | 754                | 4,150               |                 |                    | 46                          | 74                   | 20               | 96            | 277                    | 5,417         |
| Franchise fees                                      | 6,317              |                     |                 |                    | 75                          |                      |                  |               |                        | 6,392         |
| License and permits                                 | 8                  | 2,304               | 17              | 21                 |                             |                      |                  |               |                        | 2,350         |
| Other revenue                                       | 406                | 219                 | 725             | 130                | 5,508                       | 43                   | 247              | 29            | 3                      | 7,310         |
| Revenue from contributed assets                     |                    |                     | 11,628          |                    |                             | 4,754                |                  |               |                        | 16,382        |
|   | 99,689             | 20,094              | 31,520          | 9,216              | 25,346                      | 44,077               | 15,249           | 15,451        | 34,908                 | 296,550       |
| <b>Expenses</b>                                     |                    |                     |                 |                    |                             |                      |                  |               |                        |               |
| Salaries, wages and benefits                        | 16,852             | 29,002              | 18,613          | 2,583              | 21,730                      | 6,919                | 640              | 427           | 3,081                  | 99,847        |
| Contracted services                                 | 6,263              | 3,642               | 4,665           | 878                | 4,570                       | 1,681                | 9,805            | 219           | 2,897                  | 34,620        |
| Purchases from other government                     |                    | 15,499              |                 |                    |                             |                      |                  |               |                        | 15,499        |
| Materials and supplies                              | 994                | 1,391               | 6,873           | 207                | 4,866                       | 4,799                | 62               | 617           | 11,880                 | 31,689        |
| Financial charges                                   | 3,032              | 410                 | 1,375           | 17                 | 232                         | 2,867                | 2                | 16            | 1,034                  | 8,985         |
| Grants to organizations                             | 757                |                     | 237             | 8,661              | 1,128                       |                      |                  | 11            |                        | 10,794        |
| Amortization expenses                               | 2,040              | 941                 | 22,923          | 119                | 4,822                       | 7,515                | 275              |               | 3,111                  | 41,746        |
| Other   | (1,026)            | 168                 | (136)           |                    | 298                         | 3,102                | 714              |               | (386)                  | 2,734         |
|   | 28,912             | 51,053              | 54,550          | 12,465             | 37,646                      | 26,883               | 11,498           | 1,290         | 21,617                 | 245,914       |
| <b>EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES</b> | <b>70,777</b>      | <b>(30,959)</b>     | <b>(23,030)</b> | <b>(3,249)</b>     | <b>(12,300)</b>             | <b>17,194</b>        | <b>3,751</b>     | <b>14,161</b> | <b>13,291</b>          | <b>49,636</b> |

**SCHEDULE 2 - CONSOLIDATED SEGMENTED DISCLOSURE  
FOR THE YEAR ENDED DECEMBER 31, 2009 (in thousands of dollars)  
(Restated Note 28)**

|   | General Government | Protective Services | Transportation | Community Services | Recreation, Parks & Culture | Water and Wastewater | Waste Management | Subdivision   | Electric Light & Power | Total          |
|---|--------------------|---------------------|----------------|--------------------|-----------------------------|----------------------|------------------|---------------|------------------------|----------------|
| <b>Revenues</b>                                     |                    |                     |                |                    |                             |                      |                  |               |                        |                |
| Net municipal taxes                                 | \$ 84,595          | \$                  | \$ (208)       | \$                 | \$ (22)                     | \$ 63                | \$               | \$ (1)        | \$ (700)               | \$ 83,727      |
| User fees and sale of goods and services            | 341                | 9,202               | 8,332          | 604                | 6,824                       | 34,263               | 15,383           | 10,474        | 31,168                 | 116,591        |
| Government transfers                                | 253                | 12,299              | 26,002         | 7,515              | 21,845                      | 3,850                | 334              | 1,398         | 244                    | 71,764         |
| Investment income                                   | 2,061              | 138                 | 974            | 119                | 268                         | 855                  | 16               | 42            | 123                    | 6,391          |
| Fines and penalties                                 | 626                | 4,170               |                |                    | 87                          | 58                   |                  |               |                        | 5,035          |
| Franchise fees                                      | 5,490              |                     |                |                    |                             |                      |                  |               |                        | 5,577          |
| License and permits                                 | 7                  | 2,260               | 17             | 20                 |                             |                      |                  |               |                        | 2,304          |
| Other revenue                                       | 633                | 215                 | 878            | 129                | 1,301                       | 118                  | 209              | 179           | 10                     | 3,672          |
| Revenue from contributed assets                     |                    |                     | 10,601         |                    | (236)                       | 5,220                |                  | 43,600        |                        | 59,421         |
| Riverbend investment                                | (7)                |                     |                |                    |                             |                      |                  |               |                        | (243)          |
|   | 93,999             | 28,284              | 46,596         | 8,387              | 30,067                      | 44,427               | 15,942           | 55,692        | 30,845                 | 354,239        |
| <b>Expenses</b>                                     |                    |                     |                |                    |                             |                      |                  |               |                        |                |
| Salaries, wages and benefits                        | 16,445             | 26,450              | 17,825         | 2,018              | 18,811                      | 6,490                | 239              | 373           | 2,801                  | 91,452         |
| Contracted services                                 | 6,111              | 3,242               | 3,460          | 1,157              | 4,314                       | 1,783                | 9,056            | 74            | 2,738                  | 31,935         |
| Purchases from other government                     |                    | 14,326              |                |                    |                             |                      |                  |               |                        | 14,326         |
| Materials and supplies                              | 1,177              | 1,488               | 6,717          | 172                | 3,883                       | 5,293                | (37)             | 4,439         | 10,752                 | 33,884         |
| Financial charges                                   | 807                | 235                 | 1,936          | 18                 | 552                         | 2,637                | 2                | 5             | 849                    | 7,041          |
| Grants to organizations                             | 315                |                     | 1,279          | 7,321              | 330                         |                      |                  | 14            |                        | 9,259          |
| Amortization expenses                               | 1,636              | 866                 | 21,073         | 58                 | 4,563                       | 7,134                | 292              |               | 2,652                  | 38,274         |
| Other   | 562                | 192                 | 261            |                    |                             | 14                   | (32)             |               | 445                    | 1,442          |
|   | 27,053             | 46,799              | 52,551         | 10,744             | 32,453                      | 23,351               | 9,520            | 4,905         | 20,237                 | 227,613        |
| <b>EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES</b> | <b>66,946</b>      | <b>(18,515)</b>     | <b>(5,955)</b> | <b>(2,357)</b>     | <b>(2,386)</b>              | <b>21,076</b>        | <b>6,422</b>     | <b>50,787</b> | <b>10,608</b>          | <b>126,626</b> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements ("the financial statements") of The City of Red Deer ("The City") are the representations of management prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS"). Significant aspects of the accounting policies of The City are as follows:

**(a) Reporting Entity**

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity which comprises all the organizations and committees that are accountable to City Council for the administration of their financial affairs and resources and are owned or controlled by The City. The entities include the following:

**City Municipal and Utility Operations:**

- General municipal operations
- Subdivision development
- Water supply
- Equipment pool
- Wastewater treatment
- Solid waste collection and disposal
- Parking services
- Electric power distribution

**Societies and Boards:**

- Red Deer Public Library
- Red Deer Downtown Business Association
- Waskasoo Environmental Education Society
- Red Deer Museum and Art Gallery
- Red Deer River Bend Golf & Recreation Society ("River Bend Golf Course")

Interdepartmental and organizational transactions are eliminated.

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

**(b) Basis of Accounting**

The City follows the accrual method of accounting for revenues and expenses. Revenues are recognized in the period in which they are earned and measurable. The exception is parking fine revenue which is recorded on a cash basis. Expenses are recognized as they are incurred and measurable as a result of goods or services and/or the creation of a legal obligation to pay.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

Property tax revenue is based on market value assessments determined in accordance with the Municipal Government Act (MGA). Tax mill rates are established annually. Taxation revenues are recorded at the time the tax billings are issued. 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.

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction and are not expected to be repaid in the future or a result of a direct financial return. Government transfers to The City are recognized in the financial statements as revenues in the period in which events giving rise to the transfers occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be determined. Prior to that time, any amounts received along with restricted interests are recorded as deferred revenue.

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

Contributions specified for capital purposes are recorded as capital asset contributions when a certificate of construction completion for the capital asset has been submitted to The City.

**(c) Use of Estimates**

The preparation of financial statements in conformity with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Significant financial statement areas requiring the use of estimates include:

- costs and revenues associated with electrical services acquired and provided by The City;
- landfill closure and post-closure care obligations;
- allowance for obsolete inventory;
- employee benefits obligations;
- environmental contingencies;
- tangible capital assets useful life;
- accrued liabilities;
- allowance for doubtful accounts receivable; and
- fair value of contributed assets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**(d) Investments**

Investments are recorded at amortized cost. Premiums or discounts arising on the purchase of these investments are amortized over the term of the investments. Where impairment in value is other than a temporary decline, a valuation allowance is recorded.

**(e) Land for Sale**

Land 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. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks and street lighting are recorded as capital assets under their respective function. Land held for resale is classified as a financial asset when the land is in a condition to be sold, is marketed for sale and is reasonably anticipated the land will be sold within one year.

**(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.

**(g) 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. Prepayments are recorded as revenue in the year they are paid.

**(h) 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 visual inspection. The requirement is being provided for the estimated remaining life of the landfill site and the estimated post-closure care period. (see note 10)

**(i) Non-Financial Assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the consolidated Change in Net Financial Assets (Debt) for the year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

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 capital assets are reported as capital revenue and do not reduce the related capital asset costs.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

| <b>ASSET TYPE</b>       | <b>YEARS</b> |
|-------------------------|--------------|
| Land improvements       | 7 - 50       |
| Buildings               | 10 - 50      |
| Engineered structures   |              |
| Water system            | 7 - 75       |
| Wastewater system       | 7 - 75       |
| Roadway system          | 7 - 90       |
| Storm system            | 45 - 75      |
| Electric light          | 20 - 40      |
| Fibre optic system      | 30           |
| Machinery and equipment | 4 - 30       |
| Vehicles                | 8 - 20       |

ii. Contributions of Tangible Capital Assets

Tangible capital assets received as contributions such as privately developed subdivisions including water systems, sanitary systems, storm systems and roads are recorded at their fair value at the date of receipt. Equivalent amounts are recorded as contributed assets in the year on the Consolidated Statement of Operations.

iii. Leases

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

iv. Inventories

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

v. Cultural and Historical Tangible Capital Assets

Works of art for display, archived municipal records and municipal historical artifacts are not included as capital assets, but are disclosed. Acquisitions of cultural and historical assets are expensed in the current period.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**2. TEMPORARY INVESTMENTS**

|                                 | 2010      | 2009      |
|---------------------------------|-----------|-----------|
| Temporary investments - Note 5. | \$ 52,351 | \$ 65,873 |

Temporary investments are short-term deposits with maturities of one year or less. Temporary investments have effective rates of 0.83% to 4.64% (2009- 0.40% to 6.70%).

**3. ACCOUNTS RECEIVABLE**

|                                   | 2010             | 2009             |
|-----------------------------------|------------------|------------------|
| General accounts receivable       | \$ 8,131         | \$ 5,261         |
| Utilities                         | 10,211           | 9,082            |
| Taxes and grants in lieu of taxes | 4,610            | 2,490            |
| Other governments                 | 1,825            | 3,681            |
| Interest on investments           | 1,364            | 726              |
| Other                             | 1,329            | 5,208            |
|                                   | <u>27,470</u>    | <u>26,448</u>    |
| Allowance for doubtful accounts   | (715)            | (245)            |
|                                   | <u>\$ 26,755</u> | <u>\$ 26,203</u> |

**4. LAND INVENTORY**

|                              | 2010          |                             | 2009<br>(Restated Note 28) |                             |
|------------------------------|---------------|-----------------------------|----------------------------|-----------------------------|
|                              | Cost          | Market Value<br>(Unaudited) | Cost                       | Market Value<br>(Unaudited) |
| Residential                  | \$ 8,920      | \$ 10,718                   | \$ 8,769                   | \$ 10,718                   |
| Industrial and commercial    | 13,087        | 26,952                      | 14,620                     | 34,631                      |
| Land held not ready for sale | <u>22,007</u> | <u>37,670</u>               | <u>23,389</u>              | <u>45,349</u>               |
| Residential                  | 120           | 9,206                       | 264                        | 19,732                      |
| Industrial and commercial    | 2,675         | -                           | 1,540                      | -                           |
| Land held for sale           | <u>2,795</u>  | <u>9,206</u>                | <u>1,804</u>               | <u>19,732</u>               |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**5. LONG TERM INVESTMENTS**

|                       | 2010              |                             | 2009              |                             |
|-----------------------|-------------------|-----------------------------|-------------------|-----------------------------|
|                       | Cost              | Market Value<br>(Unaudited) | Cost              | Market Value<br>(Unaudited) |
| Federal government    | \$ 6,389          | \$ 6,343                    | \$ 8,308          | \$ 8,348                    |
| Provincial government | 88,903            | 90,641                      | 65,485            | 65,369                      |
| Municipal government  | 369               | 390                         | 369               | 374                         |
| Canadian banks        | 71,036            | 71,926                      | 91,655            | 92,879                      |
| Corporate             | 7,776             | 7,950                       | 7,887             | 7,910                       |
| Other                 | 4,476             | 4,510                       | 4,963             | 4,962                       |
|                       | <u>178,949</u>    | <u>181,760</u>              | <u>178,667</u>    | <u>179,842</u>              |
| LESS:                 |                   |                             |                   |                             |
| Temporary investments | <u>52,351</u>     | <u>52,384</u>               | <u>65,873</u>     | <u>65,945</u>               |
|                       | <u>\$ 126,598</u> | <u>\$ 129,376</u>           | <u>\$ 112,794</u> | <u>\$ 113,897</u>           |

Long-term investments have effective interest rates of 0.30% to 11.00% (2009 - 0.30 % to 11.00 %) and mature in periods from January 10, 2011 to June 1, 2043.

In July 2007, The City purchased a non-bank sponsored asset-backed commercial paper investment at a cost of \$4,929 with a maturity value of \$5,000 from Aurora Trust. On January 12, 2009, the Ontario Superior Court of Justice issued the Plan Implementation Order with respect to the Companies' Creditors Arrangement Act restructuring of the third-party asset-backed commercial paper market. This resulted in The City receiving replacement paper through Master Asset Vehicle 2 ("MAVII").

The replacement notes received are as follows:

|           |                 |
|-----------|-----------------|
| Class A-1 | \$ 1,518        |
| Class A-2 | 2,766           |
| Class B   | 502             |
| Class C   | 148             |
|           | <u>\$ 4,934</u> |

The Dominion Bond Rating Service ("DBRS") has upgraded the MAVII Class A-1 to a rating of "A" and confirmed MAVII Class A-2 with a rating of "BBB". The Class B and C notes have not been rated by DBRS. All notes have an expected maturity date of January 22, 2017, but a legal maturity date of July 15, 2056.

In 2008, there was a write-down in the amount of \$1,960. The estimated carrying value in 2008, was based on an average of no expected cash flows until 2017, for Class A-1 and Class A-2 paper. The carrying value of these investments remained unchanged in 2009.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

In 2010, interest was received in the amount of \$288. The estimated carrying value as of December 31, 2010, was \$3,098, which was based on the values supplied in an online report by GMP Investment Management L.P., and therefore no additional write-down is required. The resulting net carrying value of \$2,969 is included in the long-term investments balance of \$126,598.

The performance of the assets underlying the MAVII notes results in a lack of measurement certainty in management’s estimate of the carrying value of this investment. Since the timing and amount of cash flows relating to this investment may vary from management’s estimate, it is possible that further adjustments to the carrying value may be required in future years.

**6. LOANS RECEIVABLE**

|                            | <b>2010</b>     | <b>2009</b>     |
|----------------------------|-----------------|-----------------|
| Red Deer Gymnastics Club   | \$ 293          | \$ 324          |
| Central Alberta Theatre    | 171             | 171             |
| Red Deer County            | 754             | 784             |
| Red Deer College           | 330             | 330             |
| Red Deer and District SPCA | <u>1,009</u>    | <u>800</u>      |
|                            | <u>\$ 2,557</u> | <u>\$ 2,409</u> |

Principal amounts due are as follows:

|            |                 |
|------------|-----------------|
| 2011       | \$ 447          |
| 2012       | 108             |
| 2013       | 115             |
| 2014       | 121             |
| 2015       | 128             |
| Thereafter | <u>1,638</u>    |
|            | <u>\$ 2,557</u> |

The City has undertaken a partnership agreement with Red Deer Gymnastics Club for space in the Collicutt Centre. The term of the loan is 17 years with a 6.00% annual interest rate.

The City provided a loan to the Central Alberta Theatre for the expansion of the Memorial Centre. The term of the loan is 19 years and bears interest at a rate of 6.50% per annum.

The City provided a loan to Red Deer County in lieu of offsite levies for supply of potable water. The term of the loan is 20 years and bears interest at a rate of 5.713% per annum.

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 5.058% per annum.

The City provided a loan to Red Deer College for access improvements constructed on 32 Street. The term of the loan is 3 years and bears no interest.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**7. INVESTMENT IN RIVER BEND GOLF COURSE**

River Bend Golf Course is a non-profit organization incorporated under the Societies Act of the Province of Alberta for the purpose of managing and operating a high standard publicly accessible golf course, cross country ski course, biathlon course and other recreational activities. For the year ended December 31, 2009 and prior years, River Bend Golf Course was reported as a Government Business Enterprise using the modified equity method, in which its accounting policies were not adjusted to comply with those of The City and inter-organizational transactions were not eliminated.

At the beginning of 2010, The City reviewed the River Bend Golf Course financial position, and it was determined that the organization is unable to continue its operations without The City's financial assistance. According to provisions of PSAS section 1300 - *Government Reporting Entity*, The City has assessed that River Bend Golf Course no longer meets the criteria of a Government Business Enterprise and it has now been treated as a governmental unit. With this change, River Bend Golf Course is fully consolidated with The City and inter-organizational transactions are eliminated. As a result of this change, in 2010 \$3,938 has been recognized as other revenue to adjust the organization's accounting policy to conform to The City's policies, and \$4,555 in net assets have been consolidated with The City's financial statements.

The following table provides condensed supplementary financial information reported separately by River Bend Golf Course for the year ended December 31, 2009:

|                                 | <u>2009</u>     |
|---------------------------------|-----------------|
| Financial Position              |                 |
| Assets                          |                 |
| Cash                            | \$ 76           |
| Accounts receivable             | 12              |
| Inventory                       | 171             |
| Prepaid expenses                | 6               |
| Capital assets                  | <u>6,717</u>    |
|                                 | <u>\$ 6,982</u> |
| Liabilities                     |                 |
| Accounts payable                | 138             |
| Deferred revenue                | 155             |
| Long-term debt                  | 1,544           |
| Deferred capital contributions  | 27              |
| Unamortized capital allocations | <u>3,938</u>    |
|                                 | <u>5,802</u>    |
| Net assets                      | <u>\$ 1,180</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

|  | <u>2009</u>     |
|--|-----------------|
| Results of Operations                        |                 |
| Revenues                                     | \$ 2,548        |
| Operating expenses                           | <u>2,791</u>    |
| (Shortfall) excess of revenues over expenses | <u>\$ (243)</u> |

The following summarizes The City's related party transactions and balances with River Bend Golf Course:

|                                 | <u>2009</u> |
|---------------------------------|-------------|
| Related party transactions      |             |
| Capital payments by The City    | \$ 171      |
| Related party balances          |             |
| Clubhouse loan receivable       | 1,545       |
| Operating advance to River Bend | 100         |

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the two parties.

**8. DEFERRED REVENUE**

Deferred Revenue is comprised of the funds noted below, the use of which are externally restricted. These funds are recognized as revenue in the period they are used for the purpose specified.

|   | <u>2010</u>      | <u>2009</u>      |
|---|------------------|------------------|
| Basic capital grant                                 | \$ 10,226        | \$ 11,521        |
| Municipal Sustainability Initiative grant           | 12,006           | 4,164            |
| Alberta Municipal Infrastructure Program            | 2,533            | 3,472            |
| New Deal for Cities, Communities and Public Transit | 8,231            | 1,640            |
| Recreation amenity                                  | 4,247            | 4,716            |
| Land sales  | 60               | 674              |
| Major Community Facilities Program                  | -                | 124              |
| Developer and customer contributions                | 10,409           | 8,551            |
| Other   | <u>5,972</u>     | <u>5,837</u>     |
|   | <u>\$ 53,684</u> | <u>\$ 40,699</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**9. EMPLOYEE BENEFIT OBLIGATIONS**

|  | <b>2010</b>      | 2009            |
|--|------------------|-----------------|
| Vacation, overtime and earned days off | \$ 5,367         | \$ 4,786        |
| Retiring allowance                     | 1,751            | 1,597           |
| Other Employment Benefits              | 3,187            | 2,768           |
|  | <u>\$ 10,305</u> | <u>\$ 9,151</u> |

**i. 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.

**ii. 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 Gooden & Kerr Actuarial Consultants Ltd as at December 31, 2009. 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 4.75% and the expected salary escalations of 4.50% are used to determine the accrued benefit obligation. The accrued benefit obligation is \$2,158 (2009 - \$2,038) using projected benefit method prorated on services. The accrued benefit liability is \$1,751 (2009 - \$1,597 ) and the net actuarial loss is \$407 at the end of 2010. The net actuarial loss is amortized on a straight line basis over 13 years beginning in 2010.

**iii. Other Employment Benefits**

Employees accumulate sick day entitlements up to maximums set in the various union agreements. Employees are also eligible for sick plan benefits for short-term disability. The liability is recorded on an accrual basis based on the most recent five-year average usage of sick time and sick plan benefits.

**10. LANDFILL CLOSURE AND POST CLOSURE LIABILITY**

Alberta environmental law requires closure and post-closure care of landfill sites, which includes final covering and landscaping, pumping of ground water and leachates from the site and ongoing environmental monitoring, site inspections and maintenance.

The estimated total 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 3.55% and assuming annual inflation of 2.44%. The accrued liability portion is based on the cumulative capacity used at year end compared to the estimated total landfill capacity.

The 1972 landfill site reached its full capacity and was permanently closed in 2002. In 2010 the construction of the off-leash dog park on the north half of the landfill site was completed. All structures and vegetation were designed to not breach the landfill cap. In accordance with the Landfill Approval, groundwater and landfill gas risk assessment and mitigation plans were prepared and submitted to

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Alberta Environment. The landfill gas assessment and mitigation plan was approved by Alberta Environment on October 14, 2010, and the recommended changes to the landfill gas monitoring plan will be implemented in 2011. We will continue to work with Alberta Environment to have the groundwater plan approved. As well, a post closure care plan was prepared and Alberta Environment issued their approval of the plan on October 14, 2010. As such, the post closure care plan will be implemented in 2011.

The new waste management facility commenced its operation in 2001, and is expected to provide capacity to 2041. The total capacity of this site estimated at 3,327 cubic metres and has capacity of 1,960 cubic metres remaining (as of April 2010 volume study), which is projected to last until 2020 based on current city rates of growth and usage. Alberta Environment approved the previously submitted subsurface gas monitoring plan for the WMF on October 27, 2010, and in 2011, The City will begin monitoring the subsoil for landfill gas. Also, Alberta Environment approved the previously submitted storm water management plan on December 10, 2010, so the recommendations from that plan will be implemented in 2011.

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:

|                                      | Old Site     | New Site<br>Phase 1 | 2010         | 2009         |
|--------------------------------------|--------------|---------------------|--------------|--------------|
| Estimated closure costs              | \$ -         | \$ 867              | \$ 867       | \$ 767       |
| Estimated post-closure costs         | 1,924        | 1,635               | 3,559        | 2,673        |
| Estimated total liability            | <u>1,924</u> | <u>2,502</u>        | <u>4,426</u> | <u>3,440</u> |
| Liability as of December 31, 2010    | <u>1,924</u> | <u>1,028</u>        | <u>2,952</u> | <u>2,183</u> |
| Remaining liability to be recognized | \$ -         | \$ 1,474            | \$ 1,474     | \$ 1,257     |
| Estimated capacity used              |              |                     | 70 %         | 67 %         |

**11. LONG TERM DEBT**

Long-term debt is comprised of :

|                     | 2010              | 2009              |
|---------------------|-------------------|-------------------|
| Self-supported debt | \$ 92,247         | \$ 90,408         |
| Tax-supported debt  | <u>92,467</u>     | <u>90,128</u>     |
|                     | <u>\$ 184,714</u> | <u>\$ 180,536</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Principal and interest repayments are as follows:

|            | Principal         | Interest         | Total             |
|------------|-------------------|------------------|-------------------|
| 2011       | \$ 10,837         | \$ 8,438         | \$ 19,275         |
| 2012       | 10,958            | 8,003            | 18,961            |
| 2013       | 11,095            | 7,549            | 18,644            |
| 2014       | 11,569            | 7,075            | 18,644            |
| 2015       | 10,479            | 6,592            | 17,071            |
| Thereafter | <u>129,776</u>    | <u>60,564</u>    | <u>190,340</u>    |
|            | <u>\$ 184,714</u> | <u>\$ 98,221</u> | <u>\$ 282,935</u> |

Long-term debt consists of debentures payable to Alberta Capital Finance Authority (ACFA) and a loan payable to Canada Mortgage and Housing Corporation (CMHC) for the construction of public housing units.

Debentures mature in annual amounts to 2040 (2009 – 2039). Interest rates on these debentures range from 2.28% to 5.38% per annum. The average annual interest rate is for 2010 is 4.46% (2009 - 4.53% ). Debenture debt is issued on the credit and security of The City at large.

The loan payable to CMHC was issued January 1, 1972, for a term of 50 years at an interest rate of 8.25%, with an annual repayment of interest and principal of \$26,925.

Interest expenses on long-term debt amounted to \$8,592(2009 -\$6,815). Total cash payments for interest were \$8,480 (2009 - \$6,611).

**12. DEBT LIMIT**

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

|                                 | 2010              | 2009                                    |
|---------------------------------|-------------------|---|
| Total Debt Limit                | <u>\$ 386,787</u> | (Restated Note 28)<br><u>\$ 358,821</u> |
| Long-term debt                  | <u>184,714</u>    | <u>180,536</u>                          |
| Debt limit available            | <u>\$ 202,073</u> | <u>\$ 178,285</u>                       |
| Service on debt limit           | \$ 64,465         | \$ 59,804                               |
| Service on existing debt        | <u>19,275</u>     | <u>18,231</u>                           |
| Service on debt limit available | <u>\$ 45,190</u>  | <u>\$ 41,573</u>                        |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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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 municipality. Rather, the financial statements must be interpreted as a whole.

**13. TANGIBLE CAPITAL ASSETS**

|                                      | 2010                | 2009<br>(Restated)  |
|--------------------------------------|---------------------|---------------------|
| Net book value                       |                     |                     |
| Land                                 | 350,205             | 337,599             |
| Land improvement                     | 26,619              | 19,499              |
| Buildings                            | 223,949             | 177,695             |
| Engineered structures                |                     |                     |
| Roadway system                       | 288,382             | 276,204             |
| Water system                         | 147,765             | 142,821             |
| Wastewater system                    | 126,988             | 95,121              |
| Storm system                         | 159,244             | 156,594             |
| Electrical system                    | 33,846              | 30,870              |
| Fiber optics system                  | 1,416               | 1,456               |
|                                      | <u>757,641</u>      | <u>703,066</u>      |
| Machinery, equipment and furnishings | 22,838              | 21,375              |
| Vehicles                             | 24,431              | 20,948              |
| Assets under construction            | 94,782              | 158,261             |
|                                      | <u>\$ 1,500,465</u> | <u>\$ 1,438,443</u> |

**14. EQUITY IN TANGIBLE CAPITAL ASSETS**

|                                       | 2010                | 2009<br>(Restated Note 28) |
|---------------------------------------|---------------------|----------------------------|
| Tangible capital assets (Schedule 1)  | \$ 2,105,815        | \$ 2,011,924               |
| Accumulated amortization (Schedule 1) | (605,350)           | (573,481)                  |
| Long-term debt (Note 11)              | (184,714)           | (180,536)                  |
|                                       | <u>\$ 1,315,751</u> | <u>\$ 1,257,907</u>        |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**15. ACCUMULATED SURPLUS**

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

|   | 2010                | 2009<br>(Restated Note 28) |
|---|---------------------|----------------------------|
| Unrestricted surplus                      | \$ 26,544           | \$ 47,310                  |
| Restricted surplus                        |                     |                            |
| Perpetual care                            | 1,152               | 1,091                      |
| Future expenditures                       | 5,257               | 3,830                      |
| Parking                                   | 1,941               | 1,287                      |
| Landfill reserve                          | 9,753               | 8,095                      |
| Power utility                             | 1,888               | 4,076                      |
| Water utility                             | 8,981               | 7,559                      |
| Wastewater utility                        | 15,594              | 11,948                     |
| Solid waste utility                       | 934                 | 676                        |
| Tax rate stabilization                    | 8,264               | 9,156                      |
| Equipment replacement                     | 12,622              | 11,392                     |
| Debt repayment                            | 3,990               |                            |
| Capital projects                          | 26,639              | 27,961                     |
| Land development                          | 46,500              | 43,907                     |
| Public                                    | 1,712               | 511                        |
|   | <u>145,227</u>      | <u>131,489</u>             |
| Equity in River Bend Golf Course (Note 7) |                     | 1,180                      |
| Equity in tangible capital assets         | <u>1,315,751</u>    | <u>1,257,907</u>           |
| Accumulated surplus                       | <u>\$ 1,487,522</u> | <u>\$ 1,437,886</u>        |

**16. NET TAXES AVAILABLE FOR MUNICIPAL PURPOSES**

|                          | Budget<br>(Unaudited) | 2010             | 2009             |
|--------------------------|-----------------------|------------------|------------------|
| Taxes:                   |                       |                  |                  |
| Property taxes           | \$ 114,755            | \$ 116,850       | \$ 112,675       |
| Revenue in lieu of taxes | 2,253                 | 2,253            | 2,043            |
| Local improvement levies | 185                   | 185              | 183              |
| Other                    | 1,150                 | 1,150            | 1,194            |
|                          | <u>118,343</u>        | <u>120,438</u>   | <u>116,095</u>   |
| Less tax on behalf of:   |                       |                  |                  |
| Public schools           | 29,334                | 29,426           | 28,595           |
| Catholic schools         | 3,970                 | 3,969            | 3,773            |
| Piper Creek              | 235                   | 235              |                  |
|                          | <u>33,539</u>         | <u>33,630</u>    | <u>32,368</u>    |
|                          | <u>\$ 84,804</u>      | <u>\$ 86,808</u> | <u>\$ 83,727</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**17. GOVERNMENT TRANSFERS**

|                            | Budget<br>(Unaudited) | 2010             | 2009             |
|----------------------------|-----------------------|------------------|------------------|
| <b>OPERATING TRANSFERS</b> |                       |                  |                  |
| Provincial                 | \$ 11,254             | \$ 12,140        | \$ 15,184        |
| Federal                    | 459                   | 422              | 550              |
| Other                      | 478                   | 472              | 426              |
|                            | <u>12,191</u>         | <u>13,034</u>    | <u>16,160</u>    |
| <b>CAPITAL TRANSFERS</b>   |                       |                  |                  |
| Provincial                 | 21,497                | 16,799           | 49,599           |
| Federal                    | 6,019                 | 4,511            | 6,005            |
| Other                      |                       |                  |                  |
|                            | <u>27,516</u>         | <u>21,310</u>    | <u>55,604</u>    |
|                            | <u>\$ 39,707</u>      | <u>\$ 34,344</u> | <u>\$ 71,764</u> |

**18. USER FEES AND SALE OF GOODS AND SERVICES**

|                                  | Budget<br>(Unaudited) | 2010              | 2009<br>(Restated Note 28) |
|----------------------------------|-----------------------|-------------------|----------------------------|
| Utility user fees                | \$ 85,560             | \$ 83,005         | \$ 77,259                  |
| Land sales                       | 17,335                | 10,526            | 7,137                      |
| Transit revenue                  | 4,692                 | 4,433             | 4,010                      |
| Ambulance and dispatch revenue   | 7,872                 | 8,167             | 6,961                      |
| Facility user fees               | 5,328                 | 4,841             | 3,774                      |
| Equipment and facility rental    | 2,805                 | 3,456             | 3,071                      |
| Electrical transmission recovery | 2,070                 | 2,264             | 1,804                      |
| Other                            | 4,279                 | 4,671             | 6,069                      |
| Developer contributions          | 8,270                 | 7,878             | 6,506                      |
|                                  | <u>\$ 138,211</u>     | <u>\$ 129,241</u> | <u>\$ 116,591</u>          |

**19. EXPENSES BY OBJECT**

|                                      | Budget<br>(Unaudited) | 2010              | 2009<br>(Restated Note 28) |
|--------------------------------------|-----------------------|-------------------|----------------------------|
| Salaries, wages and benefits         | \$ 106,399            | \$ 99,847         | \$ 91,452                  |
| Contracted services                  | 37,721                | 34,620            | 31,935                     |
| Purchases from other governments     | 15,593                | 15,499            | 14,326                     |
| Purchases of materials and supplies  | 31,663                | 31,689            | 33,884                     |
| Grants to organizations and agencies | 9,937                 | 10,794            | 9,259                      |
| Financial charges                    | 10,473                | 8,985             | 7,041                      |
| Amortization expenses                | 60                    | 41,746            | 38,274                     |
| Other expenses                       | 362                   | 2,734             | 1,442                      |
|                                      | <u>\$ 212,208</u>     | <u>\$ 245,914</u> | <u>\$ 227,613</u>          |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( 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.

|                     | 2010           |                 |                             | 2009            |                |                 |
|---------------------|----------------|-----------------|-----------------------------|-----------------|----------------|-----------------|
|                     | No. of Persons | Salary (a)      | Benefits and Allowances (b) | Total           | No. of Persons | Total           |
| Mayor:              | 1              |                 |                             |                 | 1              |                 |
| M. Flewwelling      |                | \$ 81           | \$ 12                       | \$ 93           |                | \$ 95           |
| Councillors:        | 11             |                 |                             |                 | 8              |                 |
| S. Buchanan         |                | 48              | 6                           | 54              |                | 55              |
| P. Harris           |                | 9               | 1                           | 10              |                | -               |
| C. Jefferies        |                | 45              | 6                           | 51              |                | 52              |
| L. Mulder           |                | 47              | 5                           | 52              |                | 51              |
| G. Parks            |                | 39              | 4                           | 43              |                | 54              |
| L. Pimm             |                | 35              | 4                           | 39              |                | 49              |
| C. Stephan          |                | 9               | 1                           | 10              |                | -               |
| T. Veer             |                | 44              | 4                           | 48              |                | 50              |
| L. Watkinson-Zimmer |                | 37              | 5                           | 42              |                | 53              |
| F. Wong             |                | 46              | 5                           | 51              |                | 53              |
| D. Wyntjes          |                | 8               | 1                           | 9               |                | -               |
|                     |                | <u>367</u>      | <u>42</u>                   | <u>409</u>      |                | <u>417</u>      |
| City Manager        | 1              | <u>193</u>      | <u>33</u>                   | <u>226</u>      | 1              | <u>230</u>      |
| Designated Officers | 6              | <u>847</u>      | <u>151</u>                  | <u>998</u>      | 4              | <u>647</u>      |
|                     |                | <u>\$ 1,488</u> | <u>\$ 238</u>               | <u>\$ 1,726</u> |                | <u>\$ 1,389</u> |

- (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.

**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 Plan serves over 400 employer groups and approximately 200,000 members and retirees. LAPP is financed by employer and employee contributions and investment earnings of the LAPP Fund.

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The City is required to make current service contributions to LAPP of 9.06 % of pensionable payroll up to the yearly maximum pensionable earnings (YMPE) and 12.53% thereafter. Employees of The City are required to make current service contributions of 8.06% to the YMPE and 11.53% thereafter.

Total current service contributions by The City to LAPP in 2010 were \$7,100 (2009 - \$6,287). Total contributions by the employees of The City to LAPP in 2010 were \$6,399 (2009 - \$5,624).

At December 31, 2009, LAPP disclosed an actuarial deficiency of \$ 4.0 billion in total. This amount is not specifically allocated to the participating government organizations. The 2010 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 2.50% and 3.00% respectively of individual pensionable earnings up to \$125 (2009 - \$122).

Total current service contributions by The City to APEX were \$312 (2009 - \$295). Total current service contributions by the employees of The City were \$260 (2009 - \$246).

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.

**23. MUNI SUPPLEMENTARY EMPLOYEE RETIREMENT PLAN**

Muni SERP, formerly APEX PLUS, 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 specified employees whose retirement income would be affected by the Income Tax Act cap on pension contributions. 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 expense for the year recorded by The City is \$207 (2009 - \$25).

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 6.50%, expected salary escalations of 4.50% per year, and inflation rate of 2.50%.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**24. FINANCIAL INSTRUMENTS**

The City's financial instruments consist of cash and temporary investments, accounts receivable, investments, accounts payable and accrued liabilities, deposit liabilities, requisition over-levy 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 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 fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

Unless otherwise noted the carrying value of the financial instrument approximates fair value.

**25. COMMITMENTS**

As at December 31, 2010, The City has the following commitments:

| Construction Contracts:                                | Commitment Amount: |        |
|--|--------------------|--------|
| Roadway and Subdivision Development Projects (Various) | \$                 | 10,495 |
| Water and Wastewater Treatment Plant Upgrade           |                    | 6,902  |
| North Highway Connector Project                        |                    | 6,462  |
| Fleet Purchases  |                    | 4,470  |
|  | \$                 | 28,329 |

Solid Waste Collection and Recyclables Collection Contract – this contract is based on a percentage of the utility billing until October 31, 2015. The estimated annual contract cost is \$7,077.

RCMP Contract – The City pays 90% of the operating costs for RCMP services through to March 31, 2012. The estimated annual contract cost is \$15,499.

Recreation Amenity Funds – \$4,247 has been collected which will be spent for recreation related capital projects. There is no fixed timeline for making these expenditures.

Offsite Levies – \$8,570 has been collected and will be spent for water and sanitary sewer related capital projects. There is no fixed timeline for making these expenditures.

Subdivision Maintenance - The City becomes responsible for the maintenance of private subdivisions once the construction completion certificate is obtained. This includes maintenance of water, sanitary, storm, roads, and electrical infrastructure.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**26. CONTINGENCIES**

**Insurance Agreement**

The City was a member of a reciprocal insurance agreement known as the Alberta Local Authorities Reciprocal Insurance Exchange (ALARIE), licensed by the Superintendent of Insurance of Alberta on October 1, 1990, and dissolved on December 31, 2002.

A portion of prior year payments, in excess of the cost of purchasing liability insurance, has been accumulated in a self insurance fund administered by ALARIE. Any balance of the self-insurance fund will be utilized for the settlement of the joint venture claims liability outstanding. If there is a residual balance in the fund it will be refunded to The City once the claims are settled.

**Environmental Issues**

The City owns properties that have undergone initial Environmental Site Assessments. Where the site assessments identified environmental contamination, liabilities for future environmental remediation were set up. In 2010, based on a new assessment report, the liability amount was increased to \$1,378 (2009 - \$350).

There was a PCB spill at a transformer station. The spill has been remediated and any amount of fines The City may pay will be determined in the future.

There was an ammonia spill at a recreation facility in November 2010. The incident was reported to Alberta Environment and The City is awaiting for recommendations that may be provided.

**Land Expropriation Compensation**

In 2009, The City acquired land from seven property owners in connection with the Gaetz Avenue and 32 Street intersection and the North Highway Connector projects. In three cases The City had to expropriate, and in the other four cases, The City acquired the lands by way of Section 30 Agreements with the landowners.

In all seven cases, the landowners have the right to seek compensation determined under the Expropriation Act. Three Applications for Determination of Compensation have been submitted to the Land Compensation Board. At this time The City can not determine the amount or likelihood of the compensation in these cases.

**27. GUARANTEE**

The City has issued an irrevocable standby letter of credit for \$1,350 as required by its supplier, The Alberta Electric System Operator (AESO), in the event of payment default for electrical distribution charges. The letter of credit has not been utilized to date.

**28. RESTATEMENT OF COMPARATIVE FIGURES**

In 2010, as a result of continued usage and refinement of evolving capital asset accounting and management systems, certain defined asset balances were identified that required corrections. These asset balances included roads engineered structures and land improvements, water business engineered structures and work-in-progress.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The nature of the discrepancies are as follows:

- Road assets were overstated due to incorrect year capitalized and unit cost calculation;
- Water, Waste Water and Storm assets were incorrect due to overstated unit costs applied to new construction;
- Work-in-progress tangible capital assets were overstated as a result of incomplete reconciliation between job cost information and the opening inventory for 2009; and
- Waste water treatment plant was understated due to the value of the asset not being included in the opening inventory for 2009.

In addition, included in the comparative financial statements is a retroactive restatement for land inventory and associated costs of land sold which have been adjusted to comply with The City's accounting policy.

These restated amounts relate solely to the accounting for tangible capital assets and had no effect on The City's cash balances, property tax revenues or any other balances influencing The City's operating budget, capital budget, grants received, property tax assessments or any other related balances.

The effect of correcting these misstatements is outlined as follows:

**Restatement of 2009 opening accumulated surplus:**

|  |                  |
|--|------------------|
| As previously reported                                   | \$ 1,673,224     |
| Adjustments to net book value of tangible capital assets | <u>(361,964)</u> |
| As restated  | <u>1,311,260</u> |

**Restatement of 2009 excess (shortfall) of revenue over expenses:**

|  |                |
|--|----------------|
| As previously reported   | 116,233        |
| Adjustments to amortization expenses                                 | 10,930         |
| Adjustments to other expenses  | 92             |
| Operating expenses previously reported as tangible capital assets    | (1,094)        |
| Tangible capital assets previously expensed                          | 4,738          |
| Subdivisions expenses previously reported as tangible capital assets | <u>(4,273)</u> |
| As restated  | <u>126,626</u> |

**Restatement of 2009 tangible capital assets:**

|  |                  |
|--|------------------|
| As previously reported   | 1,792,378        |
| Adjustments to cost of tangible capital assets                       | (474,009)        |
| Adjustments to amortization recorded                                 | 122,974          |
| Adjustments to disposal recorded                                     | 92               |
| Tangible capital assets previously expensed                          | 4,738            |
| Subdivisions expenses previously reported as tangible capital assets | (4,273)          |
| Land inventory previously reported as tangible capital assets        | (2,363)          |
| Operating expenses previously reported as tangible capital assets    | <u>(1,094)</u>   |
| As restated  | <u>1,438,443</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**Restatement of 2009 land inventory:**

|   |                 |
|---|-----------------|
| Land held for sale as previously reported                     | 22,830          |
| Land inventory previously reported as tangible capital assets | 2,363           |
| Land held for sale reclassified as non-financial assets       | <u>(23,389)</u> |
| As restated   | <u>1,804</u>    |
| Land held not ready for sale as previously reported           |                 |
| Land held for sale reclassified as non-financial assets       | <u>23,389</u>   |
| As restated   | <u>23,389</u>   |

**29. SEGMENTED INFORMATION**

The City is a diversified municipal government that provides a wide range of services to its citizens, including fire, ambulance, public transit, water, waste management and electric light and power. For management reporting purposes, The City's operations and activities are organized and reported by functions and services provided. Certain functions that have been disclosed in the segmented information, along with the services provided, are as follows:

**General Government**

This category of functions is used to report activities that provide for the overall operation of The City and 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.

**Protective Services**

This category of functions is used to report activities that provide for the public safety of the inhabitants of the Municipality, including police protection, fire and ambulance, emergency and disaster prevention and recovery and bylaw enforcement.

**Transportation Services**

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

**Water and Wastewater**

This category of functions is used to report activities related to acquiring, treating and supplying water, collection or removal, treatment and disposal of sanitary sewage.

**Waste Management**

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

**Community Services**

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

**Subdivision**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010 ( in thousands of dollars)**

**Recreation, Parks & Culture**

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

**Electric Light & Power**

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

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. Internal charges and recoveries among segments are recorded at exchange amounts.

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 the Consolidated Schedule of Segment Disclosure - Schedule 2.

**30. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the 2010 financial statement presentation.

**31. BUDGET**

The 2010 Budget information is presented for information purposes only and has not been audited. The 2010 Budget was approved by City Council on January 31, 2010.

The City does not adopt an annual budget in a format that is consistent with its financial statements. The differences and reconciliation between the budgeted information and the actual results of financial activity reported in the Consolidated Statement of Operations are summarized as follows:

|   |                  |
|---|------------------|
| Actual excess of revenue over expenses reported on Consolidated Statement of Operations   | \$ <u>49,636</u> |
| Unbudgeted amortization expenses  | 41,632           |
| Unbudgeted revenue from contributed assets  | (16,382)         |
| Unbudgeted loss on assets disposal  | 2,798            |
| Public art expenses budgeted under capital  | <u>16</u>        |
| Adjusted actual excess of revenue over expenses   | \$ 77,700        |
| Budgeted excess of revenue over expenses reported on Consolidated Statement of Operations | \$ 68,410        |

**32. APPROVAL OF FINANCIAL STATEMENTS**

Council and Management have approved these financial statements.

**STATISTICAL INFORMATION**

DRAFT

**TAX AND OTHER STATISTICS  
(2006-2010) (in thousands of dollars)  
Unaudited**

|  | 2010           | 2009           | 2008           | 2007           | 2006           |
|--|----------------|----------------|----------------|----------------|----------------|
| Population                                   | 90,084         | 89,891         | 87,816         | 85,705         | 82,971         |
| Assessed valuation                           | \$ 12,799,553  | \$ 12,629,017  | \$ 12,309,375  | \$ 9,462,745   | \$ 6,865,112   |
| Per capita assessed valuation                | \$ 142         | \$ 140         | \$ 140         | \$ 110         | \$ 83          |
| Mill rates (commercial)                      |                |                |                |                |                |
| Municipal                                    | 12.3938        | 12.2695        | 12.6335        | 13.0486        | 12.8435        |
| Education foundation                         | 3.3220         | 3.4743         | 4.1580         | 4.8000         | 5.4600         |
| Other  | 0.0185         | 0.0000         | 0.0000         | 0.0000         | 0.5100         |
|  | <u>15.7343</u> | <u>15.7438</u> | <u>16.7915</u> | <u>17.8486</u> | <u>18.8135</u> |
| Taxes paid by the largest single taxpayer    | \$ 2,590       | \$ 2,200       | \$ 2,001       | \$ 1,609       | \$ 1,241       |
| Percent of taxes                             | 2.10 %         | 1.88 %         | 1.85 %         | 1.67 %         | 1.45 %         |
| Property taxes                               |                |                |                |                |                |
| Current levy                                 | \$ 123,458     | \$ 116,914     | \$ 108,335     | \$ 96,259      | \$ 85,405      |
| Current collected                            | \$ 121,519     | \$ 115,417     | \$ 107,002     | \$ 95,337      | \$ 84,709      |
| Percent of current levy                      | 98 %           | 99 %           | 99 %           | 99 %           | 99 %           |
| Gross tax collections                        | \$ 121,519     | \$ 116,208     | \$ 108,020     | \$ 99,390      | \$ 85,715      |
| Taxes outstanding                            | \$ 3,629       | \$ 2,232       | \$ 1,661       | \$ 1,347       | \$ 1,397       |
| Reserve balance                              | \$ 145,227     | \$ 131,489     | \$ 125,165     | \$ 127,613     | \$ 99,379      |
| Long-term debt                               |                |                |                |                |                |
| Tax supported long-term debt                 | \$ 92,467      | \$ 90,128      | \$ 58,219      | \$ 35,131      | \$ 1,669       |
| Self supported long-term debt                | <u>92,247</u>  | <u>90,408</u>  | <u>61,258</u>  | <u>30,311</u>  | <u>17,462</u>  |
|  | <u>184,714</u> | <u>180,536</u> | <u>119,477</u> | <u>65,442</u>  | <u>19,131</u>  |
| Legal debt limit                             | \$ 386,787     | \$ 358,821     | \$ 327,873     | \$ 310,023     | \$ 281,469     |
| Tax supported debt as % of assessment        | 0.7 %          | 0.7 %          | 0.5 %          | 0.4 %          | %              |
| Gross tax supported debt per capita          | \$ 1,026       | \$ 1,003       | \$ 663         | \$ 410         | \$ 20          |
| Total gross debt per capita                  | \$ 2,050       | \$ 2,008       | \$ 1,361       | \$ 764         | \$ 231         |
| Debt service costs (Gross)                   |                |                |                |                |                |
| Tax supported long-term debt                 | \$ 7,527       | \$ 6,684       | \$ 1,570       | \$ 1,204       | \$ 1,713       |
| Self supported long-term debt                | <u>11,200</u>  | <u>7,043</u>   | <u>3,412</u>   | <u>2,454</u>   | <u>2,966</u>   |
|  | <u>18,727</u>  | <u>13,727</u>  | <u>4,982</u>   | <u>3,658</u>   | <u>4,679</u>   |
| Operating debt costs % of operating expenses | 7.62 %         | 6.00 %         | 3.04 %         | 2.61 %         | 3.67 %         |

**Christine Kenzie**

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**From:** Michelle Andrew  
**Sent:** March 11, 2011 10:08 AM  
**To:** Christine Kenzie  
**Cc:** Dean Krejci; Lin Yang  
**Subject:** Request for Submission to Council for April 18th

**Attachments:** April 18, 2011 SubmissionRequestforInclusiononaCouncilAgenda.DOC

Hi Christine,

Here is our request for submission to Council for the Financial Statements on April 18<sup>th</sup>.

We'd also like to request the first spot on the agenda, as our auditors attend this and we like to get them back to Edmonton as early as possible.

Thanks!



April 18, 2011  
SubmissionReque...

Michelle  
403.309.8584