

CITY OF LEDUC

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016



**City of Leduc
Consolidated Financial Statements**

December 31, 2016



Administration's Responsibility for Financial Reporting

Administration is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates, in accordance with Canadian public sector accounting standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, administration designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The elected Mayor and Council of the City are composed entirely of individuals who are neither administration nor employees of the City of Leduc. The Financial Audit Review Committee has the responsibility of meeting with administration and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Mayor and Council are responsible for recommending the appointment of the City of Leduc's external auditors.

MNP LLP is appointed by the Mayor and Council to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Mayor and Council and the Financial Audit Review Committee and administration to discuss their audit findings.

April 10, 2017

A handwritten signature in blue ink, appearing to read "D. D. D.", is written over a horizontal line. The signature is stylized and cursive.

City Manager

Independent Auditors' Report

To the Mayor and Council of the City of Leduc:

We have audited the accompanying consolidated financial statements of the City of Leduc which comprise the consolidated statement of financial position at December 31, 2016, the consolidated statements of operations, changes in net financial assets (debt), cash flows, and schedules I through V for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Administration's Responsibility for Consolidated Financial Statements

Administration 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the 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 auditors' 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 controls 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 controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by administration, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence obtained 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 Leduc as at December 31, 2016, and the results of its operations, changes in net financial assets (debt), and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

April 10, 2017
Leduc, Alberta

MNP LLP
Chartered Professional Accountants

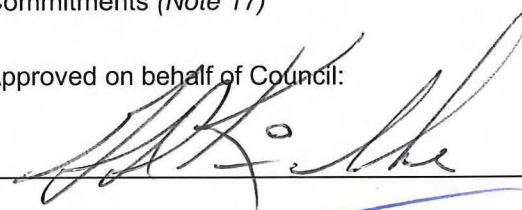
City of Leduc
Consolidated Statement of Financial Position
As at December 31, 2016

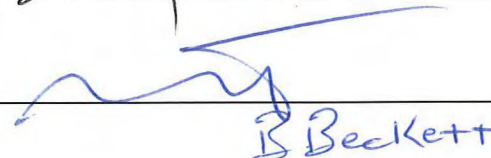
	2016	2015
Financial assets		
Cash	10,417,310	15,446,651
Investments (Note 2)	52,932,581	56,458,788
Property taxes receivable (Note 3)	1,459,496	1,043,434
Trade and other accounts receivables (Note 4)	7,418,955	7,996,405
	72,228,342	80,945,278
Liabilities		
Accounts payable and accrued liabilities	13,308,879	12,216,031
Deposits and deferred revenue (Note 6)	10,822,298	10,848,398
Long-term debt (Note 7)	52,273,583	54,977,217
	76,404,760	78,041,646
Net financial assets (debt)	(4,176,418)	2,903,632
Non-financial assets		
Tangible capital assets (Note 9)	749,035,771	682,052,106
Inventory for consumption	582,832	519,738
Prepaid expenses	170,140	109,351
	749,788,743	682,681,195
Accumulated surplus (Schedule 1)	745,612,326	685,584,828

Contingencies (Note 16)

Commitments (Note 17)

Approved on behalf of Council:


 _____ Mayor


 _____ Councillor
 B Beckett

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

City of Leduc
Consolidated Statement of Operations
For the year ended December 31, 2016

	<i>Budget 2016 (Note 18)</i>	2016	<i>2015</i>
Revenue			
Net municipal property taxes <i>(Schedule II)</i>	41,236,765	41,535,230	38,744,638
Utility services	20,219,200	20,207,552	18,789,832
Sales, user charges and costs recovered	8,646,975	8,869,108	9,479,513
Government transfers <i>(Schedule III)</i>	8,168,065	8,113,735	8,592,896
Enforcement services	2,226,000	2,267,456	1,459,150
Property revenue	2,094,401	2,104,392	2,079,303
Interest and penalties	1,427,400	1,982,460	1,277,370
Contributions and levies	4,976,176	1,363,165	6,884,717
Gain on disposal of assets	-	7,158	141,665
	88,994,982	86,450,256	87,449,084
Expenses			
Utility and public services	23,804,463	22,218,078	19,391,070
Amortization <i>(Note 18)</i>	-	20,352,013	18,396,647
Protective services	16,167,030	16,692,624	13,811,044
Administration	17,173,293	16,003,663	14,623,407
Facility services	7,452,924	7,272,224	7,031,453
Recreation and community development	6,521,342	6,054,502	5,306,043
Engineering	4,787,338	4,756,883	7,463,034
Planning services	3,849,701	3,821,999	3,323,964
Family and community support services	1,501,092	1,281,441	1,138,386
Library	1,202,120	1,175,736	1,138,259
	82,459,303	99,629,163	91,623,307
Excess (deficiency) of revenue before other	6,535,679	(13,178,907)	(4,174,223)
Other			
Contributed assets	-	61,307,404	50,140,899
Government transfers for capital <i>(Schedule III)</i>	17,969,616	9,731,450	10,912,190
Capital contributions	-	2,167,552	2,748,656
	17,969,616	73,206,406	63,801,745
Excess of revenue over expenses	24,505,295	60,027,498	59,627,522
Accumulated surplus, beginning of year	-	685,584,828	625,957,307
Accumulated surplus, end of year	24,505,295	745,612,326	685,584,828

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

City of Leduc
Consolidated Statement of Changes in Net Financial Assets (Debt)
For the Year Ended December 31, 2016

	<i>Budget 2016 (Note 18)</i>	2016	<i>2015</i>
Excess of revenue over expenses	24,505,295	60,027,498	59,627,522
Acquisition of tangible capital assets	(80,774,461)	(26,031,413)	(33,758,818)
Contributed tangible capital assets	-	(61,307,404)	(50,140,899)
Proceeds on disposal of tangible capital assets	-	10,297	1,100,777
Amortization of tangible capital assets	-	20,352,013	18,396,647
Gain on disposal of tangible capital assets	-	(7,158)	(141,665)
Acquisition of inventory for consumption	-	(63,094)	(25,376)
Acquisition of prepaid expenses	-	(60,789)	15,092
Change in net financial assets (debt)	(56,269,166)	(7,080,050)	(4,926,719)
Net assets, beginning of year	2,903,632	2,903,632	7,830,351
Net financial assets (debt), end of year	(53,365,534)	(4,176,418)	2,903,632

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

City of Leduc
Consolidated Statement of Cash Flows
For the year ended December 31, 2016

	2016	2015
Cash provided by (used for) the following activities:		
Operating		
Excess of revenue over expenses	60,027,498	59,627,522
Non-cash items:		
Amortization of tangible capital assets	20,352,013	18,396,647
Gain on disposal of tangible capital assets	(7,158)	(141,665)
Tangible capital assets received as contributions	(61,307,404)	(50,140,899)
Net change in non-cash operating working capital balances:		
Decrease in trade and other accounts receivable	577,450	1,596,100
Increase in property taxes receivable	(416,062)	(162,503)
(Increase) decrease in prepaid expenses	(60,789)	15,092
Increase in inventory for consumption	(63,094)	(25,376)
Increase in accounts payable and accrued liabilities	1,568,000	717,639
Decrease in deposits and deferred revenue	(26,100)	(630,488)
	20,644,354	29,252,069
Capital		
Proceeds on disposition of tangible capital assets	10,297	1,100,777
Acquisition of tangible capital assets <i>(Note 9)</i>	(26,506,564)	(34,761,896)
	(26,496,267)	(33,661,119)
Investing		
Decrease (increase) in investments	3,526,207	(621,990)
Financing		
Proceeds from long-term debt	-	3,900,000
Repayment of long-term debt	(2,703,634)	(2,621,045)
	(2,703,634)	1,278,955
Decrease in cash	(5,029,341)	(3,752,084)
Cash, beginning of year	15,446,651	19,198,735
Cash, end of year	10,417,310	15,446,651

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

City of Leduc
Schedule I - Schedule of Changes in Accumulated Surplus
For the year ended December 31, 2016

	<i>Unrestricted Surplus</i>	<i>Restricted Surplus (Note 11)</i>	<i>Equity in Tangible Capital Assets (Note 12)</i>	2016	2015
Balance, beginning of year	5,537,775	52,972,165	627,074,888	685,584,828	625,957,307
Excess of revenue over expenses	60,027,498	-	-	60,027,498	59,627,522
Unrestricted funds designated for future use	(15,160,543)	15,160,543	-	-	-
Restricted funds for operations	4,506,932	(4,506,932)	-	-	-
Restricted funds used for tangible capital assets	-	(20,142,128)	20,142,128	-	-
Current year funds used for tangible capital assets	(5,889,285)	-	5,889,285	-	-
Contributed tangible capital assets	(61,307,404)	-	61,307,404	-	-
Net book value of tangible capital assets disposed	3,138	-	(3,138)	-	-
Amortization	20,352,013	-	(20,352,013)	-	-
Long-term debt repaid	(2,703,634)	-	2,703,634	-	-
Change in accumulated surplus	(171,285)	(9,488,517)	69,687,300	60,027,498	59,627,522
Balance, end of year	5,366,488	43,483,648	696,762,190	745,612,326	685,584,828

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

City of Leduc
Schedule II - Schedule of Property Taxes Levied
For the year ended December 31, 2016

	<i>Budget 2016</i>	2016	<i>2015</i>
Taxation			
Property taxes	57,097,983	57,396,745	53,048,494
Local improvement taxes	18,806	18,509	25,364
	57,116,789	57,415,254	53,073,858
Requisitions			
Education	15,780,732	15,780,732	14,235,155
Leduc Foundation	99,292	99,292	94,065
	15,880,024	15,880,024	14,329,220
Net municipal property taxes	41,236,765	41,535,230	38,744,638

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

City of Leduc
Schedule III - Schedule of Government Transfers
For the year ended December 31, 2016

	<i>Budget 2016</i>	2016	2015
Operating			
Federal Transfers	-	21,913	6,294
Provincial transfers	4,555,665	4,686,182	5,075,987
Local transfers	3,612,400	3,405,640	3,510,615
Total operating government transfers	8,168,065	8,113,735	8,592,896
Capital			
Federal transfers	2,924,527	1,955,794	1,572,500
Provincial transfers	14,874,430	7,741,727	9,280,645
Local transfers	170,659	33,929	59,045
Total capital government transfers	17,969,616	9,731,450	10,912,190
Total government transfers	26,137,681	17,845,185	19,505,086

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

City of Leduc
Schedule IV - Consolidated Schedule of Expenses by Object
For the year ended December 31, 2016

	<i>Budget 2016 (Note 18)</i>	2016	2015
Consolidated expenses by object			
Salaries and wages	31,808,084	31,280,921	28,683,335
Amortization	-	20,352,013	18,396,647
Contract services	20,790,670	20,176,352	18,363,874
Cost of utilities sold	7,073,000	6,581,910	6,289,146
Employee benefits	6,697,451	6,406,632	5,614,121
Materials and supplies	4,718,853	4,174,364	3,986,487
Utilities	3,071,516	2,914,305	2,783,045
Interest on long-term debt	2,650,993	2,192,922	2,272,750
Grants to organizations	2,157,583	2,117,243	1,999,420
Repairs and maintenance	1,158,339	1,102,544	1,068,542
Training and development	1,109,671	1,043,322	1,022,620
General services	639,160	617,787	588,392
Bank charges and interest	239,312	349,679	205,271
Telephone and communications	184,879	191,663	226,750
Other	159,792	127,507	122,907
	82,459,303	99,629,163	91,623,307

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

City of Leduc
Schedule V - Schedule of Segmented Disclosure
For the year ended December 31, 2016

	<i>Utility and public services</i>	<i>Administration</i>	<i>Engineering</i>	<i>Facility services</i>	<i>Protective services</i>	<i>Family and community support services</i>	<i>Recreation and community development</i>	<i>Planning services</i>	<i>Library</i>	<i>Total</i>
Revenue										
Contributed assets	47,347,866	4,308,007	9,651,531	-	-	-	-	-	-	61,307,404
Net municipal property taxes	8,309	41,516,721	10,200	-	-	-	-	-	-	41,535,230
Utility services	12,352,301	5,632,691	2,222,560	-	-	-	-	-	-	20,207,552
Government transfers	349,953	9,112,042	3,278,298	30,178	3,453,110	865,582	552,020	24,000	180,002	17,845,185
Sales, user charges and costs recovered	1,072,069	966,825	248,375	2,374	1,489,273	54,512	2,654,107	1,319,593	1,061,979	8,869,108
Enforcement services	-	-	-	-	2,267,456	-	-	-	-	2,267,456
Capital contributions	-	-	834,311	1,287,634	-	-	13,109	32,498	-	2,167,552
Property revenue	2,400	-	-	402,178	-	-	1,697,909	-	1,905	2,104,392
Interest and penalties	191,381	1,791,079	-	-	-	-	-	-	-	1,982,460
Contributions and levies	-	-	-	-	-	-	203,300	1,159,865	-	1,363,165
Gain on disposal of assets	7,791	-	-	(633)	-	-	-	-	-	7,158
	61,332,070	63,327,365	16,245,275	1,721,731	7,209,839	920,094	5,120,445	2,535,956	1,243,886	159,656,662
Expenses										
Salaries and wages	5,196,854	7,991,921	1,104,536	2,330,176	7,579,657	809,492	3,627,709	1,971,462	669,113	31,280,921
Contract services	5,667,645	2,382,595	3,061,014	126,253	6,705,162	91,675	745,880	1,328,601	67,528	20,176,352
Cost of utilities sold	6,494,828	-	87,082	-	-	-	-	-	-	6,581,910
Employee benefits	1,015,778	1,784,012	253,814	516,816	1,469,293	163,706	652,965	420,334	129,915	6,406,632
Materials and supplies	1,752,336	522,505	159,923	367,774	444,311	99,623	626,428	39,265	162,199	4,174,364
Utilities	1,387,307	-	-	1,526,998	-	-	-	-	-	2,914,305
Interest on long-term debt	-	98,088	45,865	2,025,609	-	-	23,359	-	-	2,192,922
Grants to organizations	-	1,904,503	-	-	-	100,000	112,740	-	-	2,117,243
Repairs and maintenance	574,553	106,020	-	311,292	39,299	-	71,380	-	-	1,102,544
Training and development	78,673	470,334	44,649	24,805	258,988	15,598	76,129	59,162	14,983	1,043,322
General services	-	495,095	-	-	-	-	117,200	3,175	2,317	617,787
Bank charges and interest	28,366	111,791	-	42,500	164,963	1,347	712	-	-	349,679
Telephone and communications	21,739	135,299	-	-	30,951	-	-	-	3,673	191,663
Other	-	1,500	-	-	-	-	-	-	126,007	127,507
	22,218,078	16,003,663	4,756,883	7,272,224	16,692,624	1,281,441	6,054,502	3,821,999	1,175,736	79,277,150
Net revenue, before amortization	39,113,991	47,323,702	11,488,392	(5,550,492)	(9,482,785)	(361,347)	(934,057)	(1,286,043)	68,151	80,379,511
Amortization	7,147,019	638,217	8,226,210	2,996,533	243,411	-	1,027,477	8,494	64,653	20,352,013
Excess of revenue over expenses	31,966,972	46,685,485	3,262,182	(8,547,025)	(9,726,196)	(361,347)	(1,961,534)	(1,294,537)	3,498	60,027,498

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

1. Significant Accounting Policies

The consolidated financial statements of the City of Leduc (the "City") are the representations of administration prepared in accordance with accounting standards established by the Public Sector Accounting Board of CPA Canada. Significant aspects of the accounting policies adopted by the City of Leduc are as follows:

Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenue, expenses, and changes in financial position of the reporting entity. This entity is comprised of the municipal operations plus all of the organizations that are owned or controlled by the municipality and are, therefore, accountable to Council for the administration of their financial affairs and resources, including the Leduc Public Library and Family and Community Support Services.

The schedule of property taxes levied also includes requisitions for education, health, social and other external organizations that are not part of the municipal reporting entity. Interdepartmental and organizational transactions and balances are eliminated.

The consolidated financial statements exclude trust assets that are administered for the benefit of external parties.

Basis of accounting

The consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay.

Measurement uncertainty (use of estimates)

The preparation of financial statements in conformity with Canadian public sector accounting standards requires administration to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Where measurement uncertainty exists, the consolidated financial statements have been prepared within reasonable limits of materiality. Actual results could vary from those estimates.

Trade and other accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of tangible capital assets. Accrued sick time for employees is based on historical utilization applied to the total sick bank with a maximum limit of 700 to 1008 hours per employee.

City of Leduc
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

1. Significant Accounting Policies

Revenue recognition

i. Government transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or the result of a direct financial return.

The City recognizes a government transfer as revenue when the transfer is authorized and all eligibility criteria, if any, have been met. A government transfer with stipulations giving rise to an obligation that meets the definition of a liability is recognized as a liability. In such circumstances, the City recognizes revenue as the liability is settled.

ii. Tax revenue

The City recognizes taxes as assets and revenue when they meet the definition of an asset, are authorized by Council, and the taxable event has occurred. Tax revenue is initially measured at administration's best estimate of the amount resulting from the original taxable event in accordance with legislation. The related tax receivable is initially recognized at its realizable value at the date of acquisition. At each financial statement date, the City evaluates the tax receivable for collectability and records a valuation allowance to reflect the tax receivable at its net recoverable amount, if necessary.

iii. Utility services revenue

The City recognizes the provision of utility services as assets and revenue when they meet the definition of an asset and in the period the utility services are provided to the consumer.

iv. Other revenue

The City accounts for all other revenue in the period the transactions or events giving rise to the revenue occurred.

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 excess of revenue over expenses, provides the consolidated change in net financial assets (debt) for the year.

1. Significant Accounting Policies

Non-financial assets

i. Tangible capital assets

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

Land improvements	10-45 years
Buildings	5-50 years
Engineered structures:	
Water system	25-75 years
Wastewater system	25-75 years
Other engineered structures	10-75 years
Machinery and equipment	4-20 years
Vehicles	5-17 years

One-half of the annual amortization is charged in the year of acquisition. No amortization is taken in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

ii. Contributions of tangible capital assets

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

iii. Leases

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

iv. Inventory for consumption

Inventory held for consumption is recorded at the lower of cost and replacement cost.

v. Cultural and historical tangible capital assets

Works of art for display are not recorded as tangible capital assets but are disclosed.

1. Significant Accounting Policies

Non-financial assets

vi. Prepaid expenses

Prepaid expenses include pre-payments on goods and services which will be utilized in the following fiscal year.

Investments

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

Requisition over-levies and under-levies

Over-levies and under-levies arise from the difference between the actual property tax levy made to cover each requisition and the actual amount requisitioned.

If the actual levy exceeds the requisition, the over-levy is accrued as a liability and property tax revenue is reduced. Where the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property tax revenue.

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

Segments

The City conducts its business through a number of reportable segments. These operating segments are established by senior administration to facilitate the achievement of the City's long-term objectives to aid in resource allocation decisions, and to assess operational performance.

Pensions

The City participates in a multi-employer defined benefit pension plan. The plan is accounted for as a defined contribution plan.

1. Significant Accounting Policies

Liability for contaminated sites

Effective January 1, 2015, the City of Leduc adopted the recommendations relating to PS 3260 *Liability for Contaminated Sites*, as set out in the Canadian Public Sector Accounting Standards.

A liability for remediation of a contaminated site is recognized at the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the City is either directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount is determinable. The best estimate of the liability includes all costs directly attributable to remediation activities and is reduced by expected net recoveries based on information available at December 31.

At each reporting date, the City reviews the carrying amount of the liability. Any revisions required to the amount previously recognized is accounted for in the period revisions are made. The City continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made.

Recent accounting pronouncements

i. Financial instruments

In June 2011, the Public Sector Accounting Standards Board ("PSAB") issued PS 3450 *Financial Instruments* to establish standards for recognition, measurement, presentation and disclosure of financial assets, financial liabilities, and non-financial derivatives. As a result of issuance of PS 3450, there have been numerous consequential amendments made to other Sections.

PS 3450, is effective for fiscal years beginning on or after April 1, 2019. Earlier adoption is permitted. The City does not expect the adoption of the new section to have a material impact on its consolidated financial statements.

ii. Financial statement presentation

In June 2011, as a result of the issuance of PS 3450 *Financial Instruments*, the PSAB issued a new section PS 1201 *Financial Statement Presentation*, which replaced Section PS 1200 *Financial Statement Presentation*.

This section is effective in the same period PS 3450 is adopted. PS 1201 and PS 3450 are to be adopted together and are effective for fiscal years beginning on or after April 1, 2019. Early adoption is permitted. The City does not expect the adoption of the new section to have a material impact on its consolidated financial statements.

1. Significant Accounting Policies

Recent accounting pronouncements

iii. Portfolio investments

In March 2012, as a result of the issuance of PS 3450 *Financial Instruments*, the PSAB issued new PS 3041 *Portfolio Investments*, which revised and replaced PS 3030 *Temporary Investments* and PS 3040 *Portfolio Investments*.

This section is effective in the same period PS 1201 *Financial Statement Presentation* and PS 3450 are adopted. PS 1201 and PS 3450 are to be adopted together and are effective for fiscal years beginning on or after April 1, 2019. Early adoption is permitted. The City does not expect the adoption of the new section to have a material impact on its consolidated financial statements.

City of Leduc
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

2. Investments

	2016	2015
Fixed income securities	52,931,895	55,790,137
Cash	686	668,651
	52,932,581	56,458,788

The fixed income securities have a yield from 1.11% to 4.50% (2015 - 0.00% to 4.70%) and mature in periods 2017 through 2031. The market value of the investments at December 31, 2016 was \$51,928,149 (2015 - \$56,828,887).

3. Property Taxes Receivable

	2016	2015
Current taxes	1,242,988	886,920
Non-current taxes	216,508	156,514
	1,459,496	1,043,434

4. Trade and Other Accounts Receivable

Included in trade and other accounts receivable is a loan receivable from The Leduc Foundation for the transfer of The Willows Affordable Housing property. The balance remaining at December 31, 2016 is \$784,972 (2015 - \$816,572), bearing interest at 5.00%, receivable in annual installments of \$72,429, due August 2032.

5. Employee Benefit Obligations

Employee benefit obligations are comprised of vacation, overtime and sick time that can be carried forward to future years. Employees have earned the vacation and overtime benefits and are entitled to these benefits within the next budgetary year. The sick time liability is accrued based on historical utilization of sick time. The balances included in accounts payable and accrued liabilities for 2016 total \$1,288,585 (2015 - \$1,113,599).

City of Leduc
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

6. Deposits and Deferred Revenue

	2016	2015
Deferred government transfers	7,484,748	6,352,736
Deposits	2,610,589	3,893,019
Deferred revenue	726,961	602,643
	<hr/> 10,822,298	<hr/> 10,848,398

Deferred government transfers

The City's deferred government transfers include amounts received from various government funding programs which are restricted to eligible capital projects, as approved under the funding agreements.

Deposits

Deposits include security deposits, utility deposits and other.

Deferred revenue

The City's deferred revenue includes amounts received in advance for bus passes, business licenses, sponsorship, rent, Leduc Recreation Centre memberships and other.

City of Leduc
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

7. Long-term Debt

	2016	2015
Tax-supported debentures	45,631,763	48,064,029
Self-supported debentures	8,596	16,659
Offsite levy supported debentures	3,137,387	3,900,000
Capital leases	789,821	-
Leduc & District Regional Chamber of Commerce building mortgage	136,016	176,529
Mortgage	2,570,000	2,820,000
	52,273,583	54,977,217

Principal and interest repayment requirements on long-term debt are as follows:

	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2017	5,999,338	2,102,803	8,102,141
2018	3,332,570	1,882,873	5,215,443
2019	3,354,307	1,763,628	5,117,935
2020	3,205,207	1,645,774	4,850,981
2021	2,502,443	1,535,243	4,037,686
To maturity	33,879,718	9,072,925	42,952,643
	52,273,583	18,003,246	70,276,829

Debenture debt is repayable to Alberta Capital Finance Authority and bears interest at rates ranging from 1.124% to 7.50% per annum, and matures in periods 2017 through 2034. The average annual interest rate is 4.89% (2015 - 4.89%). Debenture debt is issued on the credit and security of the City of Leduc at large.

The mortgage is repayable in yearly payments of \$250,000 plus interest at 3.50% for 2015 and 2016, and the remaining balance plus interest is due October 30, 2017.

The Leduc & District Regional Chamber of Commerce building mortgage is repayable to the City of Leduc as an offset to the Chamber's annual rent. The annual rent offset is \$46,200 over a period of 6 years from 2013 to 2018 with a lump sum payout at the end of 2018 of \$51,034. The annual interest rate is 3.22%. The total interest in 2016 was \$5,688 (2015 - \$6,952).

The City of Leduc's total cash payments for interest on long-term debt in 2016 was \$2,192,922 (2015 - \$2,301,708).

City of Leduc
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

8. Debt Limits

Section 276(2) of the *Municipal Government Act* requires that debt and debt limits as defined by Alberta Regulation 255/00 for the City of Leduc be disclosed as follows:

	2016	2015
Total debt limit	132,956,713	135,296,609
Total debt	52,137,565	54,800,688
<hr/>		
Amount of debt limit unused	80,819,148	80,495,921
<hr/>		
Service on debt limit	22,159,452	22,549,435
Service on debt	8,055,939	5,679,067
<hr/>		
Amount of debt servicing limit unused	14,103,513	16,870,368

The debt limit is calculated at 1.5 times revenue of the municipality (as defined in the Alberta Regulation 255/00) 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.

City of Leduc
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

9. Tangible Capital Assets

Cost	<i>Opening</i>	<i>Additions</i>	<i>Disposals</i>	<i>Closing</i>
Land	104,579,622	6,322,144	-	110,901,766
Land improvements	22,916,979	2,930,482	-	25,847,460
Buildings	123,534,075	5,089,021	-	128,623,096
Machinery and equipment	22,487,722	2,269,900	73,258	24,684,363
Vehicles	9,972,389	1,186,035	172,922	10,985,502
Engineered structures	659,168,210	72,320,856	-	731,489,065
	942,658,997	90,118,437	246,180	1,032,531,252
Construction-in-progress	6,941,975	(2,779,621)	-	4,162,354
	949,600,972	87,338,817	246,180	1,036,693,606
Accumulated amortization				
Land improvements	5,982,675	1,123,792	-	7,106,467
Buildings	26,363,744	2,811,121	-	29,174,862
Machinery and equipment	10,301,167	1,727,856	70,120	11,958,902
Vehicles	3,696,870	792,788	172,922	4,316,737
Engineered structures	221,204,410	13,896,457	-	235,100,867
	267,548,866	20,352,013	243,042	287,657,835
Net book value	682,052,106	66,986,804	3,138	749,035,771

During the year, tangible capital assets were acquired at an aggregate cost of \$87,338,817 (2015 - \$83,899,717), of which \$61,307,404 (2015 - \$50,140,899) was acquired as contributed assets. \$4,323,216 (2015 - \$4,798,368) remains in accounts payable and the remaining \$26,506,564 (2015 - \$34,761,896) was acquired by cash.

City of Leduc
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

9. Tangible Capital Assets

Based on the Leduc Transit Joint Venture Agreement (*Note 10*) the City's proportionate interest in the transit buses is 65%. Included in vehicles cost is an amount of \$1,848,552 which is 65% of the total cost of the Leduc Transit buses and included in vehicles accumulated amortization is \$462,138 which is 65% of the amortization of the buses. Leduc County's share of the cost of the Transit buses was \$995,374.

Leduc Transit Joint Venture Tangible Capital Assets - City of Leduc 65% Proportionate Share:

Cost	<i>Opening</i>	<i>Additions</i>	<i>Disposals</i>	Closing
Transit joint venture buses	1,848,552	-	-	1,848,552
Accumulated amortization	<i>Opening</i>	<i>Additions</i>	<i>Disposals</i>	Closing
Transit joint venture buses	277,283	184,855	-	462,138
Net Book Value	1,571,269	(184,855)	-	1,386,414

10. Leduc Transit Joint Venture Agreement

In 2014 the City of Leduc entered into the "Leduc Transit Joint Venture Agreement" with Leduc County in order to secure grant funding to develop and operate an inter-municipal transit service (the "Project") between the County, the City of Leduc and the City of Edmonton operated under the name "Leduc Transit". The "Venture Property" under this agreement includes: (i) the buses for the Project; (ii) the website for the Project; and (iii) the brand "Leduc Transit".

The "proportionate interest" in the Venture Property is set forth in the agreement as follows:

<u>Party</u>	<u>Proportionate Interest</u>
City of Leduc	65%
Leduc County	35%

Each party's "proportionate share" in revenue earned by the Project, and each party's share of costs, expenses and liabilities are in the same proportion as each party's "proportionate interest". The administration of the joint venture is managed by the City of Leduc.

The grant funding was received by the City and was used to secure the Venture Property and the City holds the Venture Property as bare trustee for the joint venture.

Based on each party's proportionate interest in the Project, the City of Leduc has recorded 65% of the total cost of the transit buses as a tangible capital asset and 65% of the annual amortization of the buses in the City's consolidated financial statements.

City of Leduc
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

10. Leduc Transit Joint Venture Agreement

A financial summary of 100% of the financial position and operations of the Joint Venture is as follows:

	2016	2015
Statement of Financial Position		
Tangible capital assets		
Buses - cost	2,843,926	2,843,926
Buses - accumulated amortization	(710,982)	(426,589)
Accumulated surplus	2,132,944	2,417,337
Statement of Operations		
Operating revenue		
Sales and user charges	211,851	216,443
Transfer from City of Leduc	628,320	535,915
Transfer from Leduc County	302,414	288,570
	1,142,585	1,040,928
Operating expenses	(1,142,585)	(1,040,928)
Amortization expense	(284,393)	(284,393)
	(1,426,978)	(1,325,321)
Excess (deficiency) of revenue over expenses	(284,393)	(284,393)
Accumulated surplus, opening	2,417,337	2,701,730
Accumulated surplus, closing	2,132,944	2,417,337
Statement of Net Debt		
Excess (deficiency) of revenue over expenses	(284,393)	(284,393)
Amortization	284,393	284,393
Increase in net debt	-	-
Net debt, opening	-	-
Net debt, closing	-	-

City of Leduc
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

11. Restricted Surplus

Surplus restricted for operating and capital activities changed as follows:

	<i>2015</i>	<i>Increases</i>	<i>Decreases</i>	2016
Restricted Operating Surplus				
General government	11,261,176	3,303,266	(3,597,590)	10,966,852
Operations	4,259,540	122,000	(909,342)	3,472,198
	15,520,716	3,425,266	(4,506,932)	14,439,050
Restricted Capital Surplus				
Operations	12,370,940	5,703,119	(6,906,927)	11,167,132
Community services	4,904,742	3,771,660	(3,085,200)	5,591,202
General government	5,717,145	742,722	(2,107,102)	4,352,765
Library	549,439	93,532	(29,461)	613,510
Offsite levy reserves	13,812,062	1,419,757	(8,013,438)	7,218,381
Downtown Business Association	97,121	4,487	-	101,608
	37,451,449	11,735,277	(20,142,128)	29,044,598
	52,972,165	15,160,543	(24,649,060)	43,483,648

City of Leduc
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

12. Equity in Tangible Capital Assets

	2016	2015
Tangible capital assets (Note 9)	1,036,693,606	949,600,972
Accumulated amortization (Note 9)	(287,657,835)	(267,548,867)
Long-term debt (Note 7)	(52,273,583)	(54,977,217)
	696,762,190	627,074,888

13. Salary and Benefits Disclosure

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

	Salary	Benefits & allowances	2016	2015
Mayor/Council				
G. Krischke	77,431	11,215	88,646	89,340
G. Finstad	36,590	8,779	45,369	45,477
T. Lazowski	36,590	7,506	44,096	42,812
D. MacKenzie	36,590	8,779	45,369	45,477
D. Smith	36,590	4,306	40,896	41,531
R. Young	36,590	3,034	39,624	38,866
B. Beckett	36,590	4,059	40,649	41,081
City Manager	260,047	9,587	269,634	286,695

- (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 payment made on behalf of employees including pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, and long term disability plans.

14. Local Authorities Pension Plan

Employees of the City of Leduc participate in the Local Authorities Pension Plan ("LAPP"), which is one of the plans covered by the *Alberta Public Sector Pension Plans Act*. The LAPP serves approximately 244,621 people and 426 employers. The LAPP is financed by employer and employee contributions and by investment earnings of the LAPP Fund.

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

The City of Leduc is required to make current service contributions to the LAPP of 11.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 15.84% on pensionable earnings above this amount. Employees of the City of Leduc are required to make current service contributions of 10.39% of pensionable salary up to the year's maximum pensionable salary and 14.84% on pensionable salary above this amount.

The current service contributions by the City of Leduc to the LAPP in 2016 were \$3,012,567 (2015 - \$2,730,273). Total current service contributions by the employees of the City of Leduc to the LAPP for 2016 were \$2,779,271 (2015 - \$2,518,444).

At December 31, 2015, the date of the most recent actuarial valuation, the LAPP disclosed an actuarial deficiency of \$923,416,000 (2014 - \$2,454,636,000).

15. Supplementary Retirement Plans

APE

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 in 2005 and provides supplementary pension plan benefits to a prescribed class of employees. The plan supplements the Local Authorities Pension Plan.

The City of Leduc is required to make current service contributions to APEX of 3.0% of employment income. Employees of the City of Leduc are required to make current service contributions of 2.5% of employment income.

The current service contributions by the City of Leduc to APEX in 2016 were \$50,395 (2015 - \$53,407). Total current service contributions by the employees of the City of Leduc to APEX for 2016 were \$41,995 (2015 - \$44,505).

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

15. Supplementary Retirement Plans

MuniSERP

In 2004, the City of Leduc joined the MuniSERP (formerly APEX Plus) supplemental employee retirement plan, a plan sponsored by AUMA. MuniSERP is a voluntary, non-contributory plan that provides benefits to a prescribed class of employees (5 beneficiaries). Included in accounts payable and accrued liabilities is \$139,758 (2015 - \$147,273) held by the City on behalf of the beneficiaries. The actuarial valuation of the plan for service accrued to December 31, 2016 is estimated to be \$401,868 (2015 - \$354,232).

This number includes both earmarked and non-earmarked amounts.

16. Contingencies

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

The City has been named as defendant in a lawsuit on behalf of certain owners of the Bellavera Green Condominium Complex, seeking to recover nominal damages. The complaint with respect to this action generally alleges the City was negligent in issuing occupancy permits. These lawsuits remain at an early stage and, as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of these lawsuits or to estimate the loss, if any, which may result. The City's insurers have been advised of these claims and are cooperating with the City in the defence of these lawsuits subject to policy deductibles, limits, and terms and conditions.

In the normal course of business there may be pending claims by and against the City. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of administration, based on the advice and information provided by its legal counsel, final determination of these litigations will not materially affect the City's financial position or results of operations.

17. Commitments

The City has entered into commitments to provide the community with policing services and to provide future pension payments. The commitments over the next five years are as follows:

2017	4,724,523
2018	4,810,054
2019	4,881,635
2020	4,954,623
2021	5,028,706

City of Leduc
Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

18. Budget Figures

The disclosed budget information has been approved by Council. The City does not budget for amortization. Included in the actual expenses on the consolidated statements of operations is amortization of \$20,352,013 (2015 - \$18,396,647).

Included in the disclosed budget on the consolidated statement of operations is \$7,351,952 (2015 - \$6,600,791) in non-capital expenses that were approved by Council as part of the capital budget. These expenses have been reclassified from the budget for the acquisition of tangible capital assets on the consolidated statement of changes in net financial assets (debt), resulting in a corresponding reduction in the budget presented.

19. Segments

The City of Leduc provides a range of services to its ratepayers. For each reported segment, the revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1.

Refer to Schedule V - Schedule of Segmented Disclosure.

20. Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.