

TOWN OF PONOKA

FINANCIAL STATEMENTS

DECEMBER 31, 2018



INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council of the Town of Ponoka

Opinion

We have audited the accompanying consolidated financial statements of the Town of Ponoka, which comprise the statements of financial position as at December 31, 2018, and the statements of operations, change in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Town of Ponoka as at December 31, 2018 and the results of its operations, change in its net financial assets and its cash flows for the year ended in accordance with Canadian public sector accounting standards.

Basis of Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Town of Ponoka in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of Management and Those Charged with Governance 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 misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Town's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Town or to cease operations, or has no realistic alternative but to do so.

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

Independent Auditor's Report to the Mayor and Council of Town of Ponoka (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Town's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Town to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ponoka, Alberta
April 23, 2019

Rowland Parker & Associates LLP
ROWLAND, PARKER & ASSOCIATES LLP
Chartered Professional Accountants

TOWN OF PONOKA

**Consolidated Statement of Financial Position
as at December 31, 2018**

	<u>2018</u>	<u>2017</u>
Financial Assets:		
Cash and temporary investments (Note 2)	\$ 9,952,880	10,250,982
Receivables		
Taxes and grants in place of taxes (Note 3)	377,249	359,189
Local improvement taxes receivables (Note 3)	951,473	742,551
Trade and other receivables (Note 3)	3,953,213	3,368,447
Land for resale inventory	816,276	816,276
Investments (Note 4)	40	40
Other Assets	175,000	175,000
	<u>16,226,131</u>	<u>15,712,485</u>
Liabilities:		
Accounts payable and accrued liabilities	1,827,678	1,809,794
Deposits liabilities	349,026	356,952
Deferred revenue (Note 5)	3,657,178	2,434,380
Employee benefit obligations (Note 6)	184,106	189,882
Long term debt (Note 7)	6,852,872	6,880,246
Obligation under capital lease (Note 8)	8,942,257	-
	<u>21,813,117</u>	<u>11,671,254</u>
Net financial assets	<u>(5,586,986)</u>	4,041,231
Non-Financial assets		
Tangible capital assets (Schedule 2)	68,212,803	58,410,429
Inventory for consumption	545,106	473,734
Prepaid expense	25,643	18,162
	<u>68,783,552</u>	<u>58,902,325</u>
Accumulated Surplus (Note 11)	\$ <u>63,196,566</u>	<u>62,943,556</u>

Contingencies (Note 15) and Commitments (Note 16)

TOWN OF PONOKA

**Consolidated Statement of Operations
as at December 31, 2018**

	2018 Budget (Unaudited)	2018	2017
Revenue:			
Net municipal taxes (Schedule 3)	\$ 7,176,783	7,124,287	6,139,116
User fees and sale of goods	8,311,948	7,929,281	7,781,180
Rentals	493,301	609,330	491,681
Licenses and permits	185,500	247,048	168,903
Penalties and costs of taxes	105,000	99,257	120,948
Fines	61,500	79,725	97,542
Investment income	110,000	196,138	111,717
Development levies	-	-	6,125
Franchise and concession	413,000	378,578	364,377
Government transfers for operating (Schedule 4)	1,226,820	1,268,936	1,183,744
Other	22,400	169,525	22,610
Total Revenue	18,106,252	18,102,105	16,487,943
Expenses			
Legislative	255,275	337,919	207,768
Administration	3,080,321	2,830,489	2,228,130
Protective services	2,339,345	2,116,715	2,232,944
Public works	4,132,446	3,542,759	3,728,055
Electrical	3,106,965	2,821,805	2,743,731
Environmental services	4,293,813	4,097,429	4,002,809
Community services	415,964	413,534	426,231
Planning and development	693,104	528,037	591,925
Parks and recreation	2,315,020	2,068,385	2,136,603
Culture	336,791	429,279	347,628
Total Expenses	20,969,044	19,186,351	18,645,824
Excess (Shortfall) of Revenue over Expenses - Before Other	(2,862,792)	(1,084,246)	(2,157,881)
Other			
Contributed assets	-	-	13,500
Government transfers for capital (Schedule 4)	3,806,059	1,337,256	1,941,519
Excess (Shortfall) of Revenues over Expenses	943,267	253,010	(202,862)
Accumulated Surplus, beginning of the year	62,943,556	62,943,556	63,146,418
Accumulated Surplus, end of the year	\$ 63,886,823	63,196,566	62,943,556

TOWN OF PONOKA

**Consolidated Statement of Change in Net Financial Assets (Debt)
For the Year Ended December 31, 2018**

	2018 Budget (Unaudited)	2018	2017
Excess (Shortfall) of Revenues over Expenses	\$ 943,267	253,010	(202,862)
Acquisition of tangible capital asset	(6,045,352)	(12,580,260)	(1,591,375)
Contributed tangible capital assets	-	-	(13,500)
Proceeds on disposal of tangible capital assets	-	511,139	-
Amortization of tangible capital assets	2,343,600	2,109,127	2,063,162
Capital projects abandoned (expensed)	-	50,001	30,327
(Gain) loss on sale of tangible capital assets	-	107,619	-
	<u>(3,701,752)</u>	<u>(9,802,374)</u>	488,614
Net (acquisition) use of supplies inventory	-	(71,372)	53,312
Net (acquisition) use of prepaid assets	-	(7,481)	32,265
	-	<u>(78,853)</u>	85,577
Increase (decrease) in net debt	(2,758,485)	(9,628,217)	371,329
Net financial assets (debt), beginning of year	4,041,231	4,041,231	3,669,902
Net financial assets (debt), end of year	\$ <u>1,282,746</u>	<u>(5,586,986)</u>	4,041,231

TOWN OF PONOKA

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018

	<u>2018</u>	<u>2017</u>
Net inflow (outflow) of cash related to the following activities:		
Operating		
Excess (shortfall) of revenues over expenses	\$ 253,010	(202,862)
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	2,109,127	2,063,162
Loss (gain) on disposal of tangible capital assets	107,619	-
Tangible capital assets received as contributions	-	(13,500)
Capital projects abandoned and expensed	50,001	30,327
Non-cash charges to operations (net change):		
Decrease (increase) in taxes receivable	(226,981)	261,696
Decrease (increase) in trade and other receivable	(584,765)	(272,269)
Decrease (increase) in land held for resale	-	-
Decrease (increase) in inventory for consumption	(71,372)	53,312
Decrease (increase) in prepaid expenses	(7,481)	32,265
Increase (decrease) in accounts payable and accrued liabilities	17,883	309,380
Increase (decrease) in deposits liabilities	(7,926)	198,928
Increase (decrease) in employee benefit obligations	(5,776)	(162)
Increase (decrease) in other current liabilities	-	(118,805)
Increase (decrease) in deferred revenues	1,222,798	63,989
Cash provided by operating transactions	<u>2,856,137</u>	<u>2,405,461</u>
Capital		
Acquisition of tangible capital assets	(12,580,260)	(1,591,375)
Proceeds on sale of tangible capital assets	511,137	-
Cash used in capital transactions	<u>(12,069,123)</u>	<u>(1,591,375)</u>
Financing		
Borrowing debt issued	9,520,772	-
Borrowing debt repaid	(605,888)	(543,510)
Cash provided by (used in) financing transactions	<u>8,914,884</u>	<u>(543,510)</u>
Change in cash and cash equivalents during year	(298,102)	270,576
Cash and cash equivalents, beginning of year	<u>10,250,982</u>	<u>9,980,406</u>
Cash and cash equivalents, end of year	\$ <u>9,952,880</u>	<u>10,250,982</u>

TOWN OF PONOKA
Schedule 1
Schedule of Changes in Accumulated Surplus
For the Year Ended December 31, 2018

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2018	2017
Balance, beginning of year	\$ 2,992,668	8,420,704	51,530,184	62,943,556	63,146,418
Excess (deficiency) of revenues over expenses	303,011	-	(50,001)	253,010	(202,862)
Current year funds restricted	(546,598)	546,598	-	-	-
Restricted funds used for operations	92,811	(92,811)	-	-	-
Restricted funds used for tangible capital assets	-	(2,874,097)	2,874,097	-	-
Current year funds used for tangible capital assets	(10,450,992)	-	10,450,992	-	-
Contributed tangible capital assets	-	-	-	-	-
Proceeds on borrowing used for tangible capital assets	9,520,772	-	(9,520,772)	-	-
Disposal of tangible capital assets	1,363,587	-	(1,363,587)	-	-
Annual amortization expense	2,109,127	-	(2,109,127)	-	-
Borrowing repaid	(605,888)	-	605,888	-	-
Change in accumulated surplus	1,785,830	(2,420,310)	887,490	253,010	(202,862)
Balance, end of year	\$ 4,778,498	6,000,394	52,417,674	63,196,566	62,943,556

TOWN OF PONOKA
Schedule 2
Schedule of Tangible Capital Assets
For the Year Ended December 31, 2018

	Land	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	Construction in Progress	2018	2017
Cost								
Balance, beginning of year	\$ 6,483,052	13,753,915	77,199,533	8,409,621	2,715,485	1,294,993	109,856,599	108,330,286
Acquisition of tangible capital assets	-	9,039,500	210,484	179,471	548,710	2,602,094	12,580,259	1,604,873
Projects completed	-	2,561,837	365,554	309,146	-	(3,236,537)	-	-
Disposal of tangible capital assets	-	-	-	(288,078)	(1,075,509)	-	(1,363,587)	(48,233)
Projects abandoned/ expensed	-	-	-	-	-	(50,001)	(50,001)	(30,327)
Balance, end of year	6,483,052	25,355,252	77,775,571	8,610,160	2,188,686	610,549	121,023,270	109,856,599
Accumulated Amortization								
Balance, beginning of year	-	7,844,548	38,364,973	3,733,212	1,503,437	-	51,446,170	49,431,241
Annual amortization	-	256,329	1,287,013	461,616	104,169	-	2,109,127	2,063,162
Accumulated amortization on disposals	-	-	-	(202,558)	(542,272)	-	(744,830)	(48,233)
Balance, end of year	-	8,100,877	39,651,986	3,992,270	1,065,334	-	52,810,467	51,446,170
Net book value of tangible capital assets	6,483,052	17,254,375	38,123,585	4,617,890	1,123,352	610,549	68,212,803	
2017 Net book value of tangible capital assets \$	6,483,052	5,909,367	38,834,560	4,676,409	1,212,048	1,294,993		58,410,429

Included in building is a capital lease for a building with a cost of \$9,039,500, accumulated amortization of \$NIL and net book value of \$9,039,500.

TOWN OF PONOKA
Schedule 3
Schedule of Property Taxes & Other Taxes
for the Year Ended December 31, 2018

	2018 Budget (Unaudited)	2018	2017
Taxation:			
Real property taxes	\$ 8,872,515	8,914,548	8,313,557
Linear property taxes	150,000	145,433	121,163
Government grants in place of property taxes	38,000	38,202	35,507
Special assessments and local improvement taxes	457,268	457,268	-
	<u>9,517,783</u>	<u>9,555,451</u>	<u>8,470,227</u>
Requisitions:			
Alberta School Foundation Fund	2,256,000	2,345,794	2,246,142
Rimoka Foundation	85,000	85,000	84,969
Designated Industrial Properties	-	370	-
	<u>2,341,000</u>	<u>2,431,164</u>	<u>2,331,111</u>
Net Municipal Taxes	\$ 7,176,783	<u>7,124,287</u>	<u>6,139,116</u>

TOWN OF PONOKA
Schedule 4
Schedule of Government Transfers
for the Year Ended December 31, 2018

	2018 Budget (Unaudited)	2018	2017
Transfers for Operating:			
Provincial Government	\$ 901,020	947,956	858,249
Other Local Governments	325,800	320,980	325,495
	<u>1,226,820</u>	<u>1,268,936</u>	<u>1,183,744</u>
Transfers for Capital:			
Federal Government	-	-	116,128
Provincial Government	3,806,059	1,337,256	1,825,391
	<u>3,806,059</u>	<u>1,337,256</u>	<u>1,941,519</u>
Total Government Transfers	\$ 5,032,879	<u>2,606,192</u>	<u>3,125,263</u>

TOWN OF PONOKA
Schedule 5
Schedule of Consolidated Expense by Object
For the Year Ended December 31, 2018

	2018 Budget (Unaudited)	2018	2017
Consolidated Expenses by Object			
Salaries, wages and benefits	\$ 6,162,224	5,657,471	5,597,272
Contracted and general services	8,404,275	7,255,616	7,062,888
Materials, goods and utilities	3,124,984	2,860,838	2,919,908
Provision for allowances	15,000	24,932	3
Transfer to other governments	-	-	-
Transfer to boards and agencies	569,039	619,038	548,094
Bank charges and short-term interest	13,500	15,884	10,680
Interest on long term debt	292,922	260,295	283,787
Interest on capital lease	-	136,090	-
Other expenses	43,500	139,441	160,030
Amortization of tangible capital assets	2,343,600	2,109,127	2,063,162
Loss (gain) on disposal of tangible capital assets	-	107,619	-
	\$ 20,969,044	19,186,351	18,645,824

TOWN OF PONOKA
Schedule 6
Schedule of Segmented Disclosure
For the Year Ended December 31, 2018

	General Government	Protective Services	Public Works	Community Services	Planning & Development	Recreation & Culture	Environmental Services	Electrical Services & Other	Total
Revenue									
Net Municipal taxes	\$ 6,667,019	-	457,268	-	-	-	-	-	7,124,287
Government transfers	269,254	379,038	722,674	320,870	47,903	582,149	16,204	268,100	2,606,192
User fees and sales of goods	33,062	11,748	9,942	25,600	3,927	167,240	4,426,068	3,252,294	7,929,881
Investment income	196,138	-	-	-	-	-	-	-	196,138
Contributed assets	-	-	-	-	-	-	-	-	-
Other revenues	531,038	131,679	86,247	8,075	244,400	409,442	156,277	15,705	1,582,863
	<u>7,696,511</u>	<u>522,465</u>	<u>1,276,131</u>	<u>354,545</u>	<u>296,230</u>	<u>1,158,831</u>	<u>4,598,549</u>	<u>3,536,099</u>	<u>19,439,361</u>
Expenses									
Contract & general services	1,053,349	1,662,824	1,066,451	50	179,624	288,510	1,115,703	1,889,105	7,255,616
Salaries & wages	1,579,578	359,288	1,296,023	-	294,831	1,061,480	514,146	552,125	5,657,471
Goods & supplies	175,788	10,785	391,462	6,930	7,077	419,965	1,686,649	162,182	2,860,838
Transfers to local boards	-	-	-	390,979	-	228,060	-	-	619,039
Interest & bank charges	147,846	-	212,471	-	-	2,619	49,333	-	412,269
Other expenses	109,196	1,297	(346,661)	11,932	7,419	144,494	192,932	151,382	271,991
	<u>3,065,757</u>	<u>2,034,194</u>	<u>2,619,746</u>	<u>409,891</u>	<u>488,951</u>	<u>2,145,128</u>	<u>3,558,763</u>	<u>2,754,794</u>	<u>17,077,224</u>
Net revenue (deficiency) before amortization	4,630,754	(1,511,729)	(1,343,615)	(55,346)	(192,721)	(986,297)	1,039,786	781,305	2,362,137
Amortization expense	102,652	82,521	923,012	3,643	39,086	352,536	538,665	67,012	2,109,127
Net Revenue (Deficiency)	\$ <u>4,528,102</u>	<u>(1,594,250)</u>	<u>(2,266,627)</u>	<u>(58,989)</u>	<u>(231,807)</u>	<u>(1,338,833)</u>	<u>501,121</u>	<u>714,293</u>	<u>253,010</u>

TOWN OF PONOKA

Notes to Financial Statements December 31, 2018

NOTE 1 - Significant Accounting Policies

The consolidated financial statements of the Town of Ponoka are the representations of management prepared in accordance with generally accepted accounting principles for local governments established by the Public-Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada (CPA Canada). Significant aspects of the accounting policies adopted by the Town of Ponoka are as follows:

a. Reporting Entity:

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, and changes in fund balances and change in financial position of the reporting entity. This entity is comprised of all the municipal operations plus all of the organizations that are owned or controlled by the Town and are, therefore, accountable to the Town Council for the administration of their financial affairs and resources. Included with the municipality are the following:

Ponoka Water and Wastewater Systems
Ponoka Electrical System

The schedule of taxes levied also includes requisitions for educational, health, social and other external organizations that are not part of the municipal reporting entity.

The statements exclude trust assets that are administered for the benefit of external parties. Interdepartmental and organizational transactions and balances are eliminated.

b. Basis of Accounting:

The financial statements are prepared using the accrual basis of accounting. 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.

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

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used for certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed or the tangible capital assets are acquired.

TOWN OF PONOKA

Notes to Financial Statements December 31, 2018

NOTE 1 - Significant Accounting Policies (continued....)

c. Use of Estimates:

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

Significant estimates include:

- The net present value of future minimum lease payments of the capital lease
- providing for amortization of tangible capital assets;
- the estimated useful lives of assets;
- the allowance for doubtful accounts; and
- the recoverability of tangible assets.

d. Cash and temporary investments:

Cash includes cash and cash equivalents. Cash equivalents are investments in money market funds, bonds and guaranteed investment certificates and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

e. Investments:

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

f. Requisition Over-levies and Under-levies:

Over-levies and under-levies arise from the difference between the actual property 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.

TOWN OF PONOKA

Notes to Financial Statements December 31, 2018

g. Inventories for Resale:

Land held for resale is recorded at the lower of cost or net realizable value. Cost includes costs for land acquisition and improvements required to prepare the land for servicing such as clearing, stripping and levelling charges. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks, and street lighting are recorded as tangible capital assets under their respective function.

h. Prepaid Local Improvements Charges:

Construction and borrowing costs associated with local improvement projects are recovered through annual special assessments during the period of the related borrowings. These levies are collectible from property owners for work performed by the municipality.

Where a taxpayer has elected to prepay the outstanding local improvement charges, such amounts are recorded as a repayment of the local improvement receivable.

i. Taxes

Taxes are compulsory payments or payables to government in accordance with laws. Taxes are recognized in the financial statements as revenue in the period in which they are authorized through a Bylaw provided that at initial recognition it is collectible. Tax revenue is presented net of requisitions since the requisitions levied on behalf of others will not give rise to an increase to net assets or revenue of the Town and are treated as a flow through.

j. Contaminated Sites Liability:

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard.

The liability is recorded net of any expected recoveries. A liability for remediation of a contaminated site is recognised when a site is not in productive use and is management's estimate of the cost of post-remediation including operation, maintenance and monitoring.

k. Government Transfers:

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

Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be determined.

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

NOTE 1 - Significant Accounting Policies (continued....)

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 for the year.

i. Tangible Capital Assets

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

	YEARS
Buildings and leasehold improvements	10 - 50
Engineered structures	
Road System	10 - 40
Distribution Systems	40 - 75
Other engineered structures	10 - 75
Machinery and equipment	10 - 25
Vehicles	10 - 25

There is no provision for amortization in the year of acquisition. Amortization is calculated in the year in which the asset is disposed. 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 recorded as revenue.

iii. Leases

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

iv. Inventories

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

v. Cultural and Historical Tangible Capital Assets

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

TOWN OF PONOKA

Notes to Financial Statements December 31, 2018

NOTE 1 - Significant Accounting Policies (continued....)

m. Adoption of recent accounting pronouncements

The following accounting standards have been issued by the Chartered Professional Accountants of Canada (CPAC). This section is effective for fiscal periods beginning on or after April 1, 2017 and have been applied retrospectively.

Section PS 3210 – Assets

This new section provides guidance for applying the definition of assets set out in Financial Statement Concepts, Section PS 1000, and establishes general disclosure standards for assets.

Section PS 3320 — Contingent Assets

This new section defines and establishes disclosure standards on contingent assets.

Section PS 3380 - Contractual Rights

This new section defines and establishes disclosure standards on contractual rights.

Section PS 2200 — Related Party Disclosure

This new section defines a related party and establishes disclosures required for related party transactions.

Section PS 3420 — Inter-entity Transactions

This new section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and a recipient perspective.

n. Recent accounting pronouncements published but not yet adopted

The following accounting standards have been issued by the Chartered Professional Accountants of Canada (CPAC) but are not yet effective. The municipality is currently evaluating the effect of adopting these standards on their financial statements.

Section PS 3450 - Financial Instruments

The new section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. In conjunction with this new section, section PS1201, section PS 2601 and section 3041 have been amended as a consequence of the introduction of new financial instruments standards. These amendments were required to present the associated gains and losses with financial instruments recognized under the new section. The new section and the related amendments are effective for fiscal periods beginning on or after April 1, 2019.

Section PS 3430 - Restructuring Transactions

This new Section defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction. This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

NOTE 1 - Significant Accounting Policies (continued....)

Section PS 3280 - Asset Retirement Obligations

This new section establishes standards on how to account and report a liability for asset retirement obligations (ARO). This Section identifies the main attributes of an ARO and provides guidance on how to establish the fair value of the ARO. The new Section applies to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.

Section PS 3400 — Revenue

This new section establishes standards on how to account for and report on revenue. This Section differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. The new Section applies to fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

NOTE 2 - Cash and Term Deposits

	<u>2018</u>	<u>2017</u>
Cash - Unrestricted	\$ 3,952,880	9,250,982
- Restricted	-	-
Temporary investments	<u>6,000,000</u>	<u>1,000,000</u>
	<u>\$ 9,952,880</u>	<u>10,250,982</u>

Restricted funds represent excess proceeds from tax recovery auctions which are required to be segregated in a separate bank account for a period of up to 10 years.

Temporary investments comprise of various GIC's with an effective interest rate of 2.07% to 2.64%. All GIC's mature within the next fiscal year.

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

NOTE 3 - Receivables

Taxes receivable

	<u>2018</u>	<u>2017</u>
Current taxes and grants in place of taxes	\$ 209,255	168,844
Arrears taxes	175,236	197,587
	<u>384,491</u>	366,431
Less allowance for doubtful accounts	\$ (7,242)	(7,242)
	<u>377,249</u>	359,189
Current portion of local improvement taxes	\$ 190,142	144,416
Non-current portion	910,568	689,168
Less: prepaid amount	<u>(149,237)</u>	(91,033)
	<u>\$ 951,473</u>	742,551

Trade and other receivables

General receivables	\$ 496,127	338,398
Government transfers receivable	2,504,349	2,382,286
Electrical receivables	498,298	199,085
Non-current portion of electrical receivables	115,800	140,583
Utility receivables	348,748	318,204
Allowance for doubtful accounts	<u>(10,109)</u>	(10,109)
	<u>\$ 3,953,213</u>	3,368,447

NOTE 4 - Long Term Investments

	<u>2018</u>	<u>2017</u>
Alberta Municipal Finance Corporation shares	\$ 40	40

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

NOTE 5 - Deferred Revenue

	<u>2018</u>	<u>2017</u>
Grant revenues	\$ 3,657,178	2,432,780
Other deferred revenues	-	1,600
	<u>\$ 3,657,178</u>	<u>2,434,380</u>

Various unexpended grant funds were received in the prior year from government and not for profit agencies. The use of these funds is restricted to eligible projects, as approved under the different funding agreements. These projects and initiatives are scheduled for completion in future years.

NOTE 6 - Employee Benefit Obligations

	<u>2018</u>	<u>2017</u>
Vacation	\$ 181,101	184,610
Overtime	3,005	5,272
	<u>\$ 184,106</u>	<u>189,882</u>

The vacation and overtime liability is comprised of the vacation and overtime that employees are deferring to future years. Employees have either earned the benefits (and are vested) or are entitled to these benefits within the next budgetary year.

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

NOTE 7 – Long Term Debt

	<u>2018</u>	<u>2017</u>	
Tax supported debentures	\$ 6,287,520	6,208,294	
Self supported debentures	565,352	671,951	
	\$ <u>6,852,872</u>	<u>6,880,245</u>	
Principal & Interest repayment schedule	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 514,733	250,099	764,832
2020	334,592	229,558	564,150
2021	349,735	214,415	564,150
2022	244,211	198,541	442,752
2023	192,874	190,022	382,896
Thereafter	<u>5,216,727</u>	<u>3,178,436</u>	<u>8,395,163</u>
Total	\$ <u>6,852,872</u>	<u>4,261,071</u>	<u>11,113,943</u>

Debenture debt is repayable to Alberta Capital Finance Authority and bears interest at rates ranging from 2.899% to 6.50% per annum and matures in years 2018 through 2056. The average annual interest rate is 3.79% for 2018 (3.97% for 2017).

Debenture debt is issued on the credit and security of the town at large Interest on long term debt amounted to \$260,295 (2017 - \$283,787).

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

NOTE 8 – Obligation under Capital Lease

	<u>2018</u>	<u>2017</u>
Capital lease for Civic Centre requiring monthly lease payments for basic rent of \$58,333 (\$700,000 per annum) with an implicit rate of 6.070% per annum.	\$ <u>8,942,257</u>	-

Future minimum capital lease payments are approximately

2019	\$ 700,000
2020	700,000
2021	700,000
2022	700,000
2023	700,000
Thereafter	<u>13,766,667</u>
Total minimum lease payments	17,266,667
Less: amount representing interest at 6.070%	<u>(8,324,410)</u>
Present value of minimum lease payments	8,942,257
Less: current portion	<u>(161,664)</u>
	<u><u>\$ 8,780,593</u></u>

Lease Terms

The capital lease obligation has an implicit rate of 6.070% and is subject to the following terms:

- a) Initial term is for 10 years with a basic rent of \$700,000 per annum
- b) Renewal Period: 3 successive five-year renewal periods at the Town's option. Should the Town not renew the lease they are required under the lease to purchase the building from the landlord. Basic rent will be adjusted on each renewal period to mutually agreed market rates.
- c) The Town has the option to purchase the building at appraised value at any time during the lease period.

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

Obligation related to Executory Costs

Under the lease agreement the Town is contractually obligated to pay executory costs as additional rent in the amount of \$377,720 per annum. The executory costs include administration, maintenance, power and janitorial. They do not include property taxes as the Town leased portion of the building is exempt from property taxes. The executory costs are adjusted annually in December.

Recoveries from Sub-Let portion of leased space

The Town has sublet a portion of the space to Campus Alberta Central for a five-year term for a rent revenue of \$125,000 per annum. The sublessor has an option to extend for another 5 years at their discretion. A prorated share of executory costs noted above incurred by the Town are recovered from the sublessor.

NOTE 9 - 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 Town of Ponoka be disclosed as follows:

	<u>2018</u>	<u>2017</u>
Total debt limit	\$ 27,153,713	24,731,915
Total debt	<u>15,795,129</u>	<u>6,880,246</u>
Amount of debt limit unused	\$ <u>11,358,584</u>	<u>17,851,669</u>
Debt servicing limit	\$ 4,525,619	4,121,986
Debt servicing	<u>1,464,832</u>	<u>768,940</u>
Amount of debt servicing limit unused	\$ <u>3,060,787</u>	<u>3,353,046</u>

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

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

NOTE 10 - Equity in Tangible Capital Assets

	<u>2018</u>	<u>2017</u>
Tangible capital assets (Schedule 2)	\$ 121,023,270	109,856,599
Accumulated amortization (Schedule 2)	(52,810,467)	(51,446,170)
Long term debt (Note 7)	(6,852,872)	(6,880,245)
Obligation under capital lease (Note 8)	(8,942,257)	-
	<u>\$ 52,417,674</u>	<u>51,530,184</u>

NOTE 11 - Accumulated Surplus

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

	<u>2018</u>	<u>2017</u>
Unrestricted surplus	\$ 4,778,498	2,992,668
Restricted surplus		
Roads	1,144,493	1,261,551
General	2,730,004	5,219,109
Distribution system	2,125,897	1,940,044
Equity in tangible capital assets	<u>52,417,674</u>	<u>51,530,184</u>
	<u>\$ 63,196,566</u>	<u>62,943,556</u>

NOTE 12 - Segmented Disclosure

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

Refer to the Schedule of Segmented Disclosure (Schedule 6).

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

NOTE 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 (a)	Benefits & Allowances (b)+(c)	2018	2017
Mayor					
	Bonnett	\$ 40,690	1,163	41,853	37,346
Councillors:					
	Councillor Lyon	17,879	410	18,289	21,568
	Councillor Prediger	19,066	449	19,515	21,310
	Councillor Underhill	25,226	652	25,878	23,059
	Councillor Dillon	22,082	549	22,631	4,424
	Councillor Ferguson	21,686	646	22,332	3,898
	Councillor Nelson	25,034	536	25,570	3,903
	Councillor Gulka				15,939
	Councillor Falkiner				12,525
	Councillor Yaworski				16,706
Chief Administrative					
	Flootman, Albert	\$ 154,551	30,537	185,088	184,701

- 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, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, professional memberships and tuition.
- c) Benefits and allowances also include the Employer's share of the costs of additional taxable benefits including special leave with pay and car allowances.

TOWN OF PONOKA

Notes to Financial Statements December 31, 2018

NOTE 14 - Local Authorities Pension Plan

Employees of the Town of Ponoka 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 about 260,000 people and 420 employers. The LAPP is financed by employer and employee contributions and investment earnings of the LAPP Fund.

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

The town is required to make current service contributions to the LAPP of 10.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 14.84% on pensionable earnings above this amount. Employees of the town are required to make current service contributions of 9.39% of pensionable salary up to the year's maximum pensionable salary and 13.84% on pensionable salary above this amount.

Total current and past service contributions by the town to the LAPP in 2018 were \$382,871 (2017 - \$419,493). Total current service contributions by the employees of the town to the Local Authorities Pension Plan in 2018 were \$349,637 (2017 - \$384,632).

At December 31, 2017, the plan disclosed an actuarial surplus of \$ 4.84 billion.

NOTE 15 – Contingent Liabilities

The Town is a member of the Alberta Municipal Insurance Exchange (MUNIX). Under the terms of the membership, the Town 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.

TOWN OF PONOKA

**Notes to Financial Statements
December 31, 2018**

NOTE 16 – Commitments

The Town of Ponoka and Ponoka County through a joint agreement provide funds for the operation of Ponoka Family and Community Support Services (FCSS). The amounts reported in this financial statement represent only the Town of Ponoka share of contributions to FCSS.

NOTE 17 - Financial Instruments

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

The town is subject to credit risk with respect to taxes and grants in place of taxes receivables and trade and other receivables. Credit risk arises from the possibility that taxpayers and entities to which the town provides services may experience financial difficulty and be unable to full fill 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.

The Town is subject to interest rate risk related to its interest-bearing temporary investments and fixed rate debentures, as the value will fluctuate because of changes in market rates.

NOTE 18 - Comparative Figures

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

NOTE 19 - Approval of Financial Statements

Council and Management have approved these financial statements.