

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDING DECEMBER 31, **2014**



CONTENTS

A4 **INTRODUCTORY INFORMATION**
Mayor and Council
Organizational Chart
City Profile
Report from the Chief Financial Officer

1 **FINANCIAL INFORMATION**
Management Report
Independent Auditor's Report
Statement 1 – Consolidated statements of financial position
Statement 2 – Consolidated statement of operations
Statement 3 – Consolidated statement of changes in net financial debt
Statement 4 – Consolidated statement of cash flows
Schedule 1 – Tangible capital assets
Schedule 2 – Consolidated segmented disclosure
Notes to the consolidated financial statements
Statistical information

Mayor and Council



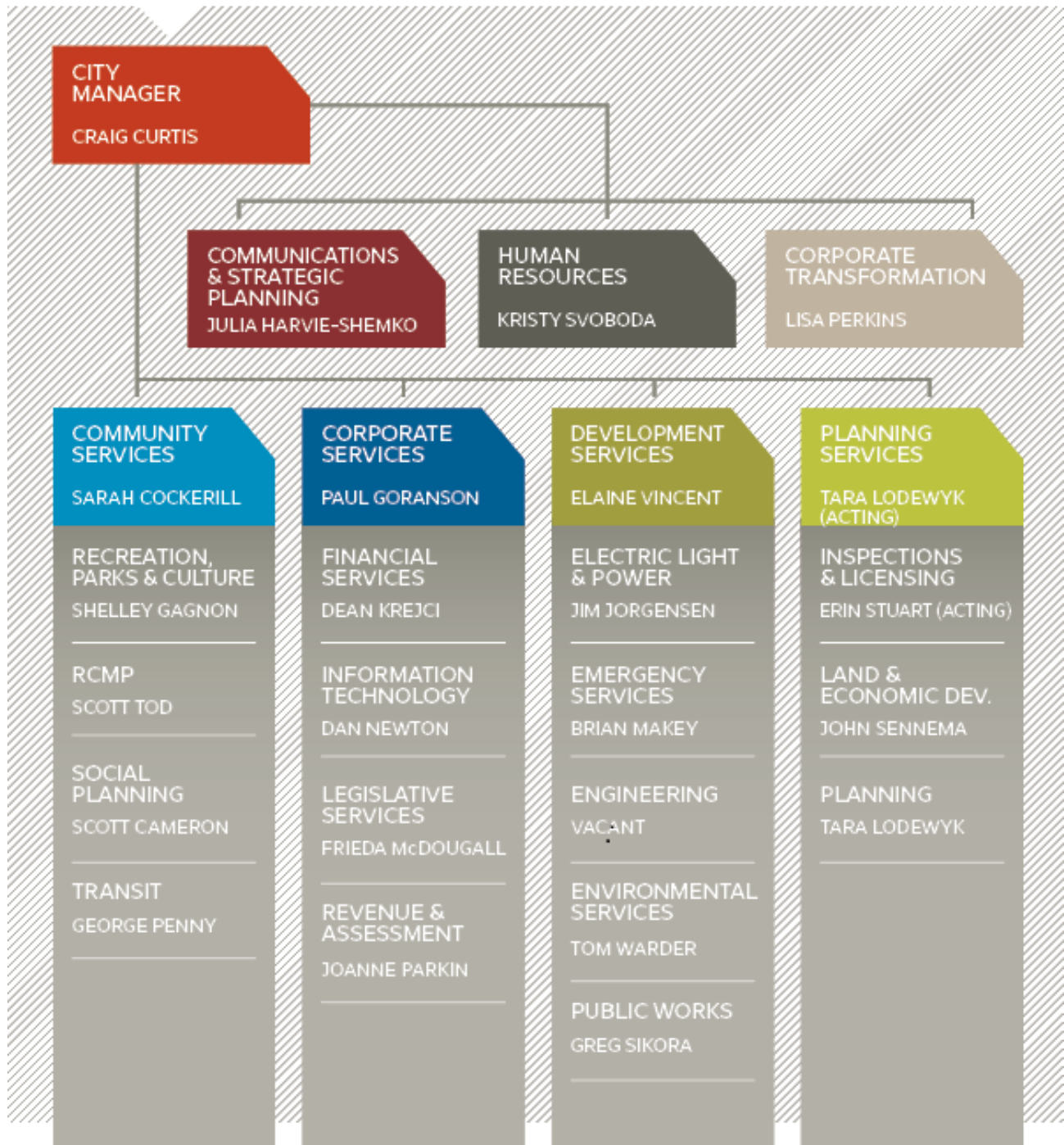
Left to Right: Councillor P. Harris, Councillor K. Johnston, Councillor L. Lee, Councillor L. Mulder, Mayor T. Veer, Councillor F. Wong, Councillor T. Handley, Councillor D. Wyntjes, Councillor S. Buchanan.

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

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



ORGANIZATIONAL CHART



CITY PROFILE

The City of Red Deer (The City) is a thriving, modern city of just over 97,000 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, Revenue & Assessment and Legislative Services departments. Services include administering and coordinating policy and procedural work, 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. Legal services are provided internally and by contracted firms.

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 provide service to all departments.

SELF FUNDING OPERATIONS - The City operates a number of self funding operations.

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 and South Red Deer Water Services Commissions. Services include water main maintenance, hydrant and valve inspection, hydrant and valve repair and water meter maintenance. The utility is funded 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 OPERATIONS - 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 CHIEF FINANCIAL OFFICER The City of Red Deer

Introduction

Mayor Tara Veer, Members of Council of The City of Red Deer, I am pleased to present the 2014 Annual Financial Report of The City of Red Deer. The attached report provides information to taxpayers and other members of the public about The City's 2014 financial performance. In addition, this report describes some of The City's major financial policies, provides an assessment of The City's general economic condition and highlights certain accomplishments.

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

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

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

Strategic Plan

The City continued its strategic implementation in 2014:

Council approved the Strategic Plan Report 2015 – 2018 which contains 3 themes that Council has identified as requiring significant change or shift:

- Dialogue – engaging our community and enhancing our relationships
- Community Amenities – planning great spaces and places for community living
- Financial Leadership – creating a sustainable financial foundation

These 3 themes are priorities for the next 4 years and complement the work still being completed on 5 of the themes from the previous strategic plan:

- Design
- Economy
- Identity
- Movement
- Safety

With substantial progress made on these themes, The City will soon have a master plan in place to support each of the five areas of sustainability: Economy (complete), Social (in progress – Safety), Culture (complete), Environment (complete), and Governance (complete).

- The City also has two internal charters which are focused on the City as an organization:
 - Effectiveness
 - Continued development of performance measures for the organization by using both the Ontario Municipal CAO's Benchmarking Initiative and participating in phase two of the Alberta Municipal Benchmarking Initiative measures.
 - Work continued on the financial sustainability framework:
 - Reserves purposes were reviewed and the number of reserves was reduced.
 - A fees and charges review process was created and piloted with 5 different fees.
 - Enterprise Business Applications project – this project will upgrade / replace / implement key information systems. Software was selected and staff commenced the implementation of the cashiering and tax components.
 - People
 - Respectful Workplace culture continues to evolve with fewer formal issue resolution processes required. Both the policy and processes appear to be positively affecting workplace behaviour. Feedback from a planned 2015 Employee Engagement Survey will help gauge progress.
 - In the spirit of creating a more Welcoming and Inclusive Organization, diversity and inclusion training was provided to

- all City leadership staff to create a diversity lens. Through this lens, the needs of a more diverse staff and customer population can be considered, planned for, and responded to.
- Leadership development was bolstered through ramped up and focused training. A broad spectrum of topics ranging from managing and leading in a unionized environment, violence in the workplace, safety excellence to strategic themes of change management and performance execution were offered.
 - In addition to the priorities from the current strategic plan, there are several areas of emphasis from the Strategic Plan for 2009 – 2011 that continue to be acted upon:
 - Greater Downtown Action Plan
 - Construction was completed for the Ross St / Taylor Dr intersection upgrade.
 - Demolition of buildings began on the Riverlands site.
 - Environmental Master Plan
 - This plan was unanimously endorsed by Council April 2011.
 - The 2013 annual report is available on the City's website at www.reddeer.ca
 - Enterprise Asset Management
 - An asset management plan was completed for roads.
 - River Valley and Tributaries Master Plan
 - The plan was adopted by Council July 2010 as a concept plan. Work continues on developing a prioritization plan and implementation strategy.
 - Culture Vision
 - The plan was unanimously adopted by Council December 2008. The strategy adopted as part of this strategic plan was to continue to implement the priorities of the Culture Vision as funding is available.

Financial Statement Discussion & Analysis

1. HIGHLIGHTS

Net debt increased by \$15.7 million due to investments in tangible capital assets that required additional long term debt. Expenses increased 5.1% over 2013 levels, mainly due to increases in fire, fleet and subdivision functions. An increase in the long term debt combined with a drop in debt limit resulted in the debt limit used increasing from 40% to 44%. The overall amount of reserves declined by \$6.6 million to \$215 million.

2. OPERATING RESULTS

Operating results are on Statement 2 – Consolidated Statement of Operations and in Note 18 - Expenses by Object in the Notes to Consolidated Financial Statements.

Revenue

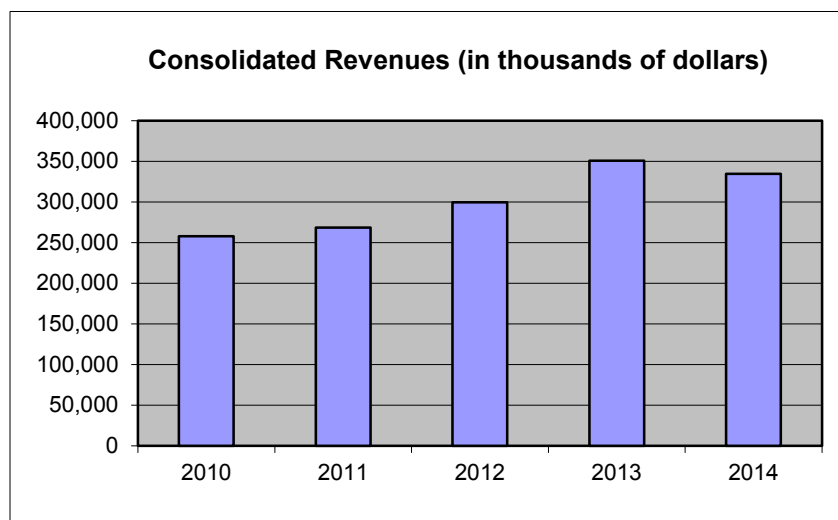
2014 operating revenues decreased \$3.9 million over 2013 revenues due to lower land sales of \$10.4 million offset by higher tax revenue of \$5.5 million, increased utility revenue of \$3.7 million and increased ambulance and dispatch revenues of \$3.7 million.

Land sales were down due to the Timberlands lots not being available for sale as quickly as estimated. Tax and utility revenues increased due to general growth and rate increases approved. Ambulance and dispatch revenues increased as a result of contract settlements.

Capital revenues increased by \$3.5 million over 2013 revenues due to increased government transfers of \$11.1 million and increased contributed assets from developers of \$12.4 million offset by decreased developer contributions of \$19.3 million.

Government transfers increased due to additional capital work being completed which was funded by government grants. Contributed assets increased as more subdivision assets were turned over to the City to manage. Developer contributions decreased as developed land decreased to 35 hectares.

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

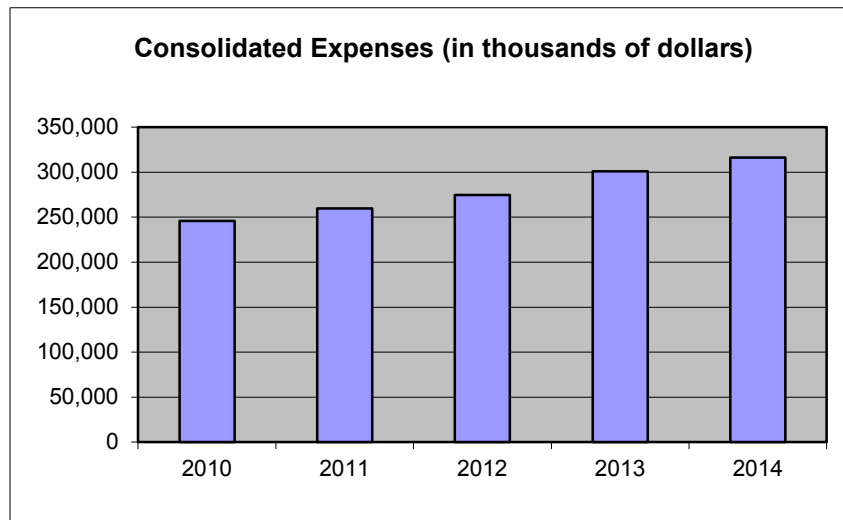


Expenses

2014 operating expenses increased by \$15.4 million over 2013 expenses.

On a functional basis, fire and ambulance expenses increased by \$3.5 million due to salary settlements. Fleet expenses increased by \$2.3 million compared to 2013 due to an increased requirement for bus maintenance. Subdivision expenses increased by \$5 million due to increased remediation expenses and power line relocation. The remainder of the increase in expenses is due to general increases among various other functions.

On an object code basis, salaries, wages and benefits increased by \$9.7 million due to collective agreement settlements and additional positions approved. Contracted services increased by \$6.2 million due to remediation expense accrued for 2014 and additional snow removal expense.



3. FINANCIAL POSITION

Financial position is shown on Statement 1 – Consolidated Statement of Financial Position.

The City increased its Financial Assets in 2014 by \$8.9 million over 2013. This was due to an increase in temporary investments of \$31.6 million offset by reductions in cash of \$14 million and accounts receivable of \$7.9 million.

Liabilities increased by \$24.6 million over 2013. Accounts payable and accrued liabilities increased by \$12.0 million and long-term debt increased by \$11.7 million.

The City's Net Financial Debt increased by \$15.7 million over 2013. In the same period \$123.4 million of tangible capital assets were acquired.

The City increased its Non-Financial Assets in 2014 by \$106.4 million. Tangible capital assets net book value increased by \$101.8 million to \$1,804 million and land held not ready for sale increased by \$5.0 million.

Long Term Debt

Additional information is included in Note 12 Long-Term Debt and Note 13 Debt Limit in the Notes to Consolidated Financial Statements as well as the Statistical Information section.

Debt is used to finance capital projects and capital leases. Self-supported debt is included in rate setting to ensure that repayments will be made. For tax-supported debt, a contribution to a reserve is made annually to ensure that repayments are made. The reserve is reviewed annually with debt repayments and contributions forecast for the next 10 years to ensure the reserve is sustainable. The reserve is forecast to be sustainable for the period 2015 – 2024.

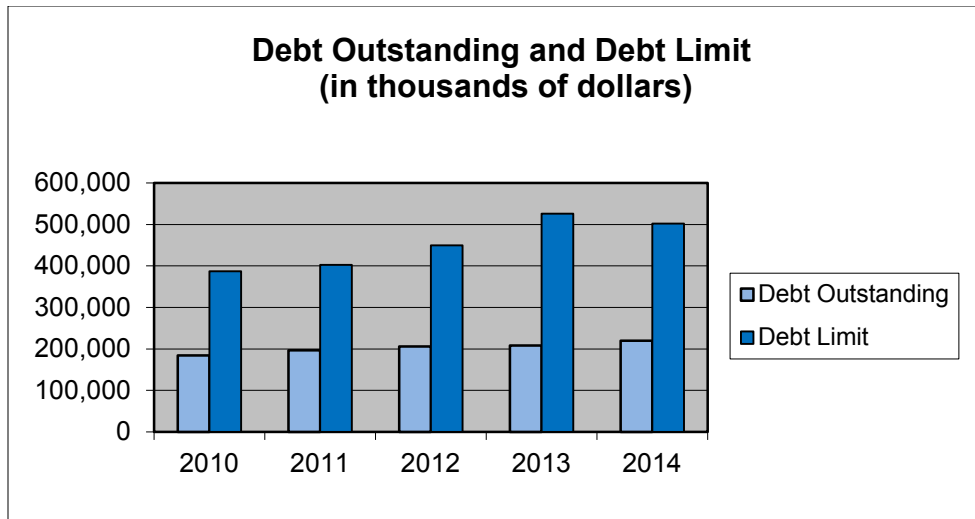
The Municipal Government Act (MGA) limits the total debt that a municipality may have. In September 2013, Council approved a policy that The City shall not exceed 90% of the debt limit. The City has not exceeded 50% of the debt limit in the last 5 years.

Based on 2014 budget, the debt balance at December 31, 2014 was estimated to be \$246.0 million. The estimate of debt limit used was 50.4%. The actual debt limit at December 31, 2014 is \$220.2 million due to decreased borrowing for capital projects. The actual debt limit used is 44%. The debt is split 31% tax supported and 69% self-supported.

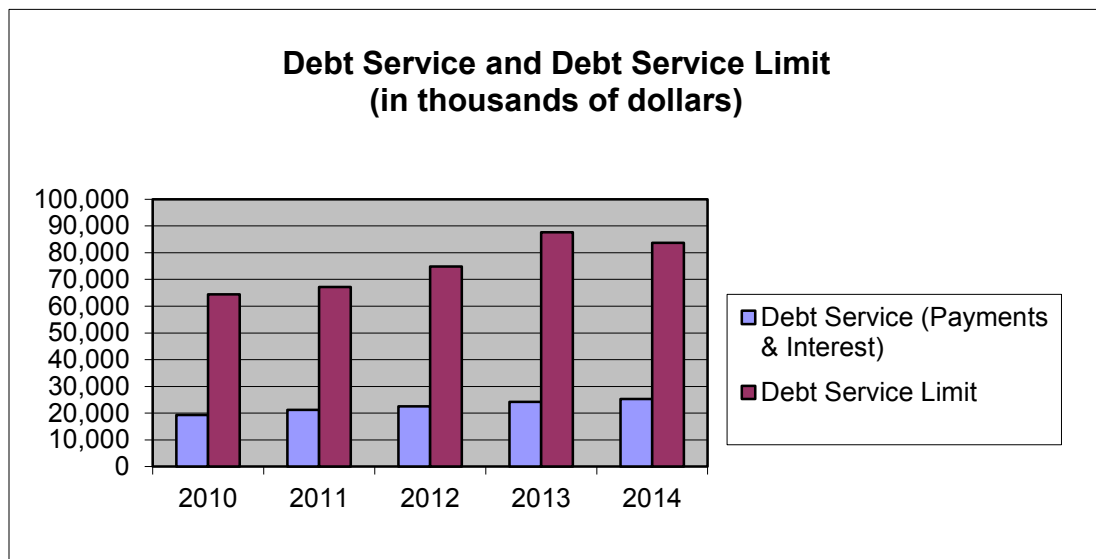
Based on the 2015 budget the debt balance at December 31, 2015 is estimated to be \$250.8 million. The main items where borrowing is planned are as follows:

- 53 Avenue North of Red Deer River \$3.6 million
- 2019 Canada Winter Games Capital Projects \$6.0 million
- Station 3 Relocation \$5.0 million
- Station 4 Construction \$3.8 million
- Taylor Drive Linkage \$5.4 million
- Riverview Park Bank Stabilization \$6.3 million
- Offsite Levy Projects \$13.2 million

The estimated debt limit used would be 43.2%.



The MGA also limits the total debt servicing a municipality may have. Due to the current low interest rate environment, The City has not exceeded 35% of the debt servicing limit in the last 5 years. All debt has fixed interest rates so the City is not exposed to the risk of changes in interest rate on its existing debt. The actual debt servicing limit used in 2014 is 30.2%



Reserves

Additional information is included in Note 16 Accumulated Surplus in the Notes to Consolidated Financial Statement and the Statistical Information section.

Reserves decreased by \$6.6 million from 2013 to \$215 million.

Work continued on a review of reserves in 2014. Council approved the amalgamation of existing reserves resulting in a reduced number of reserves. Purposes for the reserves were identified and some reserves were renamed.

The following self-supported reserves increased in 2014 as the related capital expenditures funded were less than contributions to the reserves:

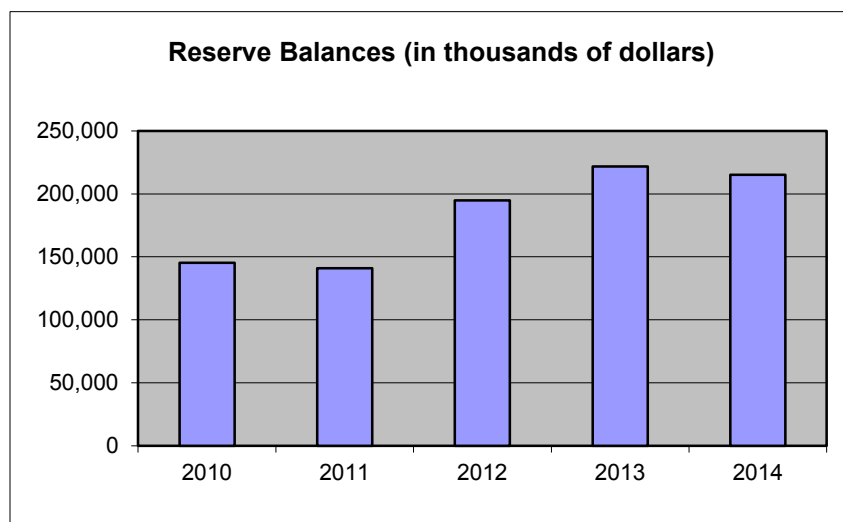
- Power Utility \$4.0 million
- Solid Waste Management \$3.4 million

The following self-supported reserves decreased in 2014 as capital expenditures funded were greater than contributions to the reserves:

- Offsites \$6.7 million
- Water Utility \$8.2 million
- Wastewater Utility \$3.4 million
- Land Development \$4.0 million

For tax supported reserves, the operating reserve-tax supported increased by \$8.3 million as the tax supported operating surplus exceeded draws on the reserve. The capital projects reserve decreased by \$3.8 million mainly due \$8.0 million spent for capital projects and a \$5.0 million reduction in the amount of capital expenditures to be covered by the reserve.

Additional information on reserves will be available on the City web site once the 2014 reserve report is presented to Council in May 2015.



4. VARIANCES – BUDGET TO ACTUAL

Additional information on budget to actual variances will be available on the City website once the annual variance report is presented to Council in May 2015.

5. RISKS & UNCERTAINTIES

Municipal Sustainability Initiative (MSI) Operating Grant – the Provincial Government had indicated that this grant would be phased out in 2015 however it was retained as part of the provincial 2015/16 budget. The grant remained steady at \$0.7 million for both 2014 and 2015. The City will continue to monitor future Provincial budgets to determine if it will be retained. Due to this uncertainty the City has only included \$0.3 million as an ongoing revenue in the 2015 budget.

Annexation – the last annexation required \$3.3 million of reserve funding over the compensation period of 2009 – 14. Depending on other demands on the Operating Reserve – Tax Supported Reserve and the amount of reserve funding required, the timing and size of future annexations will have to be carefully planned.

2019 Canada Winter Games – The City was successful in its bid to be the Host City of the 2019 Games. Council has approved \$26 million as part of the 2014 Capital Budget to construct the required facilities. This will impact tax-supported debt and there will be an impact to the operating budget to support the debt servicing. This includes partnerships with other organizations. The City's ability to deliver on the facilities is dependent on these partners achieving their commitments. Council has also approved a Contingency Capital Budget in case the Red Deer College Multiplex does not proceed. Council has also approved a resolution to assume responsibility for any operating deficit associated with hosting the Games.

Land Expropriations – as per Note 27 Contingencies in the Notes to Consolidated Financial Statements there are currently four applications for Determination of Compensation which have been submitted to the Land Compensation Board. While the amount or likelihood of compensation in these cases is not known, a contingency amount has been provided in future draws on the Capital Project Reserve for these items.

Development Related Revenues – while 2014 was a strong year for development related revenues such as permits, planning fees and development agreement fees, the future outlook for the economy is uncertain due to low oil prices. There is no guarantee that the City will realize the same amount of development related revenues in the future.

Development Related Expenditures – as the City grows, there is a desire to consider front ending trunk services for water, waste water, storm and roads infrastructure in multiple areas. This will have a significant impact on long term debt, including internal borrowing from non-development related reserve, as services are installed.

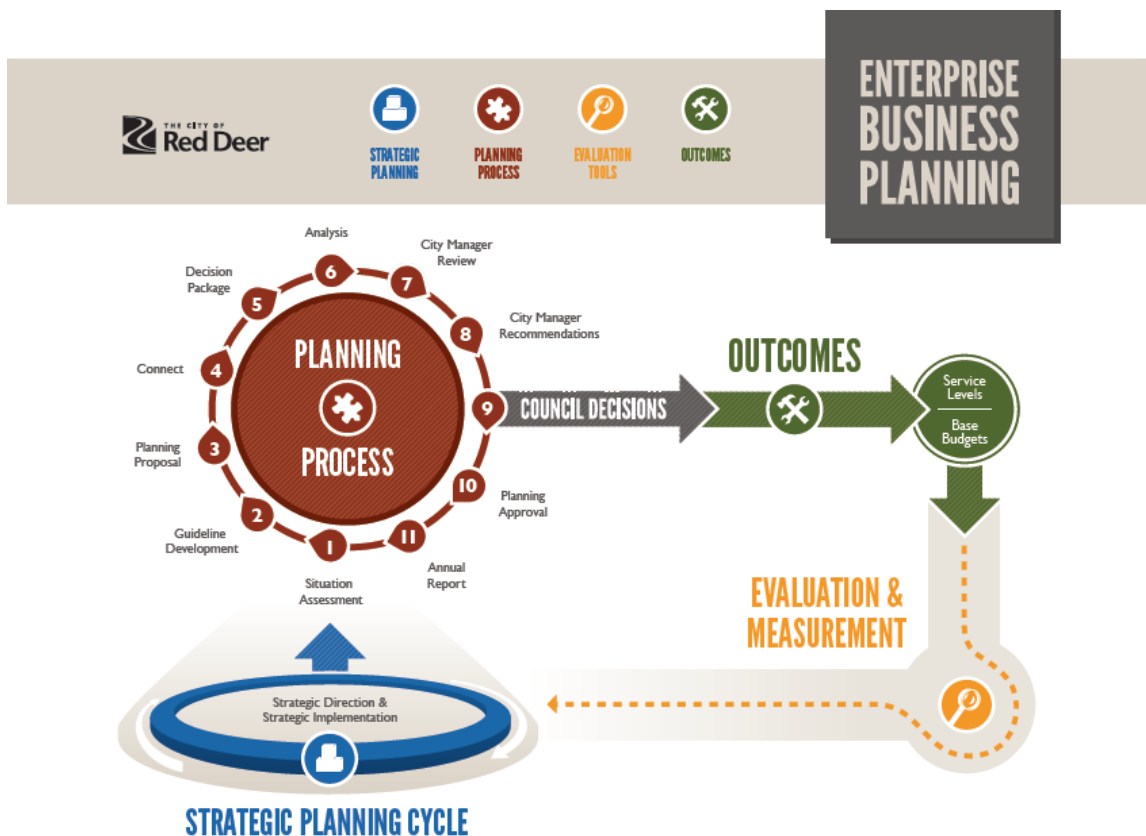
Asset Management – an asset management plan was completed for roads. As anticipated it showed a backlog of work to maintain, rehabilitate and replace roads. The City has begun to address this issue over the last seven years as budgets related to road work have increased from \$2 million to over \$15 million. There is still a large volume of work to be done to tie asset management into financial reporting and complete additional asset management plans. The anticipated results of the work will be a shortfall in maintenance and capital budgets to maintain, rehabilitate and replace capital assets.

Pension Reform – the Provincial government has announced the beginning of a more collaborative process with members and employers to ensure the pension plans are “competitive” and “sustainable”. The City will participate and monitor the progress of this new process in order to determine the impact to the organization.

Public Performance Reporting

6. ENTERPRISE BUSINESS PLANNING

2013 was the first year that all 11 steps of the Planning Process portion of the Enterprise Business Planning model were completed. The intent of the model is to increase the effectiveness, efficiency, integration to other processes and relevance to decision making of the business planning and budget process. The model is shown below.



Step 11 of this model includes the Annual Report. The report is intended to be summary of our progress in a given year for Council and the community. The Communications and Strategic Planning department is the lead for this step of the model. This report is scheduled to be released in conjunction with this Annual Financial Report at the April 27, 2015 Council Meeting.

Work is continuing on the Outcomes and Evaluation & Measurement components of the model. Departments continue to develop and report performance measures to Council in their service plans and in quarterly reporting.

Assessment of Tangible Capital Assets

Tangible capital assets information is included in Schedule 1 – Tangible Capital Assets, Note 14 Tangible Capital Assets and Note 15 Equity in Tangible Capital Assets of the Notes to Consolidated Financial Statements.

7. ASSET MANAGEMENT

The use of The City’s analytical tool has been supported for fleet and pipes. Processes for updating data in the system are being developed by departments using it.

A process for tracking departmental progress on Asset Management initiatives has been established. Indications are that while improvement is being made there are corporate limitations in place that curtail progress. Corporate progress included the completion of an asset management plan for roads and some enhancements to the work management system. We are undertaking an assessment of our vertical (building) Asset Management practices for 2015.

9. FINANCIAL INDICATORS

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

	2014	2013	2012	2011	2010
Sustainability:					
Financial Assets to Liabilities	0.86	0.90	0.88	0.80	0.84
Total Expenses to Assessment	2.12%	2.18%	2.10%	2.04%	1.92%
Flexibility:					
Debt Charges to Revenues	7.54%	6.90%	7.08%	7.58%	7.26%
Vulnerability:					
Government Transfers to Total Revenue	3.31%	3.07%	3.17%	3.51%	5.05%

Sustainability measures the degree to which The City can maintain its existing service and financial commitments without increasing debt or tax burden on its citizens. The Assets to Liabilities ratio has surpassed 2010 levels but still has a ratio of less than 1. This indicates that The City is using debt to finance capital activity. Despite acquiring \$123.4 million of tangible capital assets in 2014, debt levels only increased by \$11.7 million. The City has not exceeded 50% of the Provincial approved debt limit for municipalities to date.

Total Expenses to Assessment compares the economic activity in The City using assessments to total expenses for the organization. The increase in City expenses should not outpace increases in assessments. The City's ratio has not changed significantly over the last four years.

Flexibility measures the degree to which The City uses debt instead of increased taxation to meet its capital commitments. In 2014 The City committed 7.54% of revenue to service debt. This amount has remained fairly constant over the last five years while remaining well within the debt servicing limit set for municipalities by the Province.

Vulnerability measures the degree to which The City depends on other levels of government for operating funding. In 2014 this indicator reduced to 3.31% from 7.26% in 2010. This indicator reflects that as provincial grants have declined, The City has generated other sources of revenue to become less reliant.

Conclusion

The City continues to monitor the impacts from low oil prices. As the Province continues to adjust its budget to deal with reduced revenues the City will have to be ready for any future impacts to municipal funding. The continued development of a financial sustainability framework is important to ensure we have the resiliency to absorb future impacts.

The City's financial position did not change significantly from the 2013 financial position. While the net debt position increased marginally, there was a substantial acquisition of tangible capital assets. The debt limit used increased slightly and reserve balances decreased slightly. The flexibility measure and the vulnerability measure are comparable to 2011 levels. With Council's adoption of financial leadership as one of the strategic themes for the next four years we will continue to monitor and improve the City's ability to be able to adapt to a changing environment.

Respectfully submitted,



Dean Krejci, CA
Chief Financial Officer
April 7, 2015

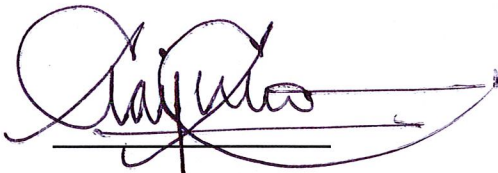
FINANCIAL INFORMATION

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 public sector accounting standards. The preparation of the consolidated financial statements includes best estimates and judgments of management. Financial information contained throughout this annual report is consistent with these financial statements.

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

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



Craig Curtis
City Manager



Dean Krejci
Chief Financial Officer



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INDEPENDENT AUDITORS' REPORT

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

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, 2014, the consolidated statements of operations, changes in net financial debt, and cash flows for the year then ended, and notes, comprising 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.

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 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 our 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, we consider 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 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 consolidated financial position of the City of Red Deer as at December 31, 2014, and its consolidated results of operations, its consolidated changes in net financial debt, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

April 27, 2015
Edmonton, Canada

Consolidated Statement of Financial Position
As at December 31, 2014 (in thousands of dollars)

	2014	2013
Financial Assets		
Cash and cash equivalents (Note 2)	917	14,936
Temporary investments (Note 3)	130,752	99,137
Accounts receivable (Note 4)	34,732	42,627
Land held ready for sale (Note 5)	5,611	2,513
Long-term investments (Note 6)	134,788	138,854
Loans receivable (Note 7)	1,284	1,143
	308,084	299,210
Liabilities		
Accounts payable & accrued liabilities (Note 8)	50,878	39,011
Other liabilities	5,667	3,725
Deferred revenue (Note 9)	63,891	65,488
Employee benefit obligations (Note 10)	13,036	12,288
Landfill closure and post-closure liability (Note 11)	4,481	4,567
Long-term debt (Note 12)	220,178	208,501
	358,131	333,580
Net Financial Debt	(50,047)	(34,370)
Non-financial Assets		
Tangible capital assets (Schedule 1)	1,804,490	1,702,737
Land held not ready for sale (Note 5)	34,446	29,448
Capital lease	-	11
Prepaid expenses	2,083	2,607
Inventory	8,441	8,222
	1,849,460	1,743,025
Accumulated Surplus (Note 16)	\$ 1,799,413	\$ 1,708,655

Contractual obligations - Note 26
 Contingencies - Note 27
 Guarantee - Note 28
 Segmented information - Note 29

Approved on behalf of City Council:



Tara Veer, Mayor



Ken Johnston, Councillor

Consolidated Statement of Operations

For the Year Ended December 31, 2014 (in thousands of dollars)

	Budget (Note 29)	2014	2013
Revenues			
Net municipal taxes (Note 17)	\$ 112,477	\$ 112,537	\$ 107,034
Operating government transfers (Note 18)	11,794	11,061	10,760
User fees and sale of goods and services (Note 19)	201,668	172,911	175,437
Investment earnings	6,016	5,151	6,237
Fines and penalties	6,516	5,870	5,972
Franchise fees	6,871	7,441	6,927
Licenses and permits	3,309	3,690	3,542
Other revenue	2,454	5,521	4,407
	351,105	324,182	320,316
Expenses (Note 20)			
Legislative and administrative	38,554	33,260	31,900
Police and other protective	34,255	32,355	30,972
Fire and ambulance	26,792	30,822	27,363
Transportation	38,388	46,915	46,134
Transit	13,120	13,199	12,445
Social planning	3,985	3,920	3,871
Community services	8,842	7,481	7,424
Recreation, parks and culture	42,517	45,074	43,545
Parking	2,179	2,619	2,098
Fleet	13,978	13,627	11,356
Water	15,794	15,752	14,942
Waste water	15,062	14,227	16,173
Solid waste collection	6,521	6,442	6,218
Recycling	2,141	2,054	2,027
Solid waste disposal	6,219	3,914	5,089
Subdivisions	1,188	11,640	6,671
Electric light and power	38,798	32,933	32,634
	308,333	316,234	300,862
Annual Surplus before Other	42,772	7,948	19,454
Other			
Capital government transfers (Note 18)	50,186	38,120	27,031
Contributed tangible capital assets	46,463	34,284	21,878
Developer and customer contributions	13,333	10,015	29,341
Other	-	391	1,099
Annual Surplus	152,754	90,758	98,803
Accumulated Surplus, beginning of year	\$ 1,708,655	\$ 1,708,655	\$ 1,609,852
Accumulated Surplus, end of year	\$ 1,861,409	\$ 1,799,413	\$ 1,708,655

Consolidated Statement of Change in Net Financial Assets (Net Debt)
For the Year Ended December 31, 2014 (in thousands of dollars)

	Budget (Note 29)	2014	2013
Annual Surplus	\$ 152,754	\$ 90,758	\$ 98,803
Acquisition of tangible capital assets	(119,439)	(123,423)	(119,892)
Contributed tangible capital assets	(46,463)	(34,284)	(21,878)
Proceeds on disposal of tangible capital assets	155	822	823
Amortization of tangible capital assets	49,334	53,798	54,706
Loss on disposal of tangible capital assets	(155)	1,334	1,347
	(116,568)	(101,753)	(84,894)
Net acquisition of land held not ready for sale	-	(4,998)	(7,606)
Net use of capital lease	-	11	62
Net acquisition (use) of prepaid expenses	-	524	(1,039)
Net acquisition of inventory	-	(219)	(719)
	-	(4,682)	(9,302)
Decrease (Increase) in Net Debt	36,186	(15,677)	4,607
Net Debt, beginning of year	(34,370)	(34,370)	(38,977)
Net Financial Assets (Net Debt), end of year	\$ 1,816	\$ (50,047)	\$ (34,370)

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2014 (in thousands of dollars)

	2014	2013
Net Inflow (outflow) of cash related to the following activities:		
Operating		
Annual surplus	\$ 90,758	\$ 98,803
Non-cash items included in excess of revenues over expenses:		
Amortization of tangible capital assets	53,798	54,706
Loss on disposal of tangible capital assets	1,334	1,347
Tangible capital assets received as contributions	(34,284)	(21,878)
Change in non-cash items:		
Accounts receivable	7,895	(9,104)
Land held ready for sale	(3,098)	(49)
Land held not ready for sale	(4,998)	(7,606)
Loans receivable	(141)	738
Prepaid expenses	524	(1,039)
Inventory	(219)	(719)
Accounts payable and accrued liabilities	11,867	(121)
Other liabilities	1,942	(47)
Deferred revenue	(1,597)	2,047
Employee benefit obligations	748	658
Landfill closure and post-closure liability	(86)	893
Cash provided by operating transactions	124,443	118,629
Capital		
Acquisition of tangible capital assets	(123,423)	(119,892)
Proceeds on disposal of tangible capital assets	822	823
Cash applied to capital transactions	(122,601)	(119,069)
Investing		
Change of:		
Temporary investments	(31,615)	1,123
Long-term investments	4,066	(2,995)
Cash applied to investing transactions	(27,549)	(1,872)
Financing		
Long-term debt issued	27,247	16,337
Long-term debt repaid	(15,570)	(13,800)
Change of capital lease	11	62
Cash provided by financing transactions	11,688	2,599
Change in cash and cash equivalents during the year	(14,019)	287
Cash and cash equivalents, beginning of year	14,936	14,649
Cash and cash equivalents, end of year	\$ 917	\$ 14,936

Schedule 1 - Consolidated Schedule of Tangible Capital Assets
For the Year Ended December 31, 2014 (in thousands of dollars)

	Land	Land Improvement	Buildings	Machinery and Equipment	Vehicles	Engineered Structures	Assets under construction	2014	2013
Cost:									
Balance, beginning of year	\$ 325,643	\$ 66,314	\$ 313,587	\$ 56,051	\$ 46,445	\$ 1,474,767	\$ 157,263	\$ 2,440,070	\$ 2,309,041
Assets under construction	-	-	-	-	-	-	17,831	17,831	10,014
Acquisition of tangible capital assets	6,585	6,154	7,394	5,843	5,158	108,742	-	139,876	131,756
Disposal of tangible capital assets	-	(132)	(2,214)	(1,088)	(3,135)	(9,077)	-	(15,646)	(10,741)
Balance, end of year	332,228	72,336	318,767	60,806	48,468	1,574,432	175,094	2,582,131	2,440,070
Accumulated Amortization:									
Balance, beginning of year	-	(28,795)	(81,437)	(31,628)	(20,248)	(575,225)	-	(737,333)	(691,198)
Annual amortization	-	(3,240)	(8,885)	(4,260)	(3,652)	(33,761)	-	(53,798)	(54,706)
Disposal of tangible capital assets	-	112	1,935	1,028	3,027	7,388	-	13,490	8,571
Balance, end of year	-	(31,923)	(88,387)	(34,860)	(20,873)	(601,598)	-	(777,641)	(737,333)
Net book value of tangible capital assets	\$ 332,228	\$ 40,413	\$ 230,380	\$ 25,946	\$ 27,595	\$ 972,834	\$ 175,094	\$ 1,804,490	\$ 1,702,737

See note 14.

Schedule 2 - Consolidated Schedule of Segment Disclosures

For the Year Ended December 31, 2014 (in thousands of dollars)

	Legislative and administrative	Protective services	Transportation	Water and wastewater	Waste management	Community services	Subdivisions	Recreation, parks and culture	Electric light and power	Total
Revenues										
Net municipal taxes	\$ 113,584	\$ -	\$ (194)	\$ (1)	\$ -	\$ -	\$ (7)	\$ (26)	\$ (819)	\$ 112,537
User fees and sale of goods and services	432	16,217	6,318	50,438	17,369	550	20,488	10,415	50,684	172,911
Operating government transfers	852	2,649	263	-	-	6,488	-	809	-	11,061
Investment earnings	1,793	33	1,009	590	405	93	558	222	448	5,151
Fines and penalties	680	4,673	-	101	20	-	59	108	229	5,870
Franchise fees	7,332	-	-	-	-	-	-	109	-	7,441
Licenses and permits	-	3,662	2	-	-	26	-	-	-	3,690
Other revenue	2,400	274	907	4	350	77	18	1,486	5	5,521
	127,073	27,508	8,305	51,132	18,144	7,234	21,116	13,123	50,547	324,182
Expenses										
Salaries, wages and benefits	19,234	37,466	24,858	8,548	875	3,928	471	27,685	4,229	127,294
Contracted services	6,889	5,172	8,300	1,856	10,702	674	2,207	5,025	3,708	44,533
Purchase from other governments	-	18,869	-	-	-	-	-	-	-	18,869
Materials and supplies	1,015	1,469	9,810	4,947	46	274	8,629	4,134	21,811	52,135
Financial charges	3,843	544	1,497	2,426	2	12	-	138	575	9,037
Grants to organizations	349	-	185	-	-	6,360	334	1,727	-	8,955
Amortization expense	1,732	2,245	29,435	10,410	1,098	153	-	6,228	2,508	53,809
Other expenses	198	31	(344)	1,792	(313)	-	(1)	137	102	1,602
	33,260	65,796	73,741	29,979	12,410	11,401	11,640	45,074	32,933	316,234
Annual surplus (deficit) before other	93,813	(38,288)	(65,436)	21,153	5,734	(4,167)	9,476	(31,951)	17,614	7,948
Other										
Capital government transfers	-	226	31,573	5,715	-	-	600	6	-	38,120
Contributed tangible capital assets	-	-	23,728	10,734	-	(178)	-	-	-	34,284
Developer and customer contributions	-	-	3,751	2,478	-	-	227	600	2,959	10,015
Other	-	-	182	201	-	-	2	6	-	391
Annual surplus (deficit)	\$ 93,813	\$ (38,062)	\$ (6,202)	\$ 40,281	\$ 5,734	\$ (4,345)	\$ 10,305	\$ (31,339)	\$ 20,573	\$ 90,758

See note 29.

SCHEDULE 2 - Consolidated Schedule of Segment Disclosures

For the Year Ended December 31, 2013 (in thousands of dollars)

	Legislative and administrative	Protective services	Transportation	Water and wastewater	Waste management	Community services	Subdivisions	Recreation, parks and culture	Electric light and power	Total
Revenues										
Net municipal taxes	\$ 107,805	\$ -	\$ (181)	\$ 223	\$ -	\$ -	\$ (6)	\$ (26)	\$ (781)	\$ 107,034
User fees and sale of goods and services	608	12,413	5,742	48,772	16,210	776	30,936	10,031	49,949	175,437
Operating government transfers	1,401	1,920	399	-	-	6,106	-	934	-	10,760
Investment earnings	1,755	43	1,133	1,182	417	46	869	254	538	6,237
Fines and penalties	739	4,684	-	193	18	-	30	89	219	5,972
Franchise fees	6,827	-	-	-	-	-	-	100	-	6,927
Licenses and permits	81	3,414	23	-	-	24	-	-	-	3,542
Other revenue-OP	536	259	831	3	360	148	30	2,237	3	4,407
	119,752	22,733	7,947	50,373	17,005	7,100	31,859	13,619	49,928	320,316
Expenses										
Salaries, wages and benefits	18,236	32,694	22,878	8,199	704	3,621	471	26,915	3,867	117,585
Contracted services	7,288	4,363	5,369	1,953	10,658	590	127	4,936	3,085	38,369
Purchase from other governments	-	18,223	-	-	-	-	-	-	-	18,223
Materials and supplies	1,073	1,690	12,838	4,993	65	297	6,073	5,240	22,093	54,362
Financial charges	3,175	574	1,436	2,706	(1)	14	-	131	925	8,960
Grants to organizations	424	-	185	-	-	5,967	-	407	-	6,983
Amortization expense	1,891	2,630	27,535	13,111	1,174	147	-	5,696	2,584	54,768
Other expenses	(187)	259	(306)	153	734	659	-	220	80	1,612
	31,900	60,433	69,935	31,115	13,334	11,295	6,671	43,545	32,634	300,862
Annual surplus (deficit) before other	87,852	(37,700)	(61,988)	19,258	3,671	(4,195)	25,188	(29,926)	17,294	19,454
Other										
Capital government transfers	758	475	22,931	1,212	-	-	-	1,655	-	27,031
Contributed tangible capital assets	-	-	19,676	1,957	-	188	-	57	-	21,878
Developer and customer contributions	-	-	18,382	6,373	-	-	149	354	4,083	29,341
Other	276	155	249	118	-	-	\$158	\$144	\$(1)	\$1,099
Annual surplus (deficit)	\$ 88,886	\$ (37,070)	\$ (750)	\$ 28,918	\$ 3,671	\$ (4,007)	\$ 25,495	\$ (27,716)	\$ 21,376	\$ 98,803

See note 29.

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenses 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. They include the following:

City Municipal and Utility Operations:

- ◆ Legislative and administrative;
- ◆ Protective services;
- ◆ Transportation;
- ◆ Water and wastewater;
- ◆ Community services;
- ◆ Subdivisions;
- ◆ Recreation, parks and culture; and
- ◆ Electric power distribution.

Societies and Boards:

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

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

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

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

(b) Basis of Accounting

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

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

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

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

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.

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

(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 revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Significant financial statement areas requiring the use of management 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;
- ◆ useful life of tangible capital assets;
- ◆ accrued liabilities;
- ◆ liabilities for contaminated sites;
- ◆ allowance for doubtful accounts receivable and loans receivable; and
- ◆ fair value of contributed tangible capital assets.

(d) Cash and Cash Equivalents

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

(e) 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.

(f) Land Held Ready for Sale

Land held ready 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 tangible capital assets under their respective function. Land held ready for sale is land inventory in which the land is in a condition to be sold, is marketed for sale and it is reasonably anticipated the land will be sold within one year.

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

(g) Loans Receivable

Loans receivable are recorded at the principal amount of loans outstanding less an allowance for loan impairment. Loans are classified as impaired when in management's opinion there is no reasonable assurance of the timely collection of the full amount of principal and interest.

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

(h) Requisition Over-levy and Under-levy

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

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

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

(i) Employee Benefit Obligations

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

(j) 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.

(k) 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. This requirement is being provided for over the estimated remaining life of the landfill site based on usage.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

(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 Changes in Net Debt for the year.

i. Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Government contributions for the acquisition of tangible capital assets are reported as revenue and do not reduce the related tangible capital asset costs.

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

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

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

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

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 revenue for the year on the Consolidated Statement of Operations.

iii. Cultural and Historical Tangible Capital Assets

Works of art for display, archived municipal records and municipal historical artifacts are not recorded as tangible capital assets. Acquisitions of cultural and historical assets are expensed in the period the related costs are incurred.

iv. Leases

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

v. Inventories

Inventories held for consumption are recorded at lower of weighted average cost and net realizable value.

vi. Land Held Not Ready for Sale

Land held not ready 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 tangible capital assets under their respective function. Land held not ready for sale is land held for future development and is not reasonably anticipated to be sold within one year.

(m) Future Accounting Standards

The following summarizes upcoming changes to PSAS issued by the Public Sector Accounting Standards Board (PSAB). In 2015, the City will continue to assess the impact and prepare for the adoption of these standards. While the timing of standard adoption can vary, certain standards must be adopted concurrently. The requirements in *Financial Statement Presentation* (PS1201), *Financial Instruments* (PS3450), *Foreign Currency Translation* (PS2601) and *Portfolio Investments* (PS3041) must be implemented at the same time.

i. Financial Statement Presentation

PS1201, *Financial Statement Presentation*, requires a new statement of re-measurement gains and losses separate from the statement of operations. Included in this new statement are the unrealized gains and losses arising from the re-measurement of financial instruments and items denominated in foreign currencies, as well as the government's proportionate share of other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. This standard is applicable for fiscal years beginning on or after April 1, 2016.

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

ii. Financial Instruments

PS3450, *Financial Instruments*, applicable for fiscal years beginning on or after April 1, 2016, establishes recognition, measurement, and disclosure requirements for derivative and non-derivative financial instruments. The standard requires fair value measurement of derivatives and equity instruments; all other financial instruments can be measured at cost/amortized cost or fair value at the election of the government. Unrealized gains and losses are presented in a new statement of re-measurement gains and losses. There is the requirement to disclose the nature and extent of risks arising from financial instruments and clarification is given for the de-recognition of financial liabilities. As The City is not investing in derivatives and equity instruments based on its investment policy, this new standard has little impact on current systems.

iii. Foreign Currency Translation

PS2601, *Foreign Currency Translation*, requires that monetary assets and liabilities denominated in a foreign currency and non-monetary items included in the fair value category, denominated in a foreign currency, be adjusted to reflect the exchange rates in effect at the financial statement date. Unrealized gains and losses are to be presented in the new statement of re-measurement gains and losses. This standard is applicable for fiscal years beginning on or after April 1, 2016.

iv. Portfolio Investments

PS3041, *Portfolio Investments* has removed the distinction between temporary and portfolio investments. This section now includes pooled investments in its scope and was amended to conform to *Financial Instruments*, PS3450. Upon adoption of PS3450 and PS3041, *Temporary Investments* PS3030 will no longer apply.

v. Related Party Disclosures

PS2200, *Related Party Disclosures* requires the disclosure of the effect of financially material transactions between related parties. This standard is applicable for fiscal years beginning on or after April 1, 2017.

vi. Inter-Entity Transactions

PS3420, *Inter-Entity Transactions* specifically covers how to account for and report transactions between entities controlled by a government and that comprise the government's reporting entity from both a provider and a recipient perspective. This standard is applicable to fiscal years beginning on or after April 1, 2017.

(n) Adoption of New Accounting Standards

Liability for Contaminated Sites

PS3260, *Liability for Contaminated Sites* comes into effect for fiscal years beginning on or after April 1, 2014. This section establishes standards on remediation, recognition and measurement and provides requirements for financial statement presentation and disclosure. This accounting policy was adopted in the current year on a prospective basis with no significant impact on the City's financial statements. Information related to the liabilities is further described in Note 8.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

2 CASH AND CASH EQUIVALENTS

	2014	2013
Cash	(1,122)	14,487
Cash equivalent	2,039	449
	\$ 917	\$ 14,936

Cash includes cash on hand and balances with financial institutions. Cash equivalents consist of cash held in temporary investments.

The City has access to an unsecured line of credit of up to \$25,000 to cover any bank overdraft arising from day to day cash transactions. \$5,056 (2013- nil) was outstanding on the line of credit overdraft as at December 31, 2014.

3 TEMPORARY INVESTMENTS

	2014	2013
Temporary investments	\$ 130,752	\$ 99,137

Temporary investments are short-term reasonably liquid investments which approximates market value. These investments have effective rates of 0.89% to 1.85% (2013 - 0.90% to 1.90%) and with maturities of one year or less.

4 ACCOUNTS RECEIVABLE

	2014	2013
General accounts receivable	\$ 9,701	\$ 10,973
Utility receivable	14,403	15,827
Taxes receivable	3,177	3,157
Other government receivables	3,874	6,527
Interest on investments	2,044	1,250
Other receivable	1,861	5,159
	35,060	42,893
Allowance for doubtful accounts	(328)	(266)
	\$ 34,732	\$ 42,627

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

5 LAND INVENTORY

	2014		2013	
Residential	\$	265	\$	2,000
Industrial and commercial		5,346		513
Land held ready for sale		5,611		2,513
Residential		20,691		8,731
Industrial and commercial		13,755		20,717
Land held not ready for sale	\$	34,446	\$	29,448

6 LONG-TERM INVESTMENTS

	2014		2013	
	Cost	Market Value	Cost	Market Value
Federal government	\$ 5,599	\$ 5,815	\$ 6,981	\$ 6,831
Provincial government	74,897	76,537	73,564	72,483
Municipal government	930	1,036	880	891
Canadian banks	41,520	42,020	47,824	47,531
Corporate	7,250	7,563	5,560	5,738
Other	4,592	4,528	4,045	5,609
	\$ 134,788	\$ 137,499	\$ 138,854	\$ 139,083

Long-term investments have effective interest rates of 1.25% to 11% (2013 - 0% to 11%) and mature in periods from January 1, 2016 to June 30, 2108 (2013 - January 14, 2014 to December 1, 2044). The declines in market value below cost are considered to be temporary and therefore no write-downs have been recorded.

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) with an expected maturity date of January 22, 2017, but a legal maturity date of July 15, 2056. After the write down in 2008, the long term investments included MAV II with a net carrying value of \$2,969. In 2014, interest received was \$24 (2013 - \$34) and the MAV II was sold for \$4,581.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

7 LOANS RECEIVABLE

	2014	2013
Red Deer Gymnastics Club	\$ 147	\$ 185
Central Alberta Theatre	31	31
Red Deer and District SPCA	935	958
Canada Winter Games	202	-
	1,315	1,174
Allowance for doubtful loans	(31)	(31)
	\$ 1,284	\$ 1,143

Principal amounts due (net of allowance) are as follows:

2015	\$	64
2016		67
2017		70
2018		50
2019		231
Thereafter		802
	\$	1,284

i. The City provided a loan to Red Deer Gymnastics Club for space in the Collicutt Centre. The term of the loan is 17 years bearing interest at an initial rate of 6% per annum. The interest rate was reduced effective January 1, 2012 under Bylaw 3390/A-201 to 3.75%.

ii. The City provided a loan to Central Alberta Theatre to pay for servicing and fire suppression apparatus to meet the requirements of the Alberta Building Code. The original term of the loan was four years and with an interest rate of 5.33% per annum. In 2013, the Society filed a Notice of Proposal to Creditors, which was accepted by the creditors. This notice did not include the loan payable to The City. In early 2014, City Council approved an amended loan bylaw that extended the loan term to 7 years and reduced the interest rate to 2.963%.

iii. 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.

iv. The City provided a loan to the 2019 Canada Winter Games Host Society Organization to be used for operating expenditures until such time as Provincial and / or Federal grants are received by the Host Society. The City will act as an agent of the future Host Society until such time as the Society is formally established. The loan is to be fully repaid prior to the end of February 2019 bearing an interest rate of 2.075% per annum.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014		2013	
Trade	\$	40,873	\$	28,824
Payroll and remittances		4,837		7,591
GST		315		260
Liability for contaminated sites		3,883		1,378
Accrued interest		812		800
Other		158		158
	\$	50,878	\$	39,011

The City owns properties that have undergone initial Environmental Site Assessments. Where the site assessments identified environmental contamination, liabilities for future environmental remediation were established. In 2014, based on a new assessment report, the liability amount was increased from \$1,378 to \$3,883.

9 DEFERRED REVENUE

Deferred revenue is comprised of the funds noted below, the use of which are externally restricted or subject to stipulations from the funds. Certain deferred revenues related to government transfers are further described in Note 18.

	2014		2013	
Basic Municipal Transportation Grant	\$	7,551	\$	10,797
Alberta Municipal Infrastructure Program		-		295
Federal Gas Tax Fund		-		2,544
Municipal Sustainability Initiative Grant		28,219		26,930
Recreation amenity		5,238		5,017
Developer and customer contributions		15,754		12,129
Other		7,129		7,776
	\$	63,891	\$	65,488

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

10 EMPLOYMENT BENEFIT OBLIGATIONS

	2014	2013
Vacation, overtime and earned days off	\$ 6,409	\$ 6,370
Retiring allowance	2,325	2,207
Other employment benefits	4,302	3,711
	\$ 13,036	\$ 12,288

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 an independent actuary as at December 31, 2012. Key actuarial assumptions used in the valuation were based on a number of assumptions about future events, which reflect management's best estimates. The next valuation of the program will be performed in 2015.

The expected discount rate of 3.00% and the expected salary escalations of 2.75% are used to determine the accrued benefit obligation. The accrued benefit obligation is \$2,534 (2013 - \$2,445) using projected benefit method prorated on services. The net actuarial loss of \$210 (2013 - \$238) is amortized on a straight line basis over 13 years starting with the year following its determination.

iii. Other Employee Benefits

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

11 LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

Under legislation, The City has a liability for closure and post closure costs for its landfill. Landfill closure and post-closure requirements include construction of final cap and landscaping of the landfill, pumping leachates from the site, and ongoing environmental monitoring, site inspection and maintenance.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

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 3.20% (2013 - 3.55%) and annual inflation of 1.41% (2013 - 2.32%). The reported liability is based on estimates and assumptions with respect to events using the best information available to management. Future events, such as changes to regulatory requirements, may result in significant changes to the estimated total expenses and will be recognized prospectively, as a change in estimate, when applicable.

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

The new waste management facility commenced operation in 2001 and consists of 3 phases of development. In total, all 3 Phases are estimated to provide capacity to 2050. Closure activities will be ongoing as the landfill reaches final design elevation. Closure and post-closure costs are based on an independent study conducted in 2012. Phase I of the landfill has an estimated capacity of 1,220,700 cubic metres remaining, which is projected to last until 2024 based on current growth and usage. It is estimated that post closure care will be required for a period of 40 years from closure. The present value of estimated future closure and post closure costs has been calculated and accrued.

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

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

	2014	2013
Total estimated closure and post-closure costs if fully utilized	5,606	6,059
Liability utilized as of December 31, 2014	4,481	4,567
Remaining estimated costs	\$ 1,125	\$ 1,492

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

12 LONG-TERM DEBT

Long-term debt is comprised of :

	2014		2013
Tax-supported debt	\$	67,434	\$ 69,331
Self-supported debt		152,744	139,170
	\$	220,178	\$ 208,501

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

Principal and interest repayments are as follows:

	Principal		Interest		Total
2015	\$	16,418	\$	8,815	\$ 25,233
2016		16,825		8,191	25,016
2017		17,256		7,558	24,814
2018		16,661		6,917	23,578
2019		14,333		6,323	20,656
Thereafter		138,685		48,562	187,247
	\$	220,178	\$	86,366	\$ 306,544

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 2042 (2013 – 2042). Interest rates on these debentures range from 2.18% to 5.38% (2013 - 2.17% to 5.38%) per annum. The average annual interest rate is 4.07% (2013 - 4.01%). 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 \$27. The remaining principal balance was \$152 as at December 31, 2014 (2013- \$165).

During the year, a total of \$27,247 (2013- \$16,337) was added through new debenture borrowings to fund capital projects. Interest expenses on long-term debt amounted to \$8,780 (2013 - \$8,725). Cash payments for interest and principal were \$8,773 (2013 - \$8,690) and \$15,569 (2013 - 13,800) respectively.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

13 DEBT LIMIT

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.

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

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

	2014	2013
Total debt limit	\$ 501,882	\$ 526,134
Total debt	220,178	208,501
Percentage used	44 %	40 %
Total debt service limit	83,647	87,689
Total debt service	25,233	24,200
Service on debt limit available	30 %	28 %

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

14 TANGIBLE CAPITAL ASSETS

	2014	2013
Net book value		
Land	332,228	325,643
Land improvement	40,413	37,519
Building	230,380	232,150
Machinery and equipment	25,946	24,423
Vehicles	27,595	26,197
Engineering structures		
Roadway system	372,011	342,975
Water system	185,163	173,301
Wastewater system	175,763	156,160
Storm system	194,736	183,266
Electrical system	43,943	42,558
Fiber optics system	1,218	1,282
	1,629,396	1,545,474
Assets under construction	175,094	157,263
	\$ 1,804,490	\$ 1,702,737

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

\$34,284 in land and engineered structures were contributed to The City in 2014 (2013 - \$21,878) and were recorded at their fair value at the time received. There were no write-down of tangible capital assets in 2014 (2013 - \$835).

15 EQUITY IN TANGIBLE CAPITAL ASSETS

	2014	2013
Tangible capital assets (Schedule 1)	\$ 2,582,131	\$ 2,440,070
Accumulated amortization (Schedule 1)	(777,641)	(737,333)
Long-term debt (Note 12)	(220,178)	(208,501)
	\$ 1,584,312	\$ 1,494,236

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

16 ACCUMULATED SURPLUS

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

	2014	2013
Unrestricted deficits	(135)	(403)
Advances for construction (Capital to be financed)	(37)	(7,006)
Reserves		
Finance a specific purpose	2,211	2,125
Capital projects- tax supported	25,033	28,809
Municipal parkland	5,450	4,825
Operating- tax supported	24,441	16,142
Debt repayment	12,642	11,685
Capital asset replacement	27,499	25,743
Land development	50,363	54,334
Parking	1,369	1,080
Offsite	12,659	19,319
Power	21,534	17,567
Water	9,385	17,569
Waste water	6,169	9,544
Solid waste management	16,518	13,086
Total reserves	215,273	221,828
Equity in tangible capital assets (Note 15)	1,584,312	1,494,236
	\$ 1,799,413	\$ 1,708,655

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

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

17 NET MUNICIPAL TAXES

	Budget (Note 29)	2014	2013
Taxes:			
Property taxes	\$ 149,055	\$ 149,439	\$ 142,735
Revenue in lieu of taxes	2,203	2,203	2,231
Local improvement levies	118	5	769
Other	979	979	1,370
	152,355	152,626	147,105
Less tax on behalf of:			
Public schools	34,945	35,189	35,138
Catholic schools	4,663	4,781	4,663
Piper Creek Foundation	270	119	270
	39,878	40,089	40,071
	\$ 112,477	\$ 112,537	\$ 107,034

18 GOVERNMENT TRANSFERS

	Budget (Note 29)	2014	2013
Operating transfers			
Provincial	\$ 10,849	\$ 10,338	\$ 9,831
Federal	422	446	514
Other	523	277	415
	11,794	11,061	10,760
Capital transfers			
Provincial	45,281	33,773	18,816
Federal	4,432	4,347	8,215
Other	473	-	-
	50,186	38,120	27,031
	\$ 61,980	\$ 49,181	\$ 37,791

In 2014, the City received a grant of \$2,371 (2013 – \$2,371) from the Province for Family and Community Support Services funding. \$2,389 (2013 – \$2,352) was recognized as operating government transfers in 2014, and \$30 (2013 – \$47) has been reported as deferred revenue.

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

In 2009, the Province of Alberta introduced the Outreach and Support Services Initiative (OSSI) grant. The grant is to assist chronic and episodically homeless individuals find and maintain housing. \$2,990 was received in 2014 (2013 – \$2,990). \$3,047 (2013 – \$2,978) has been recognized as operating government transfers and \$1,564 (2013 - \$1,601), including interest of \$46 (2013 - \$26) has been reported as deferred revenue.

The Homelessness Partnering Strategy grant through the Government of Canada runs from April 1, 2014 to March 31, 2017. The revenue is recognized quarterly on a claim basis submitted to the Federal Government. In 2014 the amount claimed was \$446 (2013 - \$514).

Alberta Solicitor General and Public Security provides annual funding for supporting municipalities with the costs of policing services. The City received \$1,554 in 2014 (2013 - \$1,470), and the full amount was recognized as operating government transfers in 2014.

Basic Municipal Transportation Grant (BMTG) has been discontinued and now is part of MSI. The City will continue to use the remaining funds for approved projects until they are depleted. In 2014, \$3,246 (2013- \$6,039) has been recognized as government transfers, and \$7,551 (2013- \$10,797) has been deferred to future years. The major projects funded by the program in 2014 were Taylor Drive and Alexander Way Intersection Improvements.

In 2008, the Provincial government introduced the Municipal Sustainability Initiative (MSI) program to provide municipalities with sustainable funding. In 2014, major projects funded by this grant include: Taylor Drive and Ross Street Intersection Improvements and Pavement Rehabilitation. In 2014, the former BMTG came under the umbrella of MSI. In 2014, The City received \$18,728 plus additional \$6,089 from BMTG (2013 – \$18,089) and recognized \$23,276 (2013 - \$11,406) as capital government transfers and \$718 (2013- \$1,194) as operating government transfers. \$28,219 (2013 - \$26,930) including interest of \$464 (2013- \$455) has been deferred to future years.

Alberta Municipal Infrastructure Program (AMIP) has been discontinued and the remaining balance of \$295 has been recognized as capital government transfers (2013- \$78).

In 2014, the Federal Government signed a new Gas Tax Fund (GTF) agreement with the Province, and The City signed a new GTF Memorandum of Agreement with Municipal Affairs. The City's 2014 allocation is \$5,277 of which \$1,803 has been recorded as receivable and recognized as capital government transfers. \$2,544 (2013- \$7,221) has been recognized as capital government transfers for approved projects under the old FGTF grant program.

In 2011, the Minister of Transport, Infrastructure and Communities, introduced Building Canada Fund (BCF) to improve the lives of Canadians and support projects that meet environmental, economic and quality of life objectives. Federal, Provincial, and Municipal governments each shared the eligible expenditures. Projects funded through this program are Red Deer Wastewater Project as part of the North Highway Connector Project (NHC) and Traffic Signal Control System Upgrades. \$2,936 was received in 2014 (2013 - \$3,085), and final amount of owing from BCF was \$601 (2013 - \$3,536). No capital government transfers were recognized in 2014 (2013- \$1,538)

Alberta Municipal Water/Wastewater Partnership provides funding for construction of high-priority water supply and treatment and wastewater treatment and disposal facilities. This grant is being utilized for The City to contract A4 Sanitary Trunk Project being constructed with the South Red Deer Regional Wastewater Commission. \$1,797 was received in 2014 (2013- nil). \$460 has been reported as a payable to the Province where \$1,336 was reported as a receivable in 2013.

For government transfer amounts deferred to future years, see also Note 9.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

19 USER FEES AND SALE OF GOODS AND SERVICES

	Budget (Note 29)	2014	2013
Utility user fees	117,974	113,822	110,139
Land sales	50,834	20,465	30,913
Transit revenue	5,238	5,765	5,282
Ambulance and dispatch revenue	9,658	14,193	10,491
Facility user fees	5,971	5,802	5,721
Equipment and facility rental	3,723	3,995	3,819
Electrical transmission recovery	3,885	3,885	4,267
Other	4,385	4,984	4,805
	\$ 201,668	\$ 172,911	\$ 175,437

20 EXPENSES BY OBJECT

	Budget (Note 29)	2014	2013
Salaries, wages and benefits	128,836	127,294	117,585
Contracted services	40,013	44,533	38,369
Materials and supplies	49,248	52,135	54,362
Purchase from other governments	21,206	18,869	18,223
Grants to organizations	9,176	8,955	6,983
Financial charges	10,009	9,037	8,960
Amortization expense	49,334	53,809	54,768
Other expenses	511	1,602	1,612
	\$ 308,333	\$ 316,234	\$ 300,862

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

21 SALARIES AND BENEFITS DISCLOSURE

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

	Salaries (a)	Benefits (b), (c)	2014	2013
Mayor:				
M. Flewwelling	\$	\$	\$	\$ 81
T. Veer	105	14	119	19
	105	14	119	100
Councillors:				
C. Jefferies				50
				51
C. Stephan				
T. Veer				49
S. Buchanan	58	9	67	61
P. Harris	63	5	68	60
L. Mulder	58	6	64	58
F. Wong	58	8	66	59
D. Wyntjes	60	9	69	60
T. Handley	58	9	67	11
K. Johnston	58	9	67	10
L. Lee	58	9	67	11
	471	64	535	480
City Manager	241	42	283	272
Designated Officers	118	29	147	143
	\$ 935	\$ 149	\$ 1,084	\$ 995

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

(b) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, long and short-term disability plans, professional memberships, tuition and car allowance. Benefits and allowances also include supplementary employee retirement plan payments and moving and relocation allowances.

(c) Benefits for City Councillors include accidental death and disbursement, group life, health care, dental coverage, registered savings plan, internet and phone allowances, transit and pension plans.

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

22 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. In 2013 the Plan served about 230,534 employees and 418 employers in Alberta (2012 - 223,643 and 428). LAPP is financed by employer and employee contributions and investment earnings of the LAPP Fund.

The City is required to make current service contributions to LAPP of 10.39% of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) and 14.84% for the excess. Employees of The City are required to make current service contributions of 11.39% to the YMPE and 15.84% thereafter.

Total current service contributions by The City to LAPP in 2014 were \$11,652 (2013 - \$9,332). Total contributions by the employees of The City to LAPP in 2014 were \$10,750 (2013 - \$8,535).

As at December 31, 2013, LAPP disclosed an actuarial deficit of \$4.86 billion (2012 - \$4.98 billion). This amount is not specifically allocated to the participating government organizations. The 2014 actuarial balance was not available at the date these financial statements were released.

23 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 \$139 (2013 - \$135).

Total current service contributions by The City to APEX were \$380 (2013 - \$361). Total current service contributions by the employees of The City were \$317 (2013 - \$301).

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

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

24 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 a prescribed class of employees in excess of the limits of the Income Tax Act (Canada). The supplementary benefit takes the form of a lump sum cash payment upon retirement or death. Muni SERP supplements APEX and LAPP and is a voluntary, non-contributory defined benefit employee retirement plan. The total current and past service liability to The City as at December 31, 2014, are estimated at \$915 (2013 - \$758).

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 5.00% (2013 - 5.00%), expected salary escalations of 4.00% (2013 - 4.00%) per year and inflation rate of 2.50% (2013 - 2.50%).

25 FINANCIAL INSTRUMENTS

The City's financial instruments consist of cash and cash equivalents, temporary investments, receivables, loans receivable, long-term investments, accounts payable and accrued liabilities, 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 fulfil their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

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

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

26 CONTRACTUAL OBLIGATIONS

As at December 31, 2014, The City has the following contractual obligations:

Construction Contracts:	Commitment Amount
North Highway Connector	\$ 11,646
Subdivision development	9,524
Water and Wastewater Treatment Plants upgrades	15,304
Street improvements	7,110
EL&P Timberland substation	8,835
Greater Downtown street revitalization	6,980
Fleet purchases	3,374
	\$ 62,773

Solid Waste Collection and Recyclables Collection Contracts - these contracts are based on a percentage of the utility billing until October 31, 2015. The estimated annual contract costs are \$6,081. The Waste Management Facility Operations contract is an annual contract with a value of \$1,963.

RCMP Contract – The City pays 90% of the operating costs for RCMP services through to March 31, 2032. The estimated annual contract cost for 2015 is \$22,571.

ENMAX Contract – a two year agreement with ENMAX Power Corporation to provide Meter Data Management Services to The City until 2016. The estimated cost for 2015 and 2016 is \$3,800.

The City was selected by the Canada Games Council as Host City for the 2019 Canada Winter Games. This commitment includes operating and capital commitments for 2014 through to the Games event in 2019 in conjunction with the official Host Society, which will be formed in 2015.

Recreation Amenity Funds – \$5,238 has been collected which will be spent for recreation related capital projects. There is no fixed timeline for making these expenditures.

Offsite Levies – \$12,455 has been collected and will be spent for roads, 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.

27 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.

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

Environmental Issues

A pre-existing, non-PCB hydrocarbon plume was discovered beneath Substation 12 as a result of an initial incident in 2009 that was remediated. A plan has been submitted to Alberta Environment to allow The City to continue to monitor the contamination.

Subsurface contamination has been found as part of the Ross Street and Taylor Drive Project. An environmental mitigation strategy is ongoing. The extent and amount of remediation requirements are unknown.

Land Expropriation Compensation

In 2009, The City acquired land under the Expropriation Act from several property owners in connection with the Gaetz Avenue and 32 Street intersection upgrades and the North Highway Connector project. Four property owners have since filed with the Alberta Land Compensation Board for compensation to which they believe they are entitled. At this time The City cannot determine the amount or likelihood of the compensation in these cases.

28 GUARANTEE

The City has issued an irrevocable standby letter of credit for \$3,000 as required by its supplier, The Alberta Electric System Operator, in the event of payment default for electrical distribution charges. The letter of credit has not been utilized to date.

The City has issued two irrevocable standby letters of credit of \$15 and \$204 as requested by its supplier, Altalink LP, in the event of payment default for transmission substation project. The letter of credit has not been utilized to date.

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 (Schedule 2), along with the services provided, are as follows:

Legislative and Administrative

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

Protective Services

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

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.

Notes to Consolidated Financial Statements For the Year Ended December 31, 2014 (in thousands of dollars)

Water and Wastewater

These functions 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.

Recreation, Parks and Culture

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

Subdivisions

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

Electric Light and Power

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

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 Segmented Disclosure - Schedule 2.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

30 BUDGET

The reported budget information has been derived from the capital budget that was approved by Council on November 26, 2013 and the operating budget that was approved on January 15, 2014. The budgets were subsequently amended by Council. This note reconciles the final budget to the reported budget information presented in the consolidated financial statements.

	Approved Budget	Amendments	Final Budget
Revenues			
Net municipal taxes	\$ 112,477	\$ 22	112,499
Operating government transfers	11,794	50	11,844
User fees and sale of goods and services	201,668	3,050	204,718
Investment earnings	6,016	-	6,016
Fines and penalties	6,516	26	6,542
Franchise fees	6,871	-	6,871
Licenses and permits	3,309	-	3,309
Other revenue	2,454	22	2,476
	351,105	3,170	354,275
Expenses			
Legislative and administrative	38,554	(2,844)	35,710
Police and other protective	34,255	281	34,536
Fire and ambulance	26,792	2,559	29,351
Transportation	38,388	426	38,814
Transit	13,120	391	13,511
Social planning	3,985	41	4,026
Community services	8,842	261	9,103
Recreation, parks and culture	42,517	371	42,888
Parking	2,179	(7)	2,172
Fleet	13,978	3	13,981
Water	15,794	(22)	15,772
Waste water	15,062	(35)	15,027
Solid waste collection	6,521	(12)	6,509
Recycling	2,141	(12)	2,129
Solid waste disposal	6,219	(2)	6,217
Subdivisions	1,188	(57)	1,131
Electric light and power	38,798	(2)	38,796
	308,333	1,340	309,673
Annual Surplus before Other	42,772	1,830	44,602
Other			
Capital government transfers	50,186	-	50,186
Contributed tangible capital assets	46,463	(26,401)	20,062
Developer and customer contributions	13,333	-	13,333
Other	-	-	-
Annual Surplus	\$ 152,754	\$(24,571)	128,183

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2014 (in thousands of dollars)

31 COMPARATIVE INFORMATION

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

32 APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements on April 27, 2015.

STATISTICAL INFORMATION

**General Municipal Data Unaudited
(2010-2014) (in thousands of dollars)**

	2014	2013	2012	2011	2010
Population	98,585	97,109	91,877	91,877	90,084
Assessed valuation	\$ 14,882,334	\$ 13,827,046	\$ 13,032,279	\$ 12,818,060	\$ 12,799,553
Per capita assessed valuation	\$ 151	\$ 142	\$ 142	\$ 140	\$ 142
Mill rates (commercial)					
Municipal	12.2177	12.2313	12.3765	12.5997	12.3938
Education foundation	3.5416	3.7565	3.4849	3.4244	3.3220
Piper Creek Foundation	0.0079	0.0195	0.0143	0.0146	0.0185
	15.7672	16.0073	15.8757	16.0387	15.7343
Taxes paid by the largest single taxpayer	\$ 2,942	\$ 2,885	\$ 2,833	\$ 2,847	\$ 2,590
Percent of taxes	1.93 %	1.97 %	2.05 %	2.20 %	2.10 %
Property taxes					
Current levy	\$ 152,819	\$ 146,208	\$ 138,154	\$ 129,491	\$ 123,458
Current collected	\$ 152,661	\$ 146,082	\$ 136,152	\$ 127,403	\$ 121,519
Percent of current levy	100 %	100 %	99 %	98 %	98 %
Gross tax collections	\$ 153,780	\$ 147,799	\$ 139,033	\$ 130,532	\$ 121,519
Taxes outstanding	\$ 2,198	\$ 2,311	\$ 2,962	\$ 2,919	\$ 3,629

No census was conducted in 2012. The 2011 census results were used for 2012 statistical information.

**Consolidated Revenue by Source Unaudited
2010-2014 (in thousands of dollars)**

	2014	2013	2012	2011	2010
Operating Revenue					
Net municipal taxes	\$ 112,537	\$ 107,035	\$ 98,463	\$ 92,423	\$ 86,808
User fees and sale of goods and services	170,246	172,904	151,913	121,751	119,015
Operating government transfers	10,258	9,829	9,349	8,967	12,198
Investment income	5,105	6,218	7,694	5,788	6,375
Licenses and permits	3,690	3,542	3,324	2,647	2,350
Fines and penalties	5,762	5,882	6,411	5,235	5,371
Franchise fees	7,441	6,927	6,188	6,300	6,392
Other revenue	3,595	1,666	886	4,665	1,740
Contributed tangible capital assets	34,284	21,878	17,975	10,133	16,382
Total operating Revenue	352,918	335,881	302,203	257,909	256,631
Capital Revenue	49,307	58,257	84,435	51,598	30,836
Agencies Revenue	4,767	5,527	4,262	4,309	8,083
Consolidated Revenue	\$ 406,992	\$ 399,665	\$ 390,900	\$ 313,816	\$ 295,550

Figures for 2011 have been restated for the correction of tangible capital assets for landfill sites identified in 2012; years prior to 2011 have not been restated for this adjustment

**Capital Fund Activities Unaudited
2010-2014 (in thousands of dollars)**

	2014	2013	2012	2011	2010
Capital expenditure by segment					
Legislative and administrative	\$ 2,420	\$ 2,174	\$ (759)	\$ 1,462	\$ 2,484
Protective services	1,036	1,041	1,734	4,103	18,250
Transportation	46,772	40,598	60,769	56,773	18,320
Water and wastewater	39,474	49,080	35,618	23,337	20,114
Waste management	164	1,279	3,927	84	440
Community services	162	42	80	1,161	894
Subdivisions	13,722	6,952	8,590	7,044	1,792
Recreation, parks and culture	6,855	7,178	5,238	3,362	15,463
Electric light and power	11,537	9,516	6,656	4,975	4,966
Total Capital Spending	\$ 122,142	\$ 117,860	\$ 121,853	\$ 102,301	\$ 82,723
Financing Sources Applied:					
Developer contribution	10,015	29,341	8,941	13,726	7,878
Government transfers	38,120	27,032	73,381	35,184	21,310
Other Revenue	1,172	1,884	2,113	2,688	1,648
Debt issued	27,247	16,337	21,795	22,975	14,313
From/to operating	7,677	13,757	4,224	23,487	22,265
From/to reserves	44,879	18,607	(10,167)	2,184	(3,697)
Increase (Decrease) in Fund Balance	6,968	(10,902)	(21,566)	(2,057)	(19,006)
Capital fund balance, beginning of the year	(7,006)	3,896	25,462	27,519	46,525
Capital fund balance, end of year	\$ (38)	\$ (7,006)	\$ 3,896	\$ 25,462	\$ 27,519

Figures for 2011 have been restated for the correction of tangible capital assets for landfill sites identified in 2012; years prior to 2011 have not been restated for this adjustment

**Consolidated Operating Expenses by Function Unaudited
2010-2014 (in thousands of dollars)**

	2014	2013	2012	2011	2010
Operating Expenses					
Legislative and administrative	\$ 33,260	\$ 31,899	\$ 33,031	\$ 29,764	\$ 28,912
Police and other protective	32,355	30,972	28,015	27,363	25,717
Fire and ambulance	30,822	27,364	25,279	26,019	23,701
Transportation	46,915	46,134	37,156	38,822	33,008
Transit	13,199	12,445	12,119	11,712	11,640
Social planning	3,920	3,871	3,764	3,922	3,838
Community services	7,481	7,424	6,231	5,634	8,627
Recreation, parks and culture	45,074	43,545	46,028	39,985	37,647
Parking	2,619	2,098	2,197	2,038	1,635
Fleet	13,627	11,356	11,113	10,473	9,901
Water	15,752	14,942	14,060	14,113	12,340
Waste water	14,227	16,173	11,732	11,954	14,543
Solid waste collection	6,442	6,218	6,047	5,943	5,910
Recycling	2,054	2,027	1,920	1,885	1,810
Solid waste disposal	3,914	5,089	4,255	3,560	3,778
Subdivisions	11,640	6,671	2,016	1,062	1,290
Electric light and power	32,933	32,634	29,785	27,658	21,617
Total operating expenses	\$ 316,234	\$ 300,862	\$ 274,748	\$ 261,907	\$ 245,914

Figures for 2011 have been restated for the correction of tangible capital assets for landfill sites identified in 2012; years prior to 2011 have not been restated for this adjustment

**Consolidated Operating Expenses by Object Unaudited
2010-2014 (in thousands of dollars)**

	2014	2013	2012	2011	2010
Operating Expenses					
Salaries, wages and benefits	\$ 127,294	\$ 117,585	\$ 109,673	\$ 107,701	\$ 99,847
Contracted services	44,533	38,369	36,200	34,540	34,620
Materials and supplies	52,135	54,363	42,321	41,504	31,689
Purchase from other governments	18,869	18,223	16,667	16,041	15,499
Grants to organizations	8,955	6,983	13,285	7,137	10,794
Financial charges	9,037	8,959	8,873	9,433	8,985
Amortization expense	53,809	54,768	46,428	45,201	41,746
Other expenses	1,602	1,612	1,301	350	2,734
Total operating expenses	\$ 316,234	\$ 300,862	\$ 274,748	\$ 261,907	\$ 245,914

Figures for 2011 have been restated for the correction of tangible capital assets for landfill sites identified in 2012; years prior to 2011 have not been restated for this adjustment

**Financial Position and Net Revenues Unaudited
2010-2014 (in thousands of dollars)**

	2014	2013	2012	2011	2010
Financial assets	\$ 308,084	\$ 299,210	\$ 288,636	\$ 247,901	\$ 235,637
Liabilities	358,131	333,580	327,613	311,732	279,530
Net financial debt	(50,047)	(34,370)	(38,977)	(63,831)	(43,893)
Non-financial assets	1,849,460	1,743,025	1,648,829	1,557,531	1,531,415
Accumulated surplus - ending	1,799,413	1,708,655	1,609,852	1,493,700	1,487,522
Annual surplus	\$ 90,758	\$ 98,803	\$ 116,152	\$ 51,909	\$ 49,636

**Consolidated Accumulated Surplus Unaudited
2010-2014 (in thousands of dollars)**

	2014	2013	2012	2011	2010
Capital fund (deficiency)	\$ (38)	\$ (7,006)	\$ 3,896	\$ 25,462	\$ 27,519
Reserves	215,273	221,828	194,725	141,067	145,227
Equity in tangible capital assets	1,584,312	1,494,236	1,411,879	1,328,020	1,315,751
Equity in controlled agencies	(134)	(403)	(648)	(849)	(975)
Total	\$ 1,799,413	\$ 1,708,655	\$ 1,609,852	\$ 1,493,700	\$ 1,487,522

Figures for 2011 have been restated for the correction of tangible capital assets for landfill sites identified in 2012; years prior to 2011 have not been restated for this adjustment

**Consolidated Reserves Unaudited
2010-2014 (in thousands of dollars)**

	2014	2013	2012	2011	2010
Finance a specific purpose	\$ 2,211	\$ 2,125	\$ 2,002	\$ 1,922	\$ 1,842
Capital projects- tax supported	25,033	28,809	27,479	18,639	17,863
Municipal parkland	5,450	4,825	4,666	1,100	1,712
Operating- tax supported	24,441	16,142	9,769	6,695	9,824
Debt repayment	12,642	11,685	10,646	5,451	3,990
Tax-supported reserves	69,777	63,586	54,562	33,807	35,231
Power	21,534	17,567	13,773	5,011	4,845
Water	9,385	17,569	14,811	9,584	8,981
Waste water	6,169	9,544	20,621	12,111	15,594
Solid waste management	16,518	13,086	12,050	13,104	10,685
Utility-supported reserves	53,606	57,766	61,255	39,810	40,105
Capital asset replacement	27,499	25,743	25,214	20,766	12,643
Land development	50,363	54,334	46,006	38,781	46,500
Parking	1,369	1,080	1,444	1,743	1,941
Offsite	12,659	19,319	6,244	6,160	8,807
Self-supported reserves	91,890	100,476	78,908	67,450	69,891
Total reserves	\$ 215,273	\$ 221,828	\$ 194,725	\$ 141,067	\$ 145,227

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

**Long-term Debt Issued by Function Unaudited
2010-2014 (in thousands of dollars)**

	2014	2013	2012	2011	2010
General	\$ -	\$ -	\$ -	\$ -	8,319
Transportation	4,968	6,723	14,375	6,825	-
Water	608	-	6,370	6,050	2,994
Waste Water	13,671	8,286	1,050	4,400	-
Parking	-	-	-	5,700	-
Police	-	-	-	-	3,000
Recreation, parks and culture	-	1,328	-	-	-
Electric light and power Subdivisions	8,000	-	-	-	-
	-	-	-	-	-
Total	\$ 27,247	\$ 16,337	\$ 21,795	\$ 22,975	\$ 14,313

**Long-term Debt Unaudited
2010-2014 (in thousands of dollars)**

	2014	2013	2012	2011	2010
Tax-supported debt	\$ 67,434	\$ 69,331	\$ 55,397	\$ 57,321	\$ 59,497
Self-supported debt	152,744	139,170	150,567	139,437	125,217
Total long-term debt	220,178	208,501	205,964	196,758	184,714
Population	98,585	97,109	91,877	91,877	90,084
Long-term debt per capita	2,233	2,147	2,242	2,142	2,050
Debt limit per regulation	501,882	526,134	449,316	402,749	386,787
Debt limit unused	281,704	317,633	243,352	205,991	202,073
Percentage of debt limit used	44 %	40 %	46 %	49 %	48 %
Service on debt limit	83,647	87,689	74,886	67,125	64,465
Service on existing debt	25,233	24,200	22,559	21,242	19,275
Service on debt limit unused	58,414	63,489	52,327	45,883	45,190
Percentage of service on debt limit used	30 %	28 %	30 %	32 %	30 %
Percentage of expenses	8 %	8 %	8 %	8 %	8 %

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