

Consolidated Financial Statements of

TOWN OF RAINBOW LAKE

Year ended December 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council of Town of Rainbow Lake

We have audited the accompanying consolidated financial statements of Town of Rainbow Lake, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations and accumulated surplus, change in net financial assets, 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 Town of Rainbow Lake as at December 31, 2012, and its consolidated results of operations, its consolidated changes in net financial assets, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

April 23, 2013
Edmonton, Canada

TOWN OF RAINBOW LAKE

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2012, with comparative figures for 2011

	Budget (Unaudited - note 20)	2012	2011
Revenue:			
Net municipal taxes (note 13)	\$ 1,147,500	\$ 1,160,523	\$ 1,121,186
User fees and sales of goods	2,463,122	2,367,541	2,258,227
Government transfers (note 14)	1,590,998	1,069,606	1,675,305
Rental income	151,829	169,713	143,833
Franchise and concession contracts	75,000	87,576	76,791
Penalties and costs of taxes	47,000	48,114	48,469
Licenses and permits	22,000	36,100	48,989
Investment income	52,000	111,303	53,868
Development levies	-	-	-
Other	80,950	109,260	106,105
	5,630,399	5,159,736	5,532,773
Expenses (note 15):			
Legislative	122,310	77,950	63,529
Administration	402,085	442,703	398,910
Protective services	313,136	338,927	324,411
Common services	295,125	289,644	311,594
Transportation services	601,445	541,173	476,329
Airport services	311,374	339,471	295,564
Water supply and distribution	641,505	998,750	1,122,972
Waste management	228,493	195,395	215,712
Family and community support	66,770	65,538	42,390
Planning and development	107,421	77,972	94,906
Subdivision land development	-	-	7,300
Housing rentals	216,900	138,246	120,286
Recreation, parks and library services	556,836	577,025	802,199
Natural gas supply and distribution	775,182	551,403	615,722
Cable and internet services	141,150	151,352	119,516
	4,779,732	4,785,549	5,011,340
Annual surplus	850,667	374,187	521,433
Accumulated surplus, beginning of year	29,721,467	29,721,467	29,200,034
Accumulated surplus, end of year	\$ 30,572,134	\$ 30,095,654	\$ 29,721,467

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

TOWN OF RAINBOW LAKE

Consolidated Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operations activities:		
Annual surplus	\$ 374,187	\$ 521,433
Items not involving cash:		
Amortization of tangible capital assets	878,016	874,453
Amortization of premium on investments	16,564	9,944
Gain on sale of investments	(24,581)	-
Change in non-cash assets and liabilities:		
Accounts receivable	(43,061)	1,772,393
Accounts payable and accrued liabilities	(134,282)	(161,441)
Deposit liabilities	(5,866)	(9,214)
Deferred revenue	(187,086)	77,927
Wages and benefits payable	12,330	12,640
Inventories of supplies	3,186	(1,655)
Prepaid expenses	(20,286)	(51,750)
Net change in cash from operating activities	869,121	3,044,730
Capital activities:		
Acquisition of tangible capital assets	(458,051)	(740,787)
Net change in cash from capital activities	(458,051)	(740,787)
Investing activities:		
Purchase of investments	(1,494,974)	(4,554,869)
Sale of investments	1,300,000	300,000
Net change in cash from investing activities	(194,974)	(4,254,869)
Financing activities:		
Long-term debt repaid	(230,626)	(216,755)
Net change in cash from financing activities	(230,626)	(216,755)
Net change in cash	(14,530)	(2,167,681)
Cash at beginning of year	190,344	2,358,025
Cash, at end of year	\$ 175,814	\$ 190,344
Cash paid for interest	\$ 148,882	\$ 170,019
Cash received from interest	86,916	51,624

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

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

2. Significant accounting policies (continued):

(b) Basis of accounting:

The Town follows the accrual basis of accounting for revenues and expenses. Revenues are recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable.

(c) Government transfers:

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

(d) Deferred revenue:

Deferred revenue represents government transfers, contributions and other amounts received from third parties pursuant to legislation, regulation or agreement that may only be used for certain programs, in the completion of specific work or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year when the related expense is incurred, services performed or the tangible capital assets are acquired.

(e) Land held for resale:

Land held for resale is recorded at the lower of cost and net realizable value. Cost includes costs for land acquisition and improvements required to prepare the land for servicing such as clearing, stripping and levelling charges.

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

2. Significant accounting policies (continued):

(i) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

i) Tangible capital assets

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

Asset	Useful Life-Years
Land improvements	15-30
Buildings (includes building improvements)	15-75
Engineered structures	10-75
Machinery and equipment	5-25
Vehicles	10-30

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

3. Cash and temporary investments:

	2012	2011
Cash	\$ 132,934	\$ 89,490
Temporary investments	42,880	100,854
	\$ 175,814	\$ 190,344

Temporary investments is comprised of savings accounts with interest rates of 0.60 percent (2011 - 0.60 percent).

4. Accounts receivable:

	2012	2011
Property taxes receivable	\$ 144,537	\$ 201,910
Grant and contributions receivable	147,765	200,246
Utility receivable	234,339	191,458
Other receivables	295,187	185,947
Allowance for doubtful accounts	(3,850)	(4,644)
	\$ 817,978	\$ 774,917

Property taxes receivable include \$41,916 (2011 - \$94,289) of balances outstanding for greater than one year.

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

7. Deferred revenue:

The deferred revenue reported on the consolidated statement of financial position is made up of the following:

	2012		2011
Provincial government transfers:			
Alberta Municipal Infrastructure Program	\$ 88,952	\$	88,455
Basic Municipal Transportation Grant	177,773		176,942
Municipal Sustainability Initiative	499,648		716,109
New Deal for Cities and Communities	89,971		89,524
FireSmart	28,600		1,000
Municipal Grants - Other	900		900
	\$ 885,844	\$	1,072,930

Continuity of deferred revenue is as follows:

	2012		2011
Deferred government transfers:			
Deferred government transfers at beginning of year	\$ 1,072,930	\$	995,003
Government transfers received during the year	84,465		950,268
Interest earned	5,355		6,564
Government transfers recognized during the year	(276,906)		(878,905)
Balance, end of year	\$ 885,844	\$	1,072,930

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

9. Debt and debt service limits:

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

	2012	2011
Total debt limit	\$ 7,507,296	\$ 7,073,485
Total debt	<u>2,563,341</u>	<u>2,793,967</u>
Amount by which debt limit unused	4,943,955	4,279,518
Percentage used (%)	34.14%	39.50%
Debt servicing limit	1,251,216	1,178,914
Debt servicing	<u>294,439</u>	<u>362,761</u>
Amount by which debt servicing limit unused	956,777	816,153
Percentage used (%)	23.53%	30.77%

The debt limit is calculated at 1.5 times revenue of the Town (as defined in Alberta Regulation 255/00) and the debt service limit is calculated at 0.25 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify municipalities that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the Town. Rather, the financial statements must be interpreted as a whole.

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

10. Tangible capital assets (continued):

	2011						Total
	Land	Land improvements	Buildings	Engineered structures	Machinery and equipment	Vehicles	
Cost:							
Balance, beginning of year	\$ 510,917	\$ 1,012,464	\$ 9,543,751	\$ 24,361,453	\$ 1,346,191	\$ 1,030,454	\$ 2,140,970
Additions	-	-	49,425	8,500	227,007	-	455,855
Balance, end of year	510,917	1,012,464	9,593,176	24,369,953	1,573,198	1,030,454	2,596,825
Accumulated amortization:							
Balance, beginning of year	-	781,468	2,755,298	6,057,699	802,500	659,504	-
Amortization expense	-	23,791	197,613	552,118	63,024	37,907	-
Balance, end of year	-	805,259	2,952,911	6,609,817	865,524	697,411	-
Net book value, end of year	\$ 510,917	\$ 207,205	\$ 6,640,265	\$ 17,760,136	\$ 707,674	\$ 333,043	\$ 2,596,825
							\$ 28,756,065

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

11. Accumulated surplus:

The Town's accumulated surplus is comprised of the following:

	2012	2011
Restricted surplus	\$ 3,464,946	\$ 2,418,799
Invested in tangible capital assets	26,002,478	26,295,730
Unrestricted surplus	628,230	1,006,938
	\$ 30,095,654	\$ 29,721,467

12. Local authorities pension plan:

Employees of the Town participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pension Plans Act.

The Town was required to make current service contributions to the Plan of 9.91 per cent (2011 – 9.49 percent) of pensionable payroll up to the yearly maximum pensionable earnings (YMPE) and 13.74 percent (2011 – 13.13 percent) thereafter. Employees of the Town are required to make current service contributions of 8.91 per cent (2011 – 8.49 per cent) of pensionable salary up to YMPE, and 12.74 percent (2011 – 12.13 per cent) thereafter.

Total current service contributions by the Town to the LAPP in 2012 were \$72,967 (2011 - \$56,939). Total service contributions by the employees of the Town to the LAPP in 2012 were \$66,244 (2011 - \$51,475).

As stated in their 2011 Annual Report, LAPP serves 214,328 members (2010 – 206,249) and 423 employers (2010 – 421). It is financed by employer and employee contributions and investment earnings of the LAPP fund. At December 31, 2011, the Plan reported an actuarial deficiency of \$4.64 billion (2010 – \$4.60 billion). The Local Authorities Pension Plan contribution rates will increase by a total of 1.04 per cent of pensionable salary in 2013 (2012 – 0.84 per cent).

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

14. Government transfers:

	Budget	2012	2011
	(Unaudited - note 20)		
Transfers for operating			
Provincial government	\$ 199,600	\$ 118,218	\$ 59,289
Federal government	5,000	3,816	2,500
Other local government	792,700	792,700	796,400
	997,300	914,734	858,189
Transfers for capital			
Provincial government	593,698	146,115	576,180
Federal government	-	8,757	240,936
	593,698	154,872	817,116
Total government transfers	\$ 1,590,998	\$ 1,069,606	\$ 1,675,305

15. Expenses by object:

	Budget	2012	2011
	(Unaudited - note 20)		
Salaries, wages and benefits	\$ 1,197,681	\$ 1,231,187	\$ 1,139,499
Contracted and general services	1,923,518	1,431,277	1,534,323
Materials, goods and utilities	1,474,561	1,069,036	1,272,422
Transfers to local boards and agencies	29,700	28,654	14,000
Bank charges and interest	5,000	16,787	8,905
Interest on long-term debt	149,272	130,592	167,738
Amortization	-	878,016	874,453
	\$ 4,779,732	\$ 4,785,549	\$ 5,011,340

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

17. Financial instruments:

The Town's financial instruments consist of cash and temporary investments, accounts receivable, investments, accounts payable and accrued liabilities, deposit liabilities, wages and benefits payable and long-term debt. It is management's opinion that the Town is not exposed to significant interest or currency risks arising from these financial instruments. The Town is subject to credit risk with respect to taxes and grants in place of taxes receivables and trade and other receivables. Credit risk arises from the possibility that taxpayers and entities to which the Town provides services may experience financial difficulty and be unable to fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk. Unless otherwise noted, the carrying value of financial instruments approximates their fair value.

18. Segmented information:

Segmented information has been identified based upon lines of service provided by the Town. Town services are provided by departments and their activities are reported by functional area in the body of the financial statements. Certain lines of service that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

i) Protective Services:

Protective Services include fire, by-law enforcement and animal protection. The fire department is responsible to provide fire suppression services, fire prevention programs, training and education related to prevention, and detection or extinguishment of fires. Town by-law officers enforce the Town's by-laws. The Town also operates a dog pound and ensures that stray animals are protected.

ii) Public Works and Transportation:

The Public Works department is responsible for the delivery of municipal public works services related to planning, development and maintenance of roadway systems, the Rainbow Lake Airport and the maintenance of parks and open spaces.

iii) Utilities:

The Town is responsible for environmental programs such as the engineering and operation of water and wastewater systems and waste management, the latter of which encompasses solid waste collection and disposal. The Town is also responsible for the delivery of cable & internet services and a natural gas system which services the Town.

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

18. Segmented information (continued):

	2012								Total
	Protective Services	Public Works and Transportation	Utilities	Planning and Development	Family and Community Support	Recreation, Parks and Library Services	Other Municipal		
Revenue:									
Net municipal taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,160,523
User fees and sales of goods	152,515	104,979	2,097,119	380	5,704	5,665	1,179	1,179	2,367,541
Government transfers	15,600	-	11,892	-	26,993	107,425	907,696	907,696	1,069,606
Rental income	-	64,998	-	7,435	9,700	83,765	3,815	3,815	169,713
Franchise and concession contracts	-	-	-	-	-	-	87,576	87,576	87,576
Penalties and costs of taxes	-	-	-	-	-	-	48,114	48,114	48,114
Licenses and permits	33,525	-	-	2,575	-	-	-	-	36,100
Investment income	-	-	-	-	-	-	111,303	111,303	111,303
Other	-	-	8,035	-	6,850	6,548	87,827	87,827	109,260
Total revenues	201,640	169,977	2,117,046	10,390	49,247	203,403	2,408,033	2,408,033	5,159,736
Expenses:									
Salaries, wages and benefits	211,049	224,279	303,699	18,386	7,436	159,353	306,985	306,985	1,231,187
Contracted and general services	35,023	571,945	431,849	54,446	8,258	102,559	227,197	227,197	1,431,277
Materials, goods and utilities	60,119	177,281	578,971	140	35,758	168,453	48,314	48,314	1,069,036
Transfers to local boards and agencies	-	-	-	5,000	-	3,000	20,654	20,654	28,654
Bank charges and interest	-	-	-	-	-	-	16,787	16,787	16,787
Interest on long-term debt	-	-	103,039	-	-	27,553	-	-	130,592
Amortization	32,736	196,783	479,342	-	14,086	116,107	38,962	38,962	878,016
Total expenses	338,927	1,170,288	1,896,900	77,972	65,538	577,025	658,899	658,899	4,785,549
Annual surplus (deficit)	\$ (137,287)	\$ (1,000,311)	\$ 220,146	\$ (67,582)	\$ (16,291)	\$ (373,622)	\$ 1,749,134	\$ 1,749,134	\$ 374,187

TOWN OF RAINBOW LAKE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

19. Comparative figures:

Certain comparative figures have been reclassified to conform to the 2012 financial statement presentation.

20. Budget:

The unaudited 2012 budget data presented in these consolidated financial statements is based upon the 2012 operating and capital budgets approved by Council on May 23, 2012. Amortization was not contemplated on development of the budget and, as such, has not been included.