

Town of Peace River
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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TOWN OF PEACE RIVER

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Management's Responsibility

FILE NO.

To the Mayor and Council of Town of Peace River:

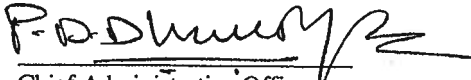
Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles. This responsibility includes selecting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

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

The Council is composed entirely of Councillors who are neither management nor employees of the Town. The Council is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the financial statements. The Council fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, and external auditors. Council is responsible for the appointment of the Town's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the Council to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Council and management to discuss their audit findings.

May 14, 2012


Chief Administrative Officer

Auditors' Report

To the Mayor and Council of
The Town of Peace River

We have audited the accompanying consolidated financial statements of the Town of Peace River, which comprise the statement of financial position as at December 31, 2011, and the statements of financial activities, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Basis for Qualified Opinion

As outlined in Note 15, the Town of Peace River is not reporting their proportionate share of their investment in an Other Government Organization they hold. Failure to record this investment using the consolidation method is not in accordance with Canadian generally accepted accounting principles. Due to the final agreement not being signed by all parties, we are unable to determine the financial statement impact.

Qualified Opinion

In our opinion, except for the effects of the Town's failure to record the investment referred to in the preceding paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Town of Peace River as at December 31, 2011, the results of its operations, change in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Peace River, Alberta
May 14, 2012



MNP LLP
Chartered Accountants

ACCOUNTING › CONSULTING › TAX

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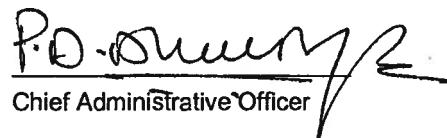
**TOWN OF PEACE RIVER
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2011**

	2011 \$	2010 \$ (Restated) Note 17
FINANCIAL ASSETS		
Cash and cash equivalents (Note 2)	<u>20,176,579</u>	<u>15,693,175</u>
Receivables		
Taxes and grants in lieu of taxes (Note 3)	366,080	472,020
Receivable from other governments	805	8,053
Trade and other receivables	1,008,844	1,201,596
Land inventory held for resale	28,881	28,881
Long-term investments	30	30
	<u>21,581,219</u>	<u>17,403,755</u>
LIABILITIES		
Accounts payable and accrued liabilities	1,502,322	1,516,539
Deposit liabilities	75,079	91,251
Deferred revenue (Note 4)	14,652,308	8,640,733
Employee benefit obligations (Note 5)	224,693	165,814
Long term debt (Note 6)	3,778,043	4,278,891
Other Long term Liabilities	-	-
	<u>20,232,445</u>	<u>14,693,228</u>
NET FINANCIAL ASSETS	<u>1,348,774</u>	<u>2,710,527</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2)	55,835,936	51,915,565
Prepaid expenses	-	20,904
	<u>55,835,936</u>	<u>51,936,469</u>
ACCUMULATED SURPLUS (Schedule 1 and Note 9)	<u>57,184,710</u>	<u>54,646,996</u>

Commitments and contingencies - See Notes 12 and 13

Approved by

Mayor


Chief Administrative Officer

See accompanying notes to the financial statements

**TOWN OF PEACE RIVER
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budget \$ (Unaudited)	2011 \$	2010 \$
REVENUE			
Net municipal property taxes (Schedule 3)	7,558,676	7,537,635	7,459,979
User fees and sale of goods	3,420,541	3,721,426	3,370,847
Government transfers for operating (Schedule 4)	1,873,981	1,790,650	2,384,844
Investment income	45,000	130,844	45,979
Penalties and costs on taxes	212,786	241,030	254,121
Franchise and concession contracts	657,759	675,154	575,193
Other revenues	146,283	408,088	340,585
Total revenues	13,915,026	14,504,827	14,431,548
EXPENSES			
Operating			
Legislative	296,270	338,668	335,757
Administration	1,636,721	1,450,953	1,638,701
Protective services	2,343,078	3,007,325	2,710,510
Transportation	3,682,982	6,275,600	5,102,542
Water supply and distribution	1,001,653	1,185,622	1,596,262
Wastewater treatment and disposal	736,140	675,699	893,792
Waste management	328,242	301,286	285,335
Public health and economic development	1,419,663	1,255,922	1,322,407
Recreation and parks	2,476,874	2,566,209	2,652,543
Loss on disposal of capital assets	-	-	137,125
Total Expenses	13,921,623	17,057,284	16,674,974
SHORTFALL OF REVENUE OVER EXPENSES - BEFORE OTHER	(6,597)	(2,552,457)	(2,243,426)
OTHER			
Development Levies and Other Contributions	2,038,198	287,357	88,446
Government transfers for capital (Schedule 4)	17,687,114	4,802,814	2,364,775
EXCESS OF REVENUE OVER EXPENSES	19,718,715	2,537,714	209,795
ACCUMULATED SURPLUS, BEGINNING OF YEAR AS PREVIOUSLY STATED	54,646,996	56,677,247	56,467,452
PRIOR PERIOD ADJUSTMENT (Note 17)	-	(2,030,251)	(2,030,251)
ACCUMULATED SURPLUS, BEGINNING OF YEAR AS RESTATED	54,646,996	54,646,996	54,437,201
ACCUMULATED SURPLUS, END OF YEAR	74,365,711	57,184,710	54,646,996

See accompanying notes to the financial statements

**TOWN OF PEACE RIVER
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budget \$ (Unaudited)	2011 \$	2010 \$
EXCESS OF REVENUES OVER EXPENSES	<u>19,718,715</u>	<u>2,537,714</u>	<u>209,795</u>
Acquisition of tangible capital assets	(16,778,698)	(7,113,670)	(3,959,492)
Contributed tangible capital assets	-	-	-
Proceeds on disposal of tangible capital assets	-	-	80,000
Amortization of tangible capital assets	-	3,193,299	2,999,287
Loss on sale of tangible capital assets	-	-	137,125
	<u>(16,778,698)</u>	<u>(3,920,371)</u>	<u>(743,080)</u>
Acquisition of prepaid assets	-	-	(20,904)
Use of prepaid assets	-	20,904	70,244
	<u>-</u>	<u>20,904</u>	<u>49,340</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	<u>2,940,017</u>	<u>(1,361,753)</u>	<u>(483,945)</u>
NET FINANCIAL ASSETS, BEGINNING OF YEAR AS PREVIOUSLY STATED	2,710,527	4,740,778	5,224,723
PRIOR PERIOD ADJUSTMENT (Note 17)	<u>-</u>	<u>(2,030,251)</u>	<u>(2,030,251)</u>
NET FINANCIAL ASSETS, BEGINNING OF YEAR AS RESTATED	<u>2,710,527</u>	<u>2,710,527</u>	<u>3,194,472</u>
NET FINANCIAL ASSETS, END OF YEAR	<u><u>5,650,544</u></u>	<u><u>1,348,774</u></u>	<u><u>2,710,527</u></u>

**TOWN OF PEACE RIVER
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	2011 \$	2010 \$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenues over expenses	2,537,714	209,795
Non-cash items included in shortfall of revenues over expenses:		
Amortization of tangible capital assets	3,193,299	2,999,287
Loss on disposal of tangible capital assets	-	137,125
Tangible capital assets received as contributions	-	-
Non-cash charges to operations (net change):		
Decrease (increase) in taxes and grants in lieu receivable	105,940	(86,907)
Decrease (increase) in trade and other receivables	192,752	(280,739)
Decrease in receivable from other governments	7,248	143,417
Decrease in other liabilities	-	(13,574)
Decrease (increase) in prepaid expenses	20,904	49,340
Decrease (increase) in accounts payable and accrued liabilities	(14,217)	26,923
Decrease (increase) in deposit liabilities	(16,172)	5,845
Decrease (increase) in deferred revenue	6,011,575	908,993
Increase in employee benefit obligations	58,879	3,950
Cash provided by operating transactions	<u>12,097,922</u>	<u>4,103,455</u>
CAPITAL		
Acquisition of tangible capital assets	(7,113,670)	(3,959,492)
Sale of tangible capital assets	-	80,000
Cash applied to capital transactions	<u>(7,113,670)</u>	<u>(3,879,492)</u>
FINANCING		
New debt issued	-	2,148,873
Long-term debt repaid	(500,848)	(424,003)
Cash applied to financing transactions	<u>(500,848)</u>	<u>1,724,870</u>
CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR	4,483,404	1,948,833
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>15,693,175</u>	<u>13,744,342</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 2)	<u><u>20,176,579</u></u>	<u><u>15,693,175</u></u>

See accompanying notes to the financial statements

TOWN OF PEACE RIVER
 SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
 DECEMBER 31, 2011
 SCHEDULE 1

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2011 \$	2010 \$ (Restated) Note 17
BALANCE, BEGINNING OF YEAR AS PREVIOUSLY STATED	2,574,065	6,466,508	47,636,674	56,677,247	56,467,452
PRIOR PERIOD ADJUSTMENT (Note 17)	<u>(2,030,251)</u>	-	-	<u>(2,030,251)</u>	<u>(2,030,251)</u>
BALANCE, BEGINNING OF YEAR AS RESTATED	543,814	6,466,508	47,636,674	54,646,996	54,437,201
Excess (deficiency) of revenues over expenses	2,537,714	-	-	2,537,714	209,795
Current year funds used for tangible capital assets	(6,931,764)	-	6,931,764	-	-
Funds transferred to restricted surplus	(70,309)	70,309	-	-	-
Restricted funds used for tangible capital assets	-	(181,906)	181,906	-	-
Restricted funds used for operations	-	-	-	-	-
Current year amortization	3,193,299	-	(3,193,299)	-	-
Disposal of tangible capital assets	-	-	-	-	-
New debt issued	-	-	-	-	-
Long term debt repaid	(500,848)	-	500,848	-	-
Change in accumulated surplus	<u>(1,771,908)</u>	<u>(111,597)</u>	<u>4,421,219</u>	<u>2,537,714</u>	<u>209,795</u>
BALANCE, END OF YEAR	<u>(1,228,094)</u>	<u>6,354,911</u>	<u>52,057,893</u>	<u>57,184,710</u>	<u>54,646,996</u>

**TOWN OF PEACE RIVER
SCHEDULE OF TANGIBLE CAPITAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011
SCHEDULE 2**

	Land	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2011 \$	2010 \$
COST:							
BALANCE, BEGINNING OF YEAR	3,791,450	24,485,322	59,133,513	7,916,151	2,043,538	97,369,974	93,773,073
Acquisition of tangible capital assets	-	2,351,926	4,604,179	157,565	-	7,113,670	3,959,492
Disposal of tangible capital assets	-	-	-	-	-	-	(362,591)
BALANCE, END OF YEAR	<u>3,791,450</u>	<u>26,837,248</u>	<u>63,737,692</u>	<u>8,073,716</u>	<u>2,043,538</u>	<u>104,483,644</u>	<u>97,369,974</u>
ACCUMULATED AMORTIZATION:							
BALANCE, BEGINNING OF YEAR	-	11,693,703	26,681,328	6,099,427	979,951	45,454,409	42,600,588
Annual amortization	-	644,094	2,096,210	333,539	119,456	3,193,299	2,999,287
Accumulated amortization on disposals	-	-	-	-	-	-	(145,466)
BALANCE, END OF YEAR	<u>-</u>	<u>12,337,797</u>	<u>28,777,538</u>	<u>6,432,966</u>	<u>1,099,407</u>	<u>48,647,708</u>	<u>45,454,409</u>
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>3,791,450</u>	<u>14,499,451</u>	<u>34,960,154</u>	<u>1,640,750</u>	<u>944,131</u>	<u>55,835,936</u>	<u>51,915,565</u>
2010 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>3,791,450</u>	<u>12,791,619</u>	<u>32,452,185</u>	<u>1,816,724</u>	<u>1,063,587</u>	<u>51,915,565</u>	

**TOWN OF PEACE RIVER
 SCHEDULE OF PROPERTY TAXES LEVIED
 FOR THE YEAR ENDED DECEMBER 31, 2011
 SCHEDULE 3**

	Budget \$ (Unaudited)	2011 \$	2010 \$
TAXATION			
Real property taxes	8,920,645	8,899,746	8,686,501
Linear property taxes	243,528	243,528	247,935
Government grants in place of property taxes	434,604	434,604	435,326
Special assessments and local improvement taxes	333,637	333,495	282,459
	<u>9,932,414</u>	<u>9,911,373</u>	<u>9,652,221</u>
REQUISITIONS			
Alberta School Foundation Fund	2,152,980	2,152,980	1,987,072
North Peace Housing Foundation	220,758	220,758	205,170
	<u>2,373,738</u>	<u>2,373,738</u>	<u>2,192,242</u>
NET MUNICIPAL TAXES	<u>7,558,676</u>	<u>7,537,635</u>	<u>7,459,979</u>

**TOWN OF PEACE RIVER
SCHEDULE OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31, 2011
SCHEDULE 4**

	Budget \$ (Unaudited)	2011 \$	2010 \$
TRANSFERS FOR OPERATING:			
Provincial Government	1,007,652	961,684	1,284,291
Federal Government	11,950	21,759	95,031
Other Local Governments	854,379	807,207	1,005,522
	<u>1,873,981</u>	<u>1,790,650</u>	<u>2,384,844</u>
TRANSFERS FOR CAPITAL:			
Provincial Government	15,842,061	2,009,353	2,364,775
Federal Government	1,845,053	2,793,461	-
	<u>17,687,114</u>	<u>4,802,814</u>	<u>2,364,775</u>
TOTAL GOVERNMENT TRANSFERS	<u><u>19,561,095</u></u>	<u><u>6,593,464</u></u>	<u><u>4,749,619</u></u>

See accompanying notes to the financial statements

**TOWN OF PEACE RIVER
SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2011
SCHEDULE 5**

	Budget \$ (Unaudited)	2011 \$	2010 \$
CONSOLIDATED EXPENSES BY OBJECT			
Salaries, wages and benefits	5,696,472	5,608,130	5,618,809
Contracted and general services	4,646,366	4,496,402	4,606,850
Purchases from other governments	-	-	-
Materials, goods, supplies and utilities	2,410,316	2,818,314	2,477,186
Provision for allowances	40,290	51,752	102,037
Transfers to individuals and organizations	92,730	206,645	167,792
Bank charges and short term interest	2,900	4,170	5,333
Interest on capital long-term debt	325,375	252,298	224,275
Amortization of tangible capital assets	-	3,193,299	2,999,287
Loss on disposal of tangible capital assets	-	-	137,125
Other expenses	707,174	426,274	336,280
	<u>13,921,623</u>	<u>17,057,284</u>	<u>16,674,974</u>

See accompanying notes to the financial statements

**TOWN OF PEACE RIVER
 SCHEDULE OF SEGMENTED DISCLOSURE
 DECEMBER 31, 2011
 SCHEDULE 6**

	General Government	Protective Services	Transportation Services	Planning & Development	Recreation & Culture	Environmental Services	Other	Total \$
REVENUE								
Net municipal taxes	7,537,635	-	-	-	-	-	-	7,537,635
Government transfers	868,269	403,729	3,813,521	129,769	1,188,595	-	199,551	6,627,939
User fees and sales of goods	16,195	348,090	291,699	153,524	498,504	2,353,462	25,477	3,686,951
Investment income	130,844	-	-	-	-	-	-	130,844
Other revenues	933,958	268,691	69,083	56,493	272,555	10,599	250	1,611,629
	<u>9,486,901</u>	<u>1,020,510</u>	<u>4,174,303</u>	<u>339,786</u>	<u>1,959,654</u>	<u>2,388,566</u>	<u>225,278</u>	<u>19,594,998</u>
EXPENSES								
Contract & general services	365,303	1,621,610	794,989	475,264	563,020	651,269	24,947	4,496,402
Salaries & wages	980,733	747,990	1,794,717	250,327	1,129,405	498,758	206,200	5,608,130
Goods & supplies	62,878	314,813	1,141,975	26,420	449,619	757,217	65,392	2,818,314
Provision for allowances	51,477	-	-	-	-	275	-	51,752
Long term debt interest	-	-	78,670	1,481	28,930	136,058	7,159	252,298
Other expenses	236,896	12,630	8,302	96,065	208,688	14,533	59,975	637,089
	<u>1,697,287</u>	<u>2,697,043</u>	<u>3,818,653</u>	<u>849,557</u>	<u>2,379,662</u>	<u>2,058,110</u>	<u>363,673</u>	<u>13,863,985</u>
NET REVENUE BEFORE AMORTIZATION	7,789,614	(1,676,533)	355,650	(509,771)	(420,008)	330,456	(138,395)	5,731,013
Amortization expense	(92,333)	(310,282)	(2,456,948)	(42,692)	(186,548)	(104,496)	-	(3,193,299)
NET REVENUE	<u>7,697,281</u>	<u>(1,986,815)</u>	<u>(2,101,298)</u>	<u>(552,463)</u>	<u>(606,556)</u>	<u>225,960</u>	<u>(138,395)</u>	<u>2,537,714</u>



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Peace River are the representations of management prepared in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the the Town of Peace River are as follows:

a) Reporting entity

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

The schedule of taxes levied also includes requisitions for education, health, social and other external organizations that are part of the municipal reporting entity.

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

The statements do not include the Town's proportionate share in East Peace Regional Landfill Authority (see note 15).

b) Basis of Accounting

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

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

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

c) Use of Estimates

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

d) Investments

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

**TOWN OF PEACE RIVER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Debt Charges Recoverable

Debt charges recoverable consist of amounts that are recoverable from municipal agencies or other local governments with respect to outstanding debentures or other long-term debt pursuant to annexation orders or joint capital undertakings. These recoveries are recorded at a value that equals the offsetting portion of the un-matured long-term debt, less actuarial requirements for the retirement of any sinking fund debentures.

f) Land Inventory Held for Resale

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

g) Prepaid Local Improvement Charges

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

Where a taxpayer has elected to prepay the outstanding local improvement charges, such amounts are recorded as deferred revenue. Deferred revenue is amortized to revenue on a straight line basis over the remaining term of the related borrowings.

In the event that the prepaid amounts are applied against the related borrowings, the deferred revenue is amortized to revenue by an amount equal to the debt repayment.

h) Government Transfers

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

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

i) Requisition Over-levies and Under-Levies

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

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

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

**TOWN OF PEACE RIVER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Non-Financial Assets

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

i. Tangible Capital Assets

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

	YEARS
Land Improvements	15-20
Buildings	25-50
Engineered structures	
Transportation	35-75
Water distribution system	35-75
Wastewater treatment system and other	10-40
Machinery, equipment and furnishings	5-20
Vehicles	3-20

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

ii. Contributions of Tangible Capital Assets

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

iii. Leases

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

iv. Inventories

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

v. Cultural and Historical Tangible Capital Assets

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

k) Pension Expense

The Town participates in a multi-employer defined benefit pension plan. See Note 11.

**TOWN OF PEACE RIVER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

2. CASH AND CASH EQUIVALENTS

	<u>2011</u>	<u>2010</u>
	\$	\$
Cash	12,162,534	10,672,340
Temporary investments	8,000,000	5,003,116
Trust Assets	14,045	17,719
	<u>20,176,579</u>	<u>15,693,175</u>

Temporary investments are short-term deposits with original maturities of one year or less.

Included in the above are \$14,465,215 of funds which are externally restricted in use. (2010 - \$8,640,733)

3. TAXES AND GRANTS IN PLACE OF TAXES RECEIVABLES

	<u>2011</u>	<u>2010</u>
	\$	\$
Current taxes and grants in place of taxes	193,770	377,717
Arrears taxes	244,770	103,574
	<u>438,540</u>	<u>481,291</u>
Non-current tax arrears	-	63,189
Less: allowance for doubtful accounts	(72,460)	(72,460)
	<u>366,080</u>	<u>472,020</u>

4. DEFERRED REVENUE

	<u>2011</u>	<u>2010</u>
	\$	\$
		(Restated) Note 17
Prepaid local improvement charges	166,076	175,450
Developers' agreements	21,017	27,047
Municipal Sustainability Initiative	2,625,244	1,530,416
Other deferred grants	11,839,971	6,907,820
	<u>14,652,308</u>	<u>8,640,733</u>

Prepaid local improvement charges

Prepaid local improvements charges are being amortized to revenue over the terms of the debenture they relate to. They will expire between 2012 and 2029.

Municipal Sustainability Initiative

Funding in the amount of \$1,294,805 was received in the current year from the Municipal Sustainability Initiative. The use of these funds is restricted to eligible capital projects, as approved under the funding agreement, which are scheduled for completion in 2012. Unexpended funds related to the advance are supported by restricted cash of \$2,625,244 held exclusively for these projects (refer Note 2).

**TOWN OF PEACE RIVER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

5. EMPLOYEE BENEFIT OBLIGATIONS

	<u>2011</u>	<u>2010</u>
	\$	\$
Vacation	<u>224,693</u>	<u>165,814</u>

Vacation payable

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

6. LONG-TERM DEBT

	<u>2011</u>	<u>2010</u>
	\$	\$
Supported by general tax levies	<u>300,150</u>	408,948
Supported by special levies	<u>1,755,235</u>	1,928,805
Supported by utility rates	<u>911,928</u>	996,823
Total ACFA debentures	<u>2,967,313</u>	3,334,576
Bank loans	<u>810,730</u>	944,315
	<u>3,778,043</u>	<u>4,278,891</u>

The current portion of the long-term debt amounts to \$822,708 (2010 - \$842,523)

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$	\$	\$
2012	822,708	278,397	1,101,105
2013	358,882	205,806	564,688
2014	284,642	165,299	449,941
2015	297,689	138,048	435,737
2016	261,032	90,830	351,862
Thereafter	<u>1,753,090</u>	<u>427,419</u>	<u>2,180,509</u>
	<u>3,778,043</u>	<u>1,305,799</u>	<u>5,083,842</u>

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 4.252% to 11.125% per annum and matures in periods 2012 through 2029. The average annual interest rate is 8.15% for 2010 (8.22% for 2010).

Bank debt is repayable to ATB Financial and Horizon Credit Union. The loans bear interest at rates from 3.7% to 4.5% per annum and mature in periods from 2013 through 2015.

Debenture debt is issued on the credit and security of the town at large.

Interest on long-term debt amounted to \$252,298 (2010 - \$224,275).

**TOWN OF PEACE RIVER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

7. DEBT LIMITS

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

	<u>2011</u>	<u>2010</u>
	\$	\$
Total debt limit	<u>21,757,241</u>	21,647,262
Total debt	<u>3,778,043</u>	4,278,891
Amount of debt limit unused	<u>17,979,198</u>	<u>17,368,371</u>
Debt servicing limit	<u>3,626,207</u>	3,607,877
Debt servicing	<u>1,101,105</u>	1,120,920
Amount of debt servicing limit unused	<u>2,525,102</u>	<u>2,486,957</u>

The debt limit is calculated at 1.5 times revenue of the municipality (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 municipality. Rather, the financial statements must be interpreted as a whole.

8. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2011</u>	<u>2010</u>
	\$	\$
Tangible capital assets (Schedule 2)	<u>104,483,644</u>	97,369,974
Accumulated amortization (Schedule 2)	<u>(48,647,708)</u>	(45,454,409)
Long-term debt (Note 6)	<u>(3,778,043)</u>	(4,278,891)
	<u>52,057,893</u>	<u>47,636,674</u>

TOWN OF PEACE RIVER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

9. ACCUMULATED SURPLUS

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

	2011 \$	2010 \$ (Restated) Note 17
Unrestricted surplus (deficit)	(1,228,094)	543,814
Restricted surplus		
Swimming pool	-	-
FCSS	-	-
Community Development	90,000	90,000
General operating	1,000,000	1,000,000
Flood prevention	46	-
Fund 1 - Off-site Levies	562,561	558,453
Fund 2 - Town wide facilities	535,336	860,336
Fund 3 - West Hill maintenance	-	-
General contingency	100,000	100,000
Fire department	263,392	271,392
Common services	657,766	657,766
Economic development	100,000	100,000
Information technology	67,095	75,000
Joint regional capital	603,422	350,387
Landfill post closure	263,300	201,243
Legal contingency	55,276	55,276
Low flow replacement program	7,354	7,300
Museum	8,590	8,527
Recreation	417,395	417,393
Risk management	50,000	50,000
Transportation & engineering	544,453	544,453
Water distribution	65,000	100,000
Wastewater treatment plant	535,621	535,621
Recycling and trenching	125,000	125,000
Airport	170,540	226,540
Parks	-	-
Public land reserve	84,345	83,729
General capital	48,419	48,092
Equity in tangible capital assets	<u>52,057,893</u>	<u>47,636,674</u>
	<u>57,184,710</u>	<u>54,646,996</u>

**TOWN OF PEACE RIVER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

10. SALARY AND BENEFITS DISCLOSURE

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

	2011		2010	
	\$		\$	
	Salary ¹	Benefits & allowances ²	Total	Total
Councillors				
Mayor Iris Callioux	-	-	-	21,576
Mayor Lorne Mann	10,170	-	10,170	1,650
Councillor Don Good	-	-	-	6,939
Councillor Neil Martin	-	-	-	7,288
Councillor Geoff Milligan	14,968	2,521	17,489	17,164
Councillor Berry Heinen	-	-	-	10,435
Councillor Leslie Ayre-Jaschke	-	-	-	11,450
Councillor North Darling	4,007	-	4,007	650
Councillor Cole George	8,140	-	8,140	650
Councillor Robert LaFontaine	9,657	2,487	12,144	3,532
Councillor Thomas Tarpey	4,007	-	4,007	650
Councillor Colin Needham	12,108	-	12,108	3,351
Councillor Wanda Laurin	-	-	-	9,072
Chief Administrative Officer ³	111,238	11,745	122,983	339,657

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

2 Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans, professional memberships and tuition.

3 Amount included in salary for CAO includes accrual for payment of severance package.

11. 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 LAPP serves about 133,000 people and 389 employers. The LAPP is financed by employer and employee contributions and by investment earnings of the LAPP Fund.

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

The Town is required to make current service contributions to the LAPP of 9.49% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.13% on pensionable earnings above this amount. Employees of the town are required to make current service contributions of 8.49% of pensionable salary up to the year's maximum pensionable salary and 12.13% on pensionable salary above this amount.

Total current service contributions by the town to the LAPP in 2011 were \$353,143 (2010 - \$339,961). Total current service contributions by the employees of the town to the Local Authorities Pension Plan in 2011 were \$318,409 (2010 - \$309,270).

At December 31, 2010, the LAPP disclosed an actuarial deficiency of \$4.635 billion.

**TOWN OF PEACE RIVER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

12. COMMITMENTS

The Town has signed a contract with KCL Consulting Inc for the provision of assessment services to the Town for assessment years 2011 to 2015.

13. CONTINGENCIES

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

The Town has co-signed loans of the Peace Country Sports Club to an aggregate total of \$129,000. At December 31, 2011, the amounts of the loans were \$51,256 and the Peace Country Sports Club is responsible for making loan payments. The terms of the repayment are authorized under Bylaw No. 1748.

The Town has issued an interest free loan to the Peace River Curling Club in the amount of \$45,000 payable in full by December 31, 2015. The purpose of the loan is to assist in the interim financing of the Curling Club roof repairs. At December 31, 2011, the balance of the loan is \$40,500. These funds are authorized under Bylaw No. 1780.

During 2010, the Town received money under the Rural Community Adaptation Fund to be used for the Airport governance review and marketing plan. Part or all of the \$88,900 may have to be repaid due to non-compliance with the conditions of the grant. The Town has received an extension to October 31, 2012 to complete.

14. FINANCIAL INSTRUMENTS

The town's financial instruments consist of cash and temporary investments, accounts receivable, investments, debt charges recoverable, bank indebtedness, accounts payable and accrued liabilities, deposit liabilities, requisition over-levy, 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 the financial instrument approximates fair value.

15. INVESTMENT IN EAST PEACE REGIONAL LANDFILL AUTHORITY

These financial statements do not include the Town of Peace River's investment in the East Peace Regional Landfill Authority. The original Memorandum of Agreement dated March 22, 1999 between the Village of Nampa, the Town of Peace River, and the Municipal District of East Peace No. 131 (now Northern Sunrise County) states that the municipalities shall contribute to the deficit cost of operating the landfill on a pro-rated tonnage basis. However, there is a dispute amongst the municipalities as to whether this is an appropriate basis for determining each municipalities' share in the equity of the landfill. In 2010, a new agreement was developed which will more clearly state the proportionate share each municipality has in the equity of the landfill. This agreement is still in discussion and has not yet been finalized. At such time as the agreement is signed by all parties, the Town will begin recording its investment on a consolidated basis as is appropriate for Other Government Organizations.

**TOWN OF PEACE RIVER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

16. SEGMENTED DISCLOSURE

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

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

17. PRIOR PERIOD ADJUSTMENT

The Town has restated its financial statements to reclassify grants previously recognized as revenue to deferred revenue as the approved expenditures related to the grants have not yet been incurred. The adjustments to correct these balances are as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Adjustments to opening accumulated surplus:		
As previously reported	56,677,247	56,467,452
Adjusted for grant revenue previously recognized	<u>(2,030,251)</u>	<u>(2,030,251)</u>
As restated	<u>54,646,996</u>	<u>54,437,201</u>
		<u>2010</u>
		\$
Adjustments to deferred revenue:		
As previously reported		6,610,482
Adjustment for grant revenue previously recognized		<u>2,030,251</u>
		<u>8,640,733</u>

Certain comparative figures have been restated to conform to the current year's presentation.

18. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.