



WildeandCompany

Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Reeve and Council of Mackenzie County

We have audited the accompanying consolidated financial statements of Mackenzie County, which comprise of the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of operations, changes 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 generally accepted accounting principles, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 financial position of Mackenzie County as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Vegreville, AB
April 24, 2013

Wilde + Company
Chartered Accountants

MACKENZIE COUNTY
Consolidated Statement of Financial Position
As at December 31, 2012

| | 2012 | 2011 |
|---|--------------------|--------------------|
| | \$ | \$ |
| ASSETS | | |
| Financial Assets | | |
| Cash and temporary investments (Note 3) | 19,280,544 | 15,259,277 |
| Receivables | | |
| Taxes receivable (Note 4) | 801,675 | 740,391 |
| Due from governments | 4,878,774 | 396,322 |
| Trade and other receivables | 674,674 | 475,439 |
| Land held for resale | 48,488 | 52,917 |
| Investments (Note 5) | 4,792,855 | 4,608,706 |
| | 30,477,010 | 21,533,052 |
| LIABILITIES | | |
| Accounts payable and accrued liabilities (Note 6) | 6,756,945 | 4,146,247 |
| Deposit liabilities | 101,183 | 76,338 |
| Deferred revenue (Note 7) | 3,353,866 | 2,066,070 |
| Long term debt (Note 8) | 11,422,673 | 11,543,933 |
| | 21,634,667 | 17,832,588 |
| NET FINANCIAL ASSETS | 8,842,343 | 3,700,464 |
| NON-FINANCIAL ASSETS | | |
| Tangible capital assets (Schedule 2) | 164,401,735 | 160,460,809 |
| Inventory for consumption (Note 10) | 1,898,730 | 2,611,808 |
| Prepaid expenses | 224,971 | 240,852 |
| Deposit assets | 24,596 | 24,596 |
| | 166,550,032 | 163,338,065 |
| ACCUMULATED SURPLUS (Note 13) | 175,392,375 | 167,038,529 |

Contingent liability (Note 16)

MACKENZIE COUNTY
Consolidated Statement of Operations
As at December 31, 2012

| | Budget \$ (Unaudited) | 2012 \$ | 2011 \$ |
|--|-----------------------------|-------------------|-------------------|
| Revenues | | | |
| Net municipal taxes (Schedule 3) | 23,644,182 | 23,637,475 | 22,494,860 |
| User fees and sales of goods | 3,270,453 | 3,439,360 | 2,327,164 |
| Government transfers for operating (Schedule 4) | 1,414,325 | 3,241,960 | 1,296,307 |
| Investment income | 346,500 | 454,041 | 422,701 |
| Penalties and costs on taxes | 115,000 | 140,171 | 115,552 |
| Licenses, permits and fines | 255,880 | 428,969 | 354,142 |
| Rentals | 61,211 | 77,848 | 74,858 |
| Gain on disposal of capital assets | 467,305 | - | - |
| Other | 220,000 | 759,999 | 390,618 |
| Total revenue | 29,794,856 | 32,179,823 | 27,476,202 |
| Expenses | | | |
| Legislative | 675,209 | 602,342 | 669,581 |
| Administration | 5,242,876 | 4,825,783 | 4,663,362 |
| Protective services | 1,538,425 | 2,719,063 | 993,996 |
| Transportation | 14,838,590 | 12,443,160 | 11,893,107 |
| Environmental use and protection | 4,898,260 | 4,211,296 | 3,958,855 |
| Family and community support | 696,041 | 728,839 | 622,969 |
| Planning, development and agriculture | 2,737,807 | 1,731,867 | 1,593,852 |
| Recreation and culture | 1,836,988 | 1,632,634 | 1,545,554 |
| Loss on disposal of capital assets | - | 190,904 | 91,364 |
| Total expenses | 32,464,196 | 29,085,888 | 26,032,640 |
| Excess of revenue over expenses before Government transfers | (2,669,340) | 3,093,935 | 1,443,562 |
| Government transfers for capital (Schedule 4) | 12,116,720 | 5,103,229 | 2,193,446 |
| Other capital contributions | 625,000 | 156,682 | 1,498,632 |
| Excess of revenues over expenses | 10,072,380 | 8,353,846 | 5,135,640 |
| Accumulated surplus - beginning of the year | 167,038,529 | 167,038,529 | 161,902,889 |
| Accumulated surplus - end of the year | 177,110,909 | 175,392,375 | 167,038,529 |

MACKENZIE COUNTY
Consolidated Statement of Change in Net Financial Assets
As at December 31, 2012

| | Budget \$ (Unaudited) | 2012 \$ | 2011 \$ |
|---|--|--------------------------|--------------------------|
| Excess of revenue over expenses | 10,072,380 | 8,353,846 | 5,135,640 |
| Acquisition of tangible capital assets | (27,060,322) | (11,564,803) | (11,128,734) |
| Contributed tangible capital assets | - | - | (1,442,832) |
| Proceeds on disposal of tangible capital assets | 634,001 | 663,234 | 1,003,617 |
| Amortization of tangible capital assets | 7,755,963 | 6,769,738 | 6,401,174 |
| (Gain) loss on sale of tangible capital assets | (467,305) | 190,904 | 91,364 |
| | (19,137,663) | (3,940,927) | (5,075,411) |
| Use of (acquisition of) prepaid assets | - | 15,881 | (31,730) |
| Use of supplies inventories | 729,314 | 713,078 | (956,123) |
| Acquisition of deposit assets | - | - | - |
| | 729,314 | 728,959 | (987,853) |
| (Increase) decrease in net assets | (8,335,969) | 5,141,878 | (927,624) |
| Net financial assets, beginning of year | 3,700,465 | 3,700,465 | 4,628,089 |
| Net financial assets, end of year | (4,635,504) | 8,842,343 | 3,700,465 |

MACKENZIE COUNTY
Consolidated Statement of Cash Flows
As at December 31, 2012

| | 2012 \$ | 2011 \$ |
|--|---------------------|---------------------|
| Operating | | |
| Excess of revenue over expenses | 8,353,846 | 5,135,640 |
| Net changes in non-cash items included in excess of revenues over expenses | | |
| Amortization of tangible capital assets | 6,769,738 | 6,401,174 |
| (Gain) loss on disposal of tangible capital assets | 190,904 | 91,364 |
| Tangible capital assets received as contributions | - | (1,442,832) |
| Net changes in non-cash charges to operation | | |
| Decrease (increase) in taxes and grants in lieu receivable | (61,284) | (198,405) |
| Decrease (increase) in government receivables | (4,482,452) | 2,396,758 |
| Decrease (increase) in trade and other receivables | (199,235) | (147,301) |
| Decrease (increase) in inventory for consumption | 713,078 | (956,123) |
| Decrease (increase) in land held for resale | 4,429 | 7,285 |
| Decrease (increase) in prepaid expenses | 15,881 | (31,730) |
| Decrease (increase) in deposit assets | - | - |
| Increase (decrease) in accounts payable and accrued liabilities | 2,610,698 | (328,180) |
| Increase (decrease) in deposit liabilities | 24,845 | 3,820 |
| Increase (decrease) in deferred revenue | 1,287,796 | 1,546,361 |
| <i>Net cash provided by operating transactions</i> | 15,228,244 | 12,477,831 |
| Capital | | |
| Acquisition of tangible capital assets | (11,564,803) | (11,128,734) |
| Proceeds on sale of tangible capital assets | 663,234 | 1,003,616 |
| <i>Net cash applied to capital transactions</i> | (10,901,569) | (10,125,118) |
| Investing | | |
| Decrease (increase) in restricted cash or cash equivalents | (1,287,796) | (1,546,361) |
| Decrease (increase) in investments | (184,149) | (165,061) |
| <i>Net cash provided by investing transactions</i> | (1,471,945) | (1,711,422) |
| Financing | | |
| Long term debt issued | 2,000,000 | 2,180,164 |
| Long term debt repaid | (2,121,261) | (2,186,032) |
| <i>Net cash provided by investing transactions</i> | (121,261) | (5,868) |
| Change in cash and cash equivalents during the year | 2,733,469 | 635,423 |
| Cash and cash equivalents, beginning of year | 13,193,209 | 12,557,786 |
| Cash and cash equivalents, end of year | 15,926,678 | 13,193,209 |
| Cash and cash equivalents is made up of: | | |
| Cash and temporary investments (Note 3) | 19,280,544 | 15,259,277 |
| Less: restricted portion of cash and temporary investments (Note 3) | (3,353,866) | (2,066,070) |
| | 15,926,678 | 13,193,207 |

See accompanying notes

MACKENZIE COUNTY
Schedule of Changes in Accumulated Surplus
As at December 31, 2012
Schedule 1

| | Unrestricted Surplus | Restricted Operating | Restricted Capital | Equity in Capital Assets | 2012 \$ | 2011 \$ |
|--|---------------------------------|---------------------------------|-------------------------------|-------------------------------------|--------------------|--------------------|
| Balance, beginning of year | 3,393,319 | 6,775,986 | 7,952,347 | 148,916,877 | 167,038,529 | 161,902,889 |
| Excess of revenues over expenses | 8,353,846 | - | - | - | 8,353,846 | 5,135,640 |
| Unrestricted funds designated for future use | (7,654,593) | 3,062,419 | 4,592,174 | - | - | - |
| Restricted funds used for operations | 69,464 | (47,181) | (22,283) | - | - | - |
| Restricted funds used for TCA | - | (1,842,697) | (941,493) | 2,784,190 | - | - |
| Current year funds used for TCA | (8,780,613) | - | - | 8,780,613 | - | - |
| NBV of TCA disposed of | 854,138 | - | - | (854,138) | - | - |
| Annual amortization expense | 6,769,738 | - | - | (6,769,738) | - | - |
| TCA long term debt issued | 2,000,000 | - | - | (2,000,000) | - | - |
| TCA long term debt repaid | (2,121,261) | - | - | 2,121,261 | - | - |
| Balance, end of year | 2,884,038 | 7,948,527 | 11,580,745 | 152,979,065 | 175,392,375 | 167,038,529 |

MACKENZIE COUNTY
Schedule of Tangible Capital Assets
As at December 31, 2012
Schedule 2

| | Land and Improvements | Buildings | Engineered Structures | Machinery and Equipment | Vehicles | 2012 \$ | 2011 \$ |
|--|----------------------------------|-------------------|----------------------------------|------------------------------------|------------------|--------------------|--------------------|
| Cost | | | | | | | |
| Balance, beginning of year | 8,691,138 | 17,802,348 | 290,423,514 | 8,059,019 | 3,631,521 | 328,607,540 | 317,441,861 |
| Acquisition of tangible capital assets | 427,280 | 85,528 | 1,481,585 | 1,959,000 | 725,585 | 4,678,978 | 9,574,797 |
| Construction in progress | 42,620 | 119,585 | 6,723,620 | - | - | 6,885,825 | 2,996,769 |
| Disposal of tangible capital assets | (32,825) | - | - | (1,191,682) | (314,313) | (1,538,820) | (1,405,887) |
| Balance, end of year | 9,128,213 | 18,007,461 | 298,628,719 | 8,826,337 | 4,042,793 | 338,633,523 | 328,607,540 |
| Accumulated amortization | | | | | | | |
| Balance, beginning of year | 193,327 | 2,355,700 | 162,027,104 | 2,055,227 | 1,515,373 | 168,146,731 | 162,056,464 |
| Annual amortization | 217,504 | 410,237 | 5,378,986 | 569,149 | 193,862 | 6,769,738 | 6,401,174 |
| Accumulated amortization on disposals | - | - | - | (422,186) | (262,495) | (684,681) | (310,907) |
| Balance, end of year | 410,831 | 2,765,937 | 167,406,090 | 2,202,190 | 1,446,740 | 174,231,788 | 168,146,731 |
| Net book value of tangible capital assets | | | | | | | |
| | 8,717,382 | 15,241,524 | 131,222,629 | 6,624,147 | 2,596,053 | 164,401,735 | 160,460,809 |
| 2011 Net book value of tangible capital assets | 8,497,811 | 15,446,648 | 128,396,410 | 6,003,792 | 2,116,148 | | 160,460,809 |

MACKENZIE COUNTY
Schedule of Property and Other Taxes
As at December 31, 2012
Schedule 3

| | Budget | 2012 | 2011 |
|---|--------------------|-------------------|------------------|
| | \$ | \$ | \$ |
| | (Unaudited) | | |
| Taxation | | | |
| Real property taxes | 12,724,181 | 12,699,435 | 12,205,618 |
| Linear property | 17,016,563 | 17,038,285 | 16,957,424 |
| Government grants in place of property taxes | 79,968 | 93,166 | 98,889 |
| Special assessments and local improvement taxes | 272,549 | 255,668 | 247,129 |
| | 30,093,261 | 30,086,554 | 29,509,060 |
| Requisitions | | | |
| Alberta School Foundation Fund | 6,157,364 | 6,157,364 | 6,295,112 |
| Homestead Seniors Lodge | 291,715 | 291,715 | 719,088 |
| | 6,449,079 | 6,449,079 | 7,014,200 |
| Net Municipal Taxes | 23,644,182 | 23,637,475 | 22,494,860 |

MACKENZIE COUNTY
Schedule of Government Transfers
As at December 31, 2012
Schedule 4

| | Budget | 2012 | 2011 |
|-----------------------------------|--------------------|------------------|------------------|
| | \$ | \$ | \$ |
| | (Unaudited) | | |
| Transfers for Operating | | | |
| Federal Government | - | 1,874 | - |
| Provincial Government | 1,414,325 | 3,240,086 | 1,296,307 |
| | 1,414,325 | 3,241,960 | 1,296,307 |
| Transfers for Capital | | | |
| Federal Government | - | - | 103,235 |
| Provincial Government | 12,116,720 | 5,103,229 | 2,090,211 |
| | 12,116,720 | 5,103,229 | 2,193,446 |
| Total Government Transfers | 13,531,045 | 8,345,189 | 3,489,753 |

MACKENZIE COUNTY
Schedule of Consolidated Expenses by Object
As at December 31, 2012
Schedule 5

| | Budget \$ (Unaudited) | 2012 \$ | 2011 \$ |
|--|-----------------------------|-------------------|-------------------|
| Consolidated Expenses by Object | | | |
| Salaries, wages and benefits | 7,727,044 | 6,590,426 | 5,910,180 |
| Contracted and general services | 7,222,940 | 6,717,883 | 5,366,114 |
| Materials, goods, supplies and utilities | 5,573,257 | 5,087,314 | 4,616,680 |
| Transfers to other governments | 1,816,600 | 1,371,120 | 1,598,790 |
| Transfers to local boards and agencies | 1,590,356 | 1,690,701 | 1,517,852 |
| Bank charges and short term interest | 27,000 | 39,202 | 32,457 |
| Interest of long term debt | 691,036 | 426,418 | 484,236 |
| Amortization of tangible capital assets | 7,755,963 | 6,769,738 | 6,401,174 |
| Loss (gain) on disposal of tangible capital assets | - | 190,904 | 91,364 |
| Other operating expenditures | 60,000 | 202,182 | 13,793 |
| | 32,464,196 | 29,085,888 | 26,032,640 |

MACKENZIE COUNTY
Schedule of Segmented Disclosure
As at December 31, 2012
Schedule 6

| | General Government | Protective Services | Transportation Services | Environmental Services | Planning & Development | Recreation & Culture | Other | Total \$ |
|--|-------------------------------|--------------------------------|------------------------------------|-----------------------------------|---------------------------------------|-------------------------------------|------------------|---------------------|
| Revenue | | | | | | | | |
| Net municipal taxes | 23,381,807 | - | 180,837 | 74,831 | - | - | - | 23,637,475 |
| Government transfers | 121,244 | 2,031,780 | 4,090,826 | 1,149,925 | 566,883 | 152,339 | 232,192 | 8,345,189 |
| User fees and sales of goods | 34,516 | 340,208 | 83,769 | 2,926,677 | 10,388 | 43,802 | - | 3,439,360 |
| Investment income | 454,041 | - | - | - | - | - | - | 454,041 |
| Other revenues | 529,925 | 32,737 | 236,553 | 200,491 | 563,858 | 105 | - | 1,563,669 |
| | 24,521,533 | 2,404,725 | 4,591,985 | 4,351,924 | 1,141,129 | 196,246 | 232,192 | 37,439,734 |
| Expenses | | | | | | | | |
| Salaries, wages and benefits | 2,048,665 | 262,265 | 2,712,328 | 834,235 | 485,346 | 192,180 | 55,407 | 6,590,426 |
| Contracted and general services | 1,147,492 | 2,018,569 | 1,552,648 | 886,225 | 905,287 | 205,617 | 2,045 | 6,717,883 |
| Materials, goods, supplies and utilities | 271,798 | 311,080 | 3,635,197 | 680,165 | 105,528 | 83,546 | - | 5,087,314 |
| Transfers to local boards and agencies | 1,371,120 | - | - | - | 135,000 | 884,313 | 671,388 | 3,061,821 |
| Interest on long term debt | 92,096 | - | 28,124 | 306,198 | - | - | - | 426,418 |
| Other expenses | 250,605 | 49 | 181,585 | - | 49 | - | - | 432,288 |
| | 5,181,776 | 2,591,963 | 8,109,882 | 2,706,823 | 1,631,210 | 1,365,656 | 728,840 | 22,316,150 |
| Net revenue before amortization | 19,339,757 | (187,238) | (3,517,897) | 1,645,101 | (490,081) | (1,169,410) | (496,648) | 15,123,584 |
| Amortization of tangible capital assets | 255,880 | 127,100 | 4,514,654 | 1,504,472 | 100,656 | 266,976 | - | 6,769,738 |
| Net revenue | 19,083,877 | (314,338) | (8,032,551) | 140,629 | (590,737) | (1,436,386) | (496,648) | 8,353,846 |

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

1. Summary of significant accounting policies

The consolidated financial statements of the municipality 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 municipality are as follows:

Reporting entity

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

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

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

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.

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 expenditure during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

(continues)

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

1. Summary of significant accounting policies (*continued*)

Cash and cash equivalents

Cash includes cash and cash equivalents. Cash equivalents are investments in treasury bills and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

Investments

Long term investments are recorded using the cost method. Under the cost method, the investment is initially recorded at cost, and earnings are recognized only to the extent received or receivable. In the case of a permanent loss in value, the investment is written down to the market value.

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. 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.

Inventories for resale

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

Gravel pit reclamation

Estimated environmental provisions, comprising pollution control, rehabilitation and pit closure, are based on the County's environmental policy taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognized as and when the environmental liability arises. To the extent that the obligations relate to the construction of an asset, they are capitalized as part of the cost of those assets. The effect of subsequent changes to assumptions in estimating an obligation for which the provision was recognized as part of the cost of the asset is adjusted against the asset. Any subsequent changes to an obligation which did not relate to the initial construction of a related asset are charged to the income statement.

(continues)

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

1. Summary of significant accounting policies (*continued*)

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.

(continues)

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

1. Summary of significant accounting policies (*continued*)

Non-financial assets

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

a) 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 | 15-45 |
| Buildings | 25-50 |
| Engineered structures | |
| Water system | 45-75 |
| Wastewater system | 45-75 |
| Other engineered structures | 10-50 |
| Machinery and equipment | 5-15 |
| Vehicles | 10-25 |

Annual amortization is not charged in the year of acquisition or the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

b) 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.

c) 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.

d) Inventories

Inventories consist of parts and supplies held for consumption, and gravel. Inventories of parts and supplies are carried at the lower of cost and replacement cost, with cost determined by the average cost method. Gravel pit reserves are recorded at cost and allocated to gravel supplies on a unit of production basis.

MACKENZIE COUNTY

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

2. Recent accounting pronouncements published but not yet adopted

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

Section PS 3410 - Government Transfers

This section establishes standards on how to account for and report government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective. This section is effective for fiscal periods beginning on or after April 1, 2012.

Section PS 3510 – Tax Revenue

This new standard establishes recognition, measurement, presentation and disclosure standards relating to tax revenue reported in financial statements. This section is effective for fiscal periods beginning on or after April 1, 2012.

Section PS 3260 – Liability for Contaminated Sites

This new section establishes recognition, measurement, and disclosure standards for liabilities relating to contaminated sites of governments and those organizations applying the CICA Public Sector Accounting Handbook. This section is effective for fiscal periods beginning on or after April 1, 2014.

Section PS 3450 - Financial Instruments

This new section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. In conjunction with this new section, section PS 1201 and section PS 2601 have been amended as a consequence of the introduction of new financial instruments standards. These amendments were required to present the associated gains and losses with financial instruments recognized under the new section. The new section and the related amendments are effective for fiscal periods beginning on or after April 1, 2015.

For government organizations, as defined in Section PS 1300, the new section and related amendments are effective for fiscal periods beginning on or after April 1, 2012.

MACKENZIE COUNTY

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

3. Cash and temporary investments

| | 2012 | 2011 |
|-----------------------|----------------------|----------------------|
| Cash | \$ 2,927,916 | \$ 4,311,215 |
| Temporary investments | 16,352,628 | 10,948,062 |
| | \$ 19,280,544 | \$ 15,259,277 |

Temporary investments are short term deposits with original maturities of three months or less.

Council has designated funds of \$3,232,230 (2011 - \$1,922,464) included in the above amounts for capital projects.

Included in temporary investments is a restricted amount of \$121,636 (2011 – \$143,606) held exclusively for local improvements.

4. Taxes receivable

| | 2012 | 2011 |
|---------------------------------------|-------------------|-------------------|
| Taxes receivable - current | \$ 631,796 | \$ 523,651 |
| Taxes receivable - arrears | 274,702 | 226,057 |
| | 906,498 | 749,708 |
| Less: allowance for doubtful accounts | (104,823) | (9,317) |
| | \$ 801,675 | \$ 740,391 |

5. Investments

| | 2012 | | 2011 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 2012 | Cost | 2012 | Cost |
| Short term notes and deposits | \$ 3,523,014 | \$ 3,512,501 | \$ 1,809,440 | \$ 1,811,776 |
| Government and government guaranteed bonds | 1,269,841 | 1,280,626 | 2,799,266 | 2,917,823 |
| | \$ 4,792,855 | \$ 4,793,127 | \$ 4,608,706 | \$ 4,729,599 |

Short term notes and deposits have effective interest rates of 2.39% to 5.04% with maturity dates between April 2013 and December 2018. Government and government guaranteed bonds have effective interest rates of 3.05% to 4.80% with maturity dates between December 2014 and March 2017.

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

6. Accounts payables and accrued liabilities

| | 2012 | 2011 |
|---|---------------------|---------------------|
| Trade payables and accruals | \$ 4,117,419 | \$ 1,589,779 |
| Holdback payables | 623,176 | 662,390 |
| Gravel pit reclamation liability | 1,525,693 | 1,513,584 |
| Employee payable (wages and accrued overtime) | 442,225 | 325,367 |
| Long term debt interest payable | 48,432 | 55,127 |
| | \$ 6,756,945 | \$ 4,146,247 |

7. Deferred revenue

| | 2012 | 2011 |
|----------------------------|---------------------|---------------------|
| Prepaid local improvements | \$ 121,636 | \$ 143,606 |
| Restricted grant funding | 3,232,230 | 1,922,464 |
| | \$ 3,353,866 | \$ 2,066,070 |

The use of these funds are restricted to eligible projects as approved under the agreements. Unexpended funds are supported by cash in the bank.

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

8. Long term debt

| | 2012 | 2011 |
|--------------------------|----------------------|----------------------|
| Tax supported debentures | \$ 11,422,673 | \$ 11,543,933 |

Principal and interest repayments are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------|-----------------------------|----------------------------|-----------------------------|
| 2013 | \$ 1,826,572 | \$ 388,490 | \$ 2,215,062 |
| 2014 | 1,729,024 | 320,791 | 2,049,815 |
| 2015 | 1,294,233 | 260,882 | 1,555,115 |
| 2016 | 1,189,662 | 215,725 | 1,405,387 |
| 2017 | 1,172,454 | 172,807 | 1,345,261 |
| Thereafter | <u>4,210,728</u> | <u>590,623</u> | <u>4,801,351</u> |
| | <u>\$ 11,422,673</u> | <u>\$ 1,949,318</u> | <u>\$ 13,371,991</u> |

The current portion of the long term debt amounts to \$1,826,572 (2011 - \$2,133,991).

Debenture debt is repayable to the Alberta Capital Finance Authority and bears interest at rates ranging from 2.439% to 4.875% per annum and matures in periods 2013 through 2032. The weighted average annual interest rate is 3.504% for 2012 (3.746% for 2011).

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

Interest on long term debt amounted to \$426,418 (2011 - \$484,236).

The municipality's total cash payments for interest in 2012 were \$433,113 (2011 - \$471,603).

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

9. Debt limits

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

| | 2012 | 2011 |
|--|----------------------|----------------------|
| Total debt limit | \$ 48,269,735 | \$ 41,214,303 |
| Total debt | (11,422,673) | (11,543,933) |
| Amount of debt limit unused | \$ 36,847,062 | \$ 29,670,370 |
| Debt servicing limit | \$ 8,044,956 | \$ 6,869,051 |
| Debt servicing | (2,215,062) | (2,551,319) |
| Amount of debt servicing limit unused | \$ 5,829,894 | \$ 4,317,732 |

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.

10. Inventory for consumption

| | 2012 | 2011 |
|--------------------|---------------------|---------------------|
| Parts and supplies | \$ 809,430 | \$ 779,947 |
| Gravel | 1,089,300 | 1,831,861 |
| | \$ 1,898,730 | \$ 2,611,808 |

11. Equity in tangible capital assets

| | 2012 | 2011 |
|---------------------------------------|-----------------------|-----------------------|
| Tangible capital assets (Schedule 2) | \$ 338,633,526 | \$ 328,607,541 |
| Accumulated amortization (Schedule 2) | (174,231,788) | (168,146,731) |
| Long term debt (Note 8) | (11,422,673) | (11,543,933) |
| | \$ 152,979,065 | \$ 148,916,877 |

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

12. Segmented disclosure

The municipality 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).

13. Reserves and accumulated surplus

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

| | 2012 | 2011 |
|---|----------------------|---------------|
| Equity in tangible capital assets (Note 11) | \$152,979,065 | \$148,916,877 |
| Operating reserves | 7,948,527 | 6,775,986 |
| Capital reserves | 11,580,745 | 7,952,347 |
| Accumulated operating fund | 2,884,038 | 3,393,319 |
| | \$175,392,375 | \$167,038,529 |

The total reserve balances include approximately \$1,171,112 committed to projects commenced and/or tendered in 2012.

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

14. 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:

| | 2012 | | 2011 | |
|--|-------------------|---------------------------|-------------------|-------------------|
| | Salary (1) | Benefits & allowances (2) | | |
| William Neufeld - Reeve | \$ 44,900 | \$ 158 | \$ 45,058 | \$ 50,309 |
| John W. Driedger | 38,500 | 158 | 38,658 | 54,709 |
| Lisa Wardley | 34,400 | 1,488 | 35,888 | 36,206 |
| Peter Braun | 37,900 | 1,488 | 39,388 | 43,606 |
| Walter Sarapuk | 26,000 | 1,488 | 27,488 | 30,906 |
| Diedrich Driedger | 36,500 | 1,488 | 37,988 | 43,985 |
| Jacque Bateman | 29,600 | 158 | 29,758 | 31,509 |
| Odell Flett | 37,200 | 559 | 37,759 | 45,640 |
| Eric Jorgensen | 29,000 | 158 | 29,158 | 35,309 |
| Elmer Derksen | 30,900 | 158 | 31,058 | 46,809 |
| Chief Administrative Officer (2, 2011-1) | 290,692 | 18,308 | 309,000 | 222,337 |
| Designated Officers (2, 2011-2) | 129,877 | 19,299 | 149,176 | 317,898 |
| | \$ 765,469 | \$ 44,908 | \$ 810,377 | \$ 959,223 |

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, and long and short term disability plans.

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

15. Local Authorities Pension Plan

Employees of the municipality 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 200,000 people and 400 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 municipality is required to make current service contributions to the LAPP of 9.91% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.74% on pensionable earnings above this amount. Employees of the municipality are required to make current service contributions of 8.91% of pensionable salary up to the year's maximum pensionable salary and 12.74% on pensionable salary above this amount.

Total current service contributions by the municipality to the LAPP in 2011 were \$365,689 (2011 - \$315,227). Total current service contributions by the employees of the municipality to the Local Authorities Pension Plan in 2011 were \$331,174 (2011 - \$285,025).

At December 31, 2011, the LAPP disclosed an actuarial deficiency of 5.4 billion.

16. Contingent liability

The municipality is a member of the Local Authorities Reciprocal Insurance Exchange. Under the terms of the membership, the municipality 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.

In the normal conduct of operations, various legal claims are pending against the County in connection with road maintenance and construction, and other matters. The County carries liability insurance, subject to certain deductibles and policy limits, against such claims. Administration believes that the County has recognized adequate provisions of probable and reasonably estimable liabilities associated with these claims, and that their ultimate resolutions will not have a material adverse effect on the financial position of the County or its financial activities.

17. Financial instruments

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

The municipality 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 municipality 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.

MACKENZIE COUNTY
Notes to Consolidated Financial Statements
Year Ended December 31, 2012

18. Approval of financial statements

Council and Management have approved these financial statements.

19. Budget amounts

Budget amounts are included for information purposes only and are not audited.