

Financial Statements of

THE CORPORATION OF THE CITY OF ROSSLAND

December 31, 2011

THE CORPORATION OF THE CITY OF ROSSLAND
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December 31, 2011

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April 23, 2012

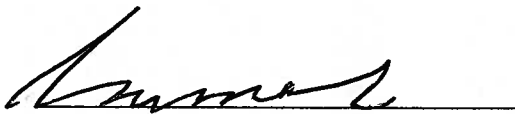
Nelson, B.C.

Responsibility For Financial Reporting

Management is responsible for the preparation of the accompanying consolidated financial statements. The financial statements have been prepared in accordance with the accounting principles disclosed in note 1 to the consolidated financial statements and include amounts that are based on estimates and judgments. Management believes that the financial statements fairly present The Corporation of the City of Rossland's consolidated financial position and results of operations. The integrity of the information presented in the financial statements, including estimates and judgments relating to matters not concluded by fiscal year-end, is the responsibility of management. The financial statements have been approved by Council.

Management has established and maintained appropriate systems of internal control including policies and procedures, which are designed to provide reasonable assurance that The Corporation of the City of Rossland's assets are safeguarded and that reliable financial records are maintained to form a proper basis for preparation of the financial statements.

The independent external auditors, Berg Naqvi Lehmann, Chartered Accountants, have been appointed by Council to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, The Corporation of the City of Rossland's financial position, results of operations, and changes in financial position in conformity with the accounting principles disclosed in note 1 to the consolidated financial statements. The report of Berg Naqvi Lehmann, Chartered Accountants, follows and outlines the scope of their examination and their opinion on the consolidated financial statements.



Chief Administrative Officer

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
The Corporation of the City of Rossland

We have audited the accompanying consolidated financial statements of The Corporation of the City of Rossland, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of operations, consolidated statement of changes in net financial assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and in accordance with Section 167 of the Community Charter of BC, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the 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 City'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 financial statements.

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

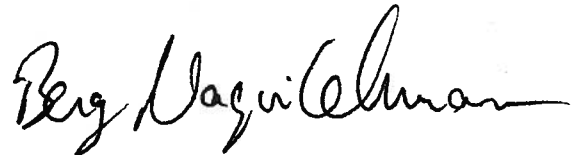
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INDEPENDENT AUDITORS' REPORT (continued)

To the Mayor and Council
The Corporation of the City of Rosland

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the The Corporation of the City of Rosland as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Chartered Accountants

April 23, 2012

Nelson, B.C.

THE CORPORATION OF THE CITY OF ROSSLAND
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As At December 31, 2011

| | 2011 | 2010 |
|--|---------------------|---------------------|
| FINANCIAL ASSETS | | |
| Cash and short-term investments | \$ 6,315,337 | \$ 5,345,846 |
| Grants and accounts receivable | 440,150 | 767,240 |
| Taxes receivable | 290,532 | 297,419 |
| Loan receivable (note 2) | 85,000 | 85,000 |
| | <u>7,131,019</u> | <u>6,495,505</u> |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | 886,341 | 647,373 |
| Employee future benefits (note 4) | 293,040 | 250,200 |
| Deferred revenue - Gas Tax Grant (note 5) | 119,363 | 210,844 |
| Deferred revenue - prepaid taxes and other grants (note 6) | 1,286,730 | 1,316,612 |
| Development cost charges and other fees (note 7) | 888,525 | 790,355 |
| Interim financing | - | 1,400,893 |
| Long-term debt (note 8) | 3,397,039 | 2,132,737 |
| | <u>6,871,038</u> | <u>6,749,014</u> |
| NET FINANCIAL ASSETS (DEBT) | 259,981 | (253,509) |
| NON-FINANCIAL ASSETS | | |
| Prepaid expenses | 41,382 | 57,184 |
| Inventory of materials and supplies | 155,489 | 142,944 |
| Tangible capital assets (note 9 and note 16) | 38,751,550 | 38,037,249 |
| | <u>38,948,421</u> | <u>38,237,377</u> |
| ACCUMULATED SURPLUS | \$39,208,402 | \$37,983,868 |
| Represented by: | | |
| Reserve Fund balances (note 10) | \$ 3,971,631 | \$ 3,878,837 |
| Operating and capital fund deficit (note 10) | (117,740) | (1,799,481) |
| Equity in tangible capital assets (note 11) | 35,354,511 | 35,904,512 |
| | <u>\$39,208,402</u> | <u>\$37,983,868</u> |


Chief Administrative Officer

THE CORPORATION OF THE CITY OF ROSSLAND
CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2011

| | 2011 Budget | 2011 Actual | 2010 Actual |
|--|---------------------|---------------------|---------------------|
| REVENUE | | | |
| Taxation | \$ 4,156,200 | \$ 3,997,224 | \$ 3,973,125 |
| Utility taxes and grants-in-lieu | 118,300 | 116,648 | 63,981 |
| Federal gas tax grant | 90,000 | 278,728 | 105,258 |
| Provincial grants | 828,100 | 962,369 | 435,772 |
| Regional District Kootenay Boundary grants | 13,000 | 13,000 | 292,496 |
| Other grants | - | 52,626 | 577,346 |
| Sale of services and other income | 507,200 | 700,758 | 741,351 |
| Interest and penalties on taxes | 60,300 | 61,643 | 57,311 |
| Gain on sale of tangible capital assets | - | 4,662 | 17,745 |
| Contributed assets and developer contributions | 318,900 | - | 416,885 |
| Water user fees | 600,900 | 600,570 | 587,072 |
| Sewer user fees | 523,000 | 505,165 | 505,484 |
| | 7,215,900 | 7,293,393 | 7,773,826 |
| EXPENDITURES (note 12) | | | |
| General government | 1,157,300 | 982,073 | 1,109,678 |
| Community support | 499,700 | 488,992 | 506,211 |
| Environmental health | 117,900 | 110,329 | 101,632 |
| Planning, development and engineering | 215,900 | 209,489 | 425,685 |
| Protective services | 187,100 | 219,964 | 151,037 |
| Public health services | 13,000 | 8,086 | 19,527 |
| Recreation and cultural services | 686,000 | 679,686 | 638,527 |
| Transportation and public works | 1,322,700 | 1,021,278 | 948,400 |
| Regional sewer utility | 232,100 | 226,291 | 219,887 |
| Sewer utility operations | 202,600 | 199,072 | 122,722 |
| Water utility operations | 611,200 | 527,012 | 381,643 |
| Amortization | 1,228,200 | 1,215,355 | 1,219,242 |
| Interest and finance charges | 163,700 | 181,232 | 167,391 |
| | 6,637,400 | 6,068,859 | 6,011,582 |
| ANNUAL SURPLUS (note 15) | 578,500 | 1,224,534 | 1,762,244 |
| ACCUMULATED SURPLUS, BEGINNING OF YEAR | 37,983,868 | 37,983,868 | 36,221,624 |
| ACCUMULATED SURPLUS, END OF YEAR | \$38,562,368 | \$39,208,402 | \$37,983,868 |


Chief Administrative Officer


THE CORPORATION OF THE CITY OF ROSSLAND
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
For the Year Ended December 31, 2011

| | 2011 | 2010 |
|---|---------------------|---------------------|
| ANNUAL SURPLUS | \$ 1,224,534 | \$ 1,762,244 |
| Acquisition of tangible capital and leased assets | (1,932,394) | (2,995,744) |
| Adjustment to PST on capital leased assets | - | 8,789 |
| Amortization of tangible capital assets | 1,215,355 | 1,219,242 |
| Gain on sale of tangible capital assets | (4,662) | (17,745) |
| Proceeds on sale of tangible capital assets | 7,400 | 62,863 |
| | 510,233 | 39,649 |
| Net change in prepaid expenses | 15,802 | 30,402 |
| Net change in inventory of supplies and materials | (12,545) | (4,192) |
| | 3,257 | 26,210 |
| INCREASE IN NET FINANCIAL ASSETS | 513,490 | 65,859 |
| NET DEBT, BEGINNING OF YEAR | (253,509) | (319,368) |
| NET FINANCIAL ASSETS (DEBT), END OF YEAR | \$ 259,981 | \$(253,509) |


Chief Administrative Officer

THE CORPORATION OF THE CITY OF ROSSLAND
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011

| | 2011 | 2010 |
|---|---------------------|---------------------|
| OPERATING TRANSACTIONS | | |
| Annual surplus | \$ 1,224,534 | \$ 1,762,244 |
| Non-cash items and changes in non-financial assets | | |
| Amortization | 1,215,355 | 1,219,242 |
| Actuarial gain on MFA long-term debt | (44,892) | (40,139) |
| Gain on sale of tangible capital assets | (4,662) | (17,745) |
| Contributed assets and developer contributions | - | (416,885) |
| Changes in prepaid expenses | 15,802 | 30,402 |
| Changes in inventory | (12,545) | (4,188) |
| Changes in financial assets/liabilities | | |
| Changes in taxes receivable | 6,887 | 115,490 |
| Changes in grants and accounts receivable | 327,090 | (488,621) |
| Changes in accounts payable and accrued liabilities | 238,968 | 103,621 |
| Changes in employee future benefits | 42,840 | 11,700 |
| Changes in deferred revenues | (23,193) | (113,963) |
| Cash Provided by Operating Transactions | 2,986,184 | 2,161,158 |
| CAPITAL TRANSACTIONS | | |
| Purchase of tangible capital assets | (1,932,394) | (2,394,573) |
| Proceeds from disposal of capital assets | 7,400 | 62,863 |
| Cash Applied to Capital Transactions | (1,924,994) | (2,331,710) |
| FINANCING TRANSACTIONS | | |
| Proceeds from long-term debt | 1,453,350 | - |
| Repayment of long-term debt | (144,156) | (213,049) |
| Repayment of interim-debt | (1,400,893) | - |
| Cash Applied to Financing Transactions | (91,699) | (213,049) |
| INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS | 969,491 | (383,601) |
| CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR | 5,345,846 | 5,729,447 |
| CASH AND SHORT-TERM INVESTMENTS, END OF YEAR | \$ 6,315,337 | \$ 5,345,846 |


Chief Administrative Officer

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of The Corporation of the City of Rossland.

Basis of Presentation

It is the City's policy to follow the accounting principles generally accepted for municipalities in the Province of British Columbia, and to apply such principles consistently. The consolidated financial statements include the accounts of all funds for the City. All interfund transfers have been eliminated. They have been prepared using guidelines issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. In addition, financial statements for each fund on a segregated basis have been presented under "Other Financial Information".

Basis of Accounting

The resources and operations of the City are segregated into various funds for accounting and financial reporting purposes, each being treated as a separate entity with responsibility for the stewardship of the assets allocated to it. The City has the following funds:

Operating funds - these funds are used to report the operating activities of the City, including general operations and the water and sewer utilities.

Capital funds - these funds are used to record the acquisition and financing of the capital assets. Capital funds have been established for general operations and the water and sewer utilities.

Reserve funds - these funds have been established to hold funds for specific future requirements. The use of these funds is governed by the Community Charter and Municipal resolutions and by-laws.

The consolidated financial statements include the amounts of all the funds of the City. Inter-fund transactions and balances have been eliminated.

Financial Instruments

The City's financial instruments consist of cash, temporary investments, accounts receivable, accounts payable and long-term debt. It is management's opinion that the City is not exposed to significant interest, currency, or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible Capital Assets

Tangible capital assets, comprised of capital assets and capital work-in-progress, are recorded at cost less accumulated amortization and are classified according to their functional use. Amortization is recorded on a straight-line basis over the estimated useful life of the asset commencing the year the asset is put in to service. Donated tangible capital assets are reported at fair value at the time of donation. Estimated useful lives are as follows:

| | |
|-----------------------------------|-----------------|
| Land Improvements | 15 to 35 years |
| Buildings and building components | 15 to 75 years |
| Machinery and equipment | 7 to 60 years |
| Furniture and equipment | 7 to 15 years |
| Information technology | 3 to 5 years |
| Vehicles and mobile equipment | 5 to 25 years |
| Infrastructure | 15 to 100 years |

Revenue Recognition

Revenue is recognized using the accrual method of accounting. Taxes and utility fees are recognized in the fiscal year to which they relate. Service revenues, grants and development cost charges are recognized in the period in which the City's service delivery obligations are discharged.

Budget Figures

The budget figures are based on the Five-Year Financial Plan for the year 2011, per bylaw #2498 adopted February 28, 2011.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Significant areas requiring estimates include the useful live of tangible capital assets for amortization, the determination of accrued employee benefits and the provision for contingencies. Actual results could differ from management's best estimates as additional information becomes available in the future.

THE CORPORATION OF THE CITY OF ROSSLAND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2011

2. LOAN RECEIVABLE

| | 2011 | 2010 |
|---------------------------------|-------------------|-------------------|
| Rossland Senior Housing Society | \$ 270,000 | \$ 270,000 |
| Less: valuation allowance | <u>(185,000)</u> | <u>(185,000)</u> |
| | <u>\$ 85,000</u> | <u>\$ 85,000</u> |

The loan to the Rossland Senior Housing Society is non-interest bearing and is secured by a second charge against the real estate owned by the Society. Repayment has been deferred until 2014.

3. RESERVE - MUNICIPAL FINANCE AUTHORITY

The City issues its debt instruments through the Municipal Finance Authority. As a condition of these borrowings, a portion of the debenture proceeds are withheld by the Municipal Finance Authority as a debt reserve fund. The City also executes demand notes in connection with each debenture whereby the City may be required to loan certain amounts to the Municipal Finance Authority. The detail of the cash deposits and demand notes at year end are as follows:

| | Demand Notes | Cash Deposits | 2011 | 2010 |
|-------------|-------------------|------------------|-------------------|-------------------|
| Water funds | \$ 99,511 | \$ 58,342 | \$ 157,853 | \$ 108,229 |
| Sewer Funds | 8,918 | 5,870 | <u>14,788</u> | <u>14,595</u> |
| | <u>\$ 108,429</u> | <u>\$ 64,212</u> | <u>\$ 172,641</u> | <u>\$ 122,824</u> |

4. EMPLOYEE FUTURE BENEFITS

The City records liabilities for accrued employee benefits in the period in which they are earned by the employee. Short-term benefits, such as banked overtime and vacation entitlements, are included in accrued liabilities. Long-term benefits, such as sick leave entitlements, are reported as employee future benefits at management's estimate of the discounted present value of the future entitlements.

THE CORPORATION OF THE CITY OF ROSSLAND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2011

5. DEFERRED REVENUE - FEDERAL GAS TAX GRANT

Federal gas tax funding is provided by the Government of Canada and use of the funding is restricted by the terms of the funding agreement between the local government and the Union of British Columbia municipalities. Gas tax funding may be used towards certain public transit, community energy, water, wastewater, solid waste and capacity building projects, as specified in the funding agreement.

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Opening balance of unspent funds | \$ 210,844 | \$ 129,253 |
| Received during the year | 182,384 | 182,399 |
| Interest earned | 7,649 | 5,503 |
| | 400,877 | 317,155 |
| Spent on eligible projects | (278,727) | (105,258) |
| Spent on administration costs during the year | (2,787) | (1,053) |
| | \$ 119,363 | \$ 210,844 |

6. DEFERRED REVENUE - PREPAID TAXES AND OTHER GRANTS

| | 2011 | 2010 |
|----------------------------------|---------------------|---------------------|
| Prepaid property taxes | \$ 871,412 | \$ 855,787 |
| Prepaid parcel taxes - water | 110,045 | 72,204 |
| | 981,457 | 927,991 |
| Towns for Tomorrow Water grant | 383,489 | 400,000 |
| Neighbourhood of Learning grant | 5,133 | 7,500 |
| Interest earned | 3,529 | 4,530 |
| Less: spent on eligible projects | (86,878) | (23,409) |
| | \$ 1,286,730 | \$ 1,316,612 |

THE CORPORATION OF THE CITY OF ROSSLAND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2011

7. DEVELOPMENT COST CHARGES AND OTHER FEES

Development cost charges are restricted revenue liabilities representing funds received from developers for capital expenses. The City records these funds as restricted revenue which is then recognized as revenue when the related costs are incurred.

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Development cost charges - roads | \$ 59,196 | \$ 56,111 |
| Development cost charges - water | 500,245 | 453,508 |
| Development cost charges - sanitary sewer | 136,996 | 129,987 |
| Sewer service cost recovery - bylaw #2310 | 192,088 | 150,749 |
| | \$ 888,525 | \$ 790,355 |

8. LONG-TERM DEBT

| | Balance, Beginning of Year | Additions | Principal | Actuarial Adjustment | Balance, End of Year |
|----------------------------------|----------------------------------|--------------------|-------------------|-------------------------|-------------------------|
| General Capital Fund | | | | | |
| MFA Leases | \$ 408,586 | \$ - | \$ 89,218 | \$ - | \$ 319,368 |
| Water System Capital Fund | | | | | |
| Water #1966 | 202,496 | - | 6,747 | 5,975 | 189,774 |
| Water #1983 | 1,332,994 | - | 41,905 | 33,350 | 1,257,739 |
| Water #2344 | - | 1,453,350 | - | - | 1,453,350 |
| | 1,535,490 | 1,453,350 | 48,652 | 39,325 | 2,900,863 |
| Sewer System Capital Fund | | | | | |
| Sewer #1966 | 188,661 | - | 6,286 | 5,567 | 176,808 |
| Total Long-term Debt | \$2,132,737 | \$1,453,350 | \$ 144,156 | \$ 44,892 | \$3,397,039 |

Interest rates range from 3.25% to 5.85%. Actuarial adjustments represent interest earned on sinking funds held by the Municipal Finance Authority. Such interest is used to reduce the principal amount of outstanding debt. The requirements for future repayments of principal on existing debt for the next five years are estimated as follows:

| | General Capital | Water Capital | Sewer Capital | Total Capital |
|-----------------|--------------------|--------------------|-------------------|--------------------|
| 2012 | \$ 78,756 | \$ 97,458 | \$ 6,286 | \$ 182,500 |
| 2013 | 78,576 | 97,458 | 6,286 | 182,320 |
| 2014 | 78,783 | 97,458 | 6,286 | 182,527 |
| 2015 | 54,650 | 97,458 | 6,286 | 158,394 |
| 2016 and beyond | 28,603 | 2,511,031 | 151,664 | 2,691,298 |
| | \$ 319,368 | \$2,900,863 | \$ 176,808 | \$3,397,039 |

THE CORPORATION OF THE CITY OF ROSSLAND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2011

9. TANGIBLE CAPITAL ASSETS

| | 2011 | 2010 |
|--|----------------------|----------------------|
| General Capital Fund | | |
| Land and improvements | \$ 8,606,062 | \$ 8,250,613 |
| Buildings and infrastructure | 8,335,462 | 8,173,492 |
| Machinery and equipment | 581,849 | 622,367 |
| Assets Under Capital Lease | | |
| Land and buildings | - | 503,254 |
| Machinery and equipment | <u>577,815</u> | <u>467,876</u> |
| | <u>18,101,188</u> | <u>18,017,602</u> |
| Water System - Capital Fund | | |
| Land and improvements | 970,838 | 971,273 |
| Buildings and infrastructure | <u>14,845,142</u> | <u>14,458,039</u> |
| | <u>15,815,980</u> | <u>15,429,312</u> |
| Sewer System - Capital Fund | | |
| Buildings and infrastructure | <u>4,834,382</u> | <u>4,590,335</u> |
| | <u>\$ 38,751,550</u> | <u>\$ 38,037,249</u> |

10. FINANCIAL EQUITY

Consolidated financial equity represents all Municipal equity that is not equity in physical or capital assets. The balance is comprised of the following:

| | 2011 | 2010 |
|--|---------------------|---------------------|
| General Operating Fund | \$ 228,571 | \$ 1,081,299 |
| General Capital Fund | 1,000 | 1,000 |
| Water Operating Fund | (47,223) | (1,488,692) |
| Water Capital Fund | - | (956,742) |
| Sewer Operating Fund | 138,912 | 88,654 |
| Due from Capital Funds eliminated on consolidation | <u>(439,000)</u> | <u>(525,000)</u> |
| | (117,740) | (1,799,481) |
| Reserve Funds | <u>3,971,631</u> | <u>3,878,837</u> |
| | <u>\$ 3,853,891</u> | <u>\$ 2,079,356</u> |

THE CORPORATION OF THE CITY OF ROSSLAND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2011

11. EQUITY IN TANGIBLE CAPITAL ASSETS

The consolidated equity in tangible capital assets represents total tangible capital assets less the long-term debt issued to acquire the assets. The balance is comprised of the following:

| | 2011 | 2010 |
|--|----------------------|----------------------|
| General Capital Fund | \$ 17,781,820 | \$ 17,459,016 |
| Water Capital Fund | 12,714,117 | 13,692,822 |
| Sewer Capital Fund | 4,419,574 | 4,227,674 |
| Due to Operating Funds eliminated on consolidation | <u>439,000</u> | <u>525,000</u> |
| | <u>\$ 35,354,511</u> | <u>\$ 35,904,512</u> |

12. EXPENDITURES BY OBJECT

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Interest and bank charges | \$ 181,232 | \$ 169,882 |
| Goods and services | 1,767,428 | 1,729,139 |
| Grants to community groups | 488,992 | 506,211 |
| Wages and benefits | 2,415,552 | 2,387,108 |
| Amortization of tangible capital assets | <u>1,215,355</u> | <u>1,219,242</u> |
| | <u>\$ 6,068,559</u> | <u>\$ 6,011,582</u> |

13. PENSION LIABILITY

The City and its employees contribute to the Municipal Pension Plan (the plan), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 173,000 active members and approximately 63,000 retired members. Active members include approximately 35,000 contributors from local governments.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2009 indicated an unfunded liability of \$1,024 million for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. The actuary does not attribute portions of the surplus to individual employers. Total City of Rossland contributions to the plan in the fiscal year were \$144,490 (2010 - \$124,905).

THE CORPORATION OF THE CITY OF ROSSLAND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As At December 31, 2011

14. COLLECTION FOR OTHER GOVERNMENTS

The City collected and remitted the following taxes on behalf of other Governments.

| | |
|--|---------------------|
| Provincial Government - School Taxes | \$ 1,721,077 |
| Provincial Government - Police Tax Levy | 156,242 |
| British Columbia Assessment Authority | 40,769 |
| Kootenay Boundary Regional Hospital | 29,172 |
| West Kootenay Boundary Regional Hospital | 138,323 |
| Municipal Finance Authority | 121 |
| Regional District of Kootenay Boundary | 1,159,113 |
| Grants in Lieu of Taxes Collected for Others | <u>11,379</u> |
| | <u>\$ 3,256,196</u> |

These amounts are not included in the City's revenues and expenditures in the financial statements.

15. BUDGET RECONCILIATION

The following reconciles the budgeted surplus as shown on the consolidated statement of operations to the budget as presented in bylaw #2498 adopted February 28, 2011.

| | |
|-------------------------------|--------------------|
| Budgeted surplus as presented | \$ 578,500 |
| Proposed borrowing proceeds | 450,100 |
| Transfers from reserves | 1,870,600 |
| Transfers to reserves | (655,400) |
| Amortization not funded | 1,228,200 |
| Debt principal payments | (380,000) |
| Capital expenditures | <u>(3,092,000)</u> |
| | <u>\$ -</u> |

16. CONTINGENT LIABILITIES

Regional District Debt

The City, as a member of the Regional District of Kootenay Boundary, is jointly and severally liable for the future capital liabilities of the Regional District. The loan agreements with the Municipal Finance Authority provide that if the Authority does not have sufficient funds to meet its payments and obligations, it shall make payments from the debt reserve fund which is in turn established by a similar debt reserve fund of the City and all other borrowing participants. If the debt reserve fund is deficient, the Authority's obligations become a liability of the Regional District, and may become a liability of the participating municipalities.

Construction Contingencies

The contractor of the Ophir Creek Reservoir project has submitted claims relating to the construction of the project. There are also potential claims for construction deficiencies arising from building inspection services provided prior to and during 2008. The City is conducting a review of these claims. An estimate of the contingent costs cannot be made, and no accrual has been recorded for these contingent liabilities in the financial statements.

NOTE 17
 THE CORPORATION OF THE CITY OF ROSSLAND
 CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS
 As At December 31, 2011

| | Infrastructure | | | | | | | Leased Assets | 2011 | 2010 |
|--|---------------------|-------------------------------|---------------------------------|---------------------|----------------------|---------------------|-------------------|-------------------|----------------------|----------------------|
| | Land | Land Improvements & Buildings | Equipment/ Furniture / Vehicles | Roads / Drainage | Water | Sanitary Sewer | Works in Progress | | | |
| Historical Cost: | | | | | | | | | | |
| Opening balance | \$ 8,509,019 | \$ 10,275,994 | \$ 2,265,832 | \$ 14,386,685 | \$ 16,610,358 | \$ 6,836,723 | \$ 483,078 | \$ 1,815,109 | \$ 61,182,798 | \$ 58,315,319 |
| Additions | 352,268 | 359,777 | 99,022 | 90,884 | 990,995 | 298,447 | 587,111 | - | 2,778,504 | 2,995,744 |
| Disposals and write downs | (2,738) | - | - | - | - | - | (455,821) | (390,289) | (848,848) | (128,265) |
| Closing balance, Dec. 31 | \$ 8,858,549 | \$ 10,635,771 | \$ 2,364,854 | \$ 14,477,569 | \$ 17,601,353 | \$ 7,135,170 | \$ 614,368 | \$ 1,424,820 | \$ 63,112,454 | \$ 61,182,798 |
| Accumulated Amortization: | | | | | | | | | | |
| Opening balance | \$ - | \$ 4,841,304 | \$ 1,637,958 | \$ 8,638,797 | \$ 4,913,947 | \$ 2,269,564 | \$ - | \$ 843,979 | \$ 23,145,549 | \$ 22,000,669 |
| Amortization Expense | - | 293,239 | 115,157 | 248,612 | 334,870 | 118,246 | - | 105,231 | 1,215,355 | 1,219,242 |
| Effect of disposals and write downs | - | 89,638 | 12,567 | - | - | - | - | (102,205) | - | (74,362) |
| Closing balance, Dec. 31 | \$ - | \$ 5,224,181 | \$ 1,765,682 | \$ 8,887,409 | \$ 5,248,817 | \$ 2,387,810 | \$ - | \$ 847,005 | \$ 24,360,904 | \$ 23,145,549 |
| Net Book Value for Year Ended December 31, 2011 | \$ 8,858,549 | \$ 5,411,590 | \$ 599,172 | \$ 5,590,160 | \$ 12,352,536 | \$ 4,747,360 | \$ 614,368 | \$ 577,815 | \$ 38,751,550 | \$ 38,037,249 |

THE CORPORATION OF THE CITY OF ROSSLAND
GENERAL OPERATING FUND
EXHIBIT A - STATEMENT OF FINANCIAL POSITION
As At December 31, 2011

| FINANCIAL ASSETS | 2011 | 2010 |
|--|-------------------|---------------------|
| ASSETS | | |
| Cash and short-term investments | \$ 6,314,337 | \$ 5,344,846 |
| Taxes receivable | 290,532 | 297,419 |
| Grants and accounts receivable | 411,981 | 723,257 |
| Loan receivable | 85,000 | 85,000 |
| Due from Water Capital Fund | - | 872,898 |
| Due from General Capital Fund | - | 150,000 |
| | 7,101,850 | 7,473,420 |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | 876,991 | 647,373 |
| Employee future benefits | 293,040 | 250,200 |
| Deferred revenue - prepaid taxes and other | 871,412 | 855,787 |
| Deferred revenue - Gas Tax Grant | 119,363 | 210,844 |
| Deferred revenue - other grants | - | 5,133 |
| Deferred revenue - development cost charge | 59,196 | 56,111 |
| Due to Water Operating Fund | 1,195,141 | 557,670 |
| Due to Sewer Operating Fund | 398,176 | 320,865 |
| Due to Reserve Funds | 3,117,834 | 3,561,400 |
| | 6,931,153 | 6,465,383 |
| NET FINANCIAL ASSETS | 170,697 | 1,008,037 |
| NON-FINANCIAL ASSETS | | |
| Prepaid expenses and deposits | 41,382 | 57,184 |
| Inventory of materials and supplies | 16,492 | 16,078 |
| | 57,874 | 73,262 |
| ACCUMULATED SURPLUS | \$ 228,571 | \$ 1,081,299 |
| ACCUMULATED SURPLUS | | |
| Balance, beginning of year | \$ 1,081,299 | \$ 1,069,270 |
| Annual surplus | 20,170 | 12,029 |
| Transfer to financial equity of General Capital Fund | (872,898) | - |
| Balance, end of year | \$ 228,571 | \$ 1,081,299 |

THE CORPORATION OF THE CITY OF ROSSLAND
GENERAL CAPITAL FUND
EXHIBIT B - STATEMENT OF FINANCIAL POSITION
As At December 31, 2011

| | 2011 | 2010 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash | \$ 1,000 | \$ 1,000 |
| Assets under capital lease | 577,815 | 971,130 |
| Tangible capital assets | 17,523,373 | 17,046,472 |
| | 18,102,188 | 18,018,602 |
| LIABILITIES | | |
| Capital lease obligation | 319,368 | 408,586 |
| Due to General Operating Fund | - | 150,000 |
| | 319,368 | 558,586 |
| | \$ 17,782,820 | \$ 17,460,016 |
| FINANCIAL EQUITY | \$ 1,000 | \$ 1,000 |
| EQUITY IN TANGIBLE CAPITAL ASSETS | | |
| Balance, beginning of year | 17,459,016 | 16,561,959 |
| Contributed assets and developer contributions | - | 110,577 |
| General Operating Fund - capital expenditures | 781,929 | 1,378,432 |
| Net book value of tangible capital assets on disposal | (2,738) | (45,118) |
| General Operating Fund - repayment of lease obligation | 89,217 | 158,112 |
| General Operating Fund - transfer for internal debt | 150,000 | - |
| Amortization | (695,604) | (704,946) |
| | 17,781,820 | 17,459,016 |
| | \$ 17,782,820 | \$ 17,460,016 |

THE CORPORATION OF THE CITY OF ROSSLAND
GENERAL OPERATING FUND
EXHIBIT C - STATEMENT OF FINANCIAL ACTIVITIES
For the Year Ended December 31, 2011

| | 2011 | 2010 |
|--|---------------------|---------------------|
| REVENUE | | |
| General taxation | \$ 3,539,927 | \$ 3,517,121 |
| Utility taxes and grants-in-lieu of taxes | 116,648 | 117,124 |
| Federal Gas Tax grant | 278,728 | 105,258 |
| Provincial grants | 740,636 | 209,387 |
| Regional District of Kootenay Boundary grants | 13,000 | 292,496 |
| Other grants | 52,626 | 577,346 |
| Sale of services and other income | 472,953 | 538,357 |
| Interest and penalties on taxes | 61,643 | 57,311 |
| Sale of property and equipment - proceeds | 7,400 | 62,863 |
| | 5,283,561 | 5,477,263 |
| EXPENDITURES | | |
| General government | 982,073 | 947,501 |
| Community support | 488,992 | 502,295 |
| Environmental health services | 110,329 | 101,632 |
| Planning, development and engineering | 209,489 | 425,685 |
| Protective services | 219,964 | 151,037 |
| Public health | 8,086 | 19,527 |
| Recreation and cultural services | 679,686 | 637,809 |
| Transportation and public works | 1,021,278 | 948,400 |
| Interest and finance charges | 21,528 | 24,482 |
| | 3,741,425 | 3,758,368 |
| NET OPERATING REVENUES OVER EXPENDITURES | 1,542,136 | 1,718,895 |
| Transfers from Reserve Funds | 526,682 | 573,337 |
| Transfers to Water Operating Fund | (288,728) | (61,620) |
| Transfers to Reserve Funds | (738,774) | (682,039) |
| Transfers to General Capital Fund for capital expenditures | (781,929) | (1,378,432) |
| Transfer to General Capital Fund for debt principal repayments | (89,217) | (158,112) |
| Transfer to General Capital Fund internal debt | (150,000) | - |
| | (1,521,966) | (1,706,866) |
| ANNUAL SURPLUS | \$ 20,170 | \$ 12,029 |

THE CORPORATION OF THE CITY OF ROSSLAND
WATER OPERATING FUND
EXHIBIT D - STATEMENT OF FINANCIAL POSITION
As At December 31, 2011

| FINANCIAL ASSETS | 2011 | 2010 |
|---|--------------------|-----------------------|
| ASSETS | | |
| Water fees receivable | \$ 14,438 | \$ 22,929 |
| Due from Water Capital Fund | 201,000 | 284,844 |
| Due from General Operating Fund | 1,195,141 | 557,670 |
| | <u>1,410,579</u> | <u>865,443</u> |
| LIABILITIES | | |
| Accrued liabilities | 8,075 | - |
| Due to Sewer Operating Fund | 17,481 | 17,481 |
| Due to Reserve Fund | 637,261 | 133,837 |
| Development cost charges | 500,245 | 453,508 |
| Deferred Revenue - grants | 305,273 | 383,489 |
| Deferred Revenue - taxation | 110,045 | 72,203 |
| MFA interim financing | - | 1,400,893 |
| | <u>1,578,380</u> | <u>2,461,411</u> |
| NET DEBT | (167,801) | (1,595,968) |
| NON-FINANCIAL ASSETS | | |
| Inventory of materials and supplies | 120,578 | 107,276 |
| | <u>\$(47,223)</u> | <u>\$(1,488,692)</u> |
| ACCUMULATED SURPLUS (DEFICIT) | | |
| Balance, beginning of year | \$(1,488,692) | \$(1,490,747) |
| Annual surplus | 1,525,313 | 2,055 |
| Transfer of surplus to the Water Capital Fund | (83,844) | - |
| | <u>\$(47,223)</u> | <u>\$(1,488,692)</u> |

THE CORPORATION OF THE CITY OF ROSSLAND
WATER CAPITAL FUND
EXHIBIT E - STATEMENT OF FINANCIAL POSITION
As At December 31, 2011

| | 2011 | 2010 |
|--|---------------------|----------------------|
| FINANCIAL LIABILITIES | | |
| Due to Water Operating Fund | \$ 201,000 | \$ 284,844 |
| Due to General Operating Fund | - | 872,898 |
| Long-term debt | 2,900,863 | 1,535,490 |
| | 3,101,863 | 2,693,232 |
| NET DEBT | (3,101,863) | (2,693,232) |
| TANGIBLE CAPITAL ASSETS | 15,815,980 | 15,429,312 |
| | \$12,714,117 | \$12,736,080 |
| FINANCIAL EQUITY (DEFICIT) | \$ - | \$ (956,742) |
| EQUITY IN TANGIBLE CAPITAL ASSETS | | |
| Balance, beginning of year | 13,692,822 | 13,279,501 |
| Contributed assets and developer contributions | - | 268,514 |
| Water Operating Fund - capital expenditures | 784,291 | 458,651 |
| Water Operating Fund - debt principal repayments | 87,977 | 83,788 |
| Water Operating Fund - amortization | (397,623) | (397,632) |
| Repayment of debt in the Water Operating Fund | (1,453,350) | - |
| Balance, end of year | \$12,714,117 | \$13,692,822 |

THE CORPORATION OF THE CITY OF ROSSLAND
WATER OPERATING FUND
EXHIBIT F - STATEMENT OF FINANCIAL ACTIVITIES
For the Year Ended December 31, 2011

| | 2011 | 2010 |
|--|---------------------|------------------|
| REVENUE | | |
| Water parcel and specified area taxes | \$ 335,212 | \$ 334,095 |
| User fees | 600,570 | 587,072 |
| Government and other grants | 221,733 | 226,385 |
| Other income | 104,595 | 52,689 |
| | <u>1,262,110</u> | <u>1,200,241</u> |
| EXPENDITURES | | |
| Administration and other | 150,477 | 105,795 |
| Treatment plant, distribution and maintenance | 376,535 | 381,643 |
| Debt interest payments | 143,969 | 128,449 |
| | <u>670,981</u> | <u>615,887</u> |
| NET OPERATING REVENUES OVER EXPENDITURES | 591,129 | 584,354 |
| Transfer from Water Reserve Fund | 135,374 | 108,408 |
| Transfer from General Operating Fund | 288,728 | 61,620 |
| Transfer to Water Reserve Fund | (71,000) | (209,888) |
| Transfer to Water Capital Fund for capital expenditures | (784,291) | (458,651) |
| Transfer to Water Capital Fund for debt principal repayments | (87,977) | (83,788) |
| Transfer from Water Capital Fund for repayment of borrowing | 1,453,350 | - |
| ANNUAL SURPLUS | \$ 1,525,313 | \$ 2,055 |

THE CORPORATION OF THE CITY OF ROSSLAND
SEWER OPERATING FUND
EXHIBIT G - STATEMENT OF FINANCIAL POSITION
As At December 31, 2011

| FINANCIAL ASSETS | 2011 | 2010 |
|-------------------------------------|-------------------|------------------|
| ASSETS | | |
| Sewer fees receivable | \$ 13,731 | \$ 21,054 |
| Due from General Operating Fund | 398,176 | 320,865 |
| Due from Water Operating Fund | 17,481 | 17,481 |
| Due from General Sewer Capital Fund | 238,000 | 174,000 |
| | 667,388 | 533,400 |
| LIABILITIES | | |
| Accrued liabilities | 1,275 | - |
| Development cost charges | 329,084 | 280,736 |
| Due to Reserve Fund | 216,536 | 183,600 |
| | 546,895 | 464,336 |
| NET FINANCIAL ASSETS | 120,493 | 69,064 |
| NON-FINANCIAL ASSETS | | |
| Inventory of materials and supplies | 18,419 | 19,590 |
| ACCUMULATED SURPLUS | \$ 138,912 | \$ 88,654 |
| ACCUMULATED SURPLUS | | |
| Balance, beginning of year | \$ 88,654 | \$ 58,237 |
| Annual surplus | 50,258 | 30,417 |
| Balance, end of year | \$ 138,912 | \$ 88,654 |

THE CORPORATION OF THE CITY OF ROSSLAND
SEWER CAPITAL FUND
EXHIBIT H - STATEMENT OF FINANCIAL POSITION
As At December 31, 2011

| | 2011 | 2010 |
|--|---------------------|---------------------|
| LIABILITIES | | |
| Due to Sewer Operating Fund | \$ 238,000 | \$ 174,000 |
| Long-term debt | <u>176,808</u> | <u>188,661</u> |
| NET DEBT | (414,808) | (362,661) |
| TANGIBLE CAPITAL ASSETS | <u>4,834,382</u> | <u>4,590,335</u> |
| | <u>\$ 4,419,574</u> | <u>\$ 4,227,674</u> |
| EQUITY IN TANGIBLE CAPITAL ASSETS | | |
| Balance, beginning of year | \$ 4,227,674 | \$ 4,262,766 |
| Contributed assets and developer contributions | - | 37,794 |
| Sewer Operating Fund - debt principal payments | 11,853 | 11,288 |
| Sewer Operating Fund - capital expenditures | 302,175 | 32,490 |
| Amortization | (122,128) | (116,664) |
| Balance, end of year | <u>\$ 4,419,574</u> | <u>\$ 4,227,674</u> |

THE CORPORATION OF THE CITY OF ROSSLAND
SEWER OPERATING FUND
EXHIBIT I - STATEMENT OF FINANCIAL ACTIVITIES
For the Year Ended December 31, 2011

| | 2011 | 2010 |
|--|-------------------|-------------------|
| REVENUE | | |
| Parcel and specified area taxes | \$ 122,085 | \$ 121,909 |
| User fees | 505,165 | 505,484 |
| Sewer cost recovery and other income | 26,434 | 9,586 |
| | <u>653,684</u> | <u>636,979</u> |
| EXPENDITURES | | |
| Administration and other | 46,713 | 44,015 |
| Collection system maintenance | 152,359 | 122,722 |
| Regional sewer utility | 226,291 | 219,887 |
| Debt interest payments | 15,735 | 14,460 |
| | <u>441,098</u> | <u>401,084</u> |
| NET OPERATING REVENUES OVER EXPENDITURES | <u>212,586</u> | <u>235,895</u> |
| Transfer from Sewer Reserve Funds | 205,700 | - |
| Transfer to Sewer Reserve Funds | (54,000) | (161,700) |
| Transfer to Sewer Capital Fund for capital expenditures | (302,175) | (32,490) |
| Transfer to Sewer Capital Fund for debt principal repayments | (11,853) | (11,288) |
| | <u>(162,328)</u> | <u>(205,478)</u> |
| ANNUAL SURPLUS | <u>\$ 50,258</u> | <u>\$ 30,417</u> |

THE CORPORATION OF THE CITY OF ROSSLAND

RESERVE FUND

EXHIBIT J - STATEMENT OF FINANCIAL POSITION

As At December 31, 2011

| | 2011 | 2010 |
|---------------------------------|--------------|--------------|
| FINANCIAL ASSETS | | |
| Due from General Operating Fund | \$ 3,117,834 | \$ 3,561,400 |
| Due from Sewer Operating Fund | 216,536 | 183,600 |
| Due from Water Operating Fund | 637,261 | 133,837 |
| | <hr/> | <hr/> |
| | \$ 3,971,631 | \$ 3,878,837 |
| RESERVES | | |
| General Fund Reserves | \$ 2,943,761 | \$ 2,549,332 |
| Water Fund Reserves | 637,261 | 690,248 |
| Sewer Fund Reserves | 216,536 | 362,558 |
| Statutory Land Reserve | 75,896 | 182,061 |
| Statutory Parking Reserve | 98,177 | 94,638 |
| | <hr/> | <hr/> |
| | \$ 3,971,631 | \$ 3,878,837 |

THE CORPORATION OF THE CITY OF ROSSLAND

RESERVE FUND

EXHIBIT K - RESERVE FUND TRANSACTIONS

For the Year Ended December 31, 2011

| | Balance, Beginning of Year | Contributions | Transfers to Other Funds | Interest Earned | Balance, End of Year |
|-----------------------------|----------------------------------|-------------------|--------------------------------|--------------------|----------------------------|
| General Fund Reserves | \$ 2,549,331 | \$ 731,374 | \$(408,382) | \$ 71,438 | \$ 2,943,761 |
| Water Fund Reserves | 690,249 | 77,707 | (142,081) | 11,386 | 637,261 |
| Sewer Fund Reserves | 362,558 | 54,000 | (205,700) | 5,678 | 216,536 |
| Statutory Land Sale Reserve | 182,061 | 7,400 | (118,300) | 4,735 | 75,896 |
| Statutory Parking Reserve | 94,638 | - | - | 3,539 | 98,177 |
| | <u>\$ 3,878,837</u> | <u>\$ 870,481</u> | <u>\$(874,463)</u> | <u>\$ 96,776</u> | <u>\$ 3,971,631</u> |
