

SMOKY LAKE COUNTY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Reeve and Council of the Smoky Lake County

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Smoky Lake County, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of operations, changes in net financial assets, cash flows and schedules 1 to 6 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.

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 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 the Smoky Lake County as at December 31, 2017, the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

ST. PAUL, ALBERTA
March 29, 2018

CHARTERED ACCOUNTANTS

SMOKY LAKE COUNTY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
Financial assets		
Cash	\$ 14,015,567	\$ 14,217,137
Taxes and grants in place receivable (note 2)	632,396	590,977
Receivables from other governments	973,936	884,392
Trade and other receivables	730,450	712,383
Investment in Gas Alberta Inc. (note 3)	67,983	67,906
Investment in Corridor Communications Inc. (note 4)	<u>1,099,894</u>	<u>1,099,894</u>
	<u>17,520,226</u>	<u>17,572,689</u>
Liabilities		
Accounts payable and accrued liabilities	616,719	607,901
Employee obligations (note 5)	1,286,797	1,310,614
Deposit liabilities	268,345	241,665
Deferred revenue (note 7)	408,726	1,421,463
Tax sale surplus	7,244	45,758
Landfill closure and post-closure liability (note 8)	<u>220,110</u>	<u>--</u>
	<u>2,807,941</u>	<u>3,627,401</u>
Net financial assets	<u>14,712,285</u>	<u>13,945,288</u>
Non-financial assets		
Tangible capital assets (schedule 2)	39,659,781	39,273,809
Inventory (note 6)	2,367,377	2,463,935
Prepaid expenses	<u>241,084</u>	<u>202,980</u>
	<u>42,268,242</u>	<u>41,940,724</u>
Accumulated surplus (note 12)	<u>\$ 56,980,527</u>	<u>\$ 55,886,012</u>
Contingent liabilities (note 14)		

ON BEHALF OF THE SMOKY LAKE COUNTY

Reeve

CAO

**SMOKY LAKE COUNTY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget (unaudited)	2017	2016
Revenues			
Net municipal taxes (schedule 3)	\$ 9,154,915	\$ 9,149,389	\$ 9,647,069
Sales of goods and services	798,342	960,356	883,514
Government transfers for operating (schedule 4)	1,293,644	1,353,343	582,159
Investment income	105,476	221,345	119,984
Penalties and costs of taxes	53,046	111,395	88,888
Licenses and permits	67,305	65,871	179,595
Special levies and taxes	209,045	233,734	390,033
Insurance recoveries	66,000	73,651	67,600
Rentals and leases	31,732	33,920	32,333
Natural gas	<u>2,945,285</u>	<u>2,790,822</u>	<u>2,416,428</u>
	14,724,790	14,993,826	14,407,603
Expenses			
Legislative	498,197	459,032	449,841
Administration	2,249,327	1,680,316	1,803,651
Protective services	844,317	783,316	802,413
Transportation	8,353,042	6,913,341	6,682,064
Water and wastewater	498,078	507,614	555,209
Landfill	480,500	661,038	473,246
Further Education	78,480	109,326	102,419
Agriculture services	867,675	807,209	836,466
Municipal planning, community and economic development	702,959	454,977	490,724
Recreation and culture	464,768	420,520	412,141
Natural gas	<u>2,977,283</u>	<u>2,765,484</u>	<u>2,523,604</u>
	18,014,626	15,562,173	15,131,778
Deficiency of revenues over expenses before other	(3,289,836)	(568,347)	(724,175)
Other			
Contributions to tangible capital assets	--	37,881	--
Gain (loss) on disposal of tangible capital assets	550,000	(133,005)	(178,324)
Government transfers for capital (schedule 4)	<u>1,757,986</u>	<u>1,757,986</u>	<u>1,353,948</u>
Excess (deficiency) of revenues over expenses	(981,850)	1,094,515	451,449
Accumulated surplus, beginning of year	<u>55,886,012</u>	<u>55,886,012</u>	<u>55,434,563</u>
Accumulated surplus, end of year	\$ <u>54,904,162</u>	\$ <u>56,980,527</u>	\$ <u>55,886,012</u>

SMOKY LAKE COUNTY
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Budget</u> (unaudited)	<u>2017</u>	<u>2016</u>
Excess (deficiency) of revenues over expenses	\$ <u>(981,850)</u>	\$ <u>1,094,515</u>	\$ <u>451,449</u>
Acquisition of tangible capital assets	(3,419,148)	(3,460,525)	(2,473,194)
Proceeds on disposal of tangible capital assets	550,000	645,116	23,035
Amortization of tangible capital assets	1,939,524	2,296,432	2,231,687
Loss on disposal of tangible capital assets	<u>--</u>	<u>133,005</u>	<u>178,324</u>
	<u>(929,624)</u>	<u>(385,972)</u>	<u>(40,148)</u>
Acquisition of inventory	--	(2,559,922)	(3,169,235)
Use of inventory	--	2,656,480	3,275,091
Acquisition of prepaid assets	--	(241,084)	(202,980)
Use of prepaid assets	<u>--</u>	<u>202,980</u>	<u>141,478</u>
	<u>--</u>	<u>58,454</u>	<u>44,354</u>
Increase (decrease) in net financial assets	(1,911,474)	766,997	455,655
Net financial assets, beginning of year	<u>13,945,288</u>	<u>13,945,288</u>	<u>13,489,633</u>
Net financial assets, end of year	\$ <u>12,033,814</u>	\$ <u>14,712,285</u>	\$ <u>13,945,288</u>

SMOKY LAKE COUNTY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
Net inflow (outflow) of cash related to the following activities:		
Operating		
Excess of revenues over expenses	\$ 1,094,515	\$ 451,449
Non-cash items included		
Amortization of tangible capital assets	2,296,432	2,231,687
Loss on disposal of tangible capital assets	133,005	178,324
Non-cash charges to operations (net change):		
Decrease (increase) in		
Taxes and grants in place receivable	(41,419)	(299,795)
Receivables from other governments	(89,544)	(364,947)
Trade and other receivables	(18,067)	(195,431)
Inventory	96,558	105,856
Prepaid expenses	(38,104)	(61,502)
Increase (decrease) in		
Accounts payable and accrued liabilities	8,818	80,086
Employee obligations	(23,817)	59,219
Deposit liabilities	26,680	71,300
Deferred revenue	(1,012,737)	647,178
Tax sale surplus	(38,514)	371
Landfill closure and post-closure	<u>220,110</u>	<u>--</u>
	<u>2,613,916</u>	<u>2,903,795</u>
Capital		
Acquisition of tangible capital assets	(3,460,525)	(2,473,194)
Proceeds on disposal of tangible capital assets	<u>645,116</u>	<u>23,035</u>
	<u>(2,815,409)</u>	<u>(2,450,159)</u>
Financing and Investing		
Redemption (purchase of) Gas Alberta Inc. shares	<u>(77)</u>	<u>56</u>
Change in cash during the year	(201,570)	453,692
Cash, beginning of year	<u>14,217,137</u>	<u>13,763,445</u>
Cash, end of year	\$ <u>14,015,567</u>	\$ <u>14,217,137</u>

SMOKY LAKE COUNTY
SCHEDULE 1 – CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted Surplus</u>	<u>Restricted Surplus</u>	<u>Equity in Tangible Capital Assets</u>	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ <u>5,726,119</u>	\$ <u>10,886,084</u>	\$ <u>39,273,809</u>	\$ <u>55,886,012</u>	\$ <u>55,434,563</u>
Excess of revenues over expenses	1,094,515	--	--	1,094,515	451,449
Unrestricted funds designated for future use	(1,968,388)	1,968,388	--	--	--
Restricted funds used for operations	1,647,886	(1,647,886)	--	--	--
Restricted funds used for tangible capital assets	--	(36,313)	36,313	--	--
Current year funds used for tangible capital assets	(3,424,212)	--	3,424,212	--	--
Disposal of tangible capital assets	778,121	--	(778,121)	--	--
Annual amortization expense	<u>2,296,432</u>	<u>--</u>	<u>(2,296,432)</u>	<u>--</u>	<u>--</u>
Change in accumulated surplus	<u>424,354</u>	<u>284,189</u>	<u>385,972</u>	<u>1,094,515</u>	<u>451,449</u>
Balance, end of year	\$ <u>6,150,473</u>	\$ <u>11,170,273</u>	\$ <u>39,659,781</u>	\$ <u>56,980,527</u>	\$ <u>55,886,012</u>

**SMOKY LAKE COUNTY
SCHEDULE 2 - TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings</u>	<u>Engineered Structures</u>	<u>Machinery & Equipment</u>	<u>Vehicles</u>	<u>2017</u>	<u>2016</u>
Cost								
Balance, beginning of year	\$ 5,143,588	\$ 1,210,229	\$ 4,580,931	\$ 47,236,349	\$ 11,286,686	\$ 5,801,986	\$ 75,259,769	\$ 73,085,456
Acquisition of tangible capital assets	--	118,238	16,358	1,892,596	1,023,766	383,435	3,434,393	2,394,082
Construction-in-progress	--	--	--	26,131	--	--	26,131	79,112
Disposal of tangible capital assets	<u>--</u>	<u>(41,722)</u>	<u>--</u>	<u>(750,000)</u>	<u>(1,225,680)</u>	<u>(126,794)</u>	<u>(2,144,196)</u>	<u>(298,881)</u>
Balance, end of year	<u>5,143,588</u>	<u>1,286,745</u>	<u>4,597,289</u>	<u>48,405,076</u>	<u>11,084,772</u>	<u>6,058,627</u>	<u>76,576,097</u>	<u>75,259,769</u>
Accumulated amortization								
Balance, beginning of year	--	777,371	1,269,637	25,926,720	4,772,242	3,239,990	35,985,960	33,851,795
Annual amortization	--	55,990	75,282	1,202,830	644,055	318,275	2,296,432	2,231,687
Accumulated amortization on disposals	<u>--</u>	<u>(39,219)</u>	<u>--</u>	<u>(673,226)</u>	<u>(553,225)</u>	<u>(100,406)</u>	<u>(1,366,076)</u>	<u>(97,522)</u>
Balance, end of year	<u>--</u>	<u>794,142</u>	<u>1,344,919</u>	<u>26,456,324</u>	<u>4,863,072</u>	<u>3,457,859</u>	<u>36,916,316</u>	<u>35,985,960</u>
Net book value of tangible capital assets	<u>\$ 5,143,588</u>	<u>\$ 492,603</u>	<u>\$ 3,252,370</u>	<u>\$ 21,948,752</u>	<u>\$ 6,221,700</u>	<u>\$ 2,600,768</u>	<u>\$ 39,659,781</u>	<u>\$ 39,273,809</u>
2016 Net book value of tangible capital assets	<u>\$ 5,143,588</u>	<u>\$ 432,858</u>	<u>\$ 3,311,294</u>	<u>\$ 21,309,629</u>	<u>\$ 6,514,444</u>	<u>\$ 2,561,996</u>	<u>\$ 39,273,809</u>	

SMOKY LAKE COUNTY
SCHEDULE 3 - PROPERTY TAXES LEVIED
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Budget</u> (unaudited)	<u>2017</u>	<u>2016</u>
Levies			
Residential and farmland	\$ 3,167,671	\$ 3,157,782	\$ 3,062,941
Non-residential	898,094	879,863	836,963
Machinery and equipment	1,284,370	1,288,126	1,305,462
Linear property	6,281,666	6,281,666	6,980,323
Grants in place	<u>55,142</u>	<u>55,142</u>	<u>57,223</u>
	<u>11,686,943</u>	<u>11,662,579</u>	<u>12,242,912</u>
Requisitions			
Alberta School Foundation Fund	2,023,894	2,007,953	2,089,502
Smoky Lake Foundation	<u>508,134</u>	<u>505,237</u>	<u>506,341</u>
	<u>2,532,028</u>	<u>2,513,190</u>	<u>2,595,843</u>
Net municipal taxes	\$ <u>9,154,915</u>	\$ <u>9,149,389</u>	\$ <u>9,647,069</u>

SCHEDULE 4 - GOVERNMENT TRANSFERS

Transfers for operations			
Federal	\$ --	\$ 4,392	\$ 2,016
Provincial	1,201,332	989,016	490,166
Other local governments	<u>92,312</u>	<u>359,935</u>	<u>89,977</u>
	<u>1,293,644</u>	<u>1,353,343</u>	<u>582,159</u>
Transfers for capital			
Federal	7,830	7,830	28,032
Provincial	1,750,156	1,750,156	1,278,978
Other local governments	<u>--</u>	<u>--</u>	<u>46,938</u>
	<u>1,757,986</u>	<u>1,757,986</u>	<u>1,353,948</u>
Total government transfers	\$ <u>3,051,630</u>	\$ <u>3,111,329</u>	\$ <u>1,936,107</u>

SCHEDULE 5 - CONSOLIDATED EXPENSES BY OBJECT

Expenses			
Salaries, wages and benefits	\$ 7,409,447	\$ 6,779,468	\$ 6,768,263
Contracted and general services	2,953,123	2,338,474	2,823,758
Purchases from other governments	99,121	86,065	96,938
Materials, goods, supplies and utilities	3,663,560	2,397,509	1,752,823
Provision for allowances and bad debts	200,000	81,881	121,824
Transfers to other governments	28,200	45,594	62,847
Transfers to individuals and organizations	278,557	193,454	216,906
Bank charges and short-term interest	8,440	2,737	3,590
Tax adjustments	3,000	8,036	2,254
Natural gas purchases	1,431,654	1,332,523	1,050,888
Amortization of tangible capital assets	<u>1,939,524</u>	<u>2,296,432</u>	<u>2,231,687</u>
Total expenses	\$ <u>18,014,626</u>	\$ <u>15,562,173</u>	\$ <u>15,131,778</u>

**SMOKY LAKE COUNTY
SCHEDULE 6 – SEGMENTED DISCLOSURE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General Government</u>	<u>Protective Services</u>	<u>Transportation Services</u>	<u>Environmental Services</u>	<u>Agriculture</u>	<u>Planning, Community Services</u>	<u>Recreation and Culture</u>	<u>Gas</u>	<u>Total</u>
Revenue									
Net municipal taxes	\$ 9,149,389	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 9,149,389
Government transfers	--	49,715	2,010,250	462,861	183,359	274,988	113,000	17,156	3,111,329
User fees and sales of goods	307,006	143,536	277,608	225,342	5,734	1,130	--	2,790,822	3,751,178
Investment income	211,345	--	--	--	--	--	--	10,000	221,345
Gain on disposal of assets	173,226	--	--	--	--	--	--	--	173,226
Other revenues	<u>200,235</u>	<u>9,284</u>	<u>224,693</u>	<u>9,039</u>	<u>--</u>	<u>60,410</u>	<u>52,791</u>	<u>--</u>	<u>556,452</u>
	<u>10,041,201</u>	<u>202,535</u>	<u>2,512,551</u>	<u>697,242</u>	<u>189,093</u>	<u>336,528</u>	<u>165,791</u>	<u>2,817,978</u>	<u>16,962,919</u>
Expenses									
Salaries, wages and benefits	1,201,618	315,495	2,976,217	455,458	485,506	270,811	176,669	897,694	6,779,468
Contract and general services	651,361	229,740	561,381	413,984	141,794	212,783	18,724	194,772	2,424,539
Goods and supplies	97,650	109,783	1,766,948	89,339	128,855	10,056	68,811	1,458,590	3,730,032
Transfers to others	27,801	--	--	45,594	--	70,653	95,000	--	239,048
Loss on disposal of assets	--	--	273,071	--	7,742	--	25,418	--	306,231
Other expenses	<u>90,949</u>	<u>--</u>	<u>--</u>	<u>1,108</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>597</u>	<u>92,654</u>
	<u>2,069,379</u>	<u>655,018</u>	<u>5,577,617</u>	<u>1,005,483</u>	<u>763,897</u>	<u>564,303</u>	<u>384,622</u>	<u>2,551,653</u>	<u>13,571,972</u>
Net revenue before amortization	7,971,822	(452,483)	(3,065,066)	(308,241)	(574,804)	(227,775)	(218,831)	266,325	3,390,947
Amortization expense	<u>(69,970)</u>	<u>(128,297)</u>	<u>(1,608,795)</u>	<u>(163,169)</u>	<u>(51,054)</u>	<u>--</u>	<u>(61,316)</u>	<u>(213,831)</u>	<u>(2,296,432)</u>
Net revenue	\$ <u>7,901,852</u>	\$ <u>(580,780)</u>	\$ <u>(4,673,861)</u>	\$ <u>(471,410)</u>	\$ <u>(625,858)</u>	\$ <u>(227,775)</u>	\$ <u>(280,147)</u>	\$ <u>52,494</u>	\$ <u>1,094,515</u>

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Significant Accounting Policies

The consolidated financial statements of the Smoky Lake County are the representations of management prepared in accordance with Canadian 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 county are as follows:

(a) Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, 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 county and are, therefore, accountable to the county Council for the administration of their financial affairs and resources. Included with the county is the Smoky Lake Heritage Board.

The schedule of taxes levied also includes requisitions for education 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.

(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) Cash

Cash is defined as petty cash and cash in chequing and savings accounts adjusted for outstanding cheques and deposits.

(d) Investments

Investments are recorded at amortized cost. 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.

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Significant Accounting Policies - continued

(e) Use of Estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 expenses 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.

(f) 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.

(g) Tax Revenue

Tax revenues are recognized when the tax has been authorized by bylaw and the taxable event has occurred.

Requisitions operate as a flow through and are excluded from municipal revenue.

(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) Landfill Closure and Post-Closure Liability

Pursuant to the Alberta Environmental Protection and Enhancement Act, the county is required to fund the closure of its landfill site and provide for post-closure care of the facility. Closure and post-closure activities include the final clay cover, landscaping, as well as surface and ground water monitoring, leachate control, and visual inspection. The requirement is being provided for over the estimated remaining life of the landfill site based on usage.

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. 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 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 costs, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

	<u>Years</u>
Land improvements	10-25
Buildings	50
Engineered structures	
Roadway system	15
Water systems	18-40
Wastewater systems	18-40
Bridges	50-150
Gas distribution system	40-50
Machinery and equipment	20-30
Vehicles	10-20

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) Inventories

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

(k) Contaminated Sites Liability

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of a contaminated site is recognized when a site is not in productive use and is management's estimate of the cost of post-remediation including operation, maintenance and monitoring.

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. Taxes and Grants in Place Receivable	<u>2017</u>	<u>2016</u>
Current	\$ 557,167	\$ 546,983
Arrears	393,330	280,215
Less allowance for doubtful accounts	(318,101)	(236,221)
	<u>\$ 632,396</u>	<u>\$ 590,977</u>

3. Investment in Gas Alberta Inc.

Effective June 30, 1998, Gas Alberta, a branch of Alberta Transportation and Utilities, was privatized and operations assumed by Gas Alberta Inc. The shareholders of Gas Alberta Inc. are predominantly made up of members of the Federation of Alberta Gas Co-ops.

The county's investment in Gas Alberta Inc. consists of:

	<u>2017</u>	<u>2016</u>
Class A common shares	\$ 483	\$ 406
Loan receivable	<u>67,500</u>	<u>67,500</u>
	<u>\$ 67,983</u>	<u>\$ 67,906</u>

The loan is non-interest bearing and is secured by a debenture. The loan is due upon the expiration of the contract and may be repaid earlier at Gas Alberta Inc.'s option or in the event the county no longer holds any of the Class A common shares.

4. Investment in Corridor Communications Inc.	<u>2017</u>	<u>2016</u>
657,829 Class B common shares	\$ 424,286	\$ 424,286
675,608 Class G preferred shares	<u>675,608</u>	<u>675,608</u>
	<u>\$ 1,099,894</u>	<u>\$ 1,099,894</u>

5. Employee Obligations	<u>2017</u>	<u>2016</u>
Accrued holiday pay	\$ 369,004	\$ 402,726
Accrued retirement benefits	102,476	126,158
Accrued wages	72,640	60,798
Accrued sick leave	<u>742,677</u>	<u>720,932</u>
	<u>\$ 1,286,797</u>	<u>\$ 1,310,614</u>

6. Inventory	<u>2017</u>	<u>2016</u>
Public works	\$ 560,785	\$ 550,880
Gravel (valued at crushing cost)	1,749,720	1,862,737
A.S.B.	<u>16,030</u>	<u>21,836</u>
	2,326,535	2,435,453
Gas utility	<u>40,842</u>	<u>28,482</u>
	<u>\$ 2,367,377</u>	<u>\$ 2,463,935</u>

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. Deferred Revenue	<u>2017</u>	<u>2016</u>
Federal Gas Tax Fund	\$ 127,370	\$ 174,366
Municipal Sustainability Initiative – Capital CARES	204,036	792,204
Mons Lake Community Association	21,338	--
County of St. Paul – Spedden Truck Fill	--	29,121
Advanced Education	--	278,062
Family school liaison program	20,804	33,276
Fire Training	--	14,496
Embridge donation	14,238	--
CCI Wireless	--	8,760
Natural gas sales	--	55,625
	<u>20,940</u>	<u>35,553</u>
	<u>\$ 408,726</u>	<u>\$ 1,421,463</u>

Funding from various grant programs, organizations and individuals, in the amount of \$408,726 remained unspent at the end of the current year. The use of these funds is restricted to eligible operating and capital projects as approved under the funding agreements or as indicated by the donors. Most of the projects are scheduled for completion in 2018.

8. Landfill Closure and Post-Closure Liability

Alberta environmental law requires closure and post-closure care of landfill sites, which includes final covering and landscaping, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspections and maintenance.

The estimated total liability is based on an engineering assessment dated November 27, 2017.

The accrued liability portion is based on the cumulative capacity used at year end compared to the estimated total landfill capacity. The total capacity of the site is estimated at 135,000 cubic metres. The estimated remaining capacity of the landfill site is 96,000 cubic metres. The existing landfill site is expected to reach capacity in approximately the year 2049.

The municipality has not designated assets for setting closure and post-closure liabilities.

Estimated closure costs	\$ 383,000
Estimated post-closure costs	<u>376,000</u>
Estimated total liability	<u>\$ 759,000</u>
Estimated capacity remaining	71%
Portion of total liability remaining to be recognized	<u>\$ 538,890</u>
Estimated capacity used	29%
Accrued liability portion	<u>\$ 220,110</u>

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

9. Contaminated Sites Liability

In 2016 a phase 1 environmental assessment was conducted on SE-16-59-19 W4M. The assessment concluded that there was a high potential for contamination of soil, soil vapour, and/or groundwater at the subject site relative to CL, IL, or Aquatic Life and DW standards. A phase 2 environmental study will be conducted in 2018 to establish what remediation is required.

10. 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 Smoky Lake County be disclosed as follows:

	<u>2017</u>	<u>2016</u>
Total debt limit	\$ 22,547,561	\$ 21,681,811
Total debt (including loan guarantee)	<u>(10,001)</u>	<u>(21,668)</u>
Debt limit remaining	\$ <u>22,537,560</u>	\$ <u>21,660,143</u>
Debt servicing limit	\$ 3,757,927	\$ 3,613,635
Debt servicing	<u>--</u>	<u>--</u>
Debt servicing limit remaining	\$ <u>3,757,927</u>	\$ <u>3,613,635</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.

11. Operating Loan

The county has a prime less ¼% authorized operating line of \$5,000,000 with the Alberta Treasury Branch. No balance was outstanding as at December 31, 2017.

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

12. Accumulated Surplus

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

	<u>2017</u>	<u>2016</u>
Unrestricted surplus	\$ <u>6,150,473</u>	\$ <u>5,726,119</u>
Restricted surplus		
Capital		
Building	118,374	118,374
General	2,442,118	2,362,118
Regional landfill	433,936	441,475
Transportation	909,111	605,621
Gravel pit reclamation	424,483	408,139
Gravel pit development	42,262	298,195
Fire	828,847	808,847
Street sweeper	30,926	25,698
Connectivity	70,271	10,000
Regional waterline	258,818	602,309
Road development	601,577	808,363
Economic development	112,437	76,831
Municipal reserve	<u>39,122</u>	<u>37,992</u>
	6,312,282	6,603,962
Municipal general	3,438,463	2,970,057
Gas	<u>1,419,528</u>	<u>1,312,065</u>
Total restricted	<u>11,170,273</u>	<u>10,886,084</u>
Equity in tangible capital assets	<u>39,659,781</u>	<u>39,273,809</u>
	<u>\$ 56,980,527</u>	<u>\$ 55,886,012</u>

13. Segmented Disclosure

The Smoky Lake County 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 Schedule 6 – Segmented Disclosure.

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

14. Contingent Liabilities

(a) Smoky Lake Agricultural Society

The county has guaranteed one-half of a prime rate loan at the Canadian Imperial Bank of Commerce for the Smoky Lake Agricultural Society. As at December 31, 2017 the loan was in good standing and the balance was \$20,002, therefore the county's guarantee would be limited to \$10,001.

(b) Evergreen Regional Waste Management Services Commission

Smoky Lake County is a member of the Evergreen Regional Waste Management Services Commission. Each participating municipality funds a portion of the Commission's deficit based on their proportionate tippage for the year. The expense is accounted for as a current transaction in the year the county is invoiced.

(c) Highway 28/63 Regional Water Services Commission

Smoky Lake County is a member of Highway 28/63 Regional Water Services Commission. Each participating municipality would be responsible for their proportionate share of any unfunded deficit. The expense would be accounted for as a current transaction in the year the county is invoiced.

15. Salary and Benefits Disclosure

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

		2017		
		Salary	Benefits & Allow.	Expenses
		(1)	(2)	(3)
Reeve	Lukinuk	\$ 67,621	\$ 14,690	\$ 31,309
Councillors	Orichowski	61,966	13,035	21,585
	Gawalko	9,856	1,560	6,893
	Cherniwchan	9,856	2,109	7,609
	Halisky	9,856	2,109	6,961
	Smigerowsky	49,281	10,547	8,202
	Cholak	49,281	10,547	8,148
	Bobocel	<u>53,310</u>	<u>4,199</u>	<u>13,585</u>
Total 2017 legislative costs		\$ <u>311,027</u>	\$ <u>58,796</u>	\$ <u>104,292</u>
Chief Administrative Officer	Ollikka	\$ <u>151,821</u>	\$ <u>33,059</u>	\$ <u>13,638</u>

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

15. Salary and Benefits Disclosure (continued)

		2016		
		Salary	Benefits & Allow.	Expenses
		(1)	(2)	(3)
Reeve	Bobocel (Jan-Oct)	\$ 68,861	\$ 7,247	\$ 24,164
	Lukinuk (Nov-Dec)	59,736	12,426	32,153
Councillors	Cholak	60,665	12,897	16,143
	Orichowski	58,807	12,301	20,864
	Smigerowsky	<u>58,343</u>	<u>12,239</u>	<u>5,484</u>
Total 2016 legislative costs		<u>\$ 306,412</u>	<u>\$ 57,110</u>	<u>\$ 98,808</u>
Chief Administrative Officer	Ollikka	<u>\$ 149,577</u>	<u>\$ 33,465</u>	<u>\$ 11,786</u>

- (1) Salary includes regular base pay, gross honoraria, Reeve remuneration and any other direct cash remuneration. These amounts are included in Legislative, Development, ASB, and Natural Gas functional expenses.
- (2) Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, and professional memberships.
- (3) Expenses include travel, mileage, meals, accommodation, registration fees and other expenses.

16. Local Authorities Pension Plan

Employees of the county 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 253,862 people and 417 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 county is required to make current service contributions to the LAPP of 11.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 15.84% on pensionable earnings above this amount. Employees of the county are required to make current service contributions of 10.39% of pensionable salary up to the year's maximum pensionable salary and 14.84% on pensionable salary above this amount.

Total current service contributions by the county to the LAPP in 2017 were \$331,262 (2016 - \$331,659). Total current service contributions by the employees of the county to the LAPP in 2017 were \$305,690 (2016 - \$305,911).

At December 31, 2016, the LAPP disclosed an actuarial deficiency of \$637 million.

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

17. Financial Instruments

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

The county is subject to credit risk with respect to taxes and grants in place of taxes receivable and trade and other receivables. Credit risk arises from the possibility that taxpayers and entities to which the county 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 instruments approximates fair value.

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.

20. Recent Accounting Pronouncements Published But Not Yet Adopted

PSAB Section 1201, Financial Statement Presentation

Revised standard is effective in 2019, when Sections PS2601 and PS3450 are adopted.

PSAB Section 2601, Foreign Currency Transaction

PS2601 establishes standards on how to account for and report transactions that are denominated in foreign currency in government financial statement and is effective in 2019.

PSAB Section 3041, Portfolio Investments

This standard is effective for the 2019 fiscal year and addresses the distinction between temporary and portfolio investments.

PSAB Section 3280, Asset Retirement Obligations

This standard is intended to provide guidance on accounting for asset retirement obligations and will apply in years beginning on or after April 1, 2021.

PSAB Section 3450, Financial Instruments

This standard is effective for the 2019 fiscal year and establishes recognition, measurement and disclosure requirements for derivative and non-derivative instruments.