

SMOKY LAKE COUNTY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2018



INDEPENDENT AUDITOR'S REPORT

To the Members of Council:

Opinion

We have audited the consolidated financial statements of Smoky Lake County (the Municipality), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations, changes in net financial assets, and cash flows and schedules 1 to 6 for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Municipality as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Municipality in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Municipality or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Municipality's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of the audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Municipality's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Municipality to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

St. Paul, Alberta
March 28, 2019

JMD Group LLP
CHARTERED ACCOUNTANTS

SMOKY LAKE COUNTY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
Financial assets		
Cash	\$ 14,400,681	\$ 14,015,567
Taxes and grants in place receivable (note 2)	794,678	632,396
Receivables from other governments	1,386,383	973,936
Trade and other receivables	852,797	730,450
Investment in Gas Alberta Inc. (note 3)	67,983	67,983
Investment in Corridor Communications Inc. (note 4)	<u>1,099,894</u>	<u>1,099,894</u>
	<u>18,602,416</u>	<u>17,520,226</u>
Liabilities		
Accounts payable and accrued liabilities	867,440	616,719
Employee obligations (note 5)	1,306,966	1,286,797
Deposit liabilities	269,395	268,345
Deferred revenue (note 7)	1,174,614	408,726
Tax sale surplus	4,227	7,244
Landfill closure and post-closure liability (note 8)	<u>248,000</u>	<u>220,110</u>
	<u>3,870,642</u>	<u>2,807,941</u>
Net financial assets	<u>14,731,774</u>	<u>14,712,285</u>
Non-financial assets		
Tangible capital assets (schedule 2)	40,184,654	39,659,781
Inventory (note 6)	2,588,300	2,367,377
Prepaid expenses	<u>217,304</u>	<u>241,084</u>
	<u>42,990,258</u>	<u>42,268,242</u>
Accumulated surplus (schedule 1, note 12)	\$ <u>57,722,032</u>	\$ <u>56,980,527</u>
Contingent liabilities (note 14)		

ON BEHALF OF THE SMOKY LAKE COUNTY


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**SMOKY LAKE COUNTY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budget</u> (unaudited)	<u>2018</u>	<u>2017</u>
Revenues			
Net municipal taxes (schedule 3)	\$ 9,662,339	\$ 9,648,991	\$ 9,149,389
Sales of goods and services	833,754	823,059	960,356
Government transfers for operating (schedule 4)	1,257,260	1,133,189	1,353,343
Investment income	199,000	334,636	221,345
Penalties and costs of taxes	73,000	146,823	111,395
Licenses and permits	67,305	90,201	65,871
Special levies and taxes	208,800	262,447	233,734
Insurance recoveries	66,000	70,575	73,651
Rentals and leases	32,680	26,288	33,920
Natural gas	<u>2,969,966</u>	<u>2,506,933</u>	<u>2,790,822</u>
	<u>15,370,104</u>	<u>15,043,142</u>	<u>14,993,826</u>
Expenses			
Legislative	470,008	471,621	459,032
Administration	2,274,564	1,987,544	1,680,316
Protective services	867,212	818,651	783,316
Transportation	8,457,940	7,242,550	6,913,341
Water and wastewater	499,310	533,353	507,614
Landfill	487,116	599,042	661,038
Further Education	125,700	114,596	109,326
Agriculture services	833,296	768,323	807,209
Municipal planning, community and economic development	655,290	498,694	454,977
Recreation and culture	460,651	491,587	420,520
Natural gas	<u>2,921,967</u>	<u>2,417,810</u>	<u>2,765,484</u>
	<u>18,053,054</u>	<u>15,943,771</u>	<u>15,562,173</u>
Deficiency of revenues over expenses before other	(2,682,950)	(900,629)	(568,347)
Other			
Contributions to tangible capital assets	--	--	37,881
Gain (loss) on disposal of tangible capital assets	125,000	(45,659)	(133,005)
Government transfers for capital (schedule 4)	<u>1,308,063</u>	<u>1,687,793</u>	<u>1,757,986</u>
Excess (deficiency) of revenues over expenses	(1,249,887)	741,505	1,094,515
Accumulated surplus, beginning of year	<u>56,980,527</u>	<u>56,980,527</u>	<u>55,886,012</u>
Accumulated surplus, end of year	\$ <u>55,730,640</u>	\$ <u>57,722,032</u>	\$ <u>56,980,527</u>

SMOKY LAKE COUNTY
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budget</u> (unaudited)	<u>2018</u>	<u>2017</u>
Excess (deficiency) of revenues over expenses	\$ <u>(1,249,887)</u>	\$ <u>741,505</u>	\$ <u>1,094,515</u>
Acquisition of tangible capital assets	(2,072,300)	(2,986,296)	(3,460,525)
Proceeds on disposal of tangible capital assets	125,000	79,007	645,116
Amortization of tangible capital assets	2,237,152	2,336,757	2,296,432
(Gain) loss on disposal of tangible capital assets	<u>(125,000)</u>	<u>45,659</u>	<u>133,005</u>
	<u>164,852</u>	<u>(524,873)</u>	<u>(385,972)</u>
Acquisition of inventory	(2,588,300)	(2,391,061)	(2,559,922)
Use of inventory	2,367,377	2,170,138	2,656,480
Acquisition of prepaid assets	(217,304)	(217,304)	(241,084)
Use of prepaid assets	<u>241,083</u>	<u>241,084</u>	<u>202,980</u>
	<u>(197,144)</u>	<u>(197,143)</u>	<u>58,454</u>
Increase (decrease) in net financial assets	(1,282,179)	19,489	766,997
Net financial assets, beginning of year	<u>14,712,285</u>	<u>14,712,285</u>	<u>13,945,288</u>
Net financial assets, end of year	\$ <u>13,430,106</u>	\$ <u>14,731,774</u>	\$ <u>14,712,285</u>

**SMOKY LAKE COUNTY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>
Net inflow (outflow) of cash related to the following activities:		
Operating		
Excess of revenues over expenses	\$ 741,505	\$ 1,094,515
Non-cash items included		
Amortization of tangible capital assets	2,336,757	2,296,432
Loss on disposal of tangible capital assets	45,659	133,005
Non-cash charges to operations (net change):		
Decrease (increase) in		
Taxes and grants in place receivable	(162,282)	(41,419)
Receivables from other governments	(412,447)	(89,544)
Trade and other receivables	(122,347)	(18,067)
Inventory	(220,923)	96,558
Prepaid expenses	23,780	(38,104)
Increase (decrease) in		
Accounts payable and accrued liabilities	250,721	8,818
Employee obligations	20,169	(23,817)
Deposit liabilities	1,050	26,680
Deferred revenue	765,888	(1,012,737)
Tax sale surplus	(3,017)	(38,514)
Landfill closure and post-closure	<u>27,890</u>	<u>220,110</u>
	<u>3,292,403</u>	<u>2,613,916</u>
Capital		
Acquisition of tangible capital assets	(2,986,296)	(3,460,525)
Proceeds on disposal of tangible capital assets	<u>79,007</u>	<u>645,116</u>
	<u>(2,907,289)</u>	<u>(2,815,409)</u>
Financing and Investing		
Redemption (purchase of) Gas Alberta Inc. shares	<u>--</u>	<u>(77)</u>
Change in cash during the year	385,114	(201,570)
Cash, beginning of year	<u>14,015,567</u>	<u>14,217,137</u>
Cash, end of year	\$ <u>14,400,681</u>	\$ <u>14,015,567</u>

SMOKY LAKE COUNTY
SCHEDULE 1 – CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	<u>2018</u>	<u>2017</u>
Balance, beginning 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>
Excess of revenues over expenses	741,505	--	--	741,505	1,094,515
Unrestricted funds designated for future use	(1,872,176)	1,872,176	--	--	--
Restricted funds used for operations	1,798,566	(1,798,566)	--	--	--
Restricted funds used for tangible capital assets	--	--	--	--	--
Current year funds used for tangible capital assets	(2,986,296)	--	2,986,296	--	--
Disposal of tangible capital assets	124,666	--	(124,666)	--	--
Annual amortization expense	<u>2,336,757</u>	--	<u>(2,336,757)</u>	--	--
Change in accumulated surplus	<u>143,022</u>	<u>73,610</u>	<u>524,873</u>	<u>741,505</u>	<u>1,094,515</u>
Balance, end of year	\$ <u>6,293,495</u>	\$ <u>11,243,883</u>	\$ <u>40,184,654</u>	\$ <u>57,722,032</u>	\$ <u>56,980,527</u>

**SMOKY LAKE COUNTY
SCHEDULE 2 - TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Cost	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings</u>	<u>Engineered Structures</u>	<u>Machinery & Equipment</u>	<u>Vehicles</u>	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 5,143,588	\$ 1,286,745	\$ 4,597,289	\$ 48,405,076	\$ 11,084,772	\$ 6,058,627	\$ 76,576,097	\$ 75,259,769
Acquisition of tangible capital assets	--	51,662	--	1,781,873	988,557	156,634	2,978,726	3,434,393
Construction-in-progress	--	--	--	7,570	--	--	7,570	26,131
Disposal of tangible capital assets	--	--	--	--	(43,350)	(355,044)	(398,394)	(2,144,196)
Balance, end of year	<u>5,143,588</u>	<u>1,338,407</u>	<u>4,597,289</u>	<u>50,194,519</u>	<u>12,029,979</u>	<u>5,860,217</u>	<u>79,163,999</u>	<u>76,576,097</u>
Accumulated amortization								
Balance, beginning of year	--	794,142	1,344,919	26,456,324	4,863,072	3,457,859	36,916,316	35,985,960
Annual amortization	--	64,216	78,912	1,243,378	632,958	317,293	2,336,757	2,296,432
Accumulated amortization on disposals	--	--	--	--	(26,427)	(247,301)	(273,728)	(1,366,076)
Balance, end of year	<u>--</u>	<u>858,358</u>	<u>1,423,831</u>	<u>27,699,702</u>	<u>5,469,603</u>	<u>3,527,851</u>	<u>38,979,345</u>	<u>36,916,316</u>
Net book value of tangible capital assets	<u>\$ 5,143,588</u>	<u>\$ 480,049</u>	<u>\$ 3,173,458</u>	<u>\$ 22,494,817</u>	<u>\$ 6,560,376</u>	<u>\$ 2,332,366</u>	<u>\$ 40,184,654</u>	<u>\$ 39,659,781</u>
2017 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>	

**SMOKY LAKE COUNTY
SCHEDULE 3 - PROPERTY TAXES LEVIED
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budget</u> (unaudited)	<u>2018</u>	<u>2017</u>
Levies			
Residential and farmland	\$ 3,439,124	\$ 3,450,038	\$ 3,157,782
Non-residential	914,244	897,454	879,863
Machinery and equipment	1,403,381	1,403,382	1,288,126
Linear property	6,281,505	6,281,353	6,281,666
Grants in place	<u>60,662</u>	<u>60,662</u>	<u>55,142</u>
	<u>12,098,916</u>	<u>12,092,889</u>	<u>11,662,579</u>
Requisitions			
Alberta School Foundation Fund	1,929,359	1,926,718	2,007,953
Smoky Lake Foundation	507,218	506,340	505,237
Designated Industrial Property	<u>--</u>	<u>10,840</u>	<u>--</u>
	<u>2,436,577</u>	<u>2,443,898</u>	<u>2,513,190</u>
Net municipal taxes	<u>\$ 9,662,339</u>	<u>\$ 9,648,991</u>	<u>\$ 9,149,389</u>

SCHEDULE 4 - GOVERNMENT TRANSFERS

Transfers for operations			
Federal	\$ 41,500	\$ 38,601	\$ 4,392
Provincial	1,121,462	1,033,811	989,016
Other local governments	<u>94,298</u>	<u>60,777</u>	<u>359,935</u>
	<u>1,257,260</u>	<u>1,133,189</u>	<u>1,353,343</u>
Transfers for capital			
Federal	--	--	7,830
Provincial	<u>1,308,063</u>	<u>1,687,793</u>	<u>1,750,156</u>
	<u>1,308,063</u>	<u>1,687,793</u>	<u>1,757,986</u>
Total government transfers	<u>\$ 2,565,323</u>	<u>\$ 2,820,982</u>	<u>\$ 3,111,329</u>

SCHEDULE 5 - CONSOLIDATED EXPENSES BY OBJECT

Expenses			
Salaries, wages and benefits	\$ 7,397,350	\$ 6,946,278	\$ 6,779,468
Contracted and general services	3,389,109	2,728,508	2,338,474
Purchases from other governments	99,121	105,878	86,065
Materials, goods, supplies and utilities	2,913,237	2,387,303	2,397,509
Provision for allowances and bad debts	200,000	116,615	81,881
Transfers to other governments	33,000	51,486	45,594
Transfers to individuals and organizations	371,825	244,859	193,454
Bank charges and short-term interest	6,660	3,088	2,737
Tax adjustments	3,000	13,487	8,036
Natural gas purchases	1,402,600	1,009,512	1,332,523
Amortization of tangible capital assets	<u>2,237,152</u>	<u>2,336,757</u>	<u>2,296,432</u>
Total expenses	<u>\$ 18,053,054</u>	<u>\$ 15,943,771</u>	<u>\$ 15,562,173</u>

SMOKY LAKE COUNTY
SCHEDULE 6 – SEGMENTED DISCLOSURE
FOR THE YEAR ENDED DECEMBER 31, 2018

	<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	\$ 9,648,991	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 9,648,991
Government transfers	67,830	22,680	2,145,041	--	186,623	279,087	119,721	--	2,820,982
User fees and sales of goods	122,178	208,677	234,792	251,776	5,636	--	--	2,506,933	3,329,992
Investment income	314,636	--	--	--	--	--	--	20,000	334,636
Other revenues	<u>229,262</u>	<u>350</u>	<u>253,720</u>	<u>8,829</u>	<u>285</u>	<u>81,673</u>	<u>22,215</u>	<u>--</u>	<u>596,334</u>
	<u>10,382,897</u>	<u>231,707</u>	<u>2,633,553</u>	<u>260,605</u>	<u>192,544</u>	<u>360,760</u>	<u>141,936</u>	<u>2,526,933</u>	<u>16,730,935</u>
Expenses									
Salaries, wages and benefits	1,332,921	323,859	3,098,083	479,061	455,163	229,580	186,835	840,776	6,946,278
Contract and general services	800,633	271,438	776,454	331,242	139,990	284,470	43,829	186,330	2,834,386
Goods and supplies	100,555	102,274	1,703,593	104,805	121,248	4,819	81,424	1,178,097	3,396,815
Transfers to others	40,816	--	--	51,485	--	94,421	109,623	--	296,345
Loss (gain) on disposal of assets	--	--	(16,162)	53,604	5,402	--	2,815	--	45,659
Other expenses	<u>118,300</u>	<u>--</u>	<u>15,000</u>	<u>1,403</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,513)</u>	<u>133,190</u>
	<u>2,393,225</u>	<u>697,571</u>	<u>5,576,968</u>	<u>1,021,600</u>	<u>721,803</u>	<u>613,290</u>	<u>424,526</u>	<u>2,203,690</u>	<u>13,652,673</u>
Net revenue before amortization	7,989,672	(465,864)	(2,943,415)	(760,995)	(529,259)	(252,530)	(282,590)	323,243	3,078,262
Amortization expense	<u>(65,940)</u>	<u>(121,080)</u>	<u>(1,649,420)</u>	<u>(164,399)</u>	<u>(51,922)</u>	<u>--</u>	<u>(69,876)</u>	<u>(214,120)</u>	<u>(2,336,757)</u>
Net revenue	\$ 7,923,732	\$ (586,944)	\$ (4,592,835)	\$ (925,394)	\$ (581,181)	\$ (252,530)	\$ (352,466)	\$ 109,123	\$ 741,505

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018

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, 2018

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, 2018

2. Taxes and Grants in Place Receivable	<u>2018</u>	<u>2017</u>
Current	\$ 473,390	\$ 557,167
Arrears	780,042	393,330
Less allowance for doubtful accounts	(458,754)	(318,101)
	<u>\$ 794,678</u>	<u>\$ 632,396</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>2018</u>	<u>2017</u>
Class A common shares	\$ 483	\$ 483
Loan receivable	<u>67,500</u>	<u>67,500</u>
	<u>\$ 67,983</u>	<u>\$ 67,983</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 Albert 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>2018</u>	<u>2017</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>2018</u>	<u>2017</u>
Accrued holiday pay	\$ 359,958	\$ 369,004
Accrued retirement benefits	104,763	102,476
Accrued wages	86,563	72,640
Accrued sick leave	<u>755,682</u>	<u>742,677</u>
	<u>\$ 1,306,966</u>	<u>\$ 1,286,797</u>

6. Inventory	<u>2018</u>	<u>2017</u>
Public works	\$ 602,260	\$ 560,785
Gravel (valued at crushing cost)	1,916,406	1,749,720
A.S.B.	<u>16,719</u>	<u>16,030</u>
	2,535,385	2,326,535
Gas utility	<u>52,915</u>	<u>40,842</u>
	<u>\$ 2,588,300</u>	<u>\$ 2,367,377</u>

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

7. Deferred Revenue	<u>2018</u>	<u>2017</u>
Federal Gas Tax Fund	\$ 263,104	\$ 127,370
Municipal Sustainability Initiative – Capital CARES	876,486	204,036
Advanced Education	18,544	20,804
Fire Training	--	14,238
Natural gas sales	<u>16,480</u>	<u>20,940</u>
	<u>\$ 1,174,614</u>	<u>\$ 408,726</u>

Funding from various grant programs, organizations and individuals, in the amount of \$1,174,614 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 2019.

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 93,000 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.

	<u>2018</u>	<u>2017</u>
Estimated closure costs	\$ 392,000	\$ 383,000
Estimated post-closure costs	<u>383,000</u>	<u>376,000</u>
Estimated total liability	<u>\$ 775,000</u>	<u>\$ 759,000</u>
Estimated capacity remaining	68%	71%
Portion of total liability remaining to be recognized	<u>\$ 527,000</u>	<u>\$ 538,890</u>
Estimated capacity used	32%	29%
Accrued liability portion	<u>\$ 248,000</u>	<u>\$ 220,110</u>

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

9. Contaminated Sites Liability

In 2017 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 was conducted in 2018 to establish what remediation is required. Currently, a provision of \$100,000 has been recorded.

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>2018</u>	<u>2017</u>
Total debt limit	\$ 22,564,713	\$ 22,547,561
Total debt (including loan guarantee)	<u> --</u>	<u> (10,001)</u>
Debt limit remaining	\$ <u>22,564,713</u>	\$ <u>22,537,560</u>
Debt servicing limit	\$ 3,760,785	\$ 3,757,927
Debt servicing	<u> --</u>	<u> --</u>
Debt servicing limit remaining	\$ <u>3,760,785</u>	\$ <u>3,757,927</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, 2018.

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

12. Accumulated Surplus

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

	<u>2018</u>	<u>2017</u>
Unrestricted surplus	\$ <u>6,293,495</u>	\$ <u>6,150,473</u>
Restricted surplus		
Capital		
Building	168,374	118,374
General	2,356,505	2,442,118
Regional landfill	470,901	433,936
Transportation	777,803	909,111
Gravel pit reclamation	438,440	424,483
Gravel pit development	64,673	42,262
Fire	1,076,430	828,847
Street sweeper	36,864	30,926
Connectivity	--	70,271
Regional waterline	259,988	258,818
Road development	855,195	601,577
Economic development	86,223	112,437
Municipal reserve	<u>39,122</u>	<u>39,122</u>
	6,630,518	6,312,282
Municipal general	3,012,895	3,438,463
Gas	<u>1,600,470</u>	<u>1,419,528</u>
Total restricted	<u>11,243,883</u>	<u>11,170,273</u>
Equity in tangible capital assets	<u>40,184,654</u>	<u>39,659,781</u>
	\$ <u>57,722,032</u>	\$ <u>56,980,527</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, 2018

14. Contingent Liabilities

(a) 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.

(b) 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. 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.

16. Salary and Benefits Disclosure

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

		2018		
		Salary	Benefits & Allow.	Expenses
		(1)	(2)	(3)
Reeve	Lukinuk	\$ 67,555	\$ 13,883	\$ 29,495
Councillors	Orichowski	61,814	13,116	25,676
	Gawalko	58,944	9,428	27,088
	Cherniwchan	58,944	13,736	26,150
	Halisky	<u>58,944</u>	<u>12,736</u>	<u>21,899</u>
	Total 2018 legislative costs	<u>\$ 306,201</u>	<u>\$ 62,899</u>	<u>\$ 130,308</u>
Chief Administrative Officer	Ollikka	\$ <u>154,098</u>	\$ <u>31,868</u>	\$ <u>9,078</u>
Designated Officer (contract)		\$ <u>135,852</u>	\$ <u>--</u>	\$ <u>--</u>

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

16. Salary and Benefits Disclosure (continued)

		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 2018 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>

- (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.

17. 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 260,000 people and 420 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 10.39% of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 14.84% on pensionable earnings above this amount. Employees of the county are required to make current service contributions of 9.39% of pensionable salary up to the year's maximum pensionable salary and 13.84% on pensionable salary above this amount.

Total current service contributions by the county to the LAPP in 2018 were \$305,347 (2017 - \$331,262). Total current service contributions by the employees of the county to the LAPP in 2018 were \$279,812 (2017 - \$305,690).

At December 31, 2017, the LAPP disclosed an actuarial surplus of \$4.84 billion.

SMOKY LAKE COUNTY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

(a) PSAS Section 1201, Financial Statement Presentation

Revised standard is effective beginning on or after April 1, 2021, when sections PS2601 and PS3450 are adopted.

(b) PSAS 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 statements. It applies to years beginning on or after April 1, 2021.

(c) PSAS Section 3041, Portfolio Investments

This standard addresses the distinction between temporary and portfolio investments. The standard is effective beginning on or after April 1, 2021, when sections PS1201, PS2601 and PS3450 are adopted.

(d) PSAS 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.

(e) PSAS Section 3400, Revenue

This standard will provide greater clarity on the difference between exchange and non-exchange transactions. It applies in years beginning on or after April 1, 2022.

(f) PSAS Section 3450, Financial Instruments

This standard establishes recognition, measurement and disclosure requirements for derivative and non- derivative financial instruments. It applies to years beginning on or after April 1, 2021.