

SMOKY LAKE COUNTY GAS UTILITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018



INDEPENDENT AUDITOR'S REPORT

To the Members of Council:

Opinion

We have audited the financial statements of the Smoky Lake County Gas Utility, which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net financial assets, and cash flows and schedules of changes in accumulated surplus, gross margin and operating expenses for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Gas Utility 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 Financial Statements* section of our report. We are independent of the Gas Utility in accordance with the ethical requirements that are relevant to our audit of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Gas Utility'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 Gas Utility or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Gas Utility'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 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 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 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 Gas Utility'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 Gas Utility'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 financial statements or, if such disclosures 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 Gas Utility to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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


CHARTERED ACCOUNTANTS

**SMOKY LAKE COUNTY GAS UTILITY
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>
Financial assets		
Due from general operating fund	\$ 1,531,885	\$ 1,297,595
Receivables (net of allowance)	340,038	310,806
Investment in Gas Alberta Inc. (note 3)	<u>67,983</u>	<u>67,983</u>
	<u>1,939,906</u>	<u>1,676,384</u>
Liabilities		
Accounts payable	157,527	189,354
Meter deposits payable	9,975	8,725
Deferred revenue	<u>16,480</u>	<u>20,940</u>
	<u>183,982</u>	<u>219,019</u>
Net financial assets	<u>1,755,924</u>	<u>1,457,365</u>
Non-financial assets		
Inventory	52,915	40,842
Prepaid expenses	40,259	27,648
Tangible capital assets (note 4)	<u>2,554,930</u>	<u>2,769,050</u>
	<u>2,648,104</u>	<u>2,837,540</u>
Accumulated surplus (note 5)	<u>\$ 4,404,028</u>	<u>\$ 4,294,905</u>

ON BEHALF OF THE SMOKY LAKE COUNTY

Craig Schubert Reeve

G.P. Olsch CAO

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

	<u>Budget</u> (unaudited)	<u>2018</u>	<u>2017</u>
Revenues			
Gas sales and distribution charges	\$ 2,130,300	\$ 1,707,265	\$ 2,037,888
Penalties and service charges	490,133	504,151	497,024
Appliance sales and service	100	--	--
Sale of goods, secondaries, conversions	124,433	88,590	45,413
RMO operating grant	25,000	25,137	25,137
Interest income	10,000	20,000	10,000
Bulk odorant delivery	86,000	106,370	94,530
Compressed natural gas revenue	46,000	2,500	31,725
Carbon Levy admin fee	--	--	2,281
Gas Alberta rebate	--	30,920	34,010
Infill rebate	--	--	5,314
Infill recovery	<u>68,000</u>	<u>42,000</u>	<u>17,500</u>
	<u>2,979,966</u>	<u>2,526,933</u>	<u>2,800,822</u>
Expenses			
Wages and benefits	920,622	840,776	897,694
Materials	181,137	168,585	126,067
Gas purchases	1,402,600	1,009,512	1,332,523
Contracted and general services	230,608	186,330	194,772
Amortization	187,000	214,120	213,831
Bad debt expense (recovery)	<u>--</u>	<u>(1,513)</u>	<u>597</u>
	<u>2,921,967</u>	<u>2,417,810</u>	<u>2,765,484</u>
Excess of revenues over expenses before other	57,999	109,123	35,338
Other			
Provincial government transfers	<u>--</u>	<u>--</u>	<u>17,156</u>
Excess of revenues over expenses	57,999	109,123	52,494
Accumulated surplus, beginning of year	<u>4,294,905</u>	<u>4,294,905</u>	<u>4,242,411</u>
Accumulated surplus, end of year	<u>\$ 4,352,904</u>	<u>\$ 4,404,028</u>	<u>\$ 4,294,905</u>

**SMOKY LAKE COUNTY GAS UTILITY
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 of revenues over expenses	\$ <u>57,999</u>	\$ <u>109,123</u>	\$ <u>52,494</u>
Acquisition of tangible capital assets	(315,000)	--	(53,391)
Amortization of tangible capital assets	<u>187,000</u>	<u>214,120</u>	<u>213,831</u>
	<u>(128,000)</u>	<u>214,120</u>	<u>160,440</u>
Acquisition of inventory	--	(68,288)	(40,255)
Use of inventory	--	56,215	27,895
Acquisition of prepaid assets	--	(40,259)	(27,648)
Use of prepaid assets	<u>--</u>	<u>27,648</u>	<u>27,531</u>
	<u>--</u>	<u>(24,684)</u>	<u>(12,477)</u>
Increase (decrease) in net financial assets	(70,001)	298,559	200,457
Net financial assets, beginning of year	<u>1,457,365</u>	<u>1,457,365</u>	<u>1,256,908</u>
Net financial assets, end of year	\$ <u>1,387,364</u>	\$ <u>1,755,924</u>	\$ <u>1,457,365</u>

**SMOKY LAKE COUNTY GAS UTILITY
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	\$ 109,123	\$ 52,494
Non-cash items included		
Amortization of tangible capital assets	214,120	213,831
Non-cash charges to operations (net change):		
Decrease (increase)		
Receivables	(29,232)	(16,602)
Inventory	(12,073)	(12,360)
Prepaid expenses	(12,611)	(117)
Increase (decrease)		
Accounts payable	(31,827)	(37,251)
Meter deposits	1,250	--
Deferred revenue	<u>(4,460)</u>	<u>(14,613)</u>
	234,290	185,382
Capital		
Acquisition of tangible capital assets	--	(53,391)
Investing		
Redemption (purchase) of Gas Alberta Inc. shares	<u>--</u>	<u>(77)</u>
Change in cash and cash equivalents during the year	234,290	131,914
Cash and cash equivalents, beginning of the year	<u>1,297,595</u>	<u>1,165,681</u>
Cash and cash equivalents, end of the year	<u>\$ 1,531,885</u>	<u>\$ 1,297,595</u>

Cash and cash equivalents are defined as Due from General Operating Fund.

**SMOKY LAKE COUNTY GAS UTILITY
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Unrestricted Surplus</u>	<u>Restricted Surplus</u>	<u>Equity in Tangible Capital Assets</u>	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ <u>106,327</u>	\$ <u>1,419,528</u>	\$ <u>2,769,050</u>	\$ <u>4,294,905</u>	\$ <u>4,242,411</u>
Excess (deficiency) of revenues over expenses	109,123	--	--	109,123	52,494
Funds designated for future use	(180,942)	180,942	--	--	--
Funds used for operations	--	--	--	--	--
Funds used for tangible capital assets	--	--	--	--	--
Annual amortization expense	<u>214,120</u>	<u>--</u>	<u>(214,120)</u>	<u>--</u>	<u>--</u>
Change in accumulated surplus	<u>142,301</u>	<u>180,942</u>	<u>(214,120)</u>	<u>109,123</u>	<u>52,494</u>
Balance, end of year	\$ <u>248,628</u>	\$ <u>1,600,470</u>	\$ <u>2,554,930</u>	\$ <u>4,404,028</u>	\$ <u>4,294,905</u>

**SMOKY LAKE COUNTY GAS UTILITY
SCHEDULE OF GROSS MARGIN
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budget</u> (unaudited)	<u>2018</u>	<u>2017</u>
Gas sales and distribution charges	\$ 2,130,300	\$ 1,707,265	\$ 2,037,888
Gas purchases	(1,402,600)	(1,009,512)	(1,332,523)
Capital surcharge	<u>(110,000)</u>	<u>(142,615)</u>	<u>(143,776)</u>
Gross margin	\$ <u>617,700</u>	\$ <u>555,138</u>	\$ <u>561,589</u>

SCHEDULE OF OPERATING EXPENSES

	<u>Budget</u> (unaudited)	<u>2018</u>	<u>2017</u>
General and administrative expenditures			
Council expenses	\$ 9,000	\$ 8,505	\$ 6,008
Audit, legal, and consulting	38,400	50,615	37,418
Advertising, membership, printing	32,715	22,687	37,348
Telephone, postage, freight, travel	29,158	23,228	22,754
Computer lease	5,000	4,576	4,992
Office supplies, utilities, insurance	65,814	66,894	67,932
Wages and benefits	<u>425,744</u>	<u>418,009</u>	<u>399,848</u>
	<u>605,831</u>	<u>594,514</u>	<u>576,300</u>
Distribution			
Wages and benefits	494,878	422,768	497,846
Vehicle and equipment costs	76,162	67,089	49,971
Repair and maintenance – system	<u>155,496</u>	<u>111,320</u>	<u>94,266</u>
	<u>726,536</u>	<u>601,177</u>	<u>642,083</u>
Gas purchases	<u>1,402,600</u>	<u>1,009,512</u>	<u>1,332,523</u>
Amortization	<u>187,000</u>	<u>214,120</u>	<u>213,831</u>
Bad debt expense (recovery)	<u>--</u>	<u>(1,513)</u>	<u>597</u>
Appliance purchases and repairs	<u>--</u>	<u>--</u>	<u>150</u>
Total operating expenditures	\$ <u>2,921,967</u>	\$ <u>2,417,810</u>	\$ <u>2,765,484</u>

**SMOKY LAKE COUNTY GAS UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. Significant Accounting Policies

(a) Reporting Entity

The financial statements reflect the assets, liabilities, revenues and expenses, and change in net financial assets of the reporting entity which comprises the entire gas utility. These statements exclude all other municipal operations.

(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) Measurement Uncertainty

The preparation of financial statements 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. Such estimates include the amortization of capital assets and provision for doubtful accounts. Actual results could differ from these estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become known.

(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 GAS UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. Significant Accounting Policies (continued)

(e) 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 change in net financial assets (debt) for the year.

(i) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The 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>
Buildings	50
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.

2. Prepaid Infills

The county has an obligation to provide infills to 127 lake lots. These infills will have to be installed once the owners request the infill. The costs of these infills will be expensed in the year of installation. The amounts are likely to be spread over many years and the cost in any one year is not likely to be significant. The future cost of these infills is not determinable at this time.

**SMOKY LAKE COUNTY GAS UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 has entered into a gas supply contract, which renews automatically each year, to purchase natural gas exclusively from Gas Alberta Inc.

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. Tangible Capital Assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2018</u>	<u>2017</u>
Distribution system	\$ 6,913,504	\$ 4,856,196	\$ 2,057,308	\$ 2,213,040
Buildings	128,707	34,751	93,956	96,530
Machinery and equipment	332,930	123,492	209,438	226,599
Vehicles	<u>465,300</u>	<u>271,072</u>	<u>194,228</u>	<u>232,881</u>
	<u>\$ 7,840,441</u>	<u>\$ 5,285,511</u>	<u>\$ 2,554,930</u>	<u>\$ 2,769,050</u>

5. 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	\$ 248,628	\$ 106,327
Restricted capital surplus	1,600,470	1,419,528
Equity in tangible capital assets	<u>2,554,930</u>	<u>2,769,050</u>
	<u>\$ 4,404,028</u>	<u>\$ 4,294,905</u>