

**SMOKY LAKE COUNTY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**DECEMBER 31, 2016**

## 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, 2016, and the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian 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, 2016, 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 16, 2017

CHARTERED ACCOUNTANTS

**SMOKY LAKE COUNTY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2016**

	<u>2016</u>	<u>2015</u>
<b>Financial assets</b>		
Cash	\$ 14,217,137	\$ 13,763,445
Taxes and grants in place receivable (note 2)	590,977	291,182
Receivables from other governments	884,392	519,445
Trade and other receivables	712,383	516,952
Investment in Gas Alberta Inc. (note 3)	67,906	67,962
Investment in Corridor Communications Inc. (note 4)	<u>1,099,894</u>	<u>1,099,894</u>
	<u>17,572,689</u>	<u>16,258,880</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	607,901	527,815
Employee obligations (note 5)	1,310,614	1,251,395
Deposit liabilities	241,665	170,365
Deferred revenue (note 6)	1,421,463	774,285
Tax sale surplus	<u>45,758</u>	<u>45,387</u>
	<u>3,627,401</u>	<u>2,769,247</u>
<b>Net financial assets</b>	<u>13,945,288</u>	<u>13,489,633</u>
<b>Non-financial assets</b>		
Tangible capital assets (schedule 2)	39,273,809	39,233,661
Inventory (note 8)	2,463,935	2,569,791
Prepaid expenses	<u>202,980</u>	<u>141,478</u>
	<u>41,940,724</u>	<u>41,944,930</u>
<b>Accumulated surplus</b> (note 10)	\$ <u>55,886,012</u>	\$ <u>55,434,563</u>
<b>Contingent liabilities</b> (note 12)		

ON BEHALF OF THE SMOKY LAKE COUNTY

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Reeve

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**SMOKY LAKE COUNTY  
CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budget</u> (unaudited)	<u>2016</u>	<u>2015</u>
<b>Revenues</b>			
Net municipal taxes (schedule 3)	\$ 9,629,378	\$ 9,647,069	\$ 10,256,279
Sales of goods and services	700,868	883,514	898,519
Government transfers for operating (schedule 4)	606,250	582,159	1,359,709
Investment income	105,069	119,984	93,652
Penalties and costs of taxes	53,046	88,888	49,871
Licenses and permits	89,305	179,595	263,397
Special levies and taxes	18,067	390,033	250,995
Insurance recoveries	69,010	67,600	65,859
Insurance proceeds	--	--	385
Rentals and leases	38,618	32,333	36,059
Natural gas	<u>3,268,310</u>	<u>2,416,428</u>	<u>2,675,901</u>
	<b><u>14,577,921</u></b>	<b><u>14,407,603</u></b>	<b><u>15,950,626</u></b>
<b>Expenses</b>			
Legislative	457,968	449,841	435,656
Administration	2,042,691	1,803,651	2,027,978
Protective services	829,629	802,413	754,123
Transportation	8,884,456	6,682,064	5,923,653
Water and wastewater	447,014	555,209	550,111
Landfill	453,264	473,246	416,890
Further Education	78,480	102,419	105,343
Agriculture services	883,740	836,466	748,738
Municipal planning, community and economic development	560,472	490,724	442,003
Recreation and culture	497,065	412,141	433,236
Natural gas	<u>3,121,850</u>	<u>2,523,604</u>	<u>2,789,704</u>
	<b><u>18,256,629</u></b>	<b><u>15,131,778</u></b>	<b><u>14,627,435</u></b>
<b>Excess (deficiency) of revenues over expenses before other</b>	<b>(3,678,708)</b>	<b>(724,175)</b>	<b>1,323,191</b>
<b>Other</b>			
Gain (loss) on disposal of tangible capital assets	200,000	(178,324)	52,260
Government transfers for capital (schedule 4)	<u>1,532,250</u>	<u>1,353,948</u>	<u>1,022,329</u>
<b>Excess (deficiency) of revenues over expenses</b>	<b>(1,946,458)</b>	<b>451,449</b>	<b>2,397,780</b>
<b>Accumulated surplus, beginning of year</b>	<b><u>55,434,563</u></b>	<b><u>55,434,563</u></b>	<b><u>53,036,783</u></b>
<b>Accumulated surplus, end of year</b>	<b>\$ <u>53,488,105</u></b>	<b>\$ <u>55,886,012</u></b>	<b>\$ <u>55,434,563</u></b>

**SMOKY LAKE COUNTY**  
**CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budget</u> (unaudited)	<u>2016</u>	<u>2015</u>
<b>Excess (deficiency) of revenues over expenses</b>	<b>\$ <u>(1,946,458)</u></b>	\$ <u>451,449</u>	\$ <u>2,397,780</u>
Acquisition of tangible capital assets	(2,028,080)	(2,473,194)	(2,279,376)
Proceeds on disposal of tangible capital assets	--	23,035	184,600
Amortization of tangible capital assets	2,085,328	2,231,687	2,132,352
(Gain) loss on disposal of tangible capital assets	<u>(200,000)</u>	<u>178,324</u>	<u>(52,260)</u>
	<u>(142,752)</u>	<u>(40,148)</u>	<u>(14,684)</u>
Acquisition of inventory	--	(3,169,235)	(2,832,124)
Use of inventory	--	3,275,091	2,400,760
Acquisition of prepaid assets	--	(202,980)	(262,675)
Use of prepaid assets	<u>--</u>	<u>141,478</u>	<u>276,456</u>
	<u>--</u>	<u>44,354</u>	<u>(417,583)</u>
<b>Increase (decrease) in net financial assets</b>	<b>(2,089,210)</b>	455,655	1,965,513
<b>Net financial assets, beginning of year</b>	<b><u>13,489,633</u></b>	<u>13,489,633</u>	<u>11,524,120</u>
<b>Net financial assets, end of year</b>	<b>\$ <u>11,400,423</u></b>	\$ <u>13,945,288</u>	\$ <u>13,489,633</u>

**SMOKY LAKE COUNTY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2016</u>	<u>2015</u>
<b>Net inflow (outflow) of cash related to the following activities:</b>		
<b>Operating</b>		
Excess of revenues over expenses	\$ 451,449	\$ 2,397,780
Non-cash items included		
Amortization of tangible capital assets	2,231,687	2,132,352
(Gain) loss on disposal of tangible capital assets	178,324	(52,260)
Non-cash charges to operations (net change):		
Decrease (increase) in		
Taxes and grants in place receivable	(299,795)	(71,108)
Receivables from other governments	(364,947)	117,776
Trade and other receivables	(195,431)	280,613
Inventory	105,856	(431,364)
Prepaid expenses	(61,502)	13,781
Increase (decrease) in		
Accounts payable and accrued liabilities	80,086	(230,998)
Employee obligations	59,219	166,899
Deposit liabilities	71,300	64,900
Deferred revenue	647,178	285,390
Tax sale surplus	<u>371</u>	<u>408</u>
	<u>2,903,795</u>	<u>4,674,169</u>
<b>Capital</b>		
Acquisition of tangible capital assets	(2,473,194)	(2,279,376)
Proceeds on disposal of tangible capital assets	<u>23,035</u>	<u>184,600</u>
	<u>(2,450,159)</u>	<u>(2,094,776)</u>
<b>Financing and Investing</b>		
Redemption of Gas Alberta Inc. shares	56	--
Corridor Communications Inc. – shareholder’s loan	<u>--</u>	<u>17,038</u>
	<u>56</u>	<u>17,038</u>
<b>Change in cash during the year</b>	453,692	2,596,431
<b>Cash, beginning of year</b>	<u>13,763,445</u>	<u>11,167,014</u>
<b>Cash, end of year</b>	\$ <u>14,217,137</u>	\$ <u>13,763,445</u>

**SMOKY LAKE COUNTY**  
**SCHEDULE 1 – CHANGES IN ACCUMULATED SURPLUS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted Surplus</u>	<u>Restricted Surplus</u>	<u>Equity in Tangible Capital Assets</u>	<u>2016</u>	<u>2015</u>
<b>Balance, beginning of year</b>	\$ <u>4,905,499</u>	\$ <u>11,295,403</u>	\$ <u>39,233,661</u>	\$ <u>55,434,563</u>	\$ <u>53,036,783</u>
Excess of revenues over expenses	451,449	--	--	451,449	2,397,780
Unrestricted funds designated for future use	(561,474)	561,474	--	--	--
Restricted funds used for operations	812,204	(812,204)	--	--	--
Restricted funds used for tangible capital assets	--	(158,589)	158,589	--	--
Current year funds used for tangible capital assets	(2,314,605)	--	2,314,605	--	--
Disposal of tangible capital assets	201,359	--	(201,359)	--	--
Annual amortization expense	<u>2,231,687</u>	<u>          --</u>	<u>(2,231,687)</u>	<u>          --</u>	<u>          --</u>
<b>Change in accumulated surplus</b>	<u>820,620</u>	<u>(409,319)</u>	<u>40,148</u>	<u>451,449</u>	<u>2,397,780</u>
<b>Balance, end of year</b>	\$ <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>

**SMOKY LAKE COUNTY  
SCHEDULE 2 - TANGIBLE CAPITAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings</u>	<u>Engineered Structures</u>	<u>Machinery &amp; Equipment</u>	<u>Vehicles</u>	<u>2016</u>	<u>2015</u>
<b>Cost</b>								
Balance, beginning of year	\$ 5,113,588	\$ 1,105,534	\$ 4,505,342	\$ 46,206,539	\$ 10,535,076	\$ 5,619,377	\$ 73,085,456	\$ 71,146,048
Acquisition of tangible capital assets	30,000	104,695	75,589	1,178,579	822,610	182,609	2,394,082	2,233,432
Construction-in-progress	--	--	--	79,112	--	--	79,112	45,944
Disposal of tangible capital assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>(227,881)</u>	<u>(71,000)</u>	<u>--</u>	<u>(298,881)</u>	<u>(339,968)</u>
Balance, end of year	<u>5,143,588</u>	<u>1,210,229</u>	<u>4,580,931</u>	<u>47,236,349</u>	<u>11,286,686</u>	<u>5,801,986</u>	<u>75,259,769</u>	<u>73,085,456</u>
<b>Accumulated amortization</b>								
Balance, beginning of year	--	725,327	1,197,063	24,835,550	4,167,426	2,926,429	33,851,795	31,927,071
Annual amortization	--	52,044	72,574	1,145,292	648,216	313,561	2,231,687	2,132,352
Accumulated amortization on disposals	<u>--</u>	<u>--</u>	<u>--</u>	<u>(54,122)</u>	<u>(43,400)</u>	<u>--</u>	<u>(97,522)</u>	<u>(207,628)</u>
Balance, end of year	<u>--</u>	<u>777,371</u>	<u>1,269,637</u>	<u>25,926,720</u>	<u>4,772,242</u>	<u>3,239,990</u>	<u>35,985,960</u>	<u>33,851,795</u>
<b>Net book value of tangible capital assets</b>	<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>	<u>\$ 39,233,661</u>
2015 Net book value of tangible capital assets	<u>\$ 5,113,588</u>	<u>\$ 380,207</u>	<u>\$ 3,308,279</u>	<u>\$ 21,370,989</u>	<u>\$ 6,367,650</u>	<u>\$ 2,692,948</u>	<u>\$ 39,233,661</u>	



**SMOKY LAKE COUNTY**  
**SCHEDULE 3 - PROPERTY TAXES LEVIED**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budget</u> (unaudited)	<u>2016</u>	<u>2015</u>
<b>Levies</b>			
Residential and farmland	\$ 3,015,056	\$ 3,062,941	\$ 2,945,035
Non-residential	807,490	836,963	764,164
Machinery and equipment	1,302,896	1,305,462	1,563,389
Linear property	6,772,891	6,980,323	7,361,963
Grants in place	<u>66,754</u>	<u>57,223</u>	<u>70,067</u>
	<u>11,965,087</u>	<u>12,242,912</u>	<u>12,704,618</u>
<b>Requisitions</b>			
Alberta School Foundation Fund	1,856,897	2,089,502	1,941,998
Smoky Lake Foundation	<u>478,812</u>	<u>506,341</u>	<u>506,341</u>
	<u>2,335,709</u>	<u>2,595,843</u>	<u>2,448,339</u>
<b>Net municipal taxes</b>	\$ <u>9,629,378</u>	\$ <u>9,647,069</u>	\$ <u>10,256,279</u>

**SCHEDULE 4 - GOVERNMENT TRANSFERS**

<b>Transfers for operations</b>			
Federal	\$ --	\$ 2,016	\$ 1,607
Provincial	515,236	490,166	1,251,758
Other local governments	<u>91,014</u>	<u>89,977</u>	<u>106,344</u>
	<u>606,250</u>	<u>582,159</u>	<u>1,359,709</u>
<b>Transfers for capital</b>			
Federal	--	28,032	--
Provincial	1,532,250	1,278,978	1,022,329
Other local governments	<u>--</u>	<u>46,938</u>	<u>--</u>
	<u>1,532,250</u>	<u>1,353,948</u>	<u>1,022,329</u>
<b>Total government transfers</b>	\$ <u>2,138,500</u>	\$ <u>1,936,107</u>	\$ <u>2,382,038</u>

**SCHEDULE 5 - CONSOLIDATED EXPENSES BY OBJECT**

<b>Expenses</b>			
Salaries, wages and benefits	\$ 7,229,409	\$ 6,768,263	\$ 6,593,367
Contracted and general services	3,422,610	2,823,758	2,636,124
Purchases from other governments	99,870	96,938	70,173
Materials, goods, supplies and utilities	3,327,066	1,752,823	1,626,759
Provision for allowances and bad debts	--	121,824	22,961
Transfers to other governments	26,000	62,847	77,596
Transfers to individuals and organizations	301,186	216,906	207,492
Bank charges and short-term interest	9,120	3,590	2,962
Tax adjustments	3,000	2,254	3,642
Natural gas purchases	1,753,040	1,050,888	1,254,007
Amortization of tangible capital assets	<u>2,085,328</u>	<u>2,231,687</u>	<u>2,132,352</u>
<b>Total expenses</b>	\$ <u>18,256,629</u>	\$ <u>15,131,778</u>	\$ <u>14,627,435</u>

**SMOKY LAKE COUNTY  
SCHEDULE 6 – SEGMENTED DISCLOSURE  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<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>
<b>Revenue</b>									
Net municipal taxes	\$ 9,647,069	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 9,647,069
Government transfers	--	27,970	1,207,263	86,019	193,360	263,813	125,048	32,634	1,936,107
User fees and sales of goods	135,294	110,382	325,322	295,338	15,478	1,700	--	2,416,428	3,299,942
Investment income	106,940	--	--	--	--	--	--	13,044	119,984
Gain on disposal of assets	100	--	--	--	--	--	--	--	100
Other revenues	<u>134,029</u>	<u>48,874</u>	<u>382,284</u>	<u>7,749</u>	<u>--</u>	<u>162,969</u>	<u>22,544</u>	<u>--</u>	<u>758,449</u>
	<u>10,023,432</u>	<u>187,226</u>	<u>1,914,869</u>	<u>389,106</u>	<u>208,838</u>	<u>428,482</u>	<u>147,592</u>	<u>2,462,106</u>	<u>15,761,651</u>
<b>Expenses</b>									
Salaries and wages	1,218,852	311,667	2,850,267	476,561	525,075	254,918	171,260	959,663	6,768,263
Contract and general services	689,362	238,802	1,131,351	241,448	148,814	252,860	25,861	192,198	2,920,696
Goods and supplies	114,360	114,450	1,105,286	96,231	122,908	7,477	61,168	1,181,831	2,803,711
Transfers to others	43,559	--	--	62,847	--	77,888	95,459	--	279,753
Loss on disposal of assets	--	--	--	173,760	4,664	--	--	--	178,424
Other expenses	<u>123,799</u>	<u>--</u>	<u>--</u>	<u>1,684</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,185</u>	<u>127,668</u>
	<u>2,189,932</u>	<u>664,919</u>	<u>5,086,904</u>	<u>1,052,531</u>	<u>801,461</u>	<u>593,143</u>	<u>353,748</u>	<u>2,335,877</u>	<u>13,078,515</u>
<b>Net revenue before amortization</b>	7,833,500	(477,693)	(3,172,035)	(663,425)	(592,623)	(164,661)	(206,156)	126,229	2,683,136
Amortization expense	<u>(63,560)</u>	<u>(137,494)</u>	<u>(1,595,160)</u>	<u>(149,683)</u>	<u>(39,670)</u>	<u>--</u>	<u>(58,393)</u>	<u>(187,727)</u>	<u>(2,231,687)</u>
<b>Net revenue</b>	\$ <u>7,769,940</u>	\$ <u>(615,187)</u>	\$ <u>(4,767,195)</u>	\$ <u>(813,108)</u>	\$ <u>(632,293)</u>	\$ <u>(164,661)</u>	\$ <u>(264,549)</u>	\$ <u>(61,498)</u>	\$ <u>451,449</u>

**SMOKY LAKE COUNTY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**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, 2016**

**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) 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.

**SMOKY LAKE COUNTY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. Significant Accounting Policies – continued**

(i) Non-Financial Assets - continued

(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.

(j) 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.

**2. Taxes and Grants in Place Receivable**

	<u>2016</u>	<u>2015</u>
Current	\$ 546,983	\$ 244,879
Arrears	280,215	160,700
Less allowance for doubtful accounts	(236,221)	(114,397)
	\$ <u>590,977</u>	\$ <u>291,182</u>

**SMOKY LAKE COUNTY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**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>2016</u>	<u>2015</u>
Class A common shares	\$ 406	\$ 462
Loan receivable	<u>67,500</u>	<u>67,500</u>
	<u>\$ 67,906</u>	<u>\$ 67,962</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>2016</u>	<u>2015</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>2016</u>	<u>2015</u>
Accrued holiday pay	\$ 402,726	\$ 296,305
Accrued retirement benefits	126,158	205,191
Accrued wages	60,798	99,025
Accrued sick leave	720,932	647,484
Canada savings bonds	<u>--</u>	<u>3,390</u>
	<u>\$ 1,310,614</u>	<u>\$ 1,251,395</u>

**6. Deferred Revenue**

	<u>2016</u>	<u>2015</u>
Federal Gas Tax Fund	\$ 174,366	\$ 204,513
Municipal Sustainability Initiative – Capital	792,204	425,647
Municipal Sustainability Initiative – Operating	--	14,506
Mons Lake Community Association	29,121	--
County of St. Paul – Spedden Truck Fill	278,062	--
Advanced Education	33,276	22,700
Family school liaison program	14,496	14,496
FCSS	--	5,844
Embridge donation	8,760	8,760
CCI Wireless	55,625	28,438
Natural gas sales	<u>35,553</u>	<u>49,381</u>
	<u>\$ 1,421,463</u>	<u>\$ 774,285</u>

**SMOKY LAKE COUNTY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**6. Deferred Revenue (continued)**

Funding from various grant programs, organizations and individuals, in the amount of \$1,421,463 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 2017.

**7. 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>2016</u>	<u>2015</u>
Total debt limit	\$ 21,681,811	\$ 24,004,329
Total debt (including loan guarantee)	<u>(21,668)</u>	<u>(33,333)</u>
Debt limit remaining	\$ <u>21,660,143</u>	\$ <u>23,970,996</u>
Debt servicing limit	\$ 3,613,635	\$ 4,000,721
Debt servicing	<u>---</u>	<u>---</u>
Debt servicing limit remaining	\$ <u>3,613,635</u>	\$ <u>4,000,721</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.

**8. Inventory**

	<u>2016</u>	<u>2015</u>
Public works	\$ 550,880	\$ 666,265
Gravel (valued at crushing cost)	1,862,737	1,838,153
A.S.B.	<u>21,836</u>	<u>31,123</u>
	2,435,453	2,535,541
Gas utility	<u>28,482</u>	<u>34,250</u>
	\$ <u>2,463,935</u>	\$ <u>2,569,791</u>

**SMOKY LAKE COUNTY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>9. Equity in Tangible Capital Assets</b>	<u>2016</u>	<u>2015</u>
Tangible capital assets (schedule 2)	\$ 75,259,769	\$ 73,085,456
Accumulated amortization (schedule 2)	<u>(35,985,960)</u>	<u>(33,851,795)</u>
	\$ <u>39,273,809</u>	\$ <u>39,233,661</u>

**10. Accumulated Surplus**

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

	<u>2016</u>	<u>2015</u>
Unrestricted surplus	\$ <u>5,726,119</u>	\$ <u>4,905,499</u>
Restricted surplus		
Capital		
Building	118,374	118,374
General	2,362,118	2,362,118
Regional landfill	441,475	426,475
Transportation	605,621	605,621
Gravel pit reclamation	408,139	377,387
Gravel pit development	298,195	246,054
Fire	808,847	748,847
Street sweeper	25,698	27,533
Connectivity	10,000	10,000
Regional waterline	602,309	620,471
Road development	808,363	426,079
Economic development	76,831	87,436
Municipal reserve	<u>37,992</u>	<u>36,292</u>
	6,603,962	6,092,687
Municipal general	2,970,057	3,918,842
Gas	<u>1,312,065</u>	<u>1,283,874</u>
Total restricted	<u>10,886,084</u>	<u>11,295,403</u>
Equity in tangible capital assets (note 9)	<u>39,273,809</u>	<u>39,233,661</u>
	\$ <u>55,886,012</u>	\$ <u>55,434,563</u>



**SMOKY LAKE COUNTY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**11. 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.

**12. 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, 2016 the loan was in good standing and the balance was \$43,335, therefore the county's guarantee would be limited to \$21,668.

(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.

**13. 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, 2016.

**SMOKY LAKE COUNTY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**14. 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:

		<b>2016</b>		
		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>

		<b>2015</b>		
		Salary	Benefits & Allow.	Expenses
		(1)	(2)	(3)
Reeve	Bobocel	\$ 63,116	\$ 6,226	\$ 32,391
Councillors	Cholak	57,706	12,280	20,313
	Orichowski	55,000	11,901	20,553
	Lukinuk	55,000	12,262	29,667
	Smigerowsky	<u>55,000</u>	<u>11,969</u>	<u>11,001</u>
Total 2016 legislative costs		\$ <u>285,822</u>	\$ <u>54,638</u>	\$ <u>113,925</u>
Chief Administrative Officer	Ollikka	\$ <u>142,753</u>	\$ <u>31,287</u>	\$ <u>13,808</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.

**SMOKY LAKE COUNTY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**15. 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 224,000 people and 428 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 2016 were \$331,659 (2015 - \$315,378). Total current service contributions by the employees of the county to the LAPP in 2016 were \$305,911 (2015 - \$290,861).

At December 31, 2015, the LAPP disclosed an actuarial deficiency of \$923 million.

**16. 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 will be conducted in 2017 to establish what remediation is required.

**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.

**SMOKY LAKE COUNTY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**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 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.