

**SMOKY LAKE COUNTY GAS UTILITY**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Reeve and Council of the Smoky Lake County

**Report on the Financial Statements of the Smoky Lake County Gas Utility**

We have audited the accompanying financial statements of the Smoky Lake County Gas Utility, which comprise the statement of financial position as at December 31, 2015, and the statements of operations, changes in net financial assets and cash flows, and schedules of gross margin and operating expenses for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation of these financial statements in accordance with the basis of accounting as disclosed in note 1 of the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements present fairly, in all material respects, the financial position of the Smoky Lake County Gas Utility as at December 31, 2015, and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with the basis of accounting as disclosed in note 1 of the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian public sector accounting standards, are solely for the information and use of the Reeve and Council of the Smoky Lake County for the purpose of monitoring the operations of the Gas Utility. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

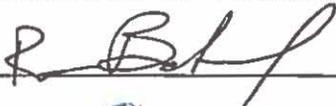
ST. PAUL, ALBERTA  
March 24, 2016

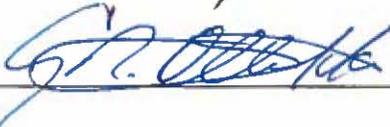
JMD Group LLP  
CHARTERED ACCOUNTANTS

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2015**

	<u>2015</u>	<u>2014</u>
<b>Financial assets</b>		
Due from general operating fund	\$ 1,126,943	\$ 1,063,344
Receivables (net of allowance)	272,568	487,284
Investment in Gas Alberta Inc. (note 3)	<u>67,962</u>	<u>67,962</u>
	<u>1,467,473</u>	<u>1,618,590</u>
<b>Liabilities</b>		
Accounts payable	183,009	298,937
Meter deposits payable	8,425	6,525
Deferred revenue	<u>49,381</u>	<u>117,082</u>
	<u>240,815</u>	<u>422,544</u>
<b>Net financial assets</b>	<u>1,226,658</u>	<u>1,196,046</u>
<b>Non-financial assets</b>		
Inventory	34,250	64,510
Prepaid expenses	24,801	41,783
Tangible capital assets (note 4)	<u>3,018,200</u>	<u>3,069,765</u>
	<u>3,077,251</u>	<u>3,176,058</u>
<b>Accumulated surplus (note 5)</b>	<u>\$ 4,303,909</u>	<u>\$ 4,372,104</u>

ON BEHALF OF THE SMOKY LAKE COUNTY

  
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Reeve

  
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**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budget</u> (unaudited)	<u>2015</u>	<u>2014</u>
<b>Revenues</b>			
Gas sales and distribution charges	\$ 2,543,096	\$ 1,884,978	\$ 2,960,168
Penalties and service charges	490,000	489,011	478,962
Appliance sales and service	1,000	2,810	2,239
Sale of goods, secondaries, conversions	34,750	59,695	45,120
RMO operating grant	25,000	23,042	25,137
Interest income	10,000	12,521	20,005
Bulk odorant delivery	74,500	93,396	77,418
Compressed natural gas revenue	17,200	36,520	59,876
Infill rebate	--	6,922	10,405
Infill recovery	<u>34,340</u>	<u>86,450</u>	<u>61,539</u>
	<u>3,229,886</u>	<u>2,695,345</u>	<u>3,740,869</u>
<b>Expenses</b>			
Wages and benefits	878,346	925,683	944,229
Materials	137,076	118,561	120,577
Gas purchases	1,704,612	1,254,007	2,284,678
Contracted and general services	258,976	309,428	203,584
Amortization	135,000	180,558	174,869
Bad debt expense	<u>--</u>	<u>1,467</u>	<u>8</u>
	<u>3,114,010</u>	<u>2,789,704</u>	<u>3,727,945</u>
<b>Excess (deficiency) of revenues over expenses before other</b>	<u>115,876</u>	<u>(94,359)</u>	<u>12,924</u>
<b>Other</b>			
Provincial government transfers	--	26,164	44,985
Loss on disposal of tangible capital assets	<u>--</u>	<u>--</u>	<u>(8,370)</u>
	<u>--</u>	<u>26,164</u>	<u>36,615</u>
<b>Excess (deficiency) of revenues over expenses</b>	<b>115,876</b>	<b>(68,195)</b>	<b>49,539</b>
<b>Accumulated surplus, beginning of year</b>	<u>4,372,104</u>	<u>4,372,104</u>	<u>4,322,565</u>
<b>Accumulated surplus, end of year</b>	<u>\$ 4,487,980</u>	<u>\$ 4,303,909</u>	<u>\$ 4,372,104</u>

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budget</u> (unaudited)	<u>2015</u>	<u>2014</u>
<b>Excess (deficiency) of revenues over expenses</b>	<b>\$ <u>115,876</u></b>	<b>\$ <u>(68,195)</u></b>	<b>\$ <u>49,539</u></b>
Acquisition of tangible capital assets	(266,500)	(128,993)	(107,088)
Amortization of tangible capital assets	135,000	180,558	174,869
Proceeds on disposal of tangible capital assets	--	--	750
Loss on disposal of tangible capital assets	<u>--</u>	<u>--</u>	<u>8,370</u>
	<u>(131,500)</u>	<u>51,565</u>	<u>76,901</u>
Acquisition of inventory	--	(29,557)	(31,481)
Use of inventory	--	59,818	36,811
Acquisition of prepaid assets	--	(57,712)	(41,783)
Use of prepaid assets	<u>--</u>	<u>74,693</u>	<u>31,466</u>
	<u>--</u>	<u>47,242</u>	<u>(4,987)</u>
<b>Increase (decrease) in net financial assets</b>	<b>(15,624)</b>	<b>30,612</b>	<b>121,453</b>
<b>Net financial assets, beginning of year</b>	<b><u>1,196,046</u></b>	<b><u>1,196,046</u></b>	<b><u>1,074,593</u></b>
<b>Net financial assets, end of year</b>	<b>\$ <u>1,180,422</u></b>	<b>\$ <u>1,226,658</u></b>	<b>\$ <u>1,196,046</u></b>

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>2015</u>	<u>2014</u>
<b>Net inflow (outflow) of cash related to the following activities:</b>		
<b>Operating</b>		
Excess (deficiency) of revenues over expenses	\$ (68,195)	\$ 49,539
Non-cash items included		
Amortization of tangible capital assets	180,558	174,869
Loss on disposal of tangible capital assets	--	8,370
Non-cash charges to operations (net change):		
Decrease (increase)		
Receivables	214,716	52,014
Inventory	30,261	5,330
Prepaid expenses	16,981	(10,317)
Increase (decrease)		
Accounts payable	(115,928)	20,086
Meter deposits	1,900	(900)
Deferred revenue	<u>(67,701)</u>	<u>18,734</u>
	<u>192,592</u>	<u>317,725</u>
<b>Capital</b>		
Acquisition of tangible capital assets	(128,993)	(107,088)
Proceeds on disposal of tangible capital assets	<u>--</u>	<u>750</u>
	<u>(128,993)</u>	<u>(106,338)</u>
<b>Change in cash and cash equivalents during the year</b>	63,599	211,387
<b>Cash and cash equivalents, beginning of the year</b>	<u>1,063,344</u>	<u>851,957</u>
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 1,126,943</u>	<u>\$ 1,063,344</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, 2015**

	<u>Unrestricted Surplus</u>	<u>Restricted Surplus</u>	<u>Equity in Tangible Capital Assets</u>	<u>2015</u>	<u>2014</u>
<b>Balance, beginning of year</b>	\$ <u>103,378</u>	\$ <u>1,198,961</u>	\$ <u>3,069,765</u>	\$ <u>4,372,104</u>	\$ <u>4,322,565</u>
Excess (deficiency) of revenues over expenses	(68,195)	--	--	(68,195)	49,539
Funds used for current operations	33,000	(33,000)	--	--	--
Funds designated for future use	(117,913)	117,913	--	--	--
Funds used for tangible capital assets	(128,993)	--	128,993	--	--
Annual amortization expense	<u>180,558</u>	--	<u>(180,558)</u>	--	--
<b>Change in accumulated surplus</b>	<u>(101,543)</u>	<u>84,913</u>	<u>(51,565)</u>	<u>(68,195)</u>	<u>49,539</u>
<b>Balance, end of year</b>	\$ <u>1,835</u>	\$ <u>1,283,874</u>	\$ <u>3,018,200</u>	\$ <u>4,303,909</u>	\$ <u>4,372,104</u>

**SMOKY LAKE COUNTY GAS UTILITY  
SCHEDULE OF GROSS MARGIN  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budget</u> (unaudited)	<u>2015</u>	<u>2014</u>
Gas sales and distribution charges	\$ 2,543,096	\$ 1,884,978	\$ 2,960,168
Gas purchases	(1,704,612)	(1,254,007)	(2,284,678)
Capital surcharge	<u>(85,200)</u>	<u>(117,913)</u>	<u>(135,026)</u>
Gross margin	\$ <u>753,284</u>	\$ <u>513,058</u>	\$ <u>540,464</u>

**SCHEDULE OF OPERATING EXPENSES**

	<u>Budget</u> (unaudited)	<u>2015</u>	<u>2014</u>
General and administrative expenditures			
Council expenses	\$ 6,700	\$ 6,488	\$ 6,513
Audit, legal, and consulting	34,913	28,504	38,705
Advertising, membership, printing	33,030	37,094	22,785
Telephone, postage, freight, travel	30,757	35,816	28,609
Computer lease	5,000	4,409	5,211
Office supplies, utilities, insurance	61,674	69,615	57,968
Wages and benefits	<u>404,786</u>	<u>420,878</u>	<u>437,012</u>
	<u>576,860</u>	<u>602,804</u>	<u>596,803</u>
Distribution			
Wages and benefits	473,560	504,805	507,218
Vehicle and equipment costs	77,612	63,645	78,380
Repair and maintenance – system	<u>145,366</u>	<u>179,050</u>	<u>82,010</u>
	<u>696,538</u>	<u>747,500</u>	<u>667,608</u>
Gas purchases	<u>1,704,612</u>	<u>1,254,007</u>	<u>2,284,678</u>
Amortization	<u>135,000</u>	<u>180,558</u>	<u>174,869</u>
Bad debt expense	<u>--</u>	<u>1,467</u>	<u>8</u>
Appliance purchases and repairs	<u>1,000</u>	<u>3,368</u>	<u>3,979</u>
Total operating expenditures	\$ <u>3,114,010</u>	\$ <u>2,789,704</u>	\$ <u>3,727,945</u>

**SMOKY LAKE COUNTY GAS UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**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, 2015**

**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, 2015**

**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>2015</u>	<u>2014</u>
Class A common shares	\$ 462	\$ 462
Loan receivable	<u>67,500</u>	<u>67,500</u>
	<u>\$ 67,962</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. Tangible Capital Assets**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2015</u>	<u>2014</u>
Distribution system	\$ 6,811,575	\$ 4,413,015	\$ 2,398,560	\$ 2,151,918
Construction in progress	--	--	--	352,095
Buildings	128,707	27,029	101,678	104,253
Machinery and equipment	330,050	72,296	257,754	274,916
Vehicles	<u>417,700</u>	<u>157,492</u>	<u>260,208</u>	<u>186,583</u>
	<u>\$ 7,688,032</u>	<u>\$ 4,669,832</u>	<u>\$ 3,018,200</u>	<u>\$ 3,069,765</u>

**5. Accumulated Surplus**

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

	<u>2015</u>	<u>2014</u>
Unrestricted surplus	\$ 1,835	\$ 103,378
Restricted surplus		
Capital	1,283,874	1,048,052
Automatic Meter Reading	--	150,909
Equity in tangible capital assets	<u>3,018,200</u>	<u>3,069,765</u>
	<u>\$ 4,303,909</u>	<u>\$ 4,372,104</u>