

SMOKY LAKE COUNTY GAS UTILITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

INDEPENDENT AUDITOR'S REPORT

To the Members of Smoky Lake County Council

Opinion

We have audited the financial statements of the Smoky Lake County Gas Utility (Gas Utility), which comprise of the statement of financial position as at December 31, 2021, 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 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, 2021, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards (PSAS).

Emphasis of Matter

It is understood that this report is requested by the Smoky Lake County Council. We have issued an audit report dated March 24, 2022 on the consolidated financial statements of the Smoky Lake County for the year ended December 31, 2021 and reference should be made to those audited financial statements for complete information.

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 PSAS, 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 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 24, 2022

Chartered Professional Accountants

**SMOKY LAKE COUNTY GAS UTILITY
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021**

	<u>2021</u>	<u>2020</u>
Financial assets		
Due from general operating fund	\$ 2,027,735	\$ 1,943,228
Receivables (net of allowance)	633,362	351,502
Investment in Gas Alberta Inc. (note 3)	<u>67,983</u>	<u>67,983</u>
	<u>2,729,080</u>	<u>2,362,713</u>
Liabilities		
Accounts payable	473,256	197,376
Meter deposits payable	9,193	9,775
Deferred revenue	<u>--</u>	<u>18,176</u>
	<u>482,449</u>	<u>225,327</u>
Net financial assets	<u>2,246,631</u>	<u>2,137,386</u>
Non-financial assets		
Inventory	117,725	114,398
Prepaid expenses	42,983	42,308
Tangible capital assets (note 4)	<u>2,142,914</u>	<u>2,316,436</u>
	<u>2,303,622</u>	<u>2,473,142</u>
Accumulated surplus	<u>\$ 4,550,253</u>	<u>\$ 4,610,528</u>

On behalf of the Smoky Lake County

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**SMOKY LAKE COUNTY GAS UTILITY
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget (unaudited)	<u>2021</u>	<u>2020</u>
Revenues			
Gas sales and distribution charges	\$ 1,890,000	\$ 2,703,448	\$ 1,975,881
Penalties and service charges	560,500	499,510	502,323
Appliance sales and service	1,000	--	--
Sale of goods, secondaries, conversions	51,200	28,871	49,960
RMO operating grant	9,600	9,600	10,895
Interest income	12,500	18,400	14,000
Bulk odorant delivery	89,444	111,483	89,639
Compressed natural gas revenue	32,000	5,697	31,805
Infill rebate	--	19,888	13,023
Infill recovery	<u>50,000</u>	<u>59,500</u>	<u>21,000</u>
	<u>2,696,244</u>	<u>3,456,397</u>	<u>2,708,526</u>
Expenses			
Wages and benefits	943,071	945,763	902,075
Materials	205,779	168,555	163,772
Gas purchases	1,112,440	1,942,250	1,261,073
Contracted and general services	196,954	218,259	169,516
Amortization	230,000	242,340	235,516
Bad debt expense (recovery)	<u>--</u>	<u>13,005</u>	<u>(1,356)</u>
	<u>2,688,244</u>	<u>3,530,172</u>	<u>2,730,596</u>
Excess (deficiency) of revenues over expenses before other	8,000	(73,775)	(22,070)
Other			
Government transfers for capital	--	--	38,438
Gain on sale of tangible capital assets	<u>--</u>	<u>13,500</u>	<u>--</u>
Excess (deficiency) of revenues over expenses	8,000	(60,275)	16,368
Accumulated surplus, beginning of year	<u>4,610,528</u>	<u>4,610,528</u>	<u>4,594,160</u>
Accumulated surplus, end of year	\$ <u>4,618,528</u>	\$ <u>4,550,253</u>	\$ <u>4,610,528</u>

**SMOKY LAKE COUNTY GAS UTILITY
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budget</u> (unaudited)	<u>2021</u>	<u>2020</u>
Excess (deficiency) of revenues over expenses	\$ <u>8,000</u>	\$ <u>(60,275)</u>	\$ <u>16,368</u>
Proceeds on disposal of tangible capital assets	--	13,500	--
Gain on sale of tangible capital assets	--	(13,500)	--
Acquisition of tangible capital assets	(195,500)	(68,818)	(127,784)
Amortization of tangible capital assets	<u>230,000</u>	<u>242,340</u>	<u>235,516</u>
	<u>34,500</u>	<u>173,522</u>	<u>107,732</u>
Acquisition of inventory	--	(61,333)	(49,987)
Use of inventory	--	58,006	44,917
Acquisition of prepaid assets	--	(42,983)	(42,308)
Use of prepaid assets	<u>--</u>	<u>42,308</u>	<u>42,464</u>
	<u>--</u>	<u>(4,002)</u>	<u>(4,914)</u>
Increase in net financial assets	42,500	109,245	119,186
Net financial assets, beginning of year	<u>2,137,386</u>	<u>2,137,386</u>	<u>2,018,200</u>
Net financial assets, end of year	\$ <u>2,179,886</u>	\$ <u>2,246,631</u>	\$ <u>2,137,386</u>

**SMOKY LAKE COUNTY GAS UTILITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>2021</u>	<u>2020</u>
Net inflow (outflow) of cash related to the following activities:		
Operating		
Excess (deficiency) of revenues over expenses	\$ (60,275)	\$ 16,368
Non-cash items included		
Amortization of tangible capital assets	242,340	235,516
Gain on sale of tangible capital assets	(13,500)	--
Non-cash charges to operations (net change):		
Decrease (increase)		
Receivables	(281,860)	101,078
Inventory	(3,327)	(5,070)
Prepaid expenses	(675)	156
Increase (decrease)		
Accounts payable	275,880	(83,626)
Meter deposits	(582)	1,100
Deferred revenue	<u>(18,176)</u>	<u>(19,721)</u>
	<u>139,825</u>	<u>245,801</u>
Capital		
Acquisition of tangible capital assets	(68,818)	(127,784)
Proceeds on disposal of tangible capital assets	<u>13,500</u>	<u>--</u>
	<u>(55,318)</u>	<u>(127,784)</u>
Change in cash and cash equivalents during the year	84,507	118,017
Cash and cash equivalents, beginning of the year	<u>1,943,228</u>	<u>1,825,211</u>
Cash and cash equivalents, end of the year	\$ <u>2,027,735</u>	\$ <u>1,943,228</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, 2021**

	<u>Unrestricted Surplus</u>	<u>Restricted Surplus</u>	<u>Equity in Tangible Capital Assets</u>	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ <u>264,975</u>	\$ <u>2,029,117</u>	\$ <u>2,316,436</u>	\$ <u>4,610,528</u>	\$ <u>4,594,160</u>
Excess of revenues over expenses	(60,275)	--	--	(60,275)	16,368
Funds designated for future use	(51,181)	51,181	--	--	--
Funds used for tangible capital assets	(68,818)	--	68,818	--	--
Annual amortization expense	<u>242,340</u>	--	<u>(242,340)</u>	<u>--</u>	<u>--</u>
Change in accumulated surplus	<u>62,066</u>	<u>51,181</u>	<u>(173,522)</u>	<u>(60,275)</u>	<u>16,368</u>
Balance, end of year	\$ <u>327,041</u>	\$ <u>2,080,298</u>	\$ <u>2,142,914</u>	\$ <u>4,550,253</u>	\$ <u>4,610,528</u>

**SMOKY LAKE COUNTY GAS UTILITY
SCHEDULE OF GROSS MARGIN
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budget</u> (unaudited)	<u>2021</u>	<u>2020</u>
Gas sales and distribution charges	\$ 1,890,000	\$ 2,703,448	\$ 1,975,881
Gas purchases	(1,112,440)	(1,942,250)	(1,261,073)
Capital surcharge	<u>(140,000)</u>	<u>(147,212)</u>	<u>(149,802)</u>
Gross margin	\$ <u>637,560</u>	\$ <u>613,986</u>	\$ <u>565,006</u>

SCHEDULE OF OPERATING EXPENSES

	<u>Budget</u> (unaudited)	<u>2021</u>	<u>2020</u>
General and administrative expenditures			
Council expenses	\$ 9,000	\$ 2,710	\$ 515
Audit, legal, and consulting	41,500	46,855	37,479
Advertising, membership, printing	35,700	37,144	38,211
Telephone, postage, freight, travel	28,500	15,310	17,934
Computer lease	5,200	3,610	3,385
Office supplies, utilities, insurance	68,710	68,168	68,998
Wages and benefits	<u>464,353</u>	<u>468,119</u>	<u>436,896</u>
	<u>652,963</u>	<u>641,916</u>	<u>603,418</u>
Distribution			
Wages and benefits	478,718	477,644	465,179
Vehicle and equipment costs	80,196	59,482	64,139
Repair and maintenance – system	<u>133,927</u>	<u>150,947</u>	<u>102,627</u>
	<u>692,841</u>	<u>688,073</u>	<u>631,945</u>
Gas purchases	1,112,440	1,942,250	1,261,073
Appliance purchase and repair	--	2,588	--
Amortization	<u>230,000</u>	<u>242,340</u>	<u>235,516</u>
Bad debt expense (recovery)	--	13,005	(1,356)
Total operating expenditures	\$ <u>2,688,244</u>	\$ <u>3,530,172</u>	\$ <u>2,730,596</u>

**SMOKY LAKE COUNTY GAS UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

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 provision for doubtful accounts, amortization of capital assets and accruals. 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, 2021**

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, 2021**

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>2021</u>	<u>2020</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>	Net Book Value	
			<u>2021</u>	<u>2020</u>
Distribution system	\$ 6,853,504	\$ 5,376,703	\$ 1,476,801	\$ 1,653,182
Buildings	333,254	57,814	275,440	288,242
Machinery and equipment	368,221	176,244	191,977	210,313
Vehicles	<u>480,684</u>	<u>281,988</u>	<u>198,696</u>	<u>164,699</u>
	<u>\$ 8,035,663</u>	<u>\$ 5,892,749</u>	<u>\$ 2,142,914</u>	<u>\$ 2,316,436</u>