

**SMOKY LAKE COUNTY GAS UTILITY**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2023**

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## INDEPENDENT AUDITOR'S REPORT

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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, 2023, 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, 2023, 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 28, 2024, on the consolidated financial statements of the Smoky Lake County for the year ended December 31, 2023, 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 28, 2024

Chartered Professional Accountants

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2023**

	<u>2023</u>	<u>2022</u>
<b>Financial assets</b>		
Due from general operating fund	\$ 1,889,834	\$ 1,971,382
Receivables (net of allowance)	356,651	731,601
Investment in Gas Alberta Inc. (note 3)	<u>67,932</u>	<u>67,983</u>
	<u>2,314,417</u>	<u>2,770,966</u>
<b>Liabilities</b>		
Accounts payable	267,913	641,639
Meter deposits payable	<u>6,918</u>	<u>8,593</u>
	<u>274,831</u>	<u>650,232</u>
<b>Net financial assets</b>	<u>2,039,586</u>	<u>2,120,734</u>
<b>Non-financial assets</b>		
Inventory	164,283	81,621
Prepaid expenses	23,148	32,418
Tangible capital assets (note 4)	<u>1,882,380</u>	<u>1,981,089</u>
	<u>2,069,811</u>	<u>2,095,128</u>
<b>Accumulated surplus</b>	<u>\$ 4,109,397</u>	<u>\$ 4,215,862</u>

On behalf of the Smoky Lake County

\_\_\_\_\_ Reeve

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Budget</u> (unaudited)	<u>2023</u>	<u>2022</u>
<b>Revenues</b>			
Gas sales and distribution charges	\$ 2,219,400	\$ <b>1,859,249</b>	\$ 3,224,440
Penalties and service charges	489,500	<b>533,770</b>	508,445
Sale of goods, secondaries, conversions	95,620	<b>101,701</b>	32,072
RMO operating grant	--	<b>5,600</b>	9,600
Interest income	20,000	<b>87,399</b>	31,200
Bulk odorant delivery	124,000	<b>109,355</b>	127,732
Compressed natural gas revenue	16,000	--	7,632
Infill recovery	<u>50,000</u>	<u><b>24,500</b></u>	<u>31,500</u>
	<u>3,014,520</u>	<u><b>2,721,574</b></u>	<u>3,972,621</u>
<b>Expenses</b>			
Wages and benefits	1,080,126	<b>934,841</b>	941,589
Materials	251,220	<b>181,331</b>	211,707
Gas purchases	1,239,533	<b>1,275,933</b>	2,692,763
Contracted and general services	243,641	<b>188,712</b>	216,866
Amortization	245,000	<b>247,277</b>	243,414
Bad debt expense (recovery)	<u>--</u>	<u><b>(55)</b></u>	<u>303</u>
	<u>3,059,520</u>	<u><b>2,828,039</b></u>	<u>4,306,642</u>
<b>Deficiency of revenues over expenses before other</b>	(45,000)	<b>(106,465)</b>	(334,021)
<b>Other</b>			
Gain (loss) on sale of tangible capital assets	<u>10,000</u>	<u><b>--</b></u>	<u>(370)</u>
<b>Deficiency of revenues over expenses</b>	(35,000)	<b>(106,465)</b>	(334,391)
<b>Accumulated surplus, beginning of year</b>	<u>4,215,862</u>	<u><b>4,215,862</b></u>	<u>4,550,253</u>
<b>Accumulated surplus, end of year</b>	\$ <u>4,180,862</u>	\$ <u><b>4,109,397</b></u>	\$ <u>4,215,862</u>

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Budget</u> (unaudited)	<u>2023</u>	<u>2022</u>
<b>Deficiency of revenues over expenses</b>	\$ <u>(35,000)</u>	\$ <u>(106,465)</u>	\$ <u>(334,391)</u>
Acquisition of tangible capital assets	(235,500)	(148,568)	(90,309)
Proceeds on disposal of tangible capital assets	10,000	--	8,350
Loss (gain) on sale of tangible capital assets	(10,000)	--	370
Amortization of tangible capital assets	<u>245,000</u>	<u>247,277</u>	<u>243,414</u>
	<u>9,500</u>	<u>98,709</u>	<u>161,825</u>
Acquisition of inventory	(145,000)	(142,119)	(43,729)
Use of inventory	60,000	59,457	79,833
Acquisition of prepaid assets	(24,000)	(23,148)	(32,418)
Use of prepaid assets	<u>33,000</u>	<u>32,418</u>	<u>42,983</u>
	<u>(76,000)</u>	<u>(73,392)</u>	<u>46,669</u>
<b>Decrease in net financial assets</b>	(101,500)	(81,148)	(125,897)
<b>Net financial assets, beginning of year</b>	<u>2,120,734</u>	<u>2,120,734</u>	<u>2,246,631</u>
<b>Net financial assets, end of year</b>	\$ <u>2,019,234</u>	\$ <u>2,039,586</u>	\$ <u>2,120,734</u>

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>2023</u>	<u>2022</u>
<b>Net inflow (outflow) of cash related to the following activities:</b>		
<b>Operating</b>		
Deficiency of revenues over expenses	\$ (106,465)	\$ (334,391)
Non-cash items included		
Amortization of tangible capital assets	247,277	243,414
Loss (gain) on sale of tangible capital assets	--	370
Non-cash charges to operations (net change):		
Decrease (increase)		
Receivables	374,950	(98,239)
Inventory	(82,662)	36,104
Prepaid expenses	9,270	10,565
Increase (decrease)		
Accounts payable	(373,726)	168,383
Meter deposits	<u>(1,675)</u>	<u>(600)</u>
	<u>66,969</u>	<u>25,606</u>
<b>Investing</b>		
Reduction in Investment in Gas Alberta Inc.	<u>51</u>	<u>--</u>
<b>Capital</b>		
Acquisition of tangible capital assets	(148,568)	(90,309)
Proceeds on disposal of tangible capital assets	<u>--</u>	<u>8,350</u>
	<u>(148,568)</u>	<u>(81,959)</u>
<b>Change in cash and cash equivalents during the year</b>	<b>(81,548)</b>	<b>(56,363)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b><u>1,971,382</u></b>	<b><u>2,027,735</u></b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ <u>1,889,834</u></b>	<b>\$ <u>1,971,382</u></b>

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, 2023**

	<u>Unrestricted Surplus</u>	<u>Restricted Surplus</u>	<u>Equity in Tangible Capital Assets</u>	<u>2023</u>	<u>2022</u>
<b>Balance, beginning of year</b>	\$ <u>49,800</u>	\$ <u>2,184,973</u>	\$ <u>1,981,089</u>	\$ <b><u>4,215,862</u></b>	\$ <u>4,550,253</u>
Deficiency of revenues over expenses	(106,465)	--	--	<b>(106,465)</b>	(334,391)
Funds designated for future use	(118,689)	118,689	--	--	--
Funds used for tangible capital assets	(50,000)	(98,568)	148,568	--	--
Annual amortization expense	<u>247,277</u>	--	<u>(247,277)</u>	<u>--</u>	<u>--</u>
<b>Change in accumulated surplus</b>	<u>(27,877)</u>	<u>20,121</u>	<u>(98,709)</u>	<b><u>(106,465)</u></b>	<u>(334,391)</u>
<b>Balance, end of year</b>	\$ <u>21,923</u>	\$ <u>2,205,094</u>	\$ <u>1,882,380</u>	\$ <b><u>4,109,397</u></b>	\$ <u>4,215,862</u>



**SMOKY LAKE COUNTY GAS UTILITY  
SCHEDULE OF GROSS MARGIN  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Budget</u> (unaudited)	<u>2023</u>	<u>2022</u>
Gas sales and distribution charges	\$ 2,219,400	\$ <b>1,859,249</b>	\$ 3,224,440
Gas purchases	(1,239,533)	<b>(1,275,933)</b>	(2,692,763)
Capital surcharge	<u>(137,000)</u>	<b><u>(118,689)</u></b>	<u>(144,974)</u>
Gross margin	\$ <u>842,867</u>	\$ <b><u>464,627</u></b>	\$ <u>386,703</u>

**SCHEDULE OF OPERATING EXPENSES**

	<u>Budget</u> (unaudited)	<u>2023</u>	<u>2022</u>
General and administrative expenditures			
Council expenses	\$ 9,000	\$ <b>699</b>	\$ 2,196
Audit, legal, and consulting	39,000	<b>29,366</b>	35,231
Advertising, membership, printing	36,700	<b>39,138</b>	36,239
Telephone, postage, freight, travel	33,500	<b>37,977</b>	27,566
Computer lease	6,600	<b>12,574</b>	10,371
Office supplies, utilities, insurance	80,571	<b>59,494</b>	63,273
Wages and benefits	<u>491,807</u>	<b><u>420,802</u></b>	<u>450,366</u>
	<u>697,178</u>	<b><u>600,050</u></b>	<u>625,242</u>
Distribution			
Wages and benefits	588,319	<b>514,039</b>	491,223
Vehicle and equipment costs	82,000	<b>64,378</b>	79,854
Repair and maintenance – system	<u>207,490</u>	<b><u>126,417</u></b>	<u>173,844</u>
	<u>877,809</u>	<b><u>704,834</u></b>	<u>744,921</u>
Gas purchases	<u>1,239,533</u>	<b><u>1,275,933</u></b>	<u>2,692,763</u>
Appliance purchase and repair	--	<b>--</b>	--
Amortization	<u>245,000</u>	<b><u>247,277</u></b>	<u>243,414</u>
Bad debt expense (recovery)	--	<b>(55)</b>	302
Total operating expenditures	\$ <u>3,059,520</u>	\$ <b><u>2,828,039</u></b>	\$ <u>4,306,642</u>

**SMOKY LAKE COUNTY GAS UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

**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, 2023**

**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 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, 2023**

**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>2023</u>	<u>2022</u>
Class A common shares	\$ 432	\$ 483
Loan receivable	<u>67,500</u>	<u>67,500</u>
	<u>\$ 67,932</u>	<u>\$ 67,983</u>

The loan is non-interest bearing and is secured by a debenture. The loan may be repaid at Gas Alberta Inc.'s option or is due when 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>2023</u>	<u>2022</u>
Distribution system	\$ 6,853,504	\$ 5,719,196	<b>\$ 1,134,308</b>	\$ 1,302,580
Buildings	333,254	83,417	<b>249,837</b>	262,638
Machinery and equipment	372,311	209,835	<b>162,476</b>	183,545
Vehicles	<u>699,617</u>	<u>363,858</u>	<u><b>335,759</b></u>	<u>232,326</u>
	<u>\$ 8,258,686</u>	<u>\$ 6,376,306</u>	<u><b>\$ 1,882,380</b></u>	<u>\$ 1,981,089</u>