

**SMOKY LAKE COUNTY GAS UTILITY**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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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, 2025, and the statements of operations, changes in accumulated surplus, change in net financial assets, and cash flows and schedules of 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, 2025, 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 April 10, 2025, on the consolidated financial statements of the Smoky Lake County for the year ended December 31, 2025, 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 26, 2026

  
Chartered Professional Accountants

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2025**

	<u>2025</u>	<u>2024</u>
<b>Financial assets</b>		
Due from general operating fund	\$ 1,960,168	\$ 1,964,497
Receivables (net of allowance)	515,967	466,962
Investment in Gas Alberta Inc. (note 3)	<u>67,875</u>	<u>67,875</u>
	<u>2,544,010</u>	<u>2,499,334</u>
<b>Liabilities</b>		
Accounts payable	301,992	338,212
Meter deposits payable	<u>5,850</u>	<u>6,700</u>
	<u>307,842</u>	<u>344,912</u>
<b>Net financial assets</b>	<u>2,236,168</u>	<u>2,154,422</u>
<b>Non-financial assets</b>		
Inventory	155,258	166,365
Prepaid expenses	48,390	44,561
Tangible capital assets (note 4)	<u>1,420,891</u>	<u>1,648,252</u>
	<u>1,624,539</u>	<u>1,859,178</u>
<b>Accumulated surplus</b>	<u>\$ 3,860,707</u>	<u>\$ 4,013,600</u>

On behalf of the Smoky Lake County

Craig Lushman Reeve  
Shaw CAO

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

	<u>Budget</u> (unaudited)	<u>2025</u>	<u>2024</u>
<b>Revenues</b>			
Gas sales and distribution charges	\$ 2,301,100	\$ 1,718,738	\$ 1,572,487
Penalties and service charges	527,000	544,678	544,156
Sale of goods, secondaries, conversions	61,000	112,156	86,249
Interest income	50,000	116,506	88,204
Bulk odorant delivery	144,800	208,606	155,461
Infill recovery	<u>38,000</u>	<u>37,500</u>	<u>59,500</u>
	<u>3,121,900</u>	<u>2,738,184</u>	<u>2,506,057</u>
<b>Expenses</b>			
Wages and benefits	1,038,114	1,033,253	1,022,583
Materials	257,420	327,539	203,415
Gas purchases	1,471,191	1,064,539	877,852
Contracted and general services	235,175	219,385	255,249
Amortization	245,000	246,361	241,270
Bad debt expense	<u>--</u>	<u>--</u>	<u>1,485</u>
	<u>3,246,900</u>	<u>2,891,077</u>	<u>2,601,854</u>
<b>Deficiency of revenues over expenses</b>	(125,000)	(152,893)	(95,797)
<b>Accumulated surplus, beginning of year</b>	<u>4,013,600</u>	<u>4,013,600</u>	<u>4,109,397</u>
<b>Accumulated surplus, end of year</b>	<u>\$ 3,888,600</u>	<u>\$ 3,860,707</u>	<u>\$ 4,013,600</u>

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF CHANGES IN ACCUMULATED SURPLUS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

	<u>Unrestricted Surplus</u>	<u>Restricted Surplus</u>	<u>Equity in Tangible Capital Assets</u>	<u>2025</u>	<u>2024</u>
<b>Balance, beginning of year</b>	\$ <u>40,926</u>	\$ <u>2,324,422</u>	\$ <u>1,648,252</u>	\$ <u>4,013,600</u>	\$ <u>4,109,397</u>
Deficiency of revenues over expenses	(152,893)	--	--	(152,893)	(95,797)
Funds designated for future use	(133,825)	133,825	--	--	--
Funds used for tangible capital assets	--	(19,000)	19,000	--	--
Annual amortization expense	<u>246,361</u>	--	<u>(246,361)</u>	--	--
<b>Change in accumulated surplus</b>	<u>(40,357)</u>	<u>114,825</u>	<u>(227,361)</u>	<u>(152,893)</u>	<u>(95,797)</u>
<b>Balance, end of year</b>	\$ <u>569</u>	\$ <u>2,439,247</u>	\$ <u>1,420,891</u>	\$ <u>3,860,707</u>	\$ <u>4,013,600</u>

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

	<u>Budget</u> (unaudited)	<u>2025</u>	<u>2024</u>
<b>Deficiency of revenues over expenses</b>	\$ <u>(125,000)</u>	\$ <u>(152,893)</u>	\$ <u>(95,797)</u>
Acquisition of tangible capital assets	(19,000)	(19,000)	(14,117)
Proceeds on disposal of tangible capital assets	--	--	6,975
Amortization of tangible capital assets	<u>245,000</u>	<u>246,361</u>	<u>241,270</u>
	<u>226,000</u>	<u>227,361</u>	<u>234,128</u>
Acquisition of inventory	(20,000)	(20,575)	(85,520)
Use of inventory	30,000	31,682	83,438
Acquisition of prepaid assets	(48,000)	(48,390)	(44,561)
Use of prepaid assets	<u>44,000</u>	<u>44,561</u>	<u>23,148</u>
	<u>6,000</u>	<u>7,278</u>	<u>(23,495)</u>
<b>Increase in net financial assets</b>	107,000	81,746	114,836
<b>Net financial assets, beginning of year</b>	<u>2,154,422</u>	<u>2,154,422</u>	<u>2,039,586</u>
<b>Net financial assets, end of year</b>	\$ <u>2,261,422</u>	\$ <u>2,236,168</u>	\$ <u>2,154,422</u>

**SMOKY LAKE COUNTY GAS UTILITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

	<u>2025</u>	<u>2024</u>
<b>Net inflow (outflow) of cash related to the following activities:</b>		
<b>Operating</b>		
Deficiency of revenues over expenses	\$ (152,893)	\$ (95,797)
Non-cash items included		
Amortization of tangible capital assets	246,361	241,270
Non-cash charges to operations (net change):		
Decrease (increase)		
Receivables	(49,005)	(110,311)
Inventory	11,107	(2,082)
Prepaid expenses	(3,829)	(21,413)
Increase (decrease)		
Accounts payable	(36,220)	70,299
Meter deposits	<u>(850)</u>	<u>(218)</u>
	<u>14,671</u>	<u>81,748</u>
<b>Investing</b>		
Reduction in Investment in Gas Alberta Inc.	<u>--</u>	<u>57</u>
<b>Capital</b>		
Acquisition of tangible capital assets	(19,000)	(14,117)
Proceeds on disposal of tangible capital assets	<u>--</u>	<u>6,975</u>
	<u>(19,000)</u>	<u>(7,142)</u>
<b>Change in cash and cash equivalents during the year</b>	<b>(4,329)</b>	<b>74,663</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b><u>1,964,497</u></b>	<b><u>1,889,834</u></b>
<b>Cash and cash equivalents, end of the year</b>	<b><u>\$ 1,960,168</u></b>	<b><u>\$ 1,964,497</u></b>

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

**SMOKY LAKE COUNTY GAS UTILITY  
SCHEDULE OF GROSS MARGIN  
FOR THE YEAR ENDED DECEMBER 31, 2025**

	<u>Budget</u> (unaudited)	<u>2025</u>	<u>2024</u>
Gas sales and distribution charges	\$ 2,301,100	\$ 1,718,738	\$ 1,572,487
Gas purchases	(1,471,191)	(1,064,539)	(877,852)
Capital surcharge	<u>(130,000)</u>	<u>(133,825)</u>	<u>(133,445)</u>
Gross margin	\$ <u>699,909</u>	\$ <u>520,374</u>	\$ <u>561,190</u>

**SCHEDULE OF OPERATING EXPENSES**

	<u>Budget</u> (unaudited)	<u>2025</u>	<u>2024</u>
General and administrative expenses			
Council expenses	\$ 9,000	\$ 637	\$ 120
Audit, legal, and consulting	47,500	31,470	36,465
Advertising, membership, printing	38,500	30,497	36,051
Telephone, postage, freight, travel	34,900	26,121	23,223
Computer lease	13,475	9,518	12,394
Office supplies, utilities, insurance	85,520	75,470	62,231
Wages and benefits	<u>460,431</u>	<u>454,386</u>	<u>500,240</u>
	<u>689,326</u>	<u>628,099</u>	<u>670,724</u>
Distribution			
Wages and benefits	577,683	578,867	522,343
Vehicle and equipment costs	80,000	67,481	81,240
Repair and maintenance – system	<u>183,700</u>	<u>305,730</u>	<u>206,940</u>
	<u>841,383</u>	<u>952,078</u>	<u>810,523</u>
Gas purchases	<u>1,471,191</u>	<u>1,064,539</u>	<u>877,852</u>
Amortization	<u>245,000</u>	<u>246,361</u>	<u>241,270</u>
Bad debt expense	<u>--</u>	<u>--</u>	<u>1,485</u>
Total operating expenses	\$ <u>3,246,900</u>	\$ <u>2,891,077</u>	\$ <u>2,601,854</u>

**SMOKY LAKE COUNTY GAS UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

**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 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, 2025**

**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, 2025**

**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>2025</u>	<u>2024</u>
Class A common shares	\$ 375	\$ 375
Loan receivable	<u>67,500</u>	<u>67,500</u>
	<u>\$ 67,875</u>	<u>\$ 67,875</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>	Net Book Value	
			<u>2025</u>	<u>2024</u>
Distribution system	\$ 6,853,504	\$ 6,055,740	\$ 797,764	\$ 966,036
Buildings	333,255	109,020	224,235	237,035
Machinery and equipment	386,428	254,196	132,232	154,845
Vehicles	<u>672,117</u>	<u>405,457</u>	<u>266,660</u>	<u>290,336</u>
	<u>\$ 8,245,304</u>	<u>\$ 6,824,413</u>	<u>\$ 1,420,891</u>	<u>\$ 1,648,252</u>