

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

Financial Statements

Year Ended December 31, 2023

DRAFT FOR DISCUSSION PURPOSES ONLY

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

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Year Ended December 31, 2023

FINANCIAL STATEMENTS

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DRAFT FOR DISCUSSION PURPOSES ONLY

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

Statement of Revenues and Expenditures

Year Ended December 31, 2023

	2023	2022
REVENUES		
Distribution and tariff revenue	\$ 1,274,105	\$ 1,098,147
COST OF GOODS SOLD		
Transmission	473,282	440,661
Distribution service operations	174,160	171,015
	<u>647,442</u>	<u>611,676</u>
GROSS PROFIT	<u>626,663</u>	<u>486,471</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Operational maintenance, line moves, salvage and brushing	270,960	499,834
Amortization	-	140,762
Wages and wage costs	44,657	45,725
Memberships and dues	31,970	37,544
Audit fees	15,500	16,500
Sales proposal costs	12,878	14,205
Meter reading expense	8,360	5,167
Legal fees	7,981	7,077
Insurance	5,718	5,284
Annual general meeting	5,499	11,644
Rent	5,400	5,400
Directors fees and honoraria	4,925	3,600
Office	3,786	4,763
Travel, meetings and convention	3,578	2,397
Advertising and promotion	2,479	2,498
Interest and penalties	357	108
	<u>424,048</u>	<u>802,508</u>
EXCESS (DEFICIENCY) OF REVENUES OVER GENERAL AND ADMINISTRATIVE EXPENSES FROM OPERATIONS	<u>202,615</u>	<u>(316,037)</u>
OTHER INCOME		
Amortization of capital contributions	122,603	122,466
Interest - reserve account	54,521	31,896
Interest - general	13,749	3,356
System shares	200	200
Memberships	2	2
	<u>191,075</u>	<u>157,920</u>
EXCESS (DEFICIENCY) OF REVENUES OVER GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 393,690</u>	<u>\$ (158,117)</u>

See notes to financial statements

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

Statement of Changes in Net Assets

Year Ended December 31, 2023

	Deposit Reserve	Investment in Plant and Equipment	Unrestricted	2023	2022
NET ASSETS - BEGINNING OF YEAR	\$ 1,367,012	\$ 1,339,888	\$ 73,520	\$ 2,780,420	\$ 2,938,537
Excess (Deficiency) of revenue over expenses	393,690	-	-	393,690	(158,117)
Additions to distribution system	-	99,924	(99,924)	-	-
Amortization of capital contributions	-	122,603	(122,603)	-	-
Repayment of promissory notes receivable	-	(6,114)	6,114	-	-
NET ASSETS - END OF YEAR	\$ 1,760,702	\$ 1,556,301	\$ (142,893)	\$ 3,174,110	\$ 2,780,420

See notes to financial statements

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED
Statement of Financial Position
December 31, 2023

	2023	2022
ASSETS		
CURRENT		
Cash (Note 5)	\$ 1,418,603	\$ 1,490,751
Accounts receivable	166,363	132,999
Current portion of notes receivable (Note 6)	6,281	6,086
Goods and services tax recoverable	20,420	29,074
Prepaid expenses	7,907	2,779
	<u>1,619,574</u>	1,661,689
Distribution assets held for sale (Notes 4, 7)	4,220,728	4,120,804
LONG-TERM PORTION OF NOTES RECEIVABLE (Note 6)	<u>114,592</u>	120,900
	<u>\$ 5,954,894</u>	<u>\$ 5,903,393</u>
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable	\$ 44,233	\$ 263,820
CAPITAL CONTRIBUTIONS		
	<u>2,736,551</u>	2,859,153
	<u>2,780,784</u>	3,122,973
NET ASSETS		
Deposit reserve	1,760,702	1,367,012
Investment in distribution system and capital contributions	1,556,301	1,339,888
Unrestricted	<u>(142,893)</u>	73,520
	<u>3,174,110</u>	2,780,420
	<u>\$ 5,954,894</u>	<u>\$ 5,903,393</u>

ON BEHALF OF THE BOARD

_____ Director

_____ Director

See notes to financial statements

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

Statement of Cash Flows

Year Ended December 31, 2023

	2023	2022
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over general and administrative expenses	\$ 393,690	\$ (158,117)
Items not affecting cash:		
Amortization of distribution system	-	140,762
Amortization of capital contributions	<u>(122,603)</u>	<u>(122,466)</u>
	<u>271,087</u>	<u>(139,821)</u>
Changes in non-cash working capital:		
Accounts receivable	(33,363)	(29,237)
Accounts payable	(219,586)	163,391
Prepaid expenses	(5,128)	(321)
Goods and services tax payable	<u>8,654</u>	<u>(24,940)</u>
	<u>(249,423)</u>	<u>108,893</u>
Cash flow from (used by) operating activities	<u>21,664</u>	<u>(30,928)</u>
INVESTING ACTIVITIES		
Additions to distribution assets and capital contributions	(99,924)	(151,202)
Repayment of meter costs	-	(31,494)
Cash flow used by investing activities	<u>(99,924)</u>	<u>(182,696)</u>
FINANCING ACTIVITIES		
Capital contributions received	-	14,203
Payments received on promissory notes receivable	<u>6,114</u>	<u>16,423</u>
Cash flow from financing activities	<u>6,114</u>	<u>30,626</u>
DECREASE IN CASH FLOW	(72,146)	(182,998)
Cash - beginning of year	<u>1,490,750</u>	<u>1,673,748</u>
CASH - END OF YEAR (Note 5)	\$ 1,418,604	\$ 1,490,750

See notes to financial statements

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

1. BASIS OF PRESENTATION

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPPO).

2. PURPOSE OF THE ORGANIZATION

Tomahawk Rural Electrification Association Limited (the "organization") is a not-for-profit organization of Alberta.

The organization is a local rural electrification association and is governed by the Rural Utilities Act and Regulations of Alberta.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Tomahawk Rural Electrification Association Limited follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Deposit Reserve Fund

The deposit reserve fund is maintained for ongoing maintenance and system replacement costs.

Going concern assumption

These financial statements have not been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the organization be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The organization's has entered into an agreement for the sale of its distribution assets. As the organization derives the entirety of its revenue from these assets, upon closing of the sale, the organization will apply for dissolution with the overseeing regulatory body. Until such time, the organization will continue to operate on a going concern basis.

Disposal of long-lived assets

Long-lived assets to be disposed of by sale are measured at the lower of their carrying amounts and fair value less costs to sell and are not amortized as long as they are classified as assets to be disposed of by sale.

Long-lived assets classified as held for sale are not reclassified as current assets, unless the enterprise has sold the assets prior to the date of completion of the financial statements and the proceeds of the sale will be realized within a year of the date of the balance sheet, or within the normal operating cycle if that is longer than a year.

Discontinued operations

The results of discontinued operations, less applicable income taxes, are reported as a separate element of income for both current and prior periods only if they can be clearly distinguished from the rest of the enterprise.

Distribution system

(continues)

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Historically, Distribution system were stated at cost or deemed cost less accumulated amortization and were amortized over its estimated useful life on a straight-line basis at the following rates and methods:

Distribution system	52 years straight-line method
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Prior to the fiscal year ending December 31, 2015, the Association has not recorded the historical cost of assets acquired, or the related amortization of these assets. The current year reflects estimates of historical cost and related accumulated amortization going back to the inception of the association as provided in the current year's historical cost valuation report commissioned.

During the current fiscal year ending December 31, 2023, these assets have been reclassified as assets held for sale.

Capital Contributions

Capital contributions represent payments received from members toward the direct cost of new service construction and is amortized into income at the same rate that the related electrical distribution system is amortized.

Capital contribution amounts have been estimated based on the estimated historical cost and related accumulated amortization set forth in the current year's historical cost valuation report commissioned.

Financial Instruments

The organization does not disclose fair value information about financial assets and liabilities for which fair value was not readily obtainable.

Other amounts noted on the Balance Sheet such as prepaid expenses, property, plant and equipment and deferred revenue are not financial instruments.

Measurement of financial instruments

The organization initially measures its financial assets and liabilities at fair value.

The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include accounts receivable and Investment Program amounts receivable.

Financial liabilities measured at amortized cost include accounts payable.

The organization holds Nil financial instruments measured at fair value.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

(continues)

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Transaction costs

The organization recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance, or assumption.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

4. SALE OF DISTRIBUTION ASSETS

On December 20, 2023, the organization entered into an agreement to sell its distribution assets to Fortis Alberta ("Fortis") for consideration of the sum of \$11,150,000.00 plus GST. The transaction is pending termination of its Electric Distribution System Operator Agreement ("EDSO Agreement") with Battle River Power Co-op, termination of the Service Agreement between the organization and its counterparty in respect of regulated rate options and obligations ("RRO Agreement"), and pending regulatory approval. The transaction is expected to close in the December 31, 2024 fiscal year.

Accordingly, the distribution assets have been classified as held for sale, and as a result the organization is no longer taking amortization on these assets.

5. CASH

The association maintains unrestricted funds in general and savings accounts and has invested its Deposit Reserve funds in high interest savings account and in term deposits as follows:

	<u>2023</u>	<u>2022</u>
Alberta Treasury Branch savings account	\$ 28,163	\$ 21,383
Alberta Treasury Branch term deposits	1,029,837	1,345,629
Alberta Treasury Branch unrestricted saving accounts	360,604	123,738
	<u>\$ 1,418,604</u>	<u>\$ 1,490,750</u>

6. PROMISSORY NOTES RECEIVABLE

The association holds promissory notes receivable owing from members who have utilized the associations Investment Program. In prior years, this Investment Program was provided through EQUUS. The notes are being paid down by way of monthly IRDR payments, and bear no interest.

	<u>2023</u>	<u>2022</u>
Total amounts receivable	\$ 120,873	\$ 126,986
Amounts receivable within one year	(6,281)	(6,086)
	<u>\$ 114,592</u>	<u>\$ 120,900</u>

(continues)

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

6. PROMISSORY NOTES RECEIVABLE *(continued)*

Principal repayment terms are approximately:

2024		\$	6,281
2025			6,281
2026			6,281
2027			6,281
2028			6,281
Thereafter			89,468
			\$ 120,873

7. DISTRIBUTION SYSTEM AND CAPITAL CONTRIBUTIONS

Distribution system held for sale

	Cost	Accumulated amortization	2023 Net book value	2022 Net book value
Distribution system	\$ 7,360,966	\$ 3,140,238	\$ 4,220,728	\$ 4,120,804

Amortization provided for in the current year totalled \$Nil (2022 - \$140,762) as the distribution assets have been reclassified as held for sale. We would like to draw your attention to Note 4 which describes the circumstance in which the distribution assets have been reclassified.

Prior to the fiscal year ending December 31, 2015, the Association has not recorded the historical cost of plant and equipment acquired, or the related amortization of these assets.

During the 2018 fiscal year, the association commissioned an independent valuator to calculate estimated historical cost and accumulated amortization amounts for the association's distribution system assets from the inception of the association. These estimates were based on a reverse extrapolation of current costs over time historically, using factors such as past annual service installation totals and inflation.

The conclusions of this exercise do not constitute a replacement cost minus depreciation approach, a current valuation of the association's distribution assets, or a valuation of the association as a whole.

Capital Contributions

	Total Contribution	Accumulated Amortization	2023 Net book value	2022 Net book value
	\$ 5,626,696	\$ 2,890,145	\$ 2,736,551	\$ 2,859,153

During the year, the Association received contributions from members and non-members of \$nil (2022 - \$14,203) and recorded amortization of capital contributions of \$122,603 (2022 - \$122,466).

Prior to the fiscal year ending December 31, 2015, the Association has not recorded the historical cost of plant and equipment acquired, or the related capital contributions. The current year reflects estimates of historical capital contributions and related accumulated amortization going back to the inception of the association.

TOMAHAWK RURAL ELECTRIFICATION ASSOCIATION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

8. EXEMPTION FROM INCOME TAX

The association is a non-profit organization and is therefore exempt from income tax under Section 149(1)(l) of the Income Tax Act.

9. FINANCIAL INSTRUMENTS

The organization is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the organization's risk exposure and concentration as of December 31, 2023.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The organization is exposed to credit risk from members and its distribution system operators. In order to reduce its credit risk, the organization conducts regular reviews of its existing members' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The organization has a significant number of members which minimizes concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The organization is exposed to this risk mainly in respect of its receipt of funds from its members and other related sources, and accounts payable.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk. The organization does not have exposure to these risks.

Unless otherwise noted, it is management's opinion that the organization is not exposed to significant other price risks arising from these financial instruments.

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