

# **COLLINGWOOD UTILITY SERVICES CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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**GAVILLER & COMPANY LLP**  
**CHARTERED ACCOUNTANTS**

**AUDITORS' REPORT**

To the Shareholder of **COLLINGWOOD UTILITY SERVICES CORP.:**

We have audited the consolidated balance sheet of **COLLINGWOOD UTILITY SERVICES CORP.** as at December 31, 2005, and the consolidated statements of operations and retained income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Collingwood Utility Services Corp. as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Gaviller & Company LLP*

Chartered Accountants  
Collingwood, Ontario  
April 7, 2006

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2005	2004
	\$	\$
<b>Assets</b>		
Current		
Cash	4,351,000	3,784,087
Taxes Recoverable	-	92,312
Accounts receivable (Note 5)	2,037,532	1,976,444
Unbilled revenue	3,651,025	3,785,105
Inventory	215,531	217,560
	<b>10,255,088</b>	<b>9,855,508</b>
Capital		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	1,998,839	1,941,972
Distribution lines	14,857,827	14,005,916
Distribution transformers	3,572,611	3,489,050
Distribution meters	1,267,872	1,215,128
Other capital assets	1,437,597	1,366,305
Load control	878,887	878,887
Load management control (customer premises)	378,276	327,387
Contributions in aid of construction (Note 6)	(5,293,818)	(4,973,654)
	<b>19,269,198</b>	<b>18,422,098</b>
Less accumulated depreciation	<b>(10,131,429)</b>	<b>(9,399,526)</b>
	<b>9,137,769</b>	<b>9,022,572</b>
Goodwill	<b>276,704</b>	<b>276,704</b>
	<b>9,414,473</b>	<b>9,299,276</b>
Future payments in lieu of taxes recoverable	<b>13,142</b>	<b>30,363</b>
	<b>19,682,703</b>	<b>19,185,147</b>

Approved by directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2005	2004
	\$	\$
<b>Liabilities</b>		
Current		
Accounts payable and accruals (Notes 5 and 6)	5,646,934	5,662,554
Customer deposits	355,970	331,114
Taxes	38,243	-
Current portion of long-term (Note 9)	2,067,876	301,779
	8,109,023	6,295,447
Long-term (Note 9)	1,742,170	3,808,450
Employee future benefits (Note 10)	368,985	339,669
Other (Note 7)	686,246	381,486
	2,797,401	4,529,605
<b>Total liabilities</b>	<b>10,906,424</b>	<b>10,825,052</b>
<b>Shareholder's equity</b>		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
5,101,640 common shares	5,101,640	5,101,640
Miscellaneous paid in capital	2,966,014	2,966,014
Retained income	708,625	292,441
	8,776,279	8,360,095
<b>Total shareholder's equity</b>	<b>8,776,279</b>	<b>8,360,095</b>
	<b>19,682,703</b>	<b>19,185,147</b>

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED INCOME FOR THE YEAR ENDED DECEMBER 31

	2005	2004
	\$	\$
Revenues		
Sale of power	28,376,183	26,570,304
Distribution services	3,784,679	3,514,227
	32,160,862	30,084,531
Cost of power		
Power purchased	28,376,183	26,570,304
Distribution income (11.8%; 2004 - 11.7%)	3,784,679	3,514,227
Other operating income (Note 5)		
Accounting and administrative services	604,300	544,442
Miscellaneous	667,771	618,111
	5,056,750	4,676,780
Operating expenses (Note 5)		
Distribution and transmission	890,167	1,014,356
Billing and collecting	517,513	465,400
General administration (Notes 5 and 9)	2,296,560	2,072,285
Depreciation and amortization (Note 7)	788,853	840,793
Miscellaneous	4,457	3,280
	4,497,550	4,396,114
Net income before taxes	559,200	280,666
Provision for (recovery) of taxes		
Current	125,909	93,997
Future	17,107	(4,002)
	143,016	89,995
<b>Net income for the year</b>	<b>416,184</b>	<b>190,671</b>
Retained Income, beginning of year	292,441	101,770
<b>Retained income, end of year</b>	<b>708,625</b>	<b>292,441</b>

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31

	2005	2004
	\$	\$
<b>Cash flows from (for):</b>		
<b>Operating activities</b>		
Net income for the year	416,184	190,671
Items not requiring funds		
Depreciation	816,436	743,840
Amortization of deferred charges	8,155	96,953
Future payments in lieu of taxes	17,221	(4,002)
	1,257,996	1,027,462
Changes in:		
Accounts receivable	(61,088)	158,160
Unbilled revenue	134,080	(561,495)
Inventory	2,029	127,999
Accounts payable and accruals	(15,621)	609,904
Payments in lieu of taxes	130,555	(251,967)
Customer deposits	24,856	(163,164)
Employee future benefits	29,316	20,192
	1,502,123	967,091
<b>Investing activities</b>		
Net additions to capital assets	(1,251,796)	(1,070,673)
Net change to other assets/liabilities	296,605	637,487
Proceeds from disposal of capital assets	-	19,468
	(955,191)	(413,718)
<b>Financing activities</b>		
Repayment of long-term liabilities	(300,183)	(305,435)
Contributions in aid of construction	320,164	410,430
	19,981	104,995
Change in cash	566,913	658,368
Cash position, beginning of year	3,784,087	3,125,719
<b>Cash position, end of year</b>	<b>4,351,000</b>	<b>3,784,087</b>

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2005

### 1. Significant accounting policies

The financial statements of the corporation are the representations of management. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgements based on available information. The financial statements have, in the opinion of management, been properly prepared within the framework of the accounting policies summarized below.

- (a) The financial statements are prepared in accordance with the Ontario Energy Board (OEB) Accounting Procedures Handbook and directives and the Canadian Institute of Chartered Accountants handbook.
- (b) The company's distribution of electricity is subject to rate regulation by the OEB. This rate regulation results in the company accounting for specific transactions differently than it would if it was not rate-regulated. The differences in accounting treatment give rise to regulatory assets or liabilities. These balances will be recovered from or returned to customers by increases or decreases to rates in the future.

The electricity rates charged by the company are approved on an annual basis using performance-based regulation. For the rate year ending April 30, 2006, the company was authorized to earn 9.88% on equity and 7.25% on debt with a deemed debt to equity ratio of 1:1.

- (c) The company recognizes revenue on an accrual basis, which includes unbilled revenue, which is an estimate of electricity consumed by customers to the end of year but not yet billed by the company.
- (d) The financial statements of the company's subsidiaries, COLLUS Solutions Corp., COLLUS Power Corp. and COLLUS Energy Corp. have been consolidated. All intercompany transactions have been eliminated.
- (e) Purchases of reels and poles are normally carried as inventory, unless purchased for specific capital projects in process or as spare units. Items for specific capital projects, spare transformers and meters are recorded as capital assets. Inventories are stated at moving average cost.
- (f) Capital assets are stated at cost. Contributions received in aid of construction of capital assets are capitalized and amortized at the same rate as the related asset. Capital assets are depreciated over their estimated useful lives, using the straight-line method. Assets constructed by others and donated to the company are recorded at cost to the developer. Depreciation rates are 4% except as follows:

Buildings	2%
Distribution stations	3.33%
Other capital assets	6.67% to 20%

- (g) Qualifying transition factors are costs that meet the four qualifying criteria established in the Electricity Distribution Rate Handbook related to the restructuring of the electricity industry in Ontario. Qualifying transition factors include annual carrying charges at 7.25%.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2005

### 1. Significant accounting policies (continued)

- (h) The purchased power cost variance represent variances in the purchase and sale of electricity which will be recovered from or returned to customers by increases or decreases to rates in the future. Purchased power cost variance includes annual carrying charges at 7.25%.

The OEB has authorized the recovery of certain December 31, 2002 regulatory asset or liability balances beginning in April 2004 and has put a process in place to address the future recovery or reduction of the remaining asset or liability balances over the following three years.

- (i) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (j) Future taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future tax liabilities or assets. Future tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

### 2. Tax status

The company is exempt from tax under section 149 of the Income Tax Act. The company is required to make payments in lieu of tax calculated on the same basis as the Income Tax Act.

### 3. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accruals, payments in lieu of taxes, customer deposits and long-term liabilities. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. Fair market value does not vary significantly from recorded value.

### 4. Supplemental cash flow information

Cash payments and (receipts) were made as follows:

	2005	2004
	\$	\$
Interest	282,018	320,792
Taxes paid	104,100	364,344
Taxes refunded	(103,174)	-



# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2005

### 5. Related party transactions

Collingwood Public Utilities Commission and the company are controlled by the council of the Town of Collingwood.

Related party transactions consist of the following:

	2005	2004
	\$	\$
Amounts receivable from Collingwood Public Utilities Service Board	241,715	169,483
Amounts receivable from the Town of Collingwood	103,071	48,071
Amounts payable to the Collingwood Public Utilities Service Board	-	663,709
Amounts payable to the Town of Collingwood	10,057	15,076
Revenues include amounts charged to the following parties:		
Town of Collingwood	44,211	24,228
Collingwood Public Utilities Service Board	604,300	544,442
Revenue noted above is shown net of expenses:		
Collingwood Public Utilities Service Board	221,451	236,925
Expenses include information technology assistance to the Town of Collingwood	17,192	16,778
The company is leasing its operations centre and computers from the Collingwood Public Utilities Service Board. The lease has a one year term and is renewable annually. These costs are included in general administration expense.	233,500	233,500

### 6. Contributions in aid of construction

Under the terms of the Distribution System Code, the corporation cannot charge a developer more than the difference between the present value of the projected capital costs and on-going maintenance costs for the equipment and the present value of the projected revenue for distribution services provided by those facilities. These amounts are determined by an economic evaluation study of the project. The corporation estimates that it will return \$104,357 (2004 - \$104,357) of the amounts collected. The liability is included in accounts payable. The balance of \$5,293,818 (2004 - \$4,973,654) is recorded as a reduction of the cost of capital assets.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2005

### 7. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2005	2004
	\$	\$
Deferred charges-service area expansion (net of \$58,124 accumulated amortization, 2004 - \$49,969)	146,790	154,945
<b>Regulatory assets</b>		
Qualifying transition factors	615,452	989,003
Other regulatory assets	111,594	42,410
Total regulatory assets	727,046	1,031,413
<b>Regulatory liabilities</b>		
Hydro One regulatory liability	(330,589)	-
Purchased power cost variance	(1,229,493)	(1,567,844)
Total regulatory liabilities	(1,560,082)	(1,567,844)
Net liability	(686,246)	(381,486)

Other regulatory assets consist of the costs of processing \$75 rebate cheques and pension costs from OMERS not recovered in rates. The pension cost deferral includes an interest carrying charge at 3.88%.

Hydro One regulatory liability represents 2002-2006 regulatory assets that Hydro One is collecting from embedded distributors over a 5 year period as authorized by the OEB. The current portion of the liability is \$170,458 and is included in accounts payable and accruals. Payments to Hydro One are \$9,666 per month for 3 years starting May 2005 and at \$5,600 a month for 4 years to start in May 2006.

The OEB has allowed the company to recover the third tranche of its market adjusted revenue requirement (MARR) from customers with the requirement that it be spent on conservation and demand management activities. In 2005 the company recovered \$313,330 of MARR from customers and expended \$122,420 in conservation and demand management activities. The balance of \$190,910 will be spent on conservation and demand management activities in future years.

### 8. Comparative information

Certain comparative information has been reclassified to conform with the current year's financial statement presentation.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2005

### 9. Long-term liabilities

Long-term liabilities consist of the following:

	2005	2004
	\$	\$
5.47% demand instalment loan payable to the Canadian Imperial Bank of Commerce, repayable in monthly blended payments of \$32,854, due January 2009, secured by a general security agreement over the assets of Collus Power Corp.	2,039,876	2,315,654
9.5% debenture payable, due 2007.	60,000	86,000
Premium on acquisition of long-term liabilities	-	(1,595)
7.25% note payable to Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
	<b>3,810,046</b>	4,110,229
Current portion of long-term liabilities	<b>(2,067,876)</b>	(301,779)
	<b>1,742,170</b>	3,808,450

As the CIBC loan above is a demand loan the full amount is included in the portion due within one year. However there has been no demand for payment and the schedule below depicts the actual repayment terms negotiated by the company.

Principal payments for the next four years are as follows:

	\$
2006	319,070
2007	339,209
2008	324,244
2009	1,117,353

Included in general administration expense is \$262,923 (2004 - \$265,836) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$2,272,370 (2004 - \$2,272,370) to meet the prudential requirements of the Independent Market Operator.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2005

### 10. Employee future benefits

The employees of Collingwood Utility Services Corp. participate in the Ontario Municipal Employees Retirement Savings Plan ("OMERS"). Although the plan has a defined retirement benefit for employees, the related obligation of the corporation cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant. Amounts paid to OMERS during the year totaled \$123,607 (2004 - \$113,869).

In addition, Collingwood Utility Services Corp. pays certain benefits on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2003 of \$319,477 and the net periodic benefit cost for 2003 was determined by actuarial valuations using discount rates of 6% and 5.5%, respectively. No actuarial valuation was prepared in 2004 or 2005 and the accrued benefit obligation at December 31, 2004 and December 31, 2005 was extrapolated using 2003 amounts as a basis. Actuarial valuations will be prepared every third year or when there are significant changes to the workforce.

Information about the company's defined benefit plan is as follows:

	2005	2004
	\$	\$
<b>Accrued benefit obligation</b>		
Balance at the beginning of period	339,669	319,477
Current service cost (recovery) for the period	15,297	5,204
Interest cost for the period	19,801	19,801
Actuarial loss/(gain)	24,388	24,388
Prior period cost	38,605	51,473
Benefits paid for the period	(11,112)	(17,681)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	426,648	402,662
Unamortized actuarial (loss)/gain	(24,388)	(24,388)
Unamortized prior service cost	(32,171)	(38,605)
<b>Balance at end of period</b>	<b>370,089</b>	<b>339,669</b>
<b>Components of net periodic benefit cost</b>		
Current service cost for the period	15,297	5,204
Interest cost for the period	19,801	19,801
Amortization of prior service cost	6,434	8,336
<b>Net periodic benefit cost</b>	<b>41,532</b>	<b>33,341</b>

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2005

### 10. Employee future benefits (continued)

The main actuarial assumptions employed for the valuations are as follows:

(a) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.2% in 2004 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2003, of the present value of future liabilities was determined using a discount rate of 5.5%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.3%.

(c) Salary levels

Future general salary and wage levels were assumed to increase at 3.5% per annum.

(d) Medical costs

Medical costs were assumed to increase at the CPI rate plus a further increase of 6.3% in 2004 graded down to 2.3% in 2007 and thereafter.

(e) Dental costs

Dental costs were assumed to increase at the CPI rate plus a further increase of 2.3% in 2004 and thereafter.

### 11. Contingencies

A class action claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)( ) of the Criminal Code.

The Electricity Distributors Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the company. The company formerly carried on business as a department of the Collingwood Public Utilities Commission.

### 12. Change in accounting policy

During the year, the company changed its accounting policy to record meters on hand in capital assets. In previous years, these meters were recorded as inventory. This change was recorded retroactively with the effect that the prior year inventory was decreased and capital assets increased by \$112,387. Meter additions included in the current years' capital assets were \$51,034. Reclassified meters on hand had \$6,337 of depreciation recorded against them in the current year.