

# **COLLINGWOOD UTILITY SERVICES CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

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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, 2007, 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, 2007 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*

Licensed Public Accountants  
Collingwood, Ontario  
March 3, 2008

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2007	2006
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash	4,034,996	5,694,967
Accounts receivable (Note 5)	5,424,157	4,018,183
Unbilled revenue	3,329,616	2,819,474
Inventory	282,493	245,218
	<b>13,071,262</b>	<b>12,777,842</b>
<b>Capital</b>		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	3,126,647	2,051,269
Distribution lines	16,259,805	15,441,219
Distribution transformers	4,067,170	3,751,092
Distribution meters	1,377,576	1,343,478
Other capital assets	1,539,550	1,423,450
Load control	878,887	878,887
Load management control (customer premises)	470,252	406,595
Contributions in aid of construction (Note 6)	(6,129,230)	(5,648,240)
	<b>21,761,764</b>	<b>19,818,857</b>
Less accumulated depreciation	(11,754,666)	(10,943,323)
	<b>10,007,098</b>	<b>8,875,534</b>
<b>Goodwill</b>	<b>276,704</b>	<b>276,704</b>
<b>Future taxes</b>	<b>136,351</b>	<b>69,782</b>
	<b>23,491,415</b>	<b>21,999,862</b>

Approved by directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2007	2006
	\$	\$ Restated (Note 8)
<b>Liabilities</b>		
Current		
Accounts payable and accruals (Notes 5, 6 and 8)	7,296,705	7,082,743
Customer deposits	358,776	332,398
Taxes	22,123	131,817
Current portion of long-term (Note 9)	1,441,597	1,780,805
	9,119,201	9,327,763
Long-term (Note 9)	1,710,170	1,710,170
Employee future benefits (Note 10)	455,064	463,388
Other (Note 7 and 8)	2,370,472	1,249,036
	4,535,706	3,422,594
<b>Total liabilities</b>	<b>13,654,907</b>	<b>12,750,357</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	1,768,854	1,181,851
	9,836,508	9,249,505
<b>Total shareholder's equity</b>	<b>9,836,508</b>	<b>9,249,505</b>
	<b>23,491,415</b>	<b>21,999,862</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

	2007	2006
	\$	\$
Revenues		
Sale of power	23,678,032	23,554,168
Distribution services	4,656,270	4,447,191
	<b>28,334,302</b>	28,001,359
Cost of power		
Power purchased	23,678,032	23,554,168
Distribution income (16.4%; 2006 - 15.9%)	4,656,270	4,447,191
Other operating income (Note 5)		
Accounting and administrative services	754,299	702,997
Miscellaneous	638,941	552,468
	<b>6,049,510</b>	5,702,656
Operating expenses (Note 5)		
Distribution and transmission	1,375,894	1,353,168
Billing and collecting	510,441	422,291
General administration (Notes 5 and 9)	2,515,665	2,459,272
Depreciation and amortization	782,359	767,646
	<b>5,184,359</b>	5,002,377
Net income before taxes	<b>865,151</b>	700,279
Provision for (recovery) of taxes		
Current	344,717	283,698
Future	(66,569)	(56,640)
	<b>278,148</b>	227,058
<b>Net income for the year</b>	<b>587,003</b>	473,221
Retained income, beginning of year	<b>1,181,851</b>	708,630
<b>Retained income, end of year</b>	<b>1,768,854</b>	1,181,851

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

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

	2007	2006
	\$	\$ Restated (Note 8)
<b>Cash flows from (for):</b>		
<b>Operating activities</b>		
Net income for the year	587,003	473,221
Items not requiring funds		
Depreciation	811,043	811,895
Amortization of deferred charges	8,155	8,155
Future taxes	(66,569)	(56,640)
	1,339,632	1,236,631
Changes in:		
Accounts receivable	(1,405,974)	(1,980,651)
Unbilled revenue	(510,142)	831,551
Inventory	(37,275)	(29,687)
Accounts payable and accruals	213,962	1,435,814
Taxes	(109,694)	93,574
Customer deposits	26,378	(23,572)
Employee future benefits	(8,324)	94,403
Net change to other assets/liabilities	1,113,281	554,635
	621,844	2,212,698
<b>Investing activities</b>		
Net additions to capital assets	(2,423,597)	(904,082)
<b>Financing activities</b>		
Repayment of long-term liabilities	(339,208)	(319,071)
Contributions in aid of construction	480,990	354,422
	141,782	35,351
Change in cash	(1,659,971)	1,343,967
Cash position, beginning of year	5,694,967	4,351,000
<b>Cash position, end of year</b>	<b>4,034,996</b>	<b>5,694,967</b>

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

### 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, 2007, the company was authorized to earn 9% on equity and 6.25% on debt with a deemed debt to equity ratio of 1:0.89.

- (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. Revenue from accounting and administrative services provided are recognized at the time of invoicing.
- (d) The financial statements of the company's subsidiaries, COLLUS Solutions Corp., COLLUS Power Corp. and COLLUS Energy Corp. have been consolidated. All inter-company transactions have been eliminated.
- (e) Purchases of wire 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) Economic evaluation is an estimate of amounts due to subdivision developers in the future as repayment for the developers installation of hydro infrastructure.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

### 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 accrued at the OEB quarterly interest rate in effect.
- (i) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (j) 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 income 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, 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 receipts and (payments) were made as follows:

	2007	2006
	\$	\$
Interest paid	(212,034)	(223,698)
Interest received	260,668	220,273
Taxes paid	(462,667)	(194,180)
Taxes refunded	3,586	734



# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

### 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:

	2007	2006
	\$	\$
Amounts receivable from Collingwood Public Utilities Service Board	<b>47,498</b>	208,857
Amounts payable to the Collingwood Public Utilities Service Board	<b>446,312</b>	842,040
Amounts receivable from the Town of Collingwood	<b>1,315,875</b>	170,241
Amounts payable to the Town of Collingwood	<b>5,320</b>	7,029
Revenues include amounts charged to the following parties:		
Town of Collingwood	<b>47,662</b>	44,254
Collingwood Public Utilities Service Board	<b>754,299</b>	702,997
Expenses include information technology assistance to the Town of Collingwood	<b>18,506</b>	18,071
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.	<b>267,000</b>	251,000

### 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 \$372,435 (2006 - \$72,435) of the amounts collected. The liability is included in accounts payable. The balance of \$6,129,230 (2006 - \$5,648,240) 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, 2007

### 7. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2007	2006
	\$	\$ Restated (Note 8)
Deferred charges-service area expansion (net of \$74,434 accumulated amortization, 2006 - \$66,279)	130,480	138,635
<b>Regulatory assets</b>		
Other regulatory assets	89,521	88,686
<b>Regulatory liabilities</b>		
Hydro One regulatory liability	(80,711)	(186,575)
Purchased power cost variance	(2,245,724)	(1,264,036)
Regulatory assets recovered	(114,357)	(2,524)
Smart meter variance	(16,348)	(23,222)
Other regulatory liabilities	(133,333)	-
<b>Total regulatory liabilities</b>	<b>(2,590,473)</b>	<b>(1,476,357)</b>
<b>Net liability</b>	<b>(2,370,472)</b>	<b>(1,249,036)</b>

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 annual carrying charges accrued at the OEB quarterly interest rate in effect.

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 \$105,864 (2006 - \$198,458) 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 starting in May 2006.

Purchased power cost variance includes the variances, including carrying costs accrued at the OEB quarterly rate in effect, that have occurred since the 2006 authorized recovery referred to in the following paragraph.

The OEB has authorized the recovery of regulatory asset or liability balances including the power purchase cost variance, qualifying transition factors and the pre-market opening energy variance which are accumulated in the regulatory recovery account.

The OEB, commencing in May 2006, authorized the collection of \$.26 per residential customer per month towards the recovery of Smart Meter costs. Carrying charges are accrued on this account for 2007 and later years at the OEB quarterly interest rate in effect.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

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. During the year the company recovered \$NIL (2006 - \$62,670) of MARR from customers and expended \$71,280 (2006 - \$100,646) in conservation and demand management activities. The balance of \$81,654 (2006 - \$152,934) will be spent on conservation and demand management activities 2008.

Other regulator liabilities consist of 2006 Tier II rate rider variances. The other regulatory liabilities include annual carrying charges accrued at the OEB quarterly interest rate in effect.

### 8. Prior period adjustment

The 2006 Purchased power cost variance (a component part of other liabilities) and accounts payable balances have been restated to adjust for an error in the calculation of the Independent Electricity System Operator's 2006 power invoices for Regulated Price Plan variance reimbursement as follows:

	Originally Stated	Restated	Change
	\$	\$	\$
Other Liabilities	2,038,484	1,249,036	(789,448)
Accounts Payable	6,293,295	7,082,743	789,448

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

### 9. Long-term liabilities

Long-term liabilities consist of the following:

	2007	2006
	\$	\$
5.47% demand installment 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.	1,441,597	1,748,805
9.5% debenture payable, due 2007.	-	32,000
7.25% note payable to Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
	<b>3,151,767</b>	3,490,975
Current portion of long-term liabilities	<b>(1,441,597)</b>	(1,780,805)
	<b>1,710,170</b>	1,710,170

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 three years are as follows:

	\$
2008	324,244
2009	1,089,534

Included in general administration expense is \$211,925 (2006 - \$221,858) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$1,631,702 (2006 - \$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, 2007

### 10. Employee future benefits

The employees of Collingwood Utility Services Corp. participate in the Ontario Municipal Employees Retirement System ("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 \$153,014 (2006 - \$139,347).

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, 2007 of \$455,064 and the net periodic benefit cost for 2007 was determined by actuarial valuations using discount rates of 5%. 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:

	2007	2006
	\$	\$
<b>Accrued benefit obligation</b>		
Balance at the beginning of period	463,388	370,089
Current service cost for the period	18,655	74,330
Interest cost for the period	26,699	25,160
Actuarial loss	33,016	16,813
Prior period cost	25,737	32,171
Benefits paid for the period	(13,650)	(12,625)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	553,845	505,938
Unamortized actuarial loss	(79,478)	(16,813)
Unamortized prior service cost	(19,303)	(25,737)
Balance at end of period	455,064	463,388
<b>Components of net periodic benefit cost</b>		
Current service cost for the period	18,655	74,330
Interest cost for the period	26,699	25,160
Amortization of actuarial losses	5,049	-
Amortization of prior service cost	6,434	6,434
Net periodic benefit cost	56,837	105,924

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

### 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 2.1% in 2007 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2007, of the present value of future liabilities was determined using a discount rate of 5%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 2.9%.

(c) Salary levels

Future general salary and wage levels were assumed to increase at 3.3% per annum.

(d) Medical costs

Medical costs were assumed to increase at 9% in 2007 graded down 1% a year until 2011 after which the rate is assumed to increase 5% annually.

(e) Dental costs

Dental costs were assumed to increase at 5% in 2007 and thereafter.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

### 11. Contingencies

A class action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks \$500 million in restitution for amounts paid to Toronto Hydro and to other municipal electric utilities (LDCs) who received late payment penalties which constitute interest at 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge, although the court did not permit the plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Supreme Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge.

In 2007, Enbridge filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved the recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. To date, no formal steps have been taken to move the action forward. The electric utilities intend to respond to the action if and when it proceeds on the basis that the LDCs situation may be distinguishable from that of Consumers Gas.

COLLUS Power Corp. (formerly a department of Collingwood Public Utilities Commission) collected total late payment penalties of approximately \$666,000 from and after 1994. No determination of the portion of these payments which may have constituted interest at an impermissible rate has been made.