

# **COLLINGWOOD UTILITY SERVICES CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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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, 2006, 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, 2006 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 28, 2007

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2006	2005
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash	5,694,967	4,351,000
Accounts receivable (Note 5)	4,018,183	2,037,532
Unbilled revenue	2,819,474	3,651,025
Inventory	245,218	215,531
	12,777,842	10,255,088
<b>Capital</b>		
Lands	90,439	90,439
Buildings	80,668	80,668
Distribution stations	2,051,269	1,998,839
Distribution lines	15,441,219	14,857,827
Distribution transformers	3,751,092	3,572,611
Distribution meters	1,343,478	1,267,872
Other capital assets	1,423,450	1,437,597
Load control	878,887	878,887
Load management control (customer premises)	406,595	378,276
Contributions in aid of construction (Note 6)	(5,648,240)	(5,293,818)
	19,818,857	19,269,198
Less accumulated depreciation	(10,943,323)	(10,131,429)
	8,875,534	9,137,769
<b>Goodwill</b>	276,704	276,704
<b>Future taxes</b>	69,782	13,142
	21,999,862	19,682,703

Approved by directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2006	2005
	\$	\$
<b>Liabilities</b>		
Current		
Accounts payable and accruals (Notes 5 and 6)	6,293,300	5,646,935
Customer deposits	332,398	355,970
Taxes	131,817	38,243
Current portion of long-term (Note 8)	1,780,805	2,067,876
	8,538,320	8,109,024
Long-term (Note 8)	1,710,170	1,742,170
Employee future benefits (Note 9)	463,388	368,985
Other (Note 7)	2,038,484	686,245
	4,212,042	2,797,400
Total liabilities	12,750,362	10,906,424
<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	1,181,846	708,625
	9,249,500	8,776,279
	21,999,862	19,682,703

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

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

	2006	2005
	\$	\$
Revenues		
Sale of power	23,554,168	28,376,183
Distribution services	4,447,191	3,784,679
	<b>28,001,359</b>	32,160,862
Cost of power		
Power purchased	23,554,168	28,376,183
Distribution income (15.9%; 2005 - 11.8%)	4,447,191	3,784,679
Other operating income (Note 5)		
Accounting and administrative services	702,997	604,300
Miscellaneous	552,468	667,771
	<b>5,702,656</b>	5,056,750
Operating expenses (Note 5)		
Distribution and transmission	1,353,168	890,167
Billing and collecting	422,291	517,513
General administration (Notes 5 and 8)	2,459,272	2,296,560
Depreciation and amortization (Note 7)	767,646	788,853
Miscellaneous	-	4,457
	<b>5,002,377</b>	4,497,550
Net income before taxes	<b>700,279</b>	559,200
Provision for (recovery) of taxes		
Current	283,698	125,909
Future	(56,640)	17,107
	<b>227,058</b>	143,016
<b>Net income for the year</b>	<b>473,221</b>	416,184
Retained income, beginning of year	<b>708,625</b>	292,441
<b>Retained income, end of year</b>	<b>1,181,846</b>	708,625

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

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

	2006	2005
	\$	\$
<b>Cash flows from (for):</b>		
<b>Operating activities</b>		
Net income for the year	473,221	416,184
Items not requiring funds		
Depreciation	811,895	816,436
Amortization of deferred charges	8,155	8,155
Future taxes	(56,640)	17,221
	1,236,631	1,257,996
Changes in:		
Accounts receivable	(1,980,651)	(61,088)
Unbilled revenue	831,551	134,080
Inventory	(29,687)	2,029
Accounts payable and accruals	646,366	(15,621)
Taxes	93,574	130,555
Customer deposits	(23,572)	24,856
Employee future benefits	94,403	29,316
	868,615	1,502,123
<b>Investing activities</b>		
Net additions to capital assets	(904,082)	(1,251,796)
Net change to other assets/liabilities	1,344,083	296,605
	440,001	(955,191)
<b>Financing activities</b>		
Repayment of long-term liabilities	(319,071)	(300,183)
Contributions in aid of construction	354,422	320,164
	35,351	19,981
Change in cash	1,343,967	566,913
Cash position, beginning of year	4,351,000	3,784,087
<b>Cash position, end of year</b>	<b>5,694,967</b>	<b>4,351,000</b>

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

### 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 1:1.

- (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 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%

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

### 1. Significant accounting policies (continued)

- (g) 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.
- (h) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (i) 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 and accruals, taxes 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:

	2006	2005
	\$	\$
Interest paid	(223,698)	(282,018)
Interest received	220,273	148,475
Taxes paid	(194,180)	(104,100)
Taxes refunded	734	103,174



# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

### 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:

	2006	2005
	\$	\$
Amounts receivable from Collingwood Public Utilities Service Board	<b>208,857</b>	241,715
Amounts payable to the Collingwood Public Utilities Service Board	<b>842,040</b>	-
Amounts receivable from the Town of Collingwood	<b>170,241</b>	103,071
Amounts payable to the Town of Collingwood	<b>7,029</b>	10,057
Revenues include amounts charged to the following parties:		
Town of Collingwood	<b>44,254</b>	44,211
Collingwood Public Utilities Service Board	<b>702,997</b>	604,300
Revenue noted above is shown net of expenses:		
Collingwood Public Utilities Service Board	<b>348,921</b>	221,451
Expenses include information technology assistance to the Town of Collingwood	<b>18,071</b>	17,192
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>251,000</b>	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 \$72,435 (2005 - \$104,357) of the amounts collected. The liability is included in accounts payable. The balance of \$5,648,240 (2005 - \$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, 2006

### 7. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2006	2005
	\$	\$
Deferred charges-service area expansion (net of \$66,279 accumulated amortization, 2005 - \$58,124)	138,635	146,790
<b>Regulatory assets</b>		
Other regulatory assets	88,686	69,184
<b>Regulatory liabilities</b>		
Hydro One regulatory liability	(186,575)	(330,589)
Purchased power cost variance	(2,053,484)	(83,314)
Regulatory assets recovered	(2,524)	(488,316)
Smart meter variance	(23,222)	-
Total regulatory liabilities	(2,265,805)	(902,219)
Net liability	(2,038,484)	(686,245)

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

During the year, the balances in qualifying transition factors account and pre-market opening energy variance account, power purchased cost variance and related interest balances arising before 2005 were transferred to the regulatory recovery account. Comparative balances have been re-classified to conform with the current year's presentation.

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.

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 \$198,458 (2005 - \$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, commencing in May 2006, authorized the collection of \$.26 per residential customer per month to cover Smart Meter costs. Carrying charges will be accrued on this account beginning in 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 \$62,670 (2005 - \$313,330) of MARR from customers and expended \$100,646 (2005 - \$122,420) in conservation and demand management activities. The balance of \$152,934 (2005 - \$190,910) will be spent on conservation and demand management activities 2007.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

### 8. Long-term liabilities

Long-term liabilities consist of the following:

	2006	2005
	\$	\$
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.	<b>1,748,805</b>	2,039,876
9.5% debenture payable, due 2007.	<b>32,000</b>	60,000
7.25% note payable to Town of Collingwood, no set terms of repayment	<b>1,710,170</b>	1,710,170
	<b>3,490,975</b>	3,810,046
Current portion of long-term liabilities	<b>(1,780,805)</b>	(2,067,876)
	<b>1,710,170</b>	1,742,170

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:

	\$
2007	339,209
2008	324,244
2009	1,089,534

Included in general administration expense is \$221,858 (2005 - \$296,923) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$2,272,370 (2005 - \$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, 2006

### 9. 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 \$139,347 (2005 - \$123,607).

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, 2005 of \$370,089 and the net periodic benefit cost for 2006 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:

	2006	2005
	\$	\$
<b>Accrued benefit obligation</b>		
Balance at the beginning of period	370,089	339,669
Current service cost (recovery) for the period	74,330	15,297
Interest cost for the period	25,160	19,801
Actuarial loss/(gain)	16,813	24,388
Prior period cost	32,171	38,605
Benefits paid for the period	(12,625)	(11,112)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	505,938	426,648
Unamortized actuarial (loss)/gain	(16,813)	(24,388)
Unamortized prior service cost	(25,737)	(32,171)
Balance at end of period	463,388	370,089
<b>Components of net periodic benefit cost</b>		
Current service cost for the period	74,330	15,297
Interest cost for the period	25,160	19,801
Amortization of prior service cost	6,434	6,434
Net periodic benefit cost	105,924	41,532

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

### 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 2006 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2006, 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 10% in 2006 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 2006 and thereafter.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

### 10. 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.

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.