

# **COLLINGWOOD UTILITY SERVICES CORP.**

## **CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010**

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

**INDEPENDENT AUDITORS' REPORT**

To the Shareholder of **Collingwood Utility Services Corp.**:

**Report on the Consolidated Financial Statements**

We have audited the accompanying financial statements of **Collingwood Utility Services Corp.**, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated income and retained income statement and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Collingwood Utility Services Corp.** as at December 31, 2010, 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

May 13, 2011

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2010	2009
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash	3,131,790	1,572,425
Accounts receivable (Note 9)	4,969,831	3,735,946
Unbilled revenue	3,343,566	3,024,852
Taxes recoverable	53,413	104,404
Prepaid expenses	130,846	74,051
Inventory	317,756	297,789
	<b>11,947,202</b>	<b>8,809,467</b>
<b>Property, plant and equipment</b>		
Lands	90,439	90,439
Buildings	494,142	255,668
Distribution stations	5,219,952	3,857,578
Distribution lines	20,475,695	19,596,227
Distribution transformers	5,184,349	5,020,605
Distribution meters	1,767,391	1,565,562
Load control	1,521,439	1,459,235
Other	1,991,042	2,838,992
Contributions in aid of construction (Note 7)	(9,636,769)	(9,354,806)
	<b>27,107,680</b>	<b>25,329,500</b>
Less accumulated depreciation	(14,344,099)	(13,405,295)
	<b>12,763,581</b>	<b>11,924,205</b>
<b>Other</b>		
Goodwill	276,704	276,704
Intangible assets (net of accumulated amortization of \$232,256 (2009 -\$130,189))	278,072	338,117
Investment in Utility Collaborative Services Inc. - at cost	100	100
Future taxes recoverable	243,823	255,837
	<b>798,699</b>	<b>870,758</b>
	<b>25,509,482</b>	<b>21,604,430</b>

Approved by directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	2010	2009
	\$	\$
<b>Liabilities</b>		
Current		
Accounts payable and accruals (Notes 7 and 9)	7,417,305	7,342,070
Customer deposits	430,736	355,081
Current portion of long-term (Note 10)	200,000	-
	8,048,041	7,697,151
Long-term (Note 10)	4,410,170	1,710,170
Employee future benefits (Note 12)	655,332	595,475
Other (Note 11)	1,411,987	1,005,314
<b>Total liabilities</b>	<b>14,525,530</b>	<b>11,008,110</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	2,916,298	2,528,666
<b>Total shareholder's equity</b>	<b>10,983,952</b>	<b>10,596,320</b>
	<b>25,509,482</b>	<b>21,604,430</b>

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

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

	2010	2009
	\$	\$
Revenues		
Sale of power	25,971,849	24,064,556
Distribution services	5,437,389	5,126,519
	31,409,238	29,191,075
Cost of power		
Power purchased	25,971,849	24,064,556
	5,437,389	5,126,519
Distribution income (17.3%; 2009 - 17.6%)	5,437,389	5,126,519
Other operating income (Note 9)		
Accounting and administrative services	881,803	811,881
Miscellaneous	629,785	557,971
	6,948,977	6,496,371
Operating expenses		
Distribution and transmission	1,697,352	1,732,891
Billing and collecting	913,832	631,522
General administration (Notes 9 and 10)	2,893,320	2,593,799
Amortization	967,205	1,004,161
	6,471,709	5,962,373
Net income before taxes	477,268	533,998
Provision for (recovery) of taxes		
Current	77,622	110,755
Future	12,014	(47,493)
	89,636	63,262
<b>Net income for the year</b>	<b>387,632</b>	<b>470,736</b>
Retained income, beginning of year	2,528,666	2,057,930
<b>Retained income, end of year</b>	<b>2,916,298</b>	<b>2,528,666</b>

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

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

	2010	2009
	\$	\$
<b>Cash flows from (for):</b>		
<b>Operating activities</b>		
Net income for the year	387,632	470,736
Items not requiring funds		
Amortization	1,150,939	1,112,226
Future taxes	12,014	(47,493)
Gain on disposition of property, plant and equipment	(8,852)	-
	1,541,733	1,535,469
Changes in:		
Accounts receivable	(1,290,680)	382,845
Unbilled revenue	(318,714)	445,532
Inventory	(19,967)	(42,658)
Accounts payable and accruals	75,235	(1,475,224)
Income taxes	50,991	84,752
Customer deposits	75,655	(191)
Employee future benefits	59,857	56,411
Other liabilities	406,673	(2,709,369)
	580,783	(1,722,433)
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(1,930,270)	(980,224)
Investment in Utility Collaborative Services Inc.	-	(100)
Proceeds from disposal of property, plant and equipment	8,852	-
	(1,921,418)	(980,324)
<b>Financing activities</b>		
Repayment of long-term liabilities	(100,000)	(1,117,353)
Issuance of long-term liabilities	3,000,000	-
	2,900,000	(1,117,353)
Change in cash	1,559,365	(3,820,110)
Cash position, beginning of year	1,572,425	5,392,535
<b>Cash position, end of year</b>	<b>3,131,790</b>	<b>1,572,425</b>

See accompanying notes to the financial statements

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

### 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 most significant estimates are included in unbilled revenue and economic evaluation. 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 of the company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including accounting principles prescribed by the Ontario Energy Board (OEB) through the accounting procedures handbook and directives.
- (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, 2010, the company was authorized to earn 8.01% 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 in which the services were provided.
- (d) The financial statements of the company's subsidiaries, COLLUS Power Corp. , COLLUS Solutions Corp. and COLLUS Energy Corp. have been consolidated. All inter-company transactions have been eliminated.
- (e) Property, plant and equipment are stated at cost. Contributions received in aid of construction of property, plant and equipment are capitalized and amortized at the same rate as the related asset. Property, plant and equipment are amortized 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. Amortization rates are 4% except as follows:

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

- (f) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.
- (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, 2010

### 1. Significant accounting policies (continued)

- (h) 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.
- (i) The company's inventory typically consists of poles and wire, unless purchased for specific capital projects in process or as spare units. Items for specific capital projects, spare transformers and meters are recorded as property, plant and equipment. The company's inventory is valued using the moving average cost method and is recorded at the lower of cost and net realizable value.
- (j) The company has adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861 - "Financial Instruments - Disclosure and Presentation" which establishes the requirement of disclosure of risks associated with financial instruments and the management of those risks.
- (k) Intangible assets

Intangible assets are externally acquired and are stated at cost. Amortization is provided on a straight-line basis over their estimated useful service lives at the following annual rates:

Computer software	20%
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### 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, taxes recoverable, accounts payable and accruals, 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. Line of credit

The company has two revolving lines of credit with CIBC with a combined credit limit of \$750,000. The interest rates for both are set at prime minus 0.75% per annum. During 2010 the company did not draw on either line of credit.



# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

### 5. Future Accounting Pronouncements

The Accounting Standards Board has decided that rate regulated publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2012. The transition period is expected to begin for fiscal years beginning on or after January 1, 2011. The impact of these changes cannot be estimated at this time.

Phase 1 of the company's IFRS implementation was complete as of October 2009. Phase 1 identified the company's needs with regard to the new standards and set out recommendations to meet those needs. Phase 2 was still in progress as of the 2010 audit report date, which includes reclassifying property, plant, and equipment to comply with IFRS.

### 6. Supplemental cash flow information

Cash receipts (payments) were made as follows:

	2010	2009
	\$	\$
Interest received	51,253	70,417
Interest paid	(221,217)	(179,149)
Taxes refunded	104,403	190,118
Taxes paid	(130,950)	(216,120)

### 7. 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 \$365,610 (2009 - \$365,610). The liability is included in accounts payable and accruals. The balance of \$9,636,769 (2009 - \$9,354,806) is recorded as a reduction of the cost of property, plant and equipment.

### 8. Property, plant and equipment

Effective in 2010 and under the direction of the OEB, the company had the option of moving stranded meter costs into the regulatory asset accounts or leave them in property, plant, and equipment. The company decided to keep them in property, plant, and equipment and continue to amortize the stranded meter costs. The balance of stranded meters in property, plant, and equipment is \$1,529,891 and the accumulated amortization is \$909,545 (2009 - \$863,275).

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

### 9. Related party transactions

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

Related party transactions are recorded at their exchange value and include the following:

	2010	2009
	\$	\$
Amounts receivable from Collingwood Public Utilities Service Board	<b>171,234</b>	162,324
Amounts receivable from the Town of Collingwood	<b>91,413</b>	75,536
Amounts payable to the Collingwood Public Utilities Service Board	<b>(93,479)</b>	(496,809)
Amounts payable to the Town of Collingwood	<b>(1,831,697)</b>	(412,995)
Revenues include amounts charged to the following parties:		
Town of Collingwood	<b>68,461</b>	62,517
Collingwood Public Utilities Service Board	<b>881,803</b>	811,881
Expenses include information technology assistance to the Town of Collingwood	<b>21,631</b>	20,029
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>317,000</b>	317,000

### 10. Long-term liabilities

Long-term liabilities consist of the following:

	2010	2009
	\$	\$
4.67% loan payable to the Ontario Infrastructure Projects Corporation, secured by a General Security Agreement over all of the assets of the company. Payments are to be made semi-annually to April 15, 2025	<b>2,900,000</b>	-
7.25% note payable to Town of Collingwood, no set terms of repayment	<b>1,710,170</b>	1,710,170
	<b>4,610,170</b>	1,710,170
Current portion of long-term liabilities	<b>(200,000)</b>	-
	<b>4,410,170</b>	1,710,170

Included in general administration expense is \$176,802 (2009 - \$129,020) of interest on long-term liabilities.

The corporation is contingently liable for a letter of credit in the amount of \$2,046,656 (2009 - \$1,631,702) to meet the prudential requirements of the Independent Electricity System Operator.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

### 11. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2010	2009
	\$	\$
Deferred charges-service area expansion (net of \$98,899 accumulated amortization, 2009 - \$90,744)	<b>106,015</b>	114,170
<b>Regulatory assets</b>		
Other regulatory assets	<b>225,179</b>	66,530
Smart meter variance	<b>1,838,379</b>	1,927,304
<b>Regulatory liabilities</b>		
Purchased power cost variance	<b>(938,916)</b>	(2,562,776)
Regulatory recoveries	<b>(2,562,854)</b>	(507,194)
Other regulatory liabilities	<b>(79,790)</b>	(43,348)
Total regulatory liabilities	<b>(3,581,560)</b>	(3,113,318)
Net liability	<b>(1,411,987)</b>	(1,005,314)

Other regulatory assets consist of Hydro One incremental capital and pension costs from OMERS not recovered in rates. This account includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

In 2010 the OEB approved the disposition of power variances from December 31, 2008. The liability is being paid back through a reduction of customer's monthly billings over a period of three years, beginning in May 2010.

The purchased power cost variance represents 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.

The smart meters regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario by 2011. The company launched its project shortly following the Province of Ontario's announcement in 2006. As at December 31, 2010, the company had installed approximately 15,000 smart meters. The company is currently authorized to collect \$2.00 per residential customer per month. Carrying charges are accrued on this account for 2007 and later years at the OEB quarterly interest rate in effect. As at December 31, 2010, smart meter capital expenditures totaled \$2,414,022 (2009 - \$2,257,264) which is offset by revenues of \$575,644 (2009 - \$262,021) and accumulated amortization of \$215,072 (2009 - \$67,939). In the current year smart meter accumulated amortization was offset by a contra account per OEB regulation.

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

### 12. 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 \$216,202 (2009 - \$227,922).

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, 2010 of \$655,332 and the net periodic benefit cost for 2010 was determined by actuarial valuations using discount rates of 6.0% and was adjusted by management based on new information available. Actuarial valuations will be prepared every second year or when there are significant changes to the workforce.

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

	2010	2009
	\$	\$
<b>Accrued benefit obligation</b>		
Balance at the beginning of period	595,475	539,064
Current service cost for the period	23,018	21,715
Interest cost for the period	38,815	35,914
Actuarial loss	27,471	30,014
Prior period cost	6,434	12,868
Benefits paid for the period	(10,953)	(10,195)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	680,260	629,380
Unamortized actuarial loss	(24,928)	(27,471)
Unamortized prior service cost	-	(6,434)
Balance at end of period	655,332	595,475
<b>Components of net periodic benefit cost</b>		
Current service cost for the period	23,018	21,715
Interest cost for the period	38,815	35,914
Amortization of actuarial losses	2,543	2,543
Amortization of prior service cost	6,434	6,433
Net periodic benefit cost	70,810	66,605

# COLLINGWOOD UTILITY SERVICES CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

### 12. 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 2.0% in 2010 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2010, of the present value of future liabilities was determined using a discount rate of 6.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 4.0%.

(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 9.0% in 2010 graded down 0.67% a year until 2015 after which the rate is assumed to increase 5.0% annually.

(e) Dental costs

Dental costs were assumed to increase at 5.0% in 2010 and thereafter.

### 13. Capital disclosures

The company's main objectives when managing capital are to:

- (a) Ensure ongoing access to funds that will allow the ongoing operation of the service company.
- (b) Ensure ongoing access to funding to maintain and improve the electricity distribution system and to ensure that capital needs are met.
- (c) Ensure compliance with covenants related to its credit facilities and the Town of Collingwood promissory note.
- (d) Ensure that the capital structure is such that the debt to equity structure deemed by the OEB is not exceeded.

As at December 31, 2010, the company's definition of capital includes shareholder's equity and long-term debt. There have been no changes in the Company's approach to capital management during the year.

The company has met all covenants related to its credit facilities.

### 14. Comparative information

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