

Financial Statements of

**CHAPLEAU PUBLIC  
UTILITIES CORPORATION**

Year ended December 31, 2003

## AUDITORS' REPORT

To the Shareholder of Chapleau Public Utilities Corporation

We have audited the balance sheet of **Chapleau Public Utilities Corporation** as at December 31, 2003 and the statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Sudbury, Canada  
April 15, 2004

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Balance Sheet

December 31, 2003, with comparative figures for 2002

	2003	2002
<b>Assets</b>		
Current assets:		
Cash	\$ 53,705	\$ 160,648
Term deposits and treasury bills	456,107	286,446
Accounts receivable (note 2)	44,245	34,459
Payment in lieu of taxes	16,400	7,800
Unbilled revenue - energy sales	408,190	426,588
- distribution	65,371	69,581
Plant materials and supplies - at cost	25,120	33,129
	1,069,138	1,018,651
Capital assets (note 3)	929,994	957,517
Regulatory assets (note 4)	-	99,279
	\$ 1,999,132	\$ 2,075,447
<b>Liabilities and Shareholder's Deficiency</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 262,798	\$ 286,043
Accrued interest payable	153,171	168,804
Due to related company (note 6)	76,309	63,637
	492,278	518,484
Other liabilities:		
Customer deposits	45,819	45,094
Regulatory liabilities (note 4)	121,247	-
Mortgage payable (note 7)	1,531,710	1,531,710
Shareholder's deficiency:		
Share capital (note 8)	100	100
Deficit	(192,022)	(19,941)
	(191,922)	(19,841)
Commitment (note 11)		
	\$ 1,999,132	\$ 2,075,447

See accompanying notes to financial statements.

On behalf of the Board:

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Director

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Statement of Earnings and Deficit

Year ended December 31, 2003, with comparative figures for 2002

	2003	2002
Revenue:		
Energy sales	\$ 2,037,364	\$ 2,650,317
Distribution	533,375	276,207
	<u>2,570,739</u>	<u>2,926,524</u>
Expenses:		
Power purchased	2,033,034	2,276,296
Operations and maintenance	253,568	241,013
Administration and general	177,507	179,586
Billing and collection	71,814	61,677
Depreciation	38,513	39,855
	<u>2,574,436</u>	<u>2,798,427</u>
Earnings (loss) before undernoted items	(3,697)	128,097
Other income (expenses):		
Interest on mortgage payable	(191,162)	(194,519)
Interest earned	12,004	15,061
Late payment charges	5,056	10,503
Miscellaneous	5,718	17,731
	<u>(168,384)</u>	<u>(151,224)</u>
Loss for the year (note 9)	(172,081)	(23,127)
Retained earnings (deficit), beginning of year	(19,941)	3,186
Deficit, end of year	\$ (192,022)	\$ (19,941)

See accompanying notes to financial statements.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Statement of Cash Flows

Year ended December 31, 2003, with comparative figures for 2002

	2003	2002
Cash flows from operating activities:		
Loss for the year	\$ (172,081)	\$ (23,127)
Adjustment for:		
Depreciation	38,513	39,855
	(133,568)	16,728
Change in non-cash working capital:		
Accounts receivable	(9,786)	44,132
Payment in lieu of taxes	(8,600)	(5,400)
Plant materials and supplies	8,009	(9,938)
Unbilled revenue - energy sales	18,398	(57,529)
Unbilled revenue - distribution	4,210	(69,581)
Due from related companies	12,672	-
Accounts payable and accrued liabilities	(23,245)	14,815
Interest payable	(15,633)	(11,805)
Customer deposits	725	5,073
	(146,818)	(73,505)
Cash flows from financing activities:		
Mortgage payable	-	(77,829)
Cash flows from investing activities:		
Purchase of capital assets	(10,990)	(1,702)
Regulatory balances	220,526	(55,223)
	209,536	(56,925)
<b>Net increase (decrease) in cash</b>	<b>62,718</b>	<b>(208,259)</b>
Cash and cash equivalents, beginning of year	447,094	655,353
<b>Cash and cash equivalents, end of year</b>	<b>\$ 509,812</b>	<b>\$ 447,094</b>
Cash and cash equivalents are represented by:		
Cash	\$ 53,705	\$ 160,648
Term deposits and treasury bills	456,107	286,446
	<b>\$ 509,812</b>	<b>\$ 447,094</b>

See accompanying notes to financial statements.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2003

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Chapleau Public Utilities Corporation (the "Corporation") was incorporated August 18, 1999 to operate as an electricity distribution company.

### 1. Significant accounting policies:

#### (a) General:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies set forth in the Accounting Procedure Manual issued by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998 ("OEBA"). The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. In its capacity to set or approve rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian GAAP for enterprises operating in a non-rate regulated environment.

The Electricity Act, 1998 (Ontario) provides for a competitive marketplace in the sale of electricity. The marketplace was deregulated effective May 1, 2002.

#### (b) Revenue recognition and power purchased:

Revenue is recorded in the accounts to various dates on the basis of monthly or bi-monthly meter readings. At the end of an accounting cycle, there is energy used by consumers for which meter readings are not available. The accrued utility revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of power is recorded on the basis of power used.

#### (c) Capital assets:

Capital assets are recorded at cost. Amortization is provided annually, on a declining-balance basis, in accordance with the following rates:

Transmission and distribution systems	25 - 40 years
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#### (d) Payment in lieu of taxes:

Effective October 1, 2001 and pursuant to the Electricity Act, 1998 (Ontario) (the "EA"), the Corporation is required to compute taxes under the Income Tax Act (Canada) ("ITA") and Ontario Corporations Tax Act ("OCTA") and remit such amounts computed thereunder to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as payments in lieu of taxes ("PILS") under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2003

### 1. Significant accounting policies (continued):

#### (d) Payment in lieu of taxes (continued):

The Corporation provides for amounts in lieu of income taxes using the taxes payable method. Under the taxes payable method, no provision is made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in rates approved by the OEB and recovered from customers at that time.

#### (e) Deferred transition costs:

The Corporation has incurred costs related to the transition to a competitive electricity market mandated by the Electricity Act, 1998. The OEB has established rules in respect of transition costs which qualify for deferral and amortization against future revenue. Transition costs which are capital in nature, such as software, are not recorded as part of capital assets. Amortization of such costs are recorded to the deferred transition cost account. To the extent that transition costs have been incurred which do not qualify for deferral, these costs have been capitalized or expensed during the period they were incurred.

#### (f) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods specified. Actual results could differ from those estimates.

### 2. Accounts receivable:

	2003	2002
Electrical	\$ 34,939	\$ 53,076
Miscellaneous	17,806	883
	52,745	53,959
Less allowance for doubtful accounts	8,500	19,500
	\$ 44,245	\$ 34,459

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2003

## 3. Capital assets:

	2003		2002	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 140	\$ -	\$ 140	\$ -
Transmission and distribution system	2,083,641	1,153,787	2,072,650	1,115,273
	2,083,781	1,153,787	2,072,790	1,115,273
Less accumulated depreciation	1,153,787		1,115,273	
	\$ 929,994		\$ 957,517	

## 4. Regulatory balances:

The regulatory balances arise as a result of the rate setting process by the OEB. In 2003, the Minister of Energy authorized the recovery of regulatory assets as at December 31, 2002 over a four year period commencing in 2004, realizing one quarter of the assets each year.

	2003	2002
Deferred transition costs (a)	\$ 54,718	\$ 54,718
Retail settlement variances (b)	(133,880)	86,646
Pre-market opening energy variances (c)	(42,085)	(42,085)
	\$ (121,247)	\$ 99,279

- (a) The OEB had established a process for the recording of costs incurred by the Corporation to be market ready including related carrying costs, as deferred transition costs to be recovered in the future through the regulatory rate setting process.

The OEB requires the Corporation to track certain variances that are to be disposed of pending further direction from the OEB.

- (b) The amount paid to the Independent Market Operator ("IMO") for energy less corresponding amounts billed by the Company to its customers, as well as other deregulation costs incurred by the company and related carrying costs which will be recovered in the future.
- (c) The cost of energy purchased and amounts billed to customers from January 1, 2002 to April 30, 2002. The electricity market was opened to competition on May 1, 2002. The variances arise as a result of the differing rates on time of use energy purchases by the Corporation as compared to the average rates charged to its customers.



# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2003

### 5. Accounts payable and accrued liabilities:

	2003	2002
Power purchased	\$ 210,260	\$ 233,517
Miscellaneous	52,538	52,526
	\$ 262,798	\$ 286,043

### 6. Due to related company:

The amount is unsecured, non-interest bearing and has no specified terms of repayment. The Corporation is related by virtue of common ownership.

### 7. Mortgage payable:

The mortgage is repayable to the Corporation of the Township of Chapleau. The mortgage bears interest at 10%, has no specified terms of repayment and is secured by a general security agreement and specified assets of the Corporation.

### 8. Share capital:

The authorized share capital of the Corporation is as follows:

	2003	2002
Issued and authorized:		
100 common shares	\$ 100	\$ 100

### 9. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of \$196,913 carried forward which can be applied to reduce future years' taxable income. These losses expire in 2008 and 2009.

### 10. Related party transactions:

During the year, the Corporation was charged \$153,171 (2002 - \$168,804) of interest by the Corporation of the Township of Chapleau ("Township") and billed the Township \$221,251 (2002 - \$138,873) for power purchased.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2003

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### **11. Commitment:**

The Corporation has issued a \$300,205 Letter of Credit to the Independent Market Operator ("IMO") for market opening on May 1, 2002. At December 31, 2003, no amounts have been drawn on this financing arrangement.

### **12. Fair value of financial instruments:**

The fair values of the cash, term deposits and treasury bills, accounts receivable and accounts payable and accrued liabilities, accrued interest payable, due to related company and customer deposits approximate their carrying values due to the short period to maturity. The carrying value of the mortgage payable approximates its fair value based on the borrowing rates presently available to the Corporation for loans with similar terms and maturities.

### **13. Comparative figures:**

Certain 2002 comparative figures have been reclassified to conform with the financial presentation adopted in 2003.