

Financial Statements of

**CHAPLEAU PUBLIC UTILITIES  
CORPORATION**

Year ended December 31, 2011



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## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Chapleau Public Utilities Corporation

We have audited the accompanying financial statements of **Chapleau Public Utilities Corporation**, which comprise the balance sheet as at December 31, 2011 and the statements of income and comprehensive income and deficit and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements present fairly, in all material respects the financial position of the Chapleau Public Utilities Corporation as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

April 11, 2012  
Sudbury, Canada

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Balance Sheet

December 31, 2011, with comparative figures for 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Cash	\$ 35,623	\$ 21,758
Investments	248,152	404,294
Trade receivables (note 2)	56,217	57,377
Plant materials and supplies	40,161	46,011
Prepaid expenses	7,982	8,581
Unbilled revenue - energy sales	509,664	534,121
Unbilled revenue - distribution	45,900	47,094
	943,699	1,119,236
Property, plant and equipment (note 4)	2,099,989	2,236,084
Less accumulated amortization	1,364,870	1,426,415
	735,119	809,669
Regulatory assets (note 5)	741,270	487,582
	\$ 2,420,088	\$ 2,416,487
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 371,489	\$ 400,958
Advances from related company (note 3)	27,180	25,099
Current portion of regulatory liabilities (note 5)	27,233	35,167
	425,902	461,224
Other liabilities:		
Regulatory liabilities (note 5)	189,667	224,693
Customer deposits	24,519	24,144
	214,186	248,837
Shareholder's equity:		
Share capital (note 8)	2,243,058	2,243,058
Deficit	(463,058)	(536,632)
	1,780,000	1,706,426
Contingency (note 11)		
Commitment (note 15)		
	\$ 2,420,088	\$ 2,416,487

See accompanying notes to financial statements.

On behalf of the Board:

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Director

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Statement of Income and Comprehensive Income and Deficit

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Energy sales (note 13)	\$ 2,387,377	\$ 2,155,984
Distribution services	633,926	621,442
	3,021,303	2,777,426
Expenses:		
Power purchased (note 13)	2,387,377	2,155,984
Operations and maintenance	295,754	296,393
Administration and general	194,297	187,853
Billing and collection	71,650	72,991
Amortization of property, plant and equipment	32,415	40,368
	2,981,493	2,753,589
Earnings before the undernoted	39,810	23,837
Other income (expenses):		
Interest earned	18,370	17,231
Donations	(2,000)	-
Late payment charges	5,583	4,879
Miscellaneous	14,681	19,582
Other interest	(2,870)	(2,894)
	33,764	38,798
<b>Net income and comprehensive income</b>	<b>73,574</b>	<b>62,635</b>
Deficit, beginning of year	(536,632)	(599,267)
<b>Deficit, end of year</b>	<b>\$ (463,058)</b>	<b>\$ (536,632)</b>

See accompanying notes to financial statements.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	\$ 73,574	\$ 62,635
Item not involving cash:		
Amortization of property, plant and equipment	32,415	40,368
	105,989	103,003
Change in non-cash operating working capital:		
Decrease (increase) in trade receivables	1,160	(1,928)
Decrease in plant materials and supplies	5,850	2,954
Decrease (increase) in prepaid expenses	599	(1,633)
Decrease (increase) in unbilled revenue - energy sales	24,457	(32,757)
Decrease (increase) in unbilled revenue - distribution	1,194	(3,587)
Increase (decrease) in accounts payable and accrued liabilities	(29,469)	33,489
Increase in customer deposits	375	1,125
	110,155	100,666
Financing activities:		
Increase in advances from related company	2,081	29,793
Investing activities:		
Purchase of property, plant and equipment	(10,450)	(9,517)
Decrease in regulatory liabilities and assets	(244,063)	(144,287)
	(254,513)	(153,804)
<b>Decrease in cash position</b>	<b>(142,277)</b>	<b>(23,345)</b>
Cash position, beginning of year	426,052	449,397
<b>Cash position, end of year</b>	<b>\$ 283,775</b>	<b>\$ 426,052</b>
Represented by:		
Cash	\$ 35,623	\$ 21,758
Investments	248,152	404,294
	\$ 283,775	\$ 426,052

See accompanying notes to financial statements.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2011

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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:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the Ontario Energy Board (the "OEB") in the Accounting Procedures Handbook (the "AP Handbook") for Electric Distribution Utilities, and reflect the significant accounting policies as summarized below:

#### (a) Change in accounting policies:

Publicly accountable enterprises in Canada were 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, 2011. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation. On March 20, 2012, the Accounting Standards Board decided to extend the deferral of the mandatory IFRS change over date for entities with qualifying rate regulated entities by one year to January 1, 2013. The Corporation elected to take this additional one-year deferral of its adoption of IFRS; therefore, it continues to prepare its financial statements in accordance with Canadian GAAP accounting standards in Part V of the CICA Handbook in 2011.

#### (b) Regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfil obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles ("GAAP") for enterprises operating in a non-rate regulated environment.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

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## 1. Significant accounting policies (continued):

### (b) Regulation (continued):

The following regulatory treatments have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

#### i) Regulatory assets and liabilities:

Regulatory assets represent costs that have been deferred because it is probable that they will be recovered from customers in future periods through the rate-making process. Regulatory liabilities represent future reduction in revenues or limitations of increase in revenues associated with amounts that are expected to be refunded to customers through the rate-making process.

#### ii) Payment in lieu of corporate income taxes and capital taxes:

The current tax-exempt status of the Corporation under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Corporation is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Corporation, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Corporation.

Commencing October 1, 2001, the Corporation is required, under the Electricity Act 1998, to make payments-in-lieu of corporate income taxes ("PILs") to Ontario Electricity Financial Corporation, which will be used to repay the stranded debt incurred by the former Ontario Hydro. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act 1998 and related regulations.

As a result of becoming subject to PILs, the Corporation's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Corporation was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Corporation was deemed to have a new company and, as a result, tax credits or tax losses not previously utilized by the Corporation would not be available to it after the change in tax status. Essentially, the Corporation was taxed as though it had a "fresh start" at the time of its change in tax status.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

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## 1. Significant accounting policies (continued):

### (c) 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 unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

### (d) Plant materials and supplies:

Inventories consist of parts, supplies and materials held for future capital expansion. Inventories are valued at the lower of cost and net realizable value, and items considered major spare parts are recorded as capital assets. Inventory write-downs are reversed if the circumstances resulting in the original write-down have reversed.

### (e) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Amortization is charged to operations using the following methods and annual rates:

Asset		Rate
Computer equipment and software	Declining-balance	55%
Meters	Declining-balance	10%
Transmission and distribution systems	Declining-balance	4%

Amortization is taken at 50% of the above rate in the year of acquisition.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.



# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

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## 1. Significant accounting policies (continued):

### (f) Asset retirement obligations:

The Corporation recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit adjusted risk free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long lived asset that is amortized over the remaining life of the asset.

Some of the Corporation's transmission and distribution assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

### (g) 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates including changes as a result of future decisions made by the OEB, Minister of Energy, or the Minister of Finance.

### (h) Customer deposits:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits which are held in trust by the Corporation.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

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## 1. Significant accounting policies (continued):

### (i) Pension plan:

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan, which operates as the Ontario Municipal Employees Retirement Fund (the "Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Corporation recognizes the expense related to this plan as contributions are made.

### (j) Financial instruments - recognition and measurement:

The Corporation accounts for its financial assets and liabilities in accordance with Canadian generally accepted accounting principles.

The financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings.

The Corporation continues to disclose under CICA Handbook Section 3861 - Financial Instruments - Disclosure and Presentation.

### (k) Comprehensive income:

Section 1530 describes the recognition and disclosure requirements with respect to comprehensive income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income represents the changes in the fair value of a financial instrument which have not been included in net income.

The Company had no adjustments to other comprehensive income during the period ending December 31, 2011.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

## 2. Trade receivables:

	2011	2010
Electrical	\$ 69,331	\$ 71,383
Provision for doubtful accounts	(13,114)	(14,006)
	\$ 56,217	\$ 57,377

## 3. Advances from related company:

The amounts advanced from related company are non-interest bearing, unsecured and will be paid within the next twelve months. The Corporation is related by virtue of common ownership.

## 4. Property, plant and equipment:

	2011			2010
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 141	\$ -	\$ 141	\$ 141
Computer equipment and software	11,847	11,011	836	1,858
Meters	28,102	12,760	15,342	69,632
Transmission and distribution systems	2,059,899	1,341,099	718,800	738,038
	\$ 2,099,989	\$ 1,364,870	\$ 735,119	\$ 809,669

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

## 5. Regulatory assets and liabilities:

	2011	2010
(i) Regulatory assets consist of the following:		
Long-term portion of regulatory assets:		
Smart meter funding and cost recovery	\$ 514,272	\$ 396,334
Retail settlement variance - power charges	141,025	-
Recovery of regulatory asset balance - principal	24,334	-
Retail settlement variance - connection charges	23,842	22,008
Retail settlement variance - network charges	17,360	20,744
IFRS transition and carrying costs	15,530	15,104
Retail settlement variance - retail services	4,209	3,192
Special purpose voltage assessment	698	7,131
Recovery of regulatory asset balance - principal	-	23,069
<b>Total regulatory assets</b>	<b>\$ 741,270</b>	<b>\$ 487,582</b>
(ii) Regulatory liabilities consist of the following:		
Current portion of regulatory liabilities:		
Recovery of regulatory asset balance - principal	\$ 27,233	\$ 35,167
Long-term portion of regulatory liabilities:		
Retail settlement variance - wholesale market charge	61,355	41,539
Recovery of regulatory liability balance - interest	50,334	-
Retail settlement variance - low voltage charges	40,953	24,813
Retail settlement variance - global adjustment	32,294	-
Conversion and demand management	4,731	4,731
Recovery of regulatory asset balance - principal	-	63,222
Retail settlement variance - power charges	-	90,388
	189,667	224,693
<b>Total regulatory liabilities</b>	<b>\$ 216,900</b>	<b>\$ 259,860</b>

## 6. Accounts payable and accrued liabilities:

	2011	2010
Independent Electricity System Operator	\$ 284,602	\$ 287,491
Miscellaneous	86,887	113,467
	<b>\$ 371,489</b>	<b>\$ 400,958</b>

## 7. Bank borrowing facilities:

The Corporation has a line of credit in the amount of \$200,000 available, bearing interest at prime plus 1%. At December 31, 2011, no amount has been drawn on this line of credit (2010 - \$Nil).

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

## 8. Share capital:

	2011	2010
Authorized:		
Unlimited common shares		
Unlimited class B special shares		
Issued:		
1,121,529 class B special shares	\$ 1,121,529	\$ 1,121,529
1,121,529 common shares	1,121,529	1,121,529
	<u>\$ 2,243,058</u>	<u>\$ 2,243,058</u>

## 9. Payment in lieu of taxes:

For payment in lieu of tax purposes, the Corporation has losses of \$403,735 (2010 - \$475,717) carried forward which can be applied to reduce future years' taxable income. These losses will expire as follows:

2014	\$ 65,221
2015	338,514

## 10. Related party transactions:

The Corporation is related to the Township by virtue of the fact that the Township is the sole shareholder of the Corporation. The Corporation is related to Chapleau Energy Services Corporation by virtue of common ownership.

During the year, the Corporation billed the Township \$327,576 (2010 - \$293,549) for power purchased.

Also, the Corporation was charged \$394,530 (2010 - \$390,680) by Chapleau Energy Services Corporation, for the Corporation's portion of certain shared costs.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration agreed to by the related parties.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

## 11. Contingency:

Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by default notice issued by the IESO. At December 31, 2011, no amounts have been drawn on this letter of credit in the amount of \$209,813.

## 12. Credit risk and financial instruments:

### (a) Fair value of financial assets and financial liabilities

The carrying value of cash, investments, trade receivables, unbilled revenue, accounts payable and accrued liabilities, advances from related company and customer deposits approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

### (b) Credit risk

For distribution retail customers, credit losses are generally low across the sector. The Corporation provides for an allowance for doubtful accounts to absorb credit losses.

At December 31, 2011, there are no significant concentrations of credit risk with respect to any class of financial assets.

### (c) Interest rate risk

Cash balances not required to meet day-to-day obligations of the Corporation are invested in Canadian money market instruments, with terms not more than one year or 365 days, exposing the Corporation to fluctuations in short-term interest rates. These fluctuations could affect the level of interest income earned by the Corporation.

## 13. Electric energy services:

	2011	2010
Revenue:		
Electricity	\$ 2,043,689	\$ 1,838,302
Transmission services	343,688	317,682
	<u>\$ 2,387,377</u>	<u>\$ 2,155,984</u>
Costs:		
Electricity	\$ 2,043,689	\$ 1,838,302
Transmission services	343,688	317,682
	<u>\$ 2,387,377</u>	<u>\$ 2,155,984</u>

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

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## 14. General liability insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which is a pooling of general liability insurance risks. Members of MEARIE would be assessed on a pro-rata basis should losses be experienced by MEARIE, for the years in which the Corporation was a member. To December 31, 2011, the Corporation has not been made aware of any additional assessments.

## 15. Commitment:

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010 and pursuant to Ontario Regulation 427/06, the Corporation launched its smart meter initiative in 2009. The Corporation has committed to install 1,253 smart meters and supporting infrastructure by the end of 2010. 1,252 Smart meters or 99.9% deployment was completed in 2011.

The OEB adopted the policy that specific funding for the capital cost of smart meters should be included in distribution rates by all Ontario electric distribution companies. The Board decided that "seed" funding equivalent to \$0.27 per customer per month be included in the Corporation's distribution rates commencing May 1, 2006. This funding was increased to \$1.00 per customer per month effective May 1, 2009 pursuant to OEB Decision and Order of March 10, 2009. Revenue has been reduced by the amount funded in rates, and have been deferred and netted against smart metering capital costs incurred in accordance with the AP Handbook. Unfunded costs including financing expense, are expected to be recovered through future distribution rates once the project is completed, pursuant to the Ontario Energy Board's guidelines.

## 16. Corporate income and capital taxes:

	2011	2010
Rate reconciliation:		
Income from continuing operations before income taxes	\$ 73,574	\$ 62,635
Statutory Canadian Federal and Provincial income tax rate	28.25%	31%
Expected taxes on income	20,785	19,420
Decrease in income taxes resulting from:		
Loss carry forwards applied	20,785	19,420
Income tax expense	-	-
Effective tax rate	0%	0%

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

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## **17. Emerging accounting changes:**

International Financial Reporting Standards ["IFRS"]:

On February 13, 2008, the Accounting Standards Board of Canada ["AcSB"] announced that publicly accountable enterprises will be required to change over to IFRS effective January 1, 2011.

In 2010, the cut-over date was deferred to January 1, 2012 for regulated entities, at which time, the Corporation will adopt IFRS standards.

Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. The Corporation has launched an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements.