

Financial Statements of

**CHAPLEAU PUBLIC UTILITIES  
CORPORATION**

Year ended December 31, 2016



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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 statement of financial position as at December 31, 2016, the statements of income and comprehensive income, changes in equity 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 International Financial Reporting Standards, 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 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 Chapleau Public Utilities Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

April 20, 2017  
Sudbury, Canada

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Statement of Financial Position

As at December 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 303,348	313,658
Accounts receivable (note 5)	246,489	207,348
Unbilled revenue	498,256	470,042
Short-term investments	261,297	262,267
Inventory (note 6)	36,465	50,763
Prepaid expenses	6,000	5,900
Due from related parties (note 17)	63,171	81,147
Total current assets	1,415,026	1,391,125
Non-current assets:		
Property, plant and equipment (note 7)	1,039,840	1,040,208
Intangible assets (note 8)	64,851	81,063
Total non-current assets	1,104,691	1,121,271
Total assets	2,519,717	2,512,396
Regulatory deferral account debit balances (note 10)	1,287,797	1,207,050
Total assets and regulatory deferral account debit balances	\$ 3,807,514	3,719,446

See accompanying notes to financial statements.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Financial Position (continued)

As at December 31, 2016, with comparative information for 2015

	2016	2015
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 466,925	447,972
Payment in lieu of taxes (note 9)	1,902	-
Customer deposits (note 11)	27,979	25,054
Total liabilities	496,806	473,026
Shareholder's equity:		
Share capital (note 12)	2,243,058	2,243,058
Deficit	(183,954)	(207,988)
Total shareholder's equity	2,059,104	2,035,070
Total liabilities and shareholder's equity	2,555,910	2,508,096
Regulatory deferral account credit balances (note 10)	1,251,604	1,211,350
Commitments and contingences (note 14)		
Total equity, liabilities and regulatory deferral account credit balances	\$ 3,807,514	3,719,446

See accompanying notes to financial statements.

Approved by the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Statement of Income and Comprehensive Income

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Energy sales	\$ 3,263,340	3,115,911
Distribution services	784,830	784,587
	4,048,170	3,900,498
Other operating revenue (note 13)	43,782	30,138
Net operating revenue	4,091,952	3,930,636
Expenses:		
Energy purchases	3,231,301	3,096,735
Operations and maintenance	341,725	300,290
General and administrative	286,144	300,886
Billing and collection	121,158	129,895
Depreciation and amortization	52,874	50,827
Other costs	2,000	2,000
	4,035,202	3,880,633
Income from operating activities	56,750	50,003
Other income:		
Finance income	3,650	13,641
Finance charges	(2,425)	(4,490)
Net finance income	1,225	9,151
Income for the year before taxes and regulatory items	57,975	59,154
Payment in lieu of taxes (note 9)	1,902	-
Net income	56,073	59,154
Net movement in regulatory deferral account balances, net of tax	(32,039)	(23,290)
Net income and comprehensive income for the year	\$ 24,034	35,864

See accompanying notes to financial statements.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Statement of Changes in Equity

Year ended December 31, 2016, with comparative information for 2015

	Share Capital	Deficit	Total
Balance, January 1, 2015	\$ 2,243,058	(243,852)	1,999,206
Net income and comprehensive income	-	35,864	35,864
Balance, December 31, 2015	2,243,058	(207,988)	2,035,070
Net income and comprehensive income	-	24,034	24,034
Balance, December 31, 2016	\$ 2,243,058	(183,954)	2,059,104

See accompanying notes to financial statements.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash flows from operating activities:		
Net income and comprehensive income	\$ 24,034	35,864
Item not involving cash:		
Depreciation and amortization	52,874	50,827
	76,908	86,691
Changes in non-cash working capital:		
Decrease (increase) in trade receivables	(39,141)	140,190
Decrease in plant materials and supplies	14,298	941
Decrease (increase) in prepaid expenses	(100)	654
Increase in unbilled revenue - energy sales	(28,214)	(7,048)
Increase in accounts payable and accrued liabilities	18,952	8,918
Increase in payment in lieu of taxes	1,902	-
Decrease (increase) in regulatory deferral account balances	(40,493)	37,943
Increase (decrease) in customer deposits	2,925	(3,580)
Net cash from operating activities	7,037	264,709
Cash flows from financing activities:		
Increase in advances from related company	17,976	65,767
Net cash from financing activities	17,976	65,767
Cash flows from investing activities:		
Decrease (increase) in short-term investments	970	(7,448)
Purchase of intangible assets	-	(54,800)
Purchase of property, plant and equipment	(36,293)	(46,375)
	(35,323)	(108,623)
Increase (decrease) in cash	(10,310)	221,853
Cash and cash equivalents, beginning of year	313,658	91,805
Cash and cash equivalents, end of year	\$ 303,348	313,658

See accompanying notes to financial statements.



# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

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### 1. Reporting entity:

Chapleau Public Utilities Corporation (the "Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Township of Chapleau. The address of the Corporation's registered office is 110 Lorne Street, Chapleau, Ontario.

The Corporation delivers electricity and related energy services to residential and commercial customers in the Township of Chapleau. The Corporation is wholly owned by the Corporation of the Township of Chapleau.

The financial statements are for the Corporation as at and for the year ended December 31, 2016.

### 2. Basis of presentation:

#### (a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on April 20, 2017.

#### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following:

- (i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value.
- (ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 18.

#### (c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

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### 2. Basis of presentation (continued):

#### (d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

- (i) Note 7 - Property, plant and equipment
- (ii) Note 14 – Commitments and contingencies

#### (e) Rate regulation:

The Corporation is regulated by the Ontario Energy Board (“OEB”), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies (“LDCs”), such as the Corporation, which may include, amongst other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Corporation is required to bill customers for the debt retirement charge set by the province. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation (“OEFC”) once each year.

Rate setting:

##### *Distribution revenue*

For the distribution revenue, the Corporation files a “Cost of Service” (“COS”) rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenses, debt and shareholder’s equity required to support the Corporation’s business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and intervenors and rates are approved based upon this review, including any revisions resulting from that review.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

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### 2. Basis of presentation (continued):

#### (e) Rate regulation (continued):

##### *Electricity revenue*

The Corporation filed an IRM in October 2014 for rates effective May 1, 2015. The GDP IPI-FDD for 2016 is 1.6%, the Corporation's productivity factor is 0.0% and the stretch factor is 0.045%, resulting in a net adjustment of 1.15% to the previous year's rates.

##### *Electricity rates*

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflation for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

### 3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

#### (a) Financial instruments:

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(g). The Corporation does not enter into derivative instruments.

Hedge accounting has not been used in the preparation of these financial statements.

Cash equivalents include short-term investments with maturities of three months or less when purchased.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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## 3. Significant accounting policies (continued):

### (b) Revenue recognition:

#### *Electricity sales:*

Electricity sales are recognized as the electricity is delivered to customers and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution, and any other regulatory charges. Electricity revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this revenue stream.

#### *Rendering of services:*

Revenue earned from the provision of services is recognized as the service is rendered.

#### *Government grants:*

Incentive payments to which the Corporation is entitled from the Ontario Power Authority ("OPA") are recognized as revenue in the period when they are determined by the OPA and the amount is communicated to the Corporation.

### (c) Dividends:

Dividends are recognized as revenue when the Corporation has a right to receive the dividend and are included within finance income.

### (d) Inventory:

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

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

All items of property, plant and equipment are measured at cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

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

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of six months to construct.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of property, plant and equipment and are recognized net within other income in profit or loss.

Major spare parts and standby equipment are recognized as items of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of property, plant and equipment is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount and is recognized in profit or loss on a declining-balance basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated.

The estimated useful lives are as follows:

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Transmissions and distribution systems	2%
Meters	7%

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Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

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# CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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## 3. Significant accounting policies (continued):

### (f) Intangible assets:

#### (i) Computer software:

Computer software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses

#### (ii) Amortization:

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are:

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Computer software	5 years
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Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate.

### (g) Impairment:

#### (i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its current carrying amount (using prevailing interest rates), and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

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

#### (g) Impairment (continued):

##### (ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. For assets other than goodwill, impairment recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### (h) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

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

#### (i) Regulatory deferral accounts:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The debit balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

Regulatory deferral account credit balances are recognized if it is probable that future billings in an amount at least equal to the credit balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The credit balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account credit balance.

The probability of recovery or repayment of the regulatory account balances are assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in profit and loss in the year incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2016 the rate is 1.1%.

#### (j) Employee future benefits:

##### Pension plan:

The Corporation provides a pension plan for all its full-time employees through 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 and public utilities. 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. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.



# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

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

#### (k) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and on regulatory assets and dividend payments.

Finance charges comprise interest expense on borrowings and regulatory. Finance costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

#### (l) Income taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable 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. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

### 4. Cash and cash equivalents:

Cash and cash equivalents consist of overnight deposits at a Canadian chartered bank.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

### 5. Accounts receivable:

	2016	2015
Trade receivables	\$ 298,585	\$ 260,922
Billable work	1,978	1,270
Less allowance for doubtful accounts	(54,074)	(54,844)
	<u>\$ 246,489</u>	<u>\$ 207,348</u>

### 6. Inventory:

The amount of inventories consumed by the Corporation and recognized as an expense during 2016 was \$14,298 (2015 - \$941).

### 7. Property, plant and equipment:

(a) Cost or deemed cost:

	Land	Transmission and Distribution Systems	Meters	Total
Balance at January 1, 2016	\$ 141	\$ 807,995	\$ 308,728	\$1,116,864
Additions	-	35,293	1,000	36,293
<u>Balance at December 31, 2016</u>	<u>\$ 141</u>	<u>\$ 843,288</u>	<u>\$ 309,728</u>	<u>\$1,153,157</u>

	Land	Transmission and Distribution Systems	Meters	Total
Balance at January 1, 2015	\$ 141	\$ 762,141	\$ 308,206	\$1,070,488
Additions	-	45,854	522	46,376
<u>Balance at December 31, 2015</u>	<u>\$ 141</u>	<u>\$ 807,995</u>	<u>\$ 308,728</u>	<u>\$1,116,864</u>

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

### 7. Property, plant and equipment (continued):

#### (b) Accumulated depreciation:

	Land	Transmission and Distribution Systems	Meters	Total
Balance at January 1, 2016	\$ -	\$ 36,128	\$ 40,528	\$ 76,656
Depreciation charge	-	18,739	17,922	36,661
Balance at December 31, 2016	\$ -	\$ 54,867	\$ 58,450	\$ 113,317

	Land	Transmission and Distribution Systems	Meters	Total
Balance at January 1, 2015	\$ -	\$ 17,866	\$ 21,379	\$ 39,245
Depreciation charge	-	18,262	19,149	37,411
Balance at December 31, 2015	\$ -	\$ 36,128	\$ 40,528	\$ 76,656

#### (c) Carrying amounts:

	Land	Transmission and Distribution Systems	Meters	Total
At December 31, 2016	\$ 141	\$ 788,421	\$ 251,278	\$ 1,039,840
At December 31, 2015	\$ 141	\$ 772,064	\$ 67,438	\$ 1,040,208

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

### 8. Intangible assets:

#### (a) Cost or deemed cost:

	Computer software
Balance at January 1, 2016	\$ 188,462
Additions	–
Balance at December 31, 2016	\$ 188,462
Balance at January 1, 2015	\$ 133,622
Additions	54,800
Balance at December 31, 2015	\$ 188,462

#### (b) Accumulated amortization:

	Computer software
Balance at January 1, 2016	\$ 107,398
Additions	16,213
Balance at December 31, 2016	\$ 123,611
Balance at January 1, 2015	\$ 93,982
Additions	13,416
Balance at December 31, 2015	\$ 107,398

#### (c) Carrying amounts:

	Computer software
At December 31, 2016	\$ 64,851
At December 31, 2015	\$ 81,063

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

### 9. Payment in lieu of income taxes:

PIL's varies the amounts which would be computed applying the Corporation's combined statutory tax rate. The following is a reconciliation of the effective tax rate:

	2016	2015
Net income and comprehensive income for the period	\$ 24,034	\$ 35,864
Income tax using the Corporation's statutory tax rate	6,369	9,504
Small business deduction	(2,764)	
Other	457	—
Change in valuation allowance	(2,160)	(9,504)
	\$ 1,902	\$ —

The Corporation has non-capital losses of \$Nil (2015 - \$14,403) which can be applied to reduce future year's taxable income. The benefit of these losses have not been reflected in these financial statements.

### 10. Regulatory deferral account balances:

The following is a reconciliation of the carrying amount for each class of regulatory deferral account balances:

	January 1, 2016	Balances arising in the period	Recovery/ reversal	2016	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances					
Retail settlement variances	\$ 190,409	\$ 59,453	\$ -	\$ 249,862	2
Regulatory variances disposition	925,156	86,920	(71,174)	940,902	1
Other regulatory accounts	91,485	5,548	-	97,033	4
Total amount related to regulatory deferral account debit balances	\$ 1,207,050	\$ 151,921	\$(71,174)	\$1,287,797	

	January 1, 2016	Balances arising in the period	Recovery/ reversal	2016	Remaining recovery/ reversal period (years)
Regulatory deferral account credit balances					
Retail settlement variances	\$ 282,234	\$ 58,544	\$ -	\$ 340,778	2
Regulatory variances disposition	795,483	46,844	(71,160)	771,167	1
Other regulatory accounts	133,633	6,026	-	139,659	4
Total amount related to regulatory deferral account credit balances	\$ 1,211,350	\$ 111,414	\$(71,160)	\$1,251,604	

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

### 10. Regulatory deferral account balances (continued):

	January 1, 2015	Balances arising in the period	Recovery/ reversal	2015	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances					
Retail settlement variances	\$ 172,237	\$ 18,172	\$ -	\$ 190,409	2
Regulatory variances disposition	683,213	292,216	50,273	925,156	1
Other regulatory accounts	144,939	51,759	105,213	91,485	4
Total amount related to regulatory deferral account debit balances	\$ 1,000,389	\$ 362,147	\$155,486	\$1,207,050	

	January 1, 2015	Balances arising in the period	Recovery/ reversal	2015	Remaining recovery/ reversal period (years)
Regulatory deferral account credit balances					
Retail settlement variances	\$ 205,735	\$ 76,499	\$ -	\$ 282,234	2
Regulatory variances disposition	637,095	159,365	977	795,483	1
Other regulatory accounts	123,916	59,903	50,186	133,633	4
Total amount related to regulatory deferral account credit balances	\$ 966,746	\$ 295,767	\$ 51,163	\$1,211,350	

Settlement of the retail settlement variance accounts is done on an annual basis through application to the OEB. An application will be made to the OEB to recover the 2014 retail settlement variance accounts and the 1595 variance accounts. As of the date of approval of the financial statements, the application has not been submitted. Once approval is received, the approved account balance is moved to the regulatory settlement account. The balance is to be recovered over a period of one to four years.

### 11. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

### 12. Share capital:

	2016	2015
Authorized:		
Unlimited number of common shares		
Unlimited number of Class B special shares		
Issued:		
1,121,529 common shares	\$ 1,121,529	\$ 1,121,529
1,121,529 Class B special shares	1,121,529	1,121,529
	<u>\$ 2,243,058</u>	<u>\$ 2,243,058</u>

### 13. Other operating revenue:

Other operating revenue comprises:

	2016	2015
Rendering of services	\$ 38,001	\$ 23,658
Late payment charges	5,781	6,480
Total other operating revenue	<u>\$ 43,782</u>	<u>\$ 30,138</u>

### 14. Commitments and contingencies:

#### General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

#### General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2016, no assessments have been made.

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

### 15. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2016, the Corporation made employer contributions of \$30,091 to OMERS (2015 - \$26,149).

The Corporation estimates that a contribution of \$34,600 to OMERS during the next fiscal year.

### 16. Employee benefits:

	2016	2015
Salaries, wages and benefits	\$ 349,267	\$ 333,577
CPP and EI remittances	17,664	14,458
Contributions to OMERS	30,091	26,149
	\$ 397,022	\$ 374,184

### 17. Related party transactions:

#### (a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is the Corporation of the Township of Chapleau. Chapleau Public Utilities Corporation is a wholly-owned subsidiary of the Township of Chapleau. The Township produces financial statements that are available for public use.

#### (b) Entity with common ownership:

The Corporation is related to Chapleau Energy Services by virtue of common ownership.

#### (c) Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members, and is summarized below.

	2016	2015
Directors' fees	\$ 13,200	\$ 13,200
Salaries and other short-term benefits	87,775	60,695
	\$ 100,975	\$ 73,895

#### (d) Transactions with entity with common ownership:

In the ordinary course of business, the Corporation has a cost sharing agreement with Chapleau Energy Services. The Corporation was charged \$474,738 (2015 - \$412,494) by Chapleau Energy Services for the Corporation's portion of certain shared costs.



# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

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### 17. Related party transactions (continued):

#### (e) Transactions with the Township of Chapleau:

The Corporation delivers electricity to the Township throughout the year for the electricity needs of the Township and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB.

The Corporation billed the Township \$500,592 (2015 - \$443,310) for power purchased.

### 18. Financial instruments and risk management:

#### Fair value disclosure

Cash and cash equivalents are measured at fair value. The carrying values of receivables, and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

#### Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

#### (a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Township of Chapleau. No single customer accounts for a balance in excess of 4% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the allowance for impairment at December 31, 2016 is \$47,311 (2015 - \$54,845). An impairment loss of \$Nil (2015 - \$18,900) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2016, approximately \$39,462 (2015 - \$44,792) is considered 60 days past due. The Corporation has over 1,236 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2016, the Corporation holds security deposits in the amount of \$27,979 (2015 - \$25,054).

# CHAPLEAU PUBLIC UTILITIES CORPORATION

## Notes to Financial Statements

Year ended December 31, 2016

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### 18. Financial instruments and risk management (continued):

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk.

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

The Corporation is 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, 2016 no amounts have been drawn on this letter of credit in the amount of \$209,813 (2015 - \$209,813).

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

(d) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity. As at December 31, 2016, shareholder's equity amounts to \$2,059,104 (2015 - \$2,035,070).