**CONSOLIDATED**
**FINANCIAL STATEMENTS OF**

# TOWN OF COBOURG HOLDINGS INC.

**December 31, 2017**

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COLLINS BARROW

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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholder of
Town of Cobourg Holdings Inc.

*Report on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of Town of Cobourg Holdings Inc., which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of changes in equity and accumulated other comprehensive income (loss), income, comprehensive income and cash flows 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 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.

*Auditor's 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 auditor's 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 Town of Cobourg Holdings Inc. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Collins Barrow Kawarthas LLP*

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 19, 2018

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# TOWN OF COBOURG HOLDINGS INC.
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### As at December 31, 2017

| | 2017<br>$ | 2016<br>(restated note 27)<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | 21,496 | 1,522,883 |
| Accounts receivable | 2,940,427 | 3,447,539 |
| Unbilled revenue | 3,031,624 | 3,830,569 |
| Inventories | 275,438 | 305,576 |
| Prepaid expenses | 213,287 | 162,354 |
| Income taxes receivable | 230,671 | 316,476 |
| Current portion of due from shareholder (note 8) | 76,590 | 79,020 |
| | 6,789,533 | 9,664,417 |
| **Non current** | | |
| Property, plant and equipment (note 5) | 21,220,129 | 20,085,112 |
| Intangible asset (note 6) | 116,422 | 196,326 |
| Deferred tax asset (note 7) | 141,132 | 152,625 |
| Due from shareholder (note 8) | 495,000 | 540,000 |
| | 21,972,683 | 20,974,063 |
| | 28,762,216 | 30,638,480 |
| **Regulatory deferral account debit balances** (note 9) | 2,570,427 | 2,814,319 |
| | 31,332,643 | 33,452,799 |

*The accompanying notes are an integral part of these financial statements*



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# TOWN OF COBOURG HOLDINGS INC.
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### As at December 31, 2017

| | 2017<br>$ | 2016<br>(restated note 27)<br>$ |
|---|---|---|
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 10) | 5,073,031 | 4,603,886 |
| Operating loan (note 11) | 460,000 | - |
| Customer deposits due within one year (note 14) | 21,913 | 46,647 |
| Current portion of long-term debt (note 12) | 251,844 | 242,115 |
| | 5,806,788 | 4,892,648 |
| **Non current** | | |
| Long-term debt (note 12) | 10,088,768 | 10,340,613 |
| Contributions in aid of construction (note 13) | 2,273,018 | 2,191,327 |
| Deferred income taxes (note 7) | 183,018 | 94,100 |
| Customer deposits (note 14) | 234,165 | 221,038 |
| Employee future benefits (note 15) | 421,313 | 383,425 |
| | 13,200,282 | 13,230,503 |
| | 19,007,070 | 18,123,151 |
| **Shareholder's equity** | | |
| Share capital (note 17) | 7,002,145 | 7,002,145 |
| Retained earnings | 4,711,413 | 4,441,712 |
| Accumulated other comprehensive income (loss) | (22,234) | 16,490 |
| | 11,691,324 | 11,460,347 |
| | 30,698,394 | 29,583,498 |
| **Regulatory deferral account credit balances** (note 9) | 634,249 | 3,869,301 |
| | 31,332,643 | 33,452,799 |

Approved on behalf of the Board

____________________ Director ____________________ Director

*The accompanying notes are an integral part of these financial statements*



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# TOWN OF COBOURG HOLDINGS INC.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

**For the year ended December 31, 2017**

| | Share capital $ | Retained earnings (restated note 27) $ | Accumulated other comprehensive income (loss) $ | Total (restated note 27) $ |
|---|---|---|---|---|
| **Balance, December 31, 2015** | 7,002,145 | 3,874,486 | 16,490 | 10,893,121 |
| Net income for the year | - | 790,226 | - | 790,226 |
| Dividends paid | - | (223,000) | - | (223,000) |
| **Balance, December 31, 2016** | 7,002,145 | 4,441,712 | 16,490 | 11,460,347 |
| Net income for the year | - | 469,701 | - | 469,701 |
| Other comprehensive loss | - | - | (38,724) | (38,724) |
| Dividends paid | - | (200,000) | - | (200,000) |
| **Balance, December 31, 2017** | 7,002,145 | 4,711,413 | (22,234) | 11,691,324 |

*The accompanying notes are an integral part of these financial statements*



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# TOWN OF COBOURG HOLDINGS INC.

## CONSOLIDATED STATEMENT OF INCOME

**For the year ended December 31, 2017**

| | 2017<br>$ | 2016<br>(restated<br>note 27)<br>$ |
|---|---|---|
| **Revenue** | | |
| Revenue (note 19) | 4,549,480 | 4,712,792 |
| Cost of power revenue | 29,030,376 | 31,183,723 |
| Contributions in aid of construction (note 13) | 120,735 | 114,209 |
| | 33,700,591 | 36,010,724 |
| **Cost of power purchased** | 31,461,961 | 30,612,650 |
| **Gross profit** =34,561,023 total revenue, Line 0810 | 2,238,630 | 5,398,074 |
| **Other operating revenue** (note 20) | 860,432 | 876,629 |
| **Gross income from operations** | 3,099,062 | 6,274,703 |
| **Expenses** | | |
| Amortization | 1,223,891 | 1,219,665 |
| Operating expenses (note 18) | 3,027,949 | 2,826,696 |
| Gain on sale of property, plant and equipment | - | (30,000) |
| | 4,251,840 | 4,016,361 |
| **Income (loss) before undernoted items and income taxes** | (1,152,778) | 2,258,342 |
| Finance income (note 22) | (124,574) | (143,762) |
| Finance costs (note 22) | 733,464 | 771,031 |
| | 608,890 | 627,269 |
| **Income (loss) before income taxes and net movement in regulatory deferral accounts** | (1,761,668) | 1,631,073 |
| **Provision for income taxes** (note 7) =34,091,322 total expenses, Line 0820 | | |
| Current | 85,805 | 67,840 |
| Deferred | 114,411 | 201,934 |
| | 200,216 | 269,774 |
| **Income (loss) before net movement in regulatory deferral accounts** | (1,961,884) | 1,361,299 |
| **Net movement in regulatory deferral accounts** | (2,431,585) | 571,073 |
| **Net income for the year** | 469,701 | 790,226 |

*The accompanying notes are an integral part of these financial statements*

# TOWN OF COBOURG HOLDINGS INC.
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
### For the year ended December 31, 2017

| | 2017 $ | 2016 (restated note 27) $ |
|---|---|---|
| **Net income for the year** | 469,701 | 790,226 |
| **Other comprehensive loss** | | |
| Actuarial loss net of deferred tax, not reclassified to profit or loss | (38,724) | - |
| **Total comprehensive income for the year** | 430,977 | 790,226 |

*The accompanying notes are an integral part of these financial statements*

# TOWN OF COBOURG HOLDINGS INC.
## CONSOLIDATED STATEMENT OF CASH FLOWS
**For the year ended December 31, 2017**

| | 2017 | 2016 (restated note 27) |
|---|---|---|
| | $ | $ |
| **CASH PROVIDED FROM (USED FOR)** | | |
| **Operating activities** | | |
| Net income for the year | 469,701 | 790,226 |
| Adjustments | | |
| Amortization of property, plant and equipment | 1,143,987 | 1,112,154 |
| Amortization of intangible asset | 79,904 | 107,511 |
| Deferred income tax | 114,411 | 201,934 |
| Gain on sale of property, plant and equipment | - | (30,000) |
| Current income tax | 85,805 | 67,840 |
| Net financing costs | 608,890 | 614,523 |
| Employee future benefits | (14,836) | (12,284) |
| Recognition of contribution in aid of construction | (120,735) | (114,209) |
| Change in regulatory deferral accounts | (2,991,160) | 796,580 |
| | (624,033) | 3,534,275 |
| Change in non-cash working capital items (note 21) | 1,867,374 | (138,083) |
| | 1,243,341 | 3,396,192 |
| **Investing activities** | | |
| Purchase of property, plant and equipment | (2,279,004) | (2,872,952) |
| Proceeds on disposal of property, plant and equipment | - | 30,000 |
| Contribution in aid of construction received | 202,426 | 120,890 |
| | (2,076,578) | (2,722,062) |
| **Financing activities** | | |
| Operating loan | 460,000 | - |
| Repayment of long-term debt | (242,116) | (232,772) |
| Due from shareholder | 47,430 | 47,430 |
| Interest paid | (733,464) | (758,285) |
| Dividends paid | (200,000) | (223,000) |
| | (668,150) | (1,166,627) |
| **Decrease in cash** | (1,501,387) | (492,497) |
| **Cash - beginning of year** | 1,522,883 | 2,015,380 |
| **Cash - end of year** | 21,496 | 1,522,883 |

*The accompanying notes are an integral part of these financial statements*



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## 1. NATURE OF OPERATIONS

Town of Cobourg Holdings Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on April 12, 2000. The address of its registered office and its principal place of business is 207 Division Street, Cobourg, Ontario, K9A 3P6.

The principal activity of Lakefront Utilities Inc. (LUI) is to distribute electricity to the residents and businesses in the Town of Cobourg and Village of Colborne under licence issued by the Ontario Energy Board (OEB). LUI is regulated by the OEB and adjustments to its distribution rates require OEB approval.

Lakefront utility Services Inc. (LUSI) is a non-regulated services company which provides services to Municipalities related to the design, operation, and maintenance of electrical and water systems.

## 2. STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements for the year ended December 31, 2017 (including comparatives) were approved and authorized for issue by the board of directors on April 19, 2018.

## 3. BASIS OF CONSOLIDATION

The financial statements include the assets, liabilities and operations of the Company and its wholly owned subsidiaries: Lakefront Utilities Inc. and Lakefront Utilities Services Inc. All significant intercompany transactions and balances have been eliminated on consolidation.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards. There have been no changes to the significant accounting policies or no new policies adopted during the year. The significant policies are detailed as follows:

*(a) Basis of measurement*

The consolidated financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

The consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency.



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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(b) *Electricity regulation*

LUI is licensed and regulated by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1988. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and ensuring that distribution companies meet their obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

*Regulatory accounts*

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods, that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood or repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2017 and December 31, 2016 are disclosed in note 9.

(c) *Revenue recognition*

Service revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Service revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

Cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator.

Contributions in aid of construction represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers. Such contributions, whether in cash or in-kind, are recognized as contributions in aid of construction and amortized into income over the life of the related assets. Contributions in aid of construction in-kind are valued at their fair value at the date of their contribution.

Revenues related to Conservation and Demand Management ("CDM") agreements with the IESO are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

Commercial revenue is recognized upon delivery of the goods.

Other operating revenue is recorded when services are provided.



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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(d) *Cash*

Cash consists of balances with financial institutions.

(e) *Inventories*

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

(f) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are amortized using the straight-line or declining balance method over their estimated useful lives. Assets are amortized from the date of acquisition. Internally constructed assets are amortized from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, amortization is taken at one-half of the above rates on buildings, equipment and vehicles and distribution equipment.

The residual value, useful life and amortization method applied to each class of assets are reassessed at each reporting date.

The methods of amortization and amortization rates applicable for each class of asset are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Equipment and vehicles | 5-20 years |
| Distribution equipment | 15 to 55 years |

An impairment loss is recognized when the carrying amount of these assets is not recoverable and exceeds their fair value.



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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(g) Intangible assets*

Intangible assets include computer software. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

| | |
|---|---|
| Computer software | 5 years straight-line |

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditure relating to patches and other minor updates as well as their installation), are expensed as incurred.

*(h) Contributions in aid of construction*

When capital contributions in aid of construction are received toward the cost of constructing distribution assets, they are initially recorded at fair value with the corresponding amount recognized as contributions in aid of construction on the statement of income. Contributions are amortized based on the useful life of the related asset.

*(i) Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(j) Customer deposits*

Customers may be required to post security to obtain electricity or other services, which are refundable. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported as part of the Company's own cash. Deposits to be refunded within the next fiscal year are classified as current. Interest rates paid on customer deposits are based on a chartered commercial bank's prime business rate less 2.0%.

*(k) Employee future benefits*

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined benefit plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last valuation performed was as at December 31, 2017. Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the post-employment benefits are detailed in Note 15.

*(l) Income taxes*

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 8.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(m) *Related parties*

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 8 and 16.

(n) *Provisions*

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

Some of the Company's assets may have provision obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

(o) *Finance income and finance costs*

Finance income comprises interest income on funds invested and gains on the disposal of financial assets. Interest income is recognized as it accrues in income, using the effective interest method.

Finance costs comprise interest expense on borrowings, net interest on employee future benefits, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in comprehensive income using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.



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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(p) Significant accounting estimates and judgments*

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgments and assumptions include the following:

Unbilled revenue - The measurement of unbilled revenue is based on an estimate of the amount of electricity delivered to customers between the date of the last bill and the end of the year.

Useful lives of depreciable assets - Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment and intangible assets. The Company estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment, historical experience and an asset study conducted by an independent consulting firm.

Payment in lieu of taxes payable - The Company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgment is required in determining the provision and liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions for among other things, the discount rate, retirement age, health care costs and inflation.

Accounts receivable impairment - In determining the allowance for doubtful accounts, the Company considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.



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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(q) Financial instruments*

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there has been no reclassification of financial instruments.

*Loans and receivables*

The Company has classified cash, accounts receivable, unbilled revenue and due from shareholder as loans and receivables.

Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in comprehensive income upon de-recognition or impairment.

*Financial liabilities measured at amortized cost*

The Company has classified accounts payable and accrued liabilities, customer deposits, operating loan and long term debt as financial liabilities measured at amortized cost.

Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in comprehensive income upon de-recognition or impairment.



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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(r) New Standards and interpretations not yet effective or adopted*

Effective for annual periods beginning on or after January 1, 2018

IFRS 9 Financial Instruments: Recognition and Measurement (new) – modifies IAS 39 eliminating categories and redefines gain and loss re-measurement.

IFRS 15 Revenue from Contracts with Customers: The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard contains enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively.

Effective for annual periods beginning on or after January 1, 2019

IFRS 9 Financial Instruments was amended by the IASB in October 2017. Amendments allow companies to measure particular pre-payable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. Earlier application is permitted.

IFRS 16 replaces IAS 17 Leases and brings leases onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating or finance leases for the lessee treating all leases as finance leases. Short term and low value assets are exempt from these requirements.

The Company is currently assessing the impact that the standards will have on the statements.



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5. **PROPERTY, PLANT AND EQUIPMENT**

| | Land and buildings $ | Equipment and vehicles $ | Distribution equipment $ | Work in process $ | Total $ |
|---|---|---|---|---|---|
| Cost | | | | | |
| At January 1, 2017 | 1,307,260 | 2,689,440 | 19,042,531 | 160,449 | 23,199,680 |
| Additions | 24,812 | 133,034 | 2,230,623 | - | 2,388,469 |
| Transfers | - | - | - | (107,051) | (107,051) |
| At December 31, 2017 | 1,332,072 | 2,822,474 | 21,273,154 | 53,398 | 25,481,098 |
| Accumulated amortization | | | | | |
| At January 1, 2017 | 92,627 | 948,507 | 2,073,434 | - | 3,114,568 |
| Amortization | 33,837 | 373,985 | 738,579 | - | 1,146,401 |
| At December 31, 2017 | 126,464 | 1,322,492 | 2,812,013 | - | 4,260,969 |
| Net book amount at December 31, 2017 | 1,205,608 | 1,499,982 | 18,461,141 | 53,398 | 21,220,129 |

| | Land and buildings $ | Equipment and vehicles $ | Distribution equipment $ | Work in process $ | Total $ |
|---|---|---|---|---|---|
| Cost | | | | | |
| At January 1, 2016 | 1,239,791 | 2,102,728 | 16,749,174 | 287,209 | 20,378,902 |
| Additions | 67,469 | 590,512 | 2,341,730 | 147,312 | 3,147,023 |
| Transfers | - | - | - | (274,072) | (274,072) |
| Disposals | - | (3,800) | (48,373) | - | (52,173) |
| At December 31, 2016 | 1,307,260 | 2,689,440 | 19,042,531 | 160,449 | 23,199,680 |
| Accumulated amortization | | | | | |
| At January 1, 2016 | 60,557 | 602,997 | 1,391,034 | - | 2,054,588 |
| Amortization | 32,070 | 349,310 | 730,773 | - | 1,112,153 |
| Disposals | - | (3,800) | (48,373) | - | (52,173) |
| At December 31, 2016 | 92,627 | 948,507 | 2,073,434 | - | 3,114,568 |
| Net book amount at December 31, 2016 | 1,214,633 | 1,740,933 | 16,969,097 | 160,449 | 20,085,112 |

Included in land and building is land with a cost of $219,284 (2016 - $219,284)



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## 6. INTANGIBLE ASSET

| | Cost<br>$ | Accumulated amortization<br>$ | 2017 Net book value<br>$ |
|---|---|---|---|
| Computer software | 480,788 | 364,366 | 116,422 |

| | Cost<br>$ | Accumulated amortization<br>$ | 2016 Net book value<br>$ |
|---|---|---|---|
| Computer software | 480,788 | 284,462 | 196,326 |

During the year, there were no additions (2016 - $nil) or disposals (2016 - $nil).

## 7. INCOME TAXES

(a) The components of deferred income tax balances are as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Deferred income tax asset | | |
| Non-capital loss carry-forwards | - | 18,897 |
| Tax basis of property, plant and equipment in excess of carrying amount | 29,484 | 27,728 |
| Reserves deductible when paid | 111,648 | 106,000 |
| Deferred income tax liability | | |
| Carrying amount of property, plant and equipment in excess of tax basis | 183,018 | 94,100 |

| | Opening balance at January 1, 2017<br>$ | Recognize in net income<br>$ | Recognize in OCI<br>$ | Closing balance at December 31, 2017<br>$ |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Non-capital loss carry-forwards | 18,897 | (18,897) | - | - |
| Tax basis of equipment in excess of carrying amount | 27,728 | 1,756 | - | 29,484 |
| Reserves deductible when paid | 106,000 | (8,352) | 14,000 | 111,648 |



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7. **INCOME TAXES, continued**

| | Opening balance at January 1, 2017 $ | Recognize in net income $ | Recognize in OCI $ | Closing balance at December 31, 2017 $ |
|---|---|---|---|---|
| **Deferred tax liabilities** | | | | |
| Carrying amount of property, plant and equipment in excess of tax basis | 94,100 | 88,918 | - | 183,018 |

Deferred tax assets and liabilities are not expected to be recovered/paid within the next 12 months.

(b) The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.50% (2016 - 39.50%) to the income (loss) for the years as follows:

| | 2017 $ | 2016 (restated note 27) $ |
|---|---|---|
| Income (loss) for the year | (1,762,000) | 1,631,000 |
| Net movement in regulatory deferral accounts | 2,431,585 | (571,073) |
| Other comprehensive income | (38,724) | - |
| | 630,861 | 1,059,927 |
| Anticipated income tax | 249,190 | 418,671 |
| Tax effect of the following: | | |
| Effect of items not deductible for tax | 1,669 | 2,194 |
| General rate reduction | (75,263) | (144,110) |
| Effect of prior period adjustment and other | 24,620 | (6,981) |
| Provision for income taxes | 200,216 | 269,774 |



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## 8. DUE FROM SHAREHOLDER

The amount due from shareholder of $571,590 (2016 - $619,020) relates to a project completed by the Company for the shareholder. The loan requires annual principal repayments of $45,000, bears interest at a rate of 5.4% and matures December 2029.

## 9. REGULATORY DEFERRAL ACCOUNTS

| | Note | Remaining recovery/ reversal period (years) | 2016 (restated note 27) $ | Balances arising in the period $ | Recovery/ reversal $ | 2017 $ |
|---|---|---|---|---|---|---|
| **Regulatory deferral account debit** | | | | | | |
| Low voltage | i | 1-2 | 729,000 | 399,653 | (312,768) | 815,885 |
| Other DVA | ii | 1-2 | 51,860 | 28,462 | (33,044) | 47,278 |
| Cost of power | iii | 1-2 | 1,080,372 | 812,519 | (397,798) | 1,495,093 |
| Retail settlement | iv | 1-2 | 85,537 | 5,574 | - | 91,111 |
| Recovery account | v | 1-2 | 867,550 | (229,261) | (517,229) | 121,060 |
| | | | 2,814,319 | 1,016,947 | (1,260,839) | 2,570,427 |
| **Regulatory deferral account credit** | | | | | | |
| Cost of power | iii | 1-2 | 2,364,025 | (3,149,737) | 785,712 | - |
| Retail settlement | iv | 1-2 | 645,888 | 367,512 | (472,928) | 540,472 |
| Recovery account | v | 1-2 | 858,838 | (1,241,341) | 475,880 | 93,377 |
| Other DVA | ii | 1-2 | 550 | (150) | - | 400 |
| | | | 3,869,301 | (4,023,716) | 788,664 | 634,249 |



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9. **REGULATORY DEFERRAL ACCOUNTS, continued**

i) Low voltage
This account is used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market. The account is used to record the net of the amount charged by a host distributor to an embedded distributor for transmission or low voltage services and the amount billed to the embedded distributor's customers based on the embedded distributor's approved rates.

ii) Other DVA
1518 – Retail cost variance account – retail: Is used to record the revenue derived, including accruals from establishing service agreements, distributor-consolidated billing, and retailer-consolidated billing. The account also includes costs of entering into service agreements, and related contract administration, monitoring, necessary to maintain the contract, as well as incremental costs incurred to provide the services as applicable and the avoided costs credit arising from retailer-consolidated billing, including accruals.

1548 – Retail cost variance – STR: Is used to record the revenues derived, including accruals, from the Service Transaction Request services and charged by the distributor, in the form of a request fee, processing fee, information request fee, default fee, and other associated costs. The account also includes the cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the service transaction request services.

iii) Cost of power
1588 – RSVA Power: This account records the difference between the energy amount billed to customers and the energy charge to a distributor using the monthly settlement invoice received from the Independent Electricity System Operator.

1589 – RSVA Global Adjustment: This account records the difference between the global adjustment amounts billed to non-Regulated Price Plan consumers and the global adjustment charge to a distributor for non-Regulated Price Plan consumers using the monthly settlement invoiced received from the IESO.

iv) Retail settlement
Account includes RSVA accounts 1580, 1582, 1584, and 1586, which are used to record the amount charged by the IESO, based on the settlement invoice, for: a) the operation of the IESO administered markets and the operation of the IESO-controlled grid, b) wholesale market service charges, c) transmission networks services, and d) transmission connection services and the amount billed to customers using Board-approved rates.

v) Recovery account
This control account is used to record the disposition of deferral and variance account balances for electricity distributors receiving approval to recover (or refund) account balances in rates as part of the regulatory process

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Accounts payable - energy purchased | 2,465,538 | 2,933,825 |
| Other trade accounts payable and accrued liabilities | 2,607,493 | 1,670,061 |
| | 5,073,031 | 4,603,886 |

## 11. CREDIT FACILITIES

The Company has a $2,500,000 (2016 - $2,500,000) credit facility consisting of $1,000,000 (2016 - $1,000,000) operating line and $1,500,000 (2016 - $1,500,000) stand-by letters of guarantee.

The operating line bears interest at prime rate plus 0.5% per year and is secured by a General Security Agreement covering substantially all of the Company's assets. At year end, the Company had drawn $460,000 from this line (2016 - $Nil). The bank agreements require the Company to maintain certain financial covenants. At December 31, 2017 the Company was in compliance with the financial covenants.

The Company has posted $1,222,663 (2016 - $1,222,663) in stand-by letters of guarantee with the Independent Electricity System Operator, as required by regulation. The facility bears interest at 0.75% per annum.

## 12. LONG-TERM DEBT

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Bank loan, 5.4% per annum blended repayments of $6,155 monthly, due February 29, 2020. | 658,109 | 695,337 |
| Infrastructure Ontario Loan, 4.03% per annum, blended repayments of $82,668 semi-annually, due September 5, 2028 | 1,349,786 | 1,560,923 |
| Infrastructure Ontario Loan, 3.83% per annum, blended repayments of $72,708 semi-annually, due October 1, 2027 | 1,332,717 | 1,326,468 |
| Demand note payable, Corporation of Town of Cobourg, 7.25% per annum | 7,000,000 | 7,000,000 |
| | 10,340,612 | 10,582,728 |
| Less principal payments due within one year | 251,844 | 242,115 |
| Due beyond one year | 10,088,768 | 10,340,613 |



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## 12. LONG-TERM DEBT, continued

The demand note payable is unsecured and without specific terms of repayment, The demand note payable has been classified as a long-term liability as the Town has indicated that they will not demand repayment prior to January 1, 2019. During the year the Company paid $507,500 (2016 - $507,500) in interest on the note.

The estimated principal repayments for 2018-2022 and subsequent years are related to the Company's demand note payable, bank loan and loans with Infrastructure Ontario. Also included in subsequent years is the $7,000,000 demand note payable with the Town of Cobourg. Estimated principal repayments are as follows:

| | $ |
|---|---|
| 2018 | 251,844 |
| 2019 | 261,961 |
| 2020 | 806,147 |
| 2021 | 237,342 |
| 2022 | 246,236 |
| Subsequent years | 8,537,082 |
| | 10,340,612 |

## 13. CONTRIBUTION IN AID OF CONSTRUCTION

The continuity of deferred customer contributions in aid of construction is as follows:

| | 2017 $ | 2016 $ |
|---|---|---|
| Deferred contributions, net, beginning of year | 2,191,326 | 2,184,646 |
| Contributions in aid of construction received | 202,427 | 120,890 |
| Contributions in aid of construction recognized as revenue | (120,735) | (114,209) |
| Deferred contributions, net, end of year | 2,273,018 | 2,191,327 |

## 14. CUSTOMER DEPOSITS

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

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



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## 15. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by actuarial valuation. The most recent valuation was performed for the year ended December 31, 2017.

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Accrued benefit obligation, beginning of period | 383,425 | 395,709 |
| Current service cost | 10,237 | 9,815 |
| Past service cost | 15,338 | - |
| Interest on accrued benefit obligation | 15,290 | 16,192 |
| Benefits paid | (55,701) | (38,291) |
| | 368,589 | 383,425 |
| Actuarial loss arising from changes in financial assumptions | 52,724 | - |
| Accrued benefit obligation, end of period | 421,313 | 383,425 |

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial gains (loss) arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is $40,865 (2016 - $26,007).

The actuarial assumptions used in the valuation are: discount rate of 3.5% (2016 - 4.3%), salary increase rate of 3% (rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion and for Company specific information) (2016 - 3%), health benefits include both health benefits 6.20% (2016 - 6.25%), and dental benefits 4.5% (2016 - 4.5%) and retirement age of 60 (2016 - 60). The health benefits are expected to decrease at 0.25% per year until 2025 when it reaches 4.50% and dental benefits are expected to remain at 4.50% to 2025.

The impact of a change in the actuarial assumptions would have the following impact on the obligation:

| | 2017 | 2016 | Reasonable possible change | Benefit obligation increase<br>$ | Benefit obligation decrease<br>$ |
|---|---|---|---|---|---|
| Discount rate | 3.50% | 4.30% | +/- 1% | 56,300 | 44,100 |
| Health benefits | 4.5%-6.2% | 4.5%-6.2% | +/- 1% | 10,300 | 9,600 |

## 16. RELATED PARTY TRANSACTIONS

The Corporation of the Town of Cobourg is the majority shareholder of the Company with the Township of Cramahe (Colborne) owning one share. Related party transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by both parties.

The Company provides water and sewage billing and collection services to the customers of the Corporation of the Town of Cobourg, the Township of Cramahe, Town of Colborne and the Hamlet of Grafton, as well as supplying street light energy and streetlight maintenance services to the Corporation of the Town of Cobourg and the Township of Cramahe (Colborne). During the year, the Company collected revenues of $30,000 (2016 - $30,000) from the Town of Cobourg and paid expenses of $61,300 (2016 - $63,202) and interest of $507,500 (2016 - $507,500) as detailed in Note 12.

The Company also has a promissory note receivable in the amount of $540,000 (2016 - $585,000) with interest receivable of $31,590 (2016 - $34,020) from the shareholder as described in note 8.

At year-end, included in accounts receivable is $588 (2016 - $21,786) due from the Town of Cobourg. Included in accounts payable was $30,499 (2016 - $20,289) due to the Town of Cobourg.

The Company is also engaged in transactions in the normal course of operations with the Waterworks of the Town of Cobourg (Waterworks). The parties are related due to common control. During the year, the Company collected rent recoveries of $50,946 (2016 - $50,193) from Waterworks.

The key management personnel of the corporation has been identified as members of its board of directors and management team members. Total wages and benefits to these individuals total $435,320 (2016 - $311,378).

## 17. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| 11,300,000 common shares | 7,002,145 | 7,002,145 |



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## 18. EXPENSES BY NATURE

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Customer billing and collecting | 548,285 | 473,005 |
| Distribution | 833,309 | 840,862 |
| General and administration | 1,579,257 | 1,451,929 |
| Community initiatives | 67,098 | 60,900 |
| | 3,027,949 | 2,826,696 |

## 19. REVENUE

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Distribution revenue | 4,259,891 | 4,294,707 |
| Commercial revenue | 289,589 | 418,085 |
| | 4,549,480 | 4,712,792 |

## 20. OTHER OPERATING REVENUE

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Rentals | 115,200 | 119,293 |
| Miscellaneous | 122,538 | 191,856 |
| Feed-in-tariff invoicing | 4,110 | 4,047 |
| Recoverable work | 16,917 | 24,699 |
| External services | 601,667 | 536,734 |
| | 860,432 | 876,629 |



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## 21. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

| | 2017 $ | 2016 $ |
|---|---|---|
| Decrease (increase) in accounts receivable | 507,112 | (607,926) |
| Decrease (increase) in unbilled revenue | 798,945 | (898,481) |
| Decrease (increase) in inventories | 30,138 | (62,256) |
| Increase in prepaid expenses | (50,933) | (92,603) |
| Increase in accounts payable and accrued liabilities | 469,145 | 1,368,534 |
| Increase (decrease) in deposits held | (11,607) | 64,633 |
| Income taxes (paid)/received | - | (53,746) |
| Interest received | 124,574 | 143,762 |
| | 1,867,374 | (138,083) |

## 22. FINANCE (INCOME) COSTS

Finance income, recognized in net income:

| | 2017 $ | 2016 (restated - note 27) $ |
|---|---|---|
| Interest income on receivables | 51,434 | 68,314 |
| Interest income on bank deposits | 46,916 | 51,583 |
| Interest income on regulatory deferral accounts | 26,224 | 23,865 |
| | 124,574 | 143,762 |

Finance costs, recognized in net income:

| | 2017 $ | 2016 $ |
|---|---|---|
| Interest on long term debt | 655,770 | 691,540 |
| Interest on deferral accounts | 48,479 | 50,811 |
| Other interest | 13,925 | 12,488 |
| Net interest on employee future benefits | 15,290 | 16,192 |
| | 733,464 | 771,031 |

## 23. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement System (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount that the Company contributed to O.M.E.R.S. for the year ended was $138,688 (2016 - $117,171).

## 24. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as outlined in the Shareholder Agreement between the Company's shareholder, Town of Cobourg Holdings Inc. and its shareholder, the Corporation of the Town of Cobourg. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

The Ontario Energy Board sets rates based on a deemed capital structure of 60% debt and 40% equity.

The Company's current capital structure is defined as follows:

| | 2017<br>$ | 2016<br>(restated note 27)<br>$ |
|---|---|---|
| Infrastructure Ontario loans | 2,682,503 | 2,887,391 |
| Bank loan and operating line | 1,118,109 | 695,337 |
| Note payable | 7,000,000 | 7,000,000 |
| Total debt | 10,800,612 | 10,582,718 |
| Share capital | 7,002,145 | 7,002,145 |
| Retained earnings and OCI | 4,689,182 | 4,458,204 |
| | 11,691,327 | 11,460,349 |

## 25. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, accounts receivable, unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, customer deposits operating loan, advances payable and long term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk.

The Company is exposed to the following risks in respect of certain financial instruments held:

(a) *Fair value*

The estimated fair values of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, customer deposits, accounts payable and accruals and advances payable approximate their carrying values due to the relatively short-term nature of the instruments and/or floating interest rates on the instruments. The estimated fair values of long-term debt also approximate carrying values due to the fact that effective interest rates are not significantly different from market rates.

(b) *Interest rate risk*

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.



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## 25. FINANCIAL INSTRUMENTS, continued

(c) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2017 is $50,000 (2016 - $43,000). The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 10,000 customers, the majority of which 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, 2017, the Company holds security deposits in the amount of $256,078 (2016 - $267,685). The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

The following table sets out the maturities of accounts receivable:

| | Trade accounts receivable $ | Accounts receivable - recoverable work $ | Allowance for doubtful accounts $ | Total $ |
|---|---|---|---|---|
| 0-30 days | 2,828,548 | 89,693 | - | 2,918,241 |
| 31-60 days | 14,349 | 487 | - | 14,836 |
| 61-90 days | 4,217 | 1,617 | - | 5,834 |
| 90+ days | 41,847 | 9,669 | (50,000) | 1,516 |
| | 2,888,961 | 101,466 | (50,000) | 2,940,427 |

(d) *Market risk*

The Company is not exposed to significant market risk given they do not have investments in foreign currency, and have minimal investment in interest bearing instruments.

## 25. FINANCIAL INSTRUMENTS, continued

(e) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investment requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $1,000,000 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

| | Between 1-12 months $ | Between 1-2 years $ | Over 2 years $ |
|---|---|---|---|
| Accounts payable and accrued liabilities | 5,073,026 | - | - |
| Customer deposits | 21,913 | 234,165 | - |
| Long term debt | 251,844 | 261,961 | 9,826,807 |
| Line of credit | 460,000 | - | - |
| Employee future benefits | - | - | 421,313 |
| | 5,806,783 | 496,126 | 10,248,120 |

## 26. CONTINGENCIES

The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.



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27. **PRIOR PERIOD ADJUSTMENT**

Lakefront Utilities Inc. filed an Incentive Rate Mechanism (IRM) in August 2017 which included Deferral and Variance Account (DVA) balances at December 31, 2015. Included in the DVA disposition was Disposition and Recover/Refund of Regulatory Balances (2012) of $544,917. The balance was related to Lakefront's disposition from its 2012 Cost of Service filing consisting of a four-year rate rider which ceased April 30, 2015.

Lakefront's DVA disposition balance per its 2012 Cost of Service was $1,206,169, consisting of DVA balances as at December 31, 2010. As indicated in LUI's 2012 Cost of Service filing, account 1562 and 1563 records the amount resulting from the OEB-approved PILs methodology for determining the 2001 deferral account allowance and the PILs proxy amount determined for 2002 and subsequent periods ending April 30, 2007. As indicated in Lakefront's Settlement Proposal, the final 1562 balance approved for disposition was a credit of $416,304.

Lakefront removed the disposition claim for Disposition and Recover/Refund of Regulatory Balances (2012) of $551,374 from the 2018 IRM and adjusted for the entry to debit $416,304 to account 1595, including interest.

The overall impact of the adjustment was an increase to the regulatory deferral account credit balances of $411,960 and an increase to the income tax receivable balance of $101,912 with the difference of $310,048 to retained earnings.

The result of the issue had not resulted in retroactive impact on rates.

The change in the opening retained earnings as presented in these financial statements is as follows:

| | $ |
|---|---|
| Opening 2016 retained earnings as previously presented | 4,184,534 |
| Prior period adjustment | (310,048) |
| | 3,874,486 |

28. **COMPARATIVE AMOUNTS**

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.