

Consolidated Financial Statements of  
**GREATER SUDBURY UTILITIES INC./  
SERVICES PUBLICS DU GRAND SUDBURY INC.**

Year ended December 31, 2010



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## INDEPENDENT AUDITORS' REPORT

### To the Shareholder of **GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.**

#### *Report on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of the **GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.**, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of operations and deficit 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 Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 entity'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 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 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, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**FREELANDT CALDWELL REILLY LLP**

*Freelandt Caldwell Reilly LLP*

Chartered Accountants  
Licensed Public Accountants  
Sudbury, Ontario  
April 26, 2011

**GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.**  
**Consolidated Balance Sheet**  
**December 31, 2010 with comparative figures for 2009**

	2010	2009 (as restated) (note 23)
<b>Assets</b>		
<b>Current</b>		
Cash and investments (note 3)	\$ 3,573,148	\$ 11,410,218
Accounts receivable (note 4)	4,872,141	5,769,622
Unbilled revenue - distribution	5,473,006	3,687,004
Unbilled revenue - energy sales	19,149,246	12,237,062
Inventory	1,516,157	1,865,523
Payment in lieu of taxes	-	1,769,876
Prepaid expenses	534,672	403,092
Current portion of other assets	26,250	26,250
	35,144,620	37,168,647
<b>Capital assets (note 5)</b>	82,272,992	79,847,496
<b>Payment in lieu of future taxes (note 6)</b>	7,510,240	8,179,898
<b>Regulatory assets (note 7)</b>	5,360,633	110,970
<b>Other assets (note 8)</b>	335,207	361,457
	\$ 130,623,692	\$ 125,668,468

Approved on behalf of the Board

Director 

Director 

See accompanying notes to financial statements

**GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.**  
**Consolidated Balance Sheet**  
**December 31, 2010 with comparative figures for 2009**

	2010	2009 (as restated) (note 23)
<b>Liabilities and shareholder's equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 7,081,582	\$ 6,031,932
Payable for energy purchases	12,691,064	12,159,001
Payment in lieu of taxes	407,786	-
Note payable (note 13)	4,184,100	-
Promissory note payable (note 9)	52,340,819	52,340,819
Current portion of deferred revenue	88,917	88,917
Current portion of long-term obligations	846,179	833,179
	77,640,447	71,453,848
<b>Deferred revenue (note 10)</b>	914,674	1,003,593
<b>Regulatory liabilities (note 7)</b>	11,406,964	11,792,716
<b>Long-term obligations (note 11)</b>	20,387,353	22,148,364
<b>Preferred shares (note 13)</b>	-	4,184,100
	110,349,438	110,582,621
<b>Shareholder's equity</b>		
Share capital (note 14)	22,431,779	22,431,779
Deficit	(2,157,525)	(7,345,932)
	20,274,254	15,085,847
<b>Commitments and contingencies (note 15)</b>		
	\$ 130,623,692	\$ 125,668,468

See accompanying notes to financial statements

**GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.**  
**Consolidated Statement of Operations and Deficit**  
**Year ended December 31, 2010 with comparative figures for 2009**

	2010	2009 (as restated) (note 23)
<b>Revenue</b>		
Energy sales	\$ 79,191,698	\$ 77,140,065
Distribution	21,987,007	21,567,284
	<u>101,178,705</u>	<u>98,707,349</u>
Cost of energy	79,191,698	77,140,065
<b>Gross profit</b>	<u>21,987,007</u>	<u>21,567,284</u>
<b>Expenses</b>		
Operating and administration	15,592,406	15,990,960
Amortization	6,888,917	6,310,521
Interest on promissory note payable	3,794,709	3,794,709
Interest on long-term obligations	980,704	1,141,661
	<u>27,256,736</u>	<u>27,237,851</u>
<b>Loss before undernoted items and payment in lieu of taxes</b>	<u>(5,269,729)</u>	<u>(5,670,567)</u>
<b>Other revenue (expenses)</b>		
Loss on disposal of capital assets	(229,714)	(1,334,963)
Other operating revenue	9,629,763	8,816,538
Gain on employee future benefit obligation (note 12)	2,780,264	-
	<u>12,180,313</u>	<u>7,481,575</u>
<b>Earnings before payment in lieu of taxes</b>	<u>6,910,584</u>	<u>1,811,008</u>
<b>Payment in lieu of taxes (note 6)</b>		
Current	1,545,925	825,256
Future	176,252	284,053
	<u>1,722,177</u>	<u>1,109,309</u>
<b>Net earnings</b>	5,188,407	701,699
<b>Deficit, beginning of year, before prior period adjustment</b>	(7,345,932)	(1,972,082)
<b>Prior period adjustment (note 23)</b>	-	(6,075,549)
<b>Deficit, end of year</b>	<u>\$ (2,157,525)</u>	<u>\$ (7,345,932)</u>

See accompanying notes to financial statements

**GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.**  
**Consolidated Cash Flow Statement**  
**Year ended December 31, 2010 with comparative figures for 2009**

	2010	2009
<b>Cash flows from operating activities</b>		
Net earnings	\$ 5,188,407	\$ 701,699
<b>Adjustments for:</b>		
Amortization	6,888,917	6,310,521
Payment in lieu of future taxes	176,252	284,053
Gain on employee future benefit obligation	(2,780,264)	-
Other amortization	501,979	434,356
Loss on disposal of capital assets	229,714	1,334,963
	10,205,005	9,065,592
Change in non-cash operating working capital (note 17)	(3,823,544)	444,673
	6,381,461	9,510,265
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(11,688,774)	(13,023,767)
Proceeds on disposal of capital assets	59,055	2,370
Contributions in aid of construction	1,583,613	1,031,041
Other assets	26,250	26,250
	(10,019,856)	(11,964,106)
<b>Cash flows from financing activities</b>		
Repayment of long-term obligations	(100,000)	(249,506)
Proceeds from long-term obligations	356,928	252,091
Deferred revenue	(88,919)	21,405
Note payable	4,184,100	-
Regulatory assets/liabilities	(5,142,009)	31,702
Redemption of shares	(4,184,100)	-
Employee future benefit obligation	775,325	898,432
	(4,198,675)	954,124
<b>Decrease in cash and investments</b>	<b>(7,837,070)</b>	<b>(1,499,717)</b>
<b>Cash and investments, beginning of year</b>	<b>11,410,218</b>	<b>12,909,935</b>
<b>Cash and investments, end of year</b>	<b>\$ 3,573,148</b>	<b>\$ 11,410,218</b>
<b>Other information</b>		
Interest paid	\$ (4,775,413)	\$ (3,970,697)
Payment in lieu of taxes received (paid)	574,762	(2,292,280)

See accompanying notes to financial statements

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**GREATER SUDBURY UTILITIES INC./  
SERVICES PUBLICS DU GRAND SUDBURY INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010**

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**1. Nature of operations**

Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. was incorporated under the Business Corporations Act (Ontario) on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 Ontario (the "EA").

The Corporation is an investment holding company with its wholly owned subsidiaries involved in the distribution of electricity, provision of broadband telecommunications services and competitive rental and customer support services.

**2. Significant accounting policies**

**(a) Basis of accounting**

These consolidated financial statements are the representation of the Corporation's management and are prepared in accordance with Canadian generally accepted accounting principles (GAAP) as set forth in the Canadian Institute of Chartered Accountants Handbook, including policies set forth in the Accounting Procedure Manual issued by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998 ("OEBA").

**(b) Basis of consolidation**

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries: Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc.; Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.; Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc.; 1627596 Ontario Inc.; and 1700211 Ontario Inc.

**(c) Effects of rate regulation**

The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in a non rate regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, that are expected to be recovered from customers in future periods through the rate setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate setting and approval process.

**2. Significant accounting policies (continued)**

**(d) Use of estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the estimation of unbilled distribution revenue, unbilled revenue for energy sales, employee future benefit obligation, regulatory assets and liabilities, inventory obsolescence, amounts transferred to the variance account for the water billing study, allowances for uncollectible accounts at the balance sheet date, estimated useful life of capital assets and fair value determinations.

**(e) Cash and investments**

Cash and investments consists of cash on hand and in banks and readily convertible investments. Readily convertible investments are carried at fair market value.

**(f) Accounts receivable**

Accounts receivable are recorded net of an allowance for doubtful accounts.

**(g) Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

**(h) Unbilled revenues**

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

**(i) Capital assets**

Capital assets are recorded at cost less government grants received, contributions in aid of construction and developer contributions and include an allocation of engineering and other overhead. Amortization is provided annually, on a straight line basis, in accordance with the following rates:

Buildings	15-50 years
Distribution systems	25 years
Fibre optics	5-25 years
Water heaters	10-15 years
Office and other equipment	5-10 years
Computer equipment	5 years
Automotive	4-8 years
System supervisory equipment	15 years
Wireless towers	20 years
Generation	20 years

Construction in progress includes assets not currently in use and therefore no yet subject to amortization.

**2. Significant accounting policies (continued)**

**(j) Payment in lieu of taxes**

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

Payment in lieu of future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of future tax assets are recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are re-measured annually for changes in these rates. Any payment in lieu of future income tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of the change.

As prescribed by regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of payment in lieu of future taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

A separate regulatory asset or liability is recognized for the amount of payment in lieu of future taxes which are expected to be included in future rates and recovered from or refunded to customers in future periods through the rate setting and approval process.

**(k) Contributions in aid of construction**

In certain cases, non-refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are charged to operations at the same rate as the capital assets to which they relate.

**(l) Developer contributions**

In certain cases, refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are charged to operations at the same rate as the capital assets to which they relate. Contributions refunded reduce the corresponding contra-asset account of the capital assets to which they relate.

**(m) Employee future benefit obligation**

Actuarial gains or losses on employee future benefit obligations arise when the expected amount of the Accrued Post-retirement Benefit Obligation (APBO) differs from the amount recorded in the accounts. These gains or losses are recognized in the year that they are actuarially determined.

**(n) Asset retirement obligations**

Accounting standards require the Corporation to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated capital asset.

**2. Significant accounting policies (continued)**

**(n) Asset retirement obligations (continued)**

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

**(o) Revenue recognition**

Distribution and energy related revenues attributable to the supply and distribution of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. The Corporation estimates the revenue for the period based on wholesale energy purchases because customer meters are not all read at the end of the year. Unbilled revenue is estimated and included in unbilled revenue - distribution and unbilled revenue - energy sales at the end of the year.

Telecommunication services, equipment rental and other operating revenues are recognized upon the delivery of services to customers.

**(p) Financial instruments**

At inception, all financial instruments which meet the definition of a financial asset or financial liability are to be recorded at their fair value, unless fair value cannot be reliably determined. Depending on the nature of the financial instrument, revenues, expenses, gains and losses thereon would be reported in either net income or other comprehensive income. Subsequent measurement of each financial instrument will depend on the balance sheet classification selected by the Corporation. The Corporation has selected the following balance sheet classifications with respect to its financial assets and financial liabilities:

- Cash is a financial asset classified as "held for trading" and is measured at fair value";
- Cash equivalents, comprising short-term investments, are financial assets classified as "held to maturity investments" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value;
- Accounts receivable and unbilled revenue are financial assets classified as "loans and receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value; subsequent measurements are recorded at amortized cost using the effective interest rate method; and,
- Accounts payable and accrued liabilities, payable for energy purchases, promissory notes payable and long-term obligations are financial liabilities classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

**(q) International financial reporting standards**

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles for reporting purposes for fiscal years beginning on or after January 1, 2011.

On September 10, 2010, the AcSB granted an optional one year deferral for IFRS adoption for entities subject to rate regulation. This decision came in light of the uncertainty created by the International Accounting Standards Board in regard to the rate-regulated project which is assessing the potential recognition of regulatory assets and regulatory liabilities under IFRS. Accordingly, the Corporation will continue to prepare its consolidated financial statements in accordance with Canadian generally accepted accounting standards under Part V of the CICA Handbook for 2011.

**GREATER SUDBURY UTILITIES INC./  
SERVICES PUBLICS DU GRAND SUDBURY INC.**  
Notes to the Consolidated Financial Statements  
December 31, 2010

**3. Cash and investments**

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. has arranged for an operating line of credit up to \$5,000,000 for operating purposes at the corporate bank prime rate of interest. In addition, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. has Letters of credit available in the amount of \$10,000,000 at the corporate bank prime rate of interest, and a Multiple Draw Term Loan available in the amount of \$6,200,000 at a fixed rate. These credit facilities are secured by an unlimited guarantee by the Corporation, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc., Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc., 1700211 Ontario Inc., and a postponement and assignment of claim relating to the promissory note payable to the City of Greater Sudbury. At December 31, 2010 the balance outstanding on the operating line and the term loan credit facilities was nil (2009 - nil).

**4. Accounts receivable**

	2010	2009
Electricity receivables	\$ (733,252)	\$ 4,467,009
Other receivables	6,509,878	3,549,463
	<u>5,776,626</u>	<u>8,016,472</u>
Allowance for doubtful accounts	(904,485)	(2,246,850)
	<u>\$ 4,872,141</u>	<u>\$ 5,769,622</u>

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. implemented a new billing system in November 2010. As a result there was a delay in electricity billings which resulted in a larger unbilled amount for electricity and a lower electricity receivable at year-end. Since the corporation collects electricity payments on a pre-authorized basis this resulted in a credit balance in the electricity receivable at year-end.

**5. Capital assets**

	Cost	Accumulated Amortization	2010 Net	2009 Net
Land	\$ 862,547	\$ -	\$ 862,547	\$ 896,207
Buildings	10,102,858	4,201,916	5,900,942	5,952,370
Distribution systems	144,817,330	90,575,698	54,241,632	53,317,132
System supervisory equipment	1,555,443	1,162,505	392,938	439,917
Automotive	5,041,489	3,553,837	1,487,652	1,370,080
Office and other equipment	4,420,017	3,650,608	769,409	691,328
Computer equipment	7,044,076	5,707,222	1,336,854	725,479
Water heaters	6,401,570	1,628,805	4,772,765	3,605,868
Generation	3,448,559	630,283	2,818,276	2,660,342
Fibre optics	17,647,329	8,232,333	9,414,996	9,908,979
Wireless towers	58,284	11,612	46,672	49,587
Construction in progress	228,309	-	228,309	230,207
	<u>\$ 201,627,811</u>	<u>\$ 119,354,819</u>	<u>\$ 82,272,992</u>	<u>\$ 79,847,496</u>

**GREATER SUDBURY UTILITIES INC./  
SERVICES PUBLICS DU GRAND SUDBURY INC.**  
Notes to the Consolidated Financial Statements  
December 31, 2010

**5. Capital assets (continued)**

Contributions in aid of construction received during the year totalled \$1,583,613 (2009 - \$1,031,041). Total contributions in aid of construction received at December 31, 2010 were \$15,617,464 (2009 - \$14,033,851) with related accumulated amortization of \$3,597,002 (2009 - \$3,010,688) resulting in a net contra-asset of \$12,020,462 (2009 - \$11,023,163) which has been offset against the capital assets to which they relate.

At December 31, 2010, the net book value of stranded meters related to the deployment of smart meters amounted to \$1,348,136 and is included in distribution systems. In the absence of rate regulation, capital assets would have been \$1,348,136 lower at December 31, 2010.

**6. Payment in lieu of taxes**

a) The components of the payment in lieu of future tax balance are as follows:

	2010	2009
Non-capital loss carry-forwards	\$ 903,216	\$ 917,502
Difference between tax basis of capital assets and carrying value	1,312,517	1,540,736
Difference between carrying value of net regulatory liabilities and tax basis	934,448	733,063
Difference between tax basis of employee future benefit obligation and carrying value	2,354,199	2,855,434
Regulatory adjustment	2,005,860	2,133,163
	<u>\$ 7,510,240</u>	<u>\$ 8,179,898</u>

b) The provision for payment in lieu of taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 31.0% (2009 - 33.0%) to the earnings for the year as follows:

	2010	2009
Earnings before payment in lieu of taxes	\$ 6,910,584	\$ 1,811,008
Anticipated payment in lieu of tax provision	2,141,714	597,632
Effect of change in tax rates	(90,545)	206,202
Payment in lieu of future tax regulatory liability	(366,103)	-
Decrease in valuation allowance	-	(9,956)
Other	37,111	55,171
Provision for payment in lieu of taxes	<u>\$ 1,722,177</u>	<u>\$ 849,049</u>

**GREATER SUDBURY UTILITIES INC./  
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Notes to the Consolidated Financial Statements  
December 31, 2010

**7. Regulatory assets and liabilities**

	2010	2009
(a) Regulatory assets:		
Pre-market opening energy variances	\$ 210	\$ 210
IFRS deferral (vi)	43,827	-
Late payment penalties settlement (v)	149,791	-
Special purpose charge variance (vii)	147,796	-
Deferred transition costs (i)	2,503	-
Smart meters (iv)	4,977,937	89,790
Smart Grid	38,569	20,970
	<u>\$ 5,360,633</u>	<u>\$ 110,970</u>
(b) Regulatory liabilities:		
Retail settlement variances (ii)	\$ 2,455,857	\$ 2,973,315
Deferred transition costs (i)	-	17,837
Demand side management costs (iii)	975,541	332,592
Payment in lieu of future taxes	7,975,566	8,468,972
	<u>\$ 11,406,964</u>	<u>\$ 11,792,716</u>

The regulatory assets and liabilities arise as a result of the rate setting process by the OEB. The OEB authorizes the recovery of regulatory assets or repayment of regulatory liabilities through the distribution rate application.

- (i) The OEB established a process for the recording of costs incurred by the Corporation to be market ready, including related carrying costs, as deferred transition costs to be recovered in the future through the regulatory rate setting process. In the absence of rate regulation, generally accepted accounting principles would require that the costs be recognized as an expense or capital asset, as applicable, when incurred and the related recovery of these costs in income when received or receivable.
- (ii) Retail settlement variances represent the difference between the amount paid by the Corporation to the Independent Electricity System Operator ("IESO") for the cost of energy and the amount billed by the Corporation to its customers as energy sales, and related carrying costs, which are recorded on the balance sheet as retail settlement variances until their final disposition is decided by the OEB. The Corporation recognizes retail settlement variances as an asset or liability based on the expectation these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The retail settlement variance liability represents the deficiency of amounts billed by the IESO for the cost of energy compared to the amounts charged to customers as energy sales. In the absence of rate regulation, generally accepted accounting principles would require that the total cost of energy be charged to operations when incurred and the total amount of energy sales be credited to operations when earned.
- (iii) The Minister of Energy has granted approval to all distributors to apply to the OEB for an increase in their distribution rates, conditional on a commitment by the company to spend an equivalent amount on conservation and demand management initiatives. In 2008, the OEB approved additional conservation and demand management initiatives to be collected and spent over a three year period. In the absence of rate regulation, generally accepted account principles would require the Corporation to recognize such revenues and costs in the operating results in the year they were earned or incurred.
- (iv) The Ontario Government has established targets for the installation of smart meters for all Ontario customers by December 31, 2010. Smart meter regulatory liabilities represent the excess of amounts billed by the Corporation to customers compared to costs incurred by the Corporation on smart meter activities. In the absence of rate regulation, generally accepted accounting principles would require the Corporation to recognize the amounts billed to customers as revenue in the year and the costs incurred be recognized as an expense or capital asset, as applicable, when incurred.

In connection with smart meter activities, the Corporation has incurred operating expenses amounting to \$496,418 (2009 - \$235,129), capital expenditures of \$6,014,205 (2009 - \$373,188) and has collected \$1,532,686 (2009 - \$518,527) from its customers.

**GREATER SUDBURY UTILITIES INC./**  
**SERVICES PUBLICS DU GRAND SUDBURY INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010**

**7. Regulatory assets and liabilities (continued)**

- (v) The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action (note 15(b) and note 24). All of the MEUs involved in the settlement, including the Corporation, have requested an order from the OEB allowing for future recovery from customers of all costs related to the settlement. The Corporation, has accrued a liability and a corresponding regulatory asset in the amount of \$149,791, as at December 31, 2010. In the absence of rate regulation, operating expenses for the year ended December 31, 2010, would have been \$149,791 higher.
- (vi) For the year ended December 31, 2010, the Corporation has incurred \$43,827 of costs relating to the IFRS conversion project. These costs have been recorded to regulatory assets as the Corporation expects to obtain recovery of these costs in the future. In the absence of rate regulation, for the year ended December 31, 2010, operating expenses would have been \$43,827 higher. The Corporation is seeking recovery of the IFRS costs as part of its 2011 electricity distribution rate application.
- (vii) On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the corporation the amount of \$378,888 for its apportioned share of the total provincial amount of the SPC of \$53,695,000 in accordance with the rules set out in Ontario Regulation 66/10 (the "SPC Regulation"). In accordance with Section 9 of the SPC Regulation, the Corporation is allowed to recover this balance. The recovery is expected to be achieved over a one-year period, which began on May 1, 2010. In the absence of rate regulation, for the year ended December 31, 2010, operating expenses would have been \$378,888 higher.

For certain of the regulatory assets and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purpose. The corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the company determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

**8. Other assets**

	2010	2009
Other assets	\$ 282,707	\$ 282,707
360networks	78,750	105,000
	<u>361,457</u>	<u>387,707</u>
Less current portion	(26,250)	(26,250)
	<u>\$ 335,207</u>	<u>\$ 361,457</u>

The Corporation acquired land and disposed of it to 360networks Corporation in exchange for the provision of future capacity services on an OC48 network owned by 360networks. Provision of these services covers a ten year period that expires in 2013. The services are valued at \$262,500 and are being recognized on a straight-line basis over the period in which the capacity services are provided.

**9. Promissory note payable**

The promissory note payable to the City of Greater Sudbury is unsecured and bears interest at a rate of 7.25% per annum and has been subordinated to the Toronto Dominion Bank as security on the Corporation's operating credit facilities.

The note is repayable in full upon six months written notice of the holder of the note. As at April 26, 2011, the holder has not issued a demand to repay the note.

During the year interest totalling \$3,974,709 (2009 - \$3,794,709) was charged by the City of Greater Sudbury on the promissory note payable.

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**10. Deferred revenue**

	2010	2009
HOTelecom (a)	\$ 432,435	\$ 477,248
Dark Fibre capacity services (b)	450,156	485,462
Telus (c)	121,000	129,800
	<u>1,003,591</u>	<u>1,092,510</u>
Less current portion	(88,917)	(88,917)
	<u>\$ 914,674</u>	<u>\$ 1,003,593</u>

- (a) During the year 2006, the Greater Sudbury Telecommunications Inc. entered into a Fibre Optic Cable IRU Agreement with Hydro One Telecom (HOTelecom) for a fourteen year period ending December 31, 2020. This revenue is being recognized on a straight-line basis over the term of the agreement.
- (b) The Greater Sudbury Telecommunications Inc. agreed to supply dark fibre capacity services to five public sector organizations commencing October 2003. Each of the five organizations agreed to make a lump sum payment of \$120,000 as well as payments of \$500 per month for a 20-year period or a further lump sum payment, in exchange for the provision of these services by the Company. The amounts received in advance will be recognized over the 20 year period that the service is delivered to the customers on a straight-line basis.
- (c) During the year 2009, the Greater Sudbury Telecommunications Inc. entered into a Fibre Optic Cable IRU Agreement with Telus Corporation for a fifteen year period ending December 31, 2024. This revenue is being recognized over the term of the agreement on a straight-line basis as the service is delivered to the customer.

**11. Long-term obligations**

	2010	2009
Employee future benefit obligation (note 12)	\$ 16,207,556	\$ 18,212,495
Loan payable (a)	2,526,000	2,613,000
Customer deposits	1,793,525	1,751,559
Note payable	-	-
Developer contributions	705,102	403,179
Vested sick leave	1,349	1,310
	<u>21,233,532</u>	<u>22,981,543</u>
Less current portion	(846,179)	(833,179)
	<u>\$ 20,387,353</u>	<u>\$ 22,148,364</u>

- (a) 1700211 Ontario Inc. was advanced monies under a reducing term, floating rate facility at a face amount of \$2,800,000 to finance the construction of a landfill gas generation plant. Concurrent with the entry into the loan facility, to mitigate the Corporation's exposure to interest rate risk, the Corporation entered into an International Swaps and Derivatives Association, 200 Master Agreement. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed rate debt bearing interest at 5.97% per annum. The debt facility has a termination date of July 12, 2027 with an optional exit strategy at 5, 10 and 15 years.

The debt facilities are secured by a general security agreement (GSA) representing a first charge on all of the assets and undertakings of 1700211 Ontario Inc. and an unlimited guarantee of advances executed by 1700211 Ontario Inc. and Greater Sudbury Hydro Inc. The agreement contains covenants requiring a total debt to total capitalization ratio of less than 50% and an interest coverage ratio of not less than 1.2:1 be maintained by the company and its affiliates: 1700211 Ontario Inc., Greater Sudbury Hydro Plus Inc., Greater Sudbury Telecommunications Inc., 1627596 Ontario Inc., and Greater Sudbury Hydro Inc. At year end these covenants were met.

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**11. Long-term obligations (continued)**

Principal repayments in each of the next five years are as follows:

2011	\$	93,000
2012	\$	97,000
2013	\$	103,000
2014	\$	110,000
2015	\$	116,000
2016 and subsequent years	\$	2,007,000
	<u>\$</u>	<u>2,526,000</u>

**12. Employee future benefit obligation**

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees rendered their services. The employee future benefit obligation at December 31, 2010 and the expense for the year then ended was determined based on an actuarial valuation dated March 14, 2011 using the projected benefit method, prorated on service and a discount rate of 5.0%.

Information about the Corporation's employee future benefit obligation is as follows:

	2010	2009
Employee future benefit obligation, beginning of year	\$ 18,212,495	\$ 17,314,063
Actuarial gain	(2,780,264)	-
Balance restated	\$ 15,432,231	\$ 17,314,063
Expenses for the year	1,134,528	1,293,468
Benefits paid for the year	(359,203)	(395,036)
Employee future benefits obligation, end of year	<u>\$ 16,207,556</u>	<u>\$ 18,212,495</u>

Due to the change in discount rate from 5.5% to 5.0% at January 1, 2010 an additional actuarial valuation was prepared at January 1, 2011. The result of this valuation is an actuarial loss of \$1,280,544 which will be recorded in the year ended December 31, 2011.

The main actuarial assumptions underlying the valuations are as follows:

a) General and medical inflation:

The health care costs trend is estimated to decrease from 10.0% to 5.0% over six years. Other medical and dental expenses are assumed to remain consistent at a 5.0% increase per year.

b) Discount rate:

The obligation at December 31, 2010, being the present value of future liabilities and the expense for the period then ended, were determined using a discount rate of 5.0%.

c) Salary levels:

Future general salary and wage levels were assumed to increase at 3.0% per year.

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**13. Preferred shares**

	2010	2009
Authorized		
Unlimited 7.25% non-cumulative class A preferred shares, non-voting, redeemable and retractable at \$100 per share.		
Issued		
Nil (2009 - 41,841) class A preferred shares	\$ -	\$ 4,184,127

During the year, 41,841 class A preferred shares were redeemed for proceeds of \$4,184,100. A note payable, due on demand, unsecured, bearing no interest, was issued in exchange for the shares. The note was paid in full on February 1, 2011.

**14. Share capital**

	2010	2009
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	\$ 22,431,779	\$ 22,431,779

**15. Commitments and contingencies**

(a) Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. has issued a \$9,048,386 letter of guarantee to the Independent Electricity System Operator ("IESO"). This was a requirement of the IESO for market opening on May 1, 2002. At December 31, 2010, no amounts have been drawn on this letter of guarantee.

(b) Litigation:

By Order dated July 22, 2010, the Ontario Superior Court of Justice consolidated and approved the settlement of the class action lawsuit against all MEU's that commenced in 1998. The July 22, 2010 court order formalized a settlement pursuant to which the defendant MEU's will pay the amount of \$17,000,000 plus cost and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The Greater Sudbury Hydro Inc.'s share of the settlement amount was expected to be \$149,791, payable on June 30, 2011. Under the settlement, all the MEU's involved in the settlement, including Greater Sudbury Hydro Inc. have requested an order from the OEB allowing for future recovery from customers of all costs related to the settlement. Greater Sudbury Hydro Inc. has accrued a liability and a corresponding regulatory asset in the amount of \$149,791 (note 7(a) and note 24).

(c) The Collective Agreement with CUPE Local 4705 from 2004 included a Memorandum of Settlement which stated that Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. has agreed to contribute a one time payment of \$175,000 to an Employee Health Care Supplemental Fund. The funds were set aside in a short term investment pending finalization of the setup of a Trust Fund to administer the investment and subsequent contributions. Beyond this initial contribution, the Corporation also agrees to contribute a single payment representing 100% of the savings calculated for the period September 1, 2005 to August 31, 2006, within thirty days of the final savings calculation. Effective April 1, 2009 and every April 1st through to April 1, 2012, the Corporation shall make a contribution into the Trust Fund in an amount equal to the greater of \$25,000 or one-half of one percent (1/2 of 1%) of net income after taxes as outlined on the Consolidated Statement of Operations and Deficit for Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.

At the balance sheet date the trust fund has not yet been established and correspondingly these payments have not been made by the Greater Sudbury Hydro Plus Inc.

(d) In 2009, the OEB commenced its review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all Municipal Electrical Utilities. The current proceeding is expected to provide direction regarding the interpretation of the rules issued by the OEB. The outcome of this proceeding could have a material impact on the financial position of the Corporation.

(e) Greater Sudbury Hydro Inc. and 1627596 Ontario Inc. are contingently liable for a line of credit to a maximum of \$1,750,000 with the Sudbury Credit Union by way of a corporate guarantee. The line of credit is secured by a general security agreement (GSA) representing a first charge on all of the assets and undertakings of Greater Sudbury Hydro Inc. and 1627596 Ontario Inc. At year-end, the balance of the Sudbury Credit Union line of credit that is reflected in the financial statements of 1627596 Ontario Inc. was nil.

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**16. Related party transactions**

The Corporation is wholly owned by the City of Greater Sudbury.

The Corporation provides electrical energy to the City of Greater Sudbury at the same price protected rates and terms as other similar customers based on the amount of electricity consumed.

During the year, the Corporation sold the City water billing administration services and streetlight maintenance services totalling \$746,146 (2009 - \$745,838) and \$362,377 (2009 - \$558,554) respectively. Included in accounts receivable is \$577,061 (2009 - \$724,669) on account of these sales.

The Corporation provides water billing services to the City of Greater Sudbury. Included in accounts payable and accrued liabilities is \$532,384 (2009 - \$731,837) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is \$48,328 (2009 - \$51,666) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation paid \$179,750 (2009 - \$201,043) to the City on account of municipal taxes.

Transactions with the City are in the normal course of operations and are recorded at the exchange amount, which is the amount agreed to by the related parties. It is management's opinion that the exchange amount represents fair market value for these services.

**17. Change in non-cash operating working capital**

	2010	2009
Accounts receivable	\$ 897,481	\$ (134,485)
Unbilled revenues - distribution	(1,786,002)	(632,294)
Unbilled revenues - energy	(6,912,184)	174,792
Inventory	349,366	87,780
Prepaid expenses	(131,580)	(164,611)
Accounts payable and accrued liabilities	1,049,650	676,283
Payable for energy purchases	532,063	2,067,154
Payment in lieu of taxes	2,177,662	(1,629,946)
	<u>\$ (3,823,544)</u>	<u>\$ 444,673</u>

**18. Financial instruments**

a) **Credit risk**

The Corporation is exposed to credit risk with respect to its cash and investments, accounts receivable and unbilled revenue receivable.

The Corporation has deposited the cash and investments with large reputable financial institutions, from which management believes the risk of loss to be remote.

The Corporation has accounts receivable and unbilled revenue receivable from a large number of private individual and business customers in many industries located within the service territory. The Corporation monitors and limits its exposure to customers defaulting on their obligations. The Corporation provides an allowance for uncollectible accounts to absorb estimated credit losses. At December 31, 2010, there were no significant concentrations of credit risk with respect to these financial assets.

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**18. Financial instruments (continued)**

b) *Interest rate risk*

The Corporation is exposed to interest rate risk with respect to its operating line of credit facilities, promissory note payable, long-term debt and preferred shares.

The Corporation's operating line of credit facilities and long-term debt are sensitive to interest rate movements as they consist of variable prime rate based loans and advances.

The Corporation's promissory note payable and preferred shares are not sensitive to the risk of interest rate movements as they bear interest at fixed rates.

c) *Fair value of financial instruments*

The carrying value of cash and investments, accounts receivable, unbilled revenue receivable, and accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments.

At December 31, 2010, the fair value of the promissory note payable and the long term obligations are not considered to be materially different from their carrying value.

**19. Pension agreements**

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer pension plan, on behalf of approximately 100 members of its staff including part time contributing members. The plan is a defined benefit pension plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rates of pay.

Contributions of \$539,878 (2009 - \$538,844) were paid during the year.

**20. Loss carryforwards**

For payment in lieu of tax purposes Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc. has \$588,645 of losses which can be applied to reduce future years taxable income. The 2004 losses totalling \$97,962 expire in 2014. The 2006 losses totalling \$182,944 expire in 2026. The 2007 losses totalling \$282,943 expire in 2027. The 2010 losses totalling \$24,796 expire in 2030.

For payment in lieu of tax purposes, 1700211 Ontario Inc. has \$2,352,759 of losses which can be applied to reduce future years taxable income. The 2007 losses totalling \$807,592 expire in 2027. The 2008 losses totalling \$990,375 expire in 2028. The 2009 losses totalling \$404,558 expire in 2029. The 2010 losses totalling \$123,234 expire in 2030.

**21. Comparative figures**

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. These changes do not affect prior year earnings.

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**22. Capital disclosures**

The Corporation's objective with respect to its capital structure is to maintain effective access to capital on an ongoing basis at reasonable rates while achieving appropriate rates of financial return for its shareholder.

The Corporation considers its capital structure to consist of shareholder's equity and a promissory note held by the Corporation's shareholder which has been subordinated to the Toronto Dominion Bank as security on the Corporation's operating credit facilities.

	2010	2009
Promissory note payable	\$ 52,340,819	\$ 52,340,819
Preferred shares	-	4,184,127
Common shares	22,431,779	22,431,779
Deficit	(2,157,525)	(7,345,932)
Subtotal	<u>20,274,254</u>	<u>15,085,847</u>
Total capital	<u>\$ 72,615,073</u>	<u>\$ 71,610,793</u>

In addition to the subordination agreement referred to above, the Corporation is subject to a shareholder's agreement which has restrictive covenants typically associated with such an agreement. At December 31, 2010 the Corporation is in compliance with all of the covenants and restrictions.

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. is a Corporation regulated by the Ontario Energy Board. The regulator has prescribed a phased in capital structure of 60% debt and 40% equity. For rate setting purposes the Corporation has complied with these requirements.

**23. Prior period adjustment**

During the year, the corporation adopted amended Canadian Institute of Chartered Accountants Handbook Section 1100 - "Generally Accepted Accounting Principles", Handbook Section 3465 - "Income Taxes" and Accounting Guideline 19 - "Disclosures by Entities Subject to Rate Regulation". These amended sections and guidelines establish new standards and remove a temporary exemption in Handbook Section 1100 pertaining to the application for that section to the recognition and measurement of assets and liabilities arising from rate regulation. The new standards require the recognition of future income tax liabilities and assets in accordance with Handbook Section 3465, as well as a separate regulatory asset or liability balance for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers, and retain existing requirements to disclose the effects of rate regulation.

Handbook Section 3465, as amended, requires the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates, applied on a retrospective basis with prior period restatement. The implementation of these standards results in a decrease in the net earnings of \$260,260 for the year ended December 31, 2009. As well, the comparative figures have been retroactively restated to reflect a rate regulated liability and a payment in lieu of future tax asset which was not previously recorded. As a result, the deficit as at December 31, 2009 has been increased by \$6,075,549, the regulatory liabilities have increased by \$8,468,972 and payment in lieu of future taxes have increased by \$2,133,163.

**24. Subsequent event**

On February 22, 2011, the OEB issued its final decision allowing for the Corporation to recover the settlement amount of \$149,791 from customers over the period commencing May 1, 2011 and ending April 30, 2013.