

Consolidated Financial Statements of

**GREATER SUDBURY UTILITIES INC. /  
SERVICES PUBLICS DU GRAND  
SUDBURY INC.**

Year ended December 31, 2016



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## INDEPENDENT AUDITORS' REPORT

To the Directors of Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc.

We have audited the accompanying consolidated financial statements of Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the 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.

### *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 disclosure in the consolidated financial statements. The procedures selected depend on our 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, we consider 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 Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. as at December 31, 2016 and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Comparative Information*

The consolidated financial statements of the Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. as at and for the year ended December 31, 2015 were prepared by another chartered professional accountant dated May 11, 2016.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

April 24, 2017

Waterloo, Canada

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Consolidated Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 459,863	\$ 3,875,796
Accounts receivable (note 3)	14,877,414	11,305,834
Unbilled revenue:		
Distribution	2,243,543	2,950,235
Energy sales	13,088,023	15,150,670
Payments in lieu of taxes recoverable (note 6)	311,562	-
Inventory	247,529	193,370
Prepaid expenses	718,464	663,905
	31,946,398	34,139,810
Restricted cash	318,917	317,295
Capital assets (note 4)	105,837,819	101,808,483
Intangible assets (note 5)	1,983,844	2,154,233
Deferred payment in lieu of taxes (note 6)	5,950,032	8,881,471
Other assets	5,468	5,468
Total assets	146,042,478	147,306,760
Regulatory deferral account debit balances (note 7)	2,667,104	840,237
Total assets and regulatory balances	\$ 148,709,582	\$ 148,146,997

See accompanying notes to consolidated financial statements.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Consolidated Statement of Financial Position (continued)

December 31, 2016, with comparative information for 2015

	2016	2015
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,320,385	\$ 5,803,206
Payment in lieu of taxes (note 6)	-	589,014
Payable for energy purchases	11,827,298	13,038,954
Deferred revenue (note 18)	85,087	85,567
Long-term obligations (note 8)	1,394,784	1,693,293
Capital lease obligations (note 19)	67,624	183,001
	19,695,178	21,393,035
Deferred revenue (note 18)	4,211,895	3,528,668
Promissory note payable (note 16)	52,340,819	52,340,819
Long-term obligations (note 8)	22,830,391	28,780,694
Capital lease obligations (note 19)	60,343	128,408
Total liabilities	99,138,626	106,171,624
Shareholder's equity:		
Share capital (note 10)	22,431,779	22,431,779
Accumulated other comprehensive income (loss)	3,202,416	(1,890,527)
Retained earnings	14,860,693	9,830,535
	40,494,888	30,371,787
Total liabilities and shareholder's equity	139,633,514	136,543,411
Regulatory deferral account credit balances (note 7)	9,076,068	11,603,586
Commitments and contingencies (note 12)		
Guarantees (note 13)		
	\$ 148,709,582	\$ 148,146,997

See accompanying notes to consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Consolidated Statement of Income and Comprehensive Income

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

	2016	2015
Revenue:		
Energy sales	\$ 116,942,491	\$ 110,610,975
Distribution	22,396,633	22,510,863
	139,339,124	133,121,838
Other (note 11)	14,858,589	12,096,437
	154,197,713	145,218,275
Expenses:		
Cost of energy	116,083,768	109,307,909
Operating and administration	22,797,870	20,189,298
Amortization of capital assets	6,648,280	6,548,623
Amortization of intangible assets	245,941	29,834
Interest on promissory note payable (note 16)	3,794,709	3,794,709
Interest on long-term obligations	1,262,715	1,261,465
Loss on disposal of capital assets	637,754	538,014
Loss (gain) on swap contract (note 8)	(112,743)	56,522
	151,358,294	141,726,374
Income before payment in lieu of taxes and regulatory items	2,839,419	3,491,901
Payment in lieu of taxes (note 6)	841,869	1,317,610
Net income	1,997,550	2,174,291
Net movement on regulatory accounts related to income or loss	842,296	(1,148,104)
Net movement on regulatory accounts from deferred taxes related to income	377,523	280,095
Net movement on regulatory accounts from deferred taxes related to other comprehensive income	1,812,789	-
Income for the year after net movements in regulatory balances - net of tax	5,030,158	1,306,282
Other comprehensive income - item that will not be reclassified to income or loss - remeasurement of future benefit obligation, net of tax (note 9)	5,092,943	465,862
Total comprehensive income	\$ 10,123,101	\$ 1,772,144

See accompanying notes to consolidated financial statements.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

## Statement of Changes in Equity

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

		Share Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2015	\$	22,431,779	(2,356,389)	8,524,253	28,599,643
Income for the year		-	-	1,306,282	1,306,282
Remeasurement of future benefit obligation		-	465,862	-	465,862
Balance, December 31, 2015		22,431,779	(1,890,527)	9,830,535	30,371,787
Income for the year		-	-	5,030,158	5,030,158
Remeasurement of future benefit obligation		-	5,092,943	-	5,092,943
Balance, December 31, 2016	\$	22,431,779	3,202,416	14,860,693	40,494,888

See accompanying notes to financial statements.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

## Consolidated Statement of Cash Flows

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

	2016	2015
Cash provided by (used in):		
Operating activities:		
Comprehensive income	\$ 10,123,101	\$ 1,772,144
Adjustments for:		
Amortization of capital assets	6,648,280	6,548,223
Amortization of intangible assets	245,941	29,834
Payments in lieu of taxes recoverable	841,869	1,317,610
Non-cash employee future benefit obligation expense (gain), net	(5,488,269)	1,674,547
Loss (gain) on swap contract	(112,743)	56,522
Amortization on deferred revenue	(89,487)	(62,237)
Loss on disposal of capital assets	637,754	538,014
	12,806,446	11,874,657
Change in non-cash operating working capital	(3,692,940)	4,294,229
	9,113,506	16,168,886
Investing activities:		
Purchase of capital assets	(12,057,631)	(11,062,862)
Purchase of intangibles	(75,555)	(195,894)
Proceeds on disposal of capital assets	37,524	-
Contributions to restricted cash	(1,622)	(2,216)
	(12,097,284)	(11,260,972)
Financing activities:		
Repayment of long-term obligations	(328,656)	(828,144)
Developer contributions received	79,943	130,158
Bank loan	-	971,607
Capital lease repayments	(183,442)	(176,357)
	(432,155)	97,264
Increase (decrease) in cash during the year	(3,415,933)	5,005,178
Cash and cash equivalents (bank indebtedness), beginning of year	3,875,796	(1,129,382)
Cash and cash equivalents, end of year	\$ 459,863	\$ 3,875,796

See accompanying notes to consolidated financial statements.



# **GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.**

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. (the Corporation) 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 located in the Greater City of Greater Sudbury. The address of the Corporation's registered office is 500 Regent Street, P.O Box 250/500, rue Regent; CP 250, Sudbury ON P3E 3Y2.

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.

The consolidated financial statements comprise the Corporation and its subsidiaries as at and for the year ended December 31, 2016.

## **1. Basis of presentation:**

### **(a) Statement of compliance:**

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

The consolidated financial statements were approved by the Board of Directors on April 24, 2017.

### **(b) Basis of accounting:**

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

- i) Where held, financial instruments at fair value through income or loss, including those held for trading are measured at fair value.
- ii) Non-cash contributed assets are initially measured at fair value.

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

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 1. Basis of presentation (continued):

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements is included in the following notes:

- Note 4 - Capital assets
- Note 9 - Employee future benefits
- Note 12 - Commitments and contingencies

### (d) Rate regulation:

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

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

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 1. Basis of presentation (continued):

### (e) Rate setting:

#### i) Distribution revenue:

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

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

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

The Corporation filed an IRM in 2015 requesting a 0% inflationary increase to distribution rates for the period of May 1, 2016 to April 30, 2017. The application did adjust rates as a result of the movement to fixed revenue for residential customers along with the introduction of two new rate riders.

#### ii) Electricity rates:

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

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant accounting policies:

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

### (a) Regulation:

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14, Regulatory Accounts (IFRS 14).

### (b) Regulatory balances:

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The Corporation early adopted IFRS 14 in 2015.

The Corporation has determined that certain asset and liability balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electricity Distributors. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory asset and liability balances on the Corporation's consolidated balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB.

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

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

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant accounting policies (continued):

### (b) Regulatory balances (continued):

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

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

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2016, the interest rate was 1.10%. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's statements of income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the statement of financial position, on the statement of income and comprehensive income as net movements in regulatory balances, net of tax, and on the statement of income and comprehensive income as net movements in regulatory balances related to OCI, net of tax. The netting of regulatory debit and credit balances is not permitted.

The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant accounting policies (continued):

### (c) Basis of consolidation:

These consolidated financial statements include the accounts of the following Corporations:

- 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.; and
- ConverGen Inc.

Subsidiaries are entities controlled by the Corporation. The financial statements of the subsidiaries are included in these consolidated financial statements from the date on which control commences until the date on which control ceases.

All significant inter-company accounts and transactions have been eliminated.

### (d) Financial instruments:

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 2(j).

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

### (e) Cash and cash equivalents:

Cash and restricted cash consist of cash on hand and in banks. Cash equivalents are short-term investments with maturities of three months or less when purchased.

### (f) Revenue recognition:

#### i) Energy sales:

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

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant accounting policies (continued):

### (f) Revenue recognition (continued):

#### i) Energy sales (continued):

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

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

#### ii) Revenue from contracts with customers:

Certain customers and developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. Cash contributions are initially recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the economic useful life of the constructed or contributed asset, which represents the period of ongoing service to the customer.

#### iii) Rendering of services:

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

#### iv) Conservation programs:

Incentive payments to which the Corporation is entitled from the Independent Electricity Systems Operator (IESO) are recognized as revenue in the period when they are determined by the IESO and the amount is communicated to the Corporation.

#### v) Dividends:

Dividends are recognized as revenue when the Corporation has a right to receive the dividend.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant accounting policies (continued):

### (g) Inventory:

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

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

### (h) Capital assets:

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

When parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of capital assets.

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

Major spare parts and standby equipment are recognized as items of capital assets.

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

Depreciation is calculated over the depreciable amount and is recognized in income or loss on a straight-line basis over the estimated useful life of each part or component of an item of capital assets. The depreciable amount is the capital asset's cost. Land is not depreciated. Construction-in-progress assets are not amortized until the project is complete and in service.



# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant accounting policies (continued):

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

The estimated useful lives are as follows:

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Buildings	15 - 50 years
Distributions equipment	20 - 50 years
Automotive	8 - 12 years
Office and other equipment	5 - 10 years
System supervisory equipment	20 years
Computer equipment	5 years
Fibre optics	25 years
Water heaters	10 - 15 years
Wireless towers	20 years
Generation	20 years

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

### (i) Intangible assets:

#### i) Computer software:

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

#### ii) Tenant relationships:

Characteristics considered by management in valuing tenant relationships include the nature and extent of the Corporation's existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals. These tenant relationships are amortized over the anticipated life of the relationship, which at the time of acquisition was four years.

#### iii) Land rights:

Payments to obtain rights to assess land (land rights) are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant accounting policies (continued):

### (i) Intangible assets (continued):

#### iv) Goodwill:

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses.

#### v) Amortization:

Amortization is recognized in income or loss on a straight-line basis over the estimated useful lives of intangible assets, other than land rights and goodwill, from the date that they are available for use. The estimated useful lives are:

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Computer software	5 years
Tenant relationships	4 years
Land rights	Not amortized
Goodwill	Not amortized

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

### (j) Impairment:

#### i) Financial assets:

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

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

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

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant accounting policies (continued):

### (j) Impairment (continued):

#### ii) Non-financial assets:

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

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

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

### (k) Provisions:

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

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant account policies (continued):

### (l) Employee future benefits:

#### i) Pension plan:

The Corporation provides a pension plan for all its full-time employees through the Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

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

#### ii) Post-employment benefits, other than pension:

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Actuarial gains and losses arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings.

### (m) Deferred revenue and assets transferred from customers:

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as deferred revenue. Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant account policies (continued):

### (n) Leased assets:

Leases, where the terms cause the Corporation to assume substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's consolidated balance sheet. Payments made under operating leases are recognized in income or loss on a straight-line basis over the term of the lease.

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

Finance income comprises interest earned on cash and cash equivalents and on regulatory assets.

Finance costs comprise interest expense on borrowing and regulatory liabilities. Finance costs are recognized as an expense.

### (p) Income taxes:

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

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

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

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 2. Summary of significant account policies (continued):

### (p) Income taxes (continued):

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

### (q) Recent accounting pronouncements:

The Corporation is evaluating the adoption of the following new and revised standards along with any subsequent amendments.

#### *Revenue Recognition*

The IASB has issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and various interpretations and establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is assessing the impact of IFRS 15 on its results of operations, financial position and disclosures.

#### *Financial Instruments*

In July 2015, the IASB issued a new standard, IFRS 9 Financial Instruments, which will replace IAS 39 Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for periods beginning on or after January 1, 2018 and must be applied retrospectively. The Corporation is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 2. Summary of significant account policies (continued):

(q) Recent accounting pronouncements (continued):

### *Leases*

On January 13, 2016, the IASB issued IFRS 16 *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019 and will replace the existing standard IAS 17. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 3. Accounts receivable:

	2016	2015
Electricity	\$ 12,036,226	7,566,393
Other	4,418,677	4,962,517
	16,454,903	12,528,910
Allowance for doubtful accounts:		
Balance, beginning of year	(1,223,076)	(1,103,236)
Increase in provision	(438,017)	(119,840)
Accounts receivable recoveries	83,604	—
Balance, end of year	(1,577,489)	(1,223,076)
	\$ 14,877,414	11,305,834

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 4. Capital assets:

Cost or deemed cost:

	Land and Buildings	Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance, January 1, 2015	\$ 10,349,146	68,557,759	22,974,514	2,003,214	103,884,633
Additions	1,392,580	6,371,355	2,989,988	670,872	11,424,795
Disposals/retirements	-	(2,295,643)	-	(690,798)	(2,986,441)
Balance, December 31, 2015	11,741,726	72,633,471	25,964,502	1,983,288	112,322,987
Additions	1,403,983	6,559,728	3,039,794	1,054,126	12,057,631
Transfers	34,582	191,643	-	(226,225)	-
Disposals/retirements	-	(3,048,106)	(345,601)	-	(3,393,707)
Contributions	-	-	(157,765)	(546,974)	(704,739)
Balance, December 31, 2016	\$ 13,180,291	76,336,736	28,500,930	2,264,215	120,282,172

Accumulated amortization:

	Land and Buildings	Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance, January 1, 2015	\$ 401,789	2,580,496	2,765,890	-	5,748,175
Depreciation charge	421,288	2,994,496	3,108,174	-	6,523,958
Disposals/retirements	-	(1,757,630)	-	-	(1,757,630)
Balance, December 31, 2015	823,077	3,817,362	5,874,064	-	10,514,503
Depreciation charges	424,423	3,047,114	3,176,742	-	6,648,279
Transfers	(150,282)	150,282	-	-	-
Disposals	-	(2,372,828)	(345,601)	-	(2,718,429)
Balance, December 31, 2016	\$ 1,097,218	4,641,930	8,705,205	-	14,444,353

Carrying amounts:

	Land and Buildings	Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
At December 31, 2015	\$ 10,918,649	68,816,109	20,090,438	1,983,287	101,808,483
At December 31, 2016	12,083,073	71,694,806	19,795,725	2,264,215	105,837,819

The Corporation leases equipment under a number of finance lease agreements. The leased equipment secures the lease obligations (see note 19). As at December 31, 2016, the net carrying amount of leased plant and equipment was \$150,992 (2015 - \$260,755).



# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 5. Intangible assets:

### (a) Cost or deemed cost:

	Computer Software	Goodwill and other	Total
Balance, at January 1, 2015	\$ 1,130,441	1,717,282	2,847,723
Additions	182,461	13,433	195,894
Balance, at December 31, 2015	1,312,902	1,730,715	3,043,617
Additions	66,510	9,045	75,555
Balance, at December 31, 2016	\$ 1,379,412	1,739,760	3,119,172

### (b) Accumulated amortization:

	Computer Software	Goodwill and other	Total
Balance, at January 1, 2015	\$ 442,684	29,834	472,518
Additions	387,035	29,834	416,869
Balance, at December 31, 2015	829,719	59,668	889,387
Additions	231,025	14,916	245,941
Balance, at December 31, 2016	\$ 1,060,744	74,584	1,135,328

	Computer Software	Goodwill and other	Total
At December 31, 2015	\$ 483,184	1,671,049	2,154,233
At December 31, 2016	318,668	1,665,176	1,983,844

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 6. Payment in lieu of taxes (PILS):

	2016	2015
Current period	\$ 552,853	1,002,194
Adjustment for prior periods	—	76,208
Payment in lieu of future taxes	289,016	239,208
	<u>\$ 841,869</u>	<u>1,317,610</u>
Rate reconciliation before net movements in regulatory balances:		
Profit before PILS and regulatory items	\$ 2,839,419	3,491,901
Statutory Canadian federal and provincial income tax rate	26.50%	26.50%
PILS using the Corporation's statutory rate	752,446	925,354
Other	89,423	392,256
Payment in lieu of taxes	<u>841,869</u>	<u>1,317,610</u>
Effective tax rate	28.9%	37.70%

The tax effect of temporary differences that give rise to deferred tax assets are as follows:

	Plant and Equipment	Employee Benefits	Non-capital loss carried forward/ CMT Credit	Regulatory Adjustment	Other	2016 Total
Balance, January 1	\$ 489,970	4,506,107	622,607	2,506,796	755,991	8,881,471
Change in deferred tax balance	(184,259)	(1,580,777)	9,021	(863,326)	(312,098)	(2,931,439)
Balance, December 31	<u>\$ 305,711</u>	<u>2,925,330</u>	<u>631,628</u>	<u>1,643,470</u>	<u>443,893</u>	<u>5,950,032</u>

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 6. Payment in lieu of taxes (PILS) (continued):

Deferred tax assets:

	Plant and Equipment	Employee Benefits	Non-capital loss carried forward/ CMT Credit	Regulatory Adjustment	Other	2015 Total
Balance, January 1	\$ 990,857	4,287,245	584,342	2,597,566	660,817	9,120,827
Change in deferred tax balance	(500,887)	218,862	38,265	(90,770)	95,174	(239,356)
Balance, December 31	\$ 489,970	4,506,107	622,607	2,506,796	755,991	8,881,471

## 7. Regulatory balances:

	January 1, 2016	Balances arising in the period	Recovery/ (reversal)	December 31, 2016
Smart grid/renewable connection (a)	\$ 296,626	419,556	—	716,182
IFRS deferral (b)	142,416	1,667,832	—	1,810,248
Other regulatory assets deferral	8,383	42,121	—	50,504
Smart meters/stranded meters (c)	392,812	—	(302,642)	90,170
Regulatory assets – pre-tax	\$ 840,237	2,129,509	(302,642)	2,667,104
Demand side management costs (d)	\$ 515,528	—	(1,576)	513,952
Retail settlement variance deferral accounts (e)	1,615,483	628,897	(134,893)	2,109,487
Deferred payment in lieu of taxes (f)	9,472,575	—	(3,019,946)	6,452,629
Regulatory liabilities – pre-tax	\$ 11,603,586	628,897	(3,156,415)	9,076,068

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 7. Regulatory balances (continued):

	January 1, 2015	Balances arising in the period	Recovery/ (reversal)	December 31, 2015
Smart grid/renewable connection (a)	\$ 288,922	82,780	(75,075)	296,627
IFRS deferral (b)	140,812	1,604	—	142,416
Other regulatory assets deferral	—	8,383	—	8,383
Smart meters/stranded meters (c)	693,933	—	(301,122)	392,811
<b>Regulatory assets – pre-tax</b>	<b>\$ 1,123,667</b>	<b>92,767</b>	<b>(376,197)</b>	<b>840,237</b>
Demand side management costs (d)	\$ 577,723	—	(62,195)	515,528
Retail settlement variance deferral accounts (e)	688,614	926,869	—	1,615,483
Deferred payment in lieu of taxes (f)	9,752,670	—	(280,095)	9,472,575
<b>Regulatory liabilities – pre-tax</b>	<b>\$ 11,019,007</b>	<b>926,869</b>	<b>(342,290)</b>	<b>11,603,586</b>

The regulatory deferral account balances are recovered or settled through rates set by the OEB which are determined using estimates of the Corporation's future number of electricity customers as well as estimates of future electricity consumption by customers.

The Corporation has received approval from the OEB to establish its regulatory deferral account balances.

The regulatory balances of the Corporation consist of the following:

### a) Smart grid/renewable connection:

The Ontario Government has established objectives for the implementation of a smart grid and renewable connection in Ontario. The Corporation intends to apply for disposition of the balance at a later date, for which timing is currently unknown.

In connection with smart grid and renewable connection activities, the Corporation has incurred operating expenses amounting to \$7,719 (2015 - \$7,704) and capital expenditures of \$398,548 (2015 - \$Nil).

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 7. Regulatory balances (continued):

### b) IFRS conversion:

For the year ended December 31, 2016, the Corporation incurred \$1,667,832 (2015 - \$1,604) of costs relating to the IFRS conversion project and IFRS-CGAAP transitional property, plant and equipment losses from 2013 to 2016 that did not form part of the rate base. These costs have been recorded to regulatory assets as the Corporation expects to obtain recovery of these costs in the future. The Corporation expects to file these costs for disposition at its next cost of service application for which timing of the recovery is currently unknown.

### c) Smart meters/stranded meters:

The smart meters and stranded meters regulatory asset account relates to Ontario's decision to install smart meter throughout Ontario. The Corporation substantially completed its smart meter project as at December 31, 2011. In connection with this initiative, the Ontario Energy Board ordered the Corporation to record all expenditures and related revenue from 2008-2012 to a regulatory asset account and allowed the Corporation to keep the net book value of the stranded meters in capital assets. Effective May 1, 2013, the Ontario Energy Board approved the Corporation's request for incremental revenue and disposition of the smart meter deferral account balances.

The net book value of the stranded meters related to the deployment of the smart meters have been reclassified to the regulatory asset account for recovery to the end of April 2017.

### d) Demand side management costs:

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 Corporation 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. The Corporation expects to dispose of these funds for repayment to the rate payers in the next cost of service application for which timing of repayment is currently unknown.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 7. Regulatory balances (continued):

### e) Retail settlement variances:

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 statement of financial position 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.

Settlement of the deferral accounts is done on an annual basis through application to the OEB. An application has been made to OEB to dispose of \$1,760,067 of the retail settlement accounts. Approval was received March 30, 2017 for disposal effective May 1, 2017 to April 30, 2018.

### f) Deferred payment in lieu of taxes:

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. As at December 31, 2016, the Corporation has recorded a deferred tax asset and corresponding regulatory liability of \$6,452,629 (2015 - \$9,472,575) with respect to its rate-regulated activities. In the absence of rate regulation this regulatory balance and the related earnings impact would not be recorded.

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 purposes. 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 Corporation 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.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 8. Long-term obligations:

	2016	2015
Employee future benefit obligation (note 9)	\$ 16,781,745	22,777,764
Loan payable (a)	1,883,000	2,007,000
Swap contract interest (a) and (b)	556,077	672,885
Multiple draw term loan (b)	1,373,962	1,492,052
Customer deposits (d)	1,907,768	1,799,107
Developer deposits (e)	906,073	826,129
Bank loan (c)	816,550	899,050
	24,225,175	30,473,987
Less: current portion	1,394,784	1,693,293
	\$ 22,830,391	28,780,694

- a) ConverGen 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, 2000 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 five, ten 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 ConverGen 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 Corporation and its affiliates: ConverGen 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.

- b) On January 14, 2011, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. was advanced monies under a reducing term, floating rate facility at a face amount of \$2,000,000 to finance the purchase of the smart meters. 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, 2002 Master Agreement. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed rate debt bearing interest at 3.7%. The debt facility has a termination date of January 19, 2026. The facility loaned has a fixed/floating interest swap, 15 years, payable monthly, secured by a general security agreement representing a first charge on all the borrower's assets and undertakings, and an unlimited guarantee of advances executed by the borrower.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 8. Long-term obligations (continued):

- c) The Corporation entered into a financing agreement on January 12, 2015 in the amount of \$971,604. The finance term is 120 months at a fixed interest rate of 4.33%.
- d) Customer deposits represent cash deposits from electricity distribution customers and retailers. Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.
- e) Developer deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to deferred revenue.

## 9. Employee future benefits:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2016 of \$16,781,745 was based on an actuarial valuation completed in 2016 using a discount rate of 3.90%.

The cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on medical, dental and life insurance benefits are recognized in OCI as they arise. Actuarial gains and losses related to rate-regulated activities are subsequently reclassified from OCI to a regulatory balance on the consolidated statement of financial position. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statement of income in the period in which they arise.

Changes in the present value of the defined benefit unfunded obligation and the accrued benefit liability are as follows:

	2016	2015
Employee future benefit obligation, beginning of year	\$ 22,777,764	22,452,535
Current service cost	494,058	430,156
Interest costs	923,479	887,569
Benefits paid during the year	(507,823)	(526,634)
Actuarial gains recognized in other comprehensive income	(6,905,733)	(465,862)
Employee future benefit obligation, end of year	\$ 16,781,745	22,777,764



# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 9. Employee future benefits (continued):

Components of net benefit expense recognized are as follows:

	2016	2015
Current service cost	\$ 494,058	430,156
Interest costs	923,479	887,569
Net benefit expense recognized	\$ 1,417,537	1,317,725

Actuarial gains and losses recognized in other comprehensive income are as follows:

	2016	2015
Cumulative amount at January 1	\$ (1,890,527)	(2,356,389)
Recognized during the year	5,092,943	465,862
Cumulative amount at December 31	\$ 3,202,416	(1,890,527)

The significant actuarial assumptions used in the valuation are as follows (weighted average):

	2016	2015
Accrued benefit obligation:		
Discount rate	3.90%	4.10%
Benefit cost for the year:		
Withdrawal rate	4.50%	4.60%
Assumed health care cost trend rates:		
Initial health care cost trend rate	6.20%	6.70%
Cost trend rate declines to year that rate reaches the rate it is assumed to remain at	4.50%	4.60%

The main actuarial assumptions utilized for the valuation are as follows:

- General inflation – future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2.00% in 2016, and thereafter (2015 – 2.00%).
- Discount (interest) rate – the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2016, was 3.90% (2015 – 4.10%).
- Salary levels – future general salary and wage levels were assumed to increase at 2.00% (2015 – 2.00%) per annum.
- Medical costs – medical costs were assumed to be 7.00% for 2014, 6.70% for 2015, 6.20% for 2016 and 4.50% thereafter.
- Dental costs – dental costs were assumed to be 4.60% for 2014, 4.60% for 2015, 4.50% for 2016 and 4.50% thereafter.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 10. Share capital:

	2016	2015
Authorized:		
Unlimited common shares		
Issued:		
1,001 common shares	\$ 22,431,779	22,431,779

## 11. Other operating revenue:

Other income comprises:

	2016	2015
Independent Electricity System Operator recoveries	\$ 1,383,432	1,106,728
Pole rental	526,448	686,732
Other charges	4,681,321	1,256,969
Contracts and rentals	7,406,717	8,592,172
Electricity generation	860,671	453,836
	\$ 14,858,589	12,096,437

## 12. Commitments and contingencies:

General:

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General liability insurance:

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

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

## 13. Guarantees:

The Corporation has issued a \$9,048,386 letter of guarantee to the IESO. This was a requirement of the IESO for market opening on May 1, 2002. At December 31, 2016, no amounts have been drawn on this letter of guarantee.

## 14. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2016, the Corporation made employer contributions of \$1,106,061 to OMERS (2015 - \$1,036,935).

The Corporation estimates a contribution of \$1,208,069 to OMERS during the next fiscal year.

## 15. Employee compensation:

	2016	2015
Salaries, wages and benefits	\$ 13,908,451	13,334,758
Contributions to OMERS	1,106,061	1,036,935
	\$ 15,014,512	14,371,693

## 16. Related party transactions:

Parent and ultimate controlling party:

Greater Sudbury Utilities./Services Publics du Grand Sudbury Inc. is a wholly-owned subsidiary of the City of Greater Sudbury (the "City"). The City produces consolidated financial statements that are available for public use.

Transactions with ultimate parent (the City):

During the year, the Corporation paid the City interest on a promissory note totalling \$3,794,709 (2015 - \$3,794,709). The promissory note is repayable in full on six months' written notice of the holder of the note. As at April 24, 2017, the City has informed the Corporation it will not demand repayment of the promissory note within one year.

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Notes to Consolidated Financial Statements

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## 16. Related party transactions (continued):

The Corporation had the following significant transactions with its ultimate parent, a government entity:

- i) electricity sales;
- ii) streetlight maintenance;
- iii) telecommunications; and
- iv) water and wastewater billing.

Transactions with the ultimate parent relating to the above transactions amounted to \$11,111,911 in 2016 (2015 - \$9,972,752).

The Corporation provides electrical energy to the City at the same regulated 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 \$1,335,542 (2015 - \$1,331,466) and \$485,975 (2015 - \$409,884), respectively. Included in accounts receivable is \$859,114 (2015 - \$826,542) on account of these sales.

Included in accounts payable and accrued liabilities is \$2,154,003 (2015 - \$941,337) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is \$60,323 (2015 - \$63,802) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation paid \$283,041 (2015 - \$272,579) to the City on account of municipal taxes.

Key management personnel:

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

	2016	2015
Directors' fees	\$ 54,501	36,733
Salaries and benefits	902,984	937,934
	<u>\$ 957,485</u>	<u>974,667</u>

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Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 17. Financial instruments and risk management:

### (a) Fair value disclosure:

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

### (b) Financial risks:

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

#### i) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Greater Sudbury. No single customer accounts for a balance in excess of 8% of total accounts receivable. The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the allowance for impairment at December 31, 2016 is \$1,577,489 (2015 - \$1,223,076). An impairment loss of \$Nil (2015 - \$Nil) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2016, approximately \$1,440,159 (2015 - \$1,205,264) is considered 60 days past due. The Corporation has over 47,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2016, the Corporation holds security deposits in the amount of \$1,907,768 (2015 - \$1,799,107).

#### i) Market risk:

Market risk primarily refers to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

# GREATER SUDBURY UTILITIES INC. / SERVICES PUBLICS DU GRAND SUDBURY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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

### ii) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a \$5,000,000 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. As at December 31, 2016, no amounts had been drawn under the Greater Sudbury Utilities Inc. \$5,000,000 credit facility (2015 - \$Nil).

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

## 18. Deferred revenue:

	2016	2015
Contributions in aid of capital (a)	\$ 3,438,810	2,692,616
Hotelecom (b)	179,249	224,061
Dark fibre capacity services (c)	238,317	273,624
Telus (d)	83,527	88,976
1627596 Ontario Inc. deferred revenue (e)	345,079	334,958
Other	12,000	—
	4,296,982	3,614,235
Less: current portion	85,087	85,567
	\$ 4,211,895	3,528,668

(a) Under IFRS, contributions in aid of capital are to be classified as deferred revenue, and amortized into income over the life of the capital asset.

(b) During 2006, 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.

(c) 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 Corporation. 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.

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## 18. Deferred revenue (continued):

- (d) During 2009, Greater Sudbury Telecommunications Inc. entered into a Fibre Optic Cable IRU Agreement with Telus Corporation for a twenty-five year period ending December 31, 2034. This revenue is being recognized over the term of the agreement on a straight-line basis as the service is delivered to the customer.
- (e) 1627596 Ontario Inc. o/a @home Energy bills their customers on a quarterly basis. The deferred revenue represents the amount billed before year-end that pertains to future periods.

## 19. Obligation under a capital lease:

	2016	2015
Capital lease, secured, fixed rate 6.560%, three-year term	\$ 20,405	53,902
Capital lease, secured, fixed rate 4.229%, five-year term	60,342	98,878
Capital lease, secured, fixed rate 1.852%, five-year term	33,777	27,678
Capital lease, secured, fixed rate 6.951%, three-year term	11,497	24,436
Capital lease, secured, fixed rate 2.732%, five-year term	1,946	106,515
	127,967	311,409
Less: current portion	67,624	183,001
	\$ 60,343	128,408

Repayment schedule:

2017	\$ 67,624
2018	35,082
2019	25,261
	\$ 127,967

## 20. Comparative information:

Certain of the 2015 comparative information have been restated to conform with the 2016 presentation.