

**THE CORPORATION OF THE
TOWN OF COLLINGWOOD
PUBLIC UTILITIES SERVICE BOARD
FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Board of Directors, Members of Council,
Inhabitants and Ratepayers of
The Corporation of the Town of Collingwood:

We have audited the balance sheet of **The Corporation of the Town of Collingwood, Public Utilities Service Board** as at December 31, 2006, and the statements of revenue, expenditures and surplus, and cash flows for the year then ended. These financial statements are the responsibility of the service board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Public Utilities Service Board as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gaviller & Company LLP

Licensed Public Accountants
Collingwood, Ontario
April 4, 2007

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

BALANCE SHEET AS AT DECEMBER 31

	2006	2005
	\$	\$
Assets		
Current		
Cash	385,865	1,640,954
Accounts receivable (Note 3)	1,746,277	621,766
Unbilled revenue	342,902	302,846
Inventories	75,610	71,766
Prepaid expenses	17,581	51,345
	2,568,235	2,688,677
Capital (Note 4)		
Land and buildings	6,085,775	6,076,650
Plant and equipment	10,494,934	10,494,934
Transmission and distribution systems	11,809,123	10,942,430
	28,389,832	27,514,014
Less accumulated depreciation	(11,285,509)	(10,325,942)
	17,104,323	17,188,072
Other (net of accumulated depreciation)	202,147	131,735
Construction in progress	279,005	21,507
	17,585,475	17,341,314
Other		
Deferred charges, net of \$197,020 accumulated amortization (\$152,527 in 2005)	90,452	111,731
	20,244,162	20,141,722

Approved on behalf of the board of directors:

_____ Director

_____ Director

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

BALANCE SHEET AS AT DECEMBER 31

	2006	2005
	\$	\$
Liabilities		
Current		
Demand loan (Note 5)	1,643,279	-
Banker's acceptance (Note 5)	-	2,000,000
Accounts payable and accruals (Note 3)	1,183,337	1,073,072
Current portion of long-term	628,000	592,000
	3,454,616	3,665,072
Other		
Employee future benefits (Note 8)	158,086	126,638
Long-term		
Debenture debt, due to Town of Collingwood (Note 6)	4,217,000	4,845,000
Discount on debenture debt	(32,738)	(38,403)
	4,184,262	4,806,597
Total liabilities	7,796,964	8,598,307
Surplus		
Reserve fund (Note 2)	1,553,065	1,047,551
Contributed	796,271	703,230
Earned surplus	10,097,862	9,792,634
Total surplus	12,447,198	11,543,415
	20,244,162	20,141,722

See accompanying notes to the financial statements

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

REVENUE, EXPENDITURES AND SURPLUS STATEMENT FOR THE YEAR ENDED DECEMBER 31

	2006	2005
	\$	\$
Revenue		
Sale of water	4,095,105	3,907,952
Hydrant rental	97,300	91,350
Water treatment facility training	-	2,500
Interest	80,787	55,374
Other		
Water heater rental	210,860	159,425
Water meters	33,745	36,599
Miscellaneous	21,832	49,792
Operations management fee	224,692	190,864
Lease revenue (Note 3)	251,000	233,500
	5,015,321	4,727,356
Expenditures		
Supply of water	2,468,493	2,374,042
Administration and general (Note 3)	585,840	519,627
Customer billing and collection	257,922	325,667
Depreciation and amortization	983,356	939,881
Interest	447,969	433,067
	4,743,580	4,592,284
Operating income	271,741	135,072
Other income		
Gain on disposal of capital assets	-	1,100
Excess of revenue over expenditures for the year	271,741	136,172
Earned surplus, beginning of year	9,792,634	9,622,975
Amortization of contributed surplus	33,487	33,487
Earned surplus, end of year	10,097,862	9,792,634

See accompanying notes to the financial statements

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31

	2006	2005
	\$	\$
Cash flows from (for):		
Operating activities		
Excess of revenue over expenditures for the year	271,741	136,172
Items not requiring cash		
Depreciation	1,023,528	962,063
Amortization of deferred charges and discount on debenture	50,158	45,153
Gain on disposal of assets	-	(1,100)
Interest allocation to reserve fund	39,095	28,435
	1,384,522	1,170,723
Changes in		
Accounts receivable	(1,297,383)	695,436
Unbilled revenue	(40,055)	11,122
Inventories	(3,844)	2,748
Prepaid expenses	33,764	25,599
Accounts payable and accruals	642,466	(95,392)
Employee future benefits	31,448	4,140
	750,918	1,814,376
Investing activities		
Net addition of capital assets	(1,143,096)	(376,176)
Reserve fund expenditures	-	(65,339)
Proceeds from disposal of assets	-	1,100
Additions to deferred charges	(21,279)	(116,101)
	(1,164,375)	(556,516)
Financing activities		
Payment of debenture debt	(592,000)	(562,000)
Development charges	466,420	320,968
Payment to Zenon Environmental Inc.	(359,330)	(356,109)
Bank loan	(356,722)	(399,145)
	(841,632)	(996,286)
Change in cash	(1,255,089)	261,574
Cash position, beginning of year	1,640,954	1,379,380
Cash position, end of year	385,865	1,640,954

See accompanying notes to the financial statements

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

1. Significant accounting policies

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they became known.

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

(a) Revenue recognition

Water revenues are recognized when the water is used by the consumer and collection is reasonably assured. Unbilled revenue is an estimate of water consumed by customers to the end of year but not yet billed by the service board.

(b) Capital assets

Capital assets are recorded at cost. Depreciation is taken on cost in excess of amounts debentured or amounts recovered from ratepayers and is calculated using the following rates and methods:

Buildings	2.5% - 5%	Declining balance and straight-line
Plant and equipment	2.5% - 6.67%	Declining balance and straight-line
Transmission and distribution systems	2.5% - 20%	Declining balance and straight-line
Other	5% - 10%	Declining balance and straight-line

(c) Inventories

Inventories are valued at cost using the moving average basis.

(d) Deferred charges

Deferred charges are amortized on a straight-line basis over three and five years. As the charges become fully depreciated they are removed from the accounts.

(e) Debenture interest

Debenture interest payments are expensed in the year due. Discount on debenture debt is amortized on a straight-line basis over the term of the debenture.

(f) Contributed surplus

Contributed surplus is amortized to earned surplus on the same basis as the contributed assets are depreciated.

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

2. Reserve fund

Reserve fund consists of:

	2006	2005
	\$	\$
Balance, beginning of year	1,047,551	763,487
Lot levies, development charges and subdivider contributions	592,948	320,968
Interest revenue	39,094	28,435
Expenditures	(126,528)	(65,339)
Balance, end of year	1,553,065	1,047,551

3. Related party transactions

COLLUS Power Corp., COLLUS Solutions Corp. and the service board are under the common control of the council of the Town of Collingwood. The transactions are recorded at the exchange amount.

Related party transactions include the following amounts:

	2006	2005
	\$	\$
Amounts payable to COLLUS Power Corp	-	81,724
Amounts receivable from COLLUS Power Corp	842,040	-
Amounts receivable from the Town of Collingwood	464,542	371,430
Amounts payable to COLLUS Solutions Corp.	208,857	159,991
Commitments to purchase administrative services from COLLUS Solutions Corp. included in administration and general expenditures:	1,051,918	825,751
The service board is leasing the operations centre to COLLUS Power Corp. The following amount was recognized in income:	143,000	137,500
The service board is leasing computer equipment to COLLUS Solutions Corp. The following amount was recognized in income:	108,000	96,000
Management services provided to the Town of Collingwood at no charge. The services were worth approximately:	25,000	10,000

4. Capital assets

A watermain extension project was started in 1994 and completed during 1999. A major portion of the cost of the asset is expected to be recovered from frontage fees. These fees are receivable on the date of customer connection to a completed line. The estimated current recoverable amount is \$1,067,640 (2005 - \$1,190,000). Interest costs of \$47,996 (2005 - \$39,996) were capitalized during the year. Frontage fees of \$122,360 (2005 - \$172,175) were credited to the project in the year.

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

5. Demand loan

Demand loan consists of the following:

	2006	2005
	\$	\$
4.55% demand loan payable to CIBC. Due December 2012.	1,643,279	-

Monthly blended principal and interest payments are \$28,998.

Because the loan is "demand", it is reported as a current liability.

Principal due within each of the next five years based on negotiated repayment terms is as follows:

2007	\$	271,043
2008		283,142
2009		296,297
2010		310,064
2011		324,469

6. Debenture debt

Principal and interest (at 5.75 to 6.65%) payments on the outstanding debenture debt in the next five years are as follows:

	Principal \$	Interest \$	Total \$
2007	628,000	293,769	921,769
2008	665,000	256,909	921,909
2009	705,000	217,080	922,080
2010	746,000	174,684	920,684
2011	790,000	128,934	918,934

7. Financial instruments

The service board's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accruals, demand loan and long-term liabilities. It is management's opinion that the service board is not exposed to significant interest, currency or credit risks arising from these financial instruments.

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

8. Employee future benefits

The employees of service board participate in the Ontario Municipal Employees Retirement System ("OMERS"). Although the plan has a defined retirement benefit for employees, the related obligation of the corporation cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant. Amounts paid to OMERS during the year totaled \$49,886 (2005 - \$43,113).

In addition, the service board pays certain benefits on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2005 of \$126,638 and the net periodic benefit cost for 2006 was determined by actuarial valuations using discount rates of 5.0%. Actuarial valuations will be prepared every third year or when there are significant changes to the workforce.

Information about the service board's employee benefit plan is as follows:

	2006	2005
	\$	\$
Accrued benefit obligation		
Balance at the beginning of period	126,638	122,498
Current service cost for the period	34,233	4,673
Interest cost for the period	10,231	8,174
Actuarial loss	43,174	21,575
Prior period cost	9,251	10,793
Benefits paid for the period	(17,331)	(10,249)
Projected accrued benefit obligation at end of period as determined by actuarial valuation	206,196	157,464
Unamortized actuarial loss	(40,401)	(21,575)
Unamortized prior service cost	(7,709)	(9,251)
Balance at end of period	158,086	126,638
Components of net periodic benefit cost		
Current service cost for the period	34,233	4,673
Interest cost for the period	10,231	8,174
Amortization of actuarial losses / (gains)	2,773	-
Amortization of prior service cost	1,542	1,542
Net periodic benefit cost	48,779	14,389

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

8. Employee future benefits (continued)

The main actuarial assumptions employed for the valuations are as follows:

(a) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.1% in 2006 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2006, of the present value of future liabilities was determined using a discount rate of 5.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 2.9%.

(c) Salary levels

Future general salary and wage levels were assumed to increase at 3.3% per annum.

(d) Medical costs

Medical costs were assumed to increase at 10.0% in 2006 graded down 1.0% a year until 2011 after which the rate is assumed to increase 5.0% annually.

(e) Dental costs

Dental costs were assumed to increase at 5.0% in 2006 and thereafter.

9. Supplemental cash flow information

Cash payments and receipts were as follows:

	2006	2005
	\$	\$
Interest paid	447,969	369,794
Interest received	80,787	55,374

10. Tax status

The service board is exempt from income taxes.

11. Full cost recovery study

Under the Sustainable Water and Sewage System Act and the Safe Drinking Water Act, municipalities are required to prepare plans to repair and replace their water system, the service board is in the process of finalizing this study. It is estimated that the service board will need to expend approximately \$28,000,000 over the next 10 years to respond to the legislation. This plan also includes methods for funding these expenditures including rates and borrowings.