

**THE CORPORATION OF THE
TOWN OF COLLINGWOOD
PUBLIC UTILITIES SERVICE BOARD
FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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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, 2007, 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, 2007 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
March 5, 2008

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

BALANCE SHEET AS AT DECEMBER 31

	2007	2006
	\$	\$
Assets		
Current		
Cash	1,003,643	385,865
Accounts receivable (Note 3)	1,192,987	1,746,277
Unbilled revenue	375,546	342,902
Inventories	82,157	75,610
Prepaid expenses	71,594	17,581
Property held for sale (Note 12)	131,725	126,973
	2,857,652	2,695,208
Capital (Note 4)		
Land and buildings	6,085,775	6,085,775
Plant and equipment	10,494,934	10,494,934
Transmission and distribution systems	11,105,450	10,601,538
	27,686,159	27,182,247
Less accumulated depreciation	(11,298,298)	(10,204,897)
	16,387,861	16,977,350
Other (net of accumulated depreciation)	160,886	202,147
Construction in progress (Note 14)	577,061	279,005
	17,125,808	17,458,502
Other		
Deferred charges, net of \$212,325 accumulated amortization (\$197,020 in 2006)	110,459	90,452
	20,093,919	20,244,162

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

	2007	2006
	\$	\$
Liabilities		
Current		
Demand loan (Note 5)	1,553,515	1,643,279
Accounts payable and accruals (Note 3)	1,208,161	1,183,337
Current portion of long-term	665,000	628,000
	3,426,676	3,454,616
Other		
Employee future benefits (Note 8)	134,354	158,086
Long-term		
Debenture debt, due to Town of Collingwood (Note 6)	3,552,000	4,217,000
Discount on debenture debt	(27,074)	(32,738)
	3,524,926	4,184,262
Total liabilities	7,085,956	7,796,964
Surplus		
Reserve fund (Note 2)	1,660,949	1,553,065
Contributed	865,740	796,271
Earned surplus	10,481,274	10,097,862
Total surplus	13,007,963	12,447,198
	20,093,919	20,244,162

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

	2007	2006
	\$	\$
Revenue		
Sale of water	4,461,131	4,095,105
Hydrant rental	104,625	97,300
Interest	91,119	80,787
Other		
Water meters	31,140	33,745
Operations management fee	286,835	224,692
Lease revenue (Note 3)	267,000	251,000
Miscellaneous	43,827	21,832
	5,285,677	4,804,461
Expenditures		
Supply of water	2,620,952	2,375,944
Administration and general (Note 3)	612,564	585,508
Customer billing and collection	267,160	258,254
Depreciation and amortization	1,114,229	954,327
Interest	405,502	447,969
	5,020,407	4,622,002
Income from continuing operations	265,270	182,459
Income from discontinued operations (Note 12)	84,655	89,282
Excess of revenue over expenditures for the year	349,925	271,741
Earned surplus, beginning of year	10,097,862	9,792,634
Amortization of contributed surplus	33,487	33,487
Earned surplus, end of year	10,481,274	10,097,862

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

	2007	2006
	\$	\$
Cash flows from (for):		
Operating activities		
Excess of revenue over expenditures for the year	349,925	271,741
Items not requiring cash		
Depreciation	1,161,670	994,500
Amortization of deferred charges and discount on debenture	20,969	50,158
Interest allocation to reserve fund	54,322	39,095
	1,586,886	1,355,494
Changes in		
Accounts receivable	553,290	(1,297,383)
Unbilled revenue	(32,644)	(40,055)
Inventories	(6,547)	(3,844)
Prepaid expenses	(54,013)	33,764
Property held for sale	(4,752)	(15,641)
Accounts payable and accruals	24,825	642,466
Employee future benefits	(23,732)	31,448
	2,043,313	706,249
Investing activities		
Net addition of capital assets	(726,021)	(1,098,427)
Additions to deferred charges	(35,312)	(21,279)
	(761,333)	(1,119,706)
Financing activities		
Payment of debenture debt	(628,000)	(592,000)
Development charges	53,562	466,420
Payment to Zenon Environmental Inc.	-	(359,330)
Bank loan	(89,764)	(356,722)
	(664,202)	(841,632)
Change in cash	617,778	(1,255,089)
Cash position, beginning of year	385,865	1,640,954
Cash position, end of year	1,003,643	385,865

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, 2007

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, 2007

2. Reserve fund

Reserve fund consists of:

	2007	2006
	\$	\$
Balance, beginning of year	1,553,065	1,047,551
Lot levies, development charges and subdivider contributions	507,973	592,948
Interest revenue	54,322	39,094
Expenditures	(454,411)	(126,528)
Balance, end of year	1,660,949	1,553,065

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:

	2007	2006
	\$	\$
Amounts receivable from COLLUS Power Corp	446,317	842,040
Amounts receivable from the Town of Collingwood	72,064	464,542
Amounts payable to COLLUS Solutions Corp.	47,498	208,857
Commitments to purchase administrative services from COLLUS Solutions Corp. included in administration and general expenditures:	1,030,428	1,051,918
The service board is leasing the operations centre to COLLUS Power Corp. The following amount was recognized in income:	150,000	143,000
The service board is leasing computer equipment to COLLUS Solutions Corp. The following amount was recognized in income:	117,000	108,000
Management services provided to the Town of Collingwood at no charge. The services were worth approximately:	30,000	25,000

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 \$941,294 (2006 - \$1,067,640). Interest costs of \$56,996 (2006 - \$47,996) were capitalized during the year. Frontage fees of \$126,346 (2006 - \$122,360) 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, 2007

5. Demand loan

Demand loan consists of the following:

	2007	2006
	\$	\$
4.55% demand loan payable to CIBC. Due December 2012.	1,553,515	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:

2008	\$	283,142
2009		296,297
2010		310,064
2011		324,469
2012		339,543

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 \$
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
2012	636,000	80,299	716,299

7. Financial instruments

The service board's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable, 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. Fair value does not differ significantly from recorded value.

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

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 \$53,770 (2006 - \$49,886).

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, 2006 of \$158,086 and the net periodic benefit cost for 2007 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:

	2007	2006
	\$	\$
Accrued benefit obligation		
Balance at the beginning of period	158,086	126,638
Current service cost for the period	3,577	34,233
Interest cost for the period	10,025	10,231
Actuarial loss	40,401	43,174
Prior period cost	7,709	9,251
Benefits paid for the period	(18,530)	(17,331)
Projected accrued benefit obligation at end of period as determined by actuarial valuation	201,268	206,196
Unamortized actuarial loss	(60,747)	(40,401)
Unamortized prior service cost	(6,167)	(7,709)
Balance at end of period	134,354	158,086
Components of net periodic benefit cost		
Current service cost for the period	3,577	34,233
Interest cost for the period	10,025	10,231
Amortization of actuarial losses / (gains)	6,626	2,773
Amortization of prior service cost	1,542	1,542
Net periodic benefit cost	21,770	48,779

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

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 2007 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2007, 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 9.0% in 2007 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 2007 and thereafter.

9. Supplemental cash flow information

Cash payments and receipts were as follows:

	2007	2006
	\$	\$
Interest paid	405,502	447,969
Interest received	91,119	80,787

10. Tax status

The service board is exempt from income taxes.

THE CORPORATION OF THE TOWN OF COLLINGWOOD PUBLIC UTILITIES SERVICE BOARD

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2007

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.

12. Discontinued operations

In November 2007 management committed in response to regulations under the Ontario Energy Board Affiliate Relationship Code to sell its water heater rental business. Property held for sale includes water heater rental capital valued at its carrying cost. No accounts receivable was included in property held for sale as it was not feasible to determine.

The net effect on income is noted below. It was not feasible to determine overhead costs related to the water heater rental business.

	2007	2006
	\$	\$
Revenue	208,456	210,860
Direct expenses		
Water heater maintenance	93,920	92,548
Water heater depreciation	29,881	29,030
	123,801	121,578
Income from discontinued operations	84,655	89,282

13. Subsequent events

On January 15, 2008, the water heater rental business was sold for approximately \$864,000. The net book value of the related assets at the time of the sale was \$131,725. The estimated accounting gain on sale to be reported is approximately \$732,000.

14. Construction in progress

Construction in progress consists of costs related to the expansion of the operations centre building. Management estimates that the total cost will approximate \$950,000 and will be financed from operations. The project will be completed in 2008.