

Financial Statements of

**GREATER SUDBURY HYDRO INC. /  
HYDRO DU GRAND SUDBURY INC.**

Year ended December 31, 2017



KPMG LLP  
115 King Street South  
2<sup>nd</sup> Floor  
Waterloo, ON N2J 5A3  
Telephone (519) 747-8800  
Fax (519) 747-8890  
[www.kpmg.ca](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Greater Sudbury Hydro Inc. / Hydro du Grand Sudbury Inc.

We have audited the accompanying financial statements of Greater Sudbury Hydro Inc. / Hydro du Grand Sudbury Inc. which comprise the statement of financial position as at December 31, 2017, the 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Greater Sudbury Hydro Inc. / Hydro du Grand Sudbury Inc. as at December 31, 2017 and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada  
April 23, 2018

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 3)	\$ 1,409,388	\$ -
Accounts receivable (note 4)	8,682,595	12,939,298
Unbilled revenue:		
Energy sales	8,777,514	13,028,375
Distribution	2,179,198	2,243,543
Prepaid expenses	414,034	424,854
Payments in lieu of taxes recoverable (note 7)	566,052	296,588
	22,028,781	28,932,658
Advances to related companies (note 17)	-	296,367
Property, plant and equipment (note 5)	92,230,464	87,219,880
Intangible assets (note 6)	143,582	199,106
Deferred payment in lieu of taxes (note 7)	7,718,676	6,328,911
Investment in ConverGen Inc.	400,000	400,000
Total assets	122,521,503	123,376,922
Regulatory deferral account debit balances (note 8)	4,168,782	3,100,474
Total assets and regulatory balances	\$ 126,690,285	\$ 126,477,396

See accompanying notes to financial statements.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Statement of Financial Position (continued)

December 31, 2017, with comparative information for 2016

	2017	2016
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Bank indebtedness (note 3)	\$ -	\$ 830,575
Accounts payable and accrued liabilities	3,763,199	5,031,165
Payable for energy purchases	8,493,676	11,767,650
Long-term obligations (note 10)	1,273,278	1,263,684
	<u>13,530,153</u>	<u>18,893,074</u>
Advances from related parties (note 17)	251,980	-
Deferred revenue	3,546,944	2,889,280
Promissory note payable (note 9)	48,645,457	48,645,457
Long-term obligations (note 10)	22,094,544	20,173,318
Total liabilities	<u>88,069,078</u>	<u>90,601,129</u>
Shareholder's equity:		
Share capital (note 12)	20,848,052	20,848,052
Accumulated other comprehensive income	2,123,337	3,160,134
Retained earnings	4,240,723	2,358,643
	<u>27,212,112</u>	<u>26,366,829</u>
Total liabilities and shareholder's equity	<u>115,281,190</u>	<u>116,967,958</u>
Regulatory deferral account credit balances (note 8)	11,409,095	9,509,438
Commitments and contingencies (note 13)		
Guarantees (note 14)		
Total liabilities, regulatory balances and equity	<u>\$ 126,690,285</u>	<u>\$ 126,477,396</u>

See accompanying notes to financial statements.

Approved by the Board of Directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Statement of Income and Comprehensive Income

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Energy sales	\$ 104,288,228	\$ 116,942,490
Distribution	22,439,241	22,396,634
	<u>126,727,469</u>	<u>139,339,124</u>
Conservation revenue	2,033,252	1,383,432
Other operating revenue	1,903,084	2,380,270
	<u>130,663,805</u>	<u>143,102,826</u>
Expenses:		
Cost of energy	103,711,816	116,083,768
Depreciation of property, plant, and equipment	3,696,101	3,655,109
Depreciation of intangible assets	62,369	100,192
Distribution - operations	6,667,917	6,434,317
Conservation and demand management	2,035,469	1,383,432
Distribution - maintenance	1,919,977	2,283,337
General administration	3,677,188	3,679,882
Billing and collecting	2,273,037	2,305,977
Interest on promissory note payable	3,531,660	3,531,660
Interest on long-term obligations	753,649	1,127,183
Gain on swap contract	(64,545)	(37,968)
Loss on disposal of property, plant and equipment	454,852	637,755
	<u>128,719,490</u>	<u>141,184,644</u>
Income before tax and regulatory items	1,944,315	1,918,182
Payment (recovery) in lieu of taxes (note 7)	(491,205)	694,286
Net income	2,435,520	1,223,896
Net movement on regulatory accounts related to income or loss	471,059	842,296
Net movement on regulatory accounts from deferred taxes related to income	(508,906)	377,523
Net movement on regulatory accounts from deferred taxes related to other comprehensive income	(515,593)	1,812,789
Income for the year after net movements in regulatory balances, net of tax	1,882,080	4,256,504
Other comprehensive income - item that will not be reclassified to income or loss - remeasurement of employee future benefit obligations, net of taxes (note 11)	(1,036,797)	5,027,926
Total comprehensive income for the year	<u>\$ 845,283</u>	<u>\$ 9,284,430</u>

See accompanying notes to financial statements.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

## Statement of Changes in Equity

Year ended December 31, 2017, with comparative information for 2016

	Share Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total
Balance, January 1, 2016	\$ 20,848,052	(1,867,792)	(1,897,861)	17,082,399
Income for the year	-	-	4,256,504	4,256,504
Remeasurement of employee future benefit obligation	-	5,027,926	-	5,027,926
Balance, December 31, 2016	20,848,052	3,160,134	2,358,643	26,366,829
Income for the year	-	-	1,882,080	1,882,080
Remeasurement of future benefit obligation	-	(1,036,797)	-	(1,036,797)
Balance, December 31, 2017	\$ 20,848,052	2,123,337	4,240,723	27,212,112

See accompanying notes to financial statements.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

## Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Comprehensive income	\$ 845,283	\$ 9,284,430
Items not involving cash:		
Depreciation of property, plant and equipment	4,151,011	4,071,365
Depreciation of intangible assets	62,369	100,192
Non-cash employee future benefit obligation	2,490,772	(5,905,283)
Loss on disposal of property, plant and equipment	454,852	637,755
Gain on swap contract	(64,545)	(37,968)
Amortization of deferred revenue	(92,007)	(70,037)
Payment in lieu of taxes	(491,205)	694,286
	<u>7,356,530</u>	<u>8,774,740</u>
Changes in non-cash working capital:		
Accounts receivable	4,256,703	(3,378,366)
Prepaid expenses	10,820	(32,952)
Unbilled revenue:		
Energy sales	4,250,861	1,873,029
Distribution	64,345	706,693
Deposits collected	214,505	104,596
Regulatory assets/liabilities	(49,511)	(1,905,010)
Accounts payable and accrued liabilities	(1,267,964)	1,127,235
Deferred revenue	42,452	(342,395)
Payable for energy purchases	(3,273,974)	(1,211,656)
	<u>11,604,767</u>	<u>5,715,914</u>
Employee future benefits paid	(545,139)	(507,749)
Payment in lieu of taxes recovered (paid)	(287,165)	(920,504)
	<u>10,772,463</u>	<u>4,287,661</u>
Investing activities:		
Purchase of property, plant and equipment	(9,634,502)	(9,132,519)
Contributions in aid of construction	707,219	915,758
Proceeds on disposal of property, plant and equipment	18,055	37,524
Advances to related companies	548,347	341,864
Increase in developer contributions	45,687	79,943
Purchase of intangible assets	(6,845)	(22,285)
	<u>(8,322,039)</u>	<u>(7,779,715)</u>
Financing activities:		
Repayment of term and bank loans	(210,461)	(200,591)
	<u>(210,461)</u>	<u>(200,591)</u>
Increase (decrease) in cash during the year	2,239,963	(3,692,645)
Cash and cash equivalents (bank indebtedness), beginning of year	(830,575)	2,862,070
Cash and cash equivalents (bank indebtedness), end of year	\$ 1,409,388	\$ (830,575)

See accompanying notes to financial statements.



# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. (the Corporation) is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the City of Greater Sudbury. The address of the Corporation's registered office is 500 Regent Street, P.O. Box 250/250 rue Regent, CP 250, Sudbury ON P3E 3Y2.

The Corporation delivers electricity and related energy services to residential and commercial customers in the City of Greater Sudbury and parts of the Municipality of West Nipissing. The Corporation is wholly owned by Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. which is itself wholly owned by the City of Greater Sudbury / Ville du Grand Sudbury.

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

### (a) Statement of compliance:

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

The financial statements were approved by the Board of Directors on April 23, 2018.

### (b) Basis of measurement:

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

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

### (c) Functional and presentation currency:

These 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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

## 1. Basis of presentation (continued):

### (d) Use of estimates and judgments

The preparation of 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 financial statements is included in the following notes:

- i. Note 5 – Property, plant and equipment
- ii. Note 11 – Employee future benefits
- iii. Note 13 – Commitments and contingencies

### (e) 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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

## 1. Basis of presentation (continued):

### (f) Rate setting:

#### i) Distribution revenue:

For the distribution revenue included in electricity sales, the Corporation typically 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 the intervenors 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 Inflation 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 2016 requesting a 1.6% inflationary increase to distribution rates for the period of May 1, 2017 to April 30, 2018. The IRM was approved on March 30, 2017.

#### 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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

## 2. Summary of significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these 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 unrelated environment and regulated entities that have not adopted IFRS 14, Regulatory Deferral 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 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 profit 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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

## 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 profit 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 profit and loss in the year incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2017, the interest rate was 1.20%. 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 statement of income and comprehensive 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 and on the statement of income and comprehensive income as net movements in regulatory balances, 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.

### (c) Financial instruments:

All financial assets are classified as loans and receivable 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 (i).

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

### (d) Cash and cash equivalents:

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

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

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

### (e) Revenue recognition:

#### i) Electricity sales:

Electricity sales are recognized as the electricity is delivered to customers and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution, and any other regulatory charges. Electricity 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 power is recorded on the basis of power used.

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. Upon completion of the capital project, the cash contribution is 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 presents 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 as earned 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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

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

### (f) Capital inventory:

Inventory, comprising of 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.

### (g) Property, plant and equipment:

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 property, plant and equipment ("PP&E") have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on the disposal of an item of PP&E are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of PP&E and are recognized net within other income in the statement of income and comprehensive income.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E 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 PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in income as incurred.

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

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

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

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

The estimated useful lives are as follows:

---

Buildings	15 - 50 years
Distributions systems	20 – 50 years
Automotive	8 – 12 years
Office and other equipment	5 – 10 years
Fibre optics	25 years
System supervisory equipment	20 years
Computer equipment	5 years

---

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

### (h) 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) Land rights:

Payments to obtain rights to access 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.

#### iii) Amortization:

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

---

Computer software	5 years
Land rights	Not amortized

---

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



# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

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

### (i) 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 profit 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.

#### ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than capital 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 generate 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 of disposal. 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.

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.

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.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

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

### (j) 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.

### (k) 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 for 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 with employee benefit expense recorded 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 accumulated other comprehensive loss.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

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

### (l) 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 a developer contribution within long-term obligations. When the capital project is complete, the amount is transferred to 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.

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

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

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

### (n) Payment in lieu of taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit 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 payment 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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

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

### (n) Payment in lieu of 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 tax 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 tax 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 tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

### (o) Standards issued but not yet adopted:

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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

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

(o) Standards issued but not yet adopted (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 Corporation is assessing the impact of IFRS 16 on its results of operations, financial position, and disclosures.

## 3. Cash and cash equivalents:

	2017	2016
Cash	\$ 1,409,388	–
Bank indebtedness	–	(830,575)
	<u>\$ 1,409,388</u>	<u>(830,575)</u>

## 4. Accounts receivable:

	2017	2016
Electricity	\$ 8,646,583	12,038,630
Other	1,221,012	2,340,827
	<u>9,867,595</u>	<u>14,379,457</u>
Allowance for doubtful accounts:		
Balance, beginning of year	(1,440,159)	(1,034,000)
Increase in provision	(286,908)	(382,000)
Accounts receivable write-offs (recoveries)	542,067	(24,159)
Balance, end of year	<u>(1,185,000)</u>	<u>(1,440,159)</u>
	<u>\$ 8,682,595</u>	<u>12,939,298</u>

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

## 5. Property, plant and equipment:

Cost:

	Land	Buildings	Distribution Systems	Automotive	Office and other Equipment	Fibre Optics	System Supervisory Equipment	Computer Equipment	Construction- in-progress	Capital Inventory	Total
Balance, January 1, 2016	\$ 940,079	8,068,441	72,633,475	2,679,139	765,594	817,267	634,306	481,753	312,154	1,203,631	88,535,839
Additions	-	1,397,010	6,785,953	202,408	130,668	-	63,599	24,168	400,952	127,760	9,132,518
Transfers	-	34,582	(34,582)	-	-	-	-	-	-	-	-
Disposals/retirements	-	-	(3,048,107)	(345,601)	-	-	-	-	-	-	(3,393,708)
Balance, December 31, 2016	940,079	9,500,033	76,336,739	2,535,946	896,262	817,267	697,905	505,921	713,106	1,331,391	94,274,649
Additions	-	98,814	8,355,074	743,656	149,764	-	138,470	-	61,985	122,843	9,670,606
Disposals/retirements	-	-	(2,389,250)	(89,757)	-	-	-	-	-	-	(2,479,007)
Balance, December 31, 2017	\$ 940,079	9,598,847	82,302,563	3,189,845	1,046,026	817,267	836,375	505,921	775,091	1,454,234	101,466,248

Accumulated amortization:

	Land	Buildings	Distribution Systems	Automotive	Office and other Equipment	Fibre Optics	System Supervisory Equipment	Computer Equipment	Construction- in-progress	Capital Inventory	Total
Balance, January 1, 2016	\$ -	738,515	3,817,361	490,067	183,775	140,870	65,060	266,185	-	-	5,701,833
Depreciation charge	-	381,661	3,047,114	317,896	113,987	70,544	43,078	97,085	-	-	4,071,365
Transfers	-	(150,282)	150,282	-	-	-	-	-	-	-	-
Disposals/retirements	-	-	(2,372,828)	(345,601)	-	-	-	-	-	-	(2,718,429)
Balance, December 31, 2016	-	969,894	4,641,929	462,362	297,762	211,414	108,138	363,270	-	-	7,054,769
Depreciation charges	-	395,302	3,070,109	364,728	122,362	70,544	48,130	79,836	-	-	4,151,011
Disposals/retirements	-	-	(1,880,239)	(89,757)	-	-	-	-	-	-	(1,969,996)
Balance, December 31, 2017	\$ -	1,365,196	5,831,799	737,333	420,124	281,958	156,268	443,106	-	-	9,235,784

Carrying amounts:

	Land	Buildings	Distribution Systems	Automotive	Office and other Equipment	Fibre Optics	System Supervisory Equipment	Computer Equipment	Construction- in-progress	Capital Inventory	Total
At December 31, 2016	\$ 940,079	8,530,139	71,694,810	2,073,584	598,500	605,853	589,767	142,651	713,106	1,331,391	87,219,880
At December 31, 2017	940,079	8,233,651	76,470,764	2,452,512	625,902	535,309	680,107	62,815	775,091	1,454,234	92,230,464

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

## 6. Intangible assets:

(a) Cost or deemed cost:

	Computer Software	Other	Total
Balance, at January 1, 2016	\$ 705,043	36,132	741,175
Additions	13,239	9,046	22,285
Balance, at December 31, 2016	718,282	45,178	763,460
Additions	–	6,845	6,845
Balance, at December 31, 2017	\$ 718,282	52,023	770,305

(b) Accumulated amortization:

	Computer Software	Other	Total
Balance, at January 1, 2016	\$ 464,162	–	464,162
Amortization charges	100,192	–	100,192
Balance, at December 31, 2016	564,354	–	564,354
Amortization charges	62,369	–	62,369
Balance, at December 31, 2017	\$ 626,723	–	626,723

(c) Carrying amounts:

	Computer Software	Other	Total
At December 31, 2016	\$ 153,928	45,178	199,106
At December 31, 2017	91,559	52,023	143,582

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

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

	2017	2016
Current tax	\$ 17,701	316,763
Deferred payment in lieu of taxes (recovery)	(508,906)	377,523
	\$ (491,205)	694,286
Rate reconciliation before net movements in regulatory balances:		
Profit before PILS and regulatory items	\$ 1,944,315	1,918,180
Statutory Canadian federal and provincial income tax rate	26.5%	26.5%
PILS using the Corporation's statutory rate	515,243	508,318
One-time deferred tax adjustment	(935,841)	-
Other	(70,607)	185,968
Payment (recovery) in lieu of taxes	(491,205)	694,286
Effective tax rate (recovery)	(25.3%)	36.2%

All deferred tax assets are expected to be settled after 12 months. The tax effect of temporary differences that give rise to deferred tax assets are as follows:

	Employee Benefits	Plant and Equipment	Regulatory Adjustment	Other	Total
Balance, January 1, 2016	\$ 4,496,065	1,933,948	2,851,768	190,793	9,472,574
Change in deferred tax balance	(1,699,453)	(339,518)	(1,208,298)	103,606	(3,143,663)
Balance, December 31, 2016	2,796,612	1,594,430	1,643,470	294,399	6,328,911
Change in deferred tax balance	2,036,691	(969,853)	398,959	(76,032)	1,389,765
Balance, December 31, 2017	\$ 4,833,303	624,577	2,042,429	218,367	7,718,676



# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

## 8. Regulatory balances:

The following is a reconciliation of the carrying amount for each class of regulatory deferral account balances:

	January 1, 2017	Balances arising in the period	Recovery/ (reversal)	December 31, 2017
Smart grid/renewable connection (a)	\$ 716,182	223,802	(59,928)	880,056
IFRS deferral (b)	1,810,248	463,964	–	2,274,212
Smart meters/stranded meters (c)	90,170	–	(99,124)	(8,954)
Other regulatory assets deferral (h)	50,504	288,959	–	339,463
LRAM deferral (g)	433,370	250,635	–	684,005
<b>Regulatory assets – pre-tax</b>	<b>\$ 3,100,474</b>	<b>1,227,360</b>	<b>(159,052)</b>	<b>4,168,782</b>
Demand side management costs (d)	\$ 513,952	–	–	513,952
Retail settlement variance deferral accounts (e)	2,542,857	1,501,977	(992,085)	3,052,749
Deferred payment in lieu of taxes (f)	6,452,629	1,389,765	–	7,842,394
<b>Regulatory liabilities – pre-tax</b>	<b>\$ 9,509,438</b>	<b>2,891,742</b>	<b>(992,085)</b>	<b>11,409,095</b>

  

	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
LRAM deferral (g)	7,287	426,083	–	433,370
Smart meters/stranded meters (c)	392,812	–	(302,642)	90,170
<b>Regulatory assets – pre-tax</b>	<b>\$ 847,524</b>	<b>2,555,592</b>	<b>(302,642)</b>	<b>3,100,474</b>
Demand side management costs (d)	\$ 515,528	–	(1,576)	513,952
Retail settlement variance deferral accounts (e)	1,622,771	1,054,979	(134,893)	2,542,857
Deferred payment in lieu of taxes (f)	9,472,575	–	(3,019,946)	6,452,629
<b>Regulatory liabilities – pre-tax</b>	<b>\$ 11,610,874</b>	<b>1,054,979</b>	<b>(3,156,415)</b>	<b>9,509,438</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.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

## 8. Regulatory balances (continued):

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 reversals amounting to \$50,671 (2016 - \$7,719 in deferred operating expenses) and capital expenditures of \$86,287 (2016 - \$398,548).

b) IFRS conversion deferral:

For the year ended December 31, 2017, the Corporation incurred \$461,851 (2016 - \$1,667,832) of costs relating to the IFRS-CGAAP transitional property, plant and equipment losses 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 meters 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 were 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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

## 8. 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 balance sheet as retail settlement variances until their final disposition is decided by the OEB. The Corporation recognizes retail settlement variances as an asset or liability based on the expectation these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The retail settlement variance liability represents the deficiency of amounts billed by the IESO for the cost of energy compared to the amounts charged to customers as energy sales.

Settlement of the deferral accounts is done on an annual basis through application to the OEB. The net balance of the retail settlement variances must meet a certain threshold in order to dispose of the balances. As the net balance did not exceed the threshold for the most recent IRM rate filing, there will be no disposal for the rate period effective May 1, 2018 to April 30, 2019.

### 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, 2017, the Corporation has recorded a deferred tax asset and corresponding regulatory liability of \$7,842,394 (2016 - \$6,452,629) 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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

## 8. Regulatory balances (continued):

### g) LRAM deferral:

The Lost Revenue Adjustment Mechanism (LRAM) variance account was established to capture the variance between the Conservation and Demand Management (CDM) adjustment to a distributor's OEB-approved load forecast and the actual CDM results at the customer rate class level. When disposing of this regulatory asset, the Corporation must provide evidence to the OEB to support the claim.

In relation to the LRAM variance, the Corporation has deferred \$250,635 (2016 - \$426,082).

### h) Other regulatory assets deferral:

This regulatory asset relates to the expected future recovery of costs incurred by the Corporation which result from the ratemaking actions of the OEB. This regulatory asset balance includes deferred incremental operating costs related to the mandatory transition to monthly billing of \$229,750 (2016 - \$Nil) and OEB cost assessments of \$56,859 (2016 - \$41,329).

## 9. Promissory note payable:

The promissory note payable to Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. is unsecured and bears interest at a rate of 7.26% (2016 – 7.26%) per annum and has been subordinated to the Toronto-Dominion Bank as security on the Corporation's operating credit facilities.

The note is repayable in full on six months' written notice of the holder of the note. As at April 23, 2018, the holder has informed the Corporation it will not demand repayment of the note within one year.

During the year, interest totaling \$3,531,660 (2016 - \$3,531,660) was charged by Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. on the promissory note payable.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

## 10. Long-term obligations:

	2017	2016
Employee future benefit obligation (note 11)	\$ 18,238,881	16,293,247
Multiple draw term loan (a)	1,249,652	1,373,962
Bank loan (b)	730,399	816,550
Customer deposits (c)	2,118,208	1,903,703
Developer contributions (d)	951,760	906,073
Interest rate swap at fair value	78,922	143,467
	23,367,822	21,437,002
Less: current portion	(1,273,278)	(1,263,684)
	\$ 22,094,544	20,173,318

- (a) The multiple draw term loan has a fixed/floating interest swap for a 15 year period, 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.

On January 14, 2011, the Corporation 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 3.796%. The debt facility has a termination date of January 19, 2026.

- (b) 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%. Annual payments of \$119,805 are required as a result of this financing facility.

- (c) 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.

- (d) Developer contributions 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 and will be amortized into income on the same basis as the related property, plant and equipment.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

## 11. 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, 2017 of \$18,238,881 was based on an actuarial valuation completed in 2017 using a discount rate of 3.30%.

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 balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statements 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:

	2017	2016
Employee future benefit obligation, beginning of year	\$ 16,293,247	22,706,280
Current service cost	313,424	481,738
Interest costs	624,959	920,548
Transfer to related companies	-	(466,855)
Benefits paid during the year	(545,139)	(507,749)
Actuarial losses (gains) recognized in other comprehensive income	1,552,390	(6,840,715)
Employee future benefit obligation, end of year	\$ 18,238,881	16,293,247

Components of net benefit expense recognized are as follows:

	2017	2016
Current service cost	\$ 313,424	481,738
Interest costs	624,959	920,549
Net benefit expense recognized	\$ 938,383	1,402,287

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

## 11. Employee future benefits (continued):

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

	2017	2016
Cumulative amount at January 1	\$ 3,160,134	(1,867,792)
Recognized during the year, net of tax	(1,036,797)	5,027,926
Cumulative amount at December 31	\$ 2,123,337	3,160,134

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

	2017	2016
Accrued benefit obligation:		
Discount rate	3.30%	3.90%
Benefit cost for the year:		
Withdrawal rate	4.50%	4.50%
Assumed health care cost trend rates:		
Initial health care cost trend rate	5.99%	6.20%
Cost trend rate declines to year that rate reaches the rate it is assumed to remain at	4.50%	4.50%

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 2017, and thereafter (2016 – 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, 2017, was 3.30% (2016 – 3.90%).
- Salary levels – future general salary and wage levels were assumed to increase at 2.00% (2016 – 2.00%) per annum.
- Medical costs – medical costs were assumed to be 6.70% for 2015, 6.20% for 2016, 4.50% for 2017 and 4.5% thereafter.
- Dental costs – dental costs were assumed to be 4.60% for 2015, 4.50% for 2016, 4.50% for 2017 and 4.5% thereafter.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

## 12. Share capital:

	2017	2016
Authorized:		
Unlimited common shares		
Issued:		
1,001 common shares	\$ 20,848,052	20,848,052

## 13. 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'c 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, 2017, no assessments have been made.

## 14. 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, 2017, no amounts have been drawn on this letter of guarantee.



# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

## 15. 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 2017, the Corporation made employer contributions of \$953,718 to OMERS (2016 - \$895,210).

The Corporation estimates that a contribution of \$994,008 to OMERS during the next fiscal year.

## 16. Employee compensation:

	2017	2016
Salaries, wages and benefits	\$ 10,183,638	9,796,185
Contributions to OMERS	953,718	895,210
	<u>\$ 11,137,356</u>	<u>10,691,395</u>

## 17. Related party transactions:

The Corporation subcontracts its billing and collection of revenue, payment of purchases and all related government remittances, information services, accounting, payroll processing, financial reporting and treasury services to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., a company related by common ownership.

Year-end balances arising from sales/purchases of goods/ services is as follows:

	2017	2016
Receivables from related parties	\$ 1,856,590	3,607,937
Payables to related parties	(2,108,570)	(3,311,570)
	<u>\$ (251,980)</u>	<u>296,367</u>

The sole shareholder of the Corporation is Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc., which in turn is wholly-owned by the City of Greater Sudbury. The City produces financial statements that are available for public use.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

## 17. Related party transactions (continued):

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.

	2017	2016
Directors' fees	\$ 29,612	37,675
Salaries and benefits	661,234	590,052
	<u>\$ 690,846</u>	<u>627,727</u>

Transactions with parent:

During the year, the Corporation paid promissory note interest to its parent in the amount of \$3,531,660 (2016 - \$3,531,660).

Transactions with ultimate parent (the City):

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

- Electricity for all City owned properties totalling \$8,560,096 (2016 - \$8,826,068).
- The Corporation delivers electricity to the City throughout the year for the electricity needs of the City and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB.

# GREATER SUDBURY HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

## 18. Financial instruments and risk management:

### (a) Fair value disclosure:

Cash and cash equivalents are measured at fair value. The carrying values of receivables, unbilled revenue, and accounts payable and accrued charges 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 and unbilled revenue, 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, 2017 is \$1,185,000 (2016 - \$1,440,159). An impairment loss of \$542,067 (2016 – recovery of \$24,159) 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, 2017, approximately \$1,183,135 (2016- \$1,416,764) 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, 2017, the Corporation holds security deposits in the amount of \$2,118,208 (2016 - \$1,903,703).

#### ii) 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 HYDRO INC. / HYDRO DU GRAND SUDBURY INC.

Notes to Financial Statements

Year ended December 31, 2017

---

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

### (b) Financial risks (continued):

#### iii) 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 an \$8,000,000 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, 2017, no amounts had been drawn under the Greater Sudbury Utilities Inc. \$8,000,000 credit facility (2016 - \$Nil).

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

#### iv) Capital disclosures

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2017, shareholder's equity amounts to \$26,954,503 (2016 - \$26,366,829) and long-term debt amounts to \$74,538,925 (2016 - \$71,708,055).

## 19. Comparative information:

Certain of the 2016 comparative information have been restated to conform with the 2017 presentation.