

Financial Statements of

**ENWIN UTILITIES LTD.**

Year ended December 31, 2010



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## INDEPENDENT AUDITORS' REPORT

To the Shareholder

We have audited the accompanying financial statements of Enwin Utilities Ltd., which comprise the balance sheet as at December 31, 2010, the statements of retained earnings, earnings 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 Canadian generally accepted accounting principles, 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 disclosures 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, the financial statements present fairly, in all material respects, the financial position of Enwin Utilities Ltd. as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

June 6, 2011  
Windsor, Canada

# ENWIN UTILITIES LTD.

Balance Sheet  
(In thousands of dollars)

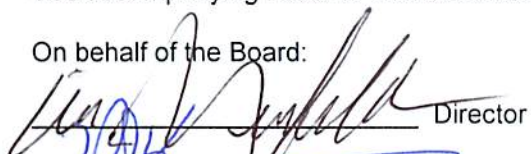
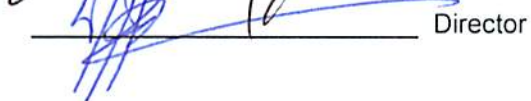
December 31, 2010, with comparative figures for 2009

	2010	2009
<b>Assets</b>		
Current assets:		
Cash	\$ -	\$ 6,725
Accounts receivable	15,486	14,788
Unbilled revenue	15,608	15,111
Payments in lieu of income taxes receivable	3,155	-
Due from related party (note 5)	1,470	-
Inventories	4,009	2,244
Prepaid expenses	787	772
	<u>40,515</u>	<u>39,640</u>
Property, plant and equipment (note 2)	182,972	179,860
Work in progress	331	379
Future payments in lieu of income taxes (note 11)	18,774	19,213
	<u>202,077</u>	<u>199,452</u>
	<u>\$ 242,592</u>	<u>\$ 239,092</u>

	2010	2009
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Bank indebtedness (note 4)	\$ 8,187	\$ -
Accounts payable and accrued liabilities	26,697	27,964
Due to related parties (note 5)	19,534	23,458
Payments in lieu of income taxes payable	-	969
Current portion of customer deposits	1,040	1,045
	<u>55,458</u>	<u>53,436</u>
Long-term liabilities:		
Customer deposits	6,973	7,361
Vested sick leave	20	20
Regulatory liabilities (note 3)	11,771	19,800
Long-term borrowings (note 6)	49,708	49,528
Employee future benefits (note 7)	33,871	33,188
	<u>102,343</u>	<u>109,897</u>
Shareholder's equity:		
Common shares (note 9)	62,008	62,008
Contributed capital	516	516
Retained earnings	22,267	13,235
	<u>84,791</u>	<u>75,759</u>
Contingencies and commitments (notes 12,13 and 14)		
	<u>\$ 242,592</u>	<u>\$ 239,092</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director  
 Director

# ENWIN UTILITIES LTD.

Statement of Retained Earnings  
(In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Retained earnings, beginning of year	\$ 13,235	\$ 7,016
Net earnings for the year	11,282	10,219
Dividends declared	(2,250)	(4,000)
<b>Retained earnings, end of year</b>	<b>\$ 22,267</b>	<b>\$ 13,235</b>

See accompanying notes to financial statements.

# ENWIN UTILITIES LTD.

Statement of Earnings  
(In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Customer billing for electricity and services charges	\$ 255,212	\$ 222,799
Cost of electricity purchased	207,259	177,007
	<u>47,953</u>	<u>45,792</u>
Services provided to Windsor Utilities Commission (note 5)	11,427	9,178
Services provided to Enwin Energy Ltd. (note 5)	1,120	1,071
Other income from operations (note 16)	5,387	5,116
	<u>65,887</u>	<u>61,157</u>
Operating expenses	<u>33,501</u>	<u>31,043</u>
Earnings before the undernoted items and taxes	32,387	30,114
Amortization	13,727	11,413
Loss (gain) on sale of capital assets	274	(97)
Settlement of regulatory assets	958	(1,369)
Interest	3,958	3,935
	<u>18,917</u>	<u>13,882</u>
Earnings before taxes	13,470	16,232
Payments in lieu of taxes (note 11):		
Current	<u>2,188</u>	<u>6,013</u>
Net earnings for the year	<u>\$ 11,282</u>	<u>\$ 10,219</u>

See accompanying notes to financial statements.

# ENWIN UTILITIES LTD.

Statement of Cash Flows  
(In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Net earnings for the year	\$ 11,282	\$ 10,219
Add items not affecting cash:		
Amortization of property, plant and equipment	13,727	11,413
Change in employee future benefits	683	27
Loss (gain) on sale of property, plant and equipment	274	(97)
Change in future payments in lieu of income taxes	439	(3,242)
Change in work in progress	48	(240)
Change in customer deposits	(393)	(7)
Change in vested sick leave	-	1
Amortization of deferred debt issuance costs	180	180
Change in non-cash working capital (note 10)	(8,365)	9,316
	<u>17,874</u>	<u>27,570</u>
Financing:		
Increase (decrease) in bank indebtedness	8,187	(8,502)
Increase (decrease) in regulatory liabilities	(8,029)	10,083
Repayment of long-term borrowings	-	(3,256)
Change in due to/from related parties, net	(3,644)	17,129
Dividends paid	(4,000)	(3,250)
	<u>(7,486)</u>	<u>12,204</u>
Investments:		
Acquisition of property, plant and equipment, net	(17,172)	(17,255)
Proceeds on sale of property, plant and equipment	59	177
	<u>(17,113)</u>	<u>(17,078)</u>
Increase (decrease) in cash during the year	(6,725)	22,696
Change in accounting policy for the recognition of future tax assets and liabilities	-	(15,971)
Cash, beginning of year	6,725	-
Cash, end of year	<u>\$ -</u>	<u>\$ 6,725</u>

See accompanying notes to financial statements.

# ENWIN UTILITIES LTD.

Notes to Financial Statements  
(In thousands of dollars)

Year ended December 31, 2010

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Enwin Utilities Ltd. is a local distribution company (LDC) responsible for the transmission and distribution of electricity, as well as the service and maintenance of the City of Windsor's powerline infrastructure. Enwin Utilities Ltd. also provides billing, credit, financial and customer service on behalf of Enwin Energy Ltd., Windsor Utilities Commission ("the Commission") and the City of Windsor.

## 1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting guidelines prescribed by the Ontario Energy Board (the "OEB") in the Accounting Procedures Handbook (the "AP Handbook") for Electric Distribution Utilities. The significant accounting policies are summarized below.

### a) Rate regulation:

The Corporation is regulated by the OEB under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity customers and for ensuring the distribution companies fulfill obligations to connect and service customers.

#### Regulatory Accounting:

In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Corporation's regulatory liabilities represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. The Corporation's regulatory liabilities represent costs with respect to non-distribution market related charges and variances in recoveries that are expected to be settled in future periods.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

On July 28, 2009, the OEB issued its Report of the Board – Transition to IFRS, which contains recommendations on how regulatory reporting requirements should change in response to IFRS (note 18). This report of the Board was amended November 8, 2010 by letter of the Board to reflect AcSB approved option to defer the effective date for adoption of IFRS to January 1, 2012. The Corporation continues to evaluate the potential impacts of the recommendations contained in the Report of the Board on both the activities of the Corporation and its IFRS transition plan.

### Smart Meter Initiative:

The OEB has established dates by which eligible Ontario ratepayers are required to be billed for commodity using Time-of-Use (TOU) pricing. TOU pricing requires Smart Meters. The Corporation has installed over 80% of its Smart Meters in 2010 and plans to install the remaining 20% by end of 2011.

On September 18, 2008, the Corporation submitted an application to the OEB for the consideration and approval of a Utility-Specific Smart Meter Funding Adder in accordance with the Smart Meter Funding and Cost Recovery Guideline of the OEB. On April 9, 2009, the Application was approved as filed. The Application provided for a new rate adder of \$1.00 per metered customer per month, representing an increase of \$0.73 per customer per month beginning May 1, 2009. The new rate adder contributes approximately \$1,000 annually towards the Corporation's investment in Smart Meters and operating costs. Total Smart Meters installed at the end of December were 66,941. The NBV of the stranded meters was \$1,020 with net scrap recoveries recorded as \$979.

### Green Energy and Green Economy Act:

In early 2009, the government tabled the Green Energy and Green Economy Act ("GEGEA"). This new legislation makes fundamental changes to the roles and responsibilities of LDCs in the areas of renewable power generation, conservation and demand management delivery, and the development of smart distribution grids.

The Green Energy and Green Economy Act enables the LDCs to gain new responsibilities in transforming their local distribution networks into smart grids harnessing advanced technologies to facilitate the connection of small-scale generators and the two-way flow of information.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

Energy Consumer Protection Act:

In December 2009, the government introduced the Energy Consumer Protection Act, 2009, ("Bill 235") that would amend several statutes, including the Ontario Energy Board Act, 1998, The Electricity Act, 1998, The Consumer Protection Act, 2002, and the Residential Tenancies Act, 2006.

In summary, Bill 235 contains additional measures that are designed to: i) protect consumers from hidden contract costs, excessive cancellation fees and "negative-option" contract renewals; ii) provide greater fairness and transparency for consumers through rate comparisons, and plain language contract disclosure; iii) enhance the ability and rights of consumers to cancel contracts; iv) create a new licensing and training regime that includes mandatory oral disclosure and identification badges for energy retailers; v) enable individual suite metering in apartment buildings; and vi) grant the OEB more authority to set policies on customer security deposits and termination of electricity procedures by local distribution companies.

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect future electricity distribution rates and other permitted regulatory recoveries of the Corporation.

New LDC License Requirements - Conservation and Demand Management (CDM) Targets:

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets include a demand reduction target of 26.810 MW and a consumption reduction target of 117.890 GWh. LDCs must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC-specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

### b) Inventories:

Inventories consist principally of construction and maintenance materials and are stated at the lower of cost and net realizable value, with cost determined on an average cost basis and net realizable value determined on replacement cost basis.

### c) Property, plant and equipment:

Assets are recorded at cost with cost being determined based on material, purchased services, internal labour and overhead as applicable.

Amortization is calculated on a straight-line basis over the estimated service lives of assets as follows:

Asset	Estimated service life
Buildings	50 years
Transformer station	40 years
Substation equipment	30 years
Distribution system - overhead	25 years
Distribution system - underground	25 years
Transformers	25 years
Distribution meters	25 years
Installed services	25 years
Office equipment	10 years
Rolling stock	4 - 8 years
Computer hardware and software	5 - 10 years
Other equipment	5 - 30 years
Assets under capital lease	5 years

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### d) Work in progress:

Work in progress is recorded at cost with cost being determined based on material, purchased services, internal labour and overhead as applicable.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

### e) Customer deposits:

Customer deposits include cash collections from customers, which are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their service. Customer deposits are also refundable to customers demonstrating an acceptable level of credit risk, as determined by the Corporation. Customer deposits also include refundable maintenance deposits from developers, deposits for recoverable work orders, and prudential deposits from retailers.

### f) Employee future benefits:

The Corporation provides post employment benefits such as compensated sick leave and post retirement benefits such as life insurance, supplemental health and dental coverage for employees who retire from active employment.

The Corporation accrues its obligations under employee benefit plans and the related costs.

The cost of retirement benefits earned by employees is actuarially determined using the projected unit credit method pro rated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

The excess of net actuarial gains (losses) over 10% of the benefit obligation is amortized on a straight-line basis over the average remaining service period of the employees, which is eleven and one-half years at December 31, 2010. Settlement gains or losses are recognized in the year in which they arise.

### g) Pension plan:

The Corporation provides a pension plan for its 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, public utilities and certain school boards. The fund is a contributory defined benefit pension plan.

### h) Revenue recognition:

Revenue is recognized on the accrual basis and includes an estimate of unbilled revenue representing electricity consumed by customers since the date of each customer's last meter reading.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

### i) Vested sick leave:

Under the sick leave benefit plan, unused sick leave can accumulate and certain employees hired prior to January 1, 1977 may become entitled to a cash payment when they leave the

Corporation's employment. The liability for those accumulated days, to the extent that they have vested and could be taken in cash by an employee upon termination, has been recorded.

### j) Debt issuance costs:

Debt issuance costs comprise of expenses relating to issuing long-term borrowings. Such costs are offset against the related debt, and are amortized into income over the life of the related debt.

### k) Related party transactions:

Transactions with related parties are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

Related parties include Enwin Energy Ltd., Windsor Canada Utilities Ltd., Windsor Utilities Commission and the Corporation of the City of Windsor.

### l) Payments in lieu of taxes ("PILs"):

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the *Electricity Act, 1998*, the Corporation is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the ITA and the OCTA as modified by the *Electricity Act, 1998*, and related regulations.

The Corporation provides for amounts in lieu of corporate income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future tax asset if it is more likely than not the asset will not be realized.

### m) Long-lived assets:

The Corporation periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. The Corporation reviews for impairment long-lived assets (or asset groups) to be held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. When quoted market prices are not available, the Corporation uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

### n) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Certain estimates are also required as regulations, which will ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. Significant estimates subject to such estimates and assumptions include the carrying value of property, plant and equipment, employee future benefits and valuation allowances for accounts receivable, inventories and future PILs. Due to these uncertainties, actual results reported in future periods may differ from those estimates.

### o) Financial instruments:

All financial assets are classified as held-for-trading, held-for-maturity, loans and receivables or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

## 1. Significant accounting policies (continued):

### o) Financial instruments (continued):

All financial instruments are carried on the balance sheet at fair value except for loans and receivables, held-for-maturity investments and other liabilities, which are measured at amortized costs.

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accruals	Other financial liabilities
Accounts payable and accruals to related parties	Other financial liabilities
Long-term borrowing	Other financial liabilities

## 2. Property, plant and equipment:

			2010
	Cost	Accumulated amortization	Net book value
Land	\$ 1,423	\$ –	\$ 1,423
Buildings	21,867	4,609	17,258
Transformer station	30,318	7,127	23,191
Substation equipment	2,334	1,200	1,134
Distribution system - overhead	78,844	30,312	48,532
Distribution system - underground	65,628	31,692	33,936
Transformers	51,926	22,113	29,813
Distribution meters	5,900	2,756	3,144
Installed services	3,470	166	3,304
Office equipment	1,471	1,082	389
Rolling stock	3,417	2,090	1,327
Computer hardware and software	22,217	7,866	14,351
Other equipment	3,567	2,073	1,494
Assets under capital lease	4,360	4,360	–
Assets in progress	3,676	–	3,676
	\$ 300,418	\$ 117,446	\$ 182,972

No amortization is taken on assets in progress until they are placed into use.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

## 2. Property, plant and equipment (continued):

	2009		
	Cost	Accumulated amortization	Net book value
Land	\$ 1,423	\$ –	\$ 1,423
Buildings	21,582	4,171	17,411
Transformer station	30,318	6,305	24,013
Substation equipment	2,334	1,121	1,213
Distribution system - overhead	76,020	27,126	48,894
Distribution system - underground	62,987	28,515	34,472
Transformers	49,934	19,674	30,260
Distribution meters	8,297	3,544	4,753
Installed services	1,956	67	1,889
Office equipment	1,430	1,010	420
Rolling stock	3,415	2,162	1,253
Computer hardware and software	12,423	10,815	1,608
Other equipment	3,237	1,782	1,455
Assets under capital lease	4,360	4,334	26
Assets in progress	10,770	–	10,770
	\$ 290,486	\$ 110,626	\$ 179,860

## 3. Regulatory liabilities:

The “Electricity Pricing, Conservation and Supply Act, 2002” (Bill 210) deems certain costs and variance account balances to be accounted for as regulatory assets (liabilities) (note 1(a)).

	2010	2009
Post-market opening retail settlement variances	\$ 4,435	\$ 2,969
Retail cost variances	10	3
Smart meters	4,883	(1,472)
Renewable connection	8	4
Recovery of regulatory assets	–	(445)
Disposition and recovery of regulatory balances	(3,213)	(2,838)
Smart grid	151	–
MOE special purpose charge	452	–
Other regulatory assets	169	8
	6,895	(1,771)
Reserves	108	1,184
Regulatory asset related to future PILs (note 1(a))	(18,774)	(19,213)
	\$ (11,771)	\$ (19,800)

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 4. Bank indebtedness:

The Corporation has a long-term agreement with a Canadian chartered bank for an available line of credit in the amount of \$75,000. Interest charged on outstanding borrowings incurred by the Corporation is calculated at the bank's prime rate plus 0.1%.

The line of credit restricts the availability of the Corporation to lien assets.

## 5. Related party transactions:

- a) Under a Managed Services Agreement effective January 1, 2007, the Corporation provides certain finance, administration, human resource, management and other support services to the Commission. The total amount charged to the Commission for the year ended December 31, 2010 was \$11,427 (2009 - \$9,178).
- b) Under a Management Services Agreement effective January 1, 2000, the Corporation provides certain finance, administration, human resource, management and other support services to Enwin Energy Ltd. The total amount charged to Enwin Energy Ltd. for the year ended December 31, 2010 was \$1,120 (2009 - \$1,071).
- c) The Corporation provides sewer surcharge billing and collecting for the City of Windsor for which it charges a fee. The total amount charged to the City of Windsor for the year ended December 31, 2010 was \$2,302 (2009 - \$2,051).
- d) The Corporation collects and remits the sewer surcharge on behalf of the City of Windsor. The total amount owing to the City of Windsor at year-end relating to sewer surcharge was \$4,312 (2009 - \$4,416).
- e) The amounts due from related party consist of:

	2010	2009
Due from Windsor Utilities Commission	\$ 1,241	\$ -
Due from Enwin Energy Ltd.	\$ 229	\$ -
	\$ 1,470	\$ -

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

## 5. Related party transactions (continued):

The amounts due to related parties consist of:

	2010	2009
Due to Enwin Energy Ltd.	\$ –	\$ 112
Promissory Note to Enwin Energy Ltd.	15,000	15,000
Due to Windsor Utilities Commission	–	1,913
Due to Windsor Canada Utilities Ltd.	–	1,750
Due to the City of Windsor (net)	4,534	4,683
	<u>\$ 19,534</u>	<u>\$ 23,458</u>

The Promissory note to Enwin Energy Ltd. is due on demand, unsecured and bears interest at the Royal Bank of Canada prime rate.

Dividends declared and paid during the year were \$2,250 in addition to \$1,750 paid from 2009.

The amount due to/from the Commission bears interest at the Bank of Canada rate, while the amounts due to Windsor Canada Utilities Ltd. and the City of Windsor are non-interest bearing. These amounts have no specified repayment terms.

## 6. Long-term borrowings:

	2010	2009
Debentures payable	\$ 50,000	\$ 50,000
Less unamortized debt issuance costs	(292)	(472)
	<u>49,708</u>	<u>49,528</u>
Less current portion due	–	–
Total long-term borrowings	<u>\$ 49,708</u>	<u>\$ 49,528</u>

In 2002, the Corporation, along with four other Ontario local distribution companies, entered into an agreement with Electricity Distributors Finance Corporation ("EDFIN"), whereby EDFIN acquired unsecured debentures in the amount of \$175,000 from the participants. The Corporation's share of these debentures amounted to \$50,000. EDFIN, in turn, issued unsecured debentures for these amounts to TD Securities Inc. who sold them to external investors. The Corporation must pay semi-annual payments of interest on February 15 and August 15 in each year until and including maturity on August 15, 2012. Principal repayment is

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

## 6. Long-term borrowings (continued):

due on maturity and interest will accrue on the outstanding principal amount on the basis of a rate of 6.45% per annum.

Scheduled principal repayments on long-term debt are as follows:

2011	—
2012	50,000
	\$ 50,000

## 7. Employee future benefits:

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees.

The Corporation measures its accrued benefit obligation for accounting purposes as at December 31 each year. A valuation date of December 31, 2008 has been used to calculate the current obligation which was extrapolated to December 31, 2010.

Information about the Corporation's defined benefit plan is as follows:

	2010	2009
Change in accrued benefit obligation:		
Accrued benefit obligation, beginning of year	\$ 33,188	\$ 33,161
Current service cost	609	465
Interest cost	1,653	1,587
Amortization of actuarial gain	(422)	(800)
Benefits paid	(1,157)	(1,225)
Accrued benefit obligation, end of year	\$ 33,871	\$ 33,188
Funded status:		
Unfunded benefit obligation	\$ (31,837)	\$ (25,804)
Unamortized net actuarial gain	(2,034)	(7,384)
Amount recognized in the balance sheet:		
Accrued benefit liability	\$ (33,871)	\$ (33,188)

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

## 7. Employee future benefits (continued):

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows:

	2010	2009
Discount rate	5.3%	6.4%
Rate of compensation increase	3.0%	3.0%
Medical trend rate:		
Initial	8.0%	8.5%
Ultimate	5.0%	5.0%
Year of ultimate level	2017	2017
	2010	2009
Components of net periodic benefit cost:		
Current service cost	\$ 609	\$ 465
Interest cost	1,653	1,587
Amortization of actuarial gain	(422)	(800)
Net periodic benefit costs	\$ 1,840	\$ 1,252

## 8. Pension plan:

The Corporation participates in the Ontario Municipal Employees Retirement System (OMERS), a multi-employer plan, on behalf of its employees. The plan is a contributory defined benefit pension plan. In 2010, the contribution rates were 6.4% for employee's earnings below the year's maximum pensionable earnings and 9.7% thereafter. During 2010, the Corporation contributed \$1,476 (2009 – \$1,344) to the fund. The OMERS plan is in a deficit position.

## 9. Share capital:

	2010	2009
Authorized:		
Unlimited common shares		
Issued:		
22,000 common shares	\$ 62,008	\$ 62,008

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

## 10. Cash flow information:

The change in non-cash working capital is as follows:

	2010	2009
Decrease (increase) in current assets:		
Accounts receivable	\$ (697)	\$ 2,704
Unbilled revenue	(497)	2,160
Payments in lieu of income taxes receivable	(3,155)	312
Inventories	(1,765)	(55)
Prepaid expenses	(15)	(38)
	(6,129)	5,083
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(1,267)	3,264
Payments in lieu of income taxes payable	(969)	969
	(2,236)	4,233
	\$ (8,365)	\$ 9,316

Payments in lieu of income taxes and interest paid during the year amounted to \$5,493 (2009 – \$5,283) and \$3,247 (2009 – \$3,440) respectively. Total payments in lieu of taxes paid, life to date, amounted to \$23,969.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

## 11. Future payments in lieu of income taxes:

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's future tax liabilities and assets are as follows:

	2010	2009
Future tax liabilities:		
Deferred debt issuance costs	\$ 86	\$ 146
<b>Total future tax liabilities</b>	<b>\$ 86</b>	<b>\$ 146</b>
Future tax assets:		
Property, plant and equipment	\$ 12,469	\$ 12,257
Employee future benefits	4,032	3,812
Intangible assets	2,118	2,323
Other	241	967
<b>Total future tax assets</b>	<b>18,860</b>	<b>19,359</b>
<b>Net future tax assets</b>	<b>\$ 18,774</b>	<b>\$ 19,213</b>

## 12. Liability insurance:

The Corporation is a member of the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"), a self-insurance plan that pools the liability risks of all the Municipal Electric Utilities in Ontario. Members of MEARIE would be assessed on a pro-rata basis should losses be experienced by MEARIE for the years in which the Corporation was a member.

To December 31, 2010, the Corporation has not been made aware of any additional assessments that have not been accrued.

Participation in MEARIE covers a three-year underwriting period, which expires January 1, 2013. Notice to withdraw from MEARIE must be given six months prior the commencement of the next three-year underwriting term.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 13. Contingencies:

Late payment charges class action:

Pursuant to its order dated July 22, 2010 (the "Order"), the Ontario Superior Court of Justice approved the settlement of a class action lawsuit, which was served on the former Toronto Hydro-Electric Commission, continuing as Toronto Hydro Corporation, on November 18, 1998. The original class action was for the amount of \$500 and was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities ("MEU") in Ontario, of which the Corporation is a successor MEU, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The order formalized a settlement pursuant to which the defendant MEUs will pay the amount of \$17,000 plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The Corporation's share of the settlement amount is \$434, payable on June 30, 2011. Under the settlement, all the MEUs involved in the settlement, including the Corporation, will request an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. The Corporation has accrued a liability in the amount of \$450 and the request for recovery has been filed with the OEB.

On October 29, 2010, the OEB issued a notice of proceeding involving all of the defendant MEUs including the Corporation, to determine whether the costs and damages incurred by MEUs are recoverable from electricity ratepayers, and if so, the form and timing of such recovery. On February 22, 2011, the OEB issued its decision on this matter and indicated their intent to allow the recovery of all costs and damages arising from the settlement of the class action over a one year period commencing May 1, 2011, through a fixed rate rider. On February 24, 2011, the Minister of Energy requested the LDCs not apply for this recovery. The Corporation is evaluating the Minister's request.

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. 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 Company's financial position, results of operations or its ability to carry on any of its business activities.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 14. Commitments:

The Corporation is committed to minimum annual lease payments under various operating leases and capital projects as follows:

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2011	\$	2,017
2012		510
2013		373
2014		286
2015 and thereafter		272
	\$	3,458

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## 15. Fair value of financial instruments:

The carrying values of accounts receivable, unbilled revenue, bank indebtedness, accounts payable and accrued liabilities approximate fair value due to the short maturity of these instruments.

The fair value of customer deposits and amounts due to related parties is not determinable due to the uncertainty of the repayment terms and/or the revenue recognition process.

The debenture payable has a fair value of \$52,093 at December 31, 2010, based on market prices for similar debt.

The Corporation earns its revenue from a broad base of customers located principally in Windsor. No single customer would account for revenue or an accounts receivable balance in excess of 10% of the respective reported balances.

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 15. Fair value of financial instruments (continued):

### Risk Factors

The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

#### i) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Windsor. No one commercial customer accounts for greater than 5.0% of revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the statement of revenues. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for doubtful accounts at December 31, 2010 is \$764 (2009 - \$1,470).

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2010, approximately \$836 is considered 60 days past due. The Corporation has approximately 85,000 customers, the majority of which 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, 2010, the Corporation holds security deposits in the amount of \$8,013 (2009 - \$8,406).

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## 15. Fair value of financial instruments (continued):

### ii) Market risk

Market risks primarily refer to the risk of loss that results from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have commodity or foreign exchange risk. Enwin Utilities 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.

### 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 expense. The Corporation has access to a line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

## 16. Other income from operations:

	2010	2009
Change in occupancy	\$ 367	\$ 380
Late payment and collection charges	1,197	1,410
Other operating revenues	407	464
Pole rental	464	441
Sale of scrap	455	290
Sewer surcharge billing and collecting (note 5)	2,302	2,051
Scientific research and experimental development recovery	195	80
	<u>\$ 5,387</u>	<u>\$ 5,116</u>

# ENWIN UTILITIES LTD.

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended December 31, 2010

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## **17. Capital management:**

In managing capital, the Corporation focuses on liquid resources available for operations. The organization's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the monitoring of cash flows and actual operating results. As at December 31, 2010, the Corporation has met its objective of having sufficient liquid resources to meet its current obligations.

## **18. Emerging accounting changes:**

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011 which will require entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual period beginning on or after January 1, 2011 to disclose that fact.

The Corporation has decided to implement IFRS commencing on January 1, 2012.