February 4, 2016

LAKEFRONT UTILITIES INC. 2016-2021 FINANCIAL PLAN

Contents

Overview

The following six (6) year financial plan provides a realistic and informed view of operating and capital expenditure needs over the time to maintain the integrity and health of Lakefront Utilities Inc.'s ("LUI") physical infrastructure and to accommodate growth, new environmental and regulatory standards.

The long-term financial plan ensures that management is aware of the long-term impact of short-term decisions and avoids informal decisions, therefore ensuring that LUI spends within its budget over the long-term. The financial plan builds consensus during the annual budget process as the long-term plan sets boundaries and provides understanding on spending priorities. The financial plan also optimizes the ability to manage growth to ensure sustainability, development, and service enhancement without sacrificing existing service level resource needs.

This proactive approach and the recognition of the need for a long-term financial planning process includes the following:

a) Proposed/Projected Financial Position

- Total financial assets
- Total liabilities
- Net debt
- Non-financial assets (tangible capital assets, supplies, prepaid expenses)

b) Proposed/Projected Financial Operations

- Total revenues, including service revenue and other revenues
- Total expenses, including amortization expenses, interest expenses and other expenses
- Annual net income or loss
- Accumulated retained earnings/deficit

c) Proposed/Projected Cash Flow

- Cash used/generated in operating transactions
- Cash used/generated in capital transactions
- Cash used/generated in investing transactions
- Cash used/generated in financial transactions

The resolution of this report is to demonstrate, through a detailed analysis, how capital and operating needs for Lakefront Utilities Inc. can be met through service revenue based on the 2017 projected rates.

LUI recognizes the need for a long-term financial planning process to assess the financial implications. To this end, LUI has undertaken condition assessments, asset inventories, and capital forecasting to reflect the needs of today and in the future.

Sustainability Principles

Financial sustainability for electric systems is intended to ensure that residents have a safe system that is provided on a reliable basis over the long-term in a manner that maintains environmental protection. The attainment of financial sustainability, which does not necessarily need to occur immediately but rather can involve a transition, is supported by the adoption of the following principles that can be used to inform financial plans:

1. A sustainable level of revenue that allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.

2. Maintain assets, including infrastructure being replaced when it can be demonstrated that the replacement cost and subsequent maintenance cost are less expensive than maintaining the existing asset in a state of good repair over the same period of time.

3. Sustainable cash flows in the long-term, including ensuring that a reserve be maintained for revenue shortfalls, financial emergencies, and unplanned capital requirements.

4. Maintain (or exceed) the deemed Return on Equity based on LUI's 2017 Cost of Service.

5. Dividends are not required to be paid annually and should only be paid if sufficient operating cash and reserve funds are available. Dividends should not be paid by increasing debt.

6. If any new debt is issued it should be structured to achieve the lowest possible net cost of funds, subject to the constraints of the prevailing capital market conditions, while meeting the goals and objectives of the organization.

7. Ongoing public engagement and transparency to build support for, and confidence in, financial plans and the system to which they relate.

8. Financial plans are living documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.

The financial plan developed by Lakefront Utilities Inc. embodies each of these principles, as further discussed in this report.

Key Considerations

This section presents the projections for key items over the six (6) year period (2016 to 2021) and the assumptions used in order to prepare the financial plan. These include:

- Operations, Maintenance, and Administration (OM&A) cost projections;
- Capital budget forecasts based on the Distribution System Plan and asset condition assessments;
- Revenue requirements;
- Reserve projections;
- Tangible capital asset projects;
- Long-term debt

LUI's annual operating budget includes costs related to the following:

- Wages and benefits
- Operations and maintenance
- Administration costs
- Professional fees and dues
- Billing and collecting costs
- Interest on long-term debt
- Regulatory costs

A portion of these costs is offset by various non-rate revenues.

The assumptions used in arriving at the projections over the six-year period from 2016 to 2021 are as follows:

- Accounts receivable/payable, unbilled revenue, customer deposits, inventory, prepaid expenses, and future income taxes increase conservatively over the forecast period by 2.0%;

- Deferral accounts represent the true-up of the cost of power revenue and expense. The balance in the deferral account is challenging to project as the cost of power involves many external factors (i.e. global adjustment, etc.);

- The tax rate is expected to remain at 18% over the forecast period;

- Other revenue projected to increase over the forecast period by 3.0%.

Rate Base and Revenue Requirement

Rate Base

The rate base is the value of tangible capital assets that LUI is permitted to earn a specified rate of return on, in accordance with rules set by the Ontario Energy Board. The rate base consists of the value of property as used by LUI in providing service.

The rate base calculates the average capital balance and adds the allowance for working capital, which is 7.5% of controllable expenses (OM&A expenses) and cost of power.

LUI's estimated rate base for 2017 is as follows:

Table 1: Rate Base and Working Capital Calculation

Rate Base and Working Capital Allowance		
Particulars	**2017**	
Capital opening balance	$17,027,042	
Capital ending balance	$17,675,723	
Average Balance		$17,351,383
Allowance for Working Capital		$2,827,584
Total Rate Base		**$20,178,966**
Allowance for Working Capital - Derivation		
Particulars	**2017**	
Controllable Expenses		$2,527,589
Cost of Power/Power Supply Expense		$35,173,526
Working Capital Base		$37,701,115
Working Capital Rate		7.50%
Working Capital Allowance		**$2,827,584**

Working capital is funds necessary to sustain on-going operations of the utility until those expenditures can be recovered through revenues. There are two options for calculation the working capital rate:

1. OEB Default Value – 7.5%
2. Lead Lag Study

Capital Structure

In calculating the cost of capital, LUI has used the OEB's deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity, and the cost of capital parameters in the OEB's letter of October 15, 2015, for the allowed return on equity ("ROE"). The cost of capital parameters may change before LUI's January 1st, 2017 rates are established.

The allowed rate on equity is the level of return used to establish a fair and reasonable rate level that is high enough to allow contributed attraction of capital and low enough that it does not result in speculative level of profits. The earned return on equity is the amount of money that LUI earns, over and above its expenses, expressed as a percentage of the rate base.

Table 2: Cost of Capital and Debt Structure

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	($)	(%)	($)
Debt				
Long-term Debt	56.00%	11,300,221	4.77%	$539,021
Short-term Debt	4.00%	807,159	2.16%	$17,435
Total Debt	60.0%	12,107,380	4.60%	$556,455
Equity				
Common Equity	40.00%	8,071,586	9.30%	$750,658
Preferred Shares				$ -
Total Equity	40.0%	8,071,586	9.30%	$750,658
Total	**100.0%**	**20,178,966**	**6.48%**	**$1,307,113**

Revenue requirement

LUI's revenue requirement represents the amount of money that it must receive from its customers to cover its operating expenses, taxes, interest paid on debt, and a deemed return (profit).

The proposed base revenue requirement, representing the revenue to be recovered from base distribution rates, is equal to the total service revenue requirement, less revenue offsets derived from other revenue sources.

Depreciation is the way in which LUI records its capital investment costs. It's the recognition that physical assets are consumed in the process of providing service and measures the loss in service value not restored by current maintenance. The depreciation expense increases the revenue requirement, while accumulated depreciation is a deduction to LUI's rate base, reducing the revenue requirement.

Table 3: Base Revenue Requirement

Particulars	**2017**
Operating, Maintenance, and Administration	$2,527,589
Amortization	$1,050,909
Total Distribution Expenses	**$3,578,498**
Regulated Return on Capital	$1,307,113
Service Revenue Requirement	**$4,885,611**
Less: Revenue Offsets	($492,710)
Base Revenue Requirement	**$4,392,901**

2016 Rates

In October 2015, LUI applied to the Ontario Energy Board ("OEB") for approval of its 2015 Distribution Rate Adjustments effective May 1, 2016. At the date of this report, the OEB has not formally approved the rates for May 1, 2016, however, the OEB has analyzed the filing and LUI has responded to all OEB questions. Therefore, LUI does not anticipate any further changes to the October 2015 filing.

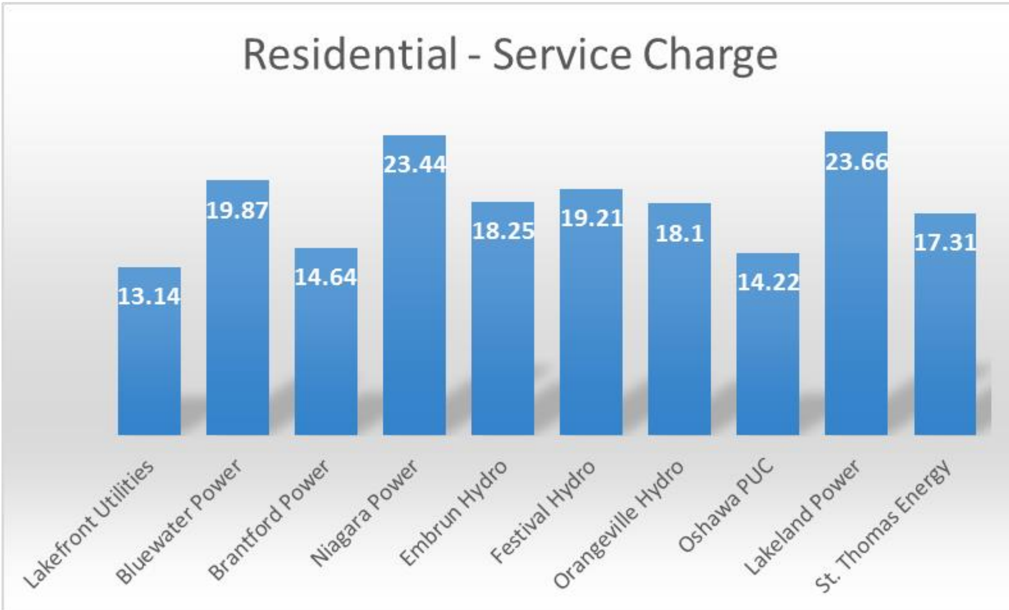
Based on the latest filing, LUI's 2016 rates and 2016 revenue are as follows:

Table 4: May 1, 2016 Rates

Rate Class	Service Charge	Distribution Volumetric Charge ($/kWh or kW)	2016 Proposed Revenue
Residential	13.14	0.0013	2,142,486
General Service < 50kW	23.96	0.0086	606,113
General Service 50 to 2999 kW	77.23	3.4241	1,135,202
General Service 3000 to 4999 kW	6,196.26	2.4101	185,088
Unmetered Scattered Load	14.23	0.0371	38,984
Sentinel Lighting	4.95	12.2032	5,759
Street Lighting	4.08	25.8268	219,280
Total			**4,332,911**

The 2016 proposed revenue is based on rates effective May 1, 2016. Therefore, the 2016 revenue recorded on the Statement of Operations is $4,312,629 to account for revenue for the period January 1, 2016 to April 30, 2016.

Based on the above May 1, 2016 proposed rates, LUI's Residential rates compared to a few other LDC's that have received approval for May 1, 2016 rates, is as follows:


Residential - Service Charge
13.14
19.87
14.64
23.44
18.25
19.21
18.1
14.22
23.66
17.31
Lakefront Utilities
Bluewater Power
Brantford Power
Niagara Power
Embrun Hydro
Festival Hydro
Orangeville Hydro
Oshawa PUC
Lakeland Power
St. Thomas Energy

2017-2021 Rates

LUI's 2017 rates are effective January 1, 2017 and will be based on LUI's upcoming Cost of Service filing due April 2016.

Based on the projected load forecast and customer growth, including the projected OM&A expenses and capital requirements, LUI anticipates that the 2017 rates and revenue will be:

Table 5: January 1, 2017 Rates and Revenue

Rate Class	Service Charge	Distribution Volumetric Charge ($/kWh or kW)	2017 Proposed Revenue
Residential	13.78	0.0118	2,164,565
General Service < 50kW	24.75	0.0089	606,611
General Service 50 to 2999 kW	81.53	3.6141	1,146,076
General Service 3000 to 4999 kW	6,538.91	2.5434	203,819
Unmetered Scattered Load	15.02	0.0392	40,566
Sentinel Lighting	5.23	12.8817	6,705
Street Lighting	4.31	27.2783	224,559
Total			**4,392,901**

The OEB currently requires distributors to file plans to reduce total bill impacts that exceed 10%. The increases are as follows:

Table 6: Rate Increase

Rate Class	Service Charge	Percentage Increase	Distribution Volumetric Charge ($/kWh or kW)	Percentage Increase
Residential	13.78	4.87%	0.0118	4.42%
General Service < 50kW	24.75	3.30%	0.0089	3.49%
General Service 50 to 2999 kW	81.53	5.57%	3.6141	5.55%
General Service 3000 to 4999 kW	6,538.91	5.53%	2.5434	5.53%
Unmetered Scattered Load	15.02	5.55%	0.0392	5.66%
Sentinel Lighting	5.23	5.66%	12.8817	5.56%
Street Lighting	4.31	5.64%	27.2783	5.62%

Rate increases after January 2017 have been based on an assumption of the future inflation factor as calculated by the OEB for incentive rate setting under the Price Cap IR and Annual Index plans. The price cap index adjustment for 2016 was currently set at the 1.95%.

Operating, Maintenance, and Administration

Lakefront Utility Inc.'s 2016 operating budget and 2017 to 2021 forecast was prepared based on various assumptions regarding retirement, new hires, etc.

Wages

The largest OM&A expense, wages consists of a portion related to each department within LUI and is based on allocations determined by management based on division of workload across affiliates. LUI's overall compensation philosophy for all employees is designed to be competitive and equitable in order to attract and retain qualified personnel in an industry that is facing an aging workforce and is very competitive for skilled resources. LUI's geographical location compounds this issue. Compensation for unionized employees is negotiated through the collective bargaining process and for the purpose of this financial plan, the annual increase is assumed to be 2%.

Regulatory

Regulatory costs are related to LUI's commitment to complying with Ontario's evolving energy market, changing government policy and evolving regulatory framework. Included in the 2016 budgeted OM&A are costs for consultants for the Cost of Service, including assistance with attending the OEB's oral hearing.

Maintenance

Maintenance costs consist of overhead line maintenance, underground line maintenance, transformer maintenance, distribution station maintenance, and meter maintenance.

Overhead line maintenance consists of system inspections, infrared survey, tree trimming for all 44kV feeders, and maintenance on load break switches.

Underground line maintenance primarily consists of payments to Promark Telecon for costs outsourcing locates.

Distribution station maintenance is for costs associated with weed control, annual maintenance for all distribution stations and oil tests for station transformers.

LUI's strategy is to provide safe, reliable service at an appropriate level of quality through the license service area. LUI's maintenance strategy is an important part of its overall strategy of minimizing the life cycle costs of assets by minimizing reactive and emergency-type work, through planned maintenance program (including predictive and preventative actions). These strategies are implemented through work practices that promote a good experience for the customer with regard to safety, security of supply, continuity of service, the timely restoration of service and the minimization of undesirable service conditions. LUI's customers receive high quality services and customers see that the system is in a state of good repair, that crews are engaged in inspection, testing, cleaning, and verification services.

LUI's total OM&A expenses for 2016 to 2021 are as follows:

Table 7: OM&A Expenses – 2016 - 2021

Year	OM&A	Increase (Decrease)
2016	2,562,026	9.76%
2017	2,527,589	-1.34%
2018	2,587,781	2.38%
2019	2,632,056	1.71%
2020	2,678,536	1.77%
2021	2,717,625	1.46%

The increase in OM&A expenses in 2016 is primarily related to an increase in regulatory costs associated with the Cost of Service filing, an increase in professional fees related to the transition to IFRS and an increase in maintenance. The increase in regulatory expenses and professional fees is a one-time expense and therefore total OM&A decrease in 2017.

According to the 2014 PEG Report, issued by the OEB, LUI continues to perform well with a cost per customer of $451, which is ranked 4th lowest in the province and a cost per kilometer of line of $23,584, which is ranked 22nd lowest in the province.

Tangible Capital Asset Projections

The tangible capital asset (“TCA”) projection was derived from long-term capital forecasts for LUI, as well as an assessment of the lifecycle replacement needs of the existing infrastructure.

Lakefront Utilities Inc.’s 2016-2021 capital forecast identifies $10,185,440 in capital needs, or an average of $1,697,573 annually.

The asset information contained in Appendix A was gathered from LUI’s existing database and an assessment of the condition of assets. The information is used not only to describe, but also define the quantity, age, and replacement value of the existing infrastructure, as follows:

- System Renewal of $8,049,120. This includes the rebuild of the Victoria St. substation in Colborne in 2016, the rebuild of the Durham St. substation in Colborne in 2017.
- System Access of $200,000.
- General Plant of $1,694,250. This includes new bucket trucks in 2016 and 2020.

The TCA projections for the study period are presented in Table 8 and are based on the following assumptions:

- Amortization of existing assets is based on the capital asset policies and procedures, which is based on the estimated useful life of the asset, as previously determined by the Kinetrics report. Amortization of new assets is based on straight line depreciation with half year depreciation charged in the year of acquisition;
- Fully depreciated assets continue to be used in service i.e.: no asset removals;
- New assets acquired are based on the capital forecast presented in Appendix A. These are added to the TCA in the year of acquisition and depreciated over their useful life; and

- Contributed assets from new developments are assumed to be nil. This is due to the uncertainty regarding the timing of new development.

As detailed in Table 8, the depreciated value of LUI's system is projected to increase from $17,027,040 at the end of 2016 to $19,940,261 at the end of 2021.

Table 8: Tangible Capital Asset Projections

Details	2016	2017	2018	2019	2020	2021
Capital cost	27,978,694	29,671,494	31,371,084	33,070,884	34,769,534	36,464,634
Additions	1,692,800	1,699,590	1,699,800	1,698,650	1,695,100	1,699,500
Accumulated amortization - beginning	11,624,154	12,644,454	13,695,363	14,777,799	15,892,709	17,041,066
Amoritzation expense	1,020,300	1,050,909	1,082,436	1,114,910	1,148,357	1,182,808
Accumulated amortization - ending	12,644,454	13,695,363	14,777,799	15,892,709	17,041,066	18,223,873
Net book value	**17,027,040**	**17,675,721**	**18,293,085**	**18,876,825**	**19,423,568**	**19,940,261**

As noted above, tangible capital asset additions are critical. The increase in capital increases the net book value at the end of the five year rate period and consequently increases the rate base and future revenue requirement as demonstrated in Table 2.

Other Capital Initiatives

Overhead Infrastructure

The primary drivers for the overhead infrastructure is the fact that the infrastructure has reached its end of life and in some cases, the requirement to reduce loading on a substation for contingency. This type of project is aimed at maintaining the safety and reliability of the distribution system while mitigating the cost impacts to customers.

Furthermore, overhead infrastructure projects may convert the existing infrastructure to be supplied from the preferred 28kV distribution system. The voltage conversion also aligns with replacement of end of life assets justified in the asset management plan. In certain situations newer assets are required to be replaced based on 28kv design requirements (pole heights, etc.) however due to the nature of the distribution system this may be required. In the longer term, voltage conversion will provide a great detail of benefit to the customer.

The completion of projects to convert the area to 28kV will also provide more flexibility for switching operations during outages and load shifting.

The vast majority of projects require varying degrees of outages to complete upgrades to the distribution system, which can create the risk of customer displeasure.

Substation Rebuild

The primary driver for the substation rebuild projects is the replacement of existing metal-clad switchgear and oil circuit breakers which has reached its end of life and has seen an increase in failures creating reliability issues. These types of projects are aimed at maintaining the safety and reliability of the distribution system while mitigating the cost impacts to customers.

In some cases, maintenance costs on the equipment has increased and replacement parts are difficult to find.

In some situations, the substation rebuild includes the replacement of 5kV primary feeder cables and primary riser termination poles which have reached their end of life.

Long-Term Debt

A debt management strategy improves the quality of decisions, identifies policy goals and demonstrates a commitment to long range financial planning. Debt can be an effective tool to financial capital improvements, new non-growth related projects, and new initiatives and to smooth out short term expenditures; however, its misuse can cause significant financial problems.

Table 9 details debt balance, interest paid, and principal repayments for the period 2016 – 2021.

Table 9: Long-Term Debt Schedule

Details	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Town of Cobourg	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
Infrastructure Ontario	3,085,069	2,887,571	2,682,683	2,470,127	2,249,614	2,020,841
Interest - Town of Cobourg	507,500	507,500	507,500	507,500	507,500	507,500
Interest - Infrastructure Ontario	113,256	105,864	98,195	88,237	81,979	73,409
Principal repayments	(197,498)	(204,888)	(212,556)	(220,513)	(228,773)	(237,342)
Closing balance	**9,887,571**	**9,682,683**	**9,470,127**	**9,249,614**	**9,020,841**	**8,783,499**

LUI's existing obligations total $9,887,571 at the end of 2016 and decrease to $8,783,499 at the end of 2021. The largest component of these obligations is the debt with the Town of Cobourg of $7,000,000.

In addition to the long-term debt, LUI has temporary debt available in the form of a $1,000,000 operating line. As of January 2016, the full amount of the operating line is available.

Financial Statements

The financial plan involves the review, analysis and assessment of financial information relevant to LUI's electrical system, including costs, revenues, debt, and tangible capital assets to prepare the following three financial statements covering the period 2016 to 2021:

1. Statement of Financial Position;

2. Statement of Operations; and

3. Statement of Cash Flow

Statement of Financial Position

The Statement of Financial Position is presented in Table 10. This statement summarizes LUI's financial and non-financial assets and liabilities, and provides the net financial asset/ (net debt) position and accumulated retained earnings. The financial assets are primarily cash and accounts receivable. Liabilities consist of accounts payable and accrued liabilities and long-term debt.

The non-financial assets include LUI's infrastructure and facilities. The historical costs are amortized over the asset life to arrive at the net book value each year from 2016 to 2021. New assets are added in the years acquired, developed, or built. Contributed assets are primarily new infrastructure and facilities that would be transferred to LUI's ownership and control by developers as they are completed. However, this is assumed to be nil.

Contained within the Statement of Financial Position are important indicators, the first being net financial assets (net debt) which is defined as the difference between financial assets and liabilities. This indicator provides an indication of LUI's future revenue requirement. Table 10 indicates that in 2016, LUI will be in a net financial debt position of $8,041,048. At the end of the six year projection, the debt position will decrease to $7,820,396 by 2021. The primary driver of the net debt is the $7,000,000 debt related to the Town of Cobourg.

The next important indicator contained in the Statement of Financial Position is the net book value of Tangible Capital Assets. Table 10 shows that net TCA are expected to grow from $17,027,040 in 2016 to $19,940,261 in 2021. The retained earnings is further detailed in Table 11.

Table 10: Statement of Financial Position

Details	2016	2017	2018	2019	2020	2021
Cash - operations	724,479	437,906	242,696	136,700	103,434	163,959
Cash - reserve	50,000	100,000	120,000	130,000	150,000	200,000
Accounts receivable	2,320,461	2,343,666	2,367,103	2,390,774	2,414,681	2,438,828
Unbilled revenue	3,624,729	3,660,977	3,697,587	3,734,562	3,771,908	3,809,627
Total Financial Assets	**6,719,670**	**6,542,549**	**6,427,385**	**6,392,036**	**6,440,023**	**6,612,414**
Accounts payable and accrued liabilities	4,456,161	4,589,846	4,727,541	4,869,367	5,015,448	5,165,912
Customer deposits	105,458	108,621	111,880	115,236	118,694	122,254
Long-term debt (principal only)	9,887,572	9,682,685	9,470,128	9,249,614	9,020,841	8,783,499
Employee future benefits	311,527	320,873	330,499	340,414	350,626	361,145
Total Liabilities	**14,760,717**	**14,702,024**	**14,640,048**	**14,574,632**	**14,505,610**	**14,432,810**
Net Financial Assets (net debt)	**(8,041,048)**	**(8,159,476)**	**(8,212,663)**	**(8,182,596)**	**(8,065,586)**	**(7,820,396)**
Tangible capital assets	17,027,042	17,675,723	18,293,087	18,876,827	19,423,570	19,940,263
Inventory of supplies	245,942	253,320	260,920	268,748	276,810	285,114
Prepaid expenses	1,713	1,765	1,818	1,872	1,928	1,986
Income taxes receivable (payable)	242,667	221,696	199,411	175,215	149,094	119,216
Future income taxes	160,196	165,002	169,952	175,050	180,302	185,711
Deferral accounts	307,550	316,776	326,279	336,068	346,150	356,534
Total non-financial assets	**17,985,110**	**18,634,282**	**19,251,467**	**19,833,780**	**20,377,854**	**20,888,825**
Share capital	5,293,376	5,293,376	5,293,376	5,293,376	5,293,376	5,293,376
Retained earnings	4,650,686	5,181,430	5,745,428	6,357,808	7,018,892	7,775,053
Shareholder's equity	**9,944,062**	**10,474,806**	**11,038,804**	**11,651,184**	**12,312,268**	**13,068,429**

Table 11: Retained Earnings Details

Details	2016	2017	2018	2019	2020	2021
Beginning balance	**4,206,730**	**4,650,684**	**5,181,428**	**5,745,426**	**6,357,806**	**7,018,890**
Cash: Operations	(396,265)	(286,573)	(195,210)	(105,996)	(33,266)	60,525
Cash: Reserve	50,000	50,000	20,000	10,000	20,000	50,000
Total change in cash	**(346,265)**	**(236,573)**	**(175,210)**	**(95,996)**	**(13,266)**	**110,525**
Accounts receivable	22,975	23,205	23,437	23,671	23,908	24,147
Unbilled revenue	35,888	36,247	36,610	36,976	37,346	37,719
Total change in financial assets	**58,863**	**59,452**	**60,046**	**60,647**	**61,253**	**61,866**
Accounts payable	(129,791)	(133,685)	(137,695)	(141,826)	(146,081)	(150,463)
Customer deposits	(3,072)	(3,164)	(3,259)	(3,356)	(3,457)	(3,561)
Long-term debt (principal only)	197,497	204,887	212,557	220,514	228,772	237,342
Operating loan	0	0	0	0	0	0
Employee future benefits	(9,074)	(9,346)	(9,626)	(9,915)	(10,212)	(10,519)
Total change in financial liabilities	**55,561**	**58,693**	**61,976**	**65,416**	**69,022**	**72,799**
Inventory of supplies	50	51	53	55	56	58
Prepaid expenses	7,163	7,378	7,600	7,828	8,062	8,304
Income taxes receivable (payable)	(17,542)	(20,971)	(22,285)	(24,196)	(26,121)	(29,878)
Future income taxes	4,666	4,806	4,950	5,099	5,252	5,409
Deferral accounts	8,958	9,226	9,503	9,788	10,082	10,384
Total change in non-financial assets	**3,295**	**491**	**(179)**	**(1,427)**	**(2,669)**	**(5,722)**
Capital assets: Purchased	1,692,800	1,699,590	1,699,800	1,698,650	1,695,100	1,699,500
Capital assets: Amortization	(1,020,300)	(1,050,909)	(1,082,436)	(1,114,910)	(1,148,357)	(1,182,808)
Total change in capital assets	**672,500**	**648,681**	**617,364**	**583,740**	**546,743**	**516,692**
Total ending balance	**4,650,684**	**5,181,428**	**5,745,426**	**6,357,806**	**7,018,890**	**7,775,051**

Statement of Operations

The Statement of Operations summarizes the revenues and operating expenses associated with the utility operations. These are typically outlays that need to be made to keep operations running on a day-to-day basis. The Statement of Operations is presented in Table 12. It summarizes the annual revenues and expenses associated with the management of the utility operations. It provides a report on the transactions and events that have an influence on the accumulated surplus. The main revenue items included are:

- Service revenue;

- Other revenue associated with customer administration, non-payment of account, and connection charges;

The main expense items are:

- The annual cost of operating and maintaining the system; and
- Amortization expense on existing and added TCA.

The operation surplus is an important indicator contained in the Statement of Operations. An operating surplus measures whether operating revenues generated in a year are sufficient to cover operating expense incurred in that year. It is important to note that an annual net income is necessary to ensure funds will be available to address non-expense items such as TCA acquisitions over and above amortization expenses, repayment of outstanding debt, etc.

Table 12: Statement of Operations

Details	2016	2017	2018	2019	2020	2021
Service revenue	4,312,629	4,392,901	4,502,724	4,615,292	4,730,674	4,848,941
Other revenue	478,359	492,710	507,491	522,716	538,397	554,549
Total revenues	**4,790,988**	**4,885,611**	**5,010,215**	**5,138,008**	**5,269,071**	**5,403,490**
Operating expenses	2,562,026	2,527,589	2,587,781	2,632,056	2,678,536	2,717,625
Interest on debt	667,254	659,864	652,195	644,237	635,979	580,909
Amortization	1,020,300	1,050,909	1,082,436	1,114,910	1,148,357	1,182,808
Total expenses	**4,249,580**	**4,238,362**	**4,322,412**	**4,391,203**	**4,462,872**	**4,481,342**
Provision for taxes	**97,453**	**116,505**	**123,804**	**134,425**	**145,116**	**165,987**
Net income for the year	**443,954**	**530,744**	**563,998**	**612,380**	**661,084**	**756,161**
Retained earnings, beginning of year	**4,206,732**	**4,650,686**	**5,181,430**	**5,745,428**	**6,357,808**	**7,018,892**
Dividend						
Retained earnings, end of year	**4,650,686**	**5,181,430**	**5,745,428**	**6,357,808**	**7,018,892**	**7,775,053**

Statement of Cash Flow

The Statement of Cash Flow is presented in Table 13. This statement summarizes the main cash inflows and outflows in four (4) main areas:

1. Operating;

2. Capital;

3. Investing;

4. Financing.

The operating cash transactions begin with the surplus or deficit identified in the Statement of Operations. This figure is adjusted to add or subtract non-cash items that were included as revenues or expense (e.g. amortization expenses). It is assumed that there were no investing activities over the period. The capital section indicates the amounts spent to acquire capital assets and it is assumed that there are no assets to be sold to generate cash. The financing section identifies the funds received from long-term debt and the portion of debt repaid as a cash outflow.

Table 13 indicates that cash has been generated from operations, which is used in funding the acquisition of TCA, towards building internal reserves, and to repay debt over the forecast period. LUI's cash position, including a reserve, is projected to be $774,481 in 2016 and decline to $363,961 in 2021.

Table 13: Statement of Cash Flow

Details	2016	2017	2018	2019	2020	2021
Cash provided by (used in):						
Operations						
Annual surplus	443,954	530,744	563,998	612,380	661,084	756,161
Add: Amortization	1,020,300	1,050,909	1,082,436	1,114,910	1,148,357	1,182,808
Employee future benefits	9,074	9,346	9,626	9,915	10,212	10,519
Future income taxes	(4,666)	(4,806)	(4,950)	(5,099)	(5,252)	(5,409)
Change in non-cash working capital items	81,256	87,774	92,281	97,494	102,830	110,113
Cash used/generated in operating transactions	**1,549,918**	**1,673,967**	**1,743,392**	**1,829,600**	**1,917,231**	**2,054,192**
Capital Activities						
Acquisition of tangible capital assets	(1,692,800)	(1,699,590)	(1,699,800)	(1,698,650)	(1,695,100)	(1,699,500)
Deferral accounts	(8,958)	(9,226)	(9,503)	(9,788)	(10,082)	(10,384)
Cash used/generated in capital activities	**(1,701,758)**	**(1,708,816)**	**(1,709,303)**	**(1,708,438)**	**(1,705,182)**	**(1,709,884)**
Financing Activities						
Decrease of customer deposits	3,072	3,164	3,259	3,356	3,457	3,561
Decrease in long-term debt	(197,497)	(204,887)	(212,557)	(220,514)	(228,772)	(237,342)
Cash used/generated in financing activity	**(194,425)**	**(201,724)**	**(209,298)**	**(217,158)**	**(225,315)**	**(233,782)**
Net change in cash during the year	**(346,265)**	**(236,573)**	**(175,210)**	**(95,996)**	**(13,266)**	**110,525**
Cash position - beginning of year	**1,120,746**	**774,481**	**537,908**	**362,698**	**266,702**	**253,436**
Cash position - end of year	**774,481**	**537,908**	**362,698**	**266,702**	**253,436**	**363,961**

Reserve Fund

A reserve is a key element of LUI's long-term fiscal strategy and promotes fiscal prudence, particularly as identified in the sustainability principles. The reserve is to be used for funding shortfalls, financial emergencies, and unplanned capital requirements.

Efforts are being made in this plan to gradually grow/maintain the reserves to provide a source of funding for the ongoing replacement/refurbishment of capital assets that have not been budgeted.

A target funding level will normally be established for every reserve fund at the time it is created. Notwithstanding this target, the reserve fund will be reviewed annually by management to ensure its adequacy, including a comparison to target objectives.

Table 14: Reserve Balance

Year	Reserve Balance
2016	50,000
2017	100,000
2018	120,000
2019	130,000
2020	150,000
2021	200,000

LUI's projected reserve balance is expected to be $50,000 in 2016 and increase to $200,000 by 2021.

Dividend

Dividends are generally in line with long-term trends in earing and Holdco's financial growth, while sufficient profits are retained to support anticipate growth, fund infrastructure, strategic investments, and provide continued support for the shareholder.

Over the past few years, LUI has made the following dividend payments to the Town of Cobourg:

Table 15: Dividend Payments – 2011 - 2015

Year	Dividend Paid
2015	206,000
2014	260,100
2013	385,100
2012	470,000
2011	600,000

Note that prior to 2014, the total dividend was paid by Lakefront Utilities Inc. Starting in 2014, other subsidiaries of the Town of Cobourg Holdings Inc. ("Holdco") started paying a portion of the annual dividend.

Consistent with Lakefront Group of Companies dividend policy, a portion of LUI's earnings, decided by the Board of Directors is to be paid to Holdco and beginning in 2014, LUI had paid a dividend equal to 50% of its net income. The dividend payment was in addition to the 7.25% ($507,500) interest paid on the debt to the Town of Cobourg as detailed in Table 9.

Lakefront Utilities Inc.'s six year financial plan was prepared based on no future dividend payments to Holdco, based on the following intentions:

- An Increase in capital spending for the period 2016 to 2021;
- Continuation of reasonable rates to attract new businesses;

Based on the increased capital spending and the desire to keep rates reasonable, LUI doesn't have significant operating funds to pay both dividend and interest to Holdco. Furthermore, to adherer to the sustainability principle, LUI will begin building a reserve to fund unexpected capital requirements, etc.

Conclusions

The following are the main conclusions and recommendations:

- The annual net cost to be recovered from rates is projected to increase from $4.2 million in 2016 to approximately $4.5 million by 2021. This represents an annual increase of approximately 0.72% to 2.27% over the 6-year period.

- No new debt will be required for the period 2016 to 2021.

- The net book value of the electricity system is projected to increase from approximately $17.0 million in 2016 to approximately $19.9 million in 2021.

- Based on the projected financial statements, the financial outlook to 2021 remains positive and the financial resources sufficient to meet the needs of the electricity system.

- Based on the projected January 1, 2017 rates, LUI will have sufficient revenue for the OM&A and capital requirements, without making rates unreasonable.

- The six year financial plan includes an effort to gradually grow/maintain a reserve account.

- As a result of the increased capital spending and the desire to keep rates reasonable, no dividend will be paid to Holdco for the period 2016 to 2021.

Index to Appendices

Appendix A: Lakefront Utilities Inc. Capital Forecast – 2016 to 2021

2016 Capital Forecast

Project	Total	Investment Category	Service Territory
Albert St - Division to Third St	$74,800	System Renewal	Cobourg
Queen St - McGill St to Division St	$104,500	System Renewal	Cobourg
Queen St - PM3-47 (1 Queen St)	$49,500	System Renewal	Cobourg
Charles St - UG Services	$20,000	System Renewal	Cobourg
Division St - University to CP Rail	$110,000	System Renewal	Cobourg
Park St	$100,000	System Renewal	Cobourg
John St/Spencer St E	$132,000	System Renewal	Cobourg
Other miscellaneous items	$21,000	System Renewal	Cobourg/Colborne
Victoria St Station COLB Rebuild	$460,000	System Renewal	Colborne
Victoria St Station COLB - Wholesale Metering	$15,000	System Renewal	Colborne
Victoria St Station COLB - Primary Feeder Cable	$120,000	System Renewal	Colborne
Darcy St Station - Painting	$4,000	System Renewal	Cobourg
Pole Removals	$20,000	System Renewal	Cobourg/Colborne
System Renewal	**$1,230,800**		
New Services	$50,000	System Access	Cobourg/Colborne
System Access	**$50,000**		
2015 Boom & Box for Single Bucket	$245,000	General Plant	Cobourg/Colborne
New service vehicle	$35,000	General Plant	Cobourg/Colborne
GIS	$50,000	General Plant	Cobourg/Colborne
Tools	$5,000	General Plant	Cobourg/Colborne
Facilities - Building	$10,000	General Plant	Cobourg
IT Hardware & Software Upgrades	$25,000	General Plant	Cobourg/Colborne
Metering - 2 handhelds	$7,000	General Plant	Cobourg/Colborne
Metering - Meters >50<500 (120 total, 30 in 2016)	$35,000	General Plant	Cobourg/Colborne
General Plant	**$412,000**		
Total Capital	**$1,692,800**		

2017 Capital Forecast

Project	Total	Investment Category	Service Territory
Daintry Cres. (North End)	$77,550	System Renewal	Cobourg
Daintry Cres. (South End)	$42,600	System Renewal	Cobourg
Ewing St. (including Beatty Cres.)	$137,500	System Renewal	Cobourg
Mackechnie Cres.	$94,600	System Renewal	Cobourg
Westwood Drive	$275,000	System Renewal	Cobourg
Willow Crescent	$33,000	System Renewal	Cobourg
King St. E (College St. to Henry St)	$56,100	System Renewal	Cobourg
King St. E (Division St. to Henry St)	$56,100	System Renewal	Cobourg
SF6 Padmount Switchgear	$134,640	System Renewal	Cobourg
Other miscellaneous items	$21,000	System Renewal	Cobourg/Colborne
Pole Removals	$20,000	System Renewal	Cobourg/Colborne
Durham St Station COLB Rebuild	$370,000	System Renewal	Colborne
Durham St Station COLB - Primary Feeder Cable	$80,000	System Renewal	Colborne
Durham St Station COLB - Viper Switches	$100,000	System Renewal	Colborne
System Renewal	**$1,498,090**		
New Services	$50,000	System Access	Cobourg/Colborne
System Access	**$50,000**		
Pole Trailer - Replace Trailer 2 (1983)	$35,000	General Plant	Cobourg
Tools	$5,000	General Plant	Cobourg/Colborne
Faciities - Building	$10,000	General Plant	Cobourg
IT Hardware & Software Upgrades	$25,000	General Plant	Cobourg/Colborne
Metering - Meters >50<500 (120 total = 20/year)	$76,500	General Plant	Cobourg/Colborne
General Plant	**$151,500**		
Total	**$1,699,590**		

2018 Capital Forecast

Project	Total	Investment Category	Service Territory
44/28kV ROW - D'Arcy to Brook	$284,900	System Renewal	Cobourg
44kV Load Break Switch - 5014-1	$33,000	System Renewal	Cobourg
44kV switch - Brook Rd	$33,000	System Renewal	Cobourg
Albert St (Hibernia St. to Third St.)	$89,100	System Renewal	Cobourg
Albert St (Bagot St. to Hibernia St.)	$56,000	System Renewal	Cobourg
King St. (Victoria St. to Kensington)	$170,500	System Renewal	Colborne
King St. (Ontario to Hibernia)	$66,000	System Renewal	Colborne
William St. (North of University)	$66,000	System Renewal	Cobourg
University Ave (UG crossing across William)	$66,000	System Renewal	Cobourg
Glenwatford/Ravensdale/Tracy Rd	$302,500	System Renewal	Cobourg
Burnham St (Rail Crossing - CN)	$58,000	System Renewal	Cobourg
760 Heath St.	$86,700	System Renewal	Cobourg
111 Hibernia St.	$107,100	System Renewal	Cobourg
Other miscellaneous items	$21,000	System Renewal	Cobourg/Colborne
Pole Removals	$20,000	System Renewal	Cobourg/Colborne
System Renewal	**$1,459,800**		
New Services	$50,000	System Access	Cobourg/Colborne
System Access	**$50,000**		
Line Crew Cab Pickup 4x4	$40,000	General Plant	Cobourg
Outage Management System (phase 1)	$35,000	General Plant	Cobourg/Colborne
Dump Truck	$75,000	General Plant	Cobourg
Tools	$5,000	General Plant	Cobourg/Colborne
Faciities - Building	$10,000	General Plant	Cobourg/Colborne
IT Hardware & Software Upgrades	$25,000	General Plant	Cobourg/Colborne
General Plant	**$190,000**		
Total	**$1,699,800**		

2019 Capital Forecast

Project	Total	Investment Category	Service Territory
44/28kV ROW - Division to D'Arcy	$275,550	System Renewal	Cobourg
44kV Load Break Switch - 5013-1 Replacement	$33,000	System Renewal	Colborne
King St (Kensington to Durham St)	$232,100	System Renewal	Colborne
Victoria St (Victoria Station to King St)	$157,300	System Renewal	Colborne
Durham - Durham Station to King St	$132,000	System Renewal	Colborne
King St. E. - Durham St. to Pole #167	$205,700	System Renewal	Colborne
Swayne St.	$22,000	System Renewal	Cobourg
135 Chapel St.	$55,000	System Renewal	Cobourg
Other miscellaneous items	$21,000	System Renewal	Cobourg/Colborne
Pole Removals	$20,000	System Renewal	Cobourg/Colborne
System Renewal	**$1,153,650**		
New Services	$50,000	System Access	Cobourg/Colborne
System Access	**$50,000**		
RBD	$380,000	General Plant	Cobourg
Outage Management System (phase 2)	$40,000	General Plant	Cobourg/Colborne
Replace Distribution Tech Vehicle	$35,000	General Plant	Cobourg/Colborne
Tools	$5,000	General Plant	Cobourg/Colborne
Faciities - Building	$10,000	General Plant	Cobourg
IT Hardware & Software Upgrades	$25,000	General Plant	Cobourg/Colborne
General Plant	**$495,000**		
Total	**$1,698,650**		

2020 Forecast

Project	Total	Investment Category	Service Territory
44/28kV ROW - Ontario to Division	$290,400	System Renewal	Cobourg
44kV Load Break Switch - 5004-1	$33,000	System Renewal	Cobourg
44kV Load Break Switch - 5005-1	$33,000	System Renewal	Cobourg
44kv/4.16kv ROW - Ontario St to Victoria Station	$158,400	System Renewal	Colborne
Ontario St. King St. W to Arthur St	$110,000	System Renewal	Colborne
Elgin St. S	$110,000	System Renewal	Colborne
Division St. - Arthur to Church St.	$187,000	System Renewal	Colborne
Brook Rd Station - 44kV	$130,000	System Renewal	Cobourg
Thornlea St.	$47,300	System Renewal	Colborne
Other miscellaneous items	$21,000	System Renewal	Cobourg/Colborne
Pole Removals	$20,000	System Renewal	Cobourg/Colborne
System Renewal	**$1,140,100**		
New Services	$50,000	System Access	Cobourg/Colborne
System Access	**$50,000**		
Pickup Super Cab 4x4	$40,000	General Plant	Cobourg
Double Bucket	$425,000	General Plant	Cobourg
Tools	$5,000	General Plant	Cobourg/Colborne
Faciities - Building	$10,000	General Plant	Cobourg
IT Hardware & Software Upgrades	$25,000	General Plant	Cobourg/Colborne
General Plant	**$505,000**		
Total	**$1,695,100**		

2021 Forecast

Project	Total	Investment Category	Service Territory
44/28kV ROW - Burnham To Ontario	$236,500	System Renewal	Cobourg
27.6kV increaesd capacity planning	$100,000	System Renewal	Cobourg
Division St. - Arthur to Earl	$110,000	System Renewal	Colborne
Earl St.	$151,800	System Renewal	Colborne
Church St. E./Elgin St. N/Victory Lane/Maybee Lane	$211,200	System Renewal	Colborne
Burnham St./Cedar St.	$134,200	System Renewal	Colborne
North/Creek/Behind King St W. (btw Division and Vic)	$156,200	System Renewal	Colborne
Parliament/ Scott	$317,900	System Renewal	Colborne
Durham St. N (King St E to Scott St)	$150,700	System Renewal	Colborne
Other miscellaneous items	$21,000	System Renewal	Cobourg/Colborne
Pole Removals	$20,000	System Renewal	Cobourg/Colborne
System Renewal	**$1,609,500**		
New Services	$50,000	System Access	Cobourg/Colborne
System Access	**$50,000**		
Tools	$5,000	General Plant	Cobourg/Colborne
Faciities - Building	$10,000	General Plant	Cobourg/Colborne
IT Hardware & Software Upgrades	$25,000	General Plant	Cobourg/Colborne
General Plant	**$40,000**		
Total	**$1,699,500**		