

The Corporation of the City of Sault Ste. Marie
Regular Meeting of City Council
Addendum to Agenda

Monday, May 28, 2018

4:30 p.m.

Council Chambers

Civic Centre

6.3 Review of Municipal Staff Parking Fees

Additional motion:

Mover: Matthew Shoemaker

Seconder: Ozzie Grandinetti

Whereas a May 28, 2018 report titled Review of Municipal Staff Parking Fees sought further direction from Council on proceeding into a detailed analysis of implementing staff parking fees; and

Whereas staff set out the paid-parking practices of other Northern Ontario cities including Thunder Bay, Sudbury and Timmins; and

Whereas many public sector and greater-public-sector agencies in Sault Ste. Marie charge their employees for parking;

Now Therefore Be It Resolved that staff be requested to bring forward an implementation plan for paid employee parking at the Civic Centre North and South Lot, the Essar Centre, the Ermatinger-Clergue National Historic Site, the Transit Terminal and the Transit Centre;

Further Be It Resolved that staff use comparators from other organizations in Sault Ste. Marie to determine the rate at which employee parking will be charged;

Further Be It Resolved that staff be requested to include full-time employees, and City Councillors in implementation of the paid parking implementation plan but not to include part-time employees or summer students;

Further Be It Resolved that staff be requested to report back on the recommended method of enforcement to minimize enforcement costs to the greatest extent possible.

6.10 Algoma's *Companies Creditors' Arrangement Act* Proceedings

Correspondence from Mayor Provenzano to party leaders and local candidates and responses

7.7.2 A-12-18-Z – 100 Estelle Street

Correspondence from Orlando and Immacolata Tridico

7.8.2 PUC Inc. and PUC Services Inc. Shareholders Meeting

Moved by: Councillor M. Bruni

Seconded by: Councillor S. Hollingsworth

Resolved that City Council is now authorized to meet in open session as the sole shareholder of PUC Inc. and PUC Services Inc.; and

Further Be It Resolved that City Council appoints Mayor Christian Provenzano as Council's proxy to vote on the resolutions of the shareholder of PUC Inc. and PUC Services Inc.

11.15 By-law 2018-119 Appointment of Integrity Commissioner

Council report was passed by Council resolution on May 14, 2018.

Moved by: Councillor M. Bruni

Seconded by: Councillor S. Hollingsworth

Resolved that By-law 2018-119 being a by-law to authorize the execution of an Agreement between the City and Ironside Consulting Services Inc. to provide integrity commissioner services for the City of Sault Ste. Marie be passed in open Council this 28th day of May 2018.

OFFICE OF THE MAYOR



CORPORATION OF THE
CITY OF SAULT STE. MARIE

May 14, 2018

SENT VIA EMAIL

Doug Ford
Leader of the Ontario Progressive Conservative Party

Andrea Horwath
Leader of the Ontario New Democratic Party

Mike Schreiner
Leader of the Ontario Green Party

Kathleen Wynne
Leader of the Ontario Liberal Party

Dear Mr. Ford, Ms. Horwath, Mr. Schreiner and Ms. Wynne:

RE: Algoma's *Companies Creditors' Arrangement Act* proceedings

As I expect you are all aware, Algoma has been involved in a *Companies' Creditors Arrangement Act* (CCAA) proceeding since November, 2015.

Algoma is the largest private sector employer in Sault Ste. Marie and one of the largest in Northern Ontario. Just under 3,000 people depend on Algoma for direct employment, with approximately another 7,500 jobs indirectly dependent or related. Algoma's importance to our community and the region cannot be overstated.

Premier Wynne and the current provincial government have committed to a successful restructuring of Algoma. Prior to the commencement of this election, significant effort was invested and important work was completed with the current government to ensure that Algoma could exit the CCAA proceeding successfully and as a healthy operation.

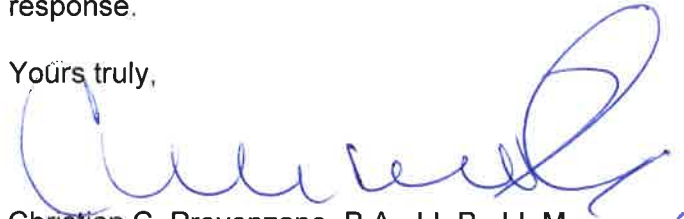
You will likely have read that the company has reached tentative collective agreements with its labour unions, Local 2724 and Local 2251, subject to membership ratification which is recommended by labour leadership. As a result, there is very little in the way of Algoma exiting the CCAA process provided that the work that has been completed with the current government is not lost.

In that respect, I am writing to all of you asking for the following commitments to the City of Sault Ste. Marie should your party form government or hold the balance of power in a minority legislature:

1. That you and the government you form or are a part of will commit to a successful restructuring of Algoma; and,
2. That you and the government you form or are a part of will respect, honour and carry out the work and commitments made by the current government; and,
3. That you and the government you form or are a part of will take whatever legislative actions are necessary to ratify and/or finalize the commitments made by the current government as soon as called upon to do so by Algoma, its secured creditors, the Monitor and the CCAA process; and,
4. That you and the government you form or are a part of will make every effort to assist in the finalization and completion of the CCAA process as expeditiously as possible once government has been formed.

I appreciate that you are in the midst of an election campaign and this is only one of a number of matters that require your attention. It is, however, a matter of singular importance for the community that I represent and, in that respect, I would appreciate and expect a timely response.

Yours truly,



Christian C. Provenzano, B.A., LL.B., LL.M.

CC City Council
Kalyan Ghosh, Algoma CEO
Brian Denega, Ernst & Young Inc. Monitor
Mike Da Prat, Local 2251 President
Lisa Dale, Local 2724 President



May 14, 2018

SENT VIA EMAIL

Kara Flannigan
Candidate for the Ontario Green Party

Jaclynnne Hamel
Candidate for the Ontario Liberal Party

Michele McCleave-Kennedy
Candidate for the Ontario New Democratic Party

Ross Romano
Candidate for the Ontario Progressive Conservative Party

Dear Ms. Flannigan, Ms. Hamel, Ms. McCleave-Kennedy and Mr. Romano:

RE: Algoma's *Companies Creditors' Arrangement Act* proceedings

You will find attached hereto a letter I wrote to each of your respective party leaders. The letter is self-explanatory but I want to ensure that I am explicit about its intention.

Premier Wynne made a commitment that her government would support a successful restructuring of Algoma. It is my belief and understanding that the current government has taken the necessary steps and made the necessary commitments to ensure that Algoma can exit the *Companies Creditors' Arrangement Act* (CCAA) proceedings successfully. We do not want that work to be lost and, just as important, we do not want time to be lost in repeating work that has been completed or securing commitments that have already been secured.

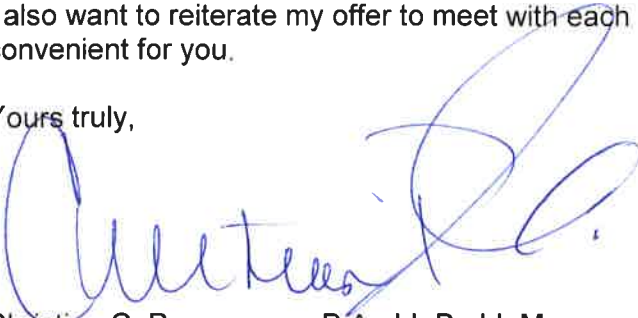
As a result, I ask you to confirm that if you are elected as our community's MPP you will:

1. Advocate that the government commit to a successful restructuring of Algoma; and,
2. Advocate that the government respect, honour and carry out the work and commitments made by the current government; and,
3. Advocate that the government take whatever legislative actions are necessary to ratify and/or finalize the commitments made by the current government as soon as called upon to do so by Algoma, its secured creditors, the Monitor and the CCAA process; and,
4. Advocate that the government make every effort to assist in the finalization and completion of the CCAA process as expeditiously as possible once government has been formed.

Considering the critical nature of this matter to our community and our region, I think it is important that the residents of our community have your fulsome and timely response.

I also want to reiterate my offer to meet with each of you and your party leaders as and when convenient for you.

Yours truly,

A handwritten signature in blue ink, appearing to read "Christian C. Provenzano". The signature is fluid and cursive, with a large initial "C" and a stylized "P" at the end.

Christian C. Provenzano, B.A., LL.B., LL.M.

CC City Council



May 15, 2018

His Worship Mayor Christian Provenzano
99 Foster Drive, Level 4
Sault Ste. Marie, ON
mayor.provenzano@cityssm.on.ca

SENT BY EMAIL

Dear Mayor Provenzano,

Thank you for your letter regarding the restructuring of Algoma. As we both know, Sault Ste. Marie has and continues to rely heavily on the steel mill to provide jobs for thousands of people in our community. The last three years have seen Algoma in the Companies' Creditors Arrangement Act (CCAA) process, which has certainly presented a challenge not only to the steel mill, but to our community that relies on its economic success.

It is because of this that I am committed to the successful and timely conclusion of the CCAA process. Under Premier Wynne's government, significant progress has been made. I am of the strong belief that we should continue to support this process through honouring the hard work that has been done by all parties thus far. I am ready to vigorously advocate on this community's behalf to ensure that the commitments made to support Algoma as they move toward the end of the CCAA process stand beyond the June 7th provincial election.

I will be contacting your office to arrange a meeting, at which time I am looking forward to discussing this very important topic.

Respectfully,

A handwritten signature in black ink, appearing to read 'Jaclynne Hamel', with a large, stylized 'J' and 'H'.

Jaclynne Hamel
Ontario Liberal Candidate for Sault Ste. Marie

Jaclynne Hamel Campaign
224A Queen St. E., Sault Ste. Marie | (705) 998-1120
jaclynnehamel.ca | Hamel4SSM@gmail.com



May 25, 2018

Mayor Christian C. Provenzano
P.O. Box 580, 99 Foster Drive
Sault Ste. Marie, Ontario P6A 5N1

Dear Mayor Provenzano,

Thank you for your letter regarding Algoma's proceedings under the Companies Creditors' Arrangement Act.

As you note, our government has invested significant efforts in support of a successful restructuring of Algoma. We have consistently recognized that we need to have a robust steel sector in Ontario, and a Liberal government will continue to do everything we can to facilitate that.

Our efforts have included support, where appropriate, in Algoma's restructuring process. Throughout the CCAA process, our government has worked with Algoma and others to support the best possible outcome for the company, its employees, and the broader community of Sault Ste. Marie.

In that effort, we were glad to learn that a tentative agreement was reached on May 10th between Local Union 2251 and the group of secured creditors that are party to a restructuring support agreement. While further work needs to be done to finalize the agreement, we recognize that this is a critical step in the ongoing recovery process.

In response to your questions, a re-elected Liberal government would follow through on its current commitments and continue to dedicate full energies towards a successful restructuring of Algoma. As you state, it is our full intention to continue to make every effort to assist in the finalization and completion of the CCAA process as expeditiously as possible, with the intention of continuing to support a company and a sector that we view as vital to the community of Sault Ste. Marie and the economy of Ontario as a whole.

Thank you very much for writing and for providing an opportunity to engage on these issues.

Sincerely,

A handwritten signature in cursive script that reads 'Kathleen Wynne'.

Kathleen Wynne

Leader, Ontario Liberal Party

Ontario Liberal Party

10 St. Mary Street, Suite 210, Toronto, ON M4Y 1P9
Phone: 416.961.3800, 1.800.268.7250 | Fax: 416.323.9425
Email: info@ontarioliberal.ca | Web: www.ontarioliberal.ca

May 20, 2018

Mayor Christian Provenzano
City of Sault Ste. Marie

Dear Mayor Provenzano,

Thank you for providing me with the opportunity to speak to the issue of the Essar-Algoma *Companies' Creditors Arrangement Act* (CCAA) proceedings.

As MPP for Sault Ste. Marie, I will work with the parties to the CCAA, other levels of government, and steelworkers for the equitable and quick resolution to the CCAA process at Essar-Algoma. I will also advocate that the successful restructuring of Essar Steel-Algoma be a priority for our government. Andrea Horwath and the NDP have been fully committed to this process and have long called for government action on behalf of Algoma's retirees, workers, and this great community.

An NDP government will continue to advance any government commitments to an equitable end to the CCAA process already underway, and we will continue to champion our steelworkers, their families, and our community on the CCAA restructuring process faced by Essar-Algoma.

We are also committed to protecting retirees during creditor restructuring. This includes repeated calls to the current government to fight on behalf of retirees so that they go to the front of the line of any CCAA process. It is also important to mention that we will also increase the Pension Benefits Guarantee Fund to \$3000 a month. Further, Andrea Horwath and the NDP have committed to strengthening the future of the steel industry in Ontario through our manufacturing and regional sector cluster strategy.

As MPP, I will work tirelessly to ensure that there is a just and equitable outcome to the CCAA process at Essar-Algoma for its employees, the retirees, and the people of Sault Ste. Marie.

Sincerely,



Mayor Provenzano,

I have received your letter dated May 14th, 2018 sent to all candidates presently running in the Provincial election on June 7th, 2018 for the riding of Sault Ste. Marie. I respectfully wish to note, that there is a candidate now in the race on behalf of the Northern Ontario Party. I trust you will want to provide a copy of this letter to this candidate as well.

In response to your letter, I cannot comment on what level of commitment the current provincial Liberal government has made to ensure that Algoma can exit the *Companies Creditors' Arrangement Act* (CCAA) successfully. Nor can I comment on their ability to do this in a timely manner in order to ensure the best possible outcome for the workers at Algoma, pensioners, creditors at large in the City of Sault Ste. Marie and the community at large.

In fact, I have made many attempts to obtain information from the current Liberal government regarding this matter. Each and every time, I have been met with nothing but opposition and roadblocks causing me to question the level of commitment, if any at all, that has been dedicated to the successful restructuring at Algoma, with an aim to securing the best possible result for our community.

I agree with the proposition that we must exit this process as expediently as possible. We also must ensure that we achieve the best possible outcome for all parties referred to herein.

If I am successful in being re-elected as MPP for Sault Ste. Marie you can rest assured that I am committed to ensuring the best possible outcome throughout the process, once a new government is formed. I am committed to continue to fight for the people of our community who have been so consequently impacted by the CCAA process at Algoma, especially those workers, pensioners and creditors who continue to wait for a fair resolution to this process and who desperately require their monies/pensions owed to them and the peace of mind needed to move on with their daily lives.

To be clear -and as you already know- this is not a matter that I will or have taken lightly. This requires the immediate attention of the newly elected government following this provincial election, and I look forward to being actively involved in obtaining actual and timely results.

Reasons for Opposition to Rezoning for Multi Unit Development

Re: A-12-18-Z – 100 Estelle Street (1972659 Ontario Ltd. c/o Carlo Gervasi)

1. Financial Impact to Neighbourhood.

People who purchased their homes did so because the area was and has always been a single home neighbourhood. The fact that it requires rezoning shows that it was intended as a single home area. In cities where multi-unit development occurs, there has always been a drop in property values to the rest of the neighbourhood because when it comes to selling the homes, prospective buyers will be less likely to purchase in an area that includes multi-unit development, and redirect to other areas, driving the marketability of other homes in other areas at the expense of the proposed development. Many dozens of homeowners within the immediate radius will be affected. Hundreds of other homes within the broader radius will be affected because the rezoning will redefine their neighbourhood. These taxpayers did not purchase homes in this area to have it rezoned for usage that benefits the developer primarily who coincidentally does NOT live in the area.

2. Precedent To be set.

This project not only impacts the immediate area, but the entire radius because future projects are more likely to be approved if this one will. This will make it difficult for other homeowners to oppose future development through rezoning of other areas that will impact and redefine other neighbourhoods. Rezoning applications for future developments will increase, and they will come at the expense of infringing on the make up of residential communities that are single unit homes. Development of multi-unit projects can be directed to areas where zoning for that type already exists. There are significant areas of the city that need such development without having to infringe upon, redefine and financially impact neighbourhoods for both the short and long term.

3. Increased Traffic to the Area.

The area would likely only have 4-6 homes built on it. The proposed development will bring 25 units on one level, maximizing space but coming at the expense of increased residency to the confined area and increased traffic in an area largely populated by small children. The area is small. If every unit has one vehicle, that would necessitate 25 parking spots. If every unit has two vehicles, that would necessitate 50 parking spots. If every unit has visitors coming to the building, it would compound congestion and parking further. The area itself as a school could not accommodate more than 10-15 vehicles. These vehicles are likely going to be parking on the street in front of other homes which can obstruct views for other homeowners. This is something the neighbourhood has not had to face, and it is unfair to have to place added burden to the neighbourhood.

4. Small Area Does not have Adequate Infrastructure to Fully Accommodate Multi-Unit Development without Immediate Impact on other Homeowners in the Area.

Traffic always is the No. 1 concern with multi-unit development. The proposed plan will redefine the make up of the neighbourhood and area, place added short and long-term burdens on homeowners in the immediate radius and outer radius by increasing traffic within a very small area. There is no master plan to expand the area for accommodating the additional traffic. Hence, increased traffic and congestion will immediately impact the area because when roads were built they were built to accommodate single family homes in a residential area that had limited traffic. There are no immediate plans to include deceleration lanes and at least two ingress/egress options. Traffic will increase exponentially with residents and visitors creating congestion that could also be a safety risk if fire, police, and emergency vehicles must be present.

**Orlando and Immacolata Tridico
454 Moody Street**

**RESOLUTION OF THE SHAREHOLDER OF
PUC INC.**

Financial Statements

BE IT RESOLVED THAT the financial statements of PUC Inc. (the Corporation) for the fiscal year ended on December 31st, 2017, together with the report of the auditors thereon, as placed before the undersigned, are hereby approved.

Appointment of Auditors

BE IT RESOLVED THAT the firm of KPMG LLP, Chartered Accountants, is hereby appointed Auditor of the Corporation until the close of the next annual meeting of the shareholder or until their successors are duly appointed at a remuneration to be fixed by the directors, the directors being hereby authorized to fix such remuneration.

Election of Directors

BE IT RESOLVED THAT the following persons, each resident Canadians, are hereby elected directors of the corporation, to hold office until the close of the third annual meeting of the shareholder following their election or until their successors have been duly elected or appointed, subject to the provisions of the Corporation's by-laws and the Ontario Business Corporations Act:

Cecilia Bruno
Jim Boniferro
Christian Provenzano
Paul Christian

The undersigned being the sole Shareholder of the Corporation hereby signs each and every one of the foregoing resolutions pursuant to the provisions of the Ontario Business Corporations Act.

Dated this 28th day of May, 2018

The Corporation of the City of Sault Ste. Marie

Per: _____
Christian Provenzano, Mayor

Per: _____
Malcolm White, City Clerk

**RESOLUTION OF THE SHAREHOLDER OF
PUC SERVICES INC.**

Financial Statements

BE IT RESOLVED THAT the financial statements of PUC Services Inc. (the Corporation) for the fiscal year ended on December 31st, 2017, together with the report of the auditors thereon, as placed before the undersigned, are hereby approved.

Appointment of Auditors

BE IT RESOLVED THAT the firm of KPMG LLP, Chartered Accountants, is hereby appointed Auditor of the Corporation until the close of the next annual meeting of the shareholder or until their successors are duly appointed at a remuneration to be fixed by the directors, the directors being hereby authorized to fix such remuneration.

Election of Directors

BE IT RESOLVED THAT the following persons, each resident Canadians, are hereby elected directors of the corporation, to hold office until the close of the third annual meeting of the shareholder following their election or until their successors have been duly elected or appointed, subject to the provisions of the Corporation's by-laws and the Ontario Business Corporations Act:

Cecilia Bruno
Jim Boniferro
Christian Provenzano
Paul Christian

The undersigned being the sole Shareholder of the Corporation hereby signs each and every one of the foregoing resolutions pursuant to the provisions of the Ontario Business Corporations Act.

Dated this 28th day of May, 2018

The Corporation of the City of Sault Ste. Marie

Per: _____
Christian Provenzano, Mayor

Per: _____
Malcolm White, City Clerk

Non-Consolidated Financial Statements of

PUC INC.

Year ended December 31, 2017



KPMG LLP
111 Elgin Street, Suite 200
Sault Ste. Marie ON P6A 6L6
Canada
Telephone (705) 949-5811
Fax (705) 949-0911

INDEPENDENT AUDITORS' REPORT

To the Shareholder of PUC Inc.

We have audited the accompanying non-consolidated financial statements of PUC Inc., which comprise the non-consolidated statement of financial position as at December 31, 2017 and the non-consolidated statements of comprehensive income, changes in shareholder's 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 Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated 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 non-consolidated 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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated 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 non-consolidated 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 non-consolidated 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 non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of PUC Inc. as at December 31, 2017, and its non-consolidated financial performance and its non-consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 25, 2018
Sault Ste. Marie, Canada

PUC INC.

Non-Consolidated Statement of Financial Position

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

	2017	2016
Assets		
Current assets:		
Accounts receivable	\$ 1,911	\$ 1,883
Receivable from subsidiary, PUC Services Inc. (note 9)	7,496,036	7,473,658
Payment in lieu of taxes recoverable	24,330	26,619
Total current assets	7,522,277	7,502,160
Non-current assets:		
Investments (note 5)	5,331	5,331
Notes receivable from related company (note 4)	8,310,000	8,310,000
Investments in and notes receivable with subsidiaries, at cost (note 6)	46,596,146	46,596,146
Total non-current assets	54,911,477	54,911,477
Total Assets	\$ 62,433,754	\$ 62,413,637
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ —	\$ 4,767
Long-term debt (note 7)	31,720,000	31,720,000
Total liabilities	31,720,000	31,724,767
Shareholder's equity:		
Share capital:		
Authorized:		
Unlimited Special shares, non-voting, non-cumulative, redeemable at \$10,000 per share		
100,000 Common shares		
Issued and outstanding:		
1,462 Special shares	14,620,000	14,620,000
21,632 Common shares	14,618,248	14,618,248
Retained earnings	1,475,506	1,450,622
	30,713,754	30,688,870
Total Liabilities and Shareholder's Equity	\$ 62,433,754	\$ 62,413,637

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:



Director



Director

PUC INC.

Non-Consolidated Statement of Comprehensive Income

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

	2017	2016
Revenue:		
Interest	\$ 2,151,214	\$ 2,151,214
Miscellaneous	88,046	78,860
	2,239,260	2,230,074
Expenses:		
Interest on long-term debt	1,934,920	1,934,920
Administrative	117,071	123,738
Business development	141,634	34,284
	2,193,625	2,092,942
Income before payment in lieu of taxes	45,635	137,132
Payment in lieu of taxes (note 8):		
Current	20,751	36,860
Net income, being total comprehensive income for the year	\$ 24,884	\$ 100,272

See accompanying notes to non-consolidated financial statements.

PUC INC.

Non-Consolidated Statement of Changes in Shareholders' Equity

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

	Share Capital	Retained Earnings	Total
Balance, December 31, 2015	\$ 29,238,248	\$ 2,570,510	\$ 31,808,758
Net income, being total comprehensive income	–	100,272	100,272
Dividends on common shares	–	(1,220,160)	(1,220,160)
Balance, December 31, 2016	29,238,248	1,450,622	30,688,870
Net income, being total comprehensive income	–	24,884	24,884
Balance, December 31, 2017	\$ 29,238,248	\$ 1,475,506	\$30,713,754

See accompanying notes to non-consolidated financial statements.

PUC INC.

Non-Consolidated Statement of Cash Flows

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

	2017	2016
Cash flows from operating activities:		
Net income, being total comprehensive income	\$ 24,884	\$ 100,272
Changes in non-cash operating working capital items:		
Accounts receivable	(28)	5,374
Payment in lieu of taxes recoverable	2,289	36,545
Accounts payable and accrued liabilities	(4,767)	2,655
	22,378	144,846
Cash flows from financing activities:		
Dividends on common shares	–	(1,220,160)
Cash flows from investing activities:		
Receivable from subsidiary, PUC Services Inc.	(22,378)	1,075,314
Cash, beginning and end of year	\$ –	\$ –
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 1,934,920	\$ 1,934,920
Cash received during the year for interest	2,151,214	2,151,214

See accompanying notes to non-consolidated financial statements.

PUC INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2017

1. Reporting entity:

PUC Inc. (the "Company"), is incorporated under the under the Ontario Business Corporations Act and a successor of the former City of Sault Ste. Marie Public Utilities Commission Electric Utility. The Company's head office is located at 500 Second Line East Sault Ste. Marie, Ontario.

2. Basis of preparation:

(a) Statement of compliance:

The non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

These non-consolidated financial statements have been authorized for issue by the Board of Directors on April 25, 2018.

(b) Basis of measurement:

The non-consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Derivative instruments, if any, are measured at fair value.

(c) Functional and presentation currency:

These non-consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgments:

The preparation of the non-consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in note 13.

PUC INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2017

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these non-consolidated financial statements.

(a) Payment in lieu of taxes:

As a municipally owned corporation holding an investment in a municipal utility, the Company is exempt from corporate income and capital taxes. However, under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income and capital 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 Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

The Company uses the asset and liability method of accounting for payment in lieu of income taxes. 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. 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 income in the period that includes the date of enactment or substantive enactment.

(b) Interest income and expense:

Interest income and expense are recognized in the non-consolidated statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received and transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(c) Investment in subsidiaries:

The investment in subsidiaries, which are non-marketable equity investments and not traded on an active market, are classified as available for sale for financial instrument purposes and are recorded at cost.

(d) Investments:

Investments are recorded at fair value unless the investment is designated as Loans and Receivables. Any gains and losses on disposal of investments are recorded in the year they occur and are included in other investment income in the Non-Consolidated Statement of Comprehensive Income.

PUC INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(e) Financial instruments:

i) Financial assets and liabilities:

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transactions costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The Company does not enter into derivative instruments.

ii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Special shares

Special shares are classified as equity. Incremental costs directly attributable to the issue of special shares are recognized as a deduction from equity, net of any tax effects.

(f) The following new standards and interpretations are not yet effective but are considered to be relevant to the Company's non-consolidated financial statements:

i) IFRS 9 Financial Instruments ("IFRS 9"(2015))

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 multiphase 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 Company is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

4. Notes receivable from related company:

	2017	2016
Note receivable from PUC Services Inc., unsecured, bears interest at 7.62% per annum and is receivable one year after demand	\$ 6,990,000	\$ 6,990,000
Note receivable from PUC Services Inc., unsecured and without interest and is receivable one year after demand	1,320,000	1,320,000
	\$ 8,310,000	\$ 8,310,000

PUC INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2017

5. Investments:

On January 9, 2016, the Company purchased 1 Class A share and 33,058 Class B shares of Customer First Inc, an incorporated entity in Ontario, representing 21% equity interest. The investment is carried at cost.

6. Investment in and notes receivable with subsidiary:

			2017	2016
	Notes Receivable	Common Shares	Total	Total
PUC Distribution	\$ 26,534,040	\$ 20,062,106	\$ 46,596,146	\$ 46,596,146

The note receivable from PUC Distribution Inc. bears interest at 6.1%, is unsecured and is repayable on the year after demand. In 2017, the Company received interest income on this note receivable from PUC Distribution in the amount of \$1,618,575 (2016 - \$1,618,575).

7. Long-term debt:

	2017	2016
Note payable to shareholder. The Corporation of the City of Sault Ste. Marie, unsecured, with 6.1% (2016 - 6.1%) interest payable quarterly and principal payable one year after demand	\$ 6,720,000	\$ 6,720,000
Note payable to shareholder. The Corporation of the City of Sault Ste. Marie, unsecured, with interest payable quarterly at rates periodically negotiated and principal payable one year after demand, rate for 2017 was 6.1% (2016 – 6.1%)	25,000,000	25,000,000
	\$ 31,720,000	\$ 31,720,000

PUC INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2017

8. Payment in lieu of taxes:

Payment in lieu of taxes differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 26.5% (2016 - 26.5%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2017	2016
Earnings before payment in lieu of taxes	\$ 45,635	\$ 137,132
Tax at applicable tax rate	\$ 12,093	\$ 36,340
Other	8,658	520
Payment in lieu of taxes - current	\$ 20,751	\$ 36,860

9. Related party transactions:

The following entities are related parties to the Company:

- The Corporation of the City of Sault Ste. Marie (City) - 100% shareholder of PUC Inc.
- PUC Distribution Inc. (Distribution) - 100% owned by PUC Inc.
- PUC Services Inc. (Services) - 100% owned by the Corporation of the City of Sault Ste. Marie.
- Public Utilities Commission of the City of Sault Ste. Marie (Utility) - 100% owned by the Corporation of the City of Sault Ste. Marie.

The Company has a management, operations and maintenance agreement with Services until November 30, 2022 under which PUC Services Inc. manages, controls, administers and operates the business of the Corporation.

The Company receives interest income on its receivable balance from Services at the Ontario Energy Board Deemed Rate on its average monthly balance. Interest of \$88,046 (2016 - \$78,860) was received during the year. The Company receives interest income on its notes receivable from Services. Interest of \$532,638 (2016 - \$532,638) was received during the year.

The Company receives interest income on its note receivable balance from Distribution which bears interest at a rate of 6.1% (2016 - 6.1%). Interest of \$1,618,576 (2016 - \$1,618,575) was received during the year. The note is unsecured and is repayable one year after demand. There has been no demand on the note at December 31, 2017.

The Company has purchased services relating to business development costs from Services in the amount of \$141,634 (2016 - \$34,284). The Company incurred interest of \$1,934,920 (2016 - \$1,934,920) payable to its shareholder. The Company paid a dividend of \$Nil (2016 - \$1,220,160) to its shareholder.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties.

PUC INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2017

10. Contingency:

In 2007, the Ontario Provincial Government proposed amendments affecting the calculation of payments-in-lieu (PILs) for municipal electricity utilities. The Company has determined the proposed amendments are not substantively enacted. The proposed amendments will limit the allowable interest based on the regulatory deemed debt rate and debt to equity ratio. Interest paid to municipalities, after March 27, 2007, in excess of the allowable amounts will not be deductible in calculating PILs. The Company has determined these proposed amendments will result in incremental PILs totaling approximately \$180,000 for the period from March 28, 2007 to December 31, 2008. The incremental PILs, if any, will be recorded in the period the proposed amendments become enacted.

11. Fair value of financial instruments:

The carrying value of accounts receivable approximate fair value because of the short maturity of these instruments.

It is not practicable to determine the fair values of the investment in subsidiaries, notes receivable from related company, receivable from subsidiaries and notes payable as the companies are not publicly traded and the notes payable have no principal repayment terms.

12. Capital disclosures:

The Company's objective with respect to its capital structure is to maintain effective access to capital on an ongoing basis at reasonable rates while achieving appropriate rates of financial return for its shareholder.

The Company considers its capital structure to consist of shareholder's equity and notes payable held by the Company's shareholder which has been outlined below.

	2017	2016
Note payable to shareholder - 6.1% (2016 - 6.1%)	\$ 6,720,000	\$ 6,720,000
Note payable to shareholder - 6.1% (2016 - 6.1%)	25,000,000	25,000,000
Special shares	14,620,000	14,620,000
Common shares	14,618,248	14,618,248
Retained earnings	1,475,506	1,450,622
	\$ 62,433,754	\$ 62,408,870

The Company is subject to a shareholder's agreement which has restrictive covenants typically associated with such an agreement. At December 31, 2017, the Company is in compliance with all of the restrictive covenants and restrictions.

PUC INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2017

13. Financial risk management:

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk

This note presents information about the Company's risk management framework, its operational risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

Management has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk management

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Financial Statements of

PUC SERVICES INC.

Year ended December 31, 2017



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Canada
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Fax (705) 949-0911

INDEPENDENT AUDITORS' REPORT

To the Shareholder of PUC Services Inc.

We have audited the accompanying financial statements of PUC Services Inc., which comprise the statement of financial position as at December 31, 2017 and the statements of income and comprehensive income, changes in shareholders' 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 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 PUC Services Inc. as at December 31, 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada

April 25, 2018

PUC SERVICES INC.

Statement of Financial Position


As at December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	\$ 9,877,709	7,586,260
Accounts receivable (note 5)	4,558,241	5,742,568
Due from related party (note 18)	1,629,153	2,622,934
Inventories (note 6)	323,255	319,214
Prepaid expenses	692,679	18,712
Payment in lieu of taxes recoverable	9,862	-
Total current assets	17,090,899	16,289,688
Non-current assets:		
Deferred taxes (note 9)	768,000	650,000
Property, plant and equipment (note 7)	16,146,449	17,410,836
Intangible assets (note 8)	294,868	547,906
Total non-current assets	17,209,317	18,608,742
Total assets	\$ 34,300,216	34,898,430
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,563,353	4,103,555
Payment in lieu of taxes	-	29,199
Due to related parties (note 18)	7,688,682	7,573,859
Current portion of long-term debt (note 10)	85,656	85,656
Total current liabilities	11,337,691	11,792,269
Non-current liabilities:		
Long-term debt (note 10)	9,314,842	9,400,498
Deferred revenue	10,732,985	10,716,759
Employee future benefit obligations (note 11)	2,240,410	2,002,450
Total non-current liabilities	22,288,237	22,119,707
Total liabilities	33,625,928	33,911,976
Shareholder's equity:		
Share capital (note 14)	1,943,300	1,943,300
Accumulated other comprehensive income	(6,005)	87,835
Deficit	(1,263,007)	(1,044,681)
Total shareholder's equity	674,288	986,454
Commitments and contingences (note 17)		
Total liabilities and shareholder's equity	\$ 34,300,216	34,898,430

See accompanying notes to financial statements.

Approved on behalf of the Board:


Director


Director

PUC SERVICES INC.

Statement of Income and Comprehensive Income

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

	2017	2016
Revenue:		
Management fees	\$ 10,210,843	9,886,496
Contract services	5,079,096	5,132,802
Other operating revenue (note 15)	1,445,208	1,744,898
	16,735,147	16,764,196
Expenses:		
Contract service	4,402,896	4,580,946
Administrative	3,833,640	3,827,729
Facilities	2,675,390	2,793,312
Depreciation and amortization	2,314,797	2,229,024
Billing and collection	1,698,311	1,195,654
Customer service	987,698	973,830
Street lights	315,643	370,600
Other business and maintenance	154,785	125,759
New business development	141,634	34,284
	16,524,794	16,131,138
Income from operating activities	210,353	633,058
Other (income) expense:		
Finance income (note 16)	(45,265)	(5,857)
Finance charges (note 16)	579,013	594,096
Net finance costs	533,748	588,239
Income (loss) before provision for payment in lieu of taxes	(323,395)	44,819
Payment in lieu of taxes (note 9)		
Current (recovery)	(20,903)	1,864
Deferred (recovery)	(84,166)	(94,789)
	(105,069)	(92,925)
Income (loss) for the year	(218,326)	137,744
Other comprehensive income (loss): items that will not be classified to profit or loss, net of income tax:		
Remeasurement of employee future benefits (note 11)	(127,674)	(42,305)
Income tax recovery on other comprehensive income (note 9)	33,834	11,211
Other comprehensive income (loss) for the year, net of income tax	(93,840)	(31,094)
Net income (loss) and comprehensive income (loss) for the year	\$ (312,166)	106,650

See accompanying notes to financial statements.

PUC SERVICES INC.

Statement of Changes in Shareholders' Equity

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

	Share Capital	Acc. other comprehensive income (loss)	Deficit	Total
Balance, January 1, 2016	\$ 1,943,300	118,929	(1,182,425)	\$ 879,804
Net income for the year	-	-	137,744	137,744
Remeasurement of employee future benefit obligation	-	(31,094)	-	(31,094)
Balance, December 31, 2016	1,943,300	87,835	(1,044,681)	986,454
Loss for the year	-	-	(218,326)	(218,326)
Remeasurement of employee future benefit obligation	-	(93,840)	-	(93,840)
Balance, December 31, 2017	\$ 1,943,300	(6,005)	(1,263,007)	\$ 674,288

See accompanying notes to financial statements.

PUC SERVICES INC.

Statement of Cash Flows

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

	2017	2016
Cash flows from operating activities:		
Net income (loss) and comprehensive income (loss)	\$ (312,166)	106,650
Item not involving cash:		
Depreciation and amortization	2,314,797	2,229,024
Amortization of deferred revenue	(408,615)	(525,255)
Gain on disposal of property, plant and equipment	(15,929)	(177,696)
Net finance costs	533,748	588,239
Income tax expense (recovery)	(105,069)	(92,925)
	2,006,766	2,128,037
Changes in non-cash working capital:		
Decrease in accounts receivables	1,184,327	493,692
Decrease (increase) in balances with related entities	1,153,869	(1,183,880)
Increase in inventories	(4,041)	(20,578)
Increase in prepaid expenses	(673,967)	(18,712)
Decrease in accounts payable and accrued liabilities	(540,202)	(361,363)
Increase in employee future benefit obligation	204,126	195,152
Income tax paid	(18,158)	124,391
Net cash from operating activities	3,312,720	1,356,739
Cash flows from financing activities:		
Principal payments on long-term debt	(85,656)	(85,657)
Contributions relating to property, plant and equipment	518,742	6,347,786
Interest paid	(579,013)	(594,096)
Net cash from financing activities	(145,927)	5,668,033
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment	16,148	51,615
Purchase of property, plant and equipment	(879,130)	(7,581,952)
Purchase of intangible assets	(12,362)	(96,123)
	(875,344)	(7,626,460)
Increase (decrease) in cash	2,291,449	(601,688)
Cash, beginning of year	7,586,260	8,187,948
Cash, end of year	\$ 9,877,709	7,586,260

See accompanying notes to financial statements.

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

1. Reporting entity:

PUC Services Inc. (the "Company"), is incorporated under the Ontario Business Corporations Act and provides management, operations and maintenance services related to water, waste water and electrical services to its related entities and other organizations. The Company's head office is located at 500 Second Line East Sault Ste. Marie, Ontario.

The Company is wholly owned by The Corporation of the City of Sault Ste. Marie.

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Approval of the financial statements:

The financial statements have been approved and authorized for issue by the Board of Directors on April 25, 2018.

(c) Basis of measurement:

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

(d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the functional currency of the Company. All financial information is presented in Canadian dollars.

(e) Use of estimates and judgments:

The preparation of the financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in the following note:

- (i) Note 7 – Property, plant and equipment: estimation of useful lives
- (ii) Note 11 – Employee future benefits: key actuarial assumptions
- (iii) Note 17 – Commitments and contingencies

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements unless otherwise indicated.

(a) Financial instruments:

All financial assets are classified as loans and receivables 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 3(f). The Company does not enter into derivative instruments.

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

Cash equivalents include short-term investments with maturities of three months or less when purchased.

(b) Revenue recognition:

Management fee revenue:

The Company provides management services to related parties and recognizes revenues as services are rendered.

Streetlight revenue:

The Company is contracted by the City of Sault Ste. Marie to provide electricity for street lights to the city and provide maintenance services on the lights. Revenue is recognized in the period the billing services are rendered and as services are provided.

Contract revenue:

The Company is contracted by the City of Sault Ste. Marie to operate the water and wastewater plants. Revenue is recognized as services are rendered. *CDM Revenue:*

Performance incentive payments under CDM programs are recognized by the Company when there is reasonable assurance that the program conditions have been satisfied and the incentive payments will be received.

(c) Inventory:

Inventories consist of parts, supplies and materials held for the future capital expansion and operations and are 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.

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(d) 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.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take a substantial period of time to construct.

When parts of an item of property, plant and equipment 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 property, plant and equipment are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of property, plant and equipment and are recognized net within other income in profit or loss.

Major spare parts and standby equipment are recognized as items of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment 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 Company and its cost can be measured reliably. In this event, the replaced part of property, plant and equipment is written-off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount and is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and in service.

The estimated useful lives are as follows:

Buildings	25 – 50 years
Plant and equipment	4 – 40 years

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

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(e) Intangible assets:

(i) Computer software:

Computer software that is acquired or developed by the Company, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated depreciation and accumulated impairment losses.

(ii) Amortization:

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

Computer software

2 – 5 years

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

(f) 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 profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than 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 generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets (continued):

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 profit or loss.

Impairment losses recognized in prior periods are 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.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Company 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.

(h) 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 deferred revenue. Deferred revenue represents the Company's obligation to continue to provide customers services related 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.

(i) Employee future benefits:

(i) Pension plan:

The Company provides a pension plan for all its full-time employees through 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 of 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.

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(h) Employee future benefits (continued):

(i) Pension plan (continued):

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 Company to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

(ii) Post-employment benefits, other than pension:

The Company 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 retained earnings. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in net income on a straight-line basis over the average period until the benefits become vested. In circumstances where the benefits vest immediately, the expense is recognized immediately in net income.

(i) Finance income and finance charges:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and on regulatory assets.

Finance charges comprise interest expense on borrowings. Finance charges are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(j) Payment in lieu of taxes:

The Company 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 Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Company ("OEFC"). These payments 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 Company's Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes.

PILs comprises current and deferred payments in lieu of income tax. PILs are recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or equity, in which case, it is recognized in comprehensive income or in equity.

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(j) Payment in lieu of taxes (continued):

Current PILS is the expected amount of 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.

Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective 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 PILs 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 PILs 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.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Changes in accounting policies:

Effective January 1, 2017, the Company has adopted amendments to IAS 7, Financial Statement Disclosure. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both, cash and non-cash changes. Refer to note 10 for the reconciliation between the opening and closing balances for liabilities from financing activities related to long term debt.

(l) New standards and interpretations not yet effective:

The following new standards and interpretations are not yet effective but are considered to be relevant to the Company's financial statements:

i) *IFRS 15 Revenue from Contracts with Customers*

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 Company is assessing the impact of IFRS 15 on its results of operations, financial position and disclosures.

ii) *IFRS 9 Financial Instruments ("IFRS 9" (2014))*

In July 2014, 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 multiphase 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

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(I) New standards and interpretations not yet effective (continued):

ii) IFRS 9 *Financial Instruments* ("IFRS 9" (2014)) (continued)

this project. IFRS 9 is effective for periods beginning on or after January 1, 2018 and must be applied retrospectively. The Company is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

(II) IFRS 16 *Leases*:

In January 2016, the IASB issued IFRS 16 to establish principles for the recognition, measurement, presentation and disclosures of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS17 and it is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impact of IFRS 16 on its results of operations, financial position and disclosures.

4. Critical accounting estimates and judgments:

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of financial instruments:

The Company determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods, and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 19.

Payment in lieu of taxes:

The Company periodically assesses its liabilities and contingencies related to PILs for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current PILs provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the PILs liabilities.

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

4. Critical accounting estimates and judgments (continued):

Useful lives of depreciable assets:

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2017, management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analyzed in notes 7 and 8. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

Impairment:

An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

Employee retirement benefits:

The Company estimates the present value of employee retirement benefits, which depends on a number of assumptions including discount rates, expected salary and other cost increases, and mortality rates. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Refer to note 11 for information relating to these estimates.

5. Accounts receivable:

	2017	2016
Trade receivables	\$ 4,053,587	\$ 4,868,291
Other receivables	504,654	874,277
	<u>\$ 4,558,241</u>	<u>\$ 5,742,568</u>

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

6. Inventories:

	2017	2016
Stores	\$ 84,167	\$ 105,041
Fuel	39,361	28,193
Street lights	199,727	185,980
	<u>\$ 323,255</u>	<u>\$ 319,214</u>

The amount of inventories consumed by the Company and recognized as an expense during 2017 was \$120,313 (2016 - \$156,210).

7. Property, plant and equipment:

(a) Cost:

	Land	Building	Plant and equipment	Construction -in- Progress	Total
Balance at January 1, 2017	\$ —	\$ 262,704	\$38,960,317	\$ 26,883	\$39,249,904
Additions	—	—	905,794	—	905,794
Disposals/retirements	—	—	(1,261,231)	(26,883)	(1,288,114)
Balance at December 31, 2017	\$ —	\$ 262,704	\$38,604,880	\$ —	\$38,867,584

	Land	Building	Plant and equipment	Construction -in- Progress	Total
Balance at January 1, 2016	\$ 70,368	\$1,666,669	\$31,967,841	\$ 36,244	\$33,741,122
Additions	—	—	7,581,952	—	7,581,952
Disposals/retirements	(70,368)	(1,403,965)	(589,476)	(9,361)	(2,073,170)
Balance at December 31, 2016	\$ —	\$ 262,704	\$38,960,317	\$ 26,883	\$39,249,904

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

7. Property, plant and equipment (continued):

(b) Accumulated depreciation:

	Land	Buildings	Plant and equipment	Construction -in-Progress	Total
Balance at January 1, 2017	\$ —	\$107,878	\$21,731,190	\$ —	\$21,839,068
Depreciation charge	—	5,254	2,044,142	—	2,049,396
Disposals/retirements	—	—	(1,167,329)	—	(1,167,329)
Balance at December 31, 2017	\$ —	\$113,132	\$22,608,003	\$ —	\$22,721,135

	Land	Buildings	Plant and equipment	Construction -in-Progress	Total
Balance at January 1, 2016	\$ —	\$ 933,647	\$20,416,113	\$ —	\$21,349,760
Depreciation charge	—	5,254	1,904,553	—	1,909,807
Disposals/retirements	—	(831,023)	(589,476)	—	(1,420,499)
Balance at December 31, 2016	\$ —	\$ 107,878	\$21,731,190	\$ —	\$21,839,068

(c) Carrying amounts:

	Land	Buildings	Plant and equipment	Construction -in-Progress	Total
December 31, 2017	\$ —	\$ 149,572	\$15,996,877	\$ —	\$16,146,449
December 31, 2016	\$ —	\$ 154,826	\$17,229,036	\$ 26,974	\$17,410,836

(d) Security:

At December 31, 2017, properties with a carrying amount of \$16,146,449 (2016 - \$17,410,836) are subject to a general security agreement.

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

8. Intangible assets:

(a) Cost:

	Computer software
Balance at January 1, 2017	\$ 2,049,578
Additions	12,362
Balance at December 31, 2017	\$ 2,061,940
Balance at January 1, 2016	\$ 1,953,455
Additions	96,123
Balance at December 31, 2016	\$ 2,049,578

(b) Accumulated amortization:

	Computer software
Balance at January 1, 2017	\$ 1,501,672
Amortization charges in 2017	265,400
Balance at December 31, 2017	\$ 1,767,072
Balance at January 1, 2016	\$ 1,182,454
Amortization charges in 2016	319,218
Balance at December 31, 2016	\$ 1,501,672

(c) Carrying amounts:

	Computer software
December 31, 2017	\$ 294,868
December 31, 2016	\$ 547,906

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

9. Payments in lieu of income taxes:

Payment in lieu of taxes:

	2017	2016
Current (recovery)	\$ (20,903)	\$ 1,864
Deferred (recovery)	(84,166)	(94,789)
Income tax expense	\$ (105,069)	\$ (92,925)

Reconciliation of effective tax rate:

	2017	2016
Earnings before payments in lieu of income taxes	\$ (323,395)	\$ 44,819
Statutory rate	26.5%	26.5%
Income tax	(85,700)	11,877
Increase (decrease) resulting from:		
Permanent difference	3,258	2,505
Adjustment of prior years		(68,933)
Other comprehensive income adjustment	(33,834)	(11,211)
Investment tax credits	3,073	(31,562)
Other	8,134	4,399
	\$ (105,069)	\$ (92,925)

Significant components of the Company's deferred tax balances are as follows:

	2017	2016
Deferred tax assets (liabilities):		
Plant and equipment	\$ (2,669,000)	\$ (2,720,000)
Employee benefits	594,000	531,000
Deferred revenue – contributed capital	2,843,000	2,839,000
	\$ 768,000	\$ 650,000

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

10. Long-term debt:

	2017	2016
Notes payable:		
(i) PUC Inc.	\$ 6,990,000	\$ 6,990,000
(ii) PUC Inc.	1,320,000	1,320,000
(iii) Ontario Infrastructure and Lands Corporation	573,333	626,667
(iv) Federation of Canadian Municipalities	517,165	549,487
	9,400,498	9,486,154
Less: current portion of long-term debt	85,656	85,656
	\$ 9,314,842	\$ 9,400,498

- I. Note payable to related company, PUC Inc., unsecured, bears interest at 7.62% per annum and is payable one year after demand. Interest of \$532,638 (2016 - \$532,638) was paid and expensed during the year.
- II. Note payable to related company, PUC Inc., unsecured and without interest and is payable one year after demand.
- III. Note payable to Ontario Infrastructure and Lands Corporation (OILC), bears interest at 4.22% per annum and is payable in monthly principal payments of \$4,444, due September 16, 2028. Interest of \$25,412 (2016 - \$27,741) was paid and expensed during the year.
- IV. Note payable to Federation of Canadian Municipalities (FCM), unsecured, bears interest at 4.21% per annum and is payable in semi-annual principal payments of \$16,161, due October 30, 2033. Interest of \$20,683 (2016 - \$23,921) was paid and expensed during the year.

Principal payments on the long-term debt are as follows:

2018	\$ 85,656
2019	85,656
2020	85,656
2021	85,656
2022	85,656
2023 - 2033	8,972,218
	9,400,498
Less: current portion	(85,656)
Long-term portion	\$ 9,314,842

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

10. Long-term debt (continued):

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	2017	2016
Long term debt - beginning	\$ 9,486,154	\$ 9,571,810
Less: cash outflows for principal repayments	85,656	85,656
	\$ 9,400,498	\$ 9,486,154

11. Employee future benefits:

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2017 of \$2,240,410 was based on an actuarial valuation completed in 2017 using a discount rate of 3.40%.

Changes in the present value of the defined benefit unfunded obligation and the accrued benefit liability:

	2017	2016
Defined benefit obligation, beginning of year	\$ 2,002,450	\$ 1,846,728
Current service cost	107,382	103,800
Interest cost	76,658	74,388
Benefits paid during the year	(73,754)	(64,771)
Actuarial gains recognized in other comprehensive income	127,674	42,305
Accrued benefit liability, end of year	\$ 2,240,410	\$ 2,002,450

Components of net benefit expense recognized are as follows:

	2017	2016
Current service cost	\$ 107,382	\$ 103,800
Interest cost	76,658	74,388
Net benefit expense recognized	\$ 184,040	\$ 178,188

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

11. Employee future benefits (continued):

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

	2017	2016
Accrued benefit obligation:		
Discount rate	3.40%	3.90%
Benefit cost for the year:		
Withdrawal rate	0.50%	0.50%
Assumed health care cost trend rates:		
Cost trend rate estimated to decline to 4.5% over 8 years.	6.25%	6.50%

The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

	Defined Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	\$ 257,000	\$ 82,700
1% decrease in health care trend rate	216,200	66,700

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% in 2017, and thereafter (2016; 2%).

12. Pension agreement:

The Company 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 Company made employer contributions of \$1,642,869 to OMERS (2016 - \$1,633,366). The Company's net benefit expense has been charged to income.

13. Employee benefits:

	2017	2016
Salaries, wages and benefits	\$ 15,710,848	\$ 16,240,016
CPP and EI remittances	659,238	714,383
Contributions to OMERS	1,602,409	1,633,366
	\$ 17,972,495	\$ 18,587,765

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

14. Share capital:

	2017	2016
Authorized:		
Unlimited special shares, non-voting, non-cumulative, redeemable at \$10,000 per share		
10,000 Common shares		
Issued and outstanding:		
105 special shares	\$ 1,050,000	\$ 1,050,000
4,000 common shares	893,300	893,300
	<u>\$ 1,943,300</u>	<u>\$ 1,943,300</u>

15. Other operating revenue:

	2017	2016
Streetlights	\$ 487,261	\$ 566,428
Miscellaneous	359,324	479,118
Amortization of deferred revenue	408,615	525,255
Generation revenue	190,008	174,097
Total other income	<u>\$ 1,445,208</u>	<u>\$ 1,744,898</u>

16. Finance income and finance charges:

	2017	2016
Interest income	\$ 45,265	\$ 5,857
Interest expense on amounts due to related party	532,638	532,638
Interest expense on long-term debt	46,375	61,458
	<u>579,013</u>	<u>594,096</u>
Net finance costs recognized in comprehensive income	<u>\$ 533,748</u>	<u>\$ 588,239</u>

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

17. Commitments and contingencies:

General:

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company 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.

General Liability Insurance:

The Company 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 LDCs 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.

18. Related party transactions:

(a) Parent, ultimate controlling party, and other related parties:

The sole shareholder of the Company is the Corporation of the City of Sault Ste. Marie (the "City"). The City produces financial statements that are available for public use. Other related parties include; PUC Inc. also owned 100% by the City and PUC Distribution Inc. owned 100% by PUC Inc.; and the Public Utilities Commission of the City of Sault Ste. Marie (Water Utility).

(b) The key management personnel of the Company have been defined as members of its board of directors and executive management team members, and is summarized below.

	2017	2016
Directors' fees	\$ 30,288	\$ 23,562
Salaries and other short-term benefits	790,196	747,367
Post-employment benefits	10,837	10,601
	<u>\$ 831,321</u>	<u>\$ 781,530</u>

(c) Transactions with ultimate parent (the City):

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

The Company provides streetlight services and water and waste water services to the City. The amount charged to the City for streetlight maintenance is \$487,261 (2016 - \$566,428) and water and waste water services is \$3,067,824 (2016 - \$3,391,263).

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

18. Related party transactions (continued):

(d) Transactions with other related parties:

The Company has agreements which expire November 30, 2022 with the Utility, and with its other related entities, to manage, control, administer and operate the business of these entities. The Company charged the following management fees to the related parties:

	2017	2016
PUC Distribution Inc.	\$ 4,795,852	\$ 4,718,888
Public Utilities Commission of the City of Sault Ste. Marie	5,200,945	5,133,324
PUC Inc.	214,046	34,284
	<u>\$ 10,210,843</u>	<u>\$ 9,886,496</u>

The Company pays interest on payable balances at the Ontario Energy Board Deemed Rate on the average payable balance for the month. Interest was paid to PUC Inc., PUC Distribution Inc, and the Public Utilities Commission of the City of Sault Ste. Marie of \$88,046, \$18,693 and \$10,112 (2016 - \$78,860, \$31,981, and \$19,901 respectively).

The Company paid interest on its long-term debt to PUC Inc. of \$532,638 (2016 - \$532,638).

New business development costs of \$141,634 (2016 - \$34,284) were charged to PUC Inc.

19. Financial instruments and risk management:

Fair value disclosure

Cash is measured at fair value. The carrying values of receivables, 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.

Financial risks

The Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company'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.

(a) 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 Company, such as accounts receivable, expose it to credit risk. The Company earns in excess of 90% of its revenue from related parties and other municipal corporations.

PUC SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2017

19. Financial instruments and risk management (continued):

(b) Liquidity risk:

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

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

(c) Capital disclosures:

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2017, shareholder's equity amounts to \$674,288 (2016 - \$986,454) and long-term debt amounts to \$9,314,842 (2016 - \$9,400,498).

20. Comparative information:

Certain 2016 comparative information has been reclassified to conform with the financial statement presentation adopted for 2017. The changes made do not have an impact on the statement of comprehensive income.

Financial Statements of

PUC DISTRIBUTION INC.

Year ended December 31, 2017



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Canada
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of PUC Distribution Inc.

We have audited the accompanying financial statements of PUC Distribution Inc., which comprise the statement of financial position as at December 31, 2017 and the statements of comprehensive income, changes in shareholder's 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 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 PUC Distribution 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

April 25, 2018
Sault Ste. Marie, Canada

PUC DISTRIBUTION INC.

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,098,433	3,899,721
Accounts receivable (note 5)	4,772,774	6,620,270
Unbilled revenue	11,745,845	10,175,782
Due from related parties	192,649	100,201
Payment in lieu of taxes recoverable	27,798	550,032
Inventory (note 6)	1,445,792	1,486,453
Prepaid expenses	82,587	63,400
Total current assets	19,365,878	22,895,859
Non-current assets:		
Property, plant and equipment (note 7)	95,358,139	92,704,231
Deferred tax assets (note 8)	145,000	211,000
Total non-current assets	95,503,139	92,915,231
Total assets	114,869,017	115,811,090
Regulatory deferral account debit		
balances (note 9)	120,529	698,439
Deferred tax asset associated with		
regulatory deferral account balances (note 9)	52,000	77,000
	172,529	775,439
Total assets and regulatory		
deferral account debit balances	\$ 115,041,546	116,586,529

See accompanying notes to financial statements.

PUC DISTRIBUTION INC.

Statement of Financial Position (continued)

December 31, 2017, with comparative information for 2016

	2017	2016
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,515,223	13,766,614
Current portion of long-term debt (note 10)	1,260,844	1,211,084
Customer deposits (note 11)	1,144,445	987,485
Deferred revenue	21,558	207,980
Total current liabilities	12,942,070	16,173,163
Non-current liabilities:		
Deferred revenue	2,936,510	1,862,763
Long-term debt (note 10)	62,686,347	63,947,191
Total non-current liabilities	65,622,857	65,809,954
Total liabilities	78,564,927	81,983,117
Shareholder's equity:		
Share capital (note 12)	20,062,107	20,062,107
Retained earnings	11,233,619	11,106,336
Total shareholder's equity	31,295,726	31,168,443
Total liabilities and shareholder's equity	109,860,653	113,151,560
Regulatory deferral account credit balances (note 9)	4,983,893	3,146,969
Deferred tax liability associated with regulatory deferral account balances	197,000	288,000
	5,180,893	3,434,969
Commitments and contingences (note 15)		
Total liabilities, regulatory balances and shareholder's equity	\$ 115,041,546	116,586,529

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

PUC DISTRIBUTION INC.

Statement of Comprehensive Income

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

	2017	2016
Revenue:		
Electricity sales	\$ 76,878,822	82,764,200
Distribution revenue	16,311,679	15,495,940
Cost of electricity sold	(75,158,523)	(81,410,411)
	18,031,978	16,849,729
Other operating revenue (note 13)	4,321,865	3,497,340
Net operating revenue	22,353,843	20,347,069
Expenses:		
Operations and maintenance	5,916,615	5,977,871
General and administrative	3,347,960	3,188,235
Billing and collection	1,682,623	1,572,173
Depreciation and amortization	3,729,303	3,587,134
Community relations	2,525,333	1,388,930
	17,201,834	15,714,343
Income from operating activities	5,152,009	4,632,726
Other expenses:		
Finance income (note 14)	(22,622)	(33,313)
Finance charges (note 14)	3,199,549	3,058,063
Net finance costs	3,176,927	3,024,750
Income before tax and regulatory items	1,975,082	1,607,976
Income tax expense (recovery):		
Current (note 8)	127,500	(44,000)
Deferred (note 8)	66,000	185,000
	193,500	141,000
Income for the year before movements in regulatory deferral account balances	1,781,582	1,466,976
Net movement in regulatory deferral account balances related to profit or loss	1,720,299	1,353,788
Income tax	(66,000)	(185,000)
	1,654,299	1,168,788
Net income, being total comprehensive income for the year	\$ 127,283	298,188

See accompanying notes to financial statements.

PUC DISTRIBUTION INC.

Statement of Changes in Shareholders' Equity

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

	Share Capital	Retained Earnings	Total
Balance, January 1, 2016, as previously reported	\$ 20,062,107	10,808,148	30,870,255
Net income and comprehensive income	-	298,188	298,188
Balance, December 31, 2016	20,062,107	11,106,336	31,168,443
Net income and comprehensive income	-	127,283	127,283
Balance, December 31, 2017	\$ 20,062,107	11,233,619	31,295,726

See accompanying notes to financial statements.

PUC DISTRIBUTION INC.

Statement of Cash Flows

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

	2017	2016
Cash provided by (used in)		
Cash flows from operating activities:		
Total comprehensive income for the year	\$ 127,283	298,188
Items not involving cash:		
Depreciation and amortization	3,729,303	3,587,134
Amortization of deferred revenue	(62,979)	(116,018)
Loss on disposal of property, plant and equipment	6,657	-
Net finance costs	3,176,927	3,024,750
Income tax expense (recovery)	193,500	(41,000)
	7,170,691	6,753,054
Changes in non-cash working capital:		
Accounts receivable	1,847,496	(719,935)
Unbilled revenue	(1,570,063)	686,386
Inventory	40,661	6,744
Prepaid expenses	(19,187)	(600)
Due from related parties	(69,826)	336,682
Accounts payable and accrued liabilities	(3,251,390)	5,807,888
Customer deposits	156,960	65,063
Deferred revenue	(186,422)	(20,475)
Income tax paid	394,733	114,250
Net movements in regulatory balances	2,348,833	(2,609,928)
Net cash from operating activities	6,862,486	10,419,129
Cash flows from financing activities:		
Repayment of long-term debt	(1,211,084)	(1,007,285)
Interest paid	(3,199,549)	(3,058,063)
Net cash from financing activities	(4,410,633)	(4,065,348)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(6,389,868)	(5,988,626)
Contributions relating to property, plant and equipment	1,136,727	450,272
	(5,253,141)	(5,538,354)
Change in cash and cash equivalents	(2,801,288)	815,427
Cash and cash equivalents, beginning of year	3,899,721	3,084,294
Cash and cash equivalents, end of year	\$ 1,098,433	3,899,721

See accompanying notes to financial statements.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

1. Reporting entity:

PUC Distribution Inc. (the "Company") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Company is located in the City of Sault Ste. Marie. The address of the Company's registered office is 500 Second Line East, Sault Ste. Marie, Ontario Canada.

The Company delivers electricity and related energy services to residential and commercial customers in Sault Ste. Marie. The Company is wholly owned by PUC Inc., which is itself wholly owned by The Corporation of the City of Sault Ste. Marie.

2. Basis of presentation:

(a) Statement of compliance:

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

(b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on April 25, 2018.

(c) Basis of measurement:

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

(d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(e) 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 7 - Property, plant and equipment
- (ii) Note 15 - Commitments and contingencies

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

2. Basis of presentation (continued):

(f) Rate regulation:

The Company 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 Company, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Company is required to bill customers for the debt retirement charge set by the province. The Company may file to recover uncollected debt retirement charges from Ontario Electricity Financial Company ("OEFC") once each year.

(g) Rate setting:

i) Distribution revenue:

For the distribution revenue included in electricity sales, the Company 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 Company's business. The Company 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 interveners 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 Inflator 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 Company 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 Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers.

The Company filed an IRM in 2016 requesting a 1.45% inflationary increase to distribution rates for the period of May 1, 2017 to April 30, 2018. The IRM was approved on March 8, 2017.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

2. Basis of presentation (continued):

(g) Rate setting (continued):

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 Company 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.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

(a) Financial instruments:

All financial assets are classified as loans and receivables 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 3(g). The Company does not enter into derivative instruments.

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

Cash equivalents include short-term investments with maturities of three months or less when purchased.

(b) 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 Company has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

The difference between the amounts charged by the Company to customers, based on regulated rates, and the corresponding cost of electricity and related electricity service costs billed monthly by the Independent Electricity System Operator ("IESO") is recorded as a settlement variance. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the balance sheets and within net movements in regulatory balances, net of tax on the statement of comprehensive income.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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. Cash contributions are initially 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 represents the Company'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 Company is entitled from the IESO are recognized as revenue in the period when they are determined by the IESO and the amount is communicated to the Company.

(c) Inventory:

Inventories consist of parts, supplies and materials held for the future capital expansion and are 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.

(d) 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.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take a substantial period of time to construct.

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 PP&E.

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 profit or loss.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(d) Property, plant and equipment (continued):

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 Company 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 profit or loss as incurred.

Depreciation is calculated over the depreciable amount and is recognized in profit or loss 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 depreciated until the project is complete and in service.

The estimated useful lives are as follows:

Buildings	25 – 50 years
Transmission and distribution	15 – 60 years
Machinery and equipment	5 – 40 years

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

(e) 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 profit or loss.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(e) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than 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 generates 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 to sell. 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 profit or loss.

Impairment losses recognized in prior periods are 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, if no impairment loss had been recognized.

(f) Provisions:

A provision is recognized if, as a result of a past event, the Company 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.

(g) 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).

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(h) Regulatory deferral accounts:

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 Company'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 Company early adopted IFRS 14 in 2015.

The Company 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 Company's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory asset and liability balances on the Company'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 debit 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 credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Company.

Regulatory deferral account debit 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 debit 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.

Regulatory deferral account credit balances are recognized if it is probable that future billings in an amount at least equal to the credit balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The credit 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 credit balance.

The probability of recovery or repayment of the regulatory account balances are 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 rate was 1.23%. 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.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(h) Regulatory deferral accounts (continued):

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 Company'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.

(i) Credit support for service delivery:

Credit support for service delivery represents cash deposits from electricity distribution customers as well as construction deposits.

Deposits from electricity distribution customers 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 electricity distribution service. Customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Company.

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded as credit support for service delivery, a current liability. Once the distribution system asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to deferred revenue.

(j) 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 deferred revenue within non-current liabilities. Deferred revenue represents the Company'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.

(k) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. 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 unless they are capitalized as part of the cost of qualifying assets.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(l) Payment in lieu of taxes:

The Company 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 Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Company ("OEFC"). These payments 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 Company's Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes.

PILs comprises current and deferred payments in lieu of income tax. PILs recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or equity, in which case, it is recognized in comprehensive income or in equity.

Current PILS is the expected amount of 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.

Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective 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 PILs 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 PILs 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.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Changes in accounting policies:

Effective January 1, 2017, the Company has adopted amendments to IAS 7, Financial Statement Disclosure. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both, cash and non-cash changes. Refer to note 10 for the reconciliation between the opening and closing balances for liabilities from financing activities related to long term debt.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(n) New standards and interpretations not yet effective:

The following new standards and interpretations are not yet effective but are considered to be relevant to the Company's financial statements:

i) IFRS 15 *Revenue from Contracts with Customers*

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 Company is assessing the impact of IFRS 15 on its results of operations, financial position and disclosures.

ii) IFRS 9 Financial Instruments ("IFRS 9"(2014))

In July 2014, 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 multiphase 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 Company is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

iii) IFRS 16 Leases:

In January 2016, the IASB issued IFRS 16 to establish principles for the recognition, measurement, presentation and disclosures of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS17 and it is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impact of IFRS 16 on its results of operations, financial position and disclosures.

4. Critical accounting estimates and judgments:

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

4. Critical accounting estimates and judgments (continued):

Fair value of financial instruments:

The Company determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods, and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 17.

Payment in lieu of taxes:

The Company periodically assesses its liabilities and contingencies related to PILs for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current PILs provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the PILs liabilities.

Useful lives of depreciable assets:

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2017, management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analyzed in note 7. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

Impairment:

An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

5. Accounts receivable:

	2017	2016
Trade receivables	\$ 3,946,957	\$ 6,372,195
Other receivables	825,817	248,075
	<u>\$ 4,772,774</u>	<u>\$ 6,620,270</u>

Included in the receivables balance is an allowance for doubtful accounts in the amount of \$105,521 (2016 - \$100,000)

6. Inventory:

The amount of inventories consumed by the Company and recognized as an expense during 2017 was \$291,526 (2016 - \$344,489).

	2017	2016
Stores	\$ 730,216	\$ 765,430
Wire and cable	522,541	489,754
Poles	193,035	232,569
	<u>\$ 1,445,792</u>	<u>\$ 1,487,753</u>

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

7. Property, plant and equipment:

(a) Cost or deemed cost:

		Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
Balance at January 1, 2017	\$	25,884,134	\$58,850,844	\$18,271,159	\$ —	\$103,006,137
Additions		13,376	4,836,055	1,502,762	37,675	6,389,868
Disposals/retirements		—	(6,657)		—	(6,657)
Balance at December 31, 2017	\$	25,897,510	\$63,680,242	\$19,773,921	\$ 37,675	\$109,389,348

		Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
Balance at January 1, 2016	\$	25,794,441	\$53,547,654	\$17,675,416	\$ —	\$ 97,017,511
Additions		89,693	5,303,190	595,743	—	5,988,626
Balance at December 31, 2016	\$	25,884,134	\$58,850,844	\$18,271,159	\$ —	\$103,006,137

(b) Accumulated depreciation:

		Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
Balance at January 1, 2017	\$	2,034,706	\$ 5,644,033	\$ 2,623,167	\$ —	\$ 10,301,906
Depreciation charge		682,707	2,118,681	927,915	—	3,729,303
Balance at December 31, 2017	\$	2,717,413	\$ 7,762,714	\$ 3,551,082	\$ —	\$ 14,031,209

		Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
Balance at January 1, 2016	\$	1,353,814	\$ 3,638,750	\$ 1,722,208	\$ —	\$ 6,714,772
Depreciation charge		680,892	2,005,283	900,959	—	3,587,134
Balance at December 31, 2016	\$	2,034,706	\$ 5,644,033	\$ 2,623,167	\$ —	\$ 10,301,906

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

7. Property, plant and equipment (continued):

(c) Carrying amounts:

	Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
At December 31, 2017	\$ 23,180,097	55,917,528	16,222,839	37,675	95,358,139
At December 31, 2016	23,849,428	53,206,811	15,647,992	—	92,704,231

(d) Security:

At December 31, 2017, properties with a carrying amount of \$95,358,139 (2016 - \$92,704,231) are subject to a general security agreement.

8. Payments in lieu of income taxes:

Payment in lieu of taxes expense (recovery):

	2017	2016
Current	\$ 127,500	\$ (44,000)
Deferred	66,000	185,000
Income tax expense	\$ 193,500	\$ 141,000

Reconciliation of effective tax rate:

	2017	2016
Earnings before payments in lieu of income taxes	\$ 1,975,082	\$ 1,607,976
Statutory rate	26.5%	26.5%
Income tax	523,397	426,114
Increase (decrease) resulting from:		
Permanent difference	899	823
Change in regulatory accounts impacting current tax	(456,000)	(358,754)
Adjustment to prior year's recovery	127,500	28,000
Other	(2,296)	44,817
	\$ 193,500	\$ 141,000

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

9. Regulatory deferral account balance:

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	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances					
Regulatory Asset recovery Account Phase 6	\$ 31,963	\$ 3,838	\$ —	\$ 35,801	<1
Regulatory Asset recovery Account Phase 8	627,361	—	(571,335)	56,026	1
Deferred taxes	77,000	—	(25,000)	52,000	
Stranded Meters	3,847	(61)	—	3,786	<1
Smart Meter Entity Charges	35,268	312,558	(322,910)	24,916	3
Total amount related to regulatory deferral account debit balances	\$ 775,439	\$ 316,335	\$(919,245)	\$ 172,529	
Regulatory deferral account credit balances					
Settlement Variance	\$ (3,046,784)	\$ (1,741,922)	\$ —	\$ (4,788,706)	<1
Deferred Taxes	(288,000)	—	91,000	(197,000)	
Regulatory Asset Recovery Account Phase 5	(30,634)	—	—	(30,634)	<1
Regulatory Asset Recovery Account Phase 7	(59,051)	(15)	—	(59,066)	<1
CGAAP Accounting Changes	2	—	—	2	1
LRAMVA	(10,502)	(94,987)	—	(105,489)	<1
Total amount related to regulatory deferral account credit balances	\$ (3,434,969)	\$ (1,836,924)	\$ 91,000	\$ (5,180,893)	
	January 1, 2016	Balances arising in the period	Recovery/ reversal	December 31, 2016	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances					
Regulatory Asset recovery Account Phase 6	\$ 21,987	\$ 9,976	\$ —	\$ 31,963	<1
Regulatory Asset recovery Account Phase 8	—	(116,319)	743,680	627,361	1
Deferred taxes	143,000	—	(66,000)	77,000	
Stranded Meters	3,908	(61)	—	3,847	<1
Smart Meter Entity Charges	23,748	313,637	(302,117)	35,268	3
Total amount related to regulatory deferral account debit balances	\$ 192,643	\$ 207,233	\$ 375,563	\$ 775,439	
Regulatory deferral account credit balances					
Settlement Variance	\$ (5,021,855)	\$ 1,975,071	\$ —	\$ (3,046,784)	<1
Deferred Taxes	(539,000)	—	251,000	(288,000)	
Regulatory Asset Recovery Account Phase 5	(30,544)	(90)	—	(30,634)	<1
Regulatory Asset Recovery Account Phase 7	(58,402)	(9)	(640)	(59,051)	<1
CGAAP Accounting Changes	(72,874)	—	72,876	2	1
LRAMVA	(10,355)	(124)	(23)	(10,502)	<1
Total amount related to regulatory deferral account credit balances	\$ (5,733,030)	\$ 1,974,848	\$ 323,213	\$(3,434,969)	

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

9. Regulatory deferral account balance (continued):

The regulatory deferral account balances are recovered or settled through rates set by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory deferral account balances.

Group 1 deferral and variance accounts (Group 1 accounts) track the differences between the costs that a distributor is billed for certain IESO and host distributor services (including the cost of power) and the associated revenues that the distributor receives from its customers for these services. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

The OEB requires the Company to estimate its income taxes when it files a COS application to set its rates. As a result, the Company has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Company's deferred tax balance fluctuates.

10. Long-term debt:

	2017	2016
Notes payable:		
(i) Ontario Infrastructure smart meter loan	\$ 3,930,566	\$ 4,213,286
(ii) Ontario Infrastructure building loan	19,096,479	19,633,212
(iii) Ontario Infrastructure construction loan	14,386,106	14,777,737
(iv) Note payable to parent company, PUC Inc.	26,534,040	26,534,040
	63,947,191	65,158,275
Current portion of long-term debt	1,260,844	1,211,084
	\$ 62,686,347	\$ 63,947,191

- i) Smart Meter Loan with Ontario Infrastructure and Lands Corporation (OILC): Reducing Debenture Facility, amortization period of 15 years to July 17, 2028. The loan interest rate of 3.82%. Interest of \$153,773 (2016 - \$164,438) was paid and expensed during the year. The loan is payable in the amount of \$220,496 semi-annual principal and interest. Security is in the form of a second ranking general security agreement.
- ii) Land and Building Loan with OILC: Reducing Debenture Facility, amortization period of 25 years to October 1, 2038. The loan interest rate of 4.57%. Interest of \$886,088 (2016 - \$910,020) was paid and expensed during the year. The loan is payable in the amount of \$118,568 monthly principal and interest. Security is in the form of a first charge over the Company's land and building and a third ranking general security agreement.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

10. Long-term debt (continued):

- iii) Electric Distribution Infrastructure Loan with OILC: The construction loan was converted to long term debt in 2016, at an interest rate of 3.47%, repayable over 25 years by a blended principal and interest payment of \$74,852 monthly maturing on May 16, 2041. Interest of \$506,598 (2016 - \$394,071) was paid and expensed during the year. Security is in the form of a fourth ranking general security agreement and a guarantee and assignment of shares from the company's shareholder, PUC Inc.
- iv) Note payable to parent company, PUC Inc., bears interest payable quarterly at rates periodically negotiated and principal payable one year after demand. The average interest rate for 2017 was 6.1% (2016 – 6.1%). The balance outstanding for 2017 is \$26,534,040 (2016 - \$26,534,040).

Principal payments on the long-term debt are as follows:

2018	\$ 1,260,844
2019	1,312,680
2020	1,366,680
2021	1,422,937
2022	1,481,545
2023 - 2041	57,102,505
	<hr/>
	\$ 63,947,191

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	2017	2016
Long term debt - beginning	\$ 65,158,275	\$ 66,165,560
Less: cash outflows for principal repayments	1,211,084	1,007,285
	<hr/>	<hr/>
	\$ 63,947,191	\$ 65,158,275

11. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service. The balance at December 31, 2017 is \$1,144,445 (2016 - \$987,485).

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

12. Share capital:

	2017	2016
Authorized:		
Unlimited number of special shares, non-voting, non-cumulative		
Redeemable at \$10,000 per share		
10,000 Common shares		
Issued and outstanding:		
8,612 common shares	\$ 20,062,107	\$ 20,062,107

13. Other operating revenue:

Other income comprises:

	2017	2016
Rendering of services	\$ 4,112,444	\$ 3,238,358
Other	146,442	142,964
Amortization of deferred revenue	62,979	116,018
Total other income	\$ 4,321,865	\$ 3,497,340

14. Finance income and expense:

	2017	2016
Interest income	\$ 22,622	\$ 33,313
Finance income	22,622	33,313
Interest expense on long-term debt	3,165,035	3,087,106
Other interest and carrying charges	34,514	(29,043)
	3,199,549	3,058,063
Net finance costs recognized in profit or loss	\$ 3,176,927	\$ 3,024,750

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

15. Commitments and contingencies:

i) General:

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company 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.

ii) General Liability Insurance:

The Company 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 LDCs 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.

iii) Letter of Guarantee:

The Company maintains a \$5,000,000 letter of guarantee with its Bank in favor of the IESO.

16. Related party transactions:

(a) Parent, ultimate controlling party, and other related parties:

The sole shareholder of the Company is PUC Inc., which in turn is wholly-owned by the Corporation of the City of Sault Ste. Marie. The City produces financial statements that are available for public use. Other related parties include PUC Services Inc. (Services), and Public Utilities Commission of the City of Sault Ste. Marie (Utility).

(b) Key management personnel:

The key management personnel of the Company have been defined as members of its board of directors and is summarized below:

	2017	2016
Directors' fees	\$ 12,052	\$ 7,827

(c) Transactions with ultimate parent (the City):

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

The Company 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. The amount charged to the City for electricity consumed by streetlights is \$858,042 (2016 - \$1,450,202) and for other electricity consumption is \$4,187,577 (2016 - \$4,275,882).

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

16. Related party transactions (continued):

(d) Transactions with Services:

The Company has a management, operation and maintenance agreement with Services, which has been extended to November 30, 2022, under which Services manages, controls, administers and operates the business of the Company. During the year, management fees were paid to Services in the amount of \$4,795,852 (2016 - \$4,718,888).

The Company receives interest on its receivable balance to Services at the OEB prescribed short-term borrowing rate on its average monthly balance. Interest of \$18,693 (2016 - \$31,981) was received during the year.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration agreed to by the related parties.

17. Financial instruments and risk management:

(a) Fair value disclosure:

Cash and cash equivalents are measured at fair value. The carrying values of receivables, 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 Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company'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 Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the City. No single customer accounts for a balance in excess of 2.53% 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 \$105,521 (2016 - \$100,000).

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has over 33 thousand 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 Company holds security deposits in the amount of \$1,144,445 (2016 - \$987,485).

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

17. Financial instruments and risk management (continued):

(b) Financial risks (continued):

ii) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have any material commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company'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 Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company 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 Company's credit facilities.

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

iv) Capital disclosures:

The main objectives of the Company, 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 Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2017, shareholder's equity amounts to \$31,295,726 (2016 - \$31,168,443) and long-term debt amounts to \$63,947,191 (2016 - \$65,158,275).

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2017

18. Correction of immaterial errors:

	2017	2016
Opening retained earnings as previously reported	\$ 7,830,504	\$ 8,150,941
To correct immaterial errors in relation to depreciation and amortization on property, plant and equipment incorrectly recorded in prior years resulting in overstated amounts for depreciation and amortization.	3,275,832	2,657,207
Opening retained earnings, as recasted	\$ 11,106,336	\$ 10,808,148

The impact of correcting the immaterial errors to depreciation and amortization was to increase the net book value of property, plant and equipment by \$3,291,005, decrease deferred tax assets by \$870,000, decrease deferred tax asset associated with regulatory deferral account debit balances by \$313,000, increase deferred revenue by \$15,173 and decrease deferred tax liability associated with regulatory deferral account credit balances by \$1,183,000 at January 1, 2016. The net impact of these immaterial errors was to increase retained earnings by \$2,657,207 as at January 1, 2016 as presented in the table above.

Financial Statements of

**PUBLIC UTILITIES COMMISSION
OF THE CITY OF SAULT STE. MARIE**

Year ended December 31, 2017

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Financial Statements

Year ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Commissioners of the Public Utilities Commission of the City of Sault Ste. Marie, Members of Council, Inhabitants and Ratepayers of The Corporation of the City of Sault Ste. Marie.

We have audited the accompanying financial statements of the Public Utilities Commission of the City of Sault Ste. Marie, which comprise the statement of financial position as at December 31, 2017, the statements of operations and accumulated surplus, change in net debt 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 public sector accounting 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 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 the Public Utilities Commission of the City of Sault Ste. Marie as at December 31, 2017, and its results of operations and its change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 8, 2018

Sault Ste. Marie, Canada

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial assets:		
Cash	\$ 3,201,291	\$ 4,152,778
Accounts receivable	2,353,165	2,480,095
Unbilled service revenue	721,276	548,352
	<u>6,275,732</u>	<u>7,181,225</u>
Financial liabilities:		
Accounts payable and accrued liabilities	2,914,602	3,866,780
Loan payable (note 5)	6,652,782	7,365,679
Payable to related company PUC Services Inc. (note 4)	1,629,153	2,622,934
	<u>11,196,537</u>	<u>13,855,393</u>
Total net debt	(4,920,805)	(6,674,168)
Non-financial assets:		
Tangible capital assets (note 7)	87,873,433	85,525,500
Inventory	319,138	315,681
Prepaid expenses	3,196	-
	<u>88,195,767</u>	<u>85,841,181</u>
Accumulated surplus (note 8)	\$ 83,274,962	\$ 79,167,013

The accompanying notes are an integral part of these financial statements.

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Statement of Operations and Accumulated Surplus

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

	Budget (note 2)	2017 Total	2016 Total
Revenues:			
Service revenue:			
Residential	\$ 10,735,838	\$ 10,203,003	\$ 9,655,343
General	7,506,574	7,182,197	6,452,885
Hydrants	1,234,000	1,276,627	1,166,989
	19,476,412	18,661,827	17,275,217
Other:			
Investment income	20,000	10,898	19,901
Non-service revenue	489,500	430,914	476,058
Developers contributions	-	617,513	198,458
Gain on sale of assets	-	-	98,032
	509,500	1,059,325	792,449
Total revenues	19,985,912	19,721,152	18,067,666
Expenditures:			
Purification and pumping	4,412,569	3,775,845	4,292,209
Transmission and distribution	4,192,081	3,403,963	3,706,839
Amortization of tangible capital assets	2,380,000	2,432,643	2,304,853
Hydrants	489,044	640,997	441,446
Billing and collection	1,328,919	1,413,161	1,218,688
Interest on long-term debt	263,571	219,808	223,885
General and administration	3,971,247	3,726,786	3,596,786
Total expenses	17,037,431	15,613,203	15,784,706
Annual surplus	2,948,481	4,107,949	2,282,960
Accumulated surplus, beginning of year	79,167,013	79,167,013	76,884,053
Accumulated surplus, end of year	\$ 82,115,494	\$ 83,274,962	\$ 79,167,013

The accompanying notes are an integral part of the financial statements.

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Statement of Change in Net Debt

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

	Budget (note 2)	2017	2016
Annual surplus	\$ 2,948,481	\$ 4,107,949	\$ 2,282,960
Acquisition of tangible capital assets	(5,024,914)	(4,780,576)	(6,432,679)
Amortization of tangible capital assets	2,380,000	2,432,643	2,304,853
Gain on disposal of tangible capital assets		-	(98,032)
Proceeds on sale of tangible capital assets		-	726,765
	303,567	1,760,016	(1,216,133)
Change in prepaid expenses	-	(3,196)	-
Acquisition of inventory	-	(319,138)	(315,681)
Use of inventory	-	315,681	301,745
Change in net financial assets (net debt)	303,567	1,753,363	(1,230,069)
Net debt, beginning of year	(6,674,168)	(6,674,168)	(5,444,099)
Net debt, end of year	\$ (6,370,601)	\$ (4,920,805)	\$ (6,674,168)

The accompanying notes are an integral part of these consolidated financial statements.

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Statement of Cash Flows

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

	2017	2016
Cash provided by (used for):		
Operating activities:		
Annual surplus	\$ 4,107,949	\$ 2,282,960
Items not involving cash:		
Amortization of tangible capital assets	2,432,643	2,304,853
Developers contributions	(617,513)	(198,458)
Gain on disposal of tangible capital assets	-	(98,032)
	5,923,079	4,291,323
Change in non-cash assets and liabilities:		
Accounts receivable	126,930	471,636
Unbilled service revenue	(172,924)	159,236
Prepaid expenses	(3,196)	-
Inventory	(3,457)	(13,936)
Accounts payable	(952,178)	609,285
Increase in cash from operating activities	4,918,254	5,517,544
Capital activities:		
Cash used to acquire tangible capital assets	(4,163,063)	(6,234,221)
Proceeds on sale of tangible capital assets	-	726,765
	(4,163,063)	(5,507,456)
Financing activities:		
Proceeds of loan payable	-	8,000,000
Repayment of loan payable	(712,897)	(634,321)
Repayment of line of credit	-	(3,000,000)
Payable to PUC Services Inc.	(993,781)	(233,973)
Net change in cash for financing activities	(1,706,678)	4,131,706
Increase (decrease) in cash	(951,487)	4,141,794
Cash beginning of year	4,152,778	10,984
Cash end of year	\$ 3,201,291	\$ 4,152,778

The accompanying notes are an integral part of the financial statements.

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Notes to Financial Statements

Year ended December 31, 2017

The Public Utilities Commission of the City of Sault Ste. Marie (the "Commission") is a body appointed by the Corporation of the City of Sault Ste. Marie to supply water and related services to its residents.

1. Significant accounting policies:

The financial statements of the Commission are prepared by management in accordance with accounting principles generally accepted in Canada for government organizations as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. Significant aspects of the accounting policies adopted by the Commission are as follows:

(a) Basis of accounting:

Revenues and expenses are reported on the accrual basis of accounting.

The accrual basis of accounting recognizes revenues as they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(b) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Buildings and building improvements	10 to 60
Machinery and equipment	5
Water infrastructure	15 to 100

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Notes to Financial Statements

Year ended December 31, 2017

1. Significant accounting policies (continued):

(b) Non-financial assets (continued):

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Inventory

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is valued at the lower of cost and replacement cost.

(c) Revenue recognition:

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue for water consumed by customers since the date of each customer's last meter reading. Actual results could differ from estimates made of water usage.

(d) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses, assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

2. Budget figures:

The budgets established for capital funds are based on a project-oriented basis, the costs of which may be carried out over one or more years. As such, they may not be directly comparable with current year actual amounts.

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Notes to Financial Statements

Year ended December 31, 2017

3. Related party transactions:

The following entities are identified as related parties to the Commission:

PUC Inc. – 100% owned by the Corporation of the City of Sault Ste. Marie (City).

PUC Distribution Inc. (Distribution) – 100% owned by PUC Inc.

PUC Services Inc. (Services) – 100% owned by the Corporation of the City of Sault Ste. Marie (City)

The Commission has a management, operation and maintenance agreement with Services, which currently has been extended to November 30, 2022, under which Services manages, controls, administers and operates the business of the Commission. All terms of the extension remain the same as the original agreement.

The Commission receives interest on balances receivable from Services at the Ontario Energy Board deemed interest rate on the average balance. Interest of (\$10,112) (2016 – \$19,901) was received during the year.

The Commission was charged management fees and operational fees by Services in the amount of \$5,200,945 (2016 – \$5,133,324). These transactions have been recorded at the exchange amount which is the agreed amount between the related parties.

4. Credit facility:

The Commission has an authorized line of credit facility available in the amount of \$6,200,000. The credit facility bears interest at prime plus 0.5% and is secured by a general security agreement. At December 31, 2017, \$ Nil (2016 - \$ Nil) was outstanding under the facility.

5. Loan payable:

	2017	2016
Loan payable incurred by The Commission	\$ 6,652,782	\$ 7,365,679

The loan is repayable \$77,660 monthly including interest at 3.11% and matures on January 12, 2026.

The Corporation of the City of Sault Ste. Marie (the "Guarantor") guarantees payment to the Bank of all present and future debts and liabilities, including interest due at any time by the Commission to the Bank. The Guarantor shall be limited to the sum of \$8,000,000 together with interest from the date of demand for repayment.

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Notes to Financial Statements

Year ended December 31, 2017

5. Loan payable (continued):

Principal payments due on the loan payable for the next five fiscal years are as follows:

2018	\$	735,388
2019		758,587
2020		782,518
2021		807,205
2022		832,670

6. Expenditures by object:

Total expenditures by object are as follows:

	2017	2016
Salaries and benefits	\$ 4,022,519	\$ 4,108,416
Materials, supplies and services	9,158,040	9,371,437
Amortization of tangible capital assets	2,432,643	2,304,853
	\$ 15,613,202	\$ 15,784,706

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Year ended December 31, 2017

7. Tangible capital assets:

Cost	Balance at December 31, 2016	Additions	Disposals	Balance at December 31, 2017
Land	\$ 823,563	222	-	823,785
Buildings and building improvements	9,261,657	5,797	-	9,267,454
Water infrastructure	127,366,634	4,775,131	-	132,141,765
Work in progress	397,583	(574)	-	397,009
Total	\$ 137,849,437	4,780,576	-	142,630,013

Accumulated Amortization	Balance at December 31, 2016	Disposals	Amortization	Balance at December 31, 2017
Land	\$ -	-	-	-
Buildings and building improvements	4,377,108	-	150,332	4,527,440
Water infrastructure	47,946,829	-	2,282,311	50,229,140
Work in progress	-	-	-	-
Total	\$ 52,323,937	-	2,432,643	54,756,580

	Net book value, December 31, 2016	Net book value, December 31, 2017
Land	\$ 823,563	823,785
Buildings and building improvements	4,884,549	4,740,014
Water infrastructure	79,419,805	81,912,625
Work in progress	397,583	397,009
Total	\$ 85,525,500	87,873,433

Contributed tangible capital assets:

Contributed tangible capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is \$617,513 (2016 - \$198,458) comprised of water infrastructure.

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Year ended December 31, 2017

7. Tangible capital assets (continued):

Cost	Balance at December 31, 2015	Additions	Disposals	Balance at December 31, 2016
Land	\$ 869,374	7,074	(52,885)	823,563
Buildings and building improvements	10,553,728	219,397	(1,511,468)	9,261,657
Water infrastructure	121,160,994	6,205,640	-	127,366,634
Work in progress	397,015	568	-	397,583
Total	\$ 132,981,111	6,432,679	(1,564,353)	137,849,437

Accumulated Amortization	Balance at December 31, 2015	Disposals	Amortization	Balance at December 31, 2016
Land	\$ -	-	-	-
Buildings and building improvements	5,160,042	(935,620)	152,686	4,377,108
Water infrastructure	45,794,662	-	2,152,167	47,946,829
Work in progress	-	-	-	-
Total	\$ 50,954,704	(935,620)	2,304,853	52,323,937

	Net book value, December 31, 2015	Net book value, December 31, 2016
Land	\$ 869,374	823,563
Buildings and building improvements	5,393,686	4,884,549
Water infrastructure	75,366,332	79,419,805
Work in progress	397,015	397,583
Total	\$ 82,026,407	85,525,500

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

BY-LAW 2018-119

AGREEMENT: (P4) A by-law to authorize the execution of the Agreement between the City and Ironside Consulting Services Inc. to provide Integrity Commissioner Services for the City of Sault Ste. Marie.

THE COUNCIL of The Corporation of the City of Sault Ste. Marie, pursuant to section 9 of the *Municipal Act, 2001*, S.O. 2001, c. 25, **ENACTS** as follows:

1. **EXECUTION OF DOCUMENT**

The Mayor and City Clerk are hereby authorized for and in the name of the Corporation to execute and affix the seal of the Corporation to the Agreement dated May 28, 2018 between the City and Ironside Consulting Services Inc., a copy of which is attached as Schedule "A" hereto. This Agreement is to provide Integrity Commissioner Services for the City of Sault Ste. Marie.

2. **SCHEDULE "A"**

Schedule "A" forms part of this by-law.

3. **EFFECTIVE DATE**

This by-law takes effect on the day of its final passing.

PASSED in open Council this 28th day of May, 2018.

MAYOR - CHRISTIAN PROVENZANO

CITY CLERK - MALCOLM WHITE

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Notes to Financial Statements

Year ended December 31, 2017

8. Accumulated surplus:

Accumulated surplus is comprised of:

	2017	2016
Invested in tangible capital assets	\$ 87,873,433	\$ 85,525,500
Operating fund	(4,598,471)	(6,358,487)
	<u>\$ 83,274,962</u>	<u>\$ 79,167,013</u>

**ENGAGEMENT OF AN INTEGRITY COMMISSIONER
FOR THE CITY OF SAULT STE. MARIE**

THIS AGREEMENT made in duplicate this 28th day of May, 2018.

B E T W E E N:

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

(herein referred to as the "Municipality")

- and -

IRONSIDE CONSULTING SERVICES INC.

(herein referred to as the "Integrity Commissioner")

THIS AGREEMENT WITNESSETH THAT in consideration of the mutual promises and obligations contained herein, the Parties agree as follows:

1. TERM

This agreement (the "Agreement") shall commence May 1, 2018 and end December 31, 2020 (the "Term"), provided that this Agreement is not previously cancelled or terminated by the City in accordance with this Agreement, by operation of law or otherwise, and further provided that the Integrity Commissioner has faithfully complied with and performed all of the covenants and conditions as set out in this Agreement on its part to be performed during the Term.

The Municipality reserves the right to extend the Agreement upon mutual agreement of the Parties hereto and on completion of the Term as set out herein.

2. DESCRIPTION OF WORK

The work (the "Work") shall consist of:

- (1) Provide all that is necessary and required to perform all the work shown and described in this Agreement and the Contract Documents, attached as Schedules "A" and "B" to this Agreement.

3. DOCUMENTS

- (1) The following list is an exact list of the Contract Documents referred to in Section 2(1) of this Agreement:
 - (a) Letter of Introduction: Proposal for Engagement of an Integrity Commissioner for the City of Sault Ste. Marie (the "Proposal"); and
 - (b) Request for Proposal – Engagement of an Integrity Commissioner for the City of Sault Ste. Marie (the "RFP").
- (2) In the event of a conflict or inconsistency between the Proposal and the RFP, the RFP shall prevail.

4. EXECUTION OF WORK

- (1) The Integrity Commissioner shall always carry out the Work in a diligent manner.
- (2) No information about any account shall be given to any person or entity by the Integrity Commissioner either during or after the Term unless prior written authorization to do so has been provided by the Municipality, and only then, in accordance with the *Municipal Freedom of Information and Protection of Privacy Act*, R.S.O. 1990, c. M.56. Upon expiry of this Agreement, the Integrity Commissioner shall provide to the Municipality all accounts and related documentation pertaining to such accounts.

5. PAYMENT FOR SERVICES

- (1) The Integrity Commissioner shall invoice the Municipality monthly for the Work performed for the Municipality at the rates outlined on page 8 of the Proposal and in accordance with the terms outlined thereto.
- (2) Except where a dispute arises with respect to the accuracy of an invoice, the Municipality shall pay to the Integrity Commissioner the invoiced amount within sixty (60) days of receipt thereof.

6. TERMINATION OF AGREEMENT

- (1) The Municipality may terminate this Agreement, without cause or reason, by giving the Integrity Commissioner notice as contained within the individual policies.
- (2) Upon termination of this Agreement, the Integrity Commissioner and the Municipality shall forthwith pay to each other any monies owing to date, and the Integrity Commissioner shall return any incomplete account materials.

7. INSURANCE

- (1) The Integrity Commissioner shall protect itself from and against all claims that might arise from anything done, proposed to be done or omitted to be done by the Integrity Commissioner, its officers, employees, agents or contractors in connection with this Agreement.
- (2) For the purposes of Section 7(1) of this Agreement, and without restricting the generality of that Section, the Integrity Commissioner shall, at its own expense, maintain in full force and effect during the term of this Agreement, a policy of Comprehensive General Liability and Professional Liability insurance, in a form and substance acceptable to the Municipality and written by a responsible carrier or carriers acceptable to the Municipality, including Product and Completed Operations Liability, Contractual Liability, Owners and/or Contractors Protective Liability, Contingent Employers Liability and contain a Cross Liability Clause protecting the Municipality as if separately insured. The insurance shall have a limit of not less than Five Million (\$5,000,000.00) Dollars per occurrence for any cause of action, demand or claim with respect to personal injury (including death) or property damage, including loss of use thereof, and for any cause of action, demand or claim arising out of or occurring in connection with the obligations of the Integrity Commissioner under this Agreement, including, but not limited to, a cause of action, demand or claim with

respect to defamation, contravention of any right guaranteed under the *Canadian Charter of Rights and Freedoms*, and errors and omissions.

8. ASSIGNMENT

The Integrity Commissioner shall not assign this Agreement or any portion thereof without the prior written consent of the Municipality. In the event that the Municipality consents to such assignment, the Integrity Commissioner shall ensure that any assignee undertaking any of the Integrity Commissioner's obligations hereunder shall be bound by the terms of this Agreement. The Integrity Commissioner shall not be released of its obligation to the Municipality by reason of the assignment, and the Integrity Commissioner shall be deemed liable for any breach of this Agreement, or any legislation or regulation, committed by the assignee.

9. MUNICIPALITY AND INTEGRITY COMMISSIONER CONTACT PERSONS

The following contact persons and addresses shall be used by all Parties for all matters in this Agreement that require the Parties to send documentation to a Party, or to contact a Party:

The Corporation of the City of Sault Ste. Marie
Rachel Tyczinski
Deputy City Clerk
P.O. Box 580
Sault Ste. Marie, Ontario P6A 5N1
Telephone: (705) 759-5892

Ironside Consulting Services Inc.
Antoinette Blunt
President
155 Ironside Drive
Prince Township, Ontario P6A 6K4
Office: (705) 779-3223
Mobile: (705) 542-3504

10. INDEPENDENT CONTRACTOR STATUS

- (1) The Integrity Commissioner is an independent contractor and neither the Integrity Commissioner nor the Integrity Commissioner's staff is or shall be deemed to be employed by the Municipality. The Integrity Commissioner reserves the right to determine the method, manner and means by which the services will be performed in accordance with Schedules "A" and "B" attached. Notwithstanding the same, the Integrity Commissioner acknowledges and agrees to discharge its obligations and perform the services set out herein in accordance with the terms of this Agreement (including Schedules "A" and "B" attached), the Municipality's Code of Conduct, and all applicable legislation, including but not limited to the *Municipal Act, 2001* and the *Municipal Conflict of Interest Act*.
- (2) The Integrity Commissioner is not required to perform the services during a fixed hourly or daily time and if the services are performed at the Municipality's premises, then the Integrity Commissioner's time spent at the premises is to be at the discretion of the Integrity Commissioner; subject to the Municipality's normal business hours and security requirements. The Integrity Commissioner hereby confirms to the Municipality that the

Municipality will not be required to furnish or provide any training to the Integrity Commissioner to enable the Integrity Commissioner to perform services required hereunder.

- (3) The services shall be performed by the Integrity Commissioner or Integrity Commissioner's staff, and the Municipality shall not be required to hire, supervise or pay any assistants to help the Integrity Commissioner who performs the services under this agreement. The Integrity Commissioner shall not be required to devote the Integrity Commissioner's full time nor the full time of the Integrity Commissioner's staff to the performance of the services required hereunder, and it is acknowledged that the Integrity Commissioner has other Clients and the Integrity Commissioner offers services to the general public.
- (4) The order or sequence in which the work is to be performed shall be under the control of the Integrity Commissioner, except to the extent that the Integrity Commissioner's work must be performed on or with the Municipality's computers or the Municipality's existing software. All materials used in providing the services shall be provided by the Integrity Commissioner.
- (5) The Municipality shall not provide any insurance coverage of any kind for the Integrity Commissioner or the Integrity Commissioner's staff, and the Municipality will not withhold any amount that would normally be withheld from an employee's pay.

11. AMENDMENTS

The Municipality and the Integrity Commissioner hereby acknowledge and agree that any future amendments to this Agreement must be made in writing and signed by both Parties.

12. ENTIRE AGREEMENT

The Integrity Commissioner acknowledges that there are no covenants, representations, warranties, agreements or conditions expressed or implied, collateral or otherwise forming part of or in any way affecting or relating to this Agreement other than as set out in this Agreement and the Contract Documents, which constitutes the entire agreement between the Parties and which may be modified only as set out in Section 11 of this Agreement.

13. SUCCESSORS

The provisions of this Agreement shall be binding upon, and enure to the benefit of, the Parties and their respective successors and, where applicable, permitted assigns.

14. GOVERNING LAW

The Parties hereto acknowledge and agree that this Agreement is made in the Province of Ontario and the Courts of the Province of Ontario shall have jurisdiction in reference to any matters herein.

IN WITNESS WHEREOF the Parties hereto have signed this Agreement this 28th day of May, 2018.

IRONSIDE CONSULTING SERVICES INC.

Per: _____

Name:

Position:

I have the authority to bind the Corporation

**THE CORPORATION OF THE CITY OF
SAULT STE. MARIE**

Per: _____
MAYOR – CHRISTIAN PROVENZANO

Per: _____
DEPUTY CITY CLERK – RACHEL TYCZINSKI
We have the authority to bind the Corporation

\\CITYDATA\\Legal\\Staff\\LEGAL\\PURCHASING\\P5 Purchasing General\\Agreement - INTEGRITY COMMISSIONER.docx

COPY

14 March 2018

The City of Sault Ste. Marie
Attn: Manager of Purchasing
99 Foster Drive – Level 2
Sault Ste. Marie, Ontario, P6A 5X6

Dear Mr. Gowans:

**RE: Letter of Introduction: Proposal for Engagement of an Integrity Commissioner
for the City of Sault Ste. Marie**

Please accept my response for the RFP for the Engagement of an Integrity Commissioner for the City of Sault Ste. Marie. I believe that my professional and work-related experiences have provided me with the qualifications you are seeking for this role and as are described in your role of the Integrity Commissioner. In addition, as requested, as President of my company I am legally authorized to bind the company and myself as the proponent to the contents of this proposal, including pricing.

As a certified, human resources professional, I have achieved the highest standing professionally that is recognized in Ontario, through my education and contributions to our profession. For these, I have been granted the Fellow designation by the Human Resources Professionals Association. One of my roles included Chair of the Appeals Committee for our profession and in this role, I lead the advancement of our processes to ensure fair, and legal processes. As Chair, my role required the utmost in impartiality and neutrality.

As a professional I can assure you I possess high ethical standards and effective communications skills. I have both the understanding of impartiality and the ability to function in such a manner. My years of work and professional experience have afforded me with wisdom and confidence. Trust is earned by behaviour and through effective communication and relationship management skills, I have built trust in my actions with my numerous clients and with my professional colleagues. Please do not hesitate to

seek confirmation of my statements by contacting the individuals I have listed in my response.

As President of my consulting business I have the ability to provide the services required on a part-time, flexible and as-needed basis. Also, I am not involved in political campaigning or endorsements and have no related conflicts of interest. While I have previously undertaken some work projects for the City of Sault Ste. Marie I am not currently provided any consultative services and understand that if I am the successful proponent, I would not be able to accept such assignment during the term as Integrity Commissioner.

I have experience in managing sensitive inquiries, conducting investigations and making appropriate recommendations and a good understanding of legal principles. I have the ability to research, analyze, understand and apply the provisions of various statutes, regulations, policies and other enabling frameworks. My company is licenced to engage in the business of selling the services of Private Investigators under the Private Security and Investigative Services Act, 2005, and its regulations. As well, I am a licenced Private Investigator with extensive experience in undertaking workplace investigations related to allegations of violations of the Occupational Health and Safety Act (Bullying, Harassment and Violence in the Workplace), and allegations of violations of the Human Rights Code. I have conducted over twelve different Workplace Investigations primarily related to allegations of violations of the Occupational Health and Safety Act.

In conclusion, I believe that my over eighteen years' experience as a consultant, four years' experience in a senior leadership role for my professional association and over twenty years' experience in management in the health care industry, have provided me with the experiences and qualifications that you have indicated the City of Sault Ste. Marie is seeking for role of Integrity Commissioner. As such, I look forward to your consideration and thank you for the opportunity to apply.

Regards,

Antoinette Blunt MPA, CHRL, CHRE, FHRPA
President, Ironside Consulting Services Inc.

Proposal for Engagement of an Integrity Commissioner for the City of Sault Ste. Marie

Work Program Methodology

The following describes the proposed work methodology that is designed to ensure quality of work and cost-effectiveness. The proponent guarantees a timely response to all requests for services/work assignments and in most cases, can initially respond and begin an assignment within forty-eight hours.

Complaints Process and Protocol

Early Stage Complaints Resolution

The proponent understands the goal to resolve any complaint prior to commencing an inquiry and also that while individuals are encouraged to pursue an informal complaint procedure that this is not a precondition or a prerequisite to pursuing a formal complaint procedure.

A mediation process will be utilized in attempting the parties to resolve informal complaints. The parties will initially be approached individually and advised of the intended process and the Integrity Commissioner's role. Ground rules will be discussed including:

- Each party will be advised that one person speaks at a time and speaks in a calm, professional manner
- To acknowledge respect for each other and to build trust, each party will be asked:
 - To make a sincere commitment to listen to the other without interrupting, to try to understand the other person's point of view before responding
 - To not discuss the conversations during the process with others colleagues (maintain confidentiality)
 - To speak for themselves as individuals – not for others and trust that each is doing
 - To fair consideration of the other person's opinions
 - To consider the issues as the point of disagreement and not the other person
 - To not criticize negatively

The Integrity Commissioner will discuss each person's perspective of the conflict with them and ask them to consider this process to achieve resolution. Each person will be asked what their goals are – what they need/want as an outcome of this process.

The Integrity Commissioner will utilize effective Communication and relationship management and conflict resolution skills in the mediation process to support

resolution. Notes will be kept of the process and outcome but given it is informal, no report will be provided if resolution is achieved.

Investigation of Complaints and Alleged Breaches of the Code of Conduct

Upon receipt of a complaint or inquiry, the proponent understands the role of the Integrity Commissioner is first to determine if it is within their jurisdiction, and whether there is a procedure under other legislation or City policy to deal with the complaint. If this is the case, the complaint or inquiry will be referred to the appropriate person or agency.

If the complaint or inquiry is within the Integrity Commissioner's jurisdiction, a preliminary information report will be provided to an open meeting of Council as required by protocol (section 4.). Following the provision of the preliminary information report to Council, the investigation of the complaint within jurisdiction, will commence.

A thorough review of all relevant documentation will be undertaken prior to the investigation including:

- The Request for Investigation – Code of Conduct for Members of Council and Local Boards
- Copies of all documents and records submitted with the complaint
- Any relevant policies including the Code of Conduct

The complainant and the respondent will both be provided with copies of the Request for Investigation and all documents and records submitted with the complaint.

The Integrity Commissioner will develop a list of interview questions based on an analysis of the information provided in the Request for Investigation and all documents and records submitted with the complaint.

The complainant will first be interviewed; then the respondent and then potential witnesses. All those interviewed will be provided with the same introductory information at the beginning of the interview including:

- A review of the process
- Confirmation that all parties will be treated fairly and that complaints shall be treated as confidential to the extent possible and in accordance with the Municipal Act
- That all records of the investigation will be kept confidential and access limited to those in the City with a need to know for the purposes of conducting a full investigation
- The purpose – to gather information and determine facts of the matter as to whether or not the Code has been contravened
- That it is Council's role and not the Integrity Commissioner's to determine the actions/penalties, resulting from a finding of contravention of the Code

- That the Integrity Commissioner's report to Council on the investigation of complaints are public documents. The report will be provided in an open meeting of Council. Provision of individual investigative reports will include the background concerning a complaint and recommendations will be provided to City Council for its consideration, in accordance with section 223.6 of the Municipal Act, 2001.

When interviewing, the Integrity Commissioner will consider the demeanour of individuals to establish credibility. Where a number of witnesses are identified, the concept of the balance of probabilities can be considered to establish grounds for considering the validity of the complaint.

Conclusions shall consider the credibility of those interviewed; for example, whether or not they gave their statement in a direct and straightforward way, seemingly without embellishment or whether or not there were significant discrepancies between all those interviewed as to the versions of events raised in the complaint.

As a result of the conclusions reached, the findings will identify if there is evidence and/or credible witnesses to substantiate the allegations identified in the complaint and as such if the Integrity Commissioner believes there has been a violation of the Code.

Reporting the Results of an Investigation

The proponent understands that the Integrity Commissioner will report the findings to an open meeting of Council and if the report relates to a local board, to both Council and the local board. The report shall contain all requirements noted in the protocol including the provision of the final report to the complainant and the respondent (the member whose conduct it concerned).

Review Code of Conduct (Council and Elected Board)

The Code of Conduct was last reviewed 11 December 2017 and will be reviewed at least annually and at any time questions or issues arise related to the interpretation of the meaning of the Code that may identify sections that lack clarity or completeness. The proponent recommends seeking out Codes from other Municipalities for review and consideration in the annual review process. Any recommended amendments to the Code will be accompanied by statements of rationale and source references will be defined.

Advisor to Members of City Council

The proponent understands the role of Integrity Commission and can provide advice to individual members of Council relating to the Code of Conduct and any procedures, rules and policies of the municipality governing ethical behavior. The proponent will

keep abreast of related issues and topics on the internet and review and analyze any information found or provided by staff and proactively act as an educator for Council, City Administration and the Public. An education session can be provided as requested and information submitted by way of the annual report, posted on-line.

Provision of Annual Reports to City Council

The proponent understands the requirement to submit an annual report to Council summarizing activities in accordance with section 223.6 of the Municipal Act.

2.4 Fee Structure: Antoinette Blunt, Ironside Consulting Services Inc.

Hourly Rate: \$205/hour

Telephone

Consultation: Minimum fee of 15 minutes time (\$51.25)

Notes:

1. Rate quoted is guaranteed (net and firm), for the duration of the contract.
2. HST at 13% is not included in the above price quotation.
3. All accounts are invoiced monthly:
 - a. Billing can be arranged for lengthier periods up to every quarter if preferred.
4. Disbursements:
 - a. None are predicted for this project but if incurred (i.e. parking fees, etc.) such expenses are billed at cost. This provision is negotiable.
5. Payment is due upon receipt of invoice:
 - a. Unless alternative arrangements are agreed to.
6. The proponent is an independent contractor and the company is incorporated and as such, the proponent is solely responsible for any and all payments and/or deductions required including those required for Canada Pension Plan, Employment Insurance, Workplace Safety and Insurance Board and Income Tax.
7. **Business Number: 87739 0922 RT0001**



Curriculum Vitae

Antoinette Blunt, MPA, CHRL, CHRE, FHRPA
President, Ironside Consulting Services Inc.

Antoinette is the President of Ironside Consulting Services Inc. (ICS Inc.), a company specializing in the provision of a variety of human resources, labour relations and management services for employers primarily in Northern Ontario, since 2000. Her company offers a variety of services including organizational review and design, governance review and strategic planning, workplace investigations, mediation, re-design and development of policies and procedures, compensation system review and design including pay equity services, early stage grievance management, collective bargaining for employers, nominee services for employers, performance management system design; coaching and training in numerous areas including relationship management, communication, team building and leadership.

ICS Inc. is licenced to engage in the business of selling the services of Private Investigators under the Private Security and Investigative Services Act, 2005, and its regulations. Antoinette Blunt is a licenced Private Investigator with extensive experience in undertaking workplace investigations related to allegations of violations of the Occupational Health and Safety Act (Bullying, Harassment and Violence in the Workplace), and allegations of violations of the Human Rights Code. In the past three years Antoinette has conducted over twelve different Workplace Investigations primarily related to allegations of violations of the Occupational Health and Safety Act.

Antoinette's educational background includes a Masters' Degree in Public Administration, B.A. and BScN. Antoinette also has over 18 years' experience providing consultative services to employers and over 20 years' experience in management in the health care industry.

Antoinette is currently the Chair of the Board of Directors of the Human Resources Research Institute, a national not-for-profit organization that is focused on human resources research and educational scholarships and is also a Past Chair of the Board of Directors of the Human Resources Professional Association (HRPA), the provincial association for HR professionals. HRPA represents about 22,000 members across the province and internationally. While serving on this Board, Antionette also chaired a number of committee including the Appeals Committee, Government Relations Committee and represented the provincial association on a national level serving as Chair of the Professional Standards Committee. As Chair of the Appeals Committee lead the re-design of processes for appeals to ensure a fair and professional approach.

From 2016 until 2017, Antoinette was a member of the Standards Council of Canada Human Resources Management Committee and as a Subject Matter expert to the Working Group: Harmonized Human Resources Professionals Competency Framework. Membership of the Working Group is from numerous countries around the world who were collaborating to develop common internationally accepted professional competencies.

In 2013, Antoinette was awarded the Fellow Designation by the Human Resources Professionals Association. This is considered to be *“a prestigious title and designation awarded within the human resources profession to an individual that promotes best practices and continually enhances the reputation of the profession.”* Outstanding contributions are in the five key areas of strategic positioning of the human resources professions; advocacy on behalf of the HR profession to government policy makers; development, sharing and promotion of innovative HR ideas, policies and practices; service to local, provincial and/or national HR associations and service to the broader community/social responsibility. At the same time, she was also awarded an Honorary Life Membership in the Human Resources Professionals Association *“Recognizing Extraordinary Volunteer and Leadership Contributions at HRP”*.

In June of 2011, Antoinette received the Osgoode Certificate in HR Law for HR Professionals from Osgoode Hall Law School, York University which included modules in Employment and Labour Law Statutes, Labour Relations and Dealing with Unions, Occupational Health and Safety Law in Ontario, Conducting Workplace Investigations, Equity, Diversity and Accommodation: Human Rights at Work and Terminating the Employment relationship: Minimizing Your Legal Exposure.

In 2005, Antoinette was named by the Sault Ste. Marie Chamber of Commerce as the winner of the Athena Award, an internationally recognized award honouring exceptional women leader who inspire others to achieve excellence in their professional and personal lives.

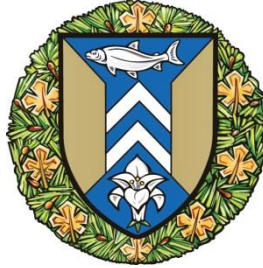
Ironside Consulting Services Inc. has provided services to employers in both private and public sectors. Some industries services have been provided to include:

- Health Care Organizations (Hospitals; Health Units)
- Long Term Care Facilities
- Agencies providing community based social and health services for individuals with both physical and mental abilities special needs
- Automotive dealerships
- Power construction and power related industries
- Police Services
- First Nations
- Aboriginal organizations and service providers

- Addiction Service Providers
- Motel/hotel Industries
- Municipalities
- Government Agencies (Ministry of Health and Long-Term Care)
- Children's Services Agencies including special needs and other social and mental health services
- Universities
- Library Services
- Medical School (Northern Ontario)

For additional information visit: www.ironsideconsulting.com

*The Corporation of the
City of Sault Ste. Marie*



*Corporate Services
Finance Department
Purchasing Division*

*Tim Gowans
Manager of Purchasing*

Request for Proposal

Engagement of an Integrity Commissioner for the City of Sault Ste. Marie

SECTION 1

INFORMATION TO PROPONENTS

1.1 Introduction

The City of Sault Ste. Marie is requesting proposals for the provision of services in the role as Integrity Commissioner.

1.2 Date and Place for Receiving Proposals

All proposals must be sealed in an envelope properly marked as to contents ("**Proposal for Engagement of an Integrity Commissioner for the City of Sault Ste. Marie**") and delivered to:

**The City of Sault Ste. Marie
Attn: Manager of Purchasing
99 Foster Drive – Level 2
Sault Ste. Marie, Ontario, P6A 5X6**

By the following date and time:

Date: Thursday, March 29, 2018

Time: 4:00 p.m., local (Eastern) time

Late Proposals will not be accepted and will be returned unopened.

The Corporation reserves the right to reject any or all Proposals and the lowest or any Proposal will not necessarily be accepted.

The Contact Person for this RFP is Ms. Rachel Tyczinski; Deputy City Clerk, telephone 705-759-5392; email r.tyczinski@cityssm.on.ca.

Request for Proposal (cont'd)

Engagement of an Integrity Commissioner for the City of Sault Ste. Marie

It will be the Proponent's responsibility to clarify any questions before submitting a Proposal. A written addendum issued by the **City of Sault Ste. Marie** is the only means of changing, amending or correcting this RFP. In the process of responding to this RFP, the Proponent should not utilize any information obtained outside this protocol.

1.3 Errors, Omissions, Clarifications

During the period for Proposal preparation, any questions concerning the Terms of Reference requirements should be addressed **by email only** to Ms. Rachel Tyczinski; Deputy City Clerk, telephone 705-759-5392; email r.tyczinski@cityssm.on.ca.

General bidding process inquiries should be directed (by email preferred) to Mr. Tim Gowans; Manager of Purchasing; telephone 705-759-5298; email t.gowans@cityssm.on.ca.

Proposals should be limited to twenty (20) pages, single sided including appendices; excluding the Letter of Introduction.

1.4 Withdrawal of Proposal

Proponents will be permitted to withdraw their Proposal, unopened, after it has been deposited, if such a request is received by the City, prior to the time specified for the opening of Proposals.

1.5 Informal Proposals

Proposals are to conform to the terms and conditions set out herein. Proposals which are incomplete, conditional, or obscure, or which contain additions not called for, erasures, alterations, or irregularities of any kind, may be rejected as informal. All Proposals must be legibly signed in ink by an authorized officer of the Proponent's firm.

1.6 Proposal Evaluation

The successful Proponent will be selected based on evaluation of the proposal utilizing our rating system which considers the requirements mentioned below. An evaluation committee will be used in the selection process.

Request for Proposal (cont'd)

Engagement of an Integrity Commissioner for the City of Sault Ste. Marie

Requirements:

- 1) Curriculum Vitae for the Proponent, and any persons to which the work may be delegated, requirements of Paragraph 2.6 of the RFP should be addressed;
- 2) Proponent's relevant past experience on similar projects. Proposals should include details and provide relevant references (minimum of 3) including Contact Names;
- 3) Proposal must include a detailed work program methodology – ensuring quality of work and cost effectiveness; any anticipated assignment of work; setting out proposed response times, and any communication and coordination procedures as appropriate;
- 4) Proposal must include a fee schedule for the required scope of services as outlined in Paragraph 2.4 of Section 2 - Terms of Reference of the RFP;
- 5) Five (5) copies of the complete proposal submission must be received; four (4) copies in “hard copy” format (one (1) marked “original” and the others as “copy”) and one (1) copy in “electronic” format (USB Key, CD, or similar format). Each copy must be complete including all schedules and appendices. The “original” must bear signatures in ink;
- 6) Proponents are required to include a Letter of Introduction with the Proposal that states that the Signee is authorized to bind the Proponent to the contents of the Proposal including pricing.

The above list of requirements and criteria represents areas which are to be specifically addressed in the proposal. The evaluation process will not necessarily be limited to these areas. Other criteria not specifically listed above may also receive consideration. The order in which the requirements and criteria are listed does not indicate the weighting of the evaluation.

To assist in evaluation of the Proposals submitted, the City may elect to conduct interviews with one or more Proponents at its sole discretion. Please see Paragraph 1.10 concerning incurred costs associated with attendance at such interviews.

The City reserves the right, in its sole and absolute discretion to select a preferred Proponent with which to negotiate a final contract, terminate the proposal call or reject any and all Proposals.

The City will endeavor to complete the evaluation process within a reasonable time frame. The City reserves the right to contact Proponents to seek clarification of the proposals, as submitted, to assist in the evaluation process. Interviews may be required.

IMPORTANT: The decision of the City of Sault Ste. Marie with respect to this Request for Proposals is considered final. In submitting a Proposal, Proponents agree that there is no recourse to the City of Sault Ste. Marie for its decision.

Request for Proposal (cont'd)

Engagement of an Integrity Commissioner for the City of Sault Ste. Marie

1.7 Conditions and Requirements of Work

The successful Proponent is required to comply with the requirements of the City's Contractor Pre-Qualification Program prior to the start of any onsite work on this Contract. These requirements may include, but are not limited to, WSIB Coverage, Liability Insurance Coverage, Accessibility Training, and Safe Work Practices. Details regarding compliance with this requirement may be obtained by contacting Aldo Iacoe, Health & Safety Coordinator, telephone 705-759-5367 or by email to a.iacoe@cityssm.on.ca.

1.8 Proposal Left Open

The Proponent shall keep their Proposal open for acceptance for sixty (60) days after the closing date.

1.9 Schedule

- (A) Release of RFP: Friday March 9, 2018
- (B) Last Date for Questions: Monday March 19, 2018 12:00 noon
- (C) Submission of Proposal: Thursday March 29, 2018
- (D) Recommendation of Award: March/April 2018
- (E) Signing of Agreement: April 2018
- (F) Commencement of Services: May 1, 2018
- (G) End of Engagement: Thursday December 31, 2020 (may be extended)

The City reserves the right to alter the scheduling of items "C" to "G".

Proponents are asked to designate a contact person to whom any additional information or requests for clarification deemed to be relevant to the proposal may be communicated. Complete contact details including telephone and email address is required.

1.10 Incurred Costs

The City will not be liable for, nor reimburse any Proponent for costs incurred in the preparation of Proposals or any other costs such as preparation for, and attendance at interviews that may be required as part of the evaluation process.

Whenever possible, at the sole determination of the City, additional information and/or clarifications will be obtained by telephone or other electronic means.

1.11 Alterations to Documents

No electronic reproduction or alteration of the original document will be permitted under any circumstance. The Proponent shall not change the wording of the proposal after submission; and no words or comments shall be added to the general conditions or detailed specifications unless requested by the City for the purpose of clarification.

1.12 Confidentiality & Post-Award Comment

No Proponent shall have the right to review or receive any information with respect to a proposal, documentation, or information submitted by any other Proponent. The content of the proposal, and all documentation, and information shall be held in confidence by the City subject only to the provision of freedom of information and privacy legislation, including without limitation, the Municipal Freedom of Information and Protection of Privacy Act.

Post-Award Comment by the City regarding this Request for Proposal will be limited to written notification to all Proponents of the successful Proponent's name and address only – no further debriefing will be provided. **In submitting a Proposal, Proponents acknowledge and agree to this provision.**

1.13 Municipal Freedom of Information & Protection of Privacy Act

The Corporation of the City of Sault Ste. Marie is governed by the provisions of *The Municipal Freedom of Information and Protection of Privacy Act*. All documents submitted to the City in response to this Request for Proposal become the property of the City and as such will be subject to the disclosure provisions of *the Act*. *The Act* gives persons a right of access to information held by the municipality. The right of access is subject to exemptions contained in *the Act*.

1.14 Indemnification

Engagement of an Integrity Commissioner is subject to the provisions of the *Municipal Act, 2001*, SO 2001, c 25 (excerpts from which can be found in Appendix "2" attached to this document).

The *Act* states that "A municipality shall indemnify and save harmless, the Commissioner or any person acting under the instructions of that officer for costs reasonably incurred by either of them in connection with the defence of a proceeding if the proceeding relates to an act done in good faith in the performance or intended performance of a duty or authority under this Part or a by-law passed under it or an alleged neglect or default in the performance of the duty or authority. 2017 c. 10, Sched. 1, s 19 (4)."

Request for Proposal (cont'd)

Engagement of an Integrity Commissioner for the City of Sault Ste. Marie

The rights to indemnity contained in this section shall survive any termination of the agreement, anything in this agreement to the contrary notwithstanding.

1.15 Agreement for Services

The successful Proponent will be required to enter into an agreement for professional services with a fee structure established at the outset of the agreement. Additional fees for unforeseen work which may be required must be approved in writing by the City prior to expenditure.

SECTION 2

TERMS OF REFERENCE

2.1 Purpose

The City of Sault Ste. Marie is requesting Proposals from Proponents who are interested in serving the City as its Integrity Commissioner. The appointment will be on an as needed basis for an initial term from May 1, 2018 until December 31, 2020 with the potential for further extensions by mutual agreement.

2.2 Background

The City of Sault Ste. Marie is located in Northern Ontario on the St. Mary's River. The city has approximately 75,000 residents.

Municipal Governance presently consists of a single tier structure with a City Council consisting of a Mayor (Head of Council) and twelve (12) Councillors – two for each of the six (6) wards. At the time of the upcoming election in the fall of 2018, the City will be reorganized into five (5) wards. The Council Structure will consist of a Mayor and ten (10) councillors – two per ward.

2.3 Code of Conduct

The "City's Code of Conduct (Council and Elected Boards)" applying to elected officials was approved and passed through by-law (By-law 2017-242) at the December 11, 2017 meeting of City Council.

A copy of the Code of Conduct and its associated appendices is attached at the end of this RFP and is labelled as Appendix "1".

2.4 Fee Structure

A comprehensive fee schedule (HST shown as extra) detailing the costs associated with the Proponent acting as the City's Integrity Commissioner must be included within the Proposal submitted.

Proponents are encouraged to provide any alternative fee structure as may be available to the City, such as block billing, per diem rates, annual caps on fees etc., in addition to hourly rates.

The Proponent's response shall include:

1. The proposed fee structure and billing methods, including the proposed billing rate for the Proponent and any other pertinent staff members.
2. Any alternative fee structures and proposed disbursement rates.
3. An undertaking that the rates proposed in the fee structure will be guaranteed for the duration of the contract.

All prices must be net and firm.

The Proponent will be solely responsible for any and all payments and/or deductions required, including those required for Canada Pension Plan, Employment Insurance, Workplace Safety and Insurance Board and Income Tax.

2.5 Role of the Integrity Commissioner

The successful Proponent in his/her role of Integrity Commissioner shall:

- Function independently from City Administration and report directly to City Council;
- Investigate complaints and alleged breaches of the "Code of Conduct (Council and Elected Boards)" in accordance with the "Complaint Protocol for Code of Conduct (Council and Local Boards) (see Appendix "A" – part of Appendix "1" as attached to this RFP)";
- Review the "Code of Conduct (Council and Elected Boards)" and make recommendations, at a minimum of once per year;
- Serve as an advisor to individual Members of City council in relation to the "Code of Conduct (Council and Elected Boards)", and any procedures, rules and policies of the municipality governing ethical behaviour; and act as a proactive educator for City Council, City Administration, and the Public;
- Provide annual Reports to City Council summarizing his/her activities in accordance with section 223.6 of the *Municipal Act, 2001*;

Request for Proposal (cont'd)

Engagement of an Integrity Commissioner for the City of Sault Ste. Marie

- Provide individual investigative reports, as required, which will include background concerning a complaint and recommendations to City Council with respect to a complaint for its consideration, in accordance with section 223.6 of the *Municipal Act, 2001*;
- Notwithstanding the above, perform the required duties as outlined in the *Municipal Act, 2001* (see Appendix “2” as attached to this RFP).

The Integrity Commissioner will work independently and it is expected that the bulk of the work will be carried out at his/her workplace and not on City property; however, space at a City facility to undertake interviews will be made available, as required.

The Integrity Commissioner does not have authority over the conduct of City employees.

2.6 Proponent’s Qualifications

Proponents for appointment to the role of Integrity Commissioner should possess the following qualifications:

- Proven impartiality and neutrality, such as that of a judge;
- An ability to provide services on a part time, flexible, and as-needed basis;
- No other involvement in political campaigning/endorsement, or related conflicts of interest;
- No financial interest in the work undertaken by the City of Sault Ste. Marie;
- An independent person who personifies high ethical standards;
- Experience managing sensitive inquiries, conducting investigations, and making appropriate recommendations;
- Excellent communication skills;
- Familiarity with investigative procedures, and the applicable legal principles;
- Ability to interpret, and apply the provisions of various statutes, regulations, policies, and other enabling frameworks;
- Impartiality, wisdom, sound judgement, combined with the ability to inspire trust, and confidence; and,
- At least ten (10) years of senior-level management, legal, or quasi-judicial experience.

2.7 Conflict of Interest

In addition to complying with any rules as established by a Proponent’s governing body, if any, Proponents shall declare any actual or potential conflict of interest that exists now or may exist in the future with respect to the Proponent’s participation in this RFP process, and if selected, the performance of the successful Proponent’s responsibilities pursuant to the Agreement.

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The City reserves the sole right and discretion to determine whether any situation constitutes an actual or potential conflict of interest, and may disqualify any Proponent on that basis.



Subject: Code of Conduct (Council and Local Boards)
Service Area: Mayor and Council
Source: By-law 2017-242
Date: 11 December 2017

Purpose:

A written Code of Conduct for Council and local boards helps to ensure that the members of Council, advisory committees, and local boards of the municipality (as defined in the *Municipal Act*) share a common basis for acceptable conduct. This Code is designed to provide a reference guide and a supplement to the legislative parameters within which the members must operate. These standards should enhance public confidence that Sault Ste. Marie’s elected and appointed representatives operate from a base of integrity, justice and courtesy. The key principles underlining the Code of Conduct are:

- a. All members shall serve and be seen to serve their constituents in a conscientious and diligent manner;
- b. Members should be committed to performing their functions with integrity and to avoiding the improper use of the influence of their office, and conflicts of interest, both real and apparent;
- c. Members are expected to perform their duties in office in a manner that promotes public confidence and will bear close public scrutiny;
- d. Members shall seek to serve the public interest by upholding both the letter and the spirit of the laws and policies established by the Federal Parliament, Ontario Legislature and City Council.

Municipal Council members hold positions of privilege; therefore, they must discharge their duties in a manner that recognizes a fundamental commitment to the wellbeing of the community and regard for the integrity of the Corporation. The purpose of the Code of Conduct is to: protect the public interest; encourage high ethical standards among members of Sault Ste. Marie City Council and local boards; provide a universal understanding of the fundamental rights, privileges, and obligations of members of Sault Ste. Marie City Council and local boards; provide a means for members of Sault Ste. Marie City Council and local boards to obtain information on some contemplated conduct in circumstances where they are uncertain as to the ethical appropriateness of that conduct.

Applications:

This policy shall apply to all members of Sault Ste. Marie City Council and members of local boards as defined in section 223.1 of the *Municipal Act*.

Definitions:

“Members” includes the Mayor and members of Sault Ste. Marie City Council and members of local boards as defined in section 223.1 of the *Municipal Act*.

“Confidential Information” includes:

- a. Any information in the possession of, or received in confidence by the City, that the City is prohibited from disclosing, or has decided to refuse to disclose, under the *Municipal Freedom of Information and Protection of Privacy Act* or any other law;

Appendix “1” (cont’d)



- b. Information of a corporate, commercial, scientific or technical nature received in confidence from third parties (personal information; information that is subject to solicitor-client privilege; information that concerns any confidential matters pertaining to personnel, labour relations, litigation, property acquisition, security of property of the municipality; any other information lawfully determined by the Council or the local board to be confidential or required to remain or be kept confidential by legislation or order;
- c. A matter, the substance of a matter, and information pertaining to a matter, that has been debated or discussed at a meeting closed to the public, unless the matter is subsequently discussed in open Council or it is authorized to be released by Council/local board or otherwise by law;
- d. Reports of consultants, draft documents and internal communications which, if disclosed, may prejudice the reputation of the City, its officers and employees, or its effective operation;
- e. Information concerning litigation, negotiation or personnel matters;
- f. Information the publication of which may infringe on the rights of any person (eg. source of a complaint where the identity of a complainant is given in confidence)

“Integrity Commissioner” means the person appointed by by-law in accordance with section 223.3 of the *Municipal Act, 2001* and who is responsible for performing in an independent manner the functions assigned by the municipality with respect to the application of the Code of Conduct for members of Council and local boards.

Gifts and Benefits:

No member shall accept a fee, advance, gift or personal benefit that is connected directly or indirectly with the performance of his / her duties of office, unless permitted by the exceptions listed below. For these purposes, a fee or advance paid to, or a gift or benefit provided with the member’s knowledge to, a member’s spouse, child or parent or to a member’s staff that is connected directly or indirectly to the performance of the member’s duties is deemed to be a gift to that member. The following are recognized as exceptions:

- a. compensation authorized by by-law;
- b. such gifts or benefits that normally accompany the responsibilities of office and are received as an incident of protocol or social obligation;
- c. a political contribution otherwise reported by law;
- d. services provided without compensation by persons volunteering their time;
- e. a suitable memento of a function honouring the member;
- f. food, lodging, transportation and entertainment provided by provincial, regional and local governments or political subdivisions of them, by the Federal government or by a foreign country;
- g. food and beverages consumed at banquets, receptions or similar events, if:
 - attendance is in keeping with his or her representative role; and
 - the value is reasonable; and
 - attendance at events sponsored by the same entity is infrequent.
- h. communication to the offices of a member, including subscriptions to newspapers and periodicals.

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In the case of categories (b) (e) (f) (g) and (h), if the value of the gift or benefit exceeds \$300, or if the total value received from any one source during the course of a calendar year exceeds \$300, the member shall within 30 days of receipt of the gift or reaching the annual limit, file a disclosure statement with the City Clerk. The disclosure statement must indicate:

- a. the nature of the gift or benefit;
- b. its source and date of receipt;
- c. the circumstances under which it was given or received;
- d. its estimated value;
- e. what the recipient intends to do with the gift; and,
- f. whether any gift will at any point be left with the City.

Disclosure statements will be a matter of public record.

Except in the case of category (f), a member may not accept a gift or benefit worth in excess of \$500 or gifts or benefits from one source during a calendar year worth in excess of \$500. No member shall seek or obtain by reason of his / her office any personal privilege or advantage with respect to City services not otherwise available to the general public and not consequent to his or her official duties.

Confidentiality

No member shall disclose, release, or publish by any means to any person or to the public any confidential information acquired by virtue of his or her office in any form, except when required or authorized by Council or otherwise by law to do so. No member shall use confidential information for personal or private gain or benefit, or for the personal or private gain or benefit of any other person or body.

Use of City Property

No member shall, for personal purposes or profit, permit the use of any City property, equipment, services, or supplies other than for purposes connected with:

- a. the discharge of City duties; or
- b. associated community activities of which Council has been advised

unless such use is permitted by one of the following exceptions:

- a. reasonable and incidental personal use of office space, equipment such as computers, fax machines, cell phones, etc., where the City incurs no additional costs relating to such use, and the use is of limited duration and frequency.
- b. use of City property and facilities where such use is universally known to be available to other residents upon request and on equal terms.

No member shall obtain financial gain from the use of City-developed intellectual property, computer programs, technological innovations or other patentable items, while an elected official or thereafter. All such property remains the exclusive property of the City of Sault Ste. Marie.

No member shall use information gained in the execution of his or her duties that is not available to the general public for any purposes other than his or her official duties.

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Work of a Political or Personal Nature

Members are required to follow the provisions of the *Municipal Elections Act, 1996*. No member shall use the facilities, equipment, supplies, services or other resources of the City (including Councillor newsletters and websites linked through the City’s website) for any election campaign or campaign-related activities. No member shall undertake campaign-related activities in any City facility for the purpose of seeking the support of City employees working in that facility. No member shall use the services of persons for his or her election campaign purposes during the working hours for which those persons receive compensation from the City.

No member shall use City facilities, services or property for his or her personal or business use.

No member shall use the services of persons for his or her personal or personal business use during the working hours for which those persons receive compensation from the City.

Conduct Respecting Current and Prospective Employment

No member shall allow the prospect of his / her future employment by a person or entity to detrimentally affect the performance of his / her duties to the City.

Business Relations

No member shall act as a paid agent before Council, its committees, or an agency, board or commission of the City. A member shall not refer a third party to a person, partnership, or corporation in exchange for payment or other personal benefit.

Conduct

As a representative of the City, every member has the duty and responsibility to treat members of the public, one another and staff appropriately and without abuse, bullying or intimidation, and to ensure that the municipal work environment is free from discrimination and harassment. A member shall not use indecent, abusive, or insulting words or expressions toward any other member, any member of staff or any member of the public. A member shall not speak or communicate in a manner that is discriminatory to any individual based on that person’s race ancestry, place of origin, creed, gender, sexual orientation, age colour, marital status or disability.

Influence on Staff

Only Council as a whole has the authority to approve budget, policy, committee processes and other such matters. Members shall be respectful of the fact that staff work for the City as a body corporate and are charged with making recommendations that reflect their professional expertise and corporate perspective, without undue influence from any individual member or group of members. Accordingly, no member shall maliciously or falsely injure the professional or ethical reputation, or the prospects or practice of staff, and all members shall show respect for the professional capacities of City staff.

Council directs the business of the City and passes by-laws or resolutions, as appropriate, for decisions adopted by Council. Council has delegated responsibility to the Chief Administrative Officer (CAO) for the administration of the affairs of the City in accordance with decisions adopted by Council. This means that under the direction of the CAO, staff have the responsibility and the authority to provide

Appendix “1” (cont’d)



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consultation, advice and direction to Council and to implement Council approved policy. Accordingly, staff establish the appropriate administrative policies, systems, structures and internal controls to implement the goals and objectives of Council, and manage implementation within the resources at their disposal. Council should expect a high quality of advice from staff based on political neutrality and objectivity irrespective of party politics, the loyalties of persons in power, or their personal opinions. No member shall compel any staff member to engage in activities that are contrary to the directions of Council or the policies of the municipality.

No member shall compel staff to engage in partisan political activities or be subjected to threats or discrimination for refusing to engage in such activities; nor shall any member use, or attempt to use, their authority or influence for the purpose of intimidating, threatening, coercing, commanding, or influencing any staff member with the intent of interfering with that person’s duties, including the duty to disclose improper activity.

Improper Use of Influence

No member of Council shall use the influence of her or his office for any purpose other than for the exercise of her or his official duties.

Examples of prohibited conduct are the use of one’s status as a member of Council to improperly influence the decision of another person to the private advantage of oneself, or one’s immediate relatives, staff members, friends, or associates, business or otherwise. This would include attempts to secure preferential treatment beyond activities in which members normally engage on behalf of their constituents as part of their official duties. Also prohibited is the holding out of the prospect or promise of future advantage through a member’s supposed influence within Council in return for present actions or inaction.

For the purposes of this provision “private advantage” does not include a matter:

- a. that is of general application;
- b. that affects a member of Council, his / her immediate relatives, staff members, friends, or associates, business or otherwise as one of a broad class of persons; or
- c. that concerns the remuneration or benefits of a member of Council.

Members should not advocate on behalf of any person at a hearing of an adjudicative board and should not contact any member of such a board regarding any application before it.

Complaints Alleging Violation of This Code

Where an elector or a person acting demonstrably in the public interest has reasonable grounds to believe that a member has breached this Code, a complaint may be submitted to the Clerk’s Department in the prescribed form which will be forwarded to the City’s Integrity Commissioner who will process it in accordance with the Complaint Protocol attached hereto as Appendix “A”.

Appendix “A” – Complaint Protocol

Appendix “B” – Request for Investigation

Appendix “C” – Request for Advice

Appendix “1” (cont’d)

Appendix “A”

Complaint Protocol for Code of Conduct (Council and Local Boards)

Application:

This process applies to members of Sault Ste. Marie City Council and its local boards as defined in section 223.1 of the *Municipal Act* (members).

Integrity Commissioner

The City of Sault Ste. Marie Integrity Commissioner shall be responsible for the provision of services as established by Council which will include the following:

1. To provide written and oral advice to members and City staff concerning the interpretation of and compliance with the Code of Conduct for Council and Local Boards governing the ethical behaviour of the members (the “Code”);
2. To provide Council and its local boards with specific and general opinions and advice on the interpretation of the Code, including revisions thereto;
3. To conduct inquiries into a request made by Council, a local board, a member, a member of City staff or any person demonstrably acting in the public interest into whether a member has contravened any application provision of the Code;
4. To attempt to settle any complaint between the complainant and the member before commencing an inquiry.

Procedure for Making a Complaint

Informal Complaints

Any individual who identifies or witnesses behaviour or activity by a member of Council that appears to be in contravention of the Code of Conduct for Council and Local Boards may address the prohibited behaviour or activity themselves in the following manner:

1. advise the member in writing that the behaviour or activity appears to contravene the Code of Conduct identifying the specific provision of the Code of Conduct that is alleged to have been contravened;
2. encourage the member to acknowledge and agree to stop the prohibited behaviour or activity and to avoid future occurrences of the prohibited behaviour or activity;
3. document the incident(s) including dates, times, locations, other persons present and any other relevant information, including steps taken to resolve the matter;
4. if applicable, confirm to the member satisfaction with the response of the member; or, if applicable, advise the member of dissatisfaction with the response; and
5. if applicable, consider the need to pursue the matter in accordance with the formal complaint procedure.

Individuals are encouraged to pursue this informal complaint procedure as the first means of remedying behaviour or an activity that they believe violates the Code of Conduct; however, the informal process is not a precondition or a prerequisite to pursuing the formal complaint procedure.

Formal Complaints

1. All complaints or requests for inquiries shall be submitted to the City Clerk’s Department and sworn before a commissioner of oaths in the form provided in Appendix “B” and the Clerk shall forthwith forward the complaint to the Integrity Commissioner.
2. All complaints or requests for inquiries must clearly state:
 - a. The member to whom the complaint relates
 - b. The nature of the alleged contravention
 - c. The specific provision(s) of the Code allegedly contravened;
 - d. Names of any witnesses to the alleged contravention; and
 - e. Written material in support of the alleged contravention.
3. Upon receipt of a complaint or request for inquiry, the Integrity Commissioner shall first determine if it is within his/her jurisdiction and whether there is a procedure under other legislation or City policy to deal with the

Appendix “1” (cont’d)

complaint. If it is determined that other procedures apply, the Integrity Commissioner shall refer the complainant to the appropriate person or agency to follow that process. This would include such matters as:

- a. The grievance provisions of a collective agreement;
- b. The complaint provisions under the *Ontario Human Rights Code*;
- c. A complaint of alleged criminal activity;
- d. Procedures under the *Municipal Act*, the *Municipal Conflict of Interest Act* or the *Municipal Elections Act*;
- e. The complaint provisions of the *Workplace Violence and Harassment Prevention Policy*.

Where it has been determined that a complaint should be dealt with under one of the above processes, it will no longer be considered or dealt with by the Integrity Commission and the time limits within the above processes will apply accordingly.

4. Upon receipt of a complaint or request to conduct an inquiry within his/her jurisdiction the Integrity Commissioner will deliver a preliminary information report to an open meeting of Council including the following:
 - a. The opinion of the Commissioner as to whether the inquiry is appropriate and whether it can be conducted within the law applicable to such an inquiry;
 - b. An indication as to whether it is the Commissioner’s intention to conduct the inquiry under sections 33 and 34 of the *Public Inquiries Act*;
 - c. A preliminary indication of the members of staff and/or consultations needed to assist the Commissioner;
 - d. An estimated cost of the inquiry;
 - e. The estimated time required to complete the inquiry and prepare a final report;
 - f. Where appropriate, the Commissioner may recommend that the alleged infraction be reported to the police and that the inquiry be suspended until the police investigation is completed.
5. If the Integrity Commissioner is of the opinion that the referral of a matter to him or her is frivolous, vexatious or not made in good faith or that there are no grounds or insufficient grounds for an inquiry, the Integrity Commissioner shall not conduct an inquiry and shall state the reasons for not doing so in the preliminary report.

Procedure for Obtaining Advice

Where a member or employee is seeking to obtain advice from the Integrity Commissioner he/she shall submit to the City Clerk the completed form provided (Appendix “C”).

All advice of the Integrity Commissioner to members or employees shall be confirmed in writing. No solicitor/client relationship will exist in the giving of such advice.

Where the Integrity Commissioner learns of a violation through the request for advice from any member, he or she is required to report such a violation to Council.

The Integrity Commissioner may decline to give advice if he/she determines that it will put him/her in conflict with his/her duty to Council as a whole.

Confidentiality

The Integrity Commissioner shall carry out all inquiries in a manner which will ensure that the individual to whom the complaint relates is treated fairly and all complaints shall be treated as confidential to the extent possible and in accordance with the *Municipal Act*.

All records of investigations shall be kept confidential and access limited to those in the City with a need to know for the purposes of conducting a full investigation.

Intake Procedures

Upon receipt of a complaint involving a member other than the Mayor, the Clerk shall immediately advise the Mayor and the Chief Administrative Officer (CAO).

Upon receipt of a complaint involving the Mayor, the Clerk shall immediately advise the CAO and the individual who was acting mayor at the time of the allegation who is authorized to act in the place of the Mayor.

Appendix “1” (cont’d)

The Integrity Commissioner may attempt to settle any complaint. Except where otherwise required by the *Public Inquiries Act*, the Commissioner shall provide a copy of the complaint and supporting material to the member with a request for a written response to the allegation within ten days and provide a copy of such response to the complainant with a request for a written response also within ten days.

Investigations

After the presentation of the information report to Council, the Integrity Commissioner shall take all steps necessary to promptly investigate the complaint within his or her jurisdiction, including entering any City office for such purpose and consultation with City staff with access to all information and records described in subsections 3 and 4 of section 223.4 of the *Municipal Act* and may retain independent professional services if required.

The Integrity Commissioner shall make every effort to complete an investigation within 30 days.

If the Integrity Commissioner requires more than 30 days to complete an investigation, the following shall be notified accordingly:

1. The complainant;
2. The individual to whom the complaint relates
3. The Mayor in the case of a complaint concerning another member; or the individual who was acting mayor at the time of the allegation in the case of a complaint concerning the Mayor.

A complaint involving an alleged contravention that has already been thoroughly investigated will not be re-investigated unless new evidence is presented.

Reporting the Results of an Investigation

The Integrity Commissioner shall report his/her findings to an open meeting of Council. Where the inquiry relates to a local board the report will be submitted both to Council and to the local board.

If the Integrity Commissioner determines that there has been no contravention of the Code of Conduct or that a contravention occurred although the member took all reasonable measures to prevent it, or that a contravention occurred that was trivial or committed through inadvertence or an error of judgement made in good faith, the Integrity Commissioner shall so state in the report and shall recommend that no penalty be imposed.

The Commissioner shall give a copy of the final report to the complainant and the member whose conduct is concerned 15 days prior to the Council meeting at which it will be considered.

At the time of the Integrity Commissioner’s report to Council the identity of the person who is the subject of the complaint shall not be treated as confidential information if the Integrity Commissioner finds that a breach has occurred.

Actions by Council

In reviewing the final report Council will determine whether it will impose any of the following penalties on a member if the Integrity Commissioner reports that it is his/her opinion that the member has contravened the Code:

1. Issue a motion of reprimand;
2. Suspension of the remuneration paid to the member in respect of his or her services as a member for a period of up to 90 days;
3. Request the member involved to return any gift or benefit received in contravention of the Code of Conduct;
4. Request the member involved to repay the value of the benefit;
5. Remove the member from committee or local board appointments;
6. Request an apology; or
7. Withhold confidential materials/matters for a period of time.

All reports to Council by the Integrity Commissioner on the investigation of complaints are public documents.

The Integrity Commissioner shall be responsible for ensuring the above procedures are followed with respect to requests for inquiries and for conducting investigations. City Council shall be responsible for determining penalties where appropriate.

Appendix “1” (cont’d)

Protection from Retaliation

Any employee who files a complaint of a contravention of the Code of Conduct will not be subjected to any form of penalty or reprisal provided the complaint is made in good faith and in the reasonable belief of the complainant that a contravention of the Code has occurred.

Limitation Period

The Integrity Commissioner shall not proceed with an inquiry in regard to a complaint more than 60 days after the event or series of events which are the subject matter of the complaint were discovered by the complainant. An event or series of events is discovered on the earlier of the date upon which the complainant first knew:

- that the event(s) had occurred and by whom; and
- that the event(s) may have constituted a contravention of the Code.

The onus of proof as to the date of discovery lies with the complainant.

Where the Integrity Commissioner decides not to proceed with an investigation of a complaint received more than 60 days after the date when the event(s) occurred, the Integrity Commissioner shall prepare and file a report setting out that decision.

Complaints in Municipal Election Years

Despite any other provision of this process, if the Commissioner has not completed an inquiry before nomination day for a regular election as set out in section 31 of the *Municipal Elections Act, 1996*, the Commissioner shall terminate the inquiry on that day.

If an inquiry is so terminated, the Commissioner shall not commence another inquiry in respect of the matter unless, within six weeks after voting day in a regular election, as set out in section 5 of the *Municipal Elections Act, 1996*, the person or entity who made the request or the member or former member whose conduct is concerned makes a written request to the Commissioner that the inquiry be commenced.

The following rules apply during the period of time starting on nomination day for a regular election, as set out in section 31 of the *Municipal Elections Act, 1996*, and ending on voting day in a regular election, as set out in section 5 of that Act:

1. There shall be no requests for an inquiry about whether a member of council or of a local board has contravened the code of conduct applicable to the member.
2. The Commissioner shall not report to the municipality or local board about whether, in his or her opinion, a member of council or of a local board has contravened the code of conduct applicable to the member.
3. The municipality or local board shall not consider whether to impose the penalties referred to in subsection (5) on a member of council or of a local board.

Appendix "1" (cont'd)

Appendix "B"

Request for Investigation

Code of Conduct for Members of Council and Local Boards

Name of Requestor:	
Address:	
Telephone:	
Email address:	
It is an offence under the Criminal Code of Canada to knowingly swear/affirm a false affidavit.	
I, _____ (full name)	
of _____ (municipality of residence)	
in the Province of Ontario, MAKE OATH AND SAY (or affirm)	
1. I have personal knowledge of the facts as set out in this affidavit.	
2. I have reasonable and probable grounds to believe that:	
(specify name of member of Sault Ste. Marie City Council or local board)	
has contravened section(s) _____ (specify)	
of the Code of Conduct for Members of Council and Local Boards.	
The particulars are as follows:	
Provide information such as date, time, location of conduct, names of all persons involved, including witnesses, and information as to how thy can be reached. If you require more space attach a second page.	
3. This affidavit is made for the purpose of requesting that this matter be investigated and for no improper purpose.	
Attached are copies of documents and records relevant to the requested inquiry.	
SWORN (or affirmed) before me at the City of Sault Ste Marie, in the District of Algoma, this day of 20	
A Commissioner, etc.	Requestor's signature

Deliver request to: City Clerk's Department, Civic Centre, 99 Foster Drive, Sault Ste. Marie ON P6A 5X6

Appendix "1" (cont'd)

It is an offence under the Criminal Code of Canada to knowingly swear/affirm a false affidavit.

Schedule "A" to the Affidavit of

[illegible]

Schedule "A" referred to in the affidavit of

Sworn before me this day of 20

A Commissioner, etc.

Appendix “1” (cont’d)

Appendix “C” Request for Advice

Note: Should the Integrity Commissioner determine that a member of Council or of a local board has violated any provisions governing ethical behaviour pursuant to the Code of Conduct for Council or local boards, he/she is obligated to report such violation, with any recommendation for sanction, to Council.

Request for Advice

Name of Requestor:	
Address:	
Telephone:	
Email address:	
Advice requested (Provide as much detail as possible relating to the issue. Attach second page if required.)	
Signature of Requestor	Date received by Integrity Commissioner
Date	Date reply issued

Appendix “2”

Appendix A

Excerpt from the Municipal Act, 2001, SO 2001, c 25, s 223.3 to s 223.8 Sections outlining the role of Integrity Commissioner

Integrity Commissioner

223.3 (1) Without limiting sections 9, 10 and 11, those sections authorize the municipality to appoint an Integrity Commissioner who reports to council and who is responsible for performing in an independent manner the functions assigned by the municipality with respect to,

- (a) the application of the code of conduct for members of council and the code of conduct for members of local boards or of either of them;
- (b) the application of any procedures, rules and policies of the municipality and local boards governing the ethical behaviour of members of council and of local boards or of either of them; or
- (c) both of clauses (a) and (b). 2006, c. 32, Sched. A, s. 98.

Note: On March 1, 2019, the day named by proclamation of the Lieutenant Governor, subsection 223.3 (1) of the Act is repealed and the following substituted: (See: 2017, c. 10, Sched. 1, s. 19 (1))

Integrity Commissioner

(1) Without limiting sections 9, 10 and 11, those sections authorize the municipality to appoint an Integrity Commissioner who reports to council and who is responsible for performing in an independent manner the functions assigned by the municipality with respect to any or all of the following:

1. The application of the code of conduct for members of council and the code of conduct for members of local boards.
2. The application of any procedures, rules and policies of the municipality and local boards governing the ethical behaviour of members of council and of local boards.
3. The application of sections 5, 5.1 and 5.2 of the *Municipal Conflict of Interest Act* to members of council and of local boards.
4. Requests from members of council and of local boards for advice respecting their obligations under the code of conduct applicable to the member.
5. Requests from members of council and of local boards for advice respecting their obligations under a procedure, rule or policy of the municipality or of the local board, as the case may be, governing the ethical behaviour of members.
6. Requests from members of council and of local boards for advice respecting their obligations under the *Municipal Conflict of Interest Act*.
7. The provision of educational information to members of council, members of local boards, the municipality and the public about the municipality's codes of conduct for members of council and members of local boards and about the *Municipal Conflict of Interest Act*. 2017, c. 10, Sched. 1, s. 19 (1).

Note: On March 1, 2019, the day named by proclamation of the Lieutenant Governor, section 223.3 of the Act is amended by adding the following subsections: (See: 2017, c. 10, Sched. 1, s. 19 (2))

Appendix “2” (cont’d)

Provision for functions if no Commissioner appointed

(1.1) If a municipality has not appointed a Commissioner under subsection (1), the municipality shall make arrangements for all of the responsibilities set out in that subsection to be provided by a Commissioner of another municipality. 2017, c. 10, Sched. 1, s. 19 (2).

Provision for functions if responsibility not assigned

(1.2) If a municipality has appointed a Commissioner under subsection (1), but has not assigned functions to the Commissioner with respect to one or more of the responsibilities set out in that subsection, the municipality shall make arrangements for those responsibilities to be provided by a Commissioner of another municipality. 2017, c. 10, Sched. 1, s. 19 (2).

Powers and duties

(2) Subject to this Part, in carrying out the responsibilities described in subsection (1), the Commissioner may exercise such powers and shall perform such duties as may be assigned to him or her by the municipality. 2006, c. 32, Sched. A, s. 98.

Note: On March 1, 2019, the day named by proclamation of the Lieutenant Governor, section 223.3 of the Act is amended by adding the following subsections: (See: 2017, c. 10, Sched. 1, s. 19 (3))

Request for advice shall be in writing

(2.1) A request by a member of council or of a local board for advice from the Commissioner under paragraph 4, 5 or 6 of subsection (1) shall be made in writing. 2017, c. 10, Sched. 1, s. 19 (3).

Advice shall be in writing

(2.2) If the Commissioner provides advice to a member of council or of a local board under paragraph 4, 5 or 6 of subsection (1), the advice shall be in writing. 2017, c. 10, Sched. 1, s. 19 (3).

Content of educational information

(2.3) If the Commissioner provides educational information to the public under paragraph 7 of subsection (1), the Commissioner may summarize advice he or she has provided but shall not disclose confidential information that could identify a person concerned. 2017, c. 10, Sched. 1, s. 19 (3).

Delegation

(3) The Commissioner may delegate in writing to any person, other than a member of council, any of the Commissioner's powers and duties under this Part. 2006, c. 32, Sched. A, s. 98.

Same

(4) The Commissioner may continue to exercise the delegated powers and duties, despite the delegation. 2006, c. 32, Sched. A, s. 98.

Status

(5) The Commissioner is not required to be a municipal employee. 2006, c. 32, Sched. A, s. 98.

Appendix “2” (cont’d)

Note: On March 1, 2019, the day named by proclamation of the Lieutenant Governor, section 223.3 of the Act is amended by adding the following subsections: (See: 2017, c. 10, Sched. 1, s. 19 (4))

Indemnity

(6) A municipality shall indemnify and save harmless the Commissioner or any person acting under the instructions of that officer for costs reasonably incurred by either of them in connection with the defence of a proceeding if the proceeding relates to an act done in good faith in the performance or intended performance of a duty or authority under this Part or a by-law passed under it or an alleged neglect or default in the performance in good faith of the duty or authority. 2017, c. 10, Sched. 1, s. 19 (4).

Interpretation

(7) For greater certainty, nothing in this section affects the application of section 448 with respect to a proceeding referred to in subsection (6) of this section. 2017, c. 10, Sched. 1, s. 19 (4).

Section Amendments with date in force (d/m/y)

Inquiry by Commissioner

223.4 (1) This section applies if the Commissioner conducts an inquiry under this Part,

(a) in respect of a request made by council, a member of council or a member of the public about whether a member of council or of a local board has contravened the code of conduct applicable to the member; or

(b) in respect of a request made by a local board or a member of a local board about whether a member of the local board has contravened the code of conduct applicable to the member. 2006, c. 32, Sched. A, s. 98.

Powers on inquiry

(2) The Commissioner may elect to exercise the powers under sections 33 and 34 of the *Public Inquiries Act, 2009*, in which case those sections apply to the inquiry. 2009, c. 33, Sched. 6, s. 72 (1).

Information

(3) The municipality and its local boards shall give the Commissioner such information as the Commissioner believes to be necessary for an inquiry. 2006, c. 32, Sched. A, s. 98.

Same

(4) The Commissioner is entitled to have free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property belonging to or used by the municipality or a local board that the Commissioner believes to be necessary for an inquiry. 2006, c. 32, Sched. A, s. 98.

Appendix “2” (cont’d)

Penalties

(5) The municipality may impose either of the following penalties on a member of council or of a local board if the Commissioner reports to the municipality that, in his or her opinion, the member has contravened the code of conduct:

1. A reprimand.
2. Suspension of the remuneration paid to the member in respect of his or her services as a member of council or of the local board, as the case may be, for a period of up to 90 days. 2006, c. 32, Sched. A, s. 98.

Same

(6) The local board may impose either of the penalties described in subsection (5) on its member if the Commissioner reports to the board that, in his or her opinion, the member has contravened the code of conduct, and if the municipality has not imposed a penalty on the member under subsection (5) in respect of the same contravention. 2006, c. 32, Sched. A, s. 98.

Note: On March 1, 2019, the day named by proclamation of the Lieutenant Governor, section 223.4 of the Act is amended by adding the following subsections: (See: 2017, c. 10, Sched. 1, s. 20)

Termination of inquiry when regular election begins

(7) If the Commissioner has not completed an inquiry before nomination day for a regular election, as set out in section 31 of the *Municipal Elections Act, 1996*, the Commissioner shall terminate the inquiry on that day. 2017, c. 10, Sched. 1, s. 20.

Same

(8) If an inquiry is terminated under subsection (7), the Commissioner shall not commence another inquiry in respect of the matter unless, within six weeks after voting day in a regular election, as set out in section 5 of the *Municipal Elections Act, 1996*, the person or entity who made the request or the member or former member whose conduct is concerned makes a written request to the Commissioner that the inquiry be commenced. 2017, c. 10, Sched. 1, s. 20.

Other rules that apply during regular election

(9) The following rules apply during the period of time starting on nomination day for a regular election, as set out in section 31 of the *Municipal Elections Act, 1996*, and ending on voting day in a regular election, as set out in section 5 of that Act:

1. There shall be no requests for an inquiry about whether a member of council or of a local board has contravened the code of conduct applicable to the member.
2. The Commissioner shall not report to the municipality or local board about whether, in his or her opinion, a member of council or of a local board has contravened the code of conduct applicable to the member.
3. The municipality or local board shall not consider whether to impose the penalties referred to in subsection (5) on a member of council or of a local board. 2017, c. 10, Sched. 1, s. 20.

Appendix “2” (cont’d)

Section Amendments with date in force (d/m/y)

Note: On March 1, 2019, the day named by proclamation of the Lieutenant Governor, the Act is amended by adding the following section: (See: 2017, c. 10, Sched. 1, s. 21)

Inquiry by Commissioner re s. 5, 5.1 or 5.2 of *Municipal Conflict of Interest Act*

223.4.1 (1) This section applies if the Commissioner conducts an inquiry under this Part in respect of an application under subsection (2). 2017, c. 10, Sched. 1, s. 21.

Application

(2) An elector, as defined in section 1 of the *Municipal Conflict of Interest Act*, or a person demonstrably acting in the public interest may apply in writing to the Commissioner for an inquiry to be carried out concerning an alleged contravention of section 5, 5.1 or 5.2 of that Act by a member of council or a member of a local board. 2017, c. 10, Sched. 1, s. 21.

No application for inquiry during regular election

(3) No application for an inquiry under this section shall be made to the Commissioner during the period of time starting on nomination day for a regular election, as set out in section 31 of the *Municipal Elections Act, 1996*, and ending on voting day in a regular election, as set out in section 5 of that Act. 2017, c. 10, Sched. 1, s. 21.

Timing

(4) An application may only be made within six weeks after the applicant became aware of the alleged contravention. 2017, c. 10, Sched. 1, s. 21.

Exception

(5) Despite subsection (4), an application may be made more than six weeks after the applicant became aware of the alleged contravention if both of the following are satisfied:

1. The applicant became aware of the alleged contravention within the period of time starting six weeks before nomination day for a regular election, as set out in section 31 of the *Municipal Elections Act, 1996*, and ending on voting day in a regular election, as set out in section 5 of that Act.

2. The applicant applies to the Commissioner under subsection (2) within six weeks after the day after voting day in a regular election, as set out in section 5 of the *Municipal Elections Act, 1996*. 2017, c. 10, Sched. 1, s. 21.

Content of application

(6) An application shall set out the reasons for believing that the member has contravened section 5, 5.1 or 5.2 of the *Municipal Conflict of Interest Act* and include a statutory declaration attesting to the fact that the applicant became aware of the contravention not more than six weeks before the date of the application or, in the case where an applicant became aware of the alleged contravention during the period of time described in paragraph 1 of subsection (5), a statutory declaration attesting to the fact that the applicant became aware of the alleged contravention during that period of time. 2017, c. 10, Sched. 1, s. 21.

Appendix “2” (cont’d)

Inquiry

(7) The Commissioner may conduct such inquiry as he or she considers necessary. 2017, c. 10, Sched. 1, s. 21.

Public meeting

(8) If the Commissioner decides to conduct an inquiry, the Commissioner may have a public meeting to discuss the inquiry. 2017, c. 10, Sched. 1, s. 21.

Powers on inquiry

(9) The Commissioner may elect to exercise the powers under sections 33 and 34 of the *Public Inquiries Act, 2009*, in which case those sections apply to the inquiry. 2017, c. 10, Sched. 1, s. 21.

Information

(10) The municipality and its local boards shall give the Commissioner such information as the Commissioner believes to be necessary for an inquiry. 2017, c. 10, Sched. 1, s. 21.

Same

(11) The Commissioner is entitled to have free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property belonging to or used by the municipality or a local board that the Commissioner believes to be necessary for an inquiry. 2017, c. 10, Sched. 1, s. 21.

Termination of inquiry when regular election begins

(12) If the Commissioner has not completed an inquiry before nomination day for a regular election, as set out in section 31 of the *Municipal Elections Act, 1996*, the Commissioner shall terminate the inquiry on that day. 2017, c. 10, Sched. 1, s. 21.

Same

(13) If an inquiry is terminated under subsection (12), the Commissioner shall not commence another inquiry in respect of the matter unless, within six weeks after voting day in a regular election, as set out in section 5 of the *Municipal Elections Act, 1996*, the person who made the application or the member or former member whose conduct is concerned applies in writing to the Commissioner for the inquiry to be carried out. 2017, c. 10, Sched. 1, s. 21.

Timing

(14) The Commissioner shall complete the inquiry within 180 days after receiving the completed application, unless the inquiry is terminated under subsection (12). 2017, c. 10, Sched. 1, s. 21.

Completion

(15) Upon completion of the inquiry, the Commissioner may, if he or she considers it appropriate, apply to a judge under section 8 of the *Municipal Conflict of Interest Act* for a determination as to whether the member has contravened section 5, 5.1 or 5.2 of that Act. 2017, c. 10, Sched. 1, s. 21.

Notice to applicant re decision not to apply to judge

(16) The Commissioner shall advise the applicant if the Commissioner will not be making an application to a judge. 2017, c. 10, Sched. 1, s. 21.

Reasons after inquiry

Appendix “2” (cont’d)

(17) After deciding whether or not to apply to a judge, the Commissioner shall publish written reasons for the decision. 2017, c. 10, Sched. 1, s. 21.

Costs

(18) The Commissioner’s costs of applying to a judge shall be paid by the following:

1. If the member is alleged to have contravened section 5, 5.1 or 5.2 of the *Municipal Conflict of Interest Act* as a member of council of a municipality, the municipality.
2. If the member is alleged to have contravened section 5, 5.1 or 5.2 of the *Municipal Conflict of Interest Act* as a member of a local board, the local board. 2017, c. 10, Sched. 1, s. 21.

Section Amendments with date in force (d/m/y)

Duty of confidentiality

223.5 (1) The Commissioner and every person acting under the instructions of the Commissioner shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her duties under this Part. 2006, c. 32, Sched. A, s. 98.

Exception

(2) Despite subsection (1), information may be disclosed in a criminal proceeding as required by law or otherwise in accordance with this Part. 2006, c. 32, Sched. A, s. 98.

Note: On March 1, 2019, the day named by proclamation of the Lieutenant Governor, section 223.5 of the Act is amended by adding the following subsections: (See: 2017, c. 10, Sched. 1, s. 22)

Release of advice

(2.1) Advice provided by the Commissioner to a member under paragraph 4, 5 or 6 of subsection 223.3 (1) may be released with the member’s written consent. 2017, c. 10, Sched. 1, s. 22.

Partial release by member

(2.2) If a member releases only part of the advice provided to the member by the Commissioner under paragraph 4, 5 or 6 of subsection 223.3 (1), the Commissioner may release part or all of the advice without obtaining the member’s consent. 2017, c. 10, Sched. 1, s. 22.

Other circumstances

(2.3) The Commissioner may disclose such information as in the Commissioner’s opinion is necessary,

- (a) for the purposes of a public meeting under subsection 223.4.1 (8);
- (b) in an application to a judge referred to in subsection 223.4.1 (15); or
- (c) in the written reasons given by the Commissioner under subsection 223.4.1 (17). 2017, c. 10, Sched. 1, s. 22.

Section prevails

(3) This section prevails over the *Municipal Freedom of Information and Protection of Privacy Act*. 2006, c. 32, Sched. A, s. 98.

Appendix “2” (cont’d)

Section Amendments with date in force (d/m/y)

Report to council

223.6 (1) If the Commissioner provides a periodic report to the municipality on his or her activities, the Commissioner may summarize advice he or she has given but shall not disclose confidential information that could identify a person concerned. 2006, c. 32, Sched. A, s. 98.

Report about conduct

(2) If the Commissioner reports to the municipality or to a local board his or her opinion about whether a member of council or of the local board has contravened the applicable code of conduct, the Commissioner may disclose in the report such matters as in the Commissioner’s opinion are necessary for the purposes of the report. 2006, c. 32, Sched. A, s. 98.

Publication of reports

(3) The municipality and each local board shall ensure that reports received from the Commissioner by the municipality or by the board, as the case may be, are made available to the public. 2006, c. 32, Sched. A, s. 98.

Section Amendments with date in force (d/m/y)

Testimony

223.7 Neither the Commissioner nor any person acting under the instructions of the Commissioner is a competent or compellable witness in a civil proceeding in connection with anything done under this Part. 2006, c. 32, Sched. A, s. 98.

Section Amendments with date in force (d/m/y)

Reference to appropriate authorities

223.8 If the Commissioner, when conducting an inquiry, determines that there are reasonable grounds to believe that there has been a contravention of any other Act or of the *Criminal Code* (Canada), the Commissioner shall immediately refer the matter to the appropriate authorities and suspend the inquiry until any resulting police investigation and charge have been finally disposed of, and shall report the suspension to council. 2006, c. 32, Sched. A, s. 98.

Note: On March 1, 2019, the day named by proclamation of the Lieutenant Governor, section 223.8 of the Act is amended by striking out “of any other Act or” and substituting “of any other Act, other than the *Municipal Conflict of Interest Act*, or”. (See: 2017, c. 10, Sched. 1, s. 23)

Section Amendments with date in force (d/m/y)