



Financial Statements

Prepared For:

The Finance & Labour Relations

Committee

January 2023

To: The Finance and Labour Relations Committee
From: Alyson Conrad, CFO
Re: Commentary on FHI Financial Results –
For the period ended September 30, 2022

Net income for the period is \$1.745M, which is \$333K above the YTD budget. Detailed commentary on the balance sheet and statement of operations are noted below:

BALANCE SHEET COMMENTARY:

Accounts Receivable – The accounts receivable balance is \$651K more than it was in September of 2021. This variance is the result of the following:

- Electric receivables are \$145K higher than September 2021, the majority of this being current balance i.e., not in arrears. Arrears balances have decreased by \$26K compared to September 2021.
- Water and sewer receivables are \$19K higher than September 2021, similarly this is mostly current balances as arrears have decreased by \$31K.
- Miscellaneous receivables have increased in the quarter due to large receivable balances from construction and City work completed through the summer and Q3.

Electric receivables that are in arrears are being diligently reviewed and acted on by the customer service team as we prepare for the next Winter disconnection moratorium which will start on November 15. We generally see arrears increase through the disconnection period so we attempt to be in the best state prior to that start date.

Due from FHSI – The balance in this account decreased from June 30, 2022, balance by \$95K. The change is due to ongoing work being completed by FHSI staff for FHI as well as a HST refund of \$29K.

Unbilled Revenue – This balance is \$113K lower than the balance in June of 2022. The main difference between June and September was a due to a decrease in global adjustment rates through the period.

Regulatory Assets – The regulatory asset balance has decreased by \$2.6M since June 2022 and is driven virtually all by IESO cost of power amounts. \$800K relates to Global Adjustment (GA) Variance. Non-RPP customers are billed on the first estimate which was 8.29 cents in June and 4.01 cents in September. These rates also impact the cost of power variances for RPP customers which changed by approximately \$2M since June 2022; these are cleared through our monthly settlement process.

A/P and Accrued Liabilities – This balance has increased by \$1.1M from the June 2022 balance. The majority of this variance relates to a higher accrued HST payable by \$725K, in Q2 we accrued for a large HST refund that was not received until the beginning of July. This is not typical timing for payments or refunds of HST. The remaining increase is a mixture of general accounts payable and the accrued IESO.

INCOME STATEMENT COMMENTARY

Gross Margin on Service Revenue (Distribution Revenue) – The distribution revenue to the end of Q3 2022 is \$204K above budget. The majority of this increase is due to the actual IRM inflationary increase that was built into rates is higher than what was included in the budget in October.

Other Revenue – Other revenue is running \$14K above budget at the end of Q3. We were higher than budget on scrap metal but below budget on late payment charges and streetlight maintenance which offset a portion of the increase.

Controllable Costs - Total controllable costs are \$333K less than budget to the end of Q3.

Operating and Maintenance expenses are down overall by \$28K compared to the budget. The main variance is due to less maintenance or reactive work up to the end of Q3. Through the summer months, more labour is charge to capital work due to the cyclical nature of work in the year. Also, reactive work can be difficult to budget. There was less charged to overhead and stations and more work needed in underground compared to budget.

Billing, Collecting and Meter Reading expenses are down \$87K compared to the budget. This is mainly due to FHI's dedicated IT staff leaving in May and a long-term leave in customer service. This position has been backfilled. In addition, postage is below budget; per unit cost increases were anticipated in the year but were not realized. We made a vendor change for express notices that significantly decreased the cost.

Administration expenses are down overall by \$218K. The majority of this balance is due to the vacancy of the VP of IT position for the first half of the year and incentive plans that were budgeted but not implemented. There are also several costs that will hit Q4 as the services and events occur.

Interest expense costs have increased compared to budget by \$50K mainly because of the line of credit interest rate increasing in Q3. This trend will continue to the end of the year.

CASH FLOW COMMENTARY

As per the cash flow statement, the September 30 cash balance increased by \$1.7M since June 2022. We have been seeing large swings in IESO invoices throughout the year varying from \$10.2M to \$1.7M. The summer months were more consistent around \$5.3M. Hopefully we will continue to see a consistent payment for the remainder of the year however the inconsistencies could cause a negative cash balance at the end of December compared to budget. We are continuing to monitor the cash flow changes.

LOAN COVENANT RATIOS

The Loan Covenant liquidity ratios and debt to equity ratios as prescribed by our lender, RBC, are being met.

Presented for information purposes.

FESTIVAL HYDRO INC.

Balance Sheet

For the period ending September 30, 2022

	YTD as at Sep 30, 2021	YTD as at Dec 31, 2021	YTD as at Sep 30, 2022		YTD as at Sep 30, 2021	YTD as at Dec 31, 2021	YTD as at Sep 30, 2022
ASSETS				LIABILITIES			
Current Assets				Current Liabilities			
Accounts Receivable	7,706,505	8,517,199	8,357,624	Bank Indebtedness	730,025	15,768	1,111,759
Inventory	379,711	163,445	468,422	Accounts Payable & Accrued Liabilities	10,234,085	10,920,398	9,534,506
Prepaid Expenses	173,732	357,282	250,483	Current Portion of Consumer Deposits	1,061,799	1,169,541	936,528
Due from FHSI	418,025	332,803	201,894	Current Portion of Long Term Loans	119,999	707,717	179,712
Corporate PILS Recoverable	128,437	356,057	405,962	Dividends Declared	—	500,556	—
Unbilled Revenue	5,044,070	5,230,771	5,442,859	Promissory Note	15,600,000	15,600,000	15,600,000
	13,850,481	14,957,557	15,127,244		27,745,908	28,913,981	27,362,505
Property, Plant & Equipment	55,843,885	57,113,909	57,193,434	Other Liabilities			
Other Assets				Unrealized loss on interest rate swap	1,585,033	938,948	938,948
Intangible Assets	1,801,404	1,734,841	1,810,613	Deferred Revenue	2,226,794	2,648,087	2,607,528
Future payments in lieu of income taxes	(947,981)	(3,109,920)	(3,109,920)	Employee Future Benefits	1,492,917	1,361,643	1,361,643
Regulatory Assets	2,180,324	4,597,210	4,010,827	Long Term Debt			
				Consumer Deposits over one year	—	594,311	—
				RBC Loan - LT Portion	10,366,000	10,540,477	10,540,477
				Infrastructure Ontario Loan - LT Portion	—	—	—
				TOTAL LIABILITIES	43,416,652	44,997,447	42,811,100
				EQUITY			
				Share Capital - Common	9,468,388	9,468,388	9,468,388
				Share Capital - Preferred	6,100,000	6,100,000	6,100,000
				Retained Earnings	14,181,416	15,085,499	17,010,448
				Accumulated Other Comprehensive Income	(438,343)	(357,737)	(357,737)
				TOTAL EQUITY	29,311,461	30,296,150	32,221,099
TOTAL ASSETS	72,728,113	75,293,597	75,032,199	TOTAL LIABILITIES AND EQUITY	72,728,113	75,293,597	75,032,199

FESTIVAL HYDRO INC.

Income Statement

For the period ending September 30, 2022

	YTD as at Sep 30, 2021	YTD as at Sep 30, 2022	YTD Budget at Sep 30, 2022	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
REVENUE					
Service Revenue	54,091,480	56,970,163	64,917,843	(7,947,680)	(12%)
Cost of Power	45,370,865	47,670,713	55,822,050	(8,151,337)	(15%)
GROSS MARGIN (DISTRIBUTION REVENUE)	8,720,615	9,299,450	9,095,793	203,657	2%
Other Operating Revenue	831,750	843,849	829,892	13,957	2%
OPERATING & MAINTENANCE EXPENSE					
Transformer & Distribution Station Expense	110,347	121,441	143,629	(22,188)	(15%)
Distribution Lines & Services Overhead	1,160,131	1,270,979	1,325,171	(54,192)	(4%)
U/G Distribution Lines & Services	188,163	174,003	157,623	16,380	10%
Distribution Transformers	81,527	59,273	59,217	56	0%
Distribution Meters	198,541	349,795	320,709	29,086	9%
Customer Premises	164,398	130,039	127,303	2,736	2%
TOTAL OPERATING AND MAINTENANCE	1,903,107	2,105,530	2,133,652	(28,122)	(1%)
ADMINISTRATION					
Billing, Collecting & Meter Reading	985,324	984,841	1,071,599	(86,757)	(8%)
Administration	1,802,175	1,976,352	2,194,098	(217,745)	(10%)
TOTAL ADMINISTRATION	2,787,498	2,961,194	3,265,696	(304,503)	(9%)
Allocated Depreciation	(91,644)	(94,522)	(94,522)	—	—
TOTAL CONTROLLABLE COST	4,598,961	4,972,202	5,304,826	(332,624)	(6%)
NET INCOME BEFORE DEP'N, INTEREST & TAX	4,953,403	5,171,097	4,620,859	550,238	12%
Depreciation	1,793,162	1,919,507	1,919,507	—	—
Interest Expense	1,233,496	1,207,822	1,158,105	49,717	4%
Interest Income	(24,791)	(52,346)	(24,750)	(27,596)	111%
NET INCOME BEFORE SWAP, ICM & PBA & INC TAXES	1,951,536	2,096,114	1,567,997	528,117	34%
Current Tax	436,706	351,000	156,000	195,000	125%
NET INCOME BEFORE SWAP & ICM	1,514,830	1,745,114	1,411,997	333,117	24%
Unrealized Gain/Loss on Swap	—	—	—	—	—
Marketable Security - recorded as OCI	—	—	—	—	—
NET INCOME	1,514,830	1,745,114	1,411,997	333,117	24%

FESTIVAL HYDRO INC.

Cash Flow Statement

For the period ending September 30, 2022

	YTD as at Dec 31, 2021	YTD as at Sep 30, 2022
Cash from Operations		
Net Income	3,195,240	1,745,114
Depreciation	2,412,000	1,919,507
Amortization of deferred revenue in other revenue	(65,645)	(40,559)
Unrealized loss on interest rate swap	(646,085)	—
Decrease/(Increase) in Receivables	(1,111,618)	159,576
Decrease/(Increase) in Inventory	9,168	(304,977)
Decrease/(Increase) in Prepaids	32,568	106,798
Decrease/(Increase) in Due from FHSI	294,268	130,910
Decrease/(Increase) in PILS	(178,120)	(49,905)
Decrease/(Increase) in Unbilled Revenues	1,140,450	(212,088)
Decrease/(Increase) in Future Tax (offsetting entry in payal	2,161,939	—
Decrease/(Increase) in Regulatory Assets	(3,330,007)	586,383
Increase/(Decrease) in Payables	1,322,917	(1,385,892)
Increase/(Decrease) in Deposits	269,859	(827,325)
Increase/(Decrease) in Employee Future Benefits	(131,274)	—
Contributed Capital	486,469	247,183
Net Cash Provided	5,862,129	2,074,724
Cash from Financing		
Loan Repayments	529,445	528,005
Cash Used - Capital Expenditures	3,865,723	2,321,988
Cash Used - TS expansion	—	—
TS Expansion Construction Loan Proceeds	—	—
Cash Used - Dividends paid current year	390,330	695,721
Cash Used - Dividends declared in prior year	115,211	—
Net Cash Used	4,900,709	3,545,714
Increase (Decrease) in Cash Position	961,420	(1,470,990)
Bank Indebtedness, Beg of Period	(977,188)	(15,769)
Bank Indebtedness, End of Period	(15,769)	(1,486,759)
Bank and Line of Credit Analysis	2021	2022
High balance (YTD)	3,245,015	3,383,301
Low Balance (YTD)	(4,904,523)	(8,463,958)
Overdraft interest (annualized)	24,449	47,241
Interest rate (avg annual for period)	2.45%	5.25%
Average overdraft balance	997,918	899,828

Key Financial Ratios:	Actual Ratio	Required Ratio
RBC Compliance Ratio - Funded Debt to Total Capital	0.47	Less than 0.65
Debt to Equity Test	28:72	Less than 75:25
Debt Service Ratio	2.55	Not less than 1.30X

FESTIVAL HYDRO INC.

Statement of Capital

For the period ending September 30, 2022

	YTD as at Sep 30, 2021	YTD as at Sep 30, 2022	YTD Budget at Sep 30, 2022	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
DISTRIBUTION					
Distribution Overhead	682,607	785,372	668,648	116,724	(23%)
Underground Conductor and Devices	505,268	236,733	824,256	(587,523)	(61%)
Distribution Transformers	316,205	255,213	146,306	108,906	74%
Services	254,683	260,215	146,306	113,908	(100%)
Distribution Meters	34,393	156,634	290,362	(133,727)	(46%)
SCADA/Distribution Automation	11,409	20,143	41,250	(21,107)	(51%)
Tools and Miscellaneous Equipment	11,867	11,190	22,500	(11,310)	(50%)
TOTAL DISTRIBUTION	1,816,432	1,725,500	2,139,629	(414,129)	(19%)
OTHER CAPITAL					
Land and Buildings	345,703	190,369	206,019	(15,650)	(8%)
Transformer Station	77,513	16,080	104,250	(88,170)	(85%)
Vehicles and Trailers	11,590	63,625	157,500	(93,875)	(60%)
Computer Hardware and Software	281,058	326,414	340,725	(14,311)	(4%)
TOTAL OTHER CAPITAL	715,863	596,488	808,494	(212,006)	(26%)
TOTAL CAPITAL	2,532,295	2,321,988	2,948,123	(626,135)	(21%)