Financial Statements

Prepared For:

Finance & Labour Relations Sub-Committee

June 2024

Financial Statements of

Festival Hydro Inc.

Year ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Festival Hydro Inc.

Opinion

We have audited the financial statements of Festival Hydro Inc. (the Entity), which comprise:

- the statement of financial position as at December 31, 2023
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

April 26, 2024

Festival Hydro Inc.

Statement of Financial Position
December 31, 2023, with comparative information for December 31, 2022

	Notes	2023	2022
Assets			
Accounts receivable	6, 22	$ 8,744,272	$ 8,079,655
Unbilled revenue	22	6,915,469	4,783,498
Inventories	7	212,005	177,526
Prepaid expenses		308,819	230,441
Income tax receivable		743,092	511,562
Due from corporations under common control	20	-	127,927
Total current assets		**16,923,657**	**13,910,609**
Non-current assets			
Property, plant and equipment	8	61,152,856	58,854,033
Intangible assets and goodwill	9	2,228,625	1,806,282
Interest rate swap	22	454,755	784,886
Total non-current assets		**63,836,236**	**61,445,201**
Total assets		**80,759,893**	**75,355,810**
Regulatory balances	13	6,468,077	7,503,962
Total assets and regulatory balances		**$ 87,227,970**	**$ 82,859,772**

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

Festival Hydro Inc.

Statement of Financial Position

December 31, 2023, with comparative information for December 31, 2022

	Notes	2023	2022
Liabilities and Equity			
Bank indebtedness	5	$ 3,679,961	$ 3,740,695
Accounts payable and accrued liabilities		9,367,511	8,658,017
Deferred revenue		330,454	273,286
Dividend payable	14, 15, 20	233,750	248,269
Current portion of long-term debt	14, 22	18,850,364	16,328,464
Customer deposits	11	1,256,618	1,016,175
Due to corporations under common control	20	24,254	-
Due to the Corporation of the City of Stratford	20, 22	611,591	630,031
Total current liabilities		**34,354,503**	**30,894,937**
Non-current liabilities			
Deferred revenue		2,953,985	2,641,341
Customer deposits	11	631,651	980,367
Deferred tax liabilities	10	2,617,863	2,381,370
Employee future benefits	12	1,024,453	1,009,878
Long-term debt	14, 22	9,061,648	9,812,012
Total non-current liabilities		16,289,600	16,824,968
Total liabilities		**50,644,103**	**47,719,905**
Share capital	15	15,568,388	15,568,388
Accumulated other comprehensive loss		(109,996)	(54,479)
Retained earnings		19,746,723	18,525,126
Total equity		**35,205,115**	**34,039,035**
Total liabilities and equity		85,849,218	81,758,940
Regulatory balances	13	1,378,752	1,100,832
Total liabilities, equity and regulatory balances		**87,227,970**	**82,859,772**

Commitments and contingencies (note 23)

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

On behalf of the Board:

Director

Director

Festival Hydro Inc.

Statement of Comprehensive Income

Year ended December 31, 2023, with comparative information for 2022

	Notes	2023	2022
Revenues			
Sale of energy	16	$ 63,941,022	$ 55,589,074
Distribution revenue	16	13,332,221	12,174,085
Other income	17	1,114,379	1,118,521
		78,387,622	**68,881,680**
Cost of power purchased		62,317,681	58,141,145
Operating expenses	18	7,490,213	6,759,045
Depreciation and amortization	8,9	2,619,161	2,505,726
		72,427,055	**67,405,916**
Income from operating activities		**5,960,567**	**1,475,764**
Finance income	19	7,070	1,747,174
Finance costs	19	(2,198,576)	(1,574,778)
Income before income taxes		**3,769,061**	**1,648,160**
Income tax expense	10	624,517	1,096,421
Net income		**3,144,544**	**551,739**
Net movement in regulatory balances:			
Net movement in regulatory balances	13	(1,429,562)	2,534,470
Income tax	10,13	130,695	992,021
Net income and net movement in regulatory balances		**1,845,677**	**4,078,230**
Other comprehensive income (loss)			
Items that will not be reclassified to profit and loss:			
Remeasurements of employee future benefits	12	(55,517)	303,258
Tax on remeasurements	10	14,712	(80,363)
Net movement in regulatory balances	13	(14,712)	80,363
Other comprehensive loss		**(55,517)**	**303,258**
Total comprehensive income		**$ 1,790,160**	**$ 4,381,488**

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

Festival Hydro Inc.

Statement of Changes in Equity

Year ended December 31, 2023, with comparative information for December 31, 2022

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2022	**$15,568,388**	**$15,085,495**	**$ (357,737)**	**$ 30,296,146**
Net income after net movement in regulatory balances	–	4,078,230	–	4,078,230
Other comprehensive loss	–	–	303,258	303,258
Dividends, paid or payable	–	(638,599)	–	(638,599)
Balance at December 31, 2022	**$15,568,388**	**$18,525,126**	**$ (54,479)**	**$ 34,039,035**
Balance at January 1, 2023	**$15,568,388**	**$18,525,126**	**$ (54,479)**	**$ 34,039,035**
Net income after net movement in regulatory balances	–	1,845,677	–	1,845,677
Other comprehensive loss	–	–	(55,517)	(55,517)
Dividends, paid or payable	–	(624,080)	–	(624,080)
Balance at December 31, 2023	**$15,568,388**	**$19,746,723**	**$ (109,996)**	**$ 35,205,115**

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

Festival Hydro Inc.

Statement of Cash Flows

Year ended December 31, 2023, with comparative information for December 31, 2022

Cash provided by (used in)	Notes	2023	2022
Operating activities			
Net income after net movement in regulatory balances		$1,845,677	$4,078,230
Adjustments for			
Depreciation - property, plant and equipment	8	2,369,747	2,243,817
Amortization - intangible assets	9	249,414	261,909
Amortization of deferred revenue		(76,869)	(76,869)
Employee future benefits		(40,942)	(48,508)
Net finance costs	19	2,191,506	(172,396)
Income tax expense	10	624,517	1,096,421
		7,163,050	7,382,604
Changes in non-cash operating working capital			
Accounts receivable		(664,617)	45,246
Unbilled revenue		(2,131,971)	447,273
Inventories		(34,481)	(14,083)
Prepaid expenses		(78,379)	126,841
Accounts payable and accrued liabilities		709,494	(1,244,625)
Due from related parties		151,502	210,656
Due from the City of Stratford		(18,678)	(1,209)
Dividends declared		(14,519)	(252,287)
Customer deposits		(108,272)	232,689
		(2,189,921)	(449,499)
Regulatory balances	13	1,298,867	(3,526,490)
Interest paid	19	(1,868,445)	(1,574,778)
Interest received		7,070	23,340
Income tax paid, net of refund		(608,888)	(5,476)
Net cash from operating activities		**3,801,733**	**1,849,701**
Investing activities			
Purchase of property, plant and equipment	8	(4,998,921)	(3,983,941)
Purchase of intangible assets	9	(341,397)	(333,350)
Net cash used in investing activities		(5,340,318)	(4,317,291)
Financing activities			
Contributions received from customers, net of repayments		466,382	341,267
Dividends	14	(638,599)	(890,886)
Proceeds from long-term debt		2,500,000	-
Repayment of long-term debt		(728,464)	(707,718)
Net cash used in financing activities		1,599,319	(1,257,337)
Decrease in bank indebtedness during the year		60,734	(3,724,927)
Bank indebtedness, beginning of the year		(3,740,695)	(15,768)
Bank indebtedness, end of the year		**$ (3,679,961)**	**$ (3,740,695**

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

1. Reporting entity:

Festival Hydro Inc. (the “Corporation”) is a wholly owned subsidiary of the City of Stratford. The Corporation was incorporated on July 11, 2000 under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act Laws of the Province of Ontario, Canada. The address of the Corporation’s registered office is 187 Erie Street, Stratford, Ontario, Canada.

The principal activity of the Corporation is to distribute electricity to the residents and businesses in the City of Stratford and the towns of Brussels, Dashwood, Hensall, Seaforth, St. Marys and Zurich, under a license issued by the Ontario Energy Board (“OEB”). The Corporation is regulated by the Ontario Energy Board and adjustments to the Corporation’s distribution and power rates require OEB approval.

The financial statements are for the Corporation as at and for the year ended December 31, 2023.

2. Basis of preparation:

(a) Statement of compliance

The Corporation’s financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements were approved by the Board of Directors on April 25, 2024.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

Information about judgements made in applying accounting policies that have an effect on the amounts recognized in the financial statements is included in the following notes:

Note 3(o)	Determination of the performance obligation for capital contribution and the related amortization period
Note 3(p)	Whether an arrangement contains a lease
Note 6	Estimate for impairment for uncollected amounts, based on the lifetime expected credit losses
Note 8	Property, plant and equipment: useful lives and the identification of significant components of property, plant and equipment.
Note 9	Intangible assets: useful lives and goodwill impairment testing.
Note 12	Measurement of the defined benefit obligation – actuarial assumptions
Note 23	Recognition and measurement of commitments and contingencies.

2. Basis of preparation (continued)

(e) Rate regulation

The Corporation is regulated by the Ontario Energy Board, under the authority granted by the Ontario Energy Board Act, 1998. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, amongst other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Corporation is required to bill certain classes of customers for the debt retirement charges. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC") once each year.

(f) Rate setting

Distribution revenue

For the distribution revenue included in sale of energy, the Corporation files a "Cost of Service" ("COS") rate application with the OEB where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each class. The COS application is reviewed by the OEB and interveners on record. Rates are approved based upon this review, including any revisions resulting from that review.

In the intervening years, the Corporation has chosen to file a Price Cap Incentive Rate Mechanism ("IRM") application. 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 Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

2. Basis of preparation (continued)

(f) Rate setting (continued)

Distribution revenue (continued)

Festival filed its 2022 IRM application for distribution rates and was approved new rates by the OEB effective January 1, 2022. The Corporation's approved adjustment to distribution rates was 3.00%, as a result of an OEB approved inflation factor of 3.30%, less a stretch factor of 0.30% determined by the relative efficiency of the Corporation. The application included the approval of rate riders for the disposition of certain deferral and variance balances.

Festival filed its 2023 IRM application for distribution rates and was approved new rates by the OEB effective January 1, 2023. The Corporation's approved adjustment to distribution rates was 3.10%, as a result of an OEB approved inflation factor of 3.70%, less a stretch factor of 0.60% determined by the relative efficiency of the Corporation. The application included the approval of rate riders for the disposition of certain deferral and variance balances.

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 and the global adjustment. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

3. Material accounting policies:

The accounting policies set out below have been applied consistently for both years presented in these financial statements in accordance with IFRS.

(a) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or other comprehensive income (“OCI”). When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB. Any resulting impairment loss is recognized in profit or loss in the year incurred.

3. Material accounting policies (continue):

(a) Regulatory balances (continued)

When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

(b) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts. On the statement of cash flows, cash and cash equivalents includes bank overdrafts (revolving credit facility) that are repayable on demand and form an integral part of the Corporation's cash management.

(c) Financial instruments

All financial assets and financial liabilities are classified as "Amortized cost". These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties. The Corporation uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the statement of financial position:

- Cash and cash equivalents are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Accounts receivable and unbilled revenue are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method, less expected credit loss allowance. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Bank indebtedness is classified as "Amortized cost" and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amount approximates fair value due to the short maturity of these instruments.

- Accounts payable are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Customer deposits are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.

- Long-term debts are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts of the debt are carried at amortized cost, based on the fair value of the debt at issuance, which was the fair value of the consideration received adjusted for transaction costs.

3. Material accounting policies (continued):

(d) Derivatives

The Corporation holds derivative financial instruments to manage rate risk exposures. Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in the Statement of Comprehensive Income as incurred as a change in interest rate swap. Subsequent to initial recognition, derivatives are measured at fair value, using Level 2 inputs, and changes therein are recognized in the Statement of Comprehensive Income.

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

(e) Fair value measurements

The Corporation utilizes valuation techniques that maximize the use of observable inputs to minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

- Level 2: Other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

(f) Inventories

Inventories are stated at lower of cost and net realizable value and consist of maintenance materials and supplies. Cost is determined on a weighted average basis, net of a provision for obsolescence, as applicable. The Corporation classifies all major construction related component of its electricity distribution infrastructure to property, plant and equipment.

3. Material accounting policies (continued):

(g) Property, plant and equipment ("PP&E")

Items of property, plant and equipment used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation and accumulated impairment losses. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and 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 and are based on the Corporation's cost of borrowing. For construction projects of less than one year in length, borrowing costs are not capitalized unless specific identifiable loans are acquired for the express purpose of financing a specific construction activity.

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.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred. Depreciation 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. Land is not depreciated. Construction in progress assets are not amortized until the project is complete and in service.

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The estimated useful lives for the current and comparative years are as follows:

Buildings	10 to 60 years
Distribution substation equipment	30 to 60 years
Distribution system equipment	30 to 60 years
Transformers	35 to 40 years
Meters	15 to 40 years
Other capital assets	4 to 20 years

Other capital assets include vehicles, office and computer equipment.

3. Material accounting policies (continued):

(g) Property, plant and equipment ("PP&E") (continued)

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within other income in the statement of comprehensive income.

(h) Intangible assets

Intangible assets include goodwill, computer software and capital contributions paid under capital cost recovery agreements ("CCRAs").

(i) Goodwill

Goodwill represents the excess of cost over fair value of net assets which arose upon amalgamation of the former electrical distribution entities. Goodwill is measured at cost less accumulated impairment losses.

(ii) Computer software

Computer software acquired prior to January 1, 2014, is measured at deemed cost less accumulated depreciation. All other software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Capital contributions paid under capital cost recovery agreements

Capital contributions paid under CCRAs are measured at cost less accumulated amortization and accumulated impairment losses.

(iv) Amortization

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

Computer software	5 to 10 years
CCRAs	15 to 25 years

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

3. Material accounting policies (continued):

(i) Impairment

(i) Financial assets measured at amortized cost

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

(ii) Non-financial assets

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

The carrying amounts of the Corporation's non-financial assets, other than regulatory assets, 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 goodwill, the recoverable amount is estimated as at December 31 of each year.

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 Corporation has determined that it has one 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.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

3. Material accounting policies (continued):

(j) Employee benefits

(i) Pension plan

The Corporation 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 ("Fund"). 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.

OMERS is a defined benefit plan, however, as the plan assets and pension obligations are not segregated in separate accounts for each member entity, sufficient information is not available to enable the Corporation to directly account for the plan. As such, the plan has been accounted for as a defined contribution plan. The contribution payable is recognized as an employee benefit expense in the statement of comprehensive income in the period in which the service was rendered by the employee, since it is not practicable to determine the Corporation's portion of person obligations of the fair value of plan assets.

(ii) Employee future benefits, other than pension

The Corporation has an unfunded benefit plan providing post-employment benefits (other than pension) to its employees. The Corporation provides its retired employees (20 years service; less than age 65) with life insurance and medical benefits beyond those provided by government sponsored plans. Life insurance is provided for current retirees including those over age 65.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses, are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

(k) 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. Cash contributions are initially recorded under current liabilities as customer deposits. 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.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction. The contributions in aid of construction account, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is reported as deferred revenue, and is amortized to other income on a straight-line basis over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

3. Material accounting policies (continued):

(l) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. The electricity customer security deposits liability includes related interest amounts, calculated using OEB prescribed interest rates, and owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability. Annually, accrued interest is applied directly to the customers' accounts.

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when the Corporation no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

(m) Revenue recognition

(i) Sale and distribution of electricity

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Corporation has the right to bill. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream.

(ii) Capital contributions

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15 *Revenue from Contracts with Customers*. Cash contributions, received from developers are 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 Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

3. Material accounting policies (continued):

(m) Revenue Recognition (continued)

(ii) Capital contributions (continued)

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 *Revenue from Contracts with Customers*. The contributions are received to obtain a connection to the distribution system in order receive ongoing access to electricity. The Corporation has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

(iii) Other revenue

Revenue earned from the provision of services is recognized as the service is rendered.

(n) Leased assets

At inception of a contract, the Corporation assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

The lease liability is initially measured at the present value of lease payments plus the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Corporation's incremental borrowing rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3. Material accounting policies (continued):

(n) Leased assets (continued)

The Corporation has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less or for leases of low value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(o) 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.

Finance costs comprise interest expense on customer deposits, the demand notes payable, revolving credit facility and long-term borrowings.

Changes in the fair value of interest rate swap agreements are recorded either in finance income, or costs, depending on whether an unrealized gain or loss is required.

(p) Income taxes

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act. Pursuant to the Electricity Act, 1998 (Ontario), the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (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 Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes.

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to other comprehensive income or items recognized directly in equity, in which case, it is recognized in accumulated comprehensive income or retained earnings, respectively.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

3. Material accounting policies (continued):

(p) Income taxes (continued)

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets is recorded within regulatory credit or debt balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the statements of comprehensive income.

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the statements of comprehensive income.

(q) Changes in accounting standards

Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8))

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of “accounting estimates” and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied prospectively.

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements (IAS 1))

In February 2021, the IASB issued amendments to IAS 1 requiring an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments were made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes (IAS 12))

In May 2021, the IASB issued amendments to IAS 12. The amendments clarify how companies should account for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption, so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize both a deferred tax asset and a deferred tax liability when accounting for such transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

Effective January 1, 2023, the Corporation adopted these amendments, with no impact on the financial statements.

4. Future accounting pronouncements:

The IASB has issued a number of standards and amendments to existing standards that are not yet effective. The Corporation has determined that the following amendment could have an impact on the Corporation's financial statements when adopted.

Disclosure Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or noncurrent. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. This right may be subject to compliance with covenants. After reconsidering certain aspects of the 2020 amendments, in October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1), reconfirming that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The amendments are to be applied retrospectively.

The Corporation anticipates that the adoption of these accounting pronouncements will not have a material impact on the Corporation's financial statements.

5. Bank indebtedness:

	2023	2022
Cash	$ 120,039	$ 539,305
Revolving credit facility, revolving in increments of $10,000 with a limit of $10,000,000, charging interest at Canadian bank prime rates	(3,800,000)	(4,280,000)
Bank indebtedness	**$ (3,679,961)**	**$ (3,740,695)**

6. Accounts receivable:

	2023	2022
Energy, water and sewer	$ 7,708,701	$ 6,523,810
Other	1,035,571	1,555,845
Total	**$ 8,744,272**	**$ 8,079,655**

Included in accounts receivable is $1,478,832 (2022 - $1,230,333) of customer receivables for water consumption and sewer (“water & sewer”) that the Corporation bills and collects on behalf of the City of Stratford and the Town of St. Marys. As the Corporation does not assume liability for collection of these amounts, any amount related to City of Stratford and Town of St. Marys water & sewer charges that are determined to be uncollectible are charged to the City of Stratford and Town of St. Marys, respectively. At year end, there is nil (2022 - nil) included in the provision for impairment for uncollectable amounts relating to water and sewer.

7. Inventories:

The amount of inventories consumed by the Corporation and recognized as an expense during 2023 was $130,666 (2022 - $149,137). During 2023, an amount of nil (2022 – nil) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

8. Property, plant and equipment:

a) Cost or deemed cost

	Land and buildings	Distribution & substation equipment	Other distribution system equipment	Transformer station	Total
Balance at January 1, 2022	$3,133,922	$50,046,755	$3,116,334	$14,192,427	$70,489,438
Additions	357,228	3,022,647	281,971	86,263	$ 3,748,109
Transfers	-	-	235,832	-	$235,832
Disposals/retirements	(27,578)	(297,300)	(375,808)	-	($700,686)
Balance at December 31, 2022	**$3,463,572**	**$52,772,102**	**$3,258,329**	**$14,278,690**	**$73,772,693**
Balance at January 1, 2023	$3,463,572	$52,772,102	$3,258,329	$14,278,690	$73,772,693
Additions	1,060,506	2,876,421	420,018	212,043	$ 4,568,988
Work in Progress	-	96,468	3,114	-	$99,582
Disposals/retirements	(7,732)	(244,489)	(227,295)	-	($479,516)
Balance at December 31, 2023	**$4,516,346**	**$55,500,502**	**$3,454,166**	**$14,490,733**	**$77,961,747**

b) Accumulated depreciation

	Land and buildings	Distribution & substation equipment	Other distribution system equipment	Transformer station	Total
Balance at January 1, 2022	$ 427,301	$ 9,160,998	$1,232,991	$2,554,239	$13,375,529
Depreciation	120,660	1,491,865	285,635	345,657	$ 2,243,817
Disposals/retirements	(27,578)	(297,300)	(375,808)	-	($700,686)
Balance at December 31, 2022	$ 520,383	$10,355,563	$1,142,818	$2,899,896	$14,918,660
Balance at January 1, 2023	$ 520,383	$ 10,355,563	$1,142,818	$2,899,896	$14,918,660
Depreciation	156,767	1,549,351	305,356	358,273	$ 2,369,747
Disposals/retirements	(7,732)	(244,489)	(227,295)	-	($479,516)
Balance at December 31, 2023	$ 669,418	$11,660,425	$1,220,879	$3,258,169	$ 16,808,891

c) Carrying amounts

	Land and buildings	Distribution & substation equipment	Other distribution system equipment	Transformer station	Total
December 31, 2022	$2,943,189	$42,416,539	$2,115,511	$11,378,794	$58,854,033
December 31, 2023	$3,846,928	$43,840,077	$2,233,287	$11,232,564	$61,152,856

d) Borrowing costs

During the year, no borrowing costs (2022 – nil) were capitalized as part of the cost of property, plant and equipment.

9. Intangible assets and goodwill:

a) Cost or deemed cost

	Goodwill	Computer software	Land Rights	CCRA's	Total
Balance at January 1, 2022	$515,359	$ 1,418,972	$ 3,150	$ 966,935	$ 2,904,416
Additions	-	111,889	-	-	111,889
Work in Progress	-	221,461	-	-	221,461
Disposals	-	(312,506)	-	-	(312,506)
Balance at December 31, 2022	**$ 515,359**	**$ 1,439,816**	**$ 3,150**	**$ 966,935**	**$ 2,925,260**
Balance at January 1, 2023	$ 515,359	$ 1,439,816	$ 3,150	$ 966,935	$ 2,925,260
Additions	-	341,398	-	-	341,398
Work in Progress	-	330,359	-	-	330,359
Disposals	-	(207,569)	-	-	(207,569)
Balance at December 31, 2023	**$ 515,359**	**$ 1,904,004**	**$ 3,150**	**$ 966,935**	**3,389,448**

b) Accumulated amortization

	Goodwill	Computer software	Land Rights	CCRA's	Total
Balance at January 1, 2022	**$ -**	**$ 741,083**	**$ -**	**$ 428,492**	**$ 1,169,575**
Amortization	-	207,436	-	54,473	261,909
Disposals	-	(312,506)	-	-	(312,506)
Balance at December 31, 2022	$ -	**$ 636,013**	$ -	**$ 482,965**	**$ 1,118,978**
Balance at January 1, 2023	$ -	$ 636,013	$ -	$ 482,965	$ 1,118,978
Amortization	-	194,941	-	54,473	249,414
Disposals	-	(207,569)	-	-	(207,569)
Balance at December 31, 2023	$ -	**$ 623,385**	$ -	**$ 537,438**	**$ 1,160,823**

c) Carrying amounts

	Goodwill	Computer software	Land Rights	CCRA's	Total
December 31, 2022	$ 515,359	$ 803,803	$ 3,150	$ 483,970	$ 1,806,282
December 31, 2023	$ 515,359	$ 1,280,619	$ 3,150	$ 429,497	$ 2,228,625

d) Goodwill impairment

Management has determined that the Corporation's rate regulated operations are one cash generating unit. Therefore, the goodwill was allocated to the Corporation as a whole. The annual impairment test is based on the Corporation's value in use.

9. Intangible assets and goodwill:

d) Goodwill impairment (continued)

A detailed valuation of the Corporation was undertaken during 2023 based on preliminary financial results of the Corporation as at December 31, 2023. Cash flows were projected based on actual operating results and the cost of capital and rate of return as approved in the 2015 Cost of Service application. A discounted cash flow model was utilized based on free cash flows for 20 years, followed by a terminal value calculated based on a steady-state cash flow, with the terminal value within range of market-based terminal multiples. The recoverable amount of the Corporation was determined to be greater than the carrying value of goodwill and no impairment was recorded as at December 31, 2023 or December 31, 2022.

10. Income taxes:

Income tax expense	2023	2022
Current tax expense:		
Current year	$ 373,312	$ 160,945
Prior year	-	(56,545)
Total current tax expense	373,312	104,400
Deferred tax expense:		
Change in recognized deductible temporary differences	251,205	992,021
Total current and deferred income tax in profit or loss, before movement of regulatory balance	624,517	1,096,421
Other comprehensive income:		
Employee future benefits	(14,712)	80,363
Total current and deferred tax, before movement in regulatory balances	609,805	1,176,784
Net movement in regulatory balances	(115,983)	(1,072,384)
Income tax expense recognized in statement of comprehensive Income	$493,822	**$104,400**

Reconciliation of effective tax rate

	2023	2022
Income before taxes	$2,283,982	$4,486,834
Canada and Ontario statutory income tax rates	26.5%	26.5%
Expected tax provision on income tax at statutory rates	605,255	1,189,011
Increase (decrease) in income tax resulting from:		
Permanent differences	2,060	2,212
Recognized deductible temporary difference due from customers	(115,983)	(1,072,384)
Other	2,490	(14,439)
Income tax expense	**$ 493,822**	**$ 104,400**

10. Income taxes (continued):

	2023	2022
Deferred tax assets (liabilities):		
Property, plant, equipment and intangible assets	($2,820,051)	($2,488,634)
Employee future benefits	271,480	267,618
Unrealized gain on interest rate swap	(120,510)	(207,995)
Other	51,218	47,641
	($2,617,863)	**($2,381,370)**

11. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers as well as construction deposits. These customer deposits bear interest at the OEB's prescribed interest rate, which is the Bank of Canada's prime business rate less 2%.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service. Due to the demand nature of these deposits, they are classified as current liabilities.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to deferred revenue.

Customer deposits comprise:

	2023	2022
Electricity deposits	$ 911,071	$ 957,164
Construction deposits	977,198	1,039,378
Total customer deposits	**$1,888,269**	**$1,996,542**
Consisting of:		
Short-term	$ 1,256,618	$ 1,016,175
Long-term	631,651	980,367

12. Employee future benefits:

(a) Employee future benefits, other than pension

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. The Corporation has reflected its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The accrued benefit liability and the corresponding expense were based on results and assumptions determined by actuarial valuation as at December 31, 2023.

12. Employee future benefits (continued):

(a) Employee future benefits, other than pension (continued)

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

	2023	2022
Defined benefit obligation, beginning of year	$ 1,009,878	$ 1,361,643
Included in profit or loss:		
Current service cost	23,310	36,217
Interest cost	48,324	38,994
	71,634	75,211
Included in OCI:		
Actuarial (gains) losses arising from changes in financial assumptions	55,517	(303,258)
Benefits paid during the year	(112,576)	(123,718)
Defined benefit obligation, end of year	**$1,024,453**	**$1,009,878**

The significant actuarial assumptions used in the valuation are as follows:

	2023	2022
Discount rate	4.60%	5.05%
Rate of compensation increase	3.30%	3.30%
Initial health care cost trend rate	4.90%	4.70%
Initial dental cost trend rate	5.10%	4.90%
Year that rate reaches the rate it is assumed to be	2040	2040
Cost trend rate declines to	4.00%	4.00%

Significant actuarial assumptions for benefit obligation measurement purposes are the discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes in the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely these changes in assumptions would occur in isolation from each other. 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:

	2023	2022
Benefit Obligation, end of year	$1,024,453	$1,009,878
1% increase in health care trend rate	33,300	26,900
1% decrease in health care trend rate	(29,900)	(24,300)
1% increase in discount rate	(105,500)	(96,500)
1% decrease in discount rate	130,900	119,000

(b) Pension plan

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System. The plan is a multi-employer, contributory defined benefit pension plan. In 2023, the Corporation made employer contributions of $404,465 to OMERS (2022 - $365,116). The Corporation's net benefit expense has been allocated as follows:

- $145,607 (2022 - $138,744) capitalized as part of PP&E
- $214,366 (2022 - $186,209) charged to operating expenses
- $44,492 (2022 - $40,163) charged to CDM and billable work

12. Employee future benefits (continued):

(b) Pension plan (continued)

As at December 31, 2023, OMERS states that their plan was 97% funded (2022 – 95%). OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. The Corporation's contributions represent less than 1% of the total annual contributions to the OMERS plan.

13. Regulatory assets and liabilities:

The regulatory balances are recovered or settled through rates approved 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 Corporation has received approval from the OEB to establish its regulatory balances.

In the tables below, the "Additions" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts collected through rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of reclassification between the regulatory debit and credit balances. For the years ended December 31, 2023 and 2022, the Corporation did not record any impairments related to regulatory debit balances.

	January 1, 2023	Transactions	Recovery/ reversal	Other Movements	December 31, 2023	Notes
Regulatory deferral account debit balances						
Settlement (Group 1) variances	$ 5,087,624	$ (1,275,857)	$ (43,998)	$ 97,326	$ 3,865,095	(1)
Stranded meters	2,313	(2,313)	-	-	-	(2)
LRAM	24,647	85,846	(9,819)	4,955	105,629	(1)
Deferred Taxes	2,381,370	115,983	-	-	2,497,353	(4)
Rate application costs	8,008	(8,008)	-	-	-	(3)
	$ 7,503,962	**$ (1,084,349)**	**$ (53,817)**	**$ 102,281**	**$ 6,468,077**	

	January 1, 2022	Transactions	Recovery/ reversal	Other Movements	December 31, 2022	Notes
Regulatory deferral account debit balances						
Settlement (Group 1) variances	$ 2,939,939	$ 386,141	$ (313,926)	$ 2,075,470	$ 5,087,624	(1)
Stranded meters	2,292	21	-	-	2,313	(2)
LRAM	268,628	(244,237)	256	-	24,647	(1)
Deferred Taxes	1,308,987	1,072,383	-	-	2,381,370	(4)
Rate application costs	8,008	-	-	-	8,008	(3)
	$ 4,527,854	**$1,214,308**	**$ (313,670)**	**$ 2,075,470**	**$ 7,503,962**	

13. Regulatory assets and liabilities (continued):

	January 1, 2023	Transactions	Recovery/ reversal	Other Movements	December 31, 2023	Notes
Regulatory deferral account credit balances						
Settlement (Group 1) variances	$ (547,437)	(59,260)	$ 53,817	$ (97,326)	$ (650,206)	(1)
IFRS transition adjustments	(10,783)	10,783	-	-	-	(5)
LRAM	-	(21,882)	-	(4,955)	(26,837)	(1)
PILS	(542,612)	(159,097)	-	-	(701,709)	
	$ (1,100,832)	**$ (229,456)**	**$ 53,817**	**$ (102,281)**	**$ (1,378,752)**	

	January 1, 2022	Transactions	Recovery/ reversal	Other Movements	December 31, 2022	Notes
Regulatory deferral account credit balances						
Settlement (Group 1) variances	$ (1,286,576)	2,500,939	$ 313,670	$ (2,075,470)	$ (547,437)	(1)
IFRS transition adjustments	(10,783)	-	-	-	(10,783)	(5)
PILS	(434,218)	(108,394)	-	-	(542,612)	
	$ (1,731,577)	**$ 2,392,545**	**$ 313,670**	**$ (2,075,470)**	**$ (1,100,832)**	

1) The changes in settlement (Group 1) and LRAM balances outstanding from December 31, 2022 were approved for disposition as part of the 2023 IRM application with rates effective January 1, 2023 to be collected over a 12-month period.

2) As part of the 2015 COS application, the OEB approved the disposition of stranded meters through a rate rider effective May 1, 2015 (implemented June 1, 2015) with recovery over a 7-month period ending December 31, 2015. Since the residual balance was trivial, it was cleared to $nil at the end of 2023.

3) The 2015 COS rate application costs were approved for recovery by the OEB and have been amortized over a forty-three-month period ending December 31, 2019. Since the residual balance was trivial, it was cleared to $nil at the end of 2023.

4) Disposition is not requested for the deferred tax balance as it is being reversed through timing differences in the recognition of deferred tax assets. No carrying charges are calculated on this balance.

5) As part of the 2015 COS application, the OEB approved the disposition of the account 1575/76 IFRS transition account balance used to record the difference arising on adoption of new asset useful lives and overhead rates and write off of end-of-life assets. These account balances were included as a rate rider effective May 1, 2015 (implemented June 1, 2015) and were recovered over a 7-month period ended December 31, 2015. Since the residual balance was trivial, it was cleared to $nil at the end of 2023.

Carrying charges are applied to all regulatory account balances at the OEB prescribed interest rates, with the exception of the deferred tax assets on which no carrying charges are applied.

As part of the Corporation's 2023 IRM application, the change in debit and credit balance settlement (Group 1) variance accounts occurring during fiscal 2021 were approved as part of 2023 distribution rates for recovery over a 12-month period commencing January 1, 2023. As such, the risk associated with the recovery of variance accounts is limited to the incremental value of non-settlement variances arising since 2021.

14. Long-term debt:

Long-term debt consists of the following:

	2023	2022
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 1.81% on bankers' acceptances, payable in monthly principal instalments of approximately $40,000 plus interest, increasing by $1,000 yearly until maturity on May 31, 2038, secured by a general security agreement, subject to a swap agreement as outlined below.	9,369,000	9,875,000
Royal Bank revolving term loan, bearing variable interest at 5.39%, plus a stamping fee of 1.51% on bankers' acceptances, interest only payments until December 31, 2024, subject to a swap agreement as outlined below.	2,500,000	-
Royal Bank loan, bearing interest at 2.62%, payable in monthly principal instalments of $19,768, maturing November 25, 2025, secured by a general security agreement.	443,012	665,476
Notes payable to shareholder, bearing interest at 7.25% per annum, with interest payments only, due on demand, unsecured.	15,600,000	15,600,000
	27,912,012	**26,140,476**
Less: current portion	18,850,364	16,328,464
Long-term debt	**$9,061,648**	**$9,812,012**

Interest rate swaps

The Corporation entered into an interest rate swap agreement on a notional principal of $14,000,000 effective May 31, 2013, which matures May 31, 2038. The swap is a receive-variable, pay-fixed swap with the Royal Bank. This agreement has effectively converted variable interest rates to an effective fixed interest rate of 2.93% plus stamping fee of 0.42% on the Royal Bank revolving term loan. The stamping fee is subject to change every 10 years, with the first maturity occurred on May 31, 2023. On this day, the stamping fee changed from 0.42% to 1.81%.

The Corporation entered into a swap agreement on a notational principal of $2,500,000. The swap is a receive-variable, pay fixed swap with Royal Bank. This agreement has effectively converted variable interest rates to an effective fixed interest rate of 5.39% plus a stamping fee of 1.51%.

The Corporation has determined these swaps do not meet the standard to apply hedge accounting. Since the standard is not met, the interest rate swap contracts have been recorded at their fair value at December 31, 2023 with the combined unrealized loss for the year of $330,131 (2022 – gain of $1,723,834) recorded as finance cost in the statement of comprehensive income. The Corporation uses Level 2 inputs to determine fair value.

14. Long-term debt continued:

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

	Current and long-term debt	Dividends payable	Retained earnings	Total (financing cash flows)
Balance at January 1, 2023	$ 26,140,476	$ 248,269	$ 18,525,126	
Dividends paid	-	(248,269)	(390,330)	$ (638,599)
Proceeds from long-term debt	2,500,000	-	-	2,500,000
Repayments of long-term debt	(728,464)	-	-	(728,464)
Total changes from financing cash flows	**$ 1,771,536**	**$ (248,269)**	**$ (390,330)**	**$ 1,132,937**
Dividend declared but not paid	-	233,750	(233,750)	-
Net income after net movements in regulatory balances	-	-	1,845,677	1,845,677
Balance at December 31, 2023	$ 27,912,012	$ 233,750	$ 19,746,723	$ 2,978,614

15. Share capital:

	2023	2022
Authorized:		
Unlimited Class A special shares, non-cumulative, 5.0%		
Unlimited Class B special shares		
Unlimited Common shares		
Issued:		
6,100 Class A special shares	$ 6,100,000	$ 6,100,000
6,995 Common shares	9,468,388	9,468,388
	$ 15,568,388	**$15,568,388**

Dividends paid on the 6,100 class A special shares during the year totalled $152,500 (2022 - $152,500). Dividends paid on the 6,995 common shares during the year totalled $471,580 (2022 - $486,099). A common share dividend was declared on December 15, 2023 and is payable on all common shares on record at December 31, 2023, with the dividend to be paid in 2024. The dividend amount payable at December 31, 2023 is $233,750 (2022 - $248,269).

16. Revenue from Contracts with Customer:

The Corporation generates revenue primarily from the sale and distribution of electricity to its customers. Sources of revenue are as documented in the table below.

	2023 Sale of Energy	2023 Distribution Revenue	2022 Sale of Energy	2022 Distribution Revenue
Residential	$ 17,732,062	$ 7,097,764	$ 17,226,468	$ 6,928,900
Commercial	42,664,867	5,744,876	35,806,876	4,757,459
Large Users	2,849,463	323,578	2,762,863	314,993
Other	694,630	166,003	(207,133)	172,733
	$ 63,941,022	**$ 13,332,221**	**$ 55,589,074**	**$ 12,174,085**

17. Other income:

	2023	2022
Collection, late payment and other service charges	$ 101,740	$ 124,331
Pole attachment and other rental income	166,816	108,836
Miscellaneous	819,567	853,362
Solar generation	26,256	31,992
	$ 1,114,379	**$ 1,118,521**

Collection, late payment and other service charges are based on service charge rates and retailer rates as approved by the OEB. Pole attachment and other rentals consist primarily of pole attachment charges and charges for office and service centre space.

Miscellaneous includes revenues from City of Stratford and Town of St. Marys water and sewage billing services, street lighting services, management fees charged to Festival Hydro Services Inc. and other revenue sources.

18. Operating expenses:

	2023	2022
Salaries and benefits	$ 3,806,285	$ 3,329,138
External services	2,215,081	1,924,106
Materials and supplies	540,790	584,647
Other support costs	928,057	921,154
	$ 7,490,213	**$ 6,759,045**

19. Finance income and costs:

	2023	2022
Interest income on loan to corporation under common control	$ 3,398	$ 10,862
Interest on bank account	3,531	12,036
Interest on written off trade receivables	141	442
Unrealized gain on interest rate swap	-	1,723,834
Finance income	**$ 7,070**	**$ 1,747,174**
Interest expense on demand notes payable	$1,131,000	$1,131,000
Interest expense on long-term debt	479,139	338,185
Interest on revolving credit facility	190,782	84,552
Interest expense on deposits	62,701	21,041
Other interest expense	4,823	-
Unrealized loss on interest rate swap	330,131	-
Finance costs	**$ 2,198,576**	**$ 1,574,778**
Net finance income (costs)	**$ (2,191,506)**	**$ 172,396**

20. Related party transactions:

a) *Parent and ultimate controlling party*

The parent and sole shareholder of the Corporation is the Corporation of the City of Stratford (the “City”). The City of Stratford produces financial statements that are available for public use.

b) *Key management personnel*

The key management personnel of the Corporation has been defined as members of its Board of Directors and executive management team members. Total compensation of key management in 2023 was $902,559 (2022 - $833,946).

20. Related party transactions (continued):

c) *Transactions with the Corporation of the City of Stratford*

The following summarizes the Corporation's related party transactions, recorded at the exchange amounts, with the parent, the City of Stratford, for the years ended December 31:

	2023	2022
Revenues:		
Energy sales	$ 1,342,294	$ 1,475,873
Water and sewer administration fee	539,320	499,716
Street lighting services	12,617	18,760
Service centre space rental	36,851	33,477
Total revenues	$ 1,931,082	$ 2,027,826
Expenses:		
Interest on demand notes payable	$ 1,131,000	$ 1,131,000
Property taxes	149,822	121,157
Tree trimming	56,980	54,494
Total expenses	$ 1,337,802	$ 1,306,651

	December 31, 2023	December 31, 2022
Receivable balances:		
Accounts receivable	$ 366,769	$ 365,293
Payable balances:		
Accounts payable and accrued charges	$ 978,360	$ 995,324
Demand notes payable	15,600,000	15,600,000
Dividends payable	233,750	248,269
Total payables	$16,812,110	$16,843,593

The net amount owing to the Corporation of the City of Stratford for accounts receivable, accounts payable and accrued charges is $611,591 (2022 - $630,031).

Dividends paid or payable	$ 624,080	$ 638,599

20. Related party transactions (continued):

d) Transactions with corporations under common control of the parent

The following summarizes the Corporation's related party transactions, recorded at the exchange amounts, with Festival Hydro Services Inc., a wholly-owned subsidiary of the City of Stratford, for the years ended December 31:

	2023	2022
Revenues:		
Operational services	$ 31,538	$ 33,397
Management fee	60,982	64,851
Office and fibre room rentals	1,347	1,470
Joint pole rentals	57,384	55,308
Interest earned	3,398	10,862
Energy sales	30,817	28,689
Water billing and collection services	76,358	75,120
Total revenues	$261,824	$269,697
Expenses:		
Fiber and WIFI services	$154,148	$154,148
Information technology and management services	330,947	273,165
Total expenses	$485,095	$427,313

Receivable balance:		
	December 31, 2023	December 31, 2022
Due from(to) corporations under common control	$(24,254)	$127,927

21. Capital management:

The Corporation's main objectives when managing capital is to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available (either through cash and cash equivalents or committed credit facilities) to meet the needs of the business;
- ensure compliance with covenants related to its credit facilities; and
- prudent management of its capital structure with regard to recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios. The Corporation manages capital by preparing short-term and long-term cash flow forecasts, statements of financial position and comprehensive statements of income. In addition, the Corporation accesses its revolving credit facility to fund net periodic net cash outflows and to maintain available liquidity.

There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2023, the Corporation's definition of capital included borrowings under its revolving credit facility, long-term debt and obligations including the current portion thereof, and equity, and had remained unchanged from the definition as at December 31, 2022. As at December 31, 2023, equity amounted to $35,205,115 (2022 - $34,039,035), borrowings in the form of demand notes payable and long-term debt, including the current portion thereof, amounted to $27,912,012 (2022 - $26,140,476) and the revolving credit facility amounted to $3,681,457 (2022 - $3,720,132).

21. Capital management (continued):

The OEB regulates the amount of deemed interest on debt and rate of return that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure and finance costs for the Corporation may differ from the OEB deemed structure.

The Corporation is subject to debt agreements that contain various covenants. The Corporation's credit agreement with Royal Bank provides a revolving demand facility, letter of guarantee which is posted with the IESO as prudential support, and a long-term loan facility. These combined facilities are subject to a funded indebtedness debt to equity ratio of no more than 65%.

The Corporation has customary covenants typically associated with long-term debt. As at December 31, 2023 and December 31, 2022, the Corporation was in compliance with all credit agreement covenants and limitations associated with its long-term debt.

22. Financial instruments and risk management:

Fair value disclosure

The carrying values of accounts receivable, unbilled revenue, due to Corporations under common control & to the City of Stratford, accounts payable and accrued liabilities approximate their fair values due to the short maturity of these instruments. The fair values of customer deposits approximate their carrying amounts taking into account interest accrued on the outstanding balance. Cash is measured at fair value.

The swap agreements are measured at fair value, which is provided by a third-party, banking institution and is based on market rates at the date of the valuation. The valuation of the interest rate swaps resulted in a cumulative unrealized gain recorded on the statement of financial position at December 31, 2023 of $454,755 (2022 - $784,886).

The fair value of the long-term borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The carrying amounts and fair values of the Corporation's long-term loans consist of the following:

22. Financial instruments and risk management (continued):

	2023	2022
Carrying amounts:		
Notes payable to shareholder, bearing interest at 7.25% per annum, due on demand	$15,600,000	$15,600,000
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 1.81%, maturing May 31, 2038	9,369,000	9,875,000
Royal Bank revolving term loan, bearing variable interest at 5.39%, plus a stamping fee of 1.51%, interest only payments until December 31, 2024	2,500,000	-
Royal Bank loan, bearing interest at 2.62%, maturing November 25, 2025	443,012	665,476
Total	**$27,912,012**	**$26,140,476**

	2023	2022
Fair values:		
Notes payable to shareholder, bearing interest at 7.25% per annum, due on demand	$11,797,814	$12,556,106
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 1.81%, maturing May 31, 2038	5,502,035	9,581,114
Royal Bank revolving term loan, with a variable interest rate of 5.39%, plus a stamping fee of 1.51% on bankers' acceptances, interest only payments until December 31, 2024	2,332,090	-
Royal Bank loan, bearing interest at 2.62%, maturing November 25, 2025	410,511	609,697
Total	**$20,042,450**	**$22,746,917**

Financial risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by the Corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed. The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

a) *Credit risk*

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

22. Financial instruments and risk management (continued):

a) *Credit risk (continued)*

The Corporation's credit risk associated with accounts receivable and unbilled revenue is primarily related to electricity bill payments from electricity customers. The Corporation obtains security deposits from certain customers in accordance with direction provided by the OEB and as outlined in the Corporation's conditions of service. As of December 31, 2023, the Corporation held security deposits related to electricity receivables in the amount of $911,071 (2022 - $957,164).

As at December 31, 2023, there were no significant concentrations of credit risk with respect to any one customer. No single customer accounts for revenue in excess of 5% of total distribution revenue. The Corporation earns its revenue from a broad base of approximately 21,000 customers (2022 - 21,000 customers) located throughout its service territory.

The credit risk and mitigation strategies with respect to unbilled revenue are the same as for accounts receivable. The credit risk related to cash is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

Credit risk associated with electricity accounts receivable and unbilled revenue (electricity only) is as follows:

	2023	2022
Not more than 30 days	$ 5,497,458	$ 6,448,968
More than 30 but less than 90 days	589,425	405,840
More than 90 days	103,687	167,531
Less allowance for impairment	(180,369)	(173,017)
Unbilled revenue	6,915,469	4,783,498
	$ 12,925,670	**$ 11,632,820**

As at December 31, 2023, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for impairment was required for these balances.

Reconciliation between the opening and closing allowance for impairment is as follows:

	2023	2022
Balance, beginning of year	$ 173,017	$ 178,684
Provision for impairment	117,179	53,870
Write offs	(117,115)	(72,374)
Recoveries	7,288	12,837
Balance, end of year	**$ 180,369**	**$ 173,017**

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at year end. Unbilled revenue is considered current and no provision for impairment was established as at December 31, 2023 (2022 – nil).

22. Financial instruments and risk management (continued):

(b) Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its employee future benefit obligations (note 12). The Corporation is also exposed to short-term interest rate risk on the net of cash position and short-term borrowings under its Revolving Credit Facility and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments and taking action as necessary to maintain an appropriate balance.

As at December 31, 2023, aside from the valuation of its employee future benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its revolving credit facility and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase in short-term interest rates, with all other variables held constant, would result in an increase of approximately $116,070 (2022 - $61,266) to annual finance costs. A decrease of 100 basis points would result in a reduction in financing costs of $116,070 (2022 – $61,266).

(c) Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Corporation has access to credit facilities and monitors cash balances daily. The Corporation’s objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

The Corporation has a revolving credit facility available of $10,000,000 with a Canadian chartered bank. As at December 31, 2023, $3,800,000 (2022 - $4,280,000) was drawn on this facility.

As a purchaser of electricity through the Independent Electricity System Operator (“IESO”), the Corporation is required to provide security to minimize the risk of default based on its expected activity in the market. The IESO may draw on this security if the Corporation fails to make payment required by a default notice issue by the IESO. The Corporation has a $3.6 million revolving term facility by way of a letter of guarantee with Royal Bank, of which $3,095,139 (2022 - $3,095,139) has been assigned to secure the prudential support required by the IESO.

The majority of accounts payable, as reported on the statement of financial position, is due within 30 days.
Liquidity risks associated with financial commitments are as follows:

22. Financial instruments and risk management (continued):

Contractual cash flows, including interest, at year end are:

December 31, 2023

	Carrying Amounts	Total	Due within 1 year	Due within 1 to 5 years	Due> 5 years
Revolving credit facility	$ 3,800,000	$ 3,800,000	$ 3,800,000	$ -	$ -
Accounts payable and accrued liabilities	9,367,511	9,367,511	9,367,511	-	-
Due to City of Stratford	611,591	611,591	611,591	-	-
Notes payable to shareholder, bearing interest at 7.25% per annum, due on demand	15,600,000	16,731,000	16,731,000	-	-
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 1.81%, maturing May 31, 2038	9,369,000	12,832,870	958,369	3,731,883	8,142,618
Royal Bank loan, bearing interest at 2.62%, maturing November 25, 2025	443,012	454,673	237,221	217,452	-
Royal Bank revolving term loan, bearing variable interest at 5.39%, plus a stamping fee of 1.51%, interest only payments until December 31, 2024	2,500,000	2,672,500	2,672,500	-	-
	$ 41,691,114	$ 46,470,145	$ 34,378,192	$ 3,949,335	$ 8,142,618

December 31, 2022

	Carrying Amounts	Total	Due within 1 year	Due within 1 to 5 years	Due> 5 years
Revolving credit facility	$ 4,280,000	$ 4,280,000	$ 4,280,000	$ -	$ -
Accounts payable and accrued liabilities	8,658,017	8,658,017	8,658,017	-	-
Due to City of Stratford	630,031	630,031	630,031	-	-
Notes payable to shareholder, bearing interest at 7.25% per annum, due on demand	15,600,000	16,731,000	16,731,000	-	-
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 1.81%, maturing May 31, 2038	9,875,000	12,645,318	828,224	3,308,138	8,508,956
Royal Bank loan, bearing interest at 2.62%, maturing November 25, 2025	665,476	691,894	237,221	454,673	-
	$ 39,708,524	$ 43,636,260	$ 31,364,493	$ 3,762,811	$ 8,508,956

23. Commitments and contingencies:

Operating leases

The Corporation entered into a non-cancellable operating lease for service centre space for a period of five years dated November 15, 2015. The contract is subject to an annual increase based on the Ontario Consumer Price Index. Minimum lease payments required are $1,027 per month for 2023 (2022 - $997 per month).

Connection and cost recovery agreement - St. Mary's transformer station

The Corporation and Hydro One Networks Inc. entered into a twenty-five-year capital cost recovery agreement ("CCRA") in September 2002 relating to Hydro One Networks Inc. building new feeder positions at the existing St. Mary's Transformer Station. Under the terms of the agreement, the Corporation has guaranteed new load growth which, if not met, would require the Corporation to provide a financial contribution toward the capital investment of the transformer station.

The CCRA has been trued-up effective July 5, 2013. Since load growth had fallen below a target amount, a cumulative contribution in the amount of $550,200 has been paid to Hydro One Networks. This amount has been recorded as an intangible asset subject to 15-year amortization over the remaining life of the agreement. The agreement was subject to true up effective on the fifteenth year of the agreement in July 2018 however, this has not been completed by Hydro One Inc. It is possible that the Corporation may owe a further payment as a result of the agreement but an estimate of any amount owing is not possible at December 31, 2023 given the nature of the variables included in the calculation. The need for a contribution will be determined by Hydro One Networks Inc. based on actual new load growth.

Connection and cost recovery agreement-Stratford transformer station ("Festival Hydro MTS1")

The Corporation and Hydro One Networks Inc. entered into a twenty-five-year CCRA in November, 2012, relating to Hydro One Networks Inc. building a new 230kV line to connect Festival Hydro`s MTS1 to Hydro One`s 230kV circuit. Under the terms of the agreement, the Corporation has guaranteed new load growth which, if not met, would require the Corporation to provide a financial contribution toward the capital investment. The CCRA is trued-up (a) following the fifth and tenth anniversaries of the in-service date; and (b) following the fifteenth anniversary of the in-service date if the actual load is 20% higher or lower than the load forecast at the end of the tenth anniversary of the in-service date. The fifth anniversary of the in-service date was in November 2017. The need for a contribution will be determined by Hydro One Networks Inc. based on actual new load growth.

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation’s financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (“MEARIE”). MEARIE is a pooling of public liability insurance risks of many of the electrical utilities 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. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2023, no assessments had been made.

24. Comparative figures:

Certain comparative figures have been restated to conform to the current year presentation.

To: Mark Hunter and the Finance and Labour Relations Committee
From: Alyson Conrad, CFO
Re: Commentary on FHI Financial Results – For the period ended March 31, 2024

Net income for the period is $449K, which is $2K below 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 $1.54M higher than it was in March of 2023, but $1.05M lower than December 2023. The main components of the variance include:

- Electric receivables are $970K higher than March 2023, the majority of this ($784K) being current balance i.e., not in arrears. However, we are seeing steady increases in past due balances, specifically in the 1-30 day bucket and greater than 90 days. The greater than 90 days mostly relates to the winter moratorium, and this is typically collected in May when disconnects return.
- Water and sewer receivables are $205K higher than March 2023 with the majority ($179K) being current balances. Water and sewer receivables are seeing a similar trend in increasing arrears specifically in the greater than 90-day bucket. These arrears have improved since December yearend balances.
- OER settlement has increased by $403K compared to the prior year mainly because of increase in the OER rate from 11.7% to 19.3%.

Electric receivables are being continuously monitored due to the disconnection moratorium which will end on April 30, 2023. The customer service team continues to work diligently to attempt to collect arrears while being understanding and empathic to customers. Wherever possible, customer service representatives are making payment arrangements with customers.

Prepaid Expenses – Prepaid expenses have increased compared to prior year because of Cost of Service (COS) costs that are anticipated to be recovered through the COS process and therefore are not expensed as incurred and will be recovered over 5 years starting in 2025.

Due to/from FHSI – The balance in this account is sitting at $3K at March 31st, 2024. In Q1 2023 and December 2023, this balance was in a payable position due to the sale of QR Fibre shares and additional work completed by Rhyzome for FHI. This balance has adjusted back to a typical receivable balance at the end of Q1 2024.

Corporate PILs Recoverable – This balance has increased from prior year by $510K due to additional payments made on account for the PILs audit to ensure that interest is reduced during the Notice of Objection Period.

Unbilled Revenue – This balance is $340K lower than the balance in March of 2023. The major difference is due to the decreases in usage due to the mild winter compared to prior year.

Regulatory Assets – The regulatory asset balance has decreased by $1.35M since March 2023 and this is mainly driven by the clearing in the 2024 IRM Application of the 1588/89 balances. The regulatory asset balances have increased by $246K since December 2023 due to an increase in combined cost of power and global adjustment by 14% compared to December.

Bank Indebtedness – This balance has increased by $1.89M since March 2023 and $844K since December 2023. This is due to planned capital work on the renovations as well as the new CIS. FHI anticipates that it will draw on the remaining $2.5M portion of the SWAP in Q2. The benefit of the interest savings for the SWAP will not be seen until January 1, 2025.

A/P and Accrued Liabilities – This balance has increased by $1.23M from the March 2023 balance. A large portion of the difference ($600K) relates to a higher IESO compared to the prior year. The remaining variance is higher trade payables compared to prior year at this time.

INCOME STATEMENT COMMENTARY

Gross Margin on Service Revenue (Distribution Revenue) – The distribution revenue to the end of Q1 2024 is $64K below budget. The main reason being the decrease in usage through the unusually mild winter. The majority of the decrease in usage was seen in the GS>50kW rate class which used 1.7M fewer kWhs than the same period in the prior year. FHI also transitioned one large use customer to GS>50kW based on their consistently lower usage. This change was budgeted for but will still have a material impact compared to the prior year.

Other Revenue – Other revenue is running $29K below budget at the end of Q1. The decrease is due to no sale of scrap to date in Q1 compared to $32K sold in 2023. This variance should decrease in future quarters but may not be at the same levels as 2023.

Controllable Costs - Total controllable costs are $55K less than budget to the end of Q1.

Operating and Maintenance expenses are down overall by $37K compared to the budget. There were a few areas where FHI saw slightly larger variances. Metering expenses were down as there was a new position budgeted for the full year. This position was filled in late March. Underground Distribution Lines and Services were also down because FHI did not see many underground issues in Q1 compared to historical years. Testing programs that are budgeted for will occur later in the year. Transformer expenses have increased compared to budget because we had to have a vendor on site to complete repair work to T1 and T2 while they were onsite for Hydro One work. This was to replace components on the power transformers that had been identified during our monthly inspections as needing attention.

Administration expenses are down by $18K. The majority of this balance is due to the timing differences of non-labour costs in this area occur later in the year.

Interest Expense – Interest expense while still high is down compared to budget due to slightly lower than expected rates on the BA rollover on the SWAP loan.

CASH FLOW COMMENTARY

As per the cash flow statement, the March 31 bank indebtedness has increased by $844K since yearend however the average overdraft balance has decreased significantly since 2023. FHI is ramping up on capital expenditures which were planned. As noted above, FHI is planning to draw on the remaining $2.5M SWAP loan in Q2.

LOAN COVENANT RATIOS

The Loan Covenant as prescribed by our lender, RBC, is being met.

Presented for information purposes.

FESTIVAL HYDRO INC.

Balance Sheet

For the period ending March 31, 2024

	YTD as at Mar 31, 2023	YTD as at Dec 31, 2023	YTD as at Mar 31, 2024
ASSETS			
Current Assets			
Accounts Receivable	6,539,384	9,135,134	8,081,657
Inventory	398,248	212,005	632,996
Prepaid Expenses	372,951	308,822	474,744
Due from FHSI	(46,469)	(29,355)	3,410
Corporate PILS Recoverable	578,562	743,093	1,052,000
Unbilled Revenue	6,744,927	6,915,469	6,404,629
	14,587,604	**17,285,168**	**16,649,436**
Property, Plant & Equipment	58,463,051	61,152,857	61,482,978
Other Assets			
Intangible Assets	1,884,244	2,228,625	2,362,790
Future payments in lieu of income taxes	(3,239,959)	(3,518,269)	(3,518,269)
Regulatory Assets	7,589,699	5,989,731	6,235,862
TOTAL ASSETS	**79,284,639**	**83,138,112**	**83,212,796**

	YTD as at Mar 31, 2023	YTD as at Dec 31, 2023	YTD as at Mar 31, 2024
LIABILITIES			
Current Liabilites			
Bank Indebtedness	2,542,785	3,679,961	4,524,220
Accounts Payable & Accrued Liabilities	8,858,826	10,364,864	10,086,296
Current Portion of Consumer Deposits	947,048	1,256,618	899,756
Current Portion of Long Term Loans	548,393	750,364	564,832
Dividends Declared	248,269	233,750	233,750
Promissory Note	15,600,000	15,600,000	15,600,000
Loan Advance	2,500,000	2,500,000	2,500,000
	31,245,320	**34,385,556**	**34,408,855**
Other Liabilites			
Unrealized loss on interest rate swap	(784,886)	(454,755)	(454,755)
Deferred Revenue	3,219,858	3,284,439	3,568,294
Employee Future Benefits	1,009,878	1,024,453	1,024,453
Long Term Debt			
Consumer Deposits over one year	—	631,651	—
RBC Loan - LT Portion	9,812,012	9,061,648	9,061,648
TOTAL LIABILITIES	**44,502,183**	**47,932,993**	**47,608,495**
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	19,268,547	19,746,727	20,145,909
Accumulated Other Comprehensive Income	(54,479)	(109,996)	(109,996)
TOTAL EQUITY	**34,782,456**	**35,205,119**	**35,604,301**
TOTAL LIABILITIES AND EQUITY	**79,284,639**	**83,138,112**	**83,212,796**

FESTIVAL HYDRO INC.

Income Statement

For the period ending March 31, 2024

	YTD as at Mar 31, 2023	YTD as at Mar 31, 2024	YTD Budget at Mar 31, 2024	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%
REVENUE					
Service Revenue	19,576,732	19,875,225	18,309,351	1,565,873	9%
Cost of Power	16,111,849	16,512,444	14,882,332	1,630,112	11%
GROSS MARGIN (DISTRIBUTION REVENUE)	**3,464,883**	**3,362,781**	**3,427,019**	**(64,239)**	**(2%)**
Other Operating Revenue	287,431	234,739	263,359	(28,620)	(11%)
OPERATING & MAINTENANCE EXPENSE					
Transformer & Distribution Station Expense	116,732	105,029	85,933	19,097	22%
Distribution Lines & Services Overhead	450,914	499,027	490,321	8,706	2%
U/G Distribution Lines & Services	73,819	31,533	62,114	(30,581)	(49%)
Distribution Transformers	26,875	27,973	21,456	6,517	30%
Distribution Meters	128,880	80,165	115,136	(34,971)	(30%)
Customer Premises	45,054	57,107	63,037	(5,930)	(9%)
TOTAL OPERATING AND MAINTENANCE	**842,274**	**800,834**	**837,996**	**(37,163)**	**(4%)**
ADMINISTRATION					
Billing, Collecting & Meter Reading	324,902	381,306	381,797	(491)	(0%)
Administration	739,227	842,180	860,020	(17,840)	(2%)
TOTAL ADMINISTRATION	**1,064,129**	**1,223,486**	**1,241,817**	**(18,331)**	**(1%)**
Allocated Depreciation	(30,582)	(33,843)	(33,843)	—	—
TOTAL CONTROLLABLE COST	**1,875,820**	**1,990,476**	**2,045,970**	**(55,494)**	**(3%)**
NET INCOME BEFORE DEP'N, INTEREST & TAX	**1,876,494**	**1,607,044**	**1,644,408**	**(37,365)**	**(2%)**
Depreciation	671,472	700,236	700,236	0	0%
Interest Expense	472,295	497,739	529,665	(31,926)	(6%)
Interest Income	(70,690)	(83,107)	(80,000)	(3,107)	4%
NET INCOME BEFORE SWAP, ICM & PBA & INC TAXES	**803,417**	**492,175**	**494,507**	**(2,332)**	**(0%)**
Current Tax	60,000	42,992	42,992	—	—
NET INCOME BEFORE SWAP, ICM & FUTURE TAX	**743,417**	**449,182**	**451,514**	**(2,332)**	**(1%)**
Unrealized Gain/Loss on Swap	—	—	—	—	—
Future Tax	—	—	—	—	—
Marketable Security - recorded as OCI	—	—	—	—	—
NET INCOME	**743,417**	**449,182**	**451,514**	**(2,332)**	**(1%)**

FESTIVAL HYDRO INC.

Cash Flow Statement

For the period ending March 31, 2024

	YTD as at Dec 31, 2023	YTD as at Mar 31, 2024
Cash from Operations		
Net Income	1,790,160	449,182
Depreciation	2,619,161	700,236
Amortization of deferred revenue in other revenue	(96,570)	283,856
Unrealized loss on interest rate swap	330,131	—
Decrease/(Increase) in Receivables	(677,770)	1,003,477
Decrease/(Increase) in Inventory	(34,479)	(420,991)
Decrease/(Increase) in Prepaids	(78,381)	(165,921)
Decrease/(Increase) in Due from FHSI	151,502	(32,765)
Decrease/(Increase) in PILS	(231,530)	(308,908)
Decrease/(Increase) in Unbilled Revenues	(2,131,971)	510,839
Decrease/(Increase) in Future Tax (offsetting entry in payabl	278,310	—
Decrease/(Increase) in Regulatory Assets	1,271,988	(246,131)
Increase/(Decrease) in Payables	701,773	(278,567)
Increase/(Decrease) in Deposits	(108,272)	(988,513)
Increase/(Decrease) in Employee Future Benefits	14,575	—
Contributed Capital	466,382	86,638
Net Cash Provided	**4,265,008**	**592,433**
Cash from Financing		
Loan Repayments	728,465	185,532
Loan Advance	(2,500,000)	—
Cash Used - Capital Expenditures	5,337,210	1,251,160
Cash Used - Dividends paid current year	390,330	—
Cash Used - Dividends declared in prior year	248,269	—
Net Cash Used	**4,204,274**	**1,436,692**
Increase (Decrease) in Cash Position	**60,734**	**(844,259)**
Bank Indebtedness, Beg of Period	**(3,740,695)**	**(3,679,961)**
Bank Indebtedness, End of Period	**(3,679,961)**	**(4,524,220)**

Bank and Line of Credit Analysis	**2023**	**2024**
High balance (YTD)	2,146,529	1,668,009
Low Balance (YTD)	(6,140,288)	(6,552,953)
Overdraft interest (annualized)	199,421	69,406
Interest rate (avg annual for period)	**6.94%**	**7.20%**
Average overdraft balance	**2,872,478**	**963,973**

Key Financial Ratios:	Actual Ratio	Required Ratio
RBC Compliance Ratio - Funded Debt to Total Capital	0.46	Less than 0.65
Debt to Equity Test	30:70	Less than 75:25
Debt Service Ratio	1.96	Not less than 1.30X

FESTIVAL HYDRO INC.

Statement of Capital

For the period ending March 31, 2024

	YTD as at Mar 31, 2023	YTD as at Mar 31, 2024	YTD Budget at Mar 31, 2024	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%
DISTRIBUTION					
Distribution Overhead	1,129,642	315,295	545,175	(229,880)	(42%)
Underground Conductor and Devices	934,978	339,282	586,975	(247,693)	(42%)
Distribution Transformers	465,413	41,734	157,500	(115,766)	(74%)
Services	352,527	65,536	97,500	(31,964)	(100%)
Distribution Meters	422,498	64,100	167,500	(103,400)	(62%)
SCADA/Distribution Automation	59,266	18,457	37,500	(19,043)	(51%)
Tools and Miscellaneous Equipment	34,267	3,425	15,000	(11,575)	(77%)
TOTAL DISTRIBUTION	**3,398,590**	**847,828**	**1,607,150**	**(759,322)**	**(47%)**
OTHER CAPITAL					
Land and Buildings	395,369	147,038	459,000	(311,962)	(68%)
Transformer Station	87,637	44,774	82,500	(37,726)	(46%)
Vehicles and Trailers	68,635	—	37,500	(37,500)	(100%)
Computer Hardware and Software	631,363	211,520	320,888	(109,367)	(34%)
TOTAL OTHER CAPITAL	**1,183,004**	**403,332**	**899,888**	**(496,555)**	**(55%)**
TOTAL CAPITAL	**4,581,594**	**1,251,160**	**2,507,038**	**(1,255,877)**	**(50%)**