



The Corporation of the City of Stratford
Finance and Labour Relations Committee
Open Session
AGENDA

Date: October 12, 2021

Time: 3:15 P.M.

Location: Electronic Meeting

Committee Present: Councillor Gaffney - Chair Presiding, Councillor Clifford - Vice-Chair, Mayor Mathieson, Councillor Beatty, Councillor Bunting, Councillor Burbach, Councillor Henderson, Councillor Ritsma, Councillor Sebben, Councillor Vassilakos

Staff Present: Joan Thomson - Chief Administrative Officer, Tatiana Dafoe - City Clerk, Karmen Krueger - Acting Director of Corporate Services, Kim McElroy - Director of Social Services, David St. Louis - Director of Community Services, John Paradis - Fire Chief, Anne Kircos - Acting Director of Human Resources, Taylor Crinklaw - Director of Infrastructure and Development Services, Chris Bantock - Deputy Clerk, Jodi Akins - Council Clerk Secretary

To watch the Committee meeting live, please click the following link: <https://stratford-ca.zoom.us/j/89913406211?pwd=L1FaOWxGUUQ5aGJtMHpRbzJQekJqQT09>

A video recording of the meeting will also be available through a link on the City's website <https://calendar.stratford.ca/meetings> following the meeting.

Pages

1. Call to Order

The Chair to call the Meeting to Order. Councillor Ingram provided regrets for this meeting.

2. Disclosure of Pecuniary Interest and the General Nature Thereof

The *Municipal Conflict of Interest Act* requires any member of Council declaring a pecuniary interest and the general nature thereof, where the interest of a member of Council has not been disclosed by reason of the member's absence from the meeting, to disclose the interest at the first open meeting attended by

the member of Council and otherwise comply with the *Act*.

Name, Item and General Nature of Pecuniary Interest

3. Sub-committee Minutes

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Sub-committee minutes are attached for background regarding the discussion held at the September 21, 2021 Sub-committee meeting.

4. Delegations

None scheduled.

5. Report of Festival Hydro Inc.

5.1. Financial Statements and Commentary for Festival Hydro Inc. (FHI) for Q2 ending June 30, 2021 (FIN21-023)

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Staff Recommendation: THAT the Festival Hydro Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.

Motion by _____

Sub-committee Recommendation: THAT the Festival Hydro Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.

6. Report of Rhizome Networks

6.1. Financial Statements and Commentary for Rhizome (Festival Hydro Services Inc.-FHSI) for Q2 ending June 30, 2021 (FIN21-024)

18 - 26

Staff Recommendation: THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.

Motion by _____

Sub-committee Recommendation: THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.

7. Adjournment

Meeting Start Time:

Meeting End Time:

Motion by _____

Committee Decision: THAT the Finance and Labour Relations Committee

meeting adjourn.



The Corporation of the City of Stratford Finance and Labour Relations Sub-committee MINUTES

Date: September 21, 2021
 Time: 3:30 P.M.
 Location: Electronic Meeting

Sub-committee Present: Councillor Gaffney - Chair Presiding, Councillor Clifford - Vice-Chair, Councillor Beatty, Councillor Bunting, Councillor Ritsma

Staff Present: Karmen Krueger - Acting Director of Corporate Services, Jodi Akins - Council Clerk Secretary, Tatiana Dafoe – City Clerk

Also Present: Jeff Graham and Alyson Conrad from Festival Hydro

1. **Call to Order**

The Chair called the meeting to Order.

2. **Disclosure of Pecuniary Interest and the General Nature Thereof**

The *Municipal Conflict of Interest Act* requires any member of Council declaring a pecuniary interest and the general nature thereof, where the interest of a member of Council has not been disclosed by reason of the member's absence from the meeting, to disclose the interest at the first open meeting attended by the member of Council and otherwise comply with the *Act*.

Name, Item and General Nature of Pecuniary Interest

No disclosures of pecuniary interest were made by a member at the September 21, 2021, Finance and Labour Relations Sub-committee meeting.

3. **Delegations**

None scheduled.

4. Report of Festival Hydro Inc.

4.1 Financial Statements and Commentary for Festival Hydro Inc. (FHI) for Q2 ending June 30, 2021 (FIN21-023)

Staff Recommendation: THAT the Festival Hydro Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.

Motion by Councillor Ritsma

Sub-committee Decision: THAT Jeff Graham, CEO and Alyson Conrad, CFO of Festival Hydro Inc. be heard regarding the Festival Hydro Inc. financial statements and commentary for the period ending June 30, 2021.

Carried

Sub-committee Discussion: The Chair welcomed Jeff Graham to his new position as Chief Executive Officer (CEO) of both Festival Hydro Inc. and Rhyzome Networks.

The Chief Financial Officer (CFO) of Festival Hydro Inc., provided highlights of the report as follows:

- Net income is \$805,000, which is \$255,000 below year to date budget.
- \$234,000 of that relates to an interest penalty on the disallowed shareholder interest.
- a portion of the shareholder loan interest payment in 2015/2016 was disallowed by an audit by the Minister of Finance.
- staff of Festival Hydro are preparing a Notice of Objection to challenge that audit assessment.
- Accounts Receivable Energy Arrears are \$19,000 lower than the same period last year, which indicates that most customers are able to manage their bills within the impacts of the pandemic.
- FHI was allocated \$93,000 of COVID-19 Energy Assistance program funds, which assisted customers in arrears get their accounts up to date. The funds were exhausted this spring.
- Distribution revenue is \$17,000 below budget but \$227,000 ahead of last year.

- Operating expenses ahead of budget due to timing difference.
- Loan covenant liquidity ratio and debt/equity ratios have been met.

Further background was requested on the disallowed interest. The CFO advised that the interest rate that the shareholder loans are sitting at is 7.25%. The auditor was looking at a reasonability rate of the interest rate and has disallowed a portion of that 7.25%. Staff feel it is a reasonable rate and will be challenging that objection.

In response to whether that would affect 2018, 2019 and 2020, the CFO advised they have not completed those audits yet. FHI does have funds in their Minister of Finance account to minimize interest penalties if those are challenged as well.

Motion by Councillor Beatty

Sub-committee Recommendation: THAT the Festival Hydro Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.

Carried

5. Report of Rhizome Networks

5.1 Financial Statements and Commentary for Rhizome (Festival Hydro Services Inc.-FHSI) for Q2 ending June 30, 2021 (FIN21-024)

Staff Recommendation: THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.

Motion by Councillor Bunting

Sub-committee Decision: THAT Jeff Graham, CEO and Alyson Conrad, CFO of Rhizome Networks be heard regarding the Festival Hydro Services Inc. financial statements and commentary for the period ending June 30, 2021.

Carried

Sub-committee Discussion: The Chief Financial Officer (CFO) of Rhizome Networks provided highlights of the report as follows:

- Net income was \$90,000, \$2,000 over budget and \$12,000 higher than this point last year.

- Investing in capital asset additions related to software costs and wi-fi and fibre related projects.
- Revenue and expenses are both down by similar amounts mainly due to staffing delays.
- Decreases and expenses caused by COVID-19, such as training and conferences not occurring.

In response to whether there were any plans for Rhizome Network to expand into other areas, the CEO stated that they are looking at going into a period of strategic planning. He advised he would provide additional information at a later date.

Motion by Councillor Ritsma

Sub-committee Recommendation: THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.

With respect to the audits and whether is it normal to go back so far, the CFO advised that there is one team that audits all utilities in the province. They are quite behind, usually 5-6 years. It is normal but has implications that are difficult for their organization. The CFO stated that they are not the only utility in same position. Others are challenging their audit results as well. The CEO stated they are also working with their industry association to lobby the issue with the government.

The Chair called the question on the motion.

Carried

6. Next Sub-committee Meeting

The next Finance and Labour Relations Sub-committee meeting is Tuesday, October 19, 2021 at 3:30 p.m.

7. Adjournment

Motion by Councillor Clifford

Sub-committee Decision: THAT the Finance and Labour Relations Sub-committee meeting adjourn.

Carried

Meeting Start Time: 3:30 P.M.

Meeting End Time: 3:42 P.M.



MANAGEMENT REPORT

Date: September 21, 2021
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, Acting Director of Corporate Services
Report#: FIN21-023
Attachments: FHI – Q2 2021 financial statements to June 30 2021

Title: Financial Statements and Commentary for Festival Hydro Inc. (FHI) for Q2 ending June 30, 2021

Objective: To consider the financial reports from FHI for the period ending June 30, 2021.

Background: City Council is updated quarterly on the financial position of FHI.

Analysis: As noted in the attached statements. Representatives from FHI have been invited to attend as a delegation to present the attached report.

Financial Impact: Not applicable.

Alignment with Strategic Priorities (delete any that do not apply):

Developing our Resources

Optimizing Stratford's physical assets and digital resources. Planning a sustainable future for Stratford's resources and environment.

Staff Recommendation: THAT the Festival Hydro Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.

A handwritten signature in black ink, appearing to be "K. Krueger", written over a horizontal line.

Karmen Krueger, Acting Director of Corporate Services

A handwritten signature in cursive script that reads "Joan Thomson".

Joan Thomson, Chief Administrative Officer



Financial Statements

Prepared For:

Dave Gaffney and the Finance & Labour Relations Committee

September 2021

To: Dave Gaffney and the Finance and Labour Relations Committee

From: Alyson Conrad, CFO

Re: Commentary on FHI Financial Results –
For the period ended June 30, 2021

Net income for the period is \$805K, which is \$255K below the YTD budget, \$234K of this relates to the interest penalty on the disallowed shareholder interest by the Minister of Finance (MoF). Detailed commentary on the balance sheet and statement of operations are noted below:

BALANCE SHEET COMMENTARY:

Accounts Receivable – The accounts receivable balance is \$179K less than it was in June of 2020. This variance is the result of the following:

- Electric receivables are \$349K higher than June 2020, while amounts in arrears has decreased by \$19K compared to the same time period. The \$368K in additional accounts receivables are due to the fact that in the prior year, time of use rates were all set at the lowest TOU price to assist with the pandemic. Electricity rates are back to the market cost of power.
- Water and sewer receivables are \$52K lower than June 2020. Balances that are past due (in arrears) have decreased by \$97K compared to June 2020. This is signaling a positive rebound from the pandemic.
- Lastly there is a decrease in OER receivables because the OER rate decreased on May 1st 2021 from 21.2% to 18.9%.

Electric receivables are being continuously monitored due to pandemic impacts. It has been encouraging that accounts in arrears have decreased from the same time last year. The efforts of the customer service department to assist customers with payment plans while still attempting to collect should be commended. FHI began disconnecting customers after a long disconnection ban on June 7, 2021. The ability to disconnect provides FHI with the opportunity to minimize losses until the next disconnection moratorium starts on December 1st. FHI was allocated \$92,858 of COVID-19 Energy Assistance Program (CEAP) funds and exhausted these funds quickly once the moratorium was lifted. This funding helped customers who were in arrears get their accounts up to date and helped to minimize bad debt.

Due from FHSI – The balance in this account decreased from the March 2021 balance by \$33K. The difference is mainly due to the Q1 Fibre Revenue from Wightman.

Unbilled Revenue – This balance is \$97K lower than the balance in June of 2020. June's electricity consumption has slightly increased compared to the prior year however the global adjustment rate decreased significantly compared to the prior year which accounts for the decrease in unbilled revenue.

Regulatory Assets – The regulatory asset balance has increased by \$565K over the prior year mainly due to IESO billings for whole market charges and network charges being higher than approved that are billed

to customers. The yearend differences between IESO billed amounts and rate order billings are recovered through annual IRM applications. These variances are offset by a decrease in GA rates from the prior year.

A/P and Accrued Liabilities – This balance has increased \$508K from the June 2020 balance. Trade payables and operating accruals have actually decreased by \$263K because large construction payables to Hydro One were included in 2020 and have since been paid. The June 2021 IESO invoice and HST payable were higher than prior year to the amount of \$623K.

Consumer Deposits – Customer deposits have only decreased by \$11K from the prior year. Festival continues to ensure sufficient deposits are on hand as the OEB rules allow in order to minimize risks of bad debt losses.

INCOME STATEMENT COMMENTARY:

Gross Margin on Service Revenue (Distribution Revenue) – The distribution revenue to the end of Q2 2021 is \$17K below budget but \$227K ahead of the prior year. Distribution revenues are ahead of budget for the residential customer class due to a higher number of customers compared to budget projections resulting in \$47K higher revenues. However, >50kW commercial customers are below budget by \$104K. This budget was based on 2019 and 2020 usage however usage is down for this rate class likely due to the pandemic and business closures. Luckily, FHI has not seen large negative impacts to small business and large use customers; they are above budget projections. After the longer than anticipated stay at home order and provincial staged reopening plan we are pleasantly satisfied with the overall financial results.

Although not an impact to distribution revenue and net income, it should be noted that Sale of Electricity (included in Service Revenue) and Cost of Power are both substantially lower than prior year and budget. Global Adjustment costs have been significantly lower than prior years. Monthly decreases in the rate range from 16.7% to 55.3%. After consultation with other utilities, it was noted that they are seeing similar trends as the Global Adjustment rates are set provincially.

Other Revenue – Other revenue is running \$11K below budget at the end of Q2 which is an improvement from Q1 and \$55K higher than the prior year. Other miscellaneous revenues were budgeted based on the average of 2019 and 2020. Billable work order markups are lower in 2021 than the average of 2019 and 2020 by a small margin.

Controllable Costs - Total controllable costs are \$14K more than budget to the end of Q2.

Operating and Maintenance expenses are up overall by \$8K. Some variances are due to timing differences of actual spend versus the budget timing. Decreases in expenses are due to three staffing delays. The Metering Manager was budgeted for a full year but was hired later than planned and the GIS Analyst and Meter Technician hiring have been delayed which has resulted in under spending in the budget. A large portion of these staffing decreases have been offset by increases in overhead and underground lines maintenance specifically for multiple old and leaking transformers that needed repair. In addition, there has been an increase in locate requests compared to prior years which increased locate expenses.

Administration expenses are up overall by \$6K. The increase is due to multiple vacation payouts from employee resignations. These costs are offset by two staffing vacancies. The CFO position was vacant for

most of Q1. In addition, the Customer Service Manager left early in the year and this position was filled internally at the end of March.

As noted, overall net income is behind budget by \$255K with \$234K being due to interest on the MoF's reassessment which disallowed a portion of shareholder interest from 2015 and 2016. FHI will be challenging this reassessment.

CASH FLOW COMMENTARY:

As per the cash flow statement, the June 30 cash balance increased by \$451K since yearend and \$1.61M more than June 2020. Cash from working capital items have increased by \$1.4M. The average overdraft balance has decreased from \$2M in 2020 to \$1.03M in 2021. Cash spent on capital has increased from prior year by \$624K.

LOAN COVENANT RATIOS:

The Loan Covenant liquidity ratios and debt to equity ratios as prescribed by our major lenders, RBC and Infrastructure Ontario are being met.

Presented for information purposes.

FESTIVAL HYDRO INC.

Balance Sheet

For the period ending June 30, 2021

	YTD as at Jun 30, 2020	YTD as at Dec 31, 2020	YTD as at Jun 30, 2021		YTD as at Jun 30, 2020	YTD as at Dec 31, 2020	YTD as at Jun 30, 2021
ASSETS				LIABILITIES			
Current Assets				Current Liabilities			
Accounts Receivable	6,453,068	7,398,302	6,274,057	Bank Indebtedness	2,140,202	977,189	526,191
Inventory	309,267	172,612	309,019	Accounts Payable & Accrued Liabilities	8,216,302	9,597,481	8,723,981
Prepaid Expenses	337,523	389,850	295,752	Current Portion of Consumer Deposits	1,097,402	1,054,198	1,085,980
Due from FHSI	1,316,216	627,071	522,067	Current Portion of Long Term Loans	324,970	664,985	339,536
Corporate PILS Recoverable	232,830	177,937	144,937	Dividends Declared	—	115,211	—
Unbilled Revenue	5,495,176	6,371,221	5,397,811	Promissory Note	15,600,000	15,600,000	15,600,000
	14,144,082	15,136,994	12,943,643		27,378,876	28,009,063	26,275,687
Property, Plant & Equipment	54,502,490	55,447,062	55,669,520	Other Liabilities			
				Unrealized loss on interest rate swap	744,234	1,585,033	1,585,033
Other Assets				Deferred Revenue	1,891,553	2,227,262	2,291,610
Intangible Assets	1,940,098	1,955,244	1,849,304	Employee Future Benefits	1,472,268	1,492,917	1,492,917
Future payments in lieu of income taxes	(745,865)	(947,981)	(947,981)				
Regulatory Assets	1,280,068	1,267,203	1,844,839	Long Term Debt			
				Consumer Deposits over one year	—	439,796	—
				RBC Loan - LT Portion	10,841,000	10,366,000	10,366,000
				Infrastructure Ontario Loan - LT Portion	936,640	746,654	746,654
				TOTAL LIABILITIES	43,264,571	44,866,726	42,757,901
				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	12,646,358	12,861,751	13,471,379
				Accumulated Other Comprehensive Income	(358,444)	(438,343)	(438,343)
				TOTAL EQUITY	27,856,302	27,991,796	28,601,424
TOTAL ASSETS	71,120,873	72,858,522	71,359,325	TOTAL LIABILITIES AND EQUITY	71,120,873	72,858,522	71,359,325

FESTIVAL HYDRO INC.

Income Statement

For the period ending June 30, 2021

	YTD as at Jun 30, 2020	YTD as at Jun 30, 2021	YTD Budget at Jun 30, 2021	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
REVENUE					
Service Revenue	39,563,356	33,726,881	42,067,440	(8,340,559)	(20%)
Cost of Power	34,007,313	27,943,637	36,266,913	(8,323,276)	(23%)
GROSS MARGIN (DISTRIBUTION REVENUE)	5,556,043	5,783,245	5,800,527	(17,282)	(0%)
Other Operating Revenue	496,462	551,524	562,158	(10,634)	(2%)
OPERATING & MAINTENANCE EXPENSE					
Transformer & Distribution Station Expense	61,454	77,766	64,658	13,109	20%
Distribution Lines & Services Overhead	933,024	805,614	751,223	54,391	7%
U/G Distribution Lines & Services	70,373	130,472	92,443	38,029	41%
Distribution Transformers	38,547	60,964	45,238	15,726	35%
Distribution Meters	204,145	129,157	273,389	(144,231)	(53%)
Customer Premises	71,772	104,094	73,484	30,610	42%
TOTAL OPERATING AND MAINTENANCE	1,379,316	1,308,069	1,300,434	7,635	1%
ADMINISTRATION					
Billing, Collecting & Meter Reading	613,242	662,007	682,822	(20,816)	(3%)
Administration	1,205,927	1,286,679	1,259,783	26,896	2%
TOTAL ADMINISTRATION	1,819,169	1,948,685	1,942,605	6,080	0%
Allocated Depreciation	(75,946)	(61,096)	(61,096)	—	—
TOTAL CONTROLLABLE COST	3,122,539	3,195,658	3,181,944	13,715	0%
NET INCOME BEFORE DEP'N, INTEREST & TAX	2,929,966	3,139,111	3,180,741	(41,631)	(1%)
Depreciation	1,285,358	1,195,441	1,195,442	(0)	(0%)
Interest Expense	836,234	784,945	816,908	(31,963)	(4%)
Interest Income	(28,611)	(15,275)	(26,200)	(10,925)	(42%)
NET INCOME BEFORE SWAP, ICM & PBA & INC TAXES	836,985	1,173,999	1,194,592	(20,593)	(2%)
Current Tax	64,916	369,206	135,000	234,206	173%
NET INCOME BEFORE SWAP & ICM	772,069	804,793	1,059,592	(254,799)	(24%)
Unrealized Gain/Loss on Swap	—	—	—	—	—
Marketable Security - recorded as OCI	—	—	—	—	—

Cash Flow Statement

For the period ending June 30, 2021

	YTD as at Dec 31, 2020	YTD as at Jun 30, 2021
Cash from Operations		
Net Income	1,217,939	804,793
Depreciation	2,548,121	1,195,441
Amortization of deferred revenue in other revenue	(56,840)	64,348
Unrealized loss on interest rate swap	840,798	—
Decrease/(Increase) in Receivables	(1,018,060)	1,124,244
Decrease/(Increase) in Inventory	(41,285)	(136,407)
Decrease/(Increase) in Prepaids	33,219	94,098
Decrease/(Increase) in Due from FHSI	(89,088)	105,005
Decrease/(Increase) in PILS	(70,190)	33,000
Decrease/(Increase) in Unbilled Revenues	1,266,905	973,409
Decrease/(Increase) in Future Tax (offsetting entry in payab	202,116	—
Decrease/(Increase) in Regulatory Assets	(693,791)	(577,636)
Increase/(Decrease) in Payables	370,028	(873,500)
Increase/(Decrease) in Dividends Declared	(95,229)	(115,211)
Increase/(Decrease) in Deposits	(168,197)	(408,014)
Increase/(Decrease) in Employee Future Benefits	20,649	—
Contributed Capital	465,541	382,107
Net Cash Provided	4,732,635	2,665,678
Cash from Financing		
Loan Repayments	646,696	325,449
Cash Used - Capital Expenditures	3,224,478	1,694,067
Cash Used - TS expansion	—	—
TS Expansion Construction Loan Proceeds	—	—
Cash Used - Dividends paid current year	505,581	195,165
Cash Used - Dividends declared in prior year	—	—
Net Cash Used	4,376,755	2,214,681
Increase (Decrease) in Cash Position	355,880	450,997
Bank Indebtedness, Beg of Period	(1,333,068)	(977,188)
Bank Indebtedness, End of Period	(977,188)	(526,191)
Line of Credit Analysis	2020	2021
High balance (YTD)	2,452,459	3,245,015
Low Balance (YTD)	(3,306,722)	(3,720,000)
Overdraft interest (annualized)	49,025	25,254
Interest rate (avg annual for period)	2.45%	2.45%
Average overdraft balance	2,001,007	1,030,794

Key Financial Ratios:	Actual Ratio	Required Ratio
RBC Compliance Ratio - Funded Debt to Total Capital	0.50	Less than 0.65
Infrastructure Ont Compliance - Debt to Equity Test	31:69	Less than 75:25
Infrastructure Ont Compliance - Debt Service Ratio	2.11	Not less than 1.30X

FESTIVAL HYDRO INC.

Statement of Capital For the period ending June 30, 2021

	YTD as at Jun 30, 2020	YTD as at Jun 30, 2021	YTD Budget at Jun 30, 2021	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
DISTRIBUTION					
Distribution Overhead	162,057	512,073	494,158	17,915	4%
Underground Conductor and Devices	329,279	176,033	428,278	(252,245)	(59%)
Distribution Transformers	136,160	183,065	163,144	19,921	12%
Services	67,368	170,511	—	170,511	(100%)
Distribution Meters	156,696	24,667	122,772	(98,105)	(80%)
SCADA/Distribution Automation	10,674	5,770	27,500	(21,730)	(79%)
Tools and Miscellaneous Equipment	5,664	11,867	15,000	(3,133)	(21%)
TOTAL DISTRIBUTION	867,899	1,083,986	1,250,852	(166,866)	(13%)
OTHER CAPITAL					
Land and Buildings	84,440	267,204	294,195	(26,991)	(9%)
Transformer Station	19,921	70,598	80,730	(10,132)	(13%)
Vehicles and Trailers	—	—	30,000	(30,000)	(100%)
Computer Hardware and Software	97,759	272,279	180,667	91,612	51%
TOTAL OTHER CAPITAL	202,121	610,080	585,592	24,489	4%



MANAGEMENT REPORT

Date: September 21, 2021
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, Acting Director of Corporate Services
Report#: FIN21-024
Attachments: FHSI – Q2 2021 financial statements – to June 30 2021

Title: Financial Statements and Commentary for Rhyzome (Festival Hydro Services Inc.- FHSI) for Q2 ending June 30, 2021

Objective: To consider the financial reports from FHSI for the period ending June 30, 2021.

Background: City Council is updated quarterly on the financial position of FHSI.

Analysis: As noted in the attached statements. Representatives from FHSI have been invited to attend as a delegation to present the attached report.

Financial Impact: Not applicable.

Alignment with Strategic Priorities:

Developing our Resources

Optimizing Stratford's physical assets and digital resources. Planning a sustainable future for Stratford's resources and environment.

Staff Recommendation: **THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending June 30, 2021, be received for information.**

A handwritten signature in black ink, appearing to be 'K. Krueger', with a long horizontal stroke extending to the right.

Karmen Krueger, Acting Director of Corporate Services

A handwritten signature in black ink, appearing to be 'Joan Thomson', written in a cursive style.

Joan Thomson, Chief Administrative Officer



Festival Hydro Services Inc.

Financial Statements

Prepared For:

Dave Gaffney and the Finance & Labour Relations Committee

September 2021

To: Dave Gaffney and the Finance and Labour Relations Committee
From: Alyson Conrad, CFO
Re: Commentary on FHSI Financial Results –
 For the period ended June 30, 2021

The net income for the period was \$90K which is \$2K over budget and \$12K higher than at this point last year. Detailed commentary on the balance sheet, income statement and cash flow are noted below:

Balance Sheet Commentary:

A/R & Prepaids – This balance is higher than Q1 2021 because of prepaid joint pole attachment expenses being billed by FHI in April this year. The prepaids balance is comparable to the Q2 balance from the prior year.

Capital Asset Additions – Additions to the end of June 2021 are \$41K or 54% of budget planned to date. This includes \$27K additions on computer software, \$7.6K on Fibre and \$6.5K on Wi-Fi related projects. Details on the capital spend to date are as noted below:

Computer Hardware/Software: Total spend for FHSI on hardware/software YTD is \$27K of which \$15K was spent on the Internal Network Assessment carried out by Digital Boundaries. \$12K was spent on heatmapping hardware/software which helps to trace Wi-Fi signals. This has already proven helpful when dealing with customer outages.

Wi-Fi Capital: Total YTD spend on Wi-Fi related activity is \$6.5K, the majority of which was used to purchase access point licences for the Wi-Fi Controller and the remaining spent on labour to complete the update of Stratford clusters of AP's to complete the Wi-Fi mesh.

Fibre Capital: Total spend on fibre capital YTD is \$7.6K. A portion was spent on capital costs of connecting a new HOT service and relocating the connection for Invest-Stratford. \$3K was spent on repairing a span of fibre impacted by an issue in Waterloo Street vault and re-connecting the St Mary's firehall. Lastly, \$2K was spent on Wightman expansion costs.

Due to Festival Hydro Inc. – The balance in this account decreased from the March 2021 balance by \$33K. The difference is mainly due to the Q1 Fibre Revenue from Wightman.

Deferred Revenue – this balance has decreased slightly from the March 2021 balance as a portion of the balance has been recognized into revenue for Q2 2021. No new contributions have been received in the year.

Income Statement Commentary:

Revenues – Revenues are \$58K lower than budget in Q2 but \$13K higher than prior year. The dark fibre rental agreement was renegotiated with Hydro One at a higher amount than budgeted, resulting in an increase of \$11K. This increase is offset by the decreases in Wi-Fi and ISP revenues which revenues have not seen the anticipated growth in the amount of \$10K. Consulting Revenue for FHSI employees to do work for FHI is under budget by approximately \$28K, the main reason being staffing delays. Lastly, Other Revenue – Miscellaneous is \$21K below budget mainly due to lower than anticipated growth for collocates.

Operating Expenses – Operating expenses are below budget by \$59K at the end of Q2. As noted above there were staffing changes and delays which decreased overall expenses by \$30K from budget. There are some decreases in Sentinel Lights, Fibre Optics and Wi-Fi maintenance costs; however, these expenses will be incurred through the remainder of the year. The additional decreases are mainly due to administration timing differences and lower expenses caused by Covid-19 limitations such as a training, conferences, and travel.

Cash Flow Commentary:

The cash balance has increased to \$37K from the \$22K March 2021 balance. As discussed above net income is slightly ahead of budget and ahead of the prior year. The variances in cash from year end are due to loan repayments, capital purchases and working capital items.

FESTIVAL HYDRO SERVICES INC.

Balance Sheet For the period ending June 30, 2021

	YTD as at Jun 30, 2020	YTD as at Dec 31, 2020	YTD as at Jun 30, 2021		YTD as at Jun 30, 2020	YTD as at Dec 31, 2020	YTD as at Jun 30, 2021
ASSETS				LIABILITIES			
Current Assets				Current Liabilities			
Cash	53,879	9,529	36,626	Accounts Payable	(19,371)	33,014	41,795
Accounts Receivable & Prepaids	118,377	60,474	102,577	Due to Festival Hydro Inc.	1,315,431	627,071	522,067
Income Tax Receivable/(Payable)	—	—	—	Current Portion of LTD	152,294	41,707	20,853
Other Assets	—	—	—	Promissory Note	372,000	372,000	372,000
Inventory	8,019	7,773	7,773				
Total Current Assets	180,275	77,776	146,976	Total Current Liabilities	1,820,354	1,073,792	956,715
Fixed Assets				Other Liabilities			
Gross Book Value	5,520,448	5,394,392	5,435,440	Deferred Revenue	247,546	687,600	641,798
Accumulated Depreciation	(2,002,324)	(2,008,348)	(2,191,556)	Deferred Tax Liabilities	202,000	238,000	238,000
Net Book Value	3,518,124	3,386,044	3,243,884				
Other Assets				Long Term Debt			
Investment in QR Fibre Co.	—	—	—	RBC Financing	1	1	—
Investment Tax Credit Receivable	21,000	6,000	6,000	POP Loan Long Term Portion	405,521	363,813	363,813
				TOTAL LIABILITIES	2,675,422	2,363,207	2,200,326
				EQUITY			
				Share Capital	249,236	249,236	249,236
				Retained Earnings	794,742	857,378	947,299
				TOTAL EQUITY	1,043,978	1,106,613	1,196,534
TOTAL ASSETS	3,719,399	3,469,820	3,396,861	TOTAL LIABILITIES AND EQUITY	3,719,399	3,469,820	3,396,861

FESTIVAL HYDRO SERVICES INC.

Statement of Operations For the period ending June 30, 2021

	YTD as at Jun 30, 2020	YTD as at Jun 30, 2021	YTD Budget at Jun 30, 2021	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
TOTAL REVENUE	648,900	662,084	719,802	(57,718)	(8%)
TOTAL OPERATING EXPENSES	372,928	363,688	423,125	(59,437)	(14%)
NET INCOME BEFORE DEPRECIATION & INTEREST	275,972	298,396	296,677	1,719	1%
Depreciation	164,867	183,208	183,208	—	—
Interest Expense	33,409	25,341	25,671	(330)	(1%)
Interest Income	(412)	(73)	—	(73)	—
NET INCOME FOR THE PERIOD BEFORE TAXES	78,108	89,920	87,798	2,122	2%
Current Tax Provision	—	—	—	—	—
Future Tax Provision	—	—	—	—	—
NET INCOME(LOSS) FOR THE PERIOD	78,108	89,920	87,798	2,122	2%

FESTIVAL HYDRO SERVICES INC.

Cash Flow Statement

For the period ending June 30, 2021

	YTD as at Dec 31, 2020	YTD as at Jun 30, 2021
Cash from Operations		
Net Income	140,744	89,921
Future tax provision	36,000	—
Current tax provision (ITC portion)	15,000	—
Depreciation	346,015	183,208
Amortization of contributed capital	(45,817)	(36,784)
Amortization of deferred revenue	(18,807)	(9,018)
Accretion of interest	—	—
Investment in QR Fibre Co.	—	—
Net Change in Receivables/Payables	(111,419)	(33,323)
Net Cash Provided	361,716	194,004
Cash from Financing		
Capital expenditures - Festival	(606,328)	(41,048)
Contributed capital received DSRC - AVIN	480,000	—
Loan - Wightman	(40,922)	(20,854)
Loan - RBC	(288,185)	—
Loan from/(repayment to) Festival	89,089	(105,005)
Net Cash Used	(366,346)	(166,907)
Increase (Decrease) in Cash Position	(4,630)	27,097
Cash Beg of Period	14,159	9,529
Cash End of Period	9,529	36,626

FESTIVAL HYDRO SERVICES INC.

Statement of Capital For the period ending June 30, 2021

	YTD as at Jun 30, 2021	YTD Budget at Jun 30, 2021	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
CAPITAL				
Office Furniture & Equipment	—	—	—	—
Computer Equipment - Hardware	—	3,000	(3,000)	(100%)
Computer Software	26,938	25,238	1,701	7%
Sentinel Lighting Rental Units	—	—	—	—
Buildings	—	—	—	—
Fibre Capital	7,624	24,500	(16,876)	(69%)
WiFi Capital	6,486	23,500	(17,014)	(72%)
TOTAL CAPITAL	41,048	76,238	(35,189)	(46%)