

Festival Hydro Inc.
MEMORANDUM

To: Chair Tom Clifford and Finance & Human Resources Subcommittee

From: Bill Zehr, President

Festival Hydro Inc.
Financial Statement Commentary for the year ended December 31, 2012

Net income for the year was \$1,833,444 compared to a budget amount of \$1,972,889. Detailed commentary on the balance sheet and income statement are noted below:

Balance Sheet Commentary:

Bank indebtedness – Cash is down by from one a year earlier as a result funding the TS build.

Accounts Receivable - Accounts receivable is higher than a year.

Due from Festival Hydro Services (FHSI) – The balance has decreased from a year earlier.

Inventory – Inventory increased because it includes wire purchased specifically for our distribution lines leading out from the TS, to be installed in early 2013.

Unbilled Revenue – Unbilled revenue is up from the previous year.

Intangible Asset – The amount was set up last year represents the costs associated to have a 3rd party create training videos for which we have the right to access indefinitely. Upon discussions with KPMG, this has been moved to computer software costs and will be amortized over 5 years.

Future Payments in Lieu of Income Taxes – Due to the changes to Handbook section 3465 in 2009 related to future income taxes, this item is now offset entirely by a regulatory liability. The asset and liability calculation is updated at year end to reflect all timing differences throughout the year and grossed up by the effective tax rate of those timing differences at that time.

Accounts Payable and accruals – Accounts payable and accruals are higher due to the invoice accruals for the transformer station project for December 2012 work.

RBC TS CWIP Loan – There have been three advances to date for work in progress for the Transformer Station project.

Employee Future Benefit - An actuarial evaluation has been completed which has caused the liability for future employee benefits to increase.

Regulatory Liabilities – Net Regulatory liabilities have increased substantially. This is primarily the result of reclassifying the **smart meter variance** account into the respective fixed asset, smart meter revenue and expense accounts. The reclassification took place on November 1, 2012, as per the OEB smart meter disposition decision and order.

Schedule of regulatory liability accounts:

<u>December</u>	2011	2012
Cost of Power variance	1,338,046	1,022,318
Wholesale Market variance	(1,302,041)	(2,122,372)
Network and Connection	268,245	604,584
Smart Meters	3,138,462	-
Conservation Accounts	(103,954)	(241,600)
Smaller balance variance accounts	190,422	168,181
2010/2 Variance Account Disposition	(1,367,842)	(841,992)
Future Payment in Lieu of Taxes	(2,533,308)	(2,838,139)
	<u>(371,970)</u>	<u>(4,249,022)</u>

Consumer Deposits over one year - This account has decreased from last year because of favourable credit history with some larger customers and some consumer deposits being reclassified to current consumer deposits.

Income Statement Commentary:

Service Revenues and Cost of Power - Service Revenues and Cost of Power are much higher than budget primarily due to higher electricity pricing and higher consumption by larger general service customers.

Gross Margin on Service Revenue (Distribution Revenue) – The gross margin represents the distribution revenues earned by Festival Hydro, and is made up of the monthly fixed service charges and volumetric sales. General Service kW sales during 2012 have improved slightly. Distribution revenues are slightly below budget.

Smart Meter Disposition - Smart Meter revenue and expenses were netted and shown on this line.

Other Revenue – Other Revenue is over budget primarily as a result of scrap sales, premises rents and Management Fees being higher than budget.

Operating and Maintenance (O & M) Expenses – O & M spending is above budget. More hours have been spent on job related and safety training during the year along with an increase in other O & M expenses.

Billing & Collecting Costs – Billing and collecting costs are below budget.

Administration Costs- Administration costs are very close to budget.

Interest Expense & Interest Income - Interest expense is slightly below budget.

Net income before taxes – Net income before taxes is very close to budget, with only a \$24K difference.

Current Tax Expense – Current taxes have been calculated based on taxable income of \$3.2M (versus accounting income before tax of \$2.6M). The current tax calculated with year-end results is higher than budget as a result of the impact of the smart meter disposition entries in our 2012 income statement. .

Net Income – Net income is below budget by \$140K, related to smart meter disposition tax, as explained in the Current tax note above.

To the best of my knowledge, after due inquiry, the company is in material compliance of all regulations applicable to its operations.

Festival Hydro Inc.
Balance Sheet
As at December 31, 2011 & December 31, 2012

Jan 25/13 version

<u>ASSETS</u>	<u>31/12/2011</u>	<u>31/12/2012</u>
Current		
Accounts Receivable	3,806,508	4,098,531
Inventory	124,781	615,866
Prepaid Expenses	318,191	285,766
Due from Festival Hydro Services Inc	885,013	827,018
Unbilled Revenue	<u>6,937,210</u>	<u>7,054,978</u>
Total Current Assets	12,071,703	12,882,159
Fixed Assets		
Gross Book Value	80,200,026	95,071,701
Accumulated Depreciation	<u>(46,591,589)</u>	<u>(49,896,333)</u>
Net Book Value	<u>33,608,438</u>	<u>45,175,367</u>
Deferred Charge & Intangible Assets	<u>10,000</u>	<u>-</u>
Future Payment in Lieu of Income Taxes	<u>2,518,087</u>	<u>2,838,139</u>
Goodwill	<u>515,359</u>	<u>515,359</u>
 Total Assets	 <u><u>48,723,587</u></u>	 <u><u>61,411,025</u></u>
 <u>LIABILITIES</u>		
Current		
Bank Indebtedness	241,193	965,369
Accounts Payable & Current Liabilities	7,629,268	8,710,426
Accrued Vacation, Wages and Benefits	338,135	351,566
Employee Future Benefits	1,346,328	1,458,962
RBC CWIP Demand Loan	-	6,801,986
Current Portion of Long-Term Debt	307,241	387,055
Promissory Note	<u>15,600,000</u>	<u>15,600,000</u>
Total Current Liabilities	<u>25,462,164</u>	<u>34,275,364</u>
Regulatory Liabilities	<u>400,831</u>	<u>4,249,022</u>
Long Term Debt		
Consumer Deposits over 1 year	1,037,951	660,008
Infrastructure Ontario Loan - L.T. Portion	<u>2,195,085</u>	<u>2,060,423</u>
	<u>3,233,036</u>	<u>2,720,431</u>
Equity		
Share Capital - Common	9,468,388	9,468,388
Preferred	6,100,000	6,100,000
Retained Earnings	<u>4,059,167</u>	<u>4,597,819</u>
Total Equity	19,627,555	20,166,207
 Total Liabilities and Equity	 <u><u>48,723,587</u></u>	 <u><u>61,411,025</u></u>

Festival Hydro Inc.
Statement of Operations
For the Year Ended December 31

Jan 25/13 version

	2012 Three Month <u>Actual</u>	2011 Y.T.D. <u>Actual</u>	2012 Y.T.D. <u>Budget</u>	2012 Y.T.D. <u>Actual</u>
Revenue				
Service Revenue	\$16,466,878	\$62,343,559	\$64,195,802	\$65,602,866
Cost of Power	13,973,562	52,635,545	54,215,844	55,667,463
Gross Margin on Service Revenue	\$2,493,316	\$9,708,014	\$9,979,958	\$9,935,403
Smart Meter Disposition (Net expense)	(\$65,917)			(\$65,917)
Other Operating Revenue	155,268	685,464	565,524	653,844
Operating and Maintenance Expense				
Transformer Station Expense	7,427	7,854	8,050	7,427
Distribution Station Equipment	6,707	\$39,939	37871	\$26,294
Distribution Lines & Services Overhead	88,853	719,281	732,170	802,024
Distribution Lines & Services Underground	36,968	205,551	219,334	216,884
Distribution Transformers	17,159	80,139	82,786	76,996
Distribution Meters	105,558	345,278	353,910	364,139
Customer Premises	45,416	141,779	147,823	164,277
Total Operating and Maintenance	\$308,088	\$1,539,820	\$1,581,944	\$1,658,040
Administration				
Billing, Collecting and Meter Reading	201,701	936,529	979,455	894,424
Administration	427,333	1,515,799	1,661,237	1,654,962
Total Administration	\$629,034	\$2,452,328	\$2,640,692	\$2,549,386
Allocated Depreciation	(\$79,010)	(\$299,254)	(\$299,474)	(\$317,941)
Total Controllable	\$858,112	\$3,692,894	\$3,923,162	\$3,889,485
Net Income Before Depreciation & Interest	1,724,556	6,700,584	6,622,320	6,633,845
Depreciation	\$713,566	2,797,880	2,808,546	2,822,225
Interest Expense	326,993	1,305,015	1,299,581	1,285,666
Interest Revenue	-53,088	-116,081	-125,000	-128,598
Capital tax & Property Tax	8,838	23,904	23,904	12,107
Extraordinary Item - EA	27,074	36,368	42,400	45,002
Net Income Before Taxes	701,173	2,653,497	2,572,889	2,597,444
Current tax expense	321,790	628,000	600,000	764,000
Net Income	\$379,383	\$2,025,497	\$1,972,889	\$1,833,444

Festival Hydro Inc.
STATEMENT OF CAPITAL
For the Period Ending DECEMBER 31,2012

Jan 25/13 version

	2012 Budget (excludes subdivisions)	2012 Y.T.D. Actual (excludes subdivisions)	2012 Total Y.T.D. Actual (includes subdivisions)
Distribution Overhead	1,225,500	1,541,077	1,541,077
Underground Conductor and Devices	880,000	453,357	630,620
Distribution Transformers	335,000	172,660	236,383
Services	250,000	201,417	201,417
Distribution Meters	112,300	145,790	145,790
Scada/Distribution Automation	30,000	30,839	30,839
Tools and Miscellaneous Equipment	20,000	22,851	22,851
DISTRIBUTION SUB-TOTAL	2,852,800	2,567,991	2,808,977
Lands and Buildings	50,000	43,009	43,009
Vehicles and Trailers	358,000	349,576	349,576
Computer Equipment	110,000	89,854	89,854
OTHER CAPITAL SUB-TOTAL	518,000	482,439	482,439
SUB-TOTAL	3,370,800	3,050,431	3,291,417
Smart Meters (included in regulatory assets)	29,875	25,171	25,171
Transformer Station	10,500,000	8,355,535	8,355,535
TOTAL CAPITAL	13,900,675	11,431,137	11,672,123
Transfer smart meters from SM Var Acct	\$0	3,463,627	3,463,627
Transfer computer hdwe & softwe from SM Var Acct		205,778	205,778
TOTAL CAPITAL	\$13,900,675	15,100,543	15,341,529

Festival Hydro Inc.
STATEMENT OF CASH POSITION
AS AT DECEMBER 31

Jan 25/13 version

	2011 Y.T.D. Actual	2012 Y.T.D. Actual
Cash from Operations		
Net Income	\$2,025,497	\$1,833,444
Depreciation	2,797,880	2,822,225
Net Change in Receivables/Payables	-472,656	639,293
Net change in regulatory liabilities (net of SM transfer)	-747,835	178,785
Loan from RBC	0	6,801,986
Contributed Capital	106,480	101,669
Total Cash Provided	\$3,709,367	\$12,377,402
Cash Used:		
Repayment of Infrastructure Ontario Loan	123,561	\$134,662
Dividends Paid	1,294,793	1,294,793
Capital Expenditures	3,621,283	11,672,123
	5,039,636	13,101,578
Increase (Decrease) in Cash Position	-1,330,270	-724,176
Cash Beginning of Year	1,089,077	-241,193
Bank Indebtedness, End of Year	(\$241,193)	(\$965,369)

Festival Hydro Services Inc.
MEMORANDUM

To: Chair Tom Clifford and Finance & Human Resources Subcommittee
From: Bill Zehr, President

Commentary on Financial Results
For the year ended December 31, 2012

The net income for the year was \$12,166. Detailed commentary on the balance sheet and income statement activity are noted below:

Balance Sheet Commentary:

Tax Receivable – The current tax receivable has been reduced to zero as the tax refunds were received in September.

Capital asset gross book value - Additions to December 31st for the year ending total \$165,624.

Future tax asset – The future tax asset at December 31, 2012 was set at \$32,000.

Income Statement Commentary:

Dark Fibre – Dark fibre revenue is ahead of budget mainly as a result of a back billing.

Walled Garden – Walled Garden revenue for the period under budget.

ISP & GPON Lit Revenue – ISP and lit fibre revenue is above budget as a result of the sale of bandwidth connections for Canada 3.0 and another independent event at the RBC centre that were unbudgeted for as well as new lit fibre customers that signed on for service.

City of Stratford Services – This revenue represents the agreement between the City and Rhyzome for services performed for the City.

Consulting Revenue – This revenue represents services sold to another municipality.

Gain on sale of asset – This revenue represents the accounting gain recognized on the sale of WiFi units.

Fibre Expenses – Joint poles, maintenance & admin – These expenses are over budget for the year.

WiFi Maintenance – This expense is under budget.

Interco Admin & Billing Fee – The contract between FHI and Rhyzome expired August 31, 2012. As such, actual hours of time were tracked in order to calculate the management fee payment to FHI from Rhyzome from September 1, 2012 – December 31, 2012.

Current & Future Taxes – the current tax recovery represents a write off of a prior year tax payable over estimate. The future tax expense is as noted in the future tax asset write up and represents the decrease in the future tax asset throughout the year.

FESTIVAL HYDRO SERVICES INC.
BALANCE SHEET
December 31/12

ASSETS

	Actual Dec 31/11	Actual Dec 31/12
Current		
Cash	1,818	9,510
Accounts Receivable & Prepays	31,815	34,217
Tax receivable	113,491	-
Inventory	34,453	28,715
Total Current Assets	181,577	72,442
Fixed Assets		
Gross Book Value	4,189,424	4,233,301
Accumulated Depreciation	(924,112)	(1,229,176)
Net Book Value	3,265,312	3,004,125
Future tax (liability) asset	29,000	32,000
Organization Costs	270	-
Total Assets	3,476,159	3,108,567

LIABILITIES AND EQUITY

Current		
Accounts Payable	74,815	33,890
Due to Festival Hydro Inc.	885,013	827,018
Current portion of LTD	374,471	393,983
Promissory Note	372,000	372,000
Total Current Liabilities	1,706,299	1,626,891
Deferred Revenue	248,011	341,644
RBC financing	1,244,603	850,620
Equity		
Share Capital	249,235	249,235
Retained Earnings	28,011	40,177
Total Equity	277,246	289,412
Total Liabilities and Equity	3,476,159	3,108,567

Festival Hydro Services Inc.
Statement of Operations
For the period ended December 31, 2012

	2011 YTD	2012	2012 YTD
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Revenue			
Sentinel Lights Rental Revenue	17,858	17,600	17,239
Dark Fibre Optic Revenue	451,183	500,000	518,718
WiFi Revenue	190,188	224,900	213,773
ISP/GPON Lit Fibre Revenue	96,413	168,000	188,895
City of Stratford Services	67,500	100,000	70,000
Consulting Revenue	7,380	1,360	9,360
Co-Locate net revenue	-	-	4,000
Gain on sale of asset	-	55,348	58,425
Total Revenue	<u>830,522</u>	<u>1,067,208</u>	<u>1,080,410</u>
Expenses			
Sentinel Lights - Labour & Material	2,889	2,500	2,849
Fibre - Joint Poles, Mntc & Admin	37,981	47,000	54,384
Bandwidth	49,454	62,000	62,081
Pole rental & Electrical charges for WiFi Equip	25,572	26,000	27,520
System Management	59,000	48,000	48,000
Support	4,572	4,400	5,509
WiFi Maintenance	44,404	60,000	40,829
Business development	184,407	164,807	166,193
Travel, conference & promotional expense	27,505	20,000	16,138
Interco Admin & Billing Fee	41,711	54,680	75,032
Insurance	1,000	2,500	1,000
Directors Fees	6,723	6,700	10,488
Office Supplies	6,504	5,800	3,504
Audit & Professional Fees	33,296	23,000	20,370
Donation	-	-	50
Training	-	10,000	-
Total Expenses	<u>525,018</u>	<u>537,387</u>	<u>533,947</u>
Net Income Before Depreciation & Interest	305,504	529,821	546,463
Depreciation	353,562	368,000	367,743
Interest Income	(418)	(400)	(708)
Interest Expense - FHI	33,221	42,000	40,465
Interest expense - City	27,900	27,900	27,900
Interest - WiFi bank loan	91,815	74,000	73,294
Net Income for the Period before Taxes	(200,576)	18,321	37,769
Current Tax Provision			(3,121)
Future Tax Provision	(86,000)	(4,000)	28,724
Net Income for the Period	(114,576)	22,321	12,166

Festival Hydro Services Inc.
STATEMENT OF CAPITAL
For the Year Ended December 31, 2012

	<u>2012 Budget</u>	<u>2012 Actual YTD</u>
Sentinel Lights	\$0	\$2,121
Data Centre	\$15,000	\$43,746
ISP Equipment/Computer Hardware	\$0	\$1,323
WiFi	\$20,000	\$15,123
Fibre Optic Cable	\$175,000	\$103,311
Total Capital Expenditures	<u>\$ 210,000</u>	<u>\$ 165,624</u>

Festival Hydro Services Inc.
STATEMENT OF CASH POSITION
For the Year Ended December 31, 2012

	<u>2011 Actual</u>	<u>2012 Actual</u>
Cash from Operations		
Net Income	(114,576)	12,166
Depreciation	353,562	367,743
Future tax provision	(86,000)	28,724
Gain on sale of asset	-	(58,425)
Change in Deferred revenue	160,971	93,633
Cash on sale/return of assets	-	168,521
Non-cash increase in assets		(51,109)
Net Change in Receivables/Payables	(56,608)	44,529
Total Cash Provided	<u>257,349</u>	<u>605,782</u>
Cash Used -Capital Expenditures	572,655	165,624
- RBC loan repayment	355,926	374,471
- Dividends Paid (for 2010)	24,480	-
	<u>953,061</u>	<u>540,095</u>
Increase (Decrease) in Cash Position	(695,712)	65,687
Cash and due to FHI beginning of Year	(187,483)	(883,195)
Cash and due to FHI end of Period	<u>(883,195)</u>	<u>(817,508)</u>