

CFO Report to the Finance Committee

Third Quarter Financial Results

Nov. 17, 2020

PURPOSE

To provide directors with a view of the CNA financial position as of Sept. 30, 2020, and an update on other financial business, and to ask the finance committee to recommend the CNA's third quarter 2020 financial results to the executive committee for board approval. The report also provides an updated projection for the remainder of the year.

OVERVIEW

The financial results for the third quarter of the 2020 fiscal year are complete and attached as Appendix A. The operations reported a deficit of \$476,185 on revenue of \$175,525 against expenses of \$651,710. This compares favourably by \$218,299 compared to the budgeted deficit of \$694,484. Despite the deficit for the quarter, the organization continues to be in a strong financial position with \$3,168,431 in net assets as at Sept. 30, 2020 including \$3,541,630 in cash and short-term investments.

The results included in the Statement of Operations in Appendix A show a comparison of the actual results to the budget along with summary notes.

As noted above, the CNA had a deficit of \$476,185 for the third quarter of the year. For the period from January 1, 2020 to September 30, 2020, the organization has generated a surplus of \$759,211. The positive variance in Q3 is due to both permanent and timing differences. For the timing differences, the expenses have been moved to either the fourth quarter or into the 2021 operating budget. Items that have been shifted to Q4 are incorporated into the financial projections discussed further in this report. The items that are being shifted to the 2021 operation budget are identified in this report and also addressed with the 2021 operating budget.

Revenue

Revenue from operations were \$42,558 with an additional \$132,967 recognized from special projects (ONA / SMR) for a total of \$175,525. This compares favourably by \$21,511 to a budgeted revenue of \$154,014. During the quarter, investment income was higher than budget by \$16,733 making up much of the positive variance.

The revenue recognized from special projects is based on the actual expenditures during the quarter. For the Clean Energy / Electrification project, management continues its efforts to secure funding for it hence the reason for nil revenue being recorded to date.



Operating Expenses

The operating expenses in the second quarter were \$389,582 compared to a budget of \$465,816 for a positive variance of \$76,234. The following information provides details on the larger variances:

- **Salaries and Benefits** – There is a positive variance of \$37,998 as the budget included an allocation for one employee managing the ONA program who has transitioned to a full-time employee with Bruce Power. The budget also included planned salary adjustments for two employees. The adjustments have been deferred to 2021. The total variance is a permanent saving for the year.
- **Bad Debts** – Unfortunately, one member cancelled their membership due to COVID-19 impacts on their business operations. Management had been working to collect the fees but was only able to obtain a definitive response from the former member in September (despite many efforts).
- **Travel and Conferences** – The travel budget was based on the assumption that there would be a return to a modest amount of travel. Unfortunately, the impacts of the pandemic continue and there is a permanent savings of \$33,148 on the operations.
- Overall, there are net permanent savings of \$76,000.

Program Expenses

Overall, program expenses were under budget by \$123,588 having incurred expenses of \$129,161 against a budget of \$252,749. The following provides the highlights of the savings during the quarter:

- **Stakeholder Engagement** – There is a positive variance of \$22,375. There is a permanent savings of \$10,000 with the balance being a timing difference, which will be incurred in Q4.
- **Policy & Research** – Management had budgeted for the completion of a research piece on clean energy and electrification. The budget was \$75,000 and management has been working with the renewable industry on the statement of work. This research piece is an integral part of the strategic plan but will not be completed until Q1 of 2021 and will be incorporated into the 2021 operating budget.
- **Regulatory** – The regulatory program budget for the quarter was \$27,000. The budget included an allowance for third party professionals to address regulatory issues. Only a portion of the fees was required during the quarter. The positive variance of \$13,000 is a permanent savings.
- **Government Relations** – Similar to Regulatory, an allowance was budgeted for outside consultants to assist on GR matters, but management did not require the full allowance resulting in a permanent savings of \$13,000.
- **Overall, there are permanent savings of \$36,000 and timing differences of \$12,500 that will be incurred in Q4 and \$75,000 that is being moved to the 2021 operating budget.**

Special Projects

Management identified the Clean Energy / Electrification project as a major initiative for the second half of the year. Advancing the project was subject to management securing separate funding for the project. Efforts continue to secure the funding and once secured the project expenses will be incurred.

Financial Position

The Statement of Financial Position is included in Appendix A. The financial position of the association continues to be strong with net assets at the end of the second quarter of \$3.168 million. Total assets are \$3.758 million, and a summary of the assets is as follows:

- **Cash** – Total cash is \$568,706 of which \$446,636 is held in a high interest savings account. Management is minimizing the cash holdings and placing excess funds in GIC's to maximize interest, however, current GIC rates are at historic lows meaning that returns will be low.
- **Marketable securities** – All of the funds invested in marketable securities are GIC's or money market funds.
- **Account receivable** – Amounts included in accounts receivable have been reviewed for collectability and all amounts are considered collectible.

The liabilities total \$589,335. There is \$220,843 in total trade payables and amounts due for payroll remittances. The remaining balance of \$368,492 is deferred revenue related to funding of the Ontario Nuclear Advantage project and the SMR Secretariat and an amount held for the CNWC program.

2020 Financial Forecast

The budget for the year was a deficit of \$532,439. Based on the financial results of Q1, Q2 and Q3 and the budgeted expenditures in Q4, the projected deficit is \$37,287. Management has reviewed the results to date and the budgeted items for Q4 and now estimates that the operations will result in a deficit of approximately \$35,387.

Management did identify significant savings in Q4 (\$99,400) of which \$84,500 are permanent savings and \$15,000 are being deferred to 2021 (this is a one-time expense). While there are substantial savings, there is an additional \$97,500 in expenses that are required in Q4. Of the new expenses, \$12,500 relates to a timing difference for expenditures moved from Q3 to Q4 and \$10,000 to produce the video that was presented to the board and at the annual general meeting. The remaining \$75,000 has been identified as a new item to help reposition SMR's within the broader, Canadian electricity and energy transition strategy. Based on discussions and feedback with our government relations team, there is a strong sense that the SMR financial "ask" to the federal government would benefit from being positioned in the broader context of the national electrification and climate policy goals. To address this concern, management is pursuing a directed campaign to accomplish this objective.

In addition to the projected variance, management believes it is eligible for the Canadian Emergency Wage Subsidy. KPMG has been engaged to review CNA's eligibility for the subsidy, which will be received prior to the board meeting.

Based on the analysis through September 30th, the organization, if eligible, would be entitled to approximately \$120,000 in wage subsidies. Additional amounts of approximately \$75,000 may be available in the months of October through December. With the subsidies calculated to September 30th, the surplus increases to just under \$85,000.

As noted above, there is one major expenditure of \$75,000 that will move to the 2021 operating budget and there is a further \$15,000 expenditure planned for Q4 that needs to be moved to the 2021 operating budget. Note that both expenditures are non-recurring items and will not affect the organizations normalized annual spending beyond 2021.

The following schedule provides a summary calculation of the revised projection for the year:

Projected deficit based on Q4 budget	\$ (37,287)
Additional Expenditures:	
Q3 Timing differences moved to Q4	(12,500)
Board Video	(10,000)
New GR / Comms	(75,000)
	<u>(134,787)</u>
Less Q4 savings	
Travel and conferences	34,400
Membership (webinar costs)	3,000
Regulatory (consultant allowance)	16,000
Government Relations (Hill Day / Queen's Park Day)	20,000
Government Relations (consultant allowance)	6,000
Stakeholder Engagement (conference sponsorship)	5,000
Stakeholder Engagement (TeachNuclear SMR Module) **	15,000
	<u>(35,387)</u>
Canadian Emergency Wage Subsidy (April to September)	<u>120,000</u>
	<u>\$ 84,613</u>

Notes:

* assuming that the full bonus allowance is paid to employees

** this is a timing difference that will be included in the 2021 operating budget

MOTION

That the finance committee approve the CNA's third quarter financial results for 2020 for recommendation by the executive committee and approval by the board of directors.

APPENDICES

- **Appendix A** – Third Quarter Financial Results