



To: Finance Committee

Date: July 31, 2019

From: Jerry Chong, CPA, CA
Director, Finance and Chief Financial Officer,
Lulu Island Energy Company

File: 10-6600-10-01/2019-Vol 01

Re: Lulu Island Energy Company – 2nd Quarter Financial Information

Staff Recommendation

That the Lulu Island Energy Company report titled “Lulu Island Energy Company – 2nd Quarter Financial Information” dated July 31, 2019 from the Chief Financial Officer, Lulu Island Energy Company be received for information.

Jerry Chong, CPA, CA
Director, Finance and
Chief Financial Officer,
Lulu Island Energy Company
(604-276-4064)

Att. 1

| | |
|---------------------------------------|----------------------|
| REPORT CONCURRENCE | |
| CONCURRENCE OF GENERAL MANAGER | |
| | |
| REVIEWED BY SMT | INITIALS: |
| APPROVED BY CAO | |
| | |





6911 NO. 3 ROAD
RICHMOND, BC V6V 2C1

Report

DATE: July 12, 2019

TO: Board of Directors

FROM: Jerry Chong, CPA, CA, Chief Financial Officer

Re: Lulu Island Energy Company – 2019 2nd Quarter Financial Information

Staff Recommendation

That the 2nd Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2019 2nd Quarter Financial Information” dated July 12, 2019 from the Chief Financial Officer, Lulu Island Energy Company, be approved.

Background

Lulu Island Energy Company (LIEC), a corporation wholly-owned by the City of Richmond, was established to provide district energy services on behalf of the City. This report was prepared with the objective to provide pre-audited financial information to the Board and LIEC’s shareholder, represented by Richmond City Council.

Analysis

Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The LIEC’s pre-audited Q2 financial information consists of the interim statement of financial position as at June 30, 2019 and the interim income statement for the period ended June 30, 2019.

Financial Position

The interim statement of financial position provides a summary of assets, liabilities and shareholder’s equity. Total assets are comprised of current assets (cash, investments and receivables) \$11,596,661 and non-current assets (plant and equipment) \$32,500,964. The total assets are \$44,097,625. The total liabilities of \$13,635,802 include outstanding invoices, deferred contributions and concession liabilities. The shareholder’s equity represents the net worth of the company. It is equal to the total assets minus its total liabilities and measures the

company's financial health. As of June 30, 2019, LIEC's shareholder equity is \$30,461,823, showing good financial health of the company.

Revenues

The metered billing revenue is the total energy sales of both ADEU and OVDEU service areas. The interim metered billings revenue is \$956,133 from the Alexandra District Energy Utility (ADEU) and \$911,976 from the Oval Village District Energy Utility (OVDEU). Overall, the first six months metered billing revenue of \$1,868,109 increased by 7% over 2018. This reflects the addition of one new building (Trafalgar) connection in the ADEU service area in 2019, as well as increased energy use from customers in February 2019 due to colder weather. The metered billings revenue for the second quarter has exceeded the year to date budget by 3%.

Cost of Sales

The cost of sales is the accumulated total of expenses attributable to the metered billing revenue, which includes contract services, utilities (electricity and natural gas), and amortization expenses. The contract expense increased by 2% due to the CPI index and less unscheduled repairs and maintenance. The utility expense increased by 3% due to more energy sales. The amortization expense increased due to capital asset additions. The gross margin percentage has increased by 3% to 46% from 43%. The main reason is due to the fact that the ADEU service area is utilizing more renewable energy sources to meet heating demand while consuming less conventional energy sources.

General and Administration Expenses

The general and administration (G&A) expenses are expenditures that LIEC incurs to engage in operating activities which include salaries and benefits, administration expenses, professional fees, etc. The increase of salaries and benefits is due to adjustments of fringe benefits as a result of the new Employee Health Tax. The administration expense includes the overhead allocation paid to the City of Richmond for the day-to-day support that LIEC receives from City staff. The insurance expense increased by 6% due to additional DEU assets being insured. Overall, G&A expenses as a percentage of revenues are in line at 18% versus 19% for the six months ended June 30, 2019.

Contributions and Financing

The contributions and financing expense section represent other sources of revenue and financing expense for the business. The current energy modeling review fee is higher than 2018 due to more building permits being reviewed in the first two quarters than in 2018. The net finance cost is the result of finance costs on concession liabilities in the first half of the year, offset by interest income. The advanced payment received from developers for future building connections has resulted in a higher cash balance. Therefore, interest income is higher than expected and the net finance cost is lower than 2018.

LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure LIEC's financial performance, increased by 24% compared to the first six months ended in 2018. EBITA as a percentage of revenue is 62% for 2019 compared to 53% in 2018.

Overall, the net income as a percentage of revenue is 29% for 2019 compared to 19% in 2018. The year to date net income of \$682,058 has exceeded the budget by 49%. Consistent with the corporation's financial plan objectives, any net income will be maintained in LIEC's equity in order to fund future capital replacements.

Financial Impact

None.

Conclusion

The pre-audited financial information shows that LIEC's financial position is positive.



Helen Zhao, CPA, CA
Controller

- Attachment 1: Interim Statement of Financial Position as at June 30, 2019 (unaudited)
- Attachment 2: Interim Income Statement for the period ended June 30, 2019 (unaudited)
- Attachment 3: Year To Date Budget vs. Actual Comparison (unaudited)

Interim Statement of Financial Position

| | As at June 30 2019 | As at December 31 2018 |
|---|--------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,617,360 | \$ 1,640,019 |
| Accounts receivable | 1,463,734 | 2,242,644 |
| Other investments | 5,515,567 | 6,955,532 |
| | 11,596,661 | 10,838,195 |
| Non-current assets: | | |
| Plant and equipment | 32,500,964 | 32,360,749 |
| | \$ 44,097,625 | \$43,198,944 |
| Liabilities and Shareholder's Equity | | |
| Current and non-current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 517,180 | \$ 414,437 |
| Deferred developer contributions | 5,514,089 | 5,374,637 |
| Concession liability | 7,604,533 | 7,630,104 |
| | 13,635,802 | 13,419,178 |
| Shareholder's equity: | | |
| Share capital and contributed surplus | 27,397,115 | 27,397,115 |
| Retained earnings | 3,064,708 | 2,382,651 |
| | 30,461,823 | 29,779,766 |
| | \$ 44,097,625 | \$43,198,944 |

Interim Income Statement for the six months ended

| | June 30 2019 | June 30 2018 | \$ Changes | % Change |
|---|------------------|------------------|------------------|------------|
| Revenues | | | | |
| Metered Billings (Quarterly) | \$ 1,868,109 | \$ 1,738,590 | 129,519 | 7% |
| Service fee | 481,121 | 467,108 | 14,013 | 3% |
| | 2,349,230 | 2,205,698 | 143,532 | 7% |
| Cost of Sales | | | | |
| Contracts | 341,817 | 334,903 | 6,914 | 2% |
| Utilities | 375,160 | 365,700 | 9,460 | 3% |
| Amortization | 557,307 | 556,190 | 1,117 | 0% |
| | 1,274,284 | 1,256,793 | 17,491 | 1% |
| Gross margin | 1,074,946 | 948,905 | 126,041 | 13% |
| General and Administration Expenses | | | | |
| Salaries and benefits | 319,490 | 302,318 | 17,172 | 5% |
| Administration expenses | 59,876 | 61,399 | (1,523) | (2%) |
| Insurance | 35,000 | 33,000 | 2,000 | 6% |
| Professional Fees | 19,107 | 29,799 | (10,692) | (36%) |
| | 433,473 | 426,516 | 6,957 | 2% |
| Net income before other items | 641,473 | 522,389 | 119,084 | 23% |
| Contributions and Financing expense | | | | |
| Developer contributions | 53,381 | 53,381 | - | 0% |
| Energy modeling review fee | 88,199 | 12,216 | 75,983 | 622% |
| Net financing cost | (100,995) | (173,755) | 72,760 | (42%) |
| | 40,585 | (108,158) | 148,743 | (138%) |
| Net Income | \$682,058 | \$414,231 | \$267,827 | 65% |
| Earnings before interest, taxes and amortization (EBITA) | | | | |
| Net income per above | 682,058 | 414,231 | 267,827 | 65% |
| Financing expense | 212,928 | 204,110 | 8,818 | 4% |
| Amortization expense | 557,307 | 556,190 | 1,117 | 0% |
| EBITA | 1,452,293 | 1,174,531 | 277,762 | 24% |

Notes:

| | As at June 30 2019 | As at June 30 2018 |
|---------------------------------------|--------------------------|--------------------------|
| Percentage of Revenue | | |
| Gross margin percentage | 46% | 43% |
| General and administration percentage | 18% | 19% |
| Net income percentage | 29% | 19% |
| EBITA percentage | 62% | 53% |

Year-To-Date Budget vs. Actual Comparison

| | 2019 Q2 Budget | 2019 Q2 Actual | \$ Variance | %Variance |
|---|-------------------|-------------------|------------------|------------|
| Revenues | | | | |
| Metered Billings (Quarterly) | \$ 1,821,665 | \$ 1,868,109 | 46,444 | 3% |
| Service fee | 481,121 | 481,121 | - | 0% |
| | 2,302,786 | 2,349,230 | 46,444 | 2% |
| Cost of Sales | | | | |
| Contracts | 374,992 | 341,817 | (33,175) | (9%) |
| Utilities | 447,879 | 375,160 | (72,719) | (16%) |
| Amortization | 555,444 | 557,307 | 1,863 | 0% |
| | 1,378,315 | 1,274,284 | (104,031) | (8%) |
| Gross margin | 924,471 | 1,074,946 | 150,475 | 16% |
| General and Administration Expenses | | | | |
| Salaries and benefits | 334,527 | 319,490 | (15,037) | (4%) |
| Administration expenses | 62,062 | 59,876 | (2,186) | (4%) |
| Insurance | 35,000 | 35,000 | - | 0% |
| Professional Fees | 21,000 | 19,107 | (1,893) | (9%) |
| | 452,589 | 433,473 | (19,116) | (4%) |
| Net income before other items | 471,882 | 641,473 | 169,591 | 36% |
| Contributions and Financing expense | | | | |
| Developer contributions | 53,381 | 53,381 | - | 0% |
| Energy modeling review fee | 16,000 | 88,199 | 72,199 | 451% |
| Net financing cost | (84,835) | (100,995) | (16,160) | (19%) |
| | (15,454) | 40,585 | 56,039 | (363%) |
| Net Income | \$456,428 | \$682,058 | \$225,630 | 49% |
| Earnings before interest, taxes and amortization (EBITA) | | | | |
| Net income per above | 456,428 | 682,058 | 225,630 | 49% |
| Financing expense | 204,835 | 212,928 | 8,093 | 4% |
| Amortization expense | 555,444 | 557,307 | 1,863 | 0% |
| EBITA | 1,216,707 | 1,452,293 | 235,586 | 19% |