



City of Richmond

Report to Committee

To: Finance Committee **Date:** July 31, 2020
From: John Irving, P.Eng., MPA **File:** 01-0060-20-LIEC1/2020-
Vol 01
 General Manager, Engineering & Public Works
 and Chief Executive Officer, Lulu Island Energy
 Company

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

Re: Lulu Island Energy Company – 2nd Quarter June 30, 2020 Financial Information

Staff Recommendation

That the Lulu Island Energy Company report titled “2020 2nd Quarter Financial Information for the Lulu Island Energy Company” dated July 31, 2020 from the Chief Executive Officer and Chief Financial Officer, be received for information.

John Irving, P.Eng., MPA
 General Manager, Engineering and Public Works
 Chief Executive Officer,
 Lulu Island Energy Company
 (604-276-4140)

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:
	SL
APPROVED BY CAO	
(Acting)	



6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: July 31, 2020

TO: Board of Directors

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

Re: **Lulu Island Energy Company – 2nd Quarter June 30, 2020 Financial Information**

Staff Recommendation

That the 2nd Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2020 2nd Quarter Financial Information” dated July 31, 2020 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 is prepared with the objective to provide pre-audited financial information to the Board and LIEC’s shareholder, represented by Richmond City Council.

Analysis

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). LIEC’s pre-audited Q2 financial information consists of the interim statement of the financial position as of June 30, 2020 (Attachment 1) and the interim income statement for the period ended June 30, 2020 (Attachment 2).

Financial Position

The interim statement of the financial position provides a summary of assets, liabilities and shareholder’s equity. Total assets are comprised of current assets (cash, investments and receivables) \$14,098,025 and non-current assets (plant and equipment) \$34,485,052. The total assets are \$48,582,077. The total liabilities of \$16,355,394 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, 2020, LIEC's shareholder equity is \$32,227,683, showing good financial health of the company. Year to date budget to actual numbers are shown in Attachment 3.

Revenues

The metered billing revenue is the total energy sales of both ADEU and OVDEU service areas. The year to date metered billings revenue is \$1,109,628 from the Alexandra District Energy Utility (ADEU) and \$1,104,298 from the Oval Village District Energy Utility (OVDEU). Overall, the first six months of metered billing revenue of \$2,213,926 increased by 19% over 2019. This reflects the addition of two new building connections, increased energy use from customers due to full occupancy, and the approved 2020 rates. The year-to-date metered billings revenue is in line with the budget. The issued metered billings that have been collected at the quarter end are at 70%.

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 slightly increased with more buildings being serviced. For the first six months, there has been a minimum amount of repairs and maintenance. The utility expense increased by 13% as a result of more energy sales; the growth in energy demand (due to the addition of more buildings) resulted in an increase in electricity and natural gas to run distribution pumps, geo-field pumps, auxiliary equipment, cooling towers and boilers which are used to deliver energy to customers' buildings. The amortization expense increased due to capital asset additions. The gross margin percentage has increased from 46% to 50%.

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 15% increase in salaries and benefits, in comparison to Q2 2019, is primarily due to the approved increase of one additional employee, which we hired in late 2019. 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. Insurance expense increased due to general insurance rate increase and additional DEU assets being insured. The professional fees increased due to general audit fee increase. Overall, G&A expenses, as a percentage of revenues are at 18%, which is same as last year's Q2.

Contributions and Financing

The contributions and financing expense section represent other sources of income and cost for the business. The current energy modeling review fee revenues are lower than 2019's due to less building permits being reviewed; there was larger than normal volume of building permit applications in late 2018, which resulted in higher energy modeling review fees collected in 2019. The net finance cost is the result of year-to-date finance costs on concession liabilities, offset by interest income. The net finance cost is higher than 2019 mainly due to the increase in

the concession liability. The additional capital expenditure for OVDEU infrastructure has resulted in a higher balance of concession liability than the prior year.

LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure the Company's financial performance, increased by 14% compared to the six months ended in 2019. EBITA as a percentage of revenue is at 57% for 2020 and 2019.

Overall, the net income as a percentage of revenue is 30% for 2020 compared to 29% in 2019. The year to date net income of \$813,519 has exceeded the budget by 13%. Consistent with the company's financial plan objectives, any net income will be retained in LIEC's equity in order to fund future capital projects and infrastructure 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, 2020 (unaudited)
- Attachment 2: Interim Income Statement for the period end June 30, 2020 (unaudited)
- Attachment 3: Year-To-Date Budget vs. Actual Comparison (unaudited)
- Attachment 4: LIEC Second Quarter Income Statement (unaudited)

Interim Statement of Financial Position (Unaudited)

	As at June 30 2020	As at December 31 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,904,256	\$ 6,233,102
Accounts receivable	2,001,518	1,302,697
Investments (Note 1)	5,192,251	5,592,923
	14,098,025	13,128,722
Non-current assets:		
Plant and equipment	34,485,052	33,412,384
	\$ 48,583,077	\$ 46,541,106
Liabilities and Shareholder's Equity		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 592,339	\$ 777,492
Deferred developer contributions	6,591,577	6,183,224
Concession liability	9,171,478	8,166,226
	16,355,394	15,126,942
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	4,830,568	4,017,049
	32,227,683	31,414,164
	\$ 48,583,077	\$ 46,541,106

Note 1: Investments

Investments represent cash term deposits as follows:

Purchase date	Maturity date (interest rate)	June 30, 2020
Aug 23, 2019	Aug 22, 2020 (2.60%)	\$ 1,577,037
Nov 28, 2019	Nov 28, 2020 (2.60%)	1,615,165
June 29, 2020	Jun 29, 2020 (0.9%)	2,000,049
		\$ 5,192,251

Attachment 2

Interim Income Statement (Unaudited)

	June 30 2020	June 30 2019	\$ Changes	% Change
Revenues				
Metered Billings (Quarterly)	\$ 2,213,926	\$ 1,868,109	345,817	19%
Service fee	490,743	481,121	9,622	2%
	2,704,669	2,349,230	355,439	15%
Cost of Sales				
Contracts	347,326	341,817	5,509	2%
Utilities	424,064	375,160	48,904	13%
Amortization	579,469	557,307	22,162	4%
	1,350,859	1,274,284	76,575	6%
Gross margin	1,353,810	1,074,946	278,864	26%
General and Administration Expenses				
Salaries and benefits	366,456	319,490	46,966	15%
Administration expenses	53,980	59,876	(5,896)	(10%)
Insurance	39,211	35,000	4,211	12%
Professional Fees	24,004	19,107	4,897	26%
	483,651	433,473	50,178	10%
Net income before other items	870,159	641,473	228,686	36%
Contributions and Financing expense				
Developer contributions	72,871	53,381	19,490	37%
Energy modeling review fee	10,136	88,199	(78,063)	(89%)
Net financing cost	(139,647)	(100,995)	(38,652)	38%
	(56,640)	40,585	(97,225)	(240%)
Net Income	\$813,519	\$682,058	\$131,461	19%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	813,519	682,058	131,461	19%
Net Financing cost	139,647	100,995	38,652	38%
Amortization expense	579,469	557,307	22,162	4%
EBITA	1,532,635	1,340,360	192,275	14%

Notes:

	YTD June 30 2020	YTD June 30 2019
Percentage of Revenue		
Gross margin percentage	50%	46%
General and administration percentage	18%	18%
Net income percentage	30%	29%
EBITA percentage	57%	57%

Attachment 3

Year-To-Date Budget vs. Actual Comparison (Unaudited)

	2020 YTD Budget	2020 YTD Actual	\$ Variance	% Variance
Revenues				
Metered Billings (Quarterly)	\$ 2,247,684	\$ 2,213,926	(33,758)	(2%)
Service fee	490,743	490,743	-	0%
	2,738,427	2,704,669	(33,758)	(1%)
Cost of Sales				
Contracts	382,861	347,326	(35,535)	(9%)
Utilities	448,221	424,064	(24,157)	(5%)
Amortization	571,251	579,469	8,218	1%
	1,402,333	1,350,859	(51,474)	(4%)
Gross margin	1,336,094	1,353,810	17,716	1%
General and Administration Expenses				
Salaries and benefits	366,418	366,456	38	0%
Administration expenses	72,450	53,980	(18,470)	(25%)
Insurance	47,500	39,211	(8,289)	(17%)
Professional Fees	43,611	24,004	(19,607)	(45%)
	529,979	483,651	(46,328)	(9%)
Net income before other items	806,115	870,159	64,044	8%
Contributions and Financing expense				
Developer contributions	84,944	72,871	(12,073)	(14%)
Energy modeling review fee	25,500	10,136	(15,364)	(60%)
Net financing cost	(195,711)	(139,647)	56,064	(29%)
	(85,267)	(56,640)	28,627	(34%)
Net Income	\$720,848	\$813,519	\$92,671	13%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	720,848	813,519	92,671	13%
Net Financing cost	195,711	139,647	(56,064)	(29%)
Amortization expense	571,251	579,469	8,218	1%
EBITA	1,487,810	1,532,635	44,825	3%

LIEC Second Quarter Income Statement

	2020 Q2 Actual	2019 Q2 Actual	\$ Variance	% Variance
Revenues				
Metered Billings (Quarterly)	\$ 1,084,111	\$ 894,538	189,573	21%
Service fee	245,371	240,561	4,810	2%
	1,329,482	1,135,099	194,383	17%
Cost of Sales				
Contracts	187,785	183,628	4,157	2%
Utilities	156,919	133,196	23,723	18%
Amortization	299,131	296,000	3,131	1%
	643,835	612,824	31,011	5%
Gross margin	685,647	522,275	163,372	31%
General and Administration Expenses				
Salaries and benefits	183,595	158,550	25,045	16%
Administration expenses	31,908	40,711	(8,803)	(22%)
Insurance	15,461	17,500	(2,039)	(12%)
Professional Fees	6,349	18,725	(12,376)	(66%)
	237,313	235,486	1,827	1%
Net income before other items	448,334	286,789	161,545	56%
Contributions and Financing expense				
Developer contributions	36,435	26,691	9,744	37%
Energy modeling review fee	5,370	28,608	(23,238)	(81%)
Net financing cost	(76,776)	(51,644)	(25,132)	49%
	(34,971)	3,655	(38,626)	(1057%)
Net Income	\$413,363	\$290,444	\$122,919	42%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	413,363	290,444	122,919	42%
Net Financing cost	76,776	51,644	25,132	49%
Amortization expense	299,131	296,000	3,131	1%
EBITA	789,270	638,088	151,182	24%