



**To:** Finance Committee

**Date:** May 22, 2018

**From:** John Irving, P.Eng., MPA  
Acting General Manager, Engineering and  
Chief Executive Officer, Lulu Island Energy  
Company

**File:** 10-6600-10-01/2018-Vol 01

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

**Re:** Lulu Island Energy Company – 1<sup>st</sup> Quarter 2018 Financial Information

**Staff Recommendation**

That the Lulu Island Energy Company report titled “Lulu Island Energy Company – 1<sup>st</sup> Quarter 2018 Financial Information” dated May 22, 2018 from the Chief Executive Officer and Chief Financial Officer, Lulu Island Energy Company be received for information.

John Irving, P.Eng., MPA  
Acting General Manager, Engineering and  
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

<b>REPORT CONCURRENCE</b>	
<b>CONCURRENCE OF GENERAL MANAGER</b>	
<b>REVIEWED BY 1A / 5B</b>	<b>INITIALS:</b>
<b>APPROVED BY CAO</b>	





6911 NO. 3 ROAD  
RICHMOND, BC V6Y 2C1

## Report

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**DATE:** May 22, 2018

**TO:** Board of Directors

**FROM:** John Irving, P.Eng. MPA, Chief Executive Officer  
Jerry Chong, CPA, CA, Chief Financial Officer

**Re:** Lulu Island Energy Company – 1<sup>st</sup> Quarter 2018 Financial Information

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### Staff Recommendation

That the report titled “Lulu Island Energy Company – 1<sup>st</sup> Quarter 2018 Financial Information” dated May 22, 2018 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 the Richmond City Council.

### Analysis

Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The LIEC’s pre-audited Q1 financial information consists of Statement of Comprehensive Income, which includes a summary of revenues, expenses, other activities and net income for the quarter (included in Attachment 1).

### Revenues

The metered billings revenue reflects energy sales. The metered billings revenue, \$481,371 from the Oval Village District Energy Utility (OVDEU) and \$425,803 from the Alexandra District Energy Utility (ADEU), is in line with budget and the total revenue of \$1,140,732 is also on budget.

Cost of sales

The cost of sales is the direct variable cost relating to operating revenue, which includes utilities (electricity and natural gas), contract services and amortization expense. The total cost of sales is 3% higher than budget due to utility expenses being higher than budget because of higher energy use by customers and amortization expenses being higher due to the capitalization of assets. Contract expense is below budget mainly due to lower Corix overhead allocation. Overall, the gross margin is 3% higher than budget.

General and Administration Expenses

The general and administration expenses are expenditures that LIEC incurs to engage in business development activities and include salaries and benefits, administration expense, professional fees, etc. The first quarter is still in the early phase of the year; administration costs, advertising and marketing expenses, professional fees and insurance will eventually increase as the company engages in further business activities during the year. The overhead allocation is paid by LIEC to the City of Richmond for the support provided by the City. Overall, there is a favourable variance with respect to general and administration expenses.

LIEC's overall financial performance exceeds the budget projections. The net income for the first quarter is \$264,705. The net income will be set aside in LIEC's equity to build a reserve fund for future capital replacement.

**Financial Impact**

None.

**Conclusion**

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



Helen Zhao, CPA, CA  
Controller  
Lulu Island Energy Company  
(604-276-4053)

Attachment 1: Summary of Q1 Financial Information (unaudited)

**Attachment 1 – Summary of Q1 Financial Information (unaudited)**

	2018 Q1 Budget	2018 Q1 Actual	\$ Favorable (unfavorable)	% Change
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 872,666	\$ 907,178	34,512	4%
Service fee	233,554	233,554	-	-
	1,106,220	1,140,732	34,512	3%
<b>Cost of Sales</b>				
Contracts <sup>1</sup>	(251,410)	(237,251)	14,159	(6%)
Utilities <sup>2</sup>	(191,837)	(213,321)	(21,484)	11%
Amortization	(200,000)	(212,063)	(12,063)	(6%)
	(643,247)	(662,635)	(19,388)	3%
<b>Gross margin</b>	<b>462,973</b>	<b>478,097</b>	<b>15,124</b>	<b>3%</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	(153,848)	(151,003)	2,845	(2%)
Administration expenses <sup>3</sup>	(7,273)	(19,800)	(12,527)	172%
Advertising and marketing <sup>4</sup>	(1,326)	-	1,326	(100%)
Insurance <sup>5</sup>	(16,250)	-	16,250	(100%)
Professional Fees	(2,000)	(1,618)	382	(19%)
	(180,697)	(172,421)	8,276	(5%)
<b>Net income before undernoted items</b>	<b>282,276</b>	<b>305,676</b>	<b>23,400</b>	<b>8%</b>
<b>Contributions and Financing expense</b>				
Developer contributions	26,000	26,690	690	3%
Other income	5,000	7,418	2,418	48%
Finance income	25,000	27,371	2,371	9%
Finance expense <sup>6</sup>	(104,880)	(102,450)	2,430	(2%)
	(48,880)	(40,971)	7,909	(16%)
<b>Net Income<sup>7</sup></b>	<b>233,396</b>	<b>264,705</b>	<b>31,309</b>	<b>13%</b>

## Notes:

1. The positive variance is due to lower Corix overhead allocation which was successfully negotiated by staff.
2. Utilities include electricity and natural gas. The variance due to higher energy use by customers during winter time.
3. Administration costs include overhead allocation which is paid to the City of Richmond for the day-to-day support provided by the City.
4. The variance is due to advertising and marketing costs incurred eventually during the year.
5. Staff is in the process of setting up the insurance program.
6. Financing cost on the concession agreement
7. The net income will be set aside in LIEC's equity to build a reserve fund for future capital replacement.