



# City of Richmond

## Report to Committee

**To:** Finance Committee **Date:** April 12, 2017  
**From:** Robert Gonzalez, General Manager, **File:** 01-0060-20-  
Engineering & Public Works and Chief Executive LIEC1/2017-Vol 01  
Officer, Lulu Island Energy Company

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

**Re: 2016 Financial Statements for the Lulu Island Energy Company**

### Staff Recommendation

That the Lulu Island Energy Company audited financial statements for the year ended December 31, 2016, in the report titled, "2016 Financial Statements for the Lulu Island Energy Company," dated April 10, 2017 from the Chief Executive Officer and Chief Financial Officer, Lulu Island Energy Company be received for information.

Robert Gonzalez  
Deputy CAO, General Manager,  
Engineering and Public Works and  
Chief Executive Officer, Lulu Island Energy  
Company

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

Att. 1

|                                                                  |                      |
|------------------------------------------------------------------|----------------------|
| <b>REPORT CONCURRENCE</b>                                        |                      |
| <b>CONCURRENCE OF GENERAL MANAGER</b>                            |                      |
|                                                                  |                      |
| <b>REVIEWED BY STAFF REPORT /<br/>AGENDA REVIEW SUBCOMMITTEE</b> | <b>INITIALS:</b><br> |
| <b>APPROVED BY CAO</b>                                           |                      |
|                                                                  |                      |



6911 NO. 3 ROAD  
RICHMOND, BC V6Y 2C1

## Report

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**DATE:** April 10, 2017

**TO:** Board of Directors

**FROM:** Alen Postolka, Manager, District Energy  
Jerry Chong, Chief Financial Officer

**Re:** 2016 Financial Statements for the Lulu Island Energy Company

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### **Staff Recommendation**

That the audited financial statements of the Lulu Island Energy Company (LIEC) for the year ended December 31, 2016 (Attachment 1), be approved, and that any two directors of the LIEC be authorized to sign the financial statements to confirm that approval.

### **Origin**

Section 11.3 of the LIEC articles of incorporation requires that an auditor be appointed and audited financial statements prepared as at each fiscal year end. It also requires that the audited financial statements are presented annually at an open meeting of the City of Richmond council within 150 days of the LIEC's fiscal year end. This report presents the 2016 audited financial statements for LIEC Board's approval.

### **Background**

LIEC, a corporation wholly-owned by the City of Richmond, was established to provide district energy services for the City. Under direction from Council and following receipt of the necessary approval from the Inspector of Municipalities, LIEC was established in August 2013.

In June 2014, the City and LIEC executed a District Energy Utilities Agreement, assigning LIEC the function of establishing and operating district energy systems as well as providing thermal energy services on behalf of the City.

In October 2014, LIEC and Corix Utilities executed a Concession Agreement whereby LIEC would own the Oval Village District Energy Utility (OVDEU) and its infrastructure, and Corix would design, construct, finance, operate and maintain the OVDEU, subject to the City, as shareholder of LIEC, setting rates for customers.

In order to consolidate the City's district energy operations, on October 11, 2016, Council authorized staff to transfer the City's district energy assets to LIEC. On November 7, 2016, Council, as the sole shareholder, ratified the resolution that, in exchange for the assets, LIEC will issue an additional three hundred and fifty common shares of the company to the City at a deemed issue price equal to a fair market value of the transferred district energy assets. The assets transfer has been completed with an initial closing date of December 31, 2016 and a second and final closing date of March 31, 2017.

## **Analysis**

The preparation of the financial statements is the responsibility of management and they have been prepared in accordance with Canadian Generally Accepted Accounting Principles as prescribed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

The LIEC's audited financial statements consist of:

- Statement of Financial Position – summary of financials and non-financial assets, liabilities and accumulated surplus balances as at December 31, 2016 and comparative figures for December 31, 2015.
- Statement of Operations – summary of revenues, expenses, non-operating activity and annual surplus for the year.
- Statement of Changes in Net Debt – summary of changes in financial assets and liabilities for the year.
- Statement of Cash Flows – summary of the sources and uses of cash in the year.

A summary of the financial results is included in Attachment 1.

The financial statements have been audited by the independent firm of KPMG LLP and their report precedes the financial statements.

## **Financial Position**

|                      | 2016                 | 2015              | Change               |
|----------------------|----------------------|-------------------|----------------------|
| Financial assets     | \$ 744,349           | \$ 93,677         | \$ 650,672           |
| Liabilities          | 6,591,317            | 3,928,549         | 2,662,768            |
| Net debt             | (5,846,968)          | (3,834,872)       | (2,012,096)          |
| Non-financial assets | 31,036,506           | 4,385,619         | 26,650,887           |
| Accumulated surplus  | <u>\$ 25,189,538</u> | <u>\$ 550,747</u> | <u>\$ 24,638,791</u> |

LIEC's overall financial position improved by \$24,638,791 in 2016 with accumulated surplus totaling \$25,189,538 (2015 - \$550,747). Accumulated surplus is comprised of tangible capital assets \$25,659,621 (2015 - \$550,747) and deficit of \$470,083 (2015 - 257,583).

LIEC's net financial position, calculated as financial assets less liabilities, results in a net debt position. A net debt position is an indicator of future revenues required to pay for past transactions or events. This is consistent with the concession agreement structure for the Oval Village District Energy Utility (OVDEU) where capital and operating costs are greater than revenues in the initial stages of the agreement due to the long-term nature of the capital assets that will generate revenue over their service life. On October 30, 2014, LIEC and Corix Utilities Inc. (Corix) entered into a 30 year concession agreement, whereby Corix will design, construct, finance, operate, and maintain the infrastructure for the OVDEU. Net debt increased by \$2,012,096 to \$5,846,968 (2015 - \$3,834,872).

The non-financial assets increased by \$26,650,887, bringing the total to \$31,036,506. The increase is the net result of capital additions of tangible capital assets in the year offset by disposals and amortization expense. Included in the additions is the transfer of the Alexandra District Energy Utility (ADEU) assets of \$23,157,226.

### **Results of Operations**

|                                      | 2016 Budget  | 2016          | 2015         |
|--------------------------------------|--------------|---------------|--------------|
| Revenues                             | \$ 1,594,342 | \$ 2,424,138  | \$ 1,018,950 |
| Expenses                             | 939,205      | 942,573       | 491,271      |
| Annual surplus before asset transfer | 655,137      | 1,481,565     | 527,679      |
| Asset transfer                       | -            | 23,157,226    | -            |
| Annual surplus                       | \$ 655,137   | \$ 24,638,791 | \$ 527,679   |

### **Year over Year Change**

Revenues of \$2,424,138 increased by \$1,405,188 over 2015 mainly due to:

- An increase of \$949,260 in capital funding sources relating to contributions of energy transfer stations from developers (Onni – Riva 2, Intracorp – River Park Place 1, Cressey – Cadence, ASPAC – Parcel 12 and Amacon – Tempo).
- An increase of \$427,335 in user fees due to new buildings connecting to the OVDEU during 2016 (Riva 2 and River Park Place 1) and a full year of service for first two buildings (Carrera and Riva 1).
- An increase of \$28,593 in permit fee revenue relating to fees by the City for in-building district energy related equipment review, performed by the LIEC.

Expenses of \$942,573 increased by \$451,302 over 2015 mainly due to:

- An increase of \$174,907 in utilities expense due to the increase in customer load and offset by increased user fee revenues.
- An increase of \$115,716 in amortization expense as a result of additions to tangible capital assets.
- An increase of \$83,184 in interest expense due to the increase in the OVDEU concession liability relating to increased tangible capital assets.
- An increase of \$77,496 for general and administration, professional fees and contract services.

Non-operating activity of \$23,157,226 relates to the transfer of ADEU tangible capital assets.

LIEC's revenues exceeded expenses resulting in an annual surplus of \$24,638,791 or \$1,481,565 before the asset transfer (2015 – \$527,679).

### **Budget Variance**

Revenues of \$2,424,138 were greater than budget by \$829,796 mainly due to:

- \$749,439 higher than budget in capital funding sources from developer contributions due to additional energy transfer stations (ASPAC – Parcel 12 and Amacon – Tempo).
- \$57,577 higher than budgeted in user fees due to the timing of new connections.
- \$22,780 higher than budgeted in permit fees relating to fees by the City for in-building district energy related equipment review, performed by the LIEC.

Expenses of \$942,573 were higher than budgeted by \$3,368.

Non-operating activity of \$23,157,226 relates to the transfer of ADEU tangible capital assets that is not included in the 2016 budget.

LIEC's annual surplus before non-operating activity of \$1,481,565 exceeded budget by \$826,427 primarily due to the capital funding source revenue relating to developer contributed energy transfer stations. Annual surplus including the asset transfer exceeded budget by \$23,983,654.

### **Tangible Capital Assets**

LIEC's tangible capital assets include assets for OVDEU and ADEU as follows:

|                               | <b>2016 Net book</b>        |
|-------------------------------|-----------------------------|
|                               | <b>Value</b>                |
| ADEU                          |                             |
| Distribution piping           | \$ 3,640,421                |
| Civil                         | 5,052,081                   |
| Electrical                    | 2,653,979                   |
| Mechanical                    | 11,810,745                  |
| Total ADEU                    | <u>23,157,226</u>           |
| OVDEU                         |                             |
| Work-in-progress              | 959,653                     |
| Mechanical                    | 4,007,184                   |
| Distribution piping           | 2,912,443                   |
| Total OVDEU                   | <u>7,879,280</u>            |
| Total tangible capital assets | <u><u>\$ 31,036,506</u></u> |

The tangible capital assets include amounts related to energy transfer stations contributed by developers as well as the 2016 transfer of ADEU assets of \$23,157,226 from the City of Richmond. Effective January 1, 2017, the ADEU operations were transferred to the Corporation

from the City. This function is funded by user fees. The 2016 statement of operations does not include any amounts relating to the ADEU operations, these amounts will only be reflected beginning in 2017. For information, the 2017 Operating Budget including OVDEU and ADEU is included in Attachment 2.

**Financial Impact**

None.

**Conclusion**

The financial statements are a legislated reporting requirement and it is recommended that they be approved. As noted in the Auditors' Report, it is the Auditor's opinion that these financial statements present fairly, in all material respects, the financial position of Lulu Island Energy Company Ltd. as at December 31, 2016 and its results of operations, and its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Alen Postolka, P.Eng, CEM  
Manager, District Energy  
Lulu Island Energy Company  
(604-276-4283)



Cindy Gilfillan, CPA, CMA  
Manager, Financial Reporting  
City of Richmond  
(604-276-4077)

- Att. 1: Summary of Financial Results (unaudited)
- Att. 2: 2017 Operating Budget including OVDEU and ADEU operations
- Att. 3: LIEC Financial Statements

**Attachment 1 – Summary of Financial Results (unaudited)**

| <b>Financial Position</b> | 2016          | 2015        | Change        |
|---------------------------|---------------|-------------|---------------|
| Financial assets          | \$ 744,349    | \$ 93,677   | \$ 650,672    |
| Liabilities <sup>1</sup>  | 6,591,317     | 3,928,549   | 2,662,768     |
| Net debt                  | (5,846,968)   | (3,834,872) | (2,012,096)   |
| Non-financial assets      | 31,036,506    | 4,385,619   | 26,650,887    |
| Accumulated surplus       | \$ 25,189,538 | \$ 550,747  | \$ 24,638,791 |

<sup>1</sup> Includes investment made by Corix

**Operating Activity - Year over Year actual comparison**

|                                      | 2016          | 2015         | Change        |
|--------------------------------------|---------------|--------------|---------------|
| Revenues                             | \$ 2,424,138  | \$ 1,018,950 | \$ 1,405,188  |
| Expenses                             | 942,573       | 491,271      | 451,302       |
| Annual surplus before asset transfer | 1,481,565     | 527,679      | 953,886       |
| Asset transfer                       | 23,157,226    | 0            | 23,157,226    |
| Annual surplus                       | \$ 24,638,791 | \$ 527,679   | \$ 24,111,112 |

**Operating Activity - 2016 Budget to actual comparison**

|                                      | 2016 Budget  | 2016          | Budget Variance (\$) | Budget Variance (F/U) <sup>1</sup> |
|--------------------------------------|--------------|---------------|----------------------|------------------------------------|
| Revenues                             | \$ 1,594,342 | \$ 2,424,138  | \$ 829,796           | F                                  |
| Expenses                             | 939,205      | 942,573       | 3,368                | U                                  |
| Annual surplus before asset transfer | 655,137      | 1,481,565     | 826,428              | F                                  |
| Asset transfer                       | 0            | 23,157,226    | 23,157,226           | F                                  |
| Annual surplus                       | \$ 655,137   | \$ 24,638,791 | \$ 23,983,654        | F                                  |

<sup>1</sup> Favourable (F) or Unfavourable (U)

**Attachment 2 – 2017 Operating Budget including OVDEU and ADEU operations**

|                                              | <u>2017</u>      |
|----------------------------------------------|------------------|
| <b>REVENUES</b>                              |                  |
| Service Fee (City of Richmond)               | \$915,000        |
| Energy Modeling Review Fee                   | 30,000           |
| Asset Contributions (ETS fee)                | 609,000          |
| Metered Billings (Quarterly)                 | 3,040,000        |
|                                              | <b>4,594,000</b> |
| <b>EXPENSES</b>                              |                  |
| Salaries and Benefits                        | 591,480          |
| General Operating Expenses                   | 51,000           |
| Professional Fees                            | 46,900           |
| Advertising and Marketing                    | 5,150            |
| Contracts                                    | 906,000          |
| Insurance                                    | 35,900           |
| Utilities - Electric                         | 225,000          |
| Utilities - Natural Gas                      | 397,000          |
| Memberships                                  | 8,090            |
| PW Overhead Allocation                       | 3,250            |
| Amortization                                 | 1,117,702        |
| Interest Expense                             | 134,025          |
|                                              | <b>3,521,497</b> |
| <b>TRANSFERS</b>                             |                  |
| Transfer to Provision                        | 1,256,205        |
| Transfer to Reserves                         | 325,000          |
| Equity - Amortization                        | (1,117,702)      |
| Equity to Capital (ETS)                      | 609,000          |
|                                              | <b>1,072,503</b> |
| <br>                                         |                  |
| Annual Surplus (Deficit) including transfers | <b>\$0</b>       |



April 12, 2017

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**Attachment 3 – LIEC Financial Statements**

Financial Statements of

**LULU ISLAND ENERGY  
COMPANY LTD.**

Year ended December 31, 2016

## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Lulu Island Energy Company Ltd.

We have audited the accompanying financial statements of Lulu Island Energy Company Ltd., which comprise the statement of financial position as at December 31, 2016 and the statements of operations, changes in net debt, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lulu Island Energy Company Ltd. as at December 31, 2016, and its results of operations, and its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

April \_\_, 2017  
Burnaby, Canada

# LULU ISLAND ENERGY COMPANY LTD.

## Statement of Financial Position

December 31, 2016, with comparative information for 2015

|                                                                                              | 2016                 | 2015              |
|----------------------------------------------------------------------------------------------|----------------------|-------------------|
| <b>Financial Assets</b>                                                                      |                      |                   |
| Cash and cash equivalents                                                                    | \$ 170,358           | \$ -              |
| Accounts receivable                                                                          | 573,991              | -                 |
| Due from the City to Richmond (note 4)                                                       | -                    | 93,677            |
|                                                                                              | <u>744,349</u>       | <u>93,677</u>     |
| <b>Liabilities</b>                                                                           |                      |                   |
| Accounts payable                                                                             | 84,966               | 2,208             |
| Due to the City of Richmond (note 4)                                                         | 52,632               | -                 |
| Deferred revenue (note 12)                                                                   | 378,604              | -                 |
| Oval Village District Energy Utility ("OVDEU")<br>concession agreement liability (note 5(a)) | 6,075,115            | 3,926,341         |
|                                                                                              | <u>6,591,317</u>     | <u>3,928,549</u>  |
| Net debt                                                                                     | (5,846,968)          | (3,834,872)       |
| <b>Non-Financial Assets</b>                                                                  |                      |                   |
| Tangible capital assets (note 7)                                                             | 31,036,506           | 4,385,619         |
| Accumulated surplus                                                                          | <u>\$ 25,189,538</u> | <u>\$ 550,747</u> |

Commitments and contingencies (note 10)

See accompanying notes to financial statements.

Approved on behalf of the Board:

\_\_\_\_\_ Director \_\_\_\_\_ Director

# LULU ISLAND ENERGY COMPANY LTD.

## Statement of Operations

Year ended December 31, 2016, with comparative information for 2015

|                                                                   | Budget<br>2016      | 2016                 | 2015              |
|-------------------------------------------------------------------|---------------------|----------------------|-------------------|
|                                                                   | (note 2(a) and 9)   |                      |                   |
| Revenue:                                                          |                     |                      |                   |
| User fees                                                         | \$ 547,342          | \$ 604,919           | \$ 177,584        |
| Permit fee contribution from the<br>City of Richmond (note 11(b)) | 27,000              | 49,780               | 21,187            |
| Capital funding sources                                           | 1,020,000           | 1,769,439            | 820,179           |
|                                                                   | <u>1,594,342</u>    | <u>2,424,138</u>     | <u>1,018,950</u>  |
| Expenses:                                                         |                     |                      |                   |
| Amortization                                                      | 104,432             | 183,908              | 68,192            |
| Contract services (note 5(b))                                     | 367,094             | 371,487              | 345,436           |
| General and administration                                        | 82,150              | 27,320               | -                 |
| Insurance                                                         | 30,000              | -                    | -                 |
| Interest                                                          | 108,388             | 112,981              | 29,798            |
| Professional services                                             | 36,695              | 29,588               | 5,464             |
| Utilities (note 5(b))                                             | 210,446             | 217,289              | 42,381            |
|                                                                   | <u>939,205</u>      | <u>942,573</u>       | <u>491,271</u>    |
| Non-operating activity:                                           |                     |                      |                   |
| Asset transfer from the<br>City of Richmond (note 11(a))          | -                   | 23,157,226           | -                 |
| Annual surplus                                                    | 655,137             | 24,638,791           | 527,679           |
| Accumulated surplus, beginning of year                            | 550,747             | 550,747              | 23,068            |
| Accumulated surplus, end of year                                  | <u>\$ 1,205,884</u> | <u>\$ 25,189,538</u> | <u>\$ 550,747</u> |

See accompanying notes to financial statements.

# LULU ISLAND ENERGY COMPANY LTD.

## Statement of Changes in Net Debt

Year ended December 31, 2016, with comparative information for 2015

|                                                                                | Budget<br>2016    | 2016           | 2015           |
|--------------------------------------------------------------------------------|-------------------|----------------|----------------|
|                                                                                | (note 2(a) and 9) |                |                |
| Annual surplus for the year                                                    | \$ 655,137        | \$ 24,638,791  | \$ 527,679     |
| Acquisition of tangible capital assets                                         | (1,020,000)       | (2,003,130)    | (3,358,322)    |
| Developer contributed tangible capital assets                                  | -                 | (1,674,439)    | (820,179)      |
| Transfer of Alexandra District Energy<br>("ADEU") assets from City of Richmond | -                 | (23,157,226)   | -              |
| Amortization of tangible capital assets                                        | 104,432           | 183,908        | 68,192         |
| Increase in net debt                                                           | (260,431)         | (2,012,096)    | (3,582,630)    |
| Net debt, beginning of year                                                    | (3,834,872)       | (3,834,872)    | (252,242)      |
| Net debt, end of year                                                          | \$ (4,095,303)    | \$ (5,846,968) | \$ (3,834,872) |

See accompanying notes to financial statements.

# LULU ISLAND ENERGY COMPANY LTD.

## Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

|                                               | 2016          | 2015        |
|-----------------------------------------------|---------------|-------------|
| Cash provided by (used in):                   |               |             |
| Operations:                                   |               |             |
| Annual surplus                                | \$ 24,638,791 | \$ 527,679  |
| Items not involving cash:                     |               |             |
| Amortization                                  | 183,908       | 68,192      |
| Transfer of ADEU assets from City of Richmond | (23,157,226)  | -           |
| Developer contributed tangible capital assets | (1,674,439)   | (820,179)   |
| Change in non-cash working capital:           |               |             |
| Due (to) from the City of Richmond            | 146,309       | (62,350)    |
| Accounts receivable                           | (573,991)     | -           |
| Accounts payable and accrued liabilities      | 82,758        | 2,208       |
| Deferred revenue                              | 378,604       | -           |
| OVDEU concession agreement/liability          | 2,148,774     | 3,642,772   |
| Net change in cash from operating activities  | 2,173,488     | 3,358,322   |
| Capital activities:                           |               |             |
| Acquisition of tangible capital assets        | (2,003,130)   | (3,358,322) |
| Net change in cash and cash equivalents       | 170,358       | -           |
| Cash, beginning of year                       | -             | -           |
| Cash, end of year                             | \$ 170,358    | \$ -        |

See accompanying notes to financial statements.



# LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements  
Year ended December 31, 2016

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## 1. Incorporation and nature of business:

The Lulu Island Energy Company Ltd. (the "Corporation") was incorporated on August 19, 2013 under the Business Corporations Act of British Columbia as a municipal corporation wholly-owned by the City of Richmond (the "City"). The business of the Corporation is to manage and operate district energy utilities, including but not limited to energy production, generation or exchange, transmission, distribution, maintenance, marketing and sale to customers, customer service, profit generation, and financial management.

## 2. Significant accounting policies:

The financial statements of the Corporation are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

### (a) Budget data:

The budget data presented in these financial statements is based upon the 2016 budget submission approved by the Board on January 18, 2016. Note 9 reconciles the approved budget to the budget figures reported in these financial statements.

### (b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the value of tangible capital assets, determination of provisions for the concession liability and accrued liabilities, allowance for doubtful accounts, and provisions for contingencies. Actual results could differ from these estimates. The estimates are reviewed periodically and as adjustments become necessary, they are recorded in earnings in the year in which they become known.

### (c) Income taxes:

The Corporation is not subject to income taxes as it is a municipal corporation wholly-owned by the City.

### (d) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

# LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements  
Year ended December 31, 2016

## 2. Significant accounting policies (continued):

### (d) Non-financial assets (continued):

#### (i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of the asset. The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives.

Amortization is charged over the asset's useful life commencing when the asset is acquired or when it is available for use.

| <b>Asset</b>        | <b>Useful life - years</b> |
|---------------------|----------------------------|
| Distribution piping | 50 – 75                    |
| Civil               | 50                         |
| Electrical          | 25                         |
| Mechanical          | 25 – 33                    |

#### (ii) Interest capitalization:

The Corporation does not capitalize interest costs associated with the construction of a tangible capital asset.

#### (iii) Impairment of tangible capital assets:

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

### (e) Revenue recognition:

Revenue is recorded in the period that the services are rendered, with any unearned portion recorded as deferred revenue.

### (f) Public-private partnership project:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. The cost of the assets under construction are estimated at fair value, based on construction progress billings and also includes other costs, if any, incurred directly by the Corporation.

# LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements  
Year ended December 31, 2016

## 2. Significant accounting policies (continued):

### (f) Public-private partnership project (continued):

The asset cost includes development costs estimated at fair value. Interest during construction is not included in the asset cost. When available for operations, the project assets are amortized over their estimated useful lives. Correspondingly, an obligation for the cost of capital and financing received to date, net of the contributions received is recorded as a liability and included as debt on the statement of financial position. The interest rate used is the market's current variable interest rate and may change based on market conditions.

## 3. Share capital:

Authorized: 10,000 common shares without par value. Issued: 100 common shares for \$1. Additional shares issued as described in note 8(b).

## 4. Due (to) from City of Richmond:

Due (to) from City of Richmond is comprised of amounts that arise in the normal course of business and share capital. The balance is non-interest bearing and due on demand.

|                                | 2016               | 2015             |
|--------------------------------|--------------------|------------------|
| Share capital (note 3)         | \$ 1               | \$ 1             |
| Due (to) from City of Richmond | (52,633)           | 93,676           |
|                                | <u>\$ (52,632)</u> | <u>\$ 93,677</u> |

## 5. Oval Village District Energy Utility Concession Agreement:

On October 30, 2014, the Corporation and Corix Utilities Inc. ("Corix") entered into a 30 year Concession Agreement, which is a public-private partnership project, where Corix will design, construct, finance, operate, and maintain the infrastructure for the district energy utility at the Oval Village community. The total estimated concession liability to finance the construction of the OVDEU at full build out is \$31,931,000 and will be accrued over time.

### (a) OVDEU concession agreement liability:

|                                                                                                                                                                                                                                                                                        | 2016                | 2015                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| OVDEU, 30 year contract to October 31, 2044 with Corix, payable in monthly payments in accordance with the concession agreement terms. Required principal repayments on P3 debt for the years ending December 31 are disclosed with public-private partnership commitments in note 10. | \$ 5,997,522        | \$ 3,888,284        |
| Interest                                                                                                                                                                                                                                                                               | 77,593              | 38,057              |
|                                                                                                                                                                                                                                                                                        | <u>\$ 6,075,115</u> | <u>\$ 3,926,341</u> |

# LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements  
Year ended December 31, 2016

## 5. Oval Village District Energy Utility Concession Agreement (continued):

### (b) Contract services and utilities expenses:

Contract services expense is comprised of maintenance, operating labour, selling, and general and administrative expense. Utilities expense is comprised of electricity and natural gas.

## 6. Corix and City of Richmond Limited Guarantee Agreement:

On October 30, 2014, Corix and the City of Richmond entered into a Limited Guarantee Agreement. The City of Richmond is the Guarantor and guarantees the performance of some of the Corporation's obligations under the Concession Agreement to a maximum of \$18.2 million.

## 7. Tangible capital assets:

| Cost                | Balance,<br>December 31,<br>2015 | Additions           | Disposals   | Transfer from<br>the City | Balance,<br>December 31,<br>2016 |
|---------------------|----------------------------------|---------------------|-------------|---------------------------|----------------------------------|
| <b>ADEU</b>         |                                  |                     |             |                           |                                  |
| Distribution piping | \$ -                             | \$ -                | \$ -        | \$ 3,750,437              | \$ 3,750,437                     |
| Civil               | -                                | -                   | -           | 5,183,039                 | 5,183,039                        |
| Electrical          | -                                | -                   | -           | 2,794,438                 | 2,794,438                        |
| Mechanical          | -                                | -                   | -           | 12,461,144                | 12,461,144                       |
| <b>OVDEU</b>        |                                  |                     |             |                           |                                  |
| Work-in-progress    | -                                | 959,653             | -           | -                         | 959,653                          |
| Mechanical          | 2,913,291                        | 1,264,317           | -           | -                         | 4,177,608                        |
| Distribution piping | 1,540,520                        | 1,453,599           | -           | -                         | 2,994,119                        |
|                     | <b>\$ 4,453,811</b>              | <b>\$ 3,677,569</b> | <b>\$ -</b> | <b>\$ 24,189,058</b>      | <b>\$ 32,320,438</b>             |

| Accumulated<br>amortization | Balance,<br>December 31,<br>2015 | Amortization      | Disposals   | Transfer from<br>the City | Balance,<br>December 31,<br>2016 |
|-----------------------------|----------------------------------|-------------------|-------------|---------------------------|----------------------------------|
| <b>ADEU</b>                 |                                  |                   |             |                           |                                  |
| Distribution piping         | \$ -                             | \$ -              | \$ -        | \$ 110,016                | \$110,016                        |
| Civil                       | -                                | -                 | -           | 130,958                   | 130,958                          |
| Electrical                  | -                                | -                 | -           | 140,459                   | 140,459                          |
| Mechanical                  | -                                | -                 | -           | 650,399                   | 650,399                          |
| <b>OVDEU</b>                |                                  |                   |             |                           |                                  |
| Work-in-progress            | -                                | -                 | -           | -                         | -                                |
| Mechanical                  | 50,233                           | 120,191           | -           | -                         | 170,424                          |
| Distribution piping         | 17,959                           | 63,717            | -           | -                         | 81,676                           |
|                             | <b>\$ 68,192</b>                 | <b>\$ 183,908</b> | <b>\$ -</b> | <b>\$ 1,031,832</b>       | <b>\$ 1,283,932</b>              |

# LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements  
Year ended December 31, 2016

## 7. Tangible capital assets (continued):

| Net book value      | Balance, December 31,<br>2015 | Balance, December 31,<br>2016 |
|---------------------|-------------------------------|-------------------------------|
| ADEU                |                               |                               |
| Distribution piping | \$ -                          | \$ 3,640,421                  |
| Civil               | -                             | 5,052,081                     |
| Electrical          | -                             | 2,653,979                     |
| Mechanical          | -                             | 11,810,745                    |
| OVDEU               |                               |                               |
| Work-in-progress    | -                             | 959,653                       |
| Mechanical          | 2,863,058                     | 4,007,184                     |
| Distribution piping | 1,522,561                     | 2,912,443                     |
|                     | <b>\$ 4,385,619</b>           | <b>\$ 31,036,506</b>          |

## 8. Accumulated surplus:

|                                                              | 2016                | 2015              |
|--------------------------------------------------------------|---------------------|-------------------|
| Deficit                                                      | \$ (470,083)        | \$ (257,583)      |
| Invested in tangible capital assets:                         |                     |                   |
| Tangible capital assets purchased or contributed             | 2,502,395           | 808,330           |
| Tangible capital assets purchased through share issuance (a) | 23,157,226          | -                 |
|                                                              | <b>25,659,621</b>   | <b>808,330</b>    |
|                                                              | <b>\$25,189,538</b> | <b>\$ 550,747</b> |

- (a) The City transferred ADEU assets with a net book value of \$23,157,226 as of December 31, 2016 in exchange for share capital of the Corporation. Subsequent to year end, the remaining district energy assets of \$3,839,888 were transferred on March 31, 2017. At that time, the Corporation issued 350 common shares to the City valued at \$26,997,114 for the December 2016 and March 2017 asset transfers.

## 9. Budget data:

The budget data presented in these financial statements is based upon the 2016 budget approved by the Board on January 18, 2016. The following chart reconciles the approved budget to the budget figures reported in these financial statements.

# LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements  
Year ended December 31, 2016

## 9. Budget data (continued):

|                                             | Budget<br>Amount  |
|---------------------------------------------|-------------------|
| Revenue:                                    |                   |
| Operating budget                            | \$ 1,594,342      |
| Expenses:                                   |                   |
| Operating                                   | 569,737           |
| Acquisition of tangible capital assets      | 1,020,000         |
|                                             | <u>1,589,737</u>  |
| Annual surplus per approved budget          | 4,605             |
| Reconciling adjustments:                    |                   |
| Add: Acquisition of tangible capital assets | 1,020,000         |
| Less: Utilities expense                     | 210,446           |
| Less: Interest expense                      | 108,388           |
| Less: Amortization expense                  | 104,432           |
| Add: Contract expense                       | 53,798            |
| Annual surplus per statement of operations  | <u>\$ 655,137</u> |

## 10. Commitments and contingencies:

Public-private partnership commitments:

Payments to Corix under the agreement are based on Corix's Annual Revenue Requirement, which is based on the utility cost of service rate-setting principles in British Columbia utilizing forward test years. The Annual Revenue Requirement is a combination of Capital and Operating charges. The Capital charge is comprised of capital expenditures and depreciation, and Operating charge is comprised of services costs, financing costs, income and other taxes, and return on equity.

The information presented below shows the anticipated cash outflow for future obligations under the Agreement for the capital and operating costs of the assets. As construction progresses, the asset values are recorded as tangible capital assets and the corresponding liabilities are recorded as concession agreement liabilities as disclosed in note 5.

# LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements  
Year ended December 31, 2016

## 10. Commitments and contingencies (continued):

|                     | Capital<br>Charge | Operating<br>Charge | Total<br>Charge |
|---------------------|-------------------|---------------------|-----------------|
| 2017                | \$ 122,204        | \$ 808,796          | \$ 931,000      |
| 2018                | 144,977           | 1,042,023           | 1,187,000       |
| 2019                | 185,311           | 1,289,689           | 1,475,000       |
| 2020                | 198,334           | 1,588,666           | 1,787,000       |
| 2021                | 204,950           | 1,655,050           | 1,860,000       |
| 2022 and thereafter | 30,987,659        | 109,429,774         | 140,417,433     |

## 11. Related Party Transactions:

### (a) Asset transfer from the City of Richmond:

Effective January 1, 2017, the ADEU operations were transferred to the Corporation from the City. This function is funded by user fees. In 2016, the ADEU tangible capital of the City was transferred to the Corporation as part of an Asset Purchase Agreement dated December 16, 2016. The transfer occurred at a net book value amount of \$23,157,226.

### (b) Permit fee contribution from the City of Richmond

During 2016, the Corporation received \$49,780 (2015 – \$21,187) relating to district energy permit fees collected by the City for in-building district energy related equipment review, performed by the Corporation.

## 12. Deferred Revenue:

Included in deferred revenue is \$371,787 (2015 \$nil) for a service connection fee relating to a future energy transfer station. This will be recognized as revenue once the tangible capital asset relating to the energy transfer station is contributed.

## 13. Comparative Figures:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted for the current year.