



City of Richmond

Report to Committee


To: Finance Committee **Date:** April 22, 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 – 1st Quarter March 31, 2020 Financial Information

Staff Recommendation

That the Lulu Island Energy Company report titled “2020 1st Quarter Financial Information for the Lulu Island Energy Company” dated April 22, 2020 from the Chief Executive Officer and Chief Financial Officer, be received for information.



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

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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	
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APPROVED BY CAO	
	

April 22, 2020

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6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: April 22, 2020
TO: Board of Directors
FROM: Jerry Chong, CPA, CA, Chief Financial Officer
Re: **Lulu Island Energy Company – 1st Quarter March 31, 2020 Financial Information**

Staff Recommendation

That the 1st Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2020 1st Quarter Financial Information” dated April 22, 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 Q1 financial information consists of the interim statement of the financial position as of March 31, 2020 (Attachment 1) and the interim income statement for the period ended March 31, 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) \$13,934,548 and non-current assets (plant and equipment) \$33,890,440. The total assets are \$47,824,988. The total liabilities of \$16,010,669 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 March 31, 2020, LIEC’s shareholder equity is \$31,814,319, showing good

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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 metered billings revenue for Q1 was \$553,986 from the Alexandra District Energy Utility (ADEU) and \$575,829 from the Oval Village District Energy Utility (OVDEU). Overall, the first three months of metered billing revenue totalled \$1,129,815 which increased by 16% over 2019. This reflects the increased 2020 rates and the addition of two new building connections. The year-to-date metered billings revenue is in line with the budget.

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 only slightly increased with more buildings being serviced because of the minimum required repairs and maintenance work. The growth in energy demand, due to the addition of more buildings, resulted in an increased use of 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. This increased demand paired with electricity and gas rate increases caused the utility expense to rise by 10%. The amortization expense increased due to capital asset additions. The year over year cost of sales has increased by 7%.

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 primarily due to one additional employee 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. The insurance expense increased due to general insurance rate increase and additional DEU assets being insured. The professional fees increased due to the payment of KPMG's invoice, which was processed earlier than the prior year. Overall, G&A expenses have increased 20% comparing to Q1 2019, however, as a percentage of revenues they are in line at 18% versus 17%.

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 is less 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 a higher energy modeling review fees collected in early 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.

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LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure the Company's financial performance, increased by 6% compared to the three months ended in 2019. EBITA as a percentage of revenue decreased to 54% for 2020 compared to 58% in 2019.

The year to date net income of \$400,157 has exceeded the budget by 8%, though, the net income as a percentage of revenue decreased to 29% for 2020 compared to 32% in 2019. Consistent with the company's financial plan objectives, any net income will be maintained 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 (unaudited)
- Attachment 2: Interim Income Statement (unaudited)
- Attachment 3: Year-To-Date Budget vs. Actual Comparison (unaudited)

Attachment 1

Interim Statement of Financial Position (Unaudited)

	As at March 31 2020	As at December 31 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,037,177	\$ 6,233,102
Accounts receivable	1,581,379	1,302,697
Other investments	5,315,992	5,592,923
	13,934,548	13,128,722
Non-current assets:		
Plant and equipment	33,890,440	33,412,384
	\$ 47,824,988	\$ 46,541,106
Liabilities and Shareholder's Equity		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 636,372	\$ 777,492
Deferred developer contributions	6,628,012	6,183,224
Concession liability	8,746,284	8,166,226
	16,010,669	15,126,942
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	4,417,024	4,017,049
	31,814,319	31,414,164
	\$ 47,824,988	\$ 46,541,106

Attachment 2

Interim Income Statement (Unaudited)

	March 31 2020	March 31 2019	\$ Changes	% Change
Revenues				
Metered Billings (Quarterly)	\$ 1,129,815	\$ 973,571	156,244	16%
Service fee	245,372	240,560	4,812	2%
	1,375,187	1,214,131	161,056	13%
Cost of Sales				
Contracts	159,541	158,189	1,352	1%
Utilities	267,144	241,963	25,181	10%
Amortization	280,338	261,307	19,031	7%
	707,023	661,459	45,564	7%
Gross margin	668,164	552,672	115,492	21%
General and Administration Expenses				
Salaries and benefits	182,861	160,940	21,921	13%
Administration expenses	22,072	19,165	2,907	15%
Insurance	23,750	17,500	6,250	36%
Professional Fees	17,655	382	17,273	4522%
	246,338	197,987	48,351	20%
Net income before other items	421,826	354,685	67,141	19%
Contributions and Financing expense				
Developer contributions	36,436	26,690	9,746	37%
Energy modeling review fee	4,766	59,591	(54,825)	(92%)
Net financing cost	(62,871)	(49,351)	(13,520)	27%
	(21,669)	36,930	(58,599)	(159%)
Net Income	\$400,157	\$391,615	\$8,542	2%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	400,157	391,615	8,542	2%
Net Financing cost	62,871	49,351	13,520	27%
Amortization expense	280,338	261,307	19,031	7%
EBITA	743,366	702,273	41,093	6%

Notes:

	As at March 31 2020	As at March 31 2019
Percentage of Revenue		
Gross margin percentage	49%	46%
General and administration percentage	18%	16%
Net income percentage	29%	32%
EBITA percentage	54%	58%

Attachment 3

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

	2020 Q1 Budget	2020 Q1 Actual	\$ Variance	%Variance
Revenues				
Metered Billings (Quarterly)	\$ 1,124,108	\$ 1,129,815	5,707	1%
Service fee	245,372	245,372	-	0%
	1,369,480	1,375,187	5,707	0%
Cost of Sales				
Contracts	184,779	159,541	(25,238)	(14%)
Utilities	266,803	267,144	341	0%
Amortization	273,625	280,338	6,713	2%
	725,207	707,023	(18,184)	(3%)
Gross margin	644,273	668,164	23,891	4%
General and Administration Expenses				
Salaries and benefits	183,209	182,861	(348)	0%
Administration expenses	30,688	22,072	(8,616)	(28%)
Insurance	23,750	23,750	0	0%
Professional Fees	17,454	17,655	201	1%
	255,101	246,338	(8,763)	(3%)
Net income before other items	389,172	421,826	32,654	8%
Contributions and Financing expense				
Developer contributions	42,472	36,436	(6,036)	(14%)
Energy modeling review fee	12,750	4,766	(7,984)	(63%)
Net financing cost	(75,356)	(62,871)	12,485	(17%)
	(20,134)	(21,669)	(1,535)	8%
Net Income	\$369,038	\$400,157	\$31,119	8%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	369,038	400,157	31,119	8%
Net Financing cost	75,356	62,871	(12,485)	(17%)
Amortization expense	273,625	280,338	6,713	2%
EBITA	718,019	743,366	25,347	4%