



City of Richmond

Report to Committee

To: Finance Committee

Date: November 5, 2019

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

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

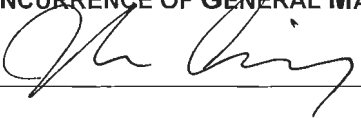


Re: Lulu Island Energy Company – 3rd Quarter Financial Information

Staff Recommendation

That the Lulu Island Energy Company report titled “Lulu Island Energy Company – 3rd Quarter Financial Information” dated November 5, 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 V6Y 2C1

Report

DATE: October 30, 2019

TO: Board of Directors

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

Re: Lulu Island Energy Company – 2019 3rd Quarter Financial Information

Staff Recommendation

That the 3rd Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2019 3rd Quarter Financial Information” dated October 30, 2019 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 Q3 financial information consists of the interim statement of financial position as at September 30, 2019 and the interim income statement for the period ended September 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) \$11,653,519 and non-current assets (plant and equipment) \$33,104,212. The total assets are \$44,757,732. The total liabilities of \$14,022,940 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 September 30, 2019, LIEC’s shareholder equity is \$30,734,792, 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 \$1,424,355 from the Alexandra District Energy Utility (ADEU) and \$1,318,106 from the Oval Village District Energy Utility (OVDEU). Overall, the first nine months metered billing revenue of \$2,742,461 increased by 8% over 2018. This reflects 2019 rates, the addition of one new building connection in the ADEU service area, and increased energy use from customers due to full occupancy. 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 slightly increased due to more buildings being serviced. For the first nine months, there have been a minimum amount of repairs and maintenance. The utility expense increased by 14% due to more energy sales and utility rates increase. Additional energy consumption is a result of increased use of distribution pumps, geo-field pumps, cooling towers, and natural gas boilers which are used to deliver the energy to the customer buildings. The amortization expense increased due to capital asset additions. Although the year over year cost of sales has increased by 4%, the gross margin percentage has increased from 44% to 46%.

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 to existing salaries and fringe benefits as a result of the new Employer 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 8% due to additional DEU assets being insured. Overall, G&A expenses as a percentage of revenues are in line at 19% versus 20% for the nine months ended September 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. The net finance cost is the result of year-to-date finance costs on concession liabilities, 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 12% compared to the nine months ended in 2018. EBITA as a percentage of revenue is 57% for 2019 compared to 55% in 2018.

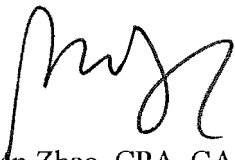
Overall, the net income as a percentage of revenue is 28% for 2019 compared to 21% in 2018. The year to date net income of \$955,026 has exceeded the budget by 49%. Consistent with the corporation's financial plan objectives, any net income will be maintained in LIEC's equity in order to fund future 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 September 30, 2019 (unaudited)
- Attachment 2: Interim Income Statement for the period ended September 30, 2019 (unaudited)
- Attachment 3: Year To Date Budget vs. Actual Comparison (unaudited)
- Attachment 4: LIEC Third Quarterly Income Statement (unaudited)

Interim Statement of Financial Position

	As at September 30 2019	As at December 31 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,176,671	\$ 1,640,019
Accounts receivable	1,922,184	2,242,644
Other investments	5,554,665	6,955,532
	11,653,520	10,838,195
Non-current assets:		
Plant and equipment	33,104,212	32,360,749
	\$ 44,757,732	\$43,198,944
Liabilities and Shareholder's Equity		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 606,611	\$ 414,437
Deferred developer contributions	5,482,518	5,374,637
Concession liability	7,933,811	7,630,104
	14,022,940	13,419,178
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	3,337,677	2,382,651
	30,734,792	29,779,766
	\$ 44,757,732	\$43,198,944

Interim Income Statement for the Nine Months Ended

	September 30 2019	September 30 2018	\$ Changes	% Change
Revenues				
Metered Billings (Quarterly)	\$ 2,742,461	\$ 2,540,722	201,739	8%
Service fee	721,681	700,661	21,020	3%
	3,464,142	3,241,383	222,759	7%
Cost of Sales				
Contracts	507,415	499,404	8,011	2%
Utilities	502,748	442,779	59,969	14%
Amortization	857,770	856,190	1,580	0%
	1,867,933	1,798,373	69,560	4%
Gross margin	1,596,209	1,443,010	153,199	11%
General and Administration Expenses				
Salaries and benefits	478,094	453,448	24,646	5%
Administration expenses	77,251	82,091	(4,840)	(6%)
Insurance	70,639	65,761	4,878	8%
Professional Fees	20,244	31,128	(10,884)	(35%)
	646,228	632,428	13,800	2%
Net income before other items	949,981	810,582	139,399	17%
Contributions and Financing expense				
Developer contributions	84,952	80,070	4,882	6%
Energy modeling review fee	88,199	21,540	66,659	309%
Net financing cost	(168,106)	(235,329)	67,223	(29%)
	5,045	(133,719)	138,764	(104%)
Net Income	\$955,026	\$676,863	\$278,163	41%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	955,026	676,863	278,163	41%
Net Financing cost	168,106	235,329	(67,223)	(29%)
Amortization expense	857,770	856,190	1,580	0%
EBITA	1,980,902	1,768,382	212,520	12%

Notes:

	As at September 30 2019	As at September 30 2018
Percentage of Revenue		
Gross margin percentage	46%	44%
General and administration percentage	19%	20%
Net income percentage	28%	21%
EBITA percentage	57%	55%

Year-To-Date Budget vs. Actual Comparison

	2019 Q3 Budget	2019 Q3 Actual	\$ Variance	%Variance
Revenues				
Metered Billings (Quarterly)	\$ 2,729,920	\$ 2,742,461	12,541	0%
Service fee	721,681	721,681	-	0%
	3,451,601	3,464,142	12,541	0%
Cost of Sales				
Contracts	562,488	507,415	(55,073)	(10%)
Utilities	645,001	502,748	(142,253)	(22%)
Amortization	859,255	857,770	(1,485)	0%
	2,066,744	1,867,933	(198,811)	(10%)
Gross margin	1,384,857	1,596,209	211,352	15%
General and Administration Expenses				
Salaries and benefits	501,790	478,094	(23,696)	(5%)
Administration expenses	99,591	77,251	(22,340)	(22%)
Insurance	70,000	70,639	639	1%
Professional Fees	43,000	20,244	(22,756)	(53%)
	714,381	646,228	(68,153)	(10%)
Net income before other items	670,476	949,981	279,505	42%
Contributions and Financing expense				
Developer contributions	80,070	84,952	4,882	6%
Energy modeling review fee	16,000	88,199	72,199	451%
Net financing cost	(257,087)	(168,106)	(88,981)	(35%)
	(161,017)	5,045	166,062	(363%)
Net Income	\$509,459	\$955,026	\$445,567	49%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	509,459	955,026	445,567	87%
Net Financing cost	257,087	168,106	(88,981)	(35%)
Amortization expense	859,255	857,770	(1,485)	0%
EBITA	1,625,801	1,980,902	355,101	22%

LIEC Third Quarter Income Statement

	2019 Q3 Actual	2018 Q3 Actual	\$ Variance	%Variance
Revenues				
Metered Billings (Quarterly)	\$ 874,352	\$ 802,132	72,220	9%
Service fee	240,561	233,553	7,008	3%
	1,114,913	1,035,685	79,228	8%
Cost of Sales				
Contracts	165,598	164,501	1,097	1%
Utilities	127,588	107,079	20,509	19%
Amortization	300,463	300,000	463	0%
	593,649	571,580	22,069	4%
Gross margin	521,264	464,105	57,159	12%
General and Administration Expenses				
Salaries and benefits	158,604	151,130	7,474	5%
Administration expenses	17,375	20,692	(3,317)	(16%)
Insurance	35,639	32,761	639	9%
Professional Fees	1,137	1,329	(192)	(14%)
	212,755	205,915	6,843	3%
Net income before other items	308,509	258,193	50,316	19%
Contributions and Financing expense				
Developer contributions	31,571	26,689	4,882	18%
Energy modeling review fee	-	9,324	(9,324)	(100%)
Net financing cost	(67,111)	(61,574)	(5,537)	9%
	(35,540)	(25,561)	(9,979)	39%
Net Income	\$272,969	\$232,632	\$40,337	17%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	272,969	232,632	40,337	17%
Net Financing cost	67,111	61,574	5,537	9%
Amortization expense	300,463	300,000	463	0%
EBITA	640,543	594,206	46,337	8%