



City of Richmond

Report to Committee

To: Finance Committee

Date: April 9, 2015

From: Robert Gonzalez, General Manager,
Engineering & Public Works and Chief Executive
Officer, Lulu Island Energy Company

File: 01-0060-20-
LIEC1/2015-Vol 01

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

Re: 2014 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, 2014, in the report "2014 Financial Statements for the Lulu Island Energy Company," dated April, 9, 2015 from the Chief Executive Officer and Chief Financial Officer, Lulu Island Energy Company be received for information.

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

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

Att. 1

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS:
APPROVED BY CAO	

Report

DATE: April 9, 2015

TO: Robert Gonzalez
Chief Executive Officer, Lulu Island Energy Company

Jerry Chong
Chief Financial Officer, Lulu Island Energy Company

FROM: Alen Postolka, Acting Senior Manager, Sustainability and District Energy

Re: 2014 Financial Statements for the Lulu Island Energy Company

Origin

The audited 2014 financial statements of the Lulu Island Energy Company (LIEC) have been prepared by management in accordance with the generally accepted accounting principles, as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

Background

The 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, the LIEC was established in August 2013.

In June 2014, the City and the LIEC executed a District Energy Utilities Agreement, assigning the 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, the LIEC and Corix Utilities executed a Concession Agreement whereby the LIEC would own the Oval Village District Energy Utility (OVDEU, previously known as River Green District Energy Utility) and its infrastructure, and Corix would design, construct, finance, operate and maintain the OVDEU, subject to the City, as shareholder of the LIEC, setting rates for customers. In 2014, \$275,310 was incurred for work-in-progress related to the construction of the OVDEU.

In addition, in October 2014, Corix and the City of Richmond entered into a Limited Guarantee Agreement. The City of Richmond agreed to guarantee the performance of the LIEC's obligations under the Concession Agreement as described above up to \$18M.

Analysis

Financial statements provide information about the financial position, performance and changes in the financial position of the company. The financial statements demonstrate accountability by providing information about the company's resources, obligations and financial affairs.

For the year ended December 31, 2014, the LIEC had a surplus of \$23,067 (2013 - \$1) and net financial debt of \$252,242 (2013 - \$1 net financial asset).

The 2014 surplus is the net result of a \$31,326 contribution from the City of Richmond for district energy related permit fees collected from developers offset by \$8,259 of interest expense on the work-in-progress. The OVDEU was not in operations during 2014, and as a result, there were no customer rate revenues or costs for operations and maintenance. The City has not invested any capital funding into the OVDEU.

The 2014 net financial debt position of \$252,242 is mainly the result of the liability for the tangible capital asset representing the work-in-progress. This amount relates to assets in construction as at December 31, 2014 and is payable to Corix inclusive of interest. Once the OVDEU is operational in 2015, the customer rates will be used to pay Corix for the costs to finance, construct and operate the utility over the term of the concession agreement.

Financial Impact

None.

Conclusion

The LIEC Board of Directors has approved, by consent resolution, the financial statements of LIEC for the fiscal year ended December 31, 2014, and auditors' report for submission to the sole shareholder. KPMG have provided an unqualified opinion in their Auditor's Report for the LIEC.



Alen Postolka, P.Eng., CP, CEM
Acting Senior Manager, Sustainability and District Energy
(604-276-4283)

AP:ap

Att. 1: Financial Statements of LIEC

Financial Statements of

LULU ISLAND ENERGY COMPANY LTD.

Year ended December 31, 2014



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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, 2014 and the statements of operations, changes in net financial assets (debts) 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, 2014, and its results of operations, and its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants
April 29, 2015
Burnaby, Canada

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

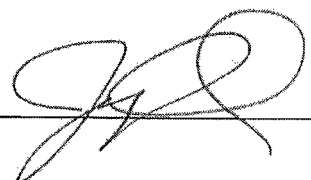
December 31, 2014, with comparative figures for 2013

	2014	2013
Financial Assets		
Due from City of Richmond (note 5)	\$ 31,327	\$ 1
	31,327	1
Liabilities		
River Green District Energy Utility ("RGDEU") concession liability	275,310	-
Accrued interest on concession liability	8,259	-
	283,569	-
Net financial assets (debt)	(252,242)	1
Non-Financial Assets		
Tangible capital assets (note 8)	275,310	-
	275,310	-
Accumulated surplus	\$ 23,068	\$ 1

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, 2014, with comparative figures for 2013

	Budget 2014 (note 4)	2014	2013
Revenue:			
Contribution from City of Richmond (note 5)	\$ -	\$ 31,326	\$ 1
	-	31,326	1
Expenses:			
Interest expense (note 6)	-	8,259	-
	-	8,259	-
Annual surplus	-	23,067	1
Accumulated surplus, beginning of year	-	1	-
Accumulated surplus, end of year	\$ -	\$ 23,068	\$ 1

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Net Assets (Debt)

Year ended December 31, 2014, with comparative figures for 2013

	Budget 2014 (note 4)	2014	2013
Annual surplus for the year	\$ -	\$ 23,067	\$ 1
Acquisition of tangible capital assets	-	(275,310)	-
Change in net asset (debt)	-	(252,243)	1
Net financial assets (debt), beginning of year	-	1	-
Net financial assets (debt), end of year	\$ -	\$ (252,242)	\$ 1

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2014, with comparative figures for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 23,067	\$ 1
Change in non-cash working capital:		
Due from City of Richmond	(31,326)	(1)
River Green District Energy Utility ("RGDEU") concession liability	275,310	-
Accrued interest on concession liability	8,259	-
Net change in cash from operating activities	275,310	-
Capital activities:		
Acquisition of tangible capital assets	(275,310)	-
Net change in cash from capital activities	(275,310)	-
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the year ended December 31, 2014

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:

(a) Basis of presentation:

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

(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 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 of Richmond.

(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.

(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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2014

2. Significant Accounting Policies (continued):

(d) Non-financial assets (continued):

(i) Tangible capital assets (continued):

For the year-ended December 31, 2014, all tangible capital assets are work-in-progress and are not amortized.

(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 as revenue 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.

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 project internal rate of return.

3. Share capital:

Authorized: 10,000 common shares without par value.

Issued: 100 common shares for \$1.

4. Budget data:

There is no budget data approved by the Board of Directors for fiscal 2014.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2014

5. Due from the City of Richmond:

The amount due from the City of Richmond relates to share capital (note 3) and contribution from the City of Richmond for work completed by the Corporation to ensure buildings are designed to be compatible with the district energy system.

	2014	2013
Share capital	\$ 1	\$ 1
Contribution from the City of Richmond	31,326	-
	\$ 31,327	\$ 1

6. River Green District Energy Utility Concession Agreement (Public-private partnership project):

On October 30, 2014, the Corporation and Corix entered into a 30 year Concession Agreement (the "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 River Green community. The total estimated capital construction cost of the RGDEU is \$31,964,000 and will earn interest which will be repaid over the term of the agreement. The payment schedule is dependent on the timing and amount of the capital construction.

The Corporation will make payments to Corix based on Corix's Annual Revenue Requirement. The Annual Revenue Requirement is based on the utility cost of service rate-setting principles in British Columbia utilizing forward test years. The Annual Revenue requirement combines a fixed charge amount to recover Corix's fixed costs (the "Capacity Charge") and a volumetric charge expressed as an amount per megawatt hour of energy provided to the Corporation in order to recover Corix's variable costs (the "Commodity Charge"). The Capacity Charge includes maintenance, labour, depreciation, interest, Return of Equity and other selling, general and administration costs. The Commodity Charge includes natural gas and electricity costs. These costs will be repaid over time by revenue generated through future customer rates.

The information presented below shows the anticipated cash outflow for future obligations for the Capacity and Commodity Portions of the agreement of \$6,096,000 from January 2015 to December 2019. Future obligations will be disclosed when the amounts can be readily estimated.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2014

6. River Green District Energy Utility Concession Agreement (Public-private partnership project) (continued):

	Capacity Charge	Commodity Charge	Total Charge
January 2015 to December 2015	\$ 168,300	\$ 62,700	\$ 231,000
January 2016 to December 2016	689,270	462,730	1,152,000
January 2017 to December 2017	815,790	564,210	1,380,000
January 2018 to December 2018	819,520	615,480	1,435,000
January 2019 to December 2019	973,290	924,710	1,898,000

7. Corix Utilities Inc. 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 million (note 6).

8. Tangible capital assets:

Cost	Balance, December 31, 2013	Additions	Disposals	Balance, December 31, 2014
Work-in-progress	\$ -	\$ 275,310	\$ -	\$ 275,310
	\$ -	\$ 275,310	\$ -	\$ 275,310

Accumulated amortization	Balance, December 31, 2013	Disposals	Amortization	Balance, December 31, 2014
Work-in-progress	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -

Net book value	Balance, December 31, 2013	Balance, December 31, 2014
Work-in-progress	\$ -	\$ 275,310
	\$ -	\$ 275,310