



# City of Richmond

## Report to Committee

**To:** Finance Committee

**Date:** April 18, 2016

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

**File:** 01-0060-20-  
LIEC1/2016-Vol 01

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

**Re:** 2015 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, 2015, in the report titled, "2015 Financial Statements for the Lulu Island Energy Company," dated April 18, 2016 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: DW
APPROVED BY CAO 	

## Report

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**DATE:** April 18, 2016

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

Jerry Chong  
Chief Financial Officer, Lulu Island Energy Company

**FROM:** Alen Postolka, Manager District Energy  
Cindy Gilfillan, Manager, Financial Reporting

**Re: 2015 Financial Statements for the Lulu Island Energy Company**

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### Origin

The audited 2015 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).

### 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) 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.

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

### Statement of Financial Position

Table 1: Summary of Financial Position

	<b>2015</b>	<b>2014</b>	<b>Change</b>
Financial Assets	\$93,677	\$31,327	\$62,350
Liabilities <sup>1</sup>	(3,928,549)	(283,569)	(3,644,980)
Subtotal: Net Debt	(3,834,872)	(252,242)	(3,582,630)
Tangible Capital Assets <sup>2</sup>	4,385,619	275,310	4,110,309
<b>Accumulated Surplus</b>	<b>\$550,747</b>	<b>\$23,068</b>	<b>\$527,679</b>

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

<sup>2</sup> Represents assets created for LIEC

The 2015 audited financial statements have an accumulated surplus of \$550,747 (2014 - \$23,068). This balance is equivalent to the net worth of an organization.

#### *Financial Assets*

The due from the City of Richmond increased by \$62,350 to \$93,677 and is comprised of funds held by the City of Richmond on behalf of LIEC.

#### *Liabilities*

The 2015 liabilities increased by \$3,644,980 to \$3,928,549 due mainly to the OVDEU concession liability. The concession liability is mainly related to tangible capital assets that are constructed and financed on behalf of LIEC and is payable to Corix inclusive of interest.

The tangible capital assets increased by \$4,110,309 to \$4,385,619 (2014 – \$275,310).

### Statement of Operations

Table 2: Summary of Operating Results

	<b>2015</b>	<b>2014</b>	<b>Change</b>
Revenue	\$1,018,950	\$31,326	\$987,624
Expenses	(491,271)	(8,259)	(483,012)
<b>Annual Surplus</b>	<b>\$527,679</b>	<b>\$23,067</b>	<b>\$504,612</b>

The 2015 audited financial statements have an annual surplus of \$527,679 with \$1,018,950 in revenues and \$491,271 in expenses.

*Revenues*

The 2015 revenues increased by \$987,624 to \$1,018,950 (2014 – \$31,326) due to \$820,179 (2014 – \$nil) in developer contributions for service connection fees relating to energy transfer stations that form part of the tangible capital assets and \$177,584 (2014 – \$nil) from user fees.

The user fee revenues reflect energy sales to the first customers who connected in June 2015 (Riva 1 by Onni) and July 2015 (Carrera by Polygon). The user fee revenues are lower than budget due to slower than projected development completion of Riva 1 and Carrera and the deferred development (to 2016) of Cadence by Cressey.

*Expenses*

The increase in expenses of \$483,012 to \$491,271 (2014 – \$8,259) is due to the commencement of operations for the supply of energy to the Riva 1 and Carrera developments. The variance to budget of \$242,739 is due to the format of the budget being a cash based budget which is consistent with the *Community Charter* requirement for a balanced budget. The budget amount represents the anticipated cash disbursements while the actual expenses represent the amounts incurred to operate the OVDEU. These expenses are mainly amounts payable to Corix and form part of the concession liability on the Statement of Financial Position.

It is expected that the initial years of the OVDEU will result in higher operating costs than revenues mainly due to the timing of start-up costs, amortization etc. The 30-year financial model that forms part of the agreement with Corix projected the operating costs for 2015 to be \$517,000 (comprised of utilities, interest and contract services (operating and maintenance, general and administration costs)). The comparable actual expenses recorded are \$417,615 (comprised of utilities \$42,381, contract services \$345,436, and interest \$29,798) and are in line with the expected figures. The favourable variance of \$99,385 is due to the delayed completion of the Riva 1 and Carrera developments as mentioned above.

The difference in actual payments made to Corix and the expenses that Corix has incurred on LIEC's behalf, including capital assets, forms the concession liability and is payable over the term of the agreement.

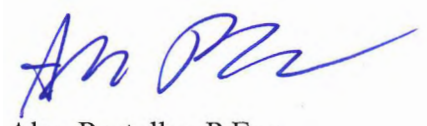
The financial statements are included in **Attachment 2**.

**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, 2015 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.  
Manager, District Energy  
City of Richmond  
(604-276-4283)



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

Att. 1: Summary of Financial Results (unaudited)  
Att. 2: LIEC Financial Statements

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

	2015	2014	Change
Financial Assets	\$93,677	\$31,327	\$62,350
Liabilities <sup>1</sup>	(3,928,549)	(283,569)	(3,644,980)
Subtotal: Net Debt	(3,834,872)	(252,242)	(3,582,630)
Tangible Capital Assets <sup>2</sup>	4,385,619	275,310	4,110,309
<b>Accumulated Surplus</b>	<b>\$550,747</b>	<b>\$23,068</b>	<b>\$527,679</b>

<sup>1</sup> Represents investment made by Corix<sup>2</sup> Represents assets created for LIEC**Operating Activity - Year over Year actual comparison**

	2015	2014	Change
Revenue	\$1,018,950	\$31,326	\$987,624
Expenses	(491,271)	(8,259)	(483,012)
<b>Annual Surplus</b>	<b>\$527,679</b>	<b>\$23,067</b>	<b>\$504,612</b>

**Expense Reconciliation**

	Budget - Cash Based	Actual - Cash Based	Actual - Accrual Based*
Contract services	\$230,832	\$133,166	\$345,436
Legal, accounting and marketing	17,700	5,464	5,464
Amortization	-	-	68,192
Interest	-	-	29,798
Utilities	-	-	42,381
	<b>\$248,532</b>	<b>\$138,630</b>	<b>\$491,271</b>

\*The actuals recorded under the accrual basis include amounts incurred by Corix that are not payable during 2015 as stipulated in the concession agreement and these amounts form part of the concession liability included in the statement of financial position. The cash based payments under contract services include amounts for amortization, interest and utilities.

**Operating Activity - 2015 Budget to actual comparison**

	2015 Budget <sup>1</sup>	2015 Actual	Variance
Revenue	\$1,267,907	\$1,018,950	\$248,957
Expenses	(248,532)	(491,271)	242,739
<b>Annual Surplus</b>	<b>\$1,019,375</b>	<b>\$527,679</b>	<b>\$491,696</b>

<sup>1</sup> **Budget Reconciliation**

Annual Surplus per Statement of Operating Activity	\$1,019,375
Add back: Capital expenditure for Energy Transfer Stations*	(988,000)
<b>Approved Net Budget by Board</b>	<b>\$31,375</b>

\*Capital expenditures are not included in the Operating Activity sections

Financial Statements of

**LULU ISLAND ENERGY  
COMPANY LTD.**

Year ended December 31, 2015

## 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, 2015 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, 2015, 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

Date

Burnaby, Canada

# LULU ISLAND ENERGY COMPANY LTD.

## Statement of Financial Position

December 31, 2015, with comparative figures for 2014

	2015	2014
<b>Financial Assets</b>		
Due from City of Richmond (note 4)	\$ 93,677	\$ 31,327
	93,677	31,327
<b>Liabilities</b>		
GST payable	2,208	-
Oval Village District Energy Utility ("OVDEU") concession agreement liability (note 5(a))	3,888,284	275,310
Accrued interest on OVDEU concession agreement liability (note 5(a))	38,057	8,259
	3,928,549	283,569
Net debt	(3,834,872)	(252,242)
<b>Non-Financial Assets</b>		
Tangible capital assets (note 7)	4,385,619	275,310
Accumulated surplus	\$ 550,747	\$ 23,068

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, 2015, with comparative figures for 2014

	Budget 2015	2015	2014
	(note 2(a))		
Revenue:			
Contribution from City of Richmond (note 4)	\$ 27,000	\$ 21,187	\$ 31,326
User fees	252,907	177,584	-
Developer contribution	988,000	820,179	-
	1,267,907	1,018,950	31,326
Expenses:			
Amortization	-	68,192	-
Contract services (note 5(b))	230,832	345,436	-
Interest	-	29,798	8,259
Legal and accounting	16,500	5,464	-
Marketing	1,200	-	-
Utilities (note 5(b))	-	42,381	-
	248,532	491,271	8,259
Annual surplus	1,019,375	527,679	23,067
Accumulated surplus, beginning of year	23,068	23,068	1
Accumulated surplus, end of year	\$ 1,042,443	\$ 550,747	\$ 23,068

See accompanying notes to financial statements.

# LULU ISLAND ENERGY COMPANY LTD.

## Statement of Changes in Net Debt

Year ended December 31, 2015, with comparative figures for 2014

	Budget 2015 (note 2(a))	2015	2014
Annual surplus for the year	\$ 1,019,375	\$ 527,679	\$ 23,067
Acquisition of tangible capital assets	(988,000)	(4,178,501)	(275,310)
Amortization of tangible capital assets	-	68,192	-
Change in net debt	31,375	(3,582,630)	(252,243)
Net debt, beginning of year	(252,242)	(252,242)	1
Net debt, end of year	\$ (220,867)	\$ (3,834,872)	\$ (252,242)

See accompanying notes to financial statements.

# LULU ISLAND ENERGY COMPANY LTD.

## Statement of Cash Flows

Year ended December 31, 2015, with comparative figures for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 527,679	\$ 23,067
Amortization of tangible capital assets	68,192	-
Change in non-cash working capital:		
GST payable	2,208	-
Due from City of Richmond	(62,350)	(31,326)
OVDEU concession agreement liability	3,612,974	275,310
Accrued interest on OVDEU concession agreement liability	29,798	8,259
Net change in cash from operating activities	4,178,501	275,310
Capital activities:		
Acquisition of tangible capital assets	(4,178,501)	(275,310)
Net change in cash from capital activities	(4,178,501)	(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, 2015

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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 2015 budget submission approved by the Board on February 19, 2015. 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

For the years ended December 31, 2015

### 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.

Asset	Useful life - years
Mechanical	33
Distribution piping system	50

##### (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 market's current variable interest rate and may change based on market conditions.

# LULU ISLAND ENERGY COMPANY LTD.

## Notes to Financial Statements

For the years ended December 31, 2015

### 3. Share capital:

Authorized: 10,000 common shares without par value.

Issued: 100 common shares for \$1.

### 4. Due from City of Richmond:

Due from City of Richmond is comprised of share capital and funds held by the City of Richmond on behalf of the Corporation. The balance is non-interest bearing and is due on demand.

	2014	2014
Share capital (note 3)	\$ 1	\$ 1
Contribution from City of Richmond	93,676	31,326
	<u>\$ 93,677</u>	<u>\$ 31,327</u>

### 5. Oval Village (formerly "River Green") District Energy Utility Concession Agreement:

On October 30, 2014, the Corporation and Corix Utilities Inc. ("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 Oval Village community. The total estimated concession liability to finance the construction of the OVDEU at full build out is \$30,909,000 and will be accrued over time.

#### (a) OVDEU concession agreement liability:

	2015	2014
OVDEU, 30 year contract to October 31, 2044 with Corix, payable in monthly payments, including annual interest of 2.27%, 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	\$ 3,888,284	\$ 275,310
Interest	38,057	8,259
	<u>\$ 3,926,341</u>	<u>\$ 283,569</u>

#### (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.

# LULU ISLAND ENERGY COMPANY LTD.

## Notes to Financial Statements

For the years ended December 31, 2015

### 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, December 31, 2014	Additions and transfers	Disposals	Balance, December 31, 2015
Work-in-progress	\$ 275,310	\$ (275,310)	\$ -	\$ -
Mechanical	-	2,913,291	-	2,913,291
Distribution piping system	-	1,540,520	-	1,540,520
	\$ 275,310	\$ 4,178,501	\$ -	\$ 4,453,811

Accumulated amortization	Balance, December 31, 2014	Disposals	Amortization	Balance, December 31, 2015
Work-in-progress	\$ -	\$ -	\$ -	\$ -
Mechanical	-	-	50,233	50,233
Distribution piping system	-	-	17,959	17,959
	\$ -	\$ -	\$ 68,192	\$ 68,192

Net book value	Balance, December 31, 2014	Balance, December 31, 2015
Work-in-progress	\$ 275,310	\$ -
Mechanical	-	2,863,058
Distribution piping system	-	1,522,561
	\$ 275,310	\$ 4,385,619

# LULU ISLAND ENERGY COMPANY LTD.

## Notes to Financial Statements

For the years ended December 31, 2015

### 8. Accumulated surplus:

	2015	2014
General surplus	\$ (257,584)	\$ 23,067
Invested in tangible capital assets	808,330	-
Share capital	1	1
	\$ 550,747	\$ 23,068

### 9. Budget data:

The budget data presented in these financial statements is based upon the 2015 budget approved by the Board on February 19, 2015. Amortization was not contemplated on the development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

	Budget Amount
Revenue:	
Operating budget	\$ 1,267,907
Expenses:	
Operating	248,532
Acquisition of tangible capital assets	988,000
	1,236,532
Annual surplus per approved budget	31,375
Reconciling adjustments:	
Add: Acquisition of tangible capital assets	988,000
Annual surplus per statement of operations	\$ 1,019,375

### 10. Commitments and contingencies:

#### (a) 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. 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.

# LULU ISLAND ENERGY COMPANY LTD.

## Notes to Financial Statements

For the years ended December 31, 2015

### 10. Commitments and contingencies:

#### (a) Public-private partnership commitments (continued):

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.

	Capital Charge	Operating Charge	Total Charge
2016	\$ 70,290	\$ 461,710	\$ 532,000
2017	131,690	810,310	942,000
2018	181,470	1,235,530	1,417,000
2019	204,780	1,659,220	1,864,000
2020	220,890	1,718,110	1,939,000
2021 and thereafter	30,099,880	107,040,480	137,140,360
	\$ 30,909,000	\$ 112,925,360	\$143,834,360