

Comments regarding John Draper's report on Holdco's Annual Report 2018

HOLDCO's audited Financial Statements (FS); 2015-2018 are available on the Town's website as John Draper indicates in his article. This is a rather recent and welcome addition.

LUI's (Lakefront Utilities Inc) 2018 audited Financial Statements are available at <https://www.lakefrontutilities.on.ca/wp-content/uploads/Lakefront-Utilities-Inc.-2018-Financial-Statement.pdf>. Financial statements for other HOLDCO group companies such as LUSI are not available.

In his report, John comments "The profit not used for the dividend appears to be used to add to Lakefront's cash position – the accumulated retained earnings (cash in the bank?) at the end of 2018 is listed as \$5,153,485. Nice reserve but what is it planned to be used for?" This is not quite correct. Note that these FS are **consolidated**. They report on the consolidated economic entity (the HOLDCO group of companies) and therefore do not present the financial picture of any one company in the group. The bank (cash) balance is \$1,408,876 and the Retained Earnings balance is \$5,153,485.

Retained Earnings (RE) represent total accumulated surplus (net income) from the start of the company, less dividends paid to shareholders. In general, shares plus RE represent the net book value of the company, not the cash in the bank. To see the relationship between net income and cash, review the **CONSOLIDATED STATEMENT OF CASH FLOWS (pg 6)** in the HOLDCO FS.

In John's notes he comments on revenue and correctly notes that the "electricity" revenue is "passed through". This is the correct understanding. The revenue and cost are the same and offset. There is no net income/loss or residual benefit to LUI or HOLDCO.

He further comments that "Water revenue is separate" The HOLDCO annual report shows some information (pg 7) related to the WaterWorks of the Town of Cobourg. This is unusual in that WaterWorks is not part of LUSI or HOLDCO. It is an operational business unit within the Town of Cobourg, somewhat like Northam. The assets, liabilities, revenue and expenses are part of the Corporation of the Town of Cobourg and are included in the Town's consolidated financial statements.

LUSI, as an agent under contract to the Town, provides the operational and management staff to run WaterWorks. WaterWorks 2018 FS are available online – Go here: <https://bit.ly/2YMvX2a>

John comments "As a regulated Utility, their rates and therefore profit are determined by the Ontario Energy Board so the net income is effectively set by them." Several things: LUI is the only regulated company and only the "delivery" part of its business is regulated. LUI also has unregulated revenue. LUI's net income is determined by the OEB to an extent. The OEB sets the rates for regulated services and also sets a net income range (about 6% to 12%)

Regarding operations, John comments "(LUSI) – not regulated and run like a private company. All of the HOLDCO group companies operate as private companies. All incorporated as for profit companies with shareholders and shareholder appointed boards of directors

As noted above, WaterWorks is not financially or organizationally part of HOLDCO or LUSI. The profits listed do not include revenue or profits from water sales. LUSI earns revenue for running the water system(s). The fibre-optic and V13 solar panel operations as well as other services certainly contribute cost and likely revenue to LUSI. The net profit (or loss) from these operations has not been disclosed.

LUI annually pays the Town \$507,500 in interest (7.25%) on a \$7M demand note created (by accounting entry to balance the books) when the electricity delivery assets of the Cobourg Public Utilities Commission were transferred to LUI in 2000. This interest payment is not related to HOLDCO's dividend to the Town.