

City of Mississauga Corporate Report



Date: May 21, 2020 To: Mayor and Members of Council	Originator's files:
From: Gary Kent, CPA, CGA, ICD.D, Commissioner of Corporate Services and Chief Financial Officer	Meeting date: June 10, 2020

Subject

Enersource Corporation - 2019 Audited Financial Statements

Recommendation

That the report dated May 21, 2020 from the Commissioner of Corporate Services and Chief Financial Officer with respect to the 2019 Audited Financial Statements for Enersource Corporation, be received for information.

Report Highlights

- As of January 1, 2019, Enersource Corporation's (Enersource) ownership in Alectra Inc. ("Alectra") changed from 31% to 29.57% upon Alectra's acquisition of Guelph Hydro Electric Systems Inc. ("GHESI").
- The Enersource Board of Directors, at their Board meeting on April 21, 2020, reviewed and approved the 2019 audited financial statements of the Enersource (Appendix 1).
- Dividends paid to Shareholders in 2019 were \$17.4 million (2018 \$14.4 million):
 - \$15.7 million to the City of Mississauga (90% share)
 - \$1.7 million to BPC Energy (10% share)
- KPMG is the auditor for Enersource up to December 31, 2024 which is aligned with the City's audit term with KPMG.

Background

As of February 1, 2017, Enersource transformed into the owner of 31% of Alectra Utilities Inc.. Enersource Corporation is a company with its principal business activities being to hold 31% equity interest in Alectra Utilities, receive dividends from Alectra Utilities, and distribute dividends to its shareholders annually. The shareholders are the Corporation of the City of Mississauga with 90% share and BPC Energy Corporation (Borealis) with 10% share.

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On January 1, 2019, Alectra Utilities amalgamated with Guelph Hydro Electric Systems Inc. ("GHESI"). Alectra issued 485,000 Class G Common Shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of GHESI. This common shares issuance by Alectra represents an effective 4.6% interest in its aggregate issued and outstanding classes of common shares. The amalgamation is expected to result in more efficient and enhanced service delivery through lower operating costs, while providing benefits for communities and shareholders. Council was fully briefed and supported the Guelph merger.

As a result of this merger, Enersource's ownership changed from 31% to 29.57% in Alectra. Although, the percentage of ownership has decreased, the equity value to which the percentage is applied has increased.

The new shareholder ownership structure as a result of this merger is as follows:

Ownership	Pre-merger	Post-merger
City of Mississauga	27.90%	26.61%
City of Vaughan	21.49%	20.49%
City of Hamilton	18.15%	17.31%
City of Markham	15.73%	15.00%
City of Barrie	8.78%	8.37%
City of St Catharines	4.85%	4.63%
OMERS Infrastructure	3.10%	2.96%
City of Guelph	0.00%	4.63%
Total	100.00%	100.00%

The shareholders of Enersource ("Shareholders") are the Corporation of the City of Mississauga with a 90% share and BPC Energy Corporation (Borealis) with a 10% share.

Enersource is a company with its principal business activities being to hold the Shareholders equity interest in Alectra, receive dividends from Alectra, service it's debt and distribute dividends to its shareholders annually.

BDO Canada LLP has been retained by Enersource for a five year contract, to June 2022, to provide accounting and financial reporting services.

KPMG LLP has been retained as the Enersource's auditor until December 31, 2024 which is aligned with the City's contract with KPMG. KPMG completed the 2019 audit of Enersource Corporation. On April 21, 2020, the Audited Financial Statements and Audit Report were presented to the Enersource Board which were subsequently received and approved.

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On May 11, 2020, the Audit Committee of the City of Mississauga, reviewed a report entitled, '2019 Audited Financial Statements' which presented the consolidated financial statements of the City of Mississauga, plus other entities (Library board, BIA's, etc.) including Enersource Corporation. The Audit Committee received the 2019 Audited Financial Statements for information.

For transparency purposes, it should be noted that Gary Kent, as signatory of this corporate report, is also the City appointed CEO of Enersource. Finance and legal staff also support Enersource Corporation when required.

Comments

The attached Consolidated Financial Statements of Enersource Corporation, is a report card on the financial position, health and strength of the Enersource Corporation. The accompanying annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). These financial statements have been prepared on a historical cost basis. The financial statements provide information on the cost of all activities, reflecting the full nature and extent of the Enersource Corporation's financial affairs.

In the opinion of KPMG, the consolidated financial statements present fairly, in all material respects, the consolidated financial statements of Enersource Corporation as of December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (Appendix 1- Page 2).

Financial Impact

The following represents some highlights (as of Dec. 31, 2019) found in the financial statements, as attached in Appendix 1:

- Total Assets: \$ 607.4M (2018 \$613.8M)
- Total Liabilities and Shareholder Equity: \$ 607.4M (2018 \$613.8M)
- Total Revenues: \$19.7M (2018 \$33.0M)
- Total Expenses: \$1.8M (2018 \$1.5M)
- Total Comprehensive Income for the year: \$13.4M (2018 \$33.6M)

Key Financial Statement Items:

- Cash balance at the end of 2019, after all dividend payments were made, was \$6.8M.
 - This balance is higher than 2018 due to larger dividends received from Alectra.
- Enersource holds \$53.1M in debt, through CIBC, as a result of the merger.
 - Enersource pays off approx. \$2.5M each year

- Shareholders' equity decreased from \$558.2M in 2018 to \$554.2 in 2019.
 - Alectra's comprehensive Income was lower in 2019.
- Share of net income from investment in Alectra was \$18.0M (2018 \$32.9M), decrease of \$14.9M. The two main drivers for this decrease are listed below. These variances were applied against Enersources's ownership percentage of 29.57%.
 1. Decrease in Alectra Utilities shared Net Income from \$136.2M in 2018 to \$129.2M in 2019, a decrease of \$7M.
 2. Increase in Alectra's International Financial Reporting Standards (IFRS) accounting adjustments from \$32.0M in 2018 to \$69.3M in 2019, an increase of \$37.3 M. These IFRS accounting adjustments may vary from year to year.
- Majority of the expenses represent debt interest expenses and other administrative expenses to run Enersource Corporation.
- Dividends received from Alectra by Enersource Corporation in 2019 were \$ \$23.9M, representing the Q4 2018 dividend received in March 2019 and Q1-3 2019 dividends.
 - Q4 2019 was paid (\$12.8 million) in March 2020.
- Dividends paid to Shareholders in 2019 were \$17.4M (2018 \$14.4M):
 - \$15.7M to the City of Mississauga (90% share) and
 - \$1.7M to BPC Energy (10% share)
- The City continues to provide a loan guarantee on Enersource's \$53.1M debt balance.

Conclusion

The Enersource Corporation 2019 Audited Financial Statements identify no concerns. The financial position of Enersource is considered fully healthy through sound management and business practices.

Attachments

Appendix 1: 2019 Audited Financial Statements - Enersource Corporation



Gary Kent, CPA, CGA, ICD.D, Commissioner of Corporate Services and Chief Financial Officer

Prepared by: Mark Beauparlant, Sr. Internal Auditor