



CITY OF RICHMOND

REPORT TO COUNCIL

TO: Richmond City Council
FROM: Councillor Ken Johnson, Chair
Finance Select Committee
DATE: June 23rd, 2000
FILE: 1200-02
**RE: AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31,
1999 AND MANAGEMENT LETTER**

The Finance Select Committee, at its meeting held on Thursday, June 15th, 2000, considered the attached memorandum, and recommends as follows:

COMMITTEE RECOMMENDATION

- (1) *That the memorandum (dated June 7th, 2000 from the Director of Finance), regarding the Audited Financial Statements for the Year Ended December 31st, 1999 and Management Letter, be forwarded to Council for information; and*
- (2) *That the Director of Finance place a notice in the City Notice Board, indicating that a public meeting on the Audited Financial Statements for the Year Ended December 31st, 1999 and Management Letter statements will be held on Monday, June 26th, 2000.*

Councillor Ken Johnston, Chair
Finance Select Committee



CITY OF RICHMOND
FINANCE & CORPORATE SERVICES DIVISION

MEMORANDUM

TO: Finance Select Committee
FROM: Danley J. Yip, C.A.
Director of Finance
DATE: June 7, 2000
FILE: 1200-02
RE: Audited Financial Statements for the Year Ended December 31, 1999 and Management Letter

The City of Richmond's financial statements for the year ended December 31, 1999 were audited by KPMG LLP, Chartered Accountants and an Auditors' Report was issued on March 28, 2000 (see attached Attachment 1).

The primary purpose of their audit was to form an opinion on the City's financial statements and obtain reasonable assurance that the financial statements were free of material misstatement. Also, the audit included an examination, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Furthermore, the audit involved the assessment of the accounting principles used and any significant estimates made by City staff management as well as the overall evaluation of the financial statement presentation.

As part of the audit engagement, KPMG prepares a Management Letter (see Attachment 2), which brings attention to certain matters, which they have encountered in the course of their work in reviewing the City's financial systems and related internal controls. The Management Letter includes comments and recommendations provided by KPMG as well as an opportunity for City Staff to respond accordingly.

Don Matthew, the KPMG Partner for this audit engagement will be in attendance at the Finance Select Committee meeting on June 15, 2000 to discuss the City's audited financial statements for the year ended December 31, 1999 and the Management Letter.

If you should have any questions prior to the meeting, please do not hesitate to contact Don Matthew (ph: 214-3931) or myself (ph: 276-4365).

Danley J. Yip, C.A.
Director of Finance

DJY:djy
Att. 2

**CITY OF RICHMOND**

Consolidated Financial Statements

December 31, 1999

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AUDITORS' REPORT

To the Mayor and Members of Council,
City of Richmond

We have audited the consolidated balance sheet of the city of Richmond as at December 31, 1999 and the consolidated statements of revenues, expenditures, and surplus and cash flows for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with the accounting principles disclosed in note 1 to the consolidated financial statements. As required by the Municipal Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The current year's supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Chartered Accountants

Richmond, Canada
March



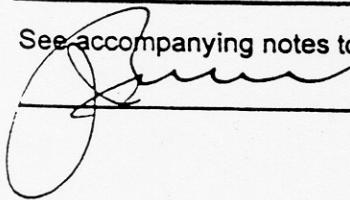
CITY OF RICHMOND

Consolidated Balance Sheet

December 31, 1999 with comparative figures for 1998

| | 1999 | 1998 |
|---|------------------|----------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 1,399,871 | \$ 1,621,278 |
| Short-term investments | 212,346,250 | 213,589,750 |
| Accrued interest receivable | 8,443,413 | 12,555,744 |
| Accounts receivable | | |
| Taxes receivable | 6,490,928 | 5,439,626 |
| Current portion of development fees receivable | 870,782 | 5,153,743 |
| Other receivables | 9,079,803 | 7,770,028 |
| Inventory of materials and supplies | 2,201,874 | 2,188,474 |
| | 240,832,921 | 248,318,643 |
| Development fees receivable | 2,625,466 | 1,790,712 |
| Municipal Finance Authority deposits (note 7) | 741,047 | 564,343 |
| Capital assets (note 5) | 803,652,769 | 737,154,155 |
| | \$ 1,047,852,203 | \$ 987,827,853 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 6) | \$ 27,639,852 | \$ 32,117,535 |
| Deposits and holdbacks | 4,444,736 | 3,515,953 |
| Deferred revenue | 19,228,114 | 16,053,304 |
| Current portion of long-term debt (note 8) | 4,002,946 | 3,274,216 |
| | 55,315,648 | 54,961,008 |
| Accrued liabilities | 2,458,444 | 2,319,697 |
| Municipal Finance Authority debt requirement (note 7) | 741,047 | 564,343 |
| Long-term debt (note 8) | 50,022,350 | 34,027,728 |
| | 108,537,489 | 91,872,776 |
| Equity | | |
| Investment in capital assets (note 9) | 764,894,514 | 722,246,172 |
| Reserves (Schedule 1) | 111,215,545 | 111,741,743 |
| Surplus (Schedule 3) | 46,668,991 | 45,732,998 |
| Appropriated surplus (note 10) | 16,535,664 | 16,234,164 |
| | 939,314,714 | 895,955,077 |
| Commitments and contingencies (note 11) | | |
| | \$ 1,047,852,203 | \$ 987,827,853 |

See accompanying notes to consolidated financial statements.



Finance and Corporate Services Administrator

CITY OF RICHMOND

Consolidated Statement of Revenues, Expenditures, and Surplus

Year ended December 31, 1999 with comparative figures for 1998

| | 1999 | 1998 |
|--|--------------------|--------------------|
| Revenues | | |
| Taxation and levies | \$ 90,283,391 | \$ 86,373,160 |
| User fees | 25,046,595 | 24,493,420 |
| Sales of services | 19,423,520 | 19,384,858 |
| Provincial and federal grants | 1,533,049 | 2,575,372 |
| Grants-in-lieu of taxes | 8,699,860 | 9,326,351 |
| Other revenue from own sources | | |
| Licenses and permits | 4,412,148 | 4,946,257 |
| Investment income | 5,315,838 | 4,827,895 |
| Other | 2,291,925 | 849,316 |
| | <u>157,006,326</u> | <u>152,776,629</u> |
| Expenditures | | |
| General government | 15,728,517 | 11,616,213 |
| Protective services | 39,443,463 | 39,237,284 |
| Transportation services | 15,232,794 | 15,080,489 |
| Sanitation and recycling services | 5,883,884 | 5,902,954 |
| Environmental development services | 1,821,760 | 2,715,116 |
| Recreational and cultural services | 20,559,342 | 19,346,381 |
| Richmond public library | 4,809,100 | 4,290,600 |
| Utilities | | |
| Water supply and distribution | 11,050,788 | 10,058,199 |
| Sewerage collection and disposal | 9,124,538 | 7,732,376 |
| Debt and finance | 12,941,564 | 15,673,779 |
| Other expenses | 260,546 | 31,666 |
| | <u>136,856,296</u> | <u>131,685,057</u> |
| Excess of revenues over expenditures | 20,150,030 | 21,091,572 |
| Net allocation to reserves and investments in capital assets | (18,912,537) | (16,475,060) |
| Allocation from appropriated surplus | 6,736,205 | 3,832,142 |
| Allocation to appropriated surplus | (7,037,705) | (6,320,653) |
| | 935,993 | 2,128,001 |
| Surplus, beginning of year | 45,732,998 | 43,604,997 |
| Surplus, end of year | \$ 46,668,991 | \$ 45,732,998 |

See accompanying notes to consolidated financial statements.

CITY OF RICHMOND

Consolidated Statement of Cash Flows

Year ended December 31, 1999 with comparative figures for 1998

| | 1999 | 1998 |
|---|---------------|---------------|
| Cash flows from operating activities | | |
| Excess of revenues over expenditures | \$ 20,150,030 | \$ 21,091,572 |
| Changes in non-cash operating items | | |
| Accrued interest receivable | 4,112,331 | (3,118,687) |
| Accounts receivable | 1,087,131 | 10,302,387 |
| Inventory of materials and supplies | (13,400) | 150,118 |
| Accounts payable and accrued liabilities | (4,338,936) | (4,350,196) |
| Deposits and holdbacks | 928,783 | (158,804) |
| Deferred revenue | 3,174,810 | 2,164,594 |
| | 25,100,749 | 26,080,984 |
| Cash flows from financing activities | | |
| Contributions to reserves and investments in capital assets | 23,409,606 | 24,398,911 |
| Increase in long-term debt | 20,000,000 | - |
| Increase in MFA deposits | (200,000) | - |
| Repayment of long-term debt | (3,276,648) | (3,621,734) |
| | 39,932,958 | 20,777,177 |
| Cash flows from investing activities | | |
| Purchases of capital assets | (66,498,614) | (50,705,005) |
| Proceeds on disposal of capital assets | - | 207,809 |
| Proceeds from short-term investments, net of purchases | 1,243,500 | 1,152,368 |
| | (65,255,114) | (49,344,828) |
| Decrease in cash | (221,407) | (2,486,667) |
| Cash, beginning of year | 1,621,278 | 4,107,945 |
| Cash, end of year | \$ 1,399,871 | \$ 1,621,278 |

See accompanying notes to consolidated financial statements.

CITY OF RICHMOND

Notes to Consolidated Financial Statements

Year ended December 31, 1999

1. Significant accounting policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for British Columbia municipalities, and reflect the following policies:

(a) *Basis of consolidation*

The consolidated financial statements include the accounts of all of the funds of the City (noted below). All inter-fund assets and liabilities and sources of financing and expenditures have been eliminated.

(b) *Funds of the City*

The accounts of the City are classified into various self-balancing funds, as follows:

General Revenue Fund - This fund is used to account for the current operations of the City as provided for in the Annual Budget, including collection of taxes, administering operations, provision of transportation services, policing, servicing general debt, etc.

General Capital and Loan Fund - This fund is used to record the City's fixed assets and work-in-progress, including engineering structures such as roads and bridges, and the related long-term debt.

Waterworks and Sewerworks Funds - These funds have been established to cover the costs of operating these utilities, with related capital and loan funds to record the related fixed assets and long-term debt.

Reserve Funds - Certain funds are established by bylaws for specific purposes. They are funded primarily by budgeted contributions from the General Revenue Fund plus interest earned on fund balances.

(c) *Revenue recognition*

Major sources of revenue are recorded on the accrual basis where they are recognized when earned. Deferred revenue on the balance sheet represents property tax and business license revenue received in respect of the following year.

(d) *Expenditure recognition*

Expenditures are recognized on the accrual basis except for the principal portion of debenture debt which is accounted for as described in note 8. Under the accrual basis of accounting, costs are reported as expenditures in the periods they are incurred.

(e) *Short-term investments*

Short-term investments are recorded at cost. Short-term investments include term deposits, short-term bonds and mortgages which, for the most part, have their principal guaranteed at maturity. Provisions for losses are recorded when they are considered to be other than temporary. At various times during the term of each individual investment, market value may be less than cost. Such a temporary decline in value generally reverses as the investment matures and therefore adjustment to market value for these market declines is not recorded.

CITY OF RICHMOND

Notes to Consolidated Financial Statements, Continued

Year ended December 31, 1999

1. Significant accounting policies, continued

(f) Accounts receivable

Accounts receivable are net of an allowance for doubtful accounts and therefore represent amounts expected to be collected within the next year.

(g) Inventory of materials and supplies

Inventories of materials and supplies are valued at the lower of cost and net realizable value. Cost is determined on a first-in first-out basis.

(h) Capital assets

Capital assets and capital work in progress are recorded at gross cost. Interest incurred on borrowed funds used during construction is capitalized. Donated assets are recorded at their estimated fair market value at the time they are received.

The City does not provide for depreciation or replacement of capital assets in the accounts. Proceeds from disposal of capital assets are credited to the appropriate reserve account.

2. Statement of cash flows

In 1999, the City adopted CICA Section 1540, Cash Flow Statements, which modifies the presentation of information in the consolidated statement of cash flows. These changes generally result in the exclusion of non-cash transactions from the statement and require them to be reported separately. Adoption of the new section has not otherwise impacted the measurement or recognition of transactions.

3. Collections for other governments

The City collects certain taxation revenue on behalf of other government bodies. These funds are excluded from the City's financial statements since they are not revenue of the City. Such taxes collected and remitted to the government bodies during the year were as follows:

| | 1999 | 1998 |
|--|-----------------------|-----------------------|
| Province of British Columbia - Schools | \$ 88,066,997 | \$ 87,072,829 |
| Regional District and others | 15,213,244 | 14,965,267 |
| | <u>\$ 103,280,241</u> | <u>\$ 102,038,096</u> |

CITY OF RICHMOND

Notes to Consolidated Financial Statements, Continued

Year ended December 31, 1999

4. Pensions

The City and its employees contribute to the Municipal Pension Plan (the "Plan") in accordance with the Pension (Municipal) Act of British Columbia (the "Act"). The British Columbia Pension Corporation administers the Plan, including the payment of pension benefits, on behalf of employers and employees to whom the Act applies. The Plan currently has more than 100,000 active contributors, including approximately 26,000 contributors from over 180 local governments.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The latest valuation was as at December 31, 1997, and disclosed a \$548 million unfunded actuarial liability (UAL) for funding purposes (\$1.31 billion as at the previous valuation). This represented an improved financial position, with a decrease in the UAL as a percentage of covered payroll from approximately 36% to 14%. Plan legislation provides that the unfunded liability will not cause increases in the employment group statutory contribution rates, upon which employer-specific rates are based, as long as the financial health of the Plan improves from one valuation to the next. The actuary does not attribute portions of the UAL to individual employers. Contributions to the Plan by the City are expensed in the year when payments are made and totalled approximately \$4,208,550 (1998 - \$3,648,156).

5. Capital assets

| | 1999 | 1998 |
|------------------------------------|-----------------------|-----------------------|
| General government | \$ 65,649,719 | \$ 45,520,885 |
| Public works | 418,148,399 | 398,686,168 |
| Protection to persons and property | 13,061,481 | 11,764,262 |
| Sanitation and waste removal | 8,916,533 | 8,916,533 |
| Social welfare | 1,884,246 | 1,884,246 |
| Recreation services | 119,749,265 | 104,537,758 |
| Community services | 64,736,450 | 62,697,882 |
| Miscellaneous | 46,384 | 46,384 |
| Work in progress | 111,460,292 | 103,100,037 |
| | <u>\$ 803,652,769</u> | <u>\$ 737,154,155</u> |

CITY OF RICHMOND

Notes to Consolidated Financial Statements, Continued

Year ended December 31, 1999

6. Accounts payable and accrued liabilities

| | 1999 | 1998 |
|----------------------|----------------------|----------------------|
| Accounts payable | \$ 22,330,859 | \$ 26,719,841 |
| Accrued liabilities | 4,256,240 | 4,320,509 |
| Accrued vacation pay | 1,052,753 | 1,077,185 |
| | \$ 27,639,852 | \$ 32,117,535 |

Accrued vacation pay represents the approximate value of the City's liability for employee vacation time.

Employees of the City can accumulate benefits related to sick leave. The approximate value of the City's liability for employee sick time has been accrued in these financial statements.

7. Municipal Finance Authority deposits and debt requirement

The City issues its debt instruments through the Municipal Finance Authority. As a condition of these borrowings, a portion of the debenture proceeds is withheld by the Municipal Finance Authority as a debt reserve fund. The City also executes demand notes in connection with each debenture whereby the City may be required to loan amounts to the Municipal Finance Authority. These demand notes are contingent in nature and are not reflected in the accounts. The details of the cash deposits and demand notes at December 31, 1999 are as follows:

| | Cash deposits | Demand notes | Total |
|-------------------------|-------------------|---------------------|---------------------|
| General revenue fund | \$ 612,469 | \$ 2,994,010 | \$ 3,606,479 |
| Waterworks revenue fund | 29,079 | 178,602 | 207,681 |
| Sewerworks revenue fund | 99,499 | 571,341 | 670,840 |
| Total | \$ 741,047 | \$ 3,743,953 | \$ 4,485,000 |

8. Long-term debt

| | 1999 | 1998 |
|--|----------------------|----------------------|
| Municipal Finance Authority debentures | \$ 53,669,553 | \$ 36,748,483 |
| Municipal agreements | 114,470 | 242,790 |
| Provincial capital improvement loan | 241,273 | 278,259 |
| Canada Mortgage and Housing Corp. debentures | - | 32,412 |
| | 54,025,296 | 37,301,944 |
| Less: current portion | 4,002,946 | (3,274,216) |
| | \$ 50,022,350 | \$ 34,027,728 |

CITY OF RICHMOND

Notes to Consolidated Financial Statements, Continued

Year ended December 31, 1999

8. Long-term debt, continued

Repayments of principal are charged to operations on a cash basis.

Debenture debt payable in U.S. dollars is recorded on the basis of \$1 Canadian equal to \$1 U.S. In accordance with the Municipal Finance Authority's recommended treatment, the exchange difference is recognized as a cost at time of repayment. At December 31, 1999, debenture debt denominated in U.S. dollars totalled \$549,488 (1998 - \$1,032,337), which if converted to Canadian dollars at December 31, 1999 would total \$794,340 (1998 - \$1,582,882), representing a \$244,852 (1998 - \$550,545) increase in the carrying value of long-term debt.

As at December 31, 1999, the City had authority to borrow \$8,538,500 for general municipal purposes.

Payments of principal on debentures and agreements required in the following five years and thereafter are as follows:

| | Revenue Funds | | | Total |
|------------|---------------|------------|--------------|---------------|
| | General | Waterworks | Sewerworks | |
| 2000 | \$ 3,086,243 | \$ 330,970 | \$ 585,733 | \$ 4,002,946 |
| 2001 | 2,802,296 | 162,236 | 605,878 | 3,570,410 |
| 2002 | 2,958,351 | 180,110 | 542,902 | 3,681,363 |
| 2003 | 3,124,085 | 244,613 | 578,413 | 3,947,111 |
| 2004 | 2,946,421 | - | 473,064 | 3,419,485 |
| Thereafter | 33,385,044 | - | 2,018,937 | 35,403,981 |
| | \$ 48,302,440 | \$ 917,929 | \$ 4,804,927 | \$ 54,025,296 |

CITY OF RICHMOND

Notes to Consolidated Financial Statements, Continued

Year ended December 31, 1999

9. Investment in capital assets

| | 1999 | 1998 |
|---|----------------|----------------|
| Balance, beginning of year | \$ 722,246,172 | \$ 667,329,651 |
| Additions | | |
| Principal payments on long-term debt | 3,276,648 | 3,621,734 |
| Federal, provincial and developer contributions | 1,009,677 | 470,469 |
| | 4,286,325 | 4,092,203 |
| Contributions from | | |
| General revenue fund | 4,647,268 | 3,733,528 |
| Waterworks revenue fund | 546,800 | 200,000 |
| Sewerworks revenue fund | - | 200,000 |
| Capital expenditure reserve | 10,621,200 | 19,712,900 |
| Equipment reserve | 600,000 | 1,984,340 |
| Development cost charges reserve | 12,900,100 | 17,186,600 |
| Off street parking reserve | 16,700 | - |
| Neighborhood Improvement reserve | - | 1,000,000 |
| Public art reserve | - | 55,000 |
| Child care facility | 14,000 | - |
| Sewer lateral replacement reserve | 5,034,600 | 5,450,000 |
| Waterworks main replacement reserve | 2,570,900 | 1,564,000 |
| Other | 5,545,884 | 595,095 |
| | 42,497,452 | 51,681,463 |
| Reductions | | |
| Return of unspent funds to Reserves | (4,135,435) | (620,633) |
| | 764,894,514 | 722,482,684 |
| Disposals of capital assets | - | (236,512) |
| Balance, end of year | \$ 764,894,514 | \$ 722,246,172 |

CITY OF RICHMOND

Notes to Consolidated Financial Statements, Continued

Year ended December 31, 1999

10. Appropriated surplus

| | 1999 | 1998 |
|---|---------------|---------------|
| Appropriated surplus, beginning of year | \$ 16,234,164 | \$ 13,745,653 |
| Additions in the year | 7,037,705 | 6,320,653 |
| Usage | (6,736,205) | (3,832,142) |
| Appropriated surplus, end of year | \$ 16,535,664 | \$ 16,234,164 |

Surplus amounts are appropriated or reserved for certain types of expenditures that may be incurred in the future. Surplus appropriations to December 31, 1999 have been made in the general, waterworks and sewerworks funds. These expenditures would be for such things as unexpected human resource issues, emergency or disaster recovery, debt requirements and future capital maintenance programs.

11. Commitments and contingencies

- (a) As a member of the following districts, the City is jointly and severally liable for each district's applicable proportion of the net capital liability including that of:

Greater Vancouver Regional District
Greater Vancouver Water District
Greater Vancouver Sewerage and Drainage District

- (b) As at December 31, 1999, the City was committed to lease payments for premises and equipment in the following approximate amounts:

| | |
|------------|--------------|
| 2000 | |
| 2001 | \$ 4,030,621 |
| 2002 | 3,546,757 |
| 2003 | 3,442,829 |
| 2004 | 3,287,646 |
| Thereafter | 3,281,782 |
| | 49,579,027 |

- (c) As at December 31, 1999, there were pending legal actions against the City relating primarily to expropriations of properties. The outcome at this time remains indeterminate in each case. At December 31, 1999, the balance in the reserve for legal settlements to meet possible settlements not covered by insurance amounted to \$1,072,304 (1998 - \$1,072,304).

CITY OF RICHMOND

Schedule 1 - Continuity of Reserve Funds and Reserves

Year ended December 31, 1999

| | Reserve Funds | | | | | | | |
|--|-----------------------------------|----------------------|--|----------------------------------|----------------------------------|--|-----------------------------|------------------------------|
| | Capital Expenditure Reserve | Equipment Reserve | Development Cost Charges Reserve | Affordable Housing Reserve | Off Street Parking Reserve | Neighborhood Improvement Reserve | Tax Sale Land Reserve | Reserve Funds Subtotal |
| Balance, beginning of year | \$ 22,917,872 | \$ 8,328,280 | \$ 36,106,499 | \$ 5,594,341 | \$ 110,585 | \$ 916,401 | \$ 411,193 | \$ 74,385,171 |
| Revenues | | | | | | | | |
| Contributions from developers | - | - | - | - | 10,500 | 289,695 | - | 300,195 |
| Development fees | - | - | 5,461,207 | - | - | - | - | 5,461,207 |
| Investment income | 1,879,395 | 637,818 | 586,816 | 344,611 | 5,889 | 104,135 | - | 3,558,664 |
| Contributions from revenue funds to reserve funds | 10,621,200 | 1,259,600 | - | - | - | - | - | 11,880,800 |
| Proceeds from disposal of capital assets | 28,000 | - | - | - | - | - | - | 28,000 |
| Other | 1,908,307 | 162,372 | - | - | - | - | - | 2,070,679 |
| | 14,436,902 | 2,059,790 | 6,048,023 | 344,611 | 16,389 | 393,830 | - | 23,299,545 |
| Expenditures | | | | | | | | |
| Contributions to capital programs | 10,621,200 | 600,000 | 12,900,100 | - | 16,700 | - | - | 24,138,000 |
| Contributions to revenue fund | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | 78,775 | - | - | 78,775 |
| | 10,621,200 | 600,000 | 12,900,100 | - | 95,475 | - | - | 24,216,775 |
| Balance, end of year | \$ 26,733,574 | \$ 9,788,070 | \$ 29,254,422 | \$ 5,938,952 | \$ 31,499 | \$ 1,310,231 | \$ 411,193 | \$ 73,467,941 |

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CITY OF RICHMOND

Schedule 1 - Continuity of Reserve Funds and Reserves, Continued

Year ended December 31, 1999

| | Reserve Funds Subtotal Carried Forward | Reserve Funds | | | | | | | Reserve Funds Total |
|--|---|----------------|---------------------------|---------------------------------------|---|---------------------------------------|---------------------------------|-------------------|---------------------------|
| | | Public Art | Child Care Facility | Sewer Trunk Replacement Reserve | Sewer Lateral Replacement Reserve | Waterworks Main Replace Reserve | Local Improvement Reserve | | |
| Balance, beginning of year | \$ 74,385,171 | \$ 314,223 | \$ 14,264 | \$ 11,451,600 | \$ 8,673,111 | \$ 14,861,303 | \$ - | \$ 109,699,672 | |
| Revenues | | | | | | | | | |
| Contributions from developers | 300,195 | - | - | - | - | - | - | 300,195 | |
| Development fees | 5,461,207 | - | - | - | - | - | - | 5,461,207 | |
| Investment income | 3,558,664 | 22,585 | 478 | 705,419 | 399,218 | 959,857 | 103,366 | 5,749,587 | |
| Contributions from revenue funds to reserve funds | 11,880,800 | 100,000 | - | - | - | 4,012,478 | 1,678,028 | 17,671,306 | |
| Proceeds from disposal of capital assets | 28,000 | - | - | - | - | - | - | 28,000 | |
| Other | 2,070,679 | - | - | - | - | - | - | 2,070,679 | |
| | 23,299,545 | 122,585 | 478 | 705,419 | 399,218 | 4,972,335 | 1,781,394 | 31,280,974 | |
| Expenditures | | | | | | | | | |
| Contribution to capital | 24,138,000 | - | 14,000 | - | 5,034,600 | 2,570,900 | - | 31,757,500 | |
| Contributions to revenue fund | - | - | - | - | - | - | - | - | |
| Other | 78,775 | - | - | - | - | - | - | 78,775 | |
| | 24,216,775 | - | 14,000 | - | 5,034,600 | 2,570,900 | - | 31,836,275 | |
| Balance, end of year | \$ 73,467,941 | \$ 436,808 | \$ 742 | \$ 12,157,019 | \$ 4,037,729 | \$ 17,262,738 | \$ 1,781,394 | \$ 109,144,371 | |

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CITY OF RICHMOND

Schedule 1 - Continuity of Reserve Funds and Reserves, Continued

Year ended December 31, 1999

| | Reserve Funds Total Carried Forward | R e s e r v e s | | | | Reserves Total | Reserve Funds and Reserves Total |
|---|--|---------------------|------------------------------|----------------------|----------------|-------------------|---|
| | | Future Elections | Appeal Board Decisions | Legal Settlements | | | |
| Balance, beginning of year | \$ 109,699,672 | \$ 245,835 | \$ 500,000 | \$ 1,296,236 | \$ 2,042,071 | \$ 111,741,743 | |
| Revenues | | | | | | | |
| Contributions from developers | 300,195 | - | - | - | - | 300,195 | |
| Development fees | 5,461,207 | - | - | - | - | 5,461,207 | |
| Investment income | 5,749,587 | - | - | - | - | 5,749,587 | |
| Contributions from revenue funds to reserves | 17,671,306 | 75,000 | - | 147,900 | 222,900 | 17,894,206 | |
| Proceeds from disposal of capital assets | 28,000 | - | - | - | - | 28,000 | |
| Other | 2,070,679 | - | - | - | - | 2,070,679 | |
| | 31,280,974 | 75,000 | - | 147,900 | 222,900 | 31,503,874 | |
| Expenditures | | | | | | | |
| Contribution to capital programs | 31,757,500 | - | - | - | - | 31,757,500 | |
| Contributions to revenue fund | - | 193,797 | - | - | 193,797 | 193,797 | |
| Other | 78,775 | - | - | - | - | 78,775 | |
| | 31,836,275 | 193,797 | - | - | 193,797 | 32,030,072 | |
| Balance, end of year | \$ 109,144,371 | \$ 127,038 | \$ 500,000 | \$ 1,444,136 | \$ 2,071,174 | \$ 111,215,545 | |

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CITY OF RICHMOND

Schedule 2 - Fund Balance Sheets

Year ended December 31, 1999

| | Revenue Funds | | | Reserves | Capital and Loan Funds | Total |
|--|----------------------|-------------------------|-------------------------|------------------------|---------------------------------|------------------|
| | General Revenue Fund | Waterworks Revenue Fund | Sewerworks Revenue Fund | Combined Reserve Funds | Combined Capital and Loan Funds | |
| Assets | | | | | | |
| Cash | \$ 1,399,871 | \$ - | \$ - | \$ - | \$ - | \$ 1,399,871 |
| Short-term investments | 57,459,856 | - | - | 95,555,812 | 59,330,582 | 212,346,250 |
| Accrued interest receivable | 7,977,219 | 168,533 | 297,661 | - | - | 8,443,413 |
| Accounts receivable | | | | | | |
| Taxes receivable | 6,490,928 | - | - | - | - | 6,490,928 |
| Current portion of development fees receivable | - | - | - | 870,782 | - | 870,782 |
| Other receivables | 6,420,479 | 1,786,115 | 873,209 | - | - | 9,079,803 |
| Due from other funds | 4,546,104 | 13,020,275 | 16,404,851 | 10,092,311 | - | 44,063,541 |
| Inventory of materials and supplies | 2,201,874 | - | - | - | - | 2,201,874 |
| Development fees receivable | - | - | - | 2,625,466 | - | 2,625,466 |
| Municipal Finance Authority deposits | 612,469 | 29,079 | 99,499 | - | - | 741,047 |
| Capital assets | - | - | - | - | 803,652,769 | 803,652,769 |
| | \$ 87,108,800 | \$ 15,004,002 | \$ 17,675,220 | \$ 109,144,371 | \$ 862,983,351 | \$ 1,091,915,744 |
| Liabilities and Equity | | | | | | |
| Accounts payable and accrued liabilities | \$ 27,513,170 | \$ 4,564 | \$ 122,118 | \$ - | \$ - | \$ 27,639,852 |
| Deposits and holdbacks | 4,444,736 | - | - | - | - | 4,444,736 |
| Deferred revenue | 9,912,479 | 681,695 | 8,633,940 | - | - | 19,228,114 |
| Due to other funds | - | - | - | - | 44,063,541 | 44,063,541 |
| Current portion of long-term debt | - | - | - | - | 4,002,946 | 4,002,946 |
| Accrued liabilities | 2,458,444 | - | - | - | - | 2,458,444 |
| Municipal Finance Authority debt requirement | 612,469 | 29,079 | 99,499 | - | - | 741,047 |
| Long-term debt | - | - | - | - | 50,022,350 | 50,022,350 |
| Investment in capital assets | - | - | - | - | 764,894,514 | 764,894,514 |
| Reserves | 2,071,174 | - | - | 109,144,371 | - | 111,215,545 |
| Surplus | 23,560,664 | 14,288,664 | 8,819,663 | - | - | 46,668,991 |
| Appropriated surplus | 16,535,664 | - | - | - | - | 16,535,664 |
| | \$ 87,108,800 | \$ 15,004,002 | \$ 17,675,220 | \$ 109,144,371 | \$ 862,983,351 | \$ 1,091,915,744 |

CITY OF RICHMOND

Schedule 3 - Fund Statements of Revenues, Expenditures and Surplus

Year ended December 31, 1999

| | Revenue Funds | | | Total |
|---|----------------------|-------------------------|-------------------------|---------------|
| | General Revenue Fund | Waterworks Revenue Fund | Sewerworks Revenue Fund | |
| Revenues | | | | |
| Taxation and levies | \$ 84,678,783 | \$ - | \$ 5,604,608 | \$ 90,283,391 |
| User fees | - | 15,291,712 | 9,754,883 | 25,046,595 |
| Sales of services | 19,423,520 | - | - | 19,423,520 |
| Provincial and federal grants | 1,533,049 | - | - | 1,533,049 |
| Grants-in-lieu of taxes | 8,699,860 | - | - | 8,699,860 |
| Other revenue from own sources | | | | |
| Licenses and permits | 4,412,148 | - | - | 4,412,148 |
| Investment income | 3,621,456 | 996,390 | 697,992 | 5,315,838 |
| Other | 2,291,925 | - | - | 2,291,925 |
| | 124,660,741 | 16,288,102 | 16,057,483 | 157,006,326 |
| Expenditures | | | | |
| General government | 15,728,517 | - | - | 15,728,517 |
| Protective services | 39,443,463 | - | - | 39,443,463 |
| Transportation services | 15,232,794 | - | - | 15,232,794 |
| Sanitation and recycling services | 5,883,884 | - | - | 5,883,884 |
| Environmental development services | 1,821,760 | - | - | 1,821,760 |
| Recreational and cultural services | 20,559,342 | - | - | 20,559,342 |
| Richmond Public Library | 4,809,100 | - | - | 4,809,100 |
| Utilities | | | | |
| Water supply and distribution | - | 11,050,788 | - | 11,050,788 |
| Sewerage collection and disposal | - | - | 9,124,538 | 9,124,538 |
| Debt and finance | 5,091,471 | 777,499 | 7,072,594 | 12,941,564 |
| Other expenses | 260,546 | - | - | 260,546 |
| | 108,830,877 | 11,828,287 | 16,197,132 | 136,856,296 |
| Excess (deficiency) of revenues over expenditures | 15,829,864 | 4,459,815 | (139,649) | 20,150,030 |
| Net allocations to reserves and investments in capital assets | (15,610,737) | (3,451,800) | 150,000 | (18,912,537) |
| Allocation from appropriated surplus | 6,736,205 | - | - | 6,736,205 |
| Appropriation to surplus | (6,937,705) | (100,000) | - | (7,037,705) |
| | 17,627 | 908,015 | 10,351 | 935,993 |
| Surplus, beginning of year | 23,543,037 | 13,380,649 | 8,809,312 | 45,732,998 |
| Surplus, end of year | \$ 23,560,664 | \$ 14,288,664 | \$ 8,819,663 | \$ 46,668,991 |



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91731

PRIVATE & CONFIDENTIAL

Mr. Jim Bruce
Finance & Corporate Services Administrator
The City of Richmond
6911 No. 3 Road
Richmond BC V6Y 2C1

April 25, 2000

Dear Mr. Bruce

We recently completed our examination of the financial statements of the City of Richmond (the 'City') for the year ended December 31, 1999. The primary purpose of our examination is to enable us to form an opinion on the financial statements of the City for the year ended December 31, 1999. As part of our examination, we reviewed and tested the City's financial systems and related internal controls as required by Canadian generally accepted auditing standards. Our study and evaluation with respect to these financial systems was not designed for the purpose of expressing an opinion on internal controls. It would not necessarily disclose all weaknesses in the systems. The purpose of this letter is to bring to your attention certain matters which were encountered in the course of our work and to offer our comments and recommendations.

We have not reviewed these matters since March 28, 2000, the date of our auditors' report. These comments, by their nature, are critical, as they relate solely to weaknesses and do not address the many strong features and controls within the City's systems. We would be pleased to discuss our comments and recommendations with you and to assist you with the implementation of the recommendations.

We would like to take this opportunity to thank you and the staff for the helpful and courteous manner in which we were treated during the course of our audit.

Yours very truly

Don Matthew
Partner
(604) 214-3931

Enclosures

cc: George Duncan, *City Administrator*
Greg Halsey-Brandt, *Mayor and Chairman General Purposes Committee*

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A) INVESTMENTS

1) Accrued Interest

The timing of revenue recognition for investment income does not always match the timing of when it is earned. This issue was raised last year and procedural changes were made and agreed to by management and the auditors. However, during our audit, it was noted that for 1999 the procedures had not been applied correctly such that year end calculations and working papers had to be redone by City staff.

Recommendation

The revised calculations and working papers were prepared correctly and such analysis should be done this way in future years.

Management Response

- i) *For the 1999 year, the City's policy is to defer and amortize premium amounts greater than \$50,000 over the term of the investment. Amounts less than \$50,000 are to be expensed against interest income for the year. In addition, discounts/coupons greater than \$50,000 are to be deferred and amortized over the term of the investment. Amounts less than \$50,000 are to be recognized as interest income in the year.*
- ii) *The policy adopted by the City for 1999 and thereafter is to calculate accrued interest receivable at the year end on a compounding basis rather than on a straight-line basis. Any errors found have been corrected by staff prior to the finalization of the financial statements.*

2) Interest Allocation

Observation

The City used the 1998 average rate of return on investments to determine its threshold when allocating investment income to its various funds and reserves. As the average rate of return in 1998 is different than that for 1999, investment income was misallocated to funds and reserves. Although the differences were not material, the fund and reserve balances were misstated.

Recommendation:

The City should ensure that the appropriate average rate of return is used to allocate investment income to its funds and reserves.

Management Response:

We concur with the above recommendation.



B) CAPITAL ASSETS

1) **Non-City Sources of Funding**

Observation

The City receives donations, contributions, and grants from outside sources. Grants are recorded in the Work in Progress (WIP) Grant Revenue Sharing account while all other non-city sources of funding are recorded in the WIP Investment account. However, when a project is capitalized, the WIP Grant Revenue Sharing account is credited for the entire amount of the non-city sources of funding, consequently causing the WIP Grant Revenue Sharing account to be understated and the WIP Investment account to be overstated. Although it has no effect on the financial statements and we understand this accounting is done as a way of tracking these sources of funding, this should be properly accounted for in order to have correct account balances.

Recommendation

When a project is capitalized, the City should credit the WIP Grant Revenue Sharing account for the amount of non-city sources of funding related to grants, and credit the WIP Investment account for the remaining non-city sources of funding.

Management Response

This item has been canied forward from the previous year. The accounts mentioned are never reviewed individually and as noted by the auditors, it has no effect on the financial statements. We are in the process of reviewing our current accounting procedures regarding WIP Grant Revenue Sharing and WIP Investment and the account balances will be retroactively corrected.

C) ACCOUNTS PAYABLE

1) **Recording of Invoices**

Observation

Invoices for goods or services received by the requisitioning department are not immediately being forwarded to the Accounts Payable department for processing throughout the year. Sometimes, projects are closed out for accounting purposes without all the attributes costs being recorded to the applicable project. Although at year end the invoices are accounted for, these not submitted for processing on a timely basis are not recorded against the appropriate project for internal reporting purposes.

Recommendation

All invoices should be forwarded to the Accounts Payable department in a timely fashion to ensure accurate internal reporting.

Management Response

We are aware of certain departments not forwarding invoices to the Accounts Payable department in a timely manner for processing. However, as the auditors have noted, at year end this was not a problem as staff ensured that all invoices were properly accounted for in the correct accounting year.

2) **Accruals**

Observation

The City often allocates a portion of interest income directly to accrual accounts. This has the effect of understating interest income in the statement of revenues and expenditures and does not accurately reflect the allocation of revenues to these accrual accounts.

Recommendation

All interest income should be recorded as such in the statement of revenues and expenditures. The allocation of some of this interest income to accrual accounts should also be recorded through this statement.

Management Response

We concur with the above recommendation.



D) ACCOUNTS RECEIVABLE

1) Accounting for Deposits Received

Observation

The City records firm price fees received for projects into the Public Works receivable account to offset future project costs. When the project is complete, there could be a credit/debit balance in the account for the particular project, depending on whether costs were less/greater than fees received. The City's policy is to recognize in revenue credit balances associated with a particular project in the period the project is completed as fees received are non-refundable. At December 31, 1999 this policy was followed with the exception of certain amounts. The total of these amounts was not material to the financial statements.

Recommendation

The credit balances should be reclassified to either revenue or deferred revenue depending on whether the project is complete or incomplete to avoid understating accounts receivable and revenue and properly recognizing revenue in the period it is earned (i.e., at the completion of a project). Proper monitoring of the Public Works receivable accounts ensures revenue is properly and completely recognized in the correct period.

Management Response

For the 1999 year end, any revenue or losses related to firm price connections have been recognized in the income statement. The remaining credit balances relate to deposits received for work not completed or begun. As a result of the implementation of the new Peoplesoft Accounts Receivable and Billings systems, all deposits received have been identified and recognized in the general ledger as Security Deposits-Public Works. On the financial statements they have been classified under liabilities as Deposits and Holdbacks.

E) PAYROLL

1) **Gratuities**

Observation

The City's Payroll Department manually inputs accumulated gratuity hours into PeopleSoft on a semi-annual basis. In the past, payroll clerks have reviewed each others work. However, in 1999, due to time constraints, no review was performed.

Recommendation

Given the susceptibility of manual entry to human error, the City's Payroll Supervisor should review the payroll clerks entries for reasonableness.

Management Response

The Manager of Payroll and Benefits had reviewed the calculation of accumulated gratuity hours to December 31, 1999. For the calculation of the accumulated gratuity hours for the six month period ending June 30, 2000, there will be a review conducted by the Payroll Supervisor before and after the input of the gratuities information.

2) **Payroll Summary Reports**

Observation

The City's Payroll Summary Reports are grouped by pay groups while the general ledger groups salary expenses by departments and work orders. As a result, departmental reconciliations between the Payroll Summary Reports and the general ledger are not possible.

Recommendation

The City should modify its Payroll Summary Reports to summarize payroll information by department in order to facilitate reconciliations between the report and the general ledger.

Management Response

The Payroll department will discuss with IT to develop a report to provide a reconciliation between the Payroll Summary reports grouped by pay groups and the department information in the general ledger.

F) INFORMATION TECHNOLOGY

The objective of our audit was to obtain reasonable assurance that the financial statements are free of material misstatement and was not designed for the purpose of identifying matters to communicate. In planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

1) Off-site Backups

Observation

The City stores its daily backup tapes at an off-site location in Vancouver once per week. During the week, the daily backup tapes are stored in a tape library in the computer room. The City could potentially lose up to one week of data and program changes if a significant disaster such as a fire or flood were to take place in the City's main computer room. Most organizations take their critical backup tapes off-site on a daily basis. Since the City is becoming more reliant on its information systems (e.g., Peoplesoft, document imaging), more frequent backup procedures are necessary. The City is planning to implement a better backup process which may eventually involve continuous transmission of data to an off-site facility.

Recommendation

We support the City's efforts to implement a better backup process. We strongly recommend that the City store its backup tapes at a secure off-site location on a daily basis until a better solution is implemented.

Management Response

We concur with the above recommendation. Implementation of this project is presently underway and will be completed this year.

2) Manual Payroll Cheque Controls

Observation

Most of the City's payroll disbursements are automated by the PeopleSoft Human Resource Information System. Each pay period, the City also prints some "manual" payroll cheques to satisfy various employee requests. The City's PeopleSoft Payroll system does print an electronic cheque number on these "manual" cheques. However, when the bank scans the cheques, the cheque numbers do not appear on the bank statement because there is no micro-enclosed number on the cheque. Without cheque numbers on the bank statement, bank reconciliations are more difficult and time-consuming to reconcile.

Recommendation

We recommend that the City address this control weakness as soon as possible by modifying the PeopleSoft system to print the cheque number in both human and machine readable form on each cheque.

Management Response

We concur with the above recommendation. The city is aware of this issue and has implemented remedial action.

3) Disaster Recovery Planning

Observation

The City has developed a formal plan to recover its information systems in the event of certain types of disasters, but the plan has not been fully tested. Also, the plan addresses recovery of the City's information systems, but it does not address continuity / recovery of the City's critical business processes. Meanwhile, a proposal to revise the City's overall disaster recovery plan, of which IT is one component, has been submitted to Council. As the City becomes more dependent upon information technology, the need for a fully tested disaster recovery plan becomes increasingly important. However, critical City services must continue to operate while and after IT systems are restored in the event of a disaster. Therefore, it is important that the City's disaster recovery plan address not only the IT systems, but also continuity of key business processes. Without a fully integrated and tested recovery/contingency plan, which includes core business processes and related support processes such as IT, the City may experience significant downtime and incur financial losses in the event of a disaster.

Recommendation

We support the City's efforts to update and test its disaster recovery plan. We recommend that the City expand its disaster recovery plan to address continuity and recovery of its key business processes in the event of a disaster. Also, since the City and its information systems will all be relocating to the new City Hall building in 2000, we recommend that the City consider the impact of this move on its current disaster recovery plan and other controls.

Management Response

Continuity and recovery of key business processes is all part of the disaster recovery plan and is presently being updated and put in place.

5) Termination Procedures

Observation

Last year the City did not have a formal procedure to ensure timely removal of employee computer privileges upon termination. The City has now developed a draft termination checklist designed to ensure that the Information Systems department is informed of all employee terminations, and removes related computer access on a timely basis. We understand Human Resources is reviewing this checklist which will be updated to reflect the current environment.

Recommendation

We recommend that this new policy be formally approved and endorsed by senior management, and implemented as soon as possible. The City should consider similar procedures to review systems privileges and data access when employees change positions, roles and responsibilities.

Management Response

We concur with the above recommendation. This issue is a priority to the City and is currently under review and will be updated and implemented as soon as possible.

6) Security Policies and Procedures

Observation

The City began updating its formal policies and procedures in 2000 and intends to continue reviewing and updating them on an annual basis. The document addresses security requirements for most of the City's significant information systems, but responsibility for approving access to key applications is vague.

Recommendation

We support the City's efforts to update its formal policies and procedures. As these policies are updated, they should be formally approved by senior management and communicated to all employees with access to City information systems. We recommend that the draft security policy specify the need for individuals responsible for ownership and approving access to each significant application, module, or data set along with a formal procedure to review and approve access requests. Ideally, requests for access to key applications should be initiated by the user's supervisor to ensure that the access request is based on the user's role and responsibility and to ensure appropriate segregation of duties. However, final approval should rest with the manager of the department that owns the data or application. This should include approving access to particular modules or functions within an application (e.g., PeopleSoft) and could initially be conducted based upon job classification, and then on an exception basis. Finally, user access privileges should be reviewed on a periodic basis for currency.

Management Response

We concur with the above recommendation and will update our policy to clarify that the owner of the application (manager of the department) is overall accountable and responsible for approving user access for applications they own. Current practice is the Information Systems department ("IS") adds users based on requests from Human Resources and/or the manager of the department. Before a user is added, IS reviews the request for reasonableness and if the request does not appear reasonable, IS contacts the manager to determine why such access is required.