



City of Richmond

Report to Committee

To: Finance Committee

Date: April 15, 2019

From: Jerry Chong
Director, Finance

File: 03-0905-01/2019-Vol
01

Re: 2018 Consolidated Financial Statements

Staff Recommendation

That the City's audited consolidated financial statements for the year ended December 31, 2018 be accepted.

Jerry Chong, CPA, CA
Director, Finance
(604-276-4064)

Att. 2

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

Staff Report

Origin

Sections 98 and 167 of the *Community Charter* require that the City prepare annual audited financial statements. The City's audited consolidated financial statements for 2018 have been prepared in accordance with Canadian public sector accounting standards as prescribed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

Analysis

KPMG LLP (KPMG) has been appointed by City Council to independently audit the City's consolidated financial statements. They have expressed an opinion, that the City's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2018, and its consolidated results of operation, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

The annual financial statements and the auditor's report for the year ended December 31, 2018 are attached as Appendix 1.

The consolidated financial statements combine the accounts of the City of Richmond, Richmond Olympic Oval and Richmond Public Library. The City's investment in Lulu Island Energy Company (LIEC), a wholly owned government business enterprise (GBE), is accounted for using the modified equity method. Further information about the basis of consolidation is listed in Note 2 to the consolidated financial statements.

An analysis of the consolidated financial statements as prepared by management is provided in the Financial Statement Discussion and Analysis (FSD&A) included in Attachment 2. The FSD&A explains the significant differences in the financial statements between the reported year and the previous year as well as between budgeted and actual results. This analysis is intended to be read in conjunction with the 2018 audited consolidated financial statements.

2018 Consolidated Statement of Financial Position

The financial position of the City and its subsidiaries is strong as accumulated surplus increased in 2018 by \$185.0 million to \$3.1 billion. These figures reflect the cumulative balance of all previous activity as of the reporting date December 31, 2018.

Highlights of the 2018 consolidated statement of financial position:

- \$3.1B – Accumulated surplus (net worth)
 - \$2.4B – Net book value of tangible capital assets
 - \$540.2M – Reserve balance, including \$208.7M committed towards active capital projects
 - \$207.2M – Appropriated surplus for future commitments
 - \$24.0M – Surplus (cumulative unallocated balance of general, water and sewer funds), including \$6.7M for the City's 2018 operating surplus (based on the budget presentation and including transfer to reserves and transfers to/from other

accumulated surplus items), that, as approved at the December 10, 2012 Council meeting, will be transferred to the Rate Stabilization Account to minimize future tax increases or to offset one-time expenditure requests.

- \$763.1M – Net financial assets
 - \$1.1B – Cash and investments
 - (\$158.9M) – Development cost charge balance, including \$48.9M committed towards active capital projects
 - (\$113.6M) – Deposits and holdbacks
 - (\$67.4M) – Deferred revenue
 - (\$32.8M) – Net debt

Overall, the City continues to be in a relatively strong financial position. In aggregate, the City's reserve balances, accumulated surplus and developer contributions, have increased from prior year. Staff will continue to provide Council with updated financial information on a quarterly basis during 2019 through the Quarterly Financial Reporting process.

2018 Consolidated Statement of Operations

The consolidated revenues exceeded expenses by \$185.0 million. These figures represent the activity during 2018 from January 1 to December 31.

Highlights of the 2018 consolidated statement of operations:

- \$599.4 million total revenues
 - \$216.9M taxation and levies
 - \$109.5M utility fees
 - \$88.0M contributed assets through development
 - \$39.1M sales of services
- \$414.5 million total expenses
 - \$162.3 million wages and benefits
 - \$73.5 million contract services, including RCMP
 - \$67.9 million supplies, materials and other
 - \$60.5 million amortization expense
- \$185.0 million – Annual surplus (the increase in net worth which includes the increase in capital equity, reserves, appropriated surplus and surplus). The 2018 annual surplus is comprised of:
 - \$124.7M increase in investment in tangible capital assets
 - \$55.3M increase in the reserve balance
 - \$2.2M increase in appropriated surplus for future commitments
 - \$1.5M for investment in LIEC
 - \$1.3M net increase in surplus and other, inclusive of an increase of \$6.7M for the City's 2018 operating surplus that will be transferred to the Rate Stabilization Account.

Financial Impact

None.

Conclusion

The City's audited consolidated financial statements for 2018 have been prepared in accordance with Canadian public sector accounting standards as prescribed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. As noted in the Auditors' Report, it is the Auditors' opinion that these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2018, and its consolidated results of operation, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Cindy Gilfillan, CPA, CMA
Manager, Financial Reporting
(604-276-4077)

- Att. 1: 2018 City of Richmond Consolidated Financial Statements
- 2: 2018 Financial Statement Discussion and Analysis

Consolidated Financial Statements of

CITY OF RICHMOND

Year ended December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the City of Richmond

Opinion

We have audited the consolidated financial statements of the City of Richmond (the "City"), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2018, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants

Vancouver, Canada

[Date]

CITY OF RICHMOND

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2018, with comparative information for 2017

	2018	2017
Financial Assets		
Cash	\$ 121,861	\$ 47,867
Investments (note 3)	1,004,928	972,783
Investment in Lulu Island Energy Company ("LIEC") (note 4)	29,780	28,289
Accrued interest receivable	7,443	6,651
Accounts receivable (note 5)	29,151	27,036
Taxes receivable	11,844	8,976
Development fees receivable	25,545	22,376
Debt reserve fund - deposits (note 6)	508	508
	<u>1,231,060</u>	<u>1,114,486</u>
Liabilities		
Accounts payable and accrued liabilities (note 7)	95,231	99,036
Development cost charges (note 8)	158,882	130,684
Deposits and holdbacks (note 9)	113,620	82,786
Deferred revenue (note 10)	67,364	66,287
Debt, net of MFA sinking fund deposits (note 11)	32,842	37,603
	<u>467,939</u>	<u>416,396</u>
Net financial assets	763,121	698,090
Non-Financial Assets		
Tangible capital assets (note 12)	2,371,694	2,251,901
Inventory of materials and supplies	3,602	3,762
Prepaid expenses	2,673	2,376
	<u>2,377,969</u>	<u>2,258,039</u>
Accumulated surplus (note 13)	<u>\$ 3,141,090</u>	<u>\$ 2,956,129</u>

Contingent demand notes (note 6)
Commitments and contingencies (note 18)

See accompanying notes to consolidated financial statements.

General Manager, Finance and Corporate Services

CITY OF RICHMOND

Consolidated Statement of Operations
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018 Budget (notes 2(p) and 24)	2018	2017
Revenue:			
Taxation and levies	\$ 216,703	\$ 216,908	\$ 206,901
Utility fees	100,786	102,915	99,493
Sales of services	39,246	39,111	39,430
Payments-in-lieu of taxes	14,245	15,489	14,647
Provincial and federal grants	7,692	10,355	9,276
Development cost charges (note 8)	31,638	17,432	15,710
Other capital funding sources	58,685	95,859	57,570
Other revenue:			
Investment income	14,694	20,705	17,832
Gaming revenue	16,500	16,837	16,753
Licenses and permits	10,384	13,637	13,011
Other (note 21)	10,921	48,678	31,502
Equity income in government business enterprise ("GBE") (note 4)	-	1,491	1,042
	<u>521,494</u>	<u>599,417</u>	<u>523,167</u>
Expenses:			
Community safety	101,786	98,500	89,933
Utilities: water, sewer and sanitation	90,460	89,959	87,757
Engineering, public works and project development	76,077	68,793	66,120
Community services	66,159	63,882	77,387
General government	61,796	52,549	51,720
Planning and development	16,120	15,368	15,417
Richmond Olympic Oval	16,211	15,424	15,331
Library services	10,758	9,981	9,619
	<u>439,367</u>	<u>414,456</u>	<u>413,284</u>
Annual surplus	82,127	184,961	109,883
Accumulated surplus, beginning of year	2,956,129	2,956,129	2,846,246
Accumulated surplus, end of year	<u>\$ 3,038,256</u>	<u>\$ 3,141,090</u>	<u>\$ 2,956,129</u>

See accompanying notes to consolidated financial statements.

CITY OF RICHMOND

Consolidated Statement of Changes in Net Financial Assets (Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018 Budget (notes 2(p) and 24)	2018	2017
Annual surplus for the year	\$ 82,127	\$ 184,961	\$ 109,883
Acquisition of tangible capital assets	(162,318)	(92,851)	(110,742)
Contributed tangible capital assets	(47,410)	(88,021)	(52,249)
Amortization of tangible capital assets	58,717	60,542	58,012
Net loss (gain) on disposal of tangible capital assets	-	324	(3,293)
Proceeds on sale of tangible capital assets	-	213	5,361
Reclassification of assets to LIEC as GBE	-	-	31,036
Classification of LIEC as GBE	-	-	(2,182)
	(68,884)	65,168	35,826
Acquisition of inventories of materials and supplies	-	(3,602)	(3,762)
Acquisition of prepaid expenses	-	(2,673)	(2,376)
Consumption of inventories of materials and supplies	-	3,762	3,138
Use of prepaid expenses	-	2,376	2,525
Change in net financial assets	(68,884)	65,031	35,351
Net financial assets, beginning of year	698,090	698,090	662,739
Net financial assets, end of year	\$ 629,206	\$ 763,121	\$ 698,090

See accompanying notes to consolidated financial statements.

CITY OF RICHMOND

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 184,961	\$ 109,883
Items not involving cash:		
Amortization	60,542	58,012
Loss (gain) on disposal of tangible capital assets	324	(3,293)
Contributions of tangible capital assets	(88,021)	(52,249)
Accounting adjustments upon transition of LIEC to a GBE	-	5,846
Equity income in GBE	(1,491)	(1,042)
Change in non-cash operating working capital:		
Accrued interest receivable	(792)	321
Accounts receivable	(2,115)	730
Taxes receivable	(2,868)	446
Development fees receivable	(3,169)	(5,664)
Inventories of materials and supplies	160	(624)
Prepaid expenses	(297)	149
Accounts payable and accrued liabilities	(3,805)	2,316
Development cost charges	28,198	13,087
Deposits and holdbacks	30,834	9,990
Deferred revenue	1,077	(33)
Net change in cash from operating activities	203,538	137,875
Capital activities:		
Cash used to acquire tangible capital assets	(92,851)	(110,742)
Proceeds on disposal of tangible capital assets	213	5,361
Net change in cash from capital activities	(92,638)	(105,381)
Financing activities:		
Repayments of debt	(4,761)	(4,578)
Investing activities:		
Net sale (purchase) of investments	(32,145)	5,855
Contribution to LIEC	-	(4,239)
Net change in cash from investing activities	(32,145)	1,616
Net change in cash	73,994	29,532
Cash, beginning of year	47,867	18,335
Cash, end of year	\$ 121,861	\$ 47,867

See accompanying notes to consolidated financial statements.

CITY OF RICHMOND

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

1. Operations:

The City of Richmond (the "City") is incorporated under the Local Government Act of British Columbia. The City's principal activities include the provision of local government services to residents of the incorporated area. These include administrative, protective, transportation, infrastructure, environmental, recreational, water, sewer, and drainage.

2. Significant accounting policies:

The consolidated financial statements of the City have been prepared in accordance with Canadian public sector accounting standards as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants Canada.

(a) Basis of consolidation:

The consolidated financial statements reflect a combination of the City's General Revenue, General Capital and Loan, Waterworks and Sewerworks, and Reserve Funds consolidated with the Richmond Public Library (the "Library") and the Richmond Olympic Oval (the "Oval"). The Library is consolidated as the Library Board is appointed by the City. The Oval is consolidated as they are a wholly owned municipal corporation of the City. Interfund transactions, fund balances and activities have been eliminated on consolidation. The City's investment in Lulu Island Energy Company ("LIEC"), a wholly owned government business enterprise ("GBE"), is accounted for using the modified equity method effective January 1, 2017 (note 2(f)).

(i) 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, policing, and servicing general debt.

(ii) General Capital and Loan Fund:

This fund is used to record the City's tangible capital assets and work-in-progress, including engineering structures such as roads and bridges, and the related debt.

(iii) 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 tangible capital assets and debt.

(iv) Reserve Funds:

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

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

2. Significant accounting policies (continued):

(b) Basis of accounting:

The City follows the accrual method of accounting for revenue and expenses. Revenue is recognized in the year in which it is earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods and services and/or the creation of a legal obligation to pay.

(c) Government transfers:

Restricted transfers from governments are deferred and recognized as revenue as the related expenditures are incurred or the stipulations in the related agreement are met. Unrestricted transfers are recognized as revenue when received or if the amount to be received can be reasonably estimated and collection is reasonably assured.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of cash, highly liquid money market investments and short-term investments with maturities of less than 90 days from date of acquisition.

(e) Investments:

Investments are recorded at cost, adjusted for amortization of premiums or discounts. Provisions for losses are recorded when they are considered to be other than temporary.

(f) Investment in government business enterprises:

Government business enterprises are recorded using the modified equity method of accounting. The City's investment in the GBE is recorded as the value of the GBE's shareholder's equity. The investment's income or loss is recognized by the City when it is earned by the GBE. Inter-organizational transactions and balances are not eliminated, except for any gains or losses on assets remaining within the City.

(g) Accounts receivable:

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

(h) Development cost charges:

Development cost charges are restricted by legislation to expenditures on capital infrastructure. These amounts are deferred upon receipt and recognized as revenue when the expenditures are incurred in accordance with the restrictions.

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

2. Significant accounting policies (continued):

(i) Post-employment benefits:

The City and its employees make contributions to the Municipal Pension Plan. As this plan is a multi-employee plan, contributions are expensed as incurred.

Post-employment benefits also accrue to the City's employees. The liabilities related to these benefits are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The liabilities under these benefits plans are accrued based on projected benefits prorated as employees render services necessary to earn the future benefits.

(j) 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 assets. The cost, less the residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Buildings and building improvements	10 - 75
Infrastructure	5 - 100
Vehicles, machinery and equipment	3 - 40
Library's collections, furniture and equipment	4 - 20

Amortization is charged over the asset's useful life commencing when the asset is acquired. Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Natural resources, works of art, and cultural and historic assets:

Natural resources, works of art, and cultural and historic assets are not recorded as assets in the consolidated financial statements.

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

2. Significant accounting policies (continued):

(j) Non-financial assets (continued):

(iv) Interest capitalization:

The City does not capitalize interest costs associated with the construction of a tangible capital asset.

(v) Labour capitalization:

Internal labour directly attributable to the construction, development or implementation of a tangible capital asset is capitalized.

(vi) Leased tangible capital assets:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(vii) Impairment of tangible capital assets:

Tangible capital assets are written down when conditions indicate that they no longer contribute to the City'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 consolidated statement of operations.

(viii) Inventory of materials and supplies:

Inventory is recorded at cost, net of an allowance for obsolete stock. Cost is determined on a weighted average basis.

(k) Revenue recognition:

Revenue is recognized in the period in which the transactions or events occurred that gave rise to the revenue. All revenue is recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impractical.

The City is required to act as the agent for the collection of certain taxes and fees imposed by other authorities. Collections for other authorities are excluded from the City's taxation revenue.

(l) Property taxes:

The City establishes property tax rates based on assessed market values provided by the British Columbia Assessment Authority (BCA). Market values are determined as of July 1st of each year. The City records taxation revenue at the time the property tax bills are issued. The City is entitled to collect interest and penalties on overdue taxes.

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

2. Significant accounting policies (continued):

(m) Deferred revenue:

The City defers a portion of the revenue collected from permits, licenses and other fees and recognizes this revenue in the year in which related inspections are performed, other related expenses are incurred or services are provided.

Deferred revenue also represents funds received from external parties for specified purposes. This revenue is recognized in the period in which the related expenses are incurred.

(n) Deposits:

Receipts restricted by the legislation of senior governments or by agreement with external parties are deferred and reported as deposits and are refundable under certain circumstances. When qualifying expenses are incurred, deposits are recognized as revenue at amounts equal to the qualifying expenses.

(o) Debt:

Debt is recorded net of related sinking fund balances.

(p) Budget information:

Budget information, presented on a basis consistent with that used for actual results, was included in the City's 5 Year Consolidated Financial Plan (2018-2022) ("Consolidated Financial Plan") and was adopted through Bylaw No. 9800 on March 12, 2018.

(q) Contaminated sites:

Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic or radioactive material of live organism that exceeds an environmental standard. Liabilities are recorded net of any expected recoveries.

A liability for remediation of contaminated sites is recognized when a site is not in productive use and the following criteria are met:

- (i) An environmental standard exists;
- (ii) Contamination exceeds the environmental standard;
- (iii) The City is directly responsible or accepts responsibility;
- (iv) It is expected that future economic benefits will be given up; and
- (v) A reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

2. Significant accounting policies (continued):

(r) Use of accounting estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and expenditures during the reporting period. Significant areas requiring the use of management estimates relate to the value of contributed tangible capital assets, value of developer contributions, useful lives for amortization, determination of provisions for accrued liabilities, performing actuarial valuation of employee future benefits, allowance for doubtful accounts, and provision for contingencies. Actual results could differ from those estimates. Adjustments, if any, will be reflected in the consolidated financial statements in the period that the change in estimate is made, as well as in the period of settlement if the amount is different.

(s) Segment disclosures:

A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The City has provided definitions of segments as well as presented financial information in segment format.

3. Investments:

	2018		2017	
	Cost	Market value	Cost	Market value
Short-term notes and deposits	\$ 577,416	\$ 577,060	\$ 499,541	\$ 488,215
Government and government guaranteed bonds	164,943	165,401	177,648	178,246
Municipal Finance Authority pooled investment	46,150	44,716	45,065	43,943
Other bonds	216,419	213,577	250,529	249,120
	\$ 1,004,928	\$ 1,000,754	\$ 972,783	\$ 959,524

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

4. Investment in Lulu Island Energy Company Ltd:

The City owns 100% of the issued and outstanding shares of LIEC, which was incorporated under the British Columbia Business Corporation Act on August 19, 2013. LIEC develops, manages and operates district energy utilities in the City, on the City's behalf, including but not limited to energy production, generation or exchange, transmission, distribution, maintenance, marketing and sales to customers, customer service, profit generation, financial management and advisory services for energy and infrastructure.

Summarized financial information relating to LIEC is as follows:

	2018	2017
Cash, cash equivalents, and investments	\$ 8,596	\$ 6,227
Accounts receivable	2,242	1,488
Tangible capital assets	32,361	32,033
Total assets	43,199	39,748
Accounts payable and accrued liabilities	1,922	1,550
Deferred contributions	5,268	3,522
Concession liability	6,229	6,387
Total liabilities	13,419	11,459
Shareholder's equity	\$ 29,780	\$ 28,289
Total revenue	\$ 4,888	\$ 4,224
Total expenses	3,397	3,182
Net income	\$ 1,491	\$ 1,042

Included in accounts payable and accrued liabilities in the City's consolidated statement of financial position are payables to LIEC in the amount of \$1,375,799 (2017 - \$360,766).

On October 30, 2014, LIEC and the Oval Village district energy utility developer ("the Concessionaire") entered into a 30-year Concession Agreement, which is a public-private partnership project ("P3"), where the Concessionaire will design, construct, finance, operate, and maintain the infrastructure for the district energy utility at the Oval Village community. As part of the Agreement, the infrastructure will be owned by LIEC.

On October 30, 2014, the Concessionaire and the City entered into a Limited Guarantee Agreement. The City is the Guarantor and guarantees the performance of some of the Company's obligations under the Concession Agreement to a maximum of \$18.2 million (2017 - \$18.2 million).

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

5. Accounts receivable:

	2018	2017
Water and sewer utilities	\$ 11,999	\$ 12,661
Casino revenue	4,010	4,025
Capital grants	5,003	2,929
Other trade receivables	8,139	7,421
	\$ 29,151	\$ 27,036

6. Debt reserve fund deposits and contingent demand notes:

The City issues its debt instruments through the Municipal Finance Authority (the "MFA"). As a condition of these borrowings, a portion of the debenture proceeds is withheld by the MFA in a Debt Reserve Fund. The City also executes demand notes in connection with each debenture whereby the City may be required to loan certain amounts to the MFA. These demand notes are contingent in nature and are not reflected in the City's accounts. The details of the cash deposits and contingent demand notes at December 31, 2017 and 2018 are as follows:

	Cash deposits	Contingent demand notes
General Revenue Fund	\$ 508	\$ 2,447

7. Accounts payable and accrued liabilities:

	2018	2017
Trade and other liabilities	\$ 64,917	\$ 68,618
Post-employment benefits (note 15)	30,314	30,418
	\$ 95,231	\$ 99,036

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
 (Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

8. Development cost charges:

	2018	2017
Balance, beginning of year	\$ 130,684	\$ 117,597
Contributions	42,792	26,866
Interest	2,838	1,931
Revenue recognized	(17,432)	(15,710)
Balance, end of year	\$ 158,882	\$ 130,684

9. Deposits and holdbacks:

	Balance December 31, 2017	Deposit contributions	Refund/ expenditures	Balance December 31, 2018
Security deposits	\$ 58,083	\$ 63,785	\$ (32,311)	\$ 89,557
Developer contributions	6,953	360	-	7,313
Contract holdbacks	7,830	2,748	(3,928)	6,650
Other	9,920	8,814	(8,634)	10,100
	\$ 82,786	\$ 75,707	\$ (44,873)	\$ 113,620

10. Deferred revenue:

	Balance December 31, 2017	External restricted inflows	Revenue earned/ adjustments	Balance December 31, 2018
Taxes and utilities	\$ 19,613	\$ 20,450	\$ (19,613)	\$ 20,450
Building permits/development	13,726	7,545	(5,673)	15,598
Oval	6,515	10,304	(10,500)	6,319
Capital grants	20,278	7,240	(7,960)	19,558
Business licenses	2,510	2,136	(2,123)	2,523
Parking easement/leased land	2,423	54	(47)	2,430
Other	1,222	6,833	(7,569)	486
	\$ 66,287	\$ 54,562	\$ (53,485)	\$ 67,364

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

11. Debt, net of MFA sinking fund deposits:

The interest rate for the year ended December 31, 2018 on the principal amount of the MFA debentures was 3.30% (2017 - 3.30%) per annum. Interest expense incurred for the year on the long-term debt was \$1,676,895 (2017 - \$1,676,895). The maturity date of the MFA debt is April 7, 2024.

The City obtains debt instruments through the MFA pursuant to security issuing bylaws under authority of the Community Charter to finance certain capital expenditures.

Gross amount for the debt less principal payments and actuarial adjustments to date are as follows:

	Gross amount borrowed	Repayments and actuarial adjustments	Net debt 2018	Net debt 2017
General Fund	\$ 50,815	\$ 17,973	\$ 32,842	\$ 37,603

Repayments on net outstanding debt over the next five years and thereafter are as follows:

2019	\$ 4,951
2020	5,149
2021	5,355
2022	5,570
2023	5,792
Thereafter	6,025
	\$ 32,842

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
 (Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

12. Tangible capital assets:

Cost	Balance December 31, 2017	Additions and transfers	Disposals	Balance December 31, 2018
Land	\$ 905,118	\$ 78,883	\$ -	\$ 984,001
Building and building improvements	416,029	26,210	(58)	442,181
Infrastructure	1,697,075	47,729	(3,124)	1,741,680
Vehicles, machinery and equipment	130,776	16,434	(4,417)	142,793
Library's collections, furniture and equipment	9,047	1,072	(674)	9,445
Assets under construction	140,752	10,544	-	151,296
	\$ 3,298,797	\$ 180,872	\$ (8,273)	\$ 3,471,396

Accumulated amortization	Balance December 31, 2017	Disposals	Amortization expense	Balance December 31, 2018
Building and building improvements	\$ 170,579	\$ (52)	\$ 15,752	\$ 186,279
Infrastructure	789,365	(2,865)	33,887	820,387
Vehicles, machinery and equipment	81,260	(4,148)	9,714	86,826
Library's collections, furniture and equipment	5,692	(671)	1,189	6,210
	\$ 1,046,896	\$ (7,736)	\$ 60,542	\$ 1,099,702

Net book value	December 31, 2018	December 31, 2017
Land	\$ 984,001	\$ 905,118
Buildings and building improvements	255,902	245,450
Infrastructure	921,293	907,710
Vehicles, machinery and equipment	55,967	49,516
Library's collection, furniture and equipment	3,235	3,355
Assets under construction	151,296	140,752
Balance, end of year	\$ 2,371,694	\$ 2,251,901

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

12. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of \$151,295,702 (2017 - \$140,751,542) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

Contributed tangible capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is \$88,020,879 (2017 - \$52,248,550) comprised of land in the amount of \$69,654,386 (2017 - \$36,128,140), infrastructure in the amount of \$13,666,004 (2017 - \$13,694,410), and buildings in the amount of \$4,700,489 (2017 - \$2,426,000).

(c) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value.

(d) Works of art and historical treasures:

The City manages and controls various works of art and non-operational historical cultural assets including building, artifacts, paintings, and sculptures located at City sites and public display areas. The assets are not recorded as tangible capital assets and are not amortized.

(e) Write-down of tangible capital assets:

There were no write-downs of tangible capital assets during the year (2017 - nil).

13. Accumulated surplus:

	General and Reserve Funds	Waterworks Utility Fund	Sewerworks Utility Fund	Richmond Olympic Oval	Library	2018 Total	2017 Total
Investment in tangible capital assets	\$ 2,323,998	\$ -	\$ -	\$ 9,256	\$ 3,235	\$ 2,336,489	\$ 2,211,771
Reserves (note 14)	533,829	-	-	6,324	-	540,153	484,883
Appropriated surplus	183,477	13,533	8,576	1,357	230	207,173	205,010
Investment in LIEC	29,780	-	-	-	-	29,780	28,289
Surplus	15,750	247	6,247	592	1,193	24,029	22,618
Other equity	3,466	-	-	-	-	3,466	3,558
Balance, end of year	\$ 3,090,300	\$ 13,780	\$ 14,823	\$ 17,529	\$ 4,658	\$ 3,141,090	\$ 2,956,129

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

14. Reserves:

	Balance, December 31, 2017	Change during year	Balance, December 31, 2018
Affordable housing	\$ 10,168	\$ 668	\$ 10,836
Arts, culture and heritage	4,183	(180)	4,003
Capital building and infrastructure	69,731	12,032	81,763
Capital reserve	163,599	12,543	176,142
Capstan station	19,725	12,607	32,332
Child care development	3,006	3,800	6,806
Community legacy and land replacement	8,623	229	8,852
Drainage improvement	56,956	(824)	56,132
Equipment replacement	22,168	(2,568)	19,600
Hamilton area plan community amenity	735	17	752
Leisure facilities	6,765	12,000	18,765
Local improvements	6,047	1,108	7,155
Neighborhood improvement	7,100	420	7,520
Oval	4,749	1,575	6,324
Public art program	3,861	999	4,860
Sanitary sewer	42,909	1,198	44,107
Steveston off-street parking	310	7	317
Steveston road ends	211	(56)	155
Waterfront improvement	344	(27)	317
Watermain replacement	53,693	(278)	53,415
	\$ 484,883	\$ 55,270	\$ 540,153

15. Post-employment benefits:

The City provides certain post-employment benefits, non-vested sick leave, compensated absences, and termination benefits to its employees.

	2018	2017
Accrued benefit liability, beginning of year	\$ 30,418	\$ 31,303
Current service cost	1,947	1,814
Interest cost	879	1,015
Past service credit	(397)	-
Amortization of actuarial gain	(25)	(61)
Benefits paid	(2,508)	(3,653)
Accrued benefit liability, end of year	\$ 30,314	\$ 30,418

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

15. Post-employment benefits (continued):

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2018. The difference between the actuarially determined accrued benefit obligation of approximately \$28,423,000 (2017 - \$29,892,000) and the liability of approximately \$30,314,000 (2017 - \$30,418,000) as at December 31, 2018 is an unamortized net actuarial gain of \$1,891,000 (2017 - \$526,000). This actuarial gain is being amortized over a period equal to the employees' average remaining service lifetime of 10 years (2017 - 10 years).

	2018	2017
Actuarial benefit obligation:		
Liability, end of year	\$ 30,314	\$ 30,418
Unamortized actuarial gain	(1,891)	(526)
Balance, end of year	\$ 28,423	\$ 29,892

Actuarial assumptions used to determine the City's accrued benefit obligation are as follows:

	2018	2017
Discount rate	3.30%	2.90%
Expected future inflation rate	2.00%	2.00%
Expected wage and salary range increases	2.50% to 3.00%	2.50% to 3.00%

16. Pension plan:

The City and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2017, the plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 contributors from local governments.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate is then adjusted to the extent there is amortization of any funding deficit.

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

16. Pension plan (continued):

The most recent valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The City paid \$12,759,865 (2017 - \$12,284,569) for employer contributions while employees contributed \$10,615,884 (2017 - \$10,154,394) to the plan in fiscal 2018.

The next valuation will be as at December 31, 2018, with results available in 2019.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

17. Contingent assets and contractual rights:

(a) Contingent assets:

Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the City's control occurs or fails to occur.

The City has legal claims, service agreements, and land dedications that may qualify as contingent assets. Amounts cannot be estimated as of December 31, 2018. Contingent assets are not recorded in the consolidated financial statements.

(b) Contractual rights:

The City has entered into contracts or agreements in the normal course of operations that it expects will result in revenue and assets in future fiscal years. The City's contractual rights are comprised of leases, licenses, grants and various other agreements, including the provision of police services with the Vancouver Airport Authority. The following table summarizes the expected revenue from the City's contractual rights:

2019	\$ 13,609
2020	8,814
2021	2,576
2022	2,169
2023	724
Thereafter	5,573

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

17. Contingent assets and contractual rights (continued):

(b) Contractual rights (continued):

The City is entitled to receive revenue from certain other agreements. The revenue from these agreements cannot be quantified and has not been included in the amounts noted above.

18. Commitments and contingencies:

(a) Joint and several liabilities:

The City has a contingent liability with respect to debentures of the Greater Vancouver Water District, Greater Vancouver Sewerage and Drainage District and Greater Vancouver Regional District, to the extent provided for in their respective Enabling Acts, Acts of Incorporation and Amending Acts. Management does not consider payment under this contingency to be likely and therefore no amounts have been accrued.

(b) Lease payments:

The City is committed to operating lease payments for premises and equipment in the following approximate amounts:

2019	\$ 4,808
2020	3,050
2021	3,059
2022	2,329
2023	2,314
Thereafter	9,963

(c) Litigation:

As at December 31, 2018, there were a number of claims or risk exposures in various stages of resolution. The City has made no specific provision for those where the outcome is presently not determinable.

(d) Municipal Insurance Association of British Columbia ("Association"):

The City is a participant in the Association. Should the Association pay out claims in excess of premiums received, it is possible that the City, along with other participants, would be required to contribute towards the deficit. Management does not consider external payment under this contingency to be likely and therefore, no amounts have been accrued.

(e) Contractual obligation:

The City has entered into various contracts for services and construction with periods ranging beyond one year. These commitments are in accordance with budgets passed by Council.

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

18. Commitments and contingencies (continued):

- (f) E-Comm Emergency Communications for Southwest British Columbia Incorporated ("E-Comm"):

The City is a shareholder of the E-Comm whose services provided include: regional 9-1-1 call centre for the Greater Vancouver Regional District; Wide Area Radio network; dispatch operations; and records management. The City has 2 Class A shares and 1 Class B share (of a total of 32 Class A and 21 Class B shares issued and outstanding as at December 31, 2018). As a Class A shareholder, the City shares in both funding the future operations and capital obligations of E-Comm (in accordance with a cost sharing formula), including any lease obligations committed to by E-Comm up to the shareholder's withdrawal date.

- (g) Community associations:

The City has agreements with the various community associations which operate the community centers throughout the City. The City generally provides the buildings and grounds, pays the operating costs of the facilities, and provides certain staff and other services such as information technology. Typically the community associations are responsible for providing programming and services to the community. The community associations retain all revenue which they receive.

19. Trust funds:

Certain assets have been conveyed or assigned to the City to be administered as directed by agreement or statute. The City holds the assets for the benefit of and stands in fiduciary relationship to the beneficiary. The following trust fund is excluded from the City's consolidated financial statements.

	2018	2017
Richmond Community Associations	\$ 1,837	\$ 1,800

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

20. Collections for other authorities:

The City is obligated to collect certain taxation revenue on behalf of other government bodies. These funds are excluded from the City's consolidated financial statements since they are not revenue of the City. Such taxes collected (after supplementary adjustments) and remitted to the government bodies during the year are as follows:

	2018	2017
Province of British Columbia - Schools	\$ 169,005	\$ 162,120
Greater Vancouver Regional District and others	47,298	44,702
	<u>\$ 216,303</u>	<u>\$ 206,822</u>

21. Other revenue:

	2018	2017
Developer contributions	\$ 33,672	\$ 13,014
Tangible capital assets gain on sale of land	-	4,217
Penalties and fines	3,784	3,247
Parking program	2,054	1,818
Other	9,168	9,206
	<u>\$ 48,678</u>	<u>\$ 31,502</u>

22. Government transfers:

Government transfers are received for operating and capital activities. The operating transfers consist of gaming revenue and provincial and federal grants. Capital transfers are included in other capital funding sources revenue. The source of the government transfers are as follows:

	2018	2017
Operating		
Province of British Columbia	\$ 21,899	\$ 21,368
TransLink	3,593	2,656
Government of Canada	1,700	1,580
Capital		
Province of British Columbia	5,685	746
TransLink	1,680	456
Government of Canada	36	803
	<u>\$ 34,593</u>	<u>\$ 27,609</u>

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

23. Segmented reporting:

The City provides a wide variety of services to its residents. For segment disclosure, these services are grouped and reported under service areas/departments that are responsible for providing such services. They are as follows:

- (a) **Community Safety** brings together the City's public safety providers such as Police (RCMP), Fire-Rescue, Emergency Programs, and Community Bylaws. It is responsible for ensuring safe communities by providing protection services with a focus on law enforcement, crime prevention, emergency response, and protection of life and properties.
- (b) **Utilities** provide such services as planning, designing, constructing, operating, and maintaining the City's infrastructure of water and sewer networks and sanitation and recycling.
- (c) **Engineering, Public Works and Project Development** comprises of General Public Works, Roads and Construction, Storm Drainage, Fleet Operations, Engineering, Project Development, and Facility Management. The services provided are construction and maintenance of the City's infrastructure and all City owned buildings, maintenance of the City's road networks, managing and operating a mixed fleet of vehicles, heavy equipment and an assortment of specialized work units for the City operations, development of current and long-range engineering planning and construction of major projects.
- (d) **Community Services** comprises of Parks, Recreation, Arts, Culture and Heritage Services and Community Social Development. These departments ensure recreation opportunities in Richmond by maintaining a variety of facilities such as arenas, community centres, pools, etc. It designs, constructs and maintains parks and sports fields to ensure there is adequate open green space and sports fields available for Richmond residents. It also addresses the economic, arts, culture, and community issues that the City encounters.
- (e) **General Government** comprises of Mayor and Council, Corporate Administration, and Finance and Corporate Services. It is responsible for adopting bylaws, effectively administering city operations, levying taxes, legal services, providing sound management of human resources, information technology, City finance, and ensuring high quality services to Richmond residents.
- (f) **Planning and Development** is responsible for land use plans, developing bylaws and policies for sustainable development in the City including the City's transportation systems.
- (g) **Richmond Olympic Oval Corporation** is formed as a wholly owned subsidiary of the City. The City uses the Richmond Olympic Oval facility as a venue for a wide range of sports, business and community activities.
- (h) **Richmond Public Library** provides public access to information by maintaining 5 branches throughout the City.

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
 (Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

23. Segmented reporting (continued):

	Community safety	Utilities	Engineering, public works and project development	Community services	General government	Planning and development	Total City subtotal
Revenue:							
Taxation and levies	\$ -	\$ -	\$ -	\$ -	\$ 216,908	\$ -	\$ 216,908
User fees	-	91,168	11,747	-	-	-	102,915
Sales of services	6,196	2,816	2,646	9,050	7,730	2,246	30,684
Payments-in-lieu of taxes	-	-	-	-	15,489	-	15,489
Provincial and federal grants	154	-	3,658	139	3,125	-	7,076
Development cost charges	-	1,226	2,911	4,517	2,202	6,576	17,432
Other capital funding sources	-	1,013	15,966	6,402	69,654	2,824	95,859
Other revenue:							
Investment income	-	543	-	-	20,143	-	20,686
Gaming revenue	687	-	-	-	16,150	-	16,837
Licenses and permits	4,480	6	588	-	10	8,553	13,637
Other	2,373	3,248	701	936	39,303	106	46,667
Equity income	-	-	-	-	1,491	-	1,491
	13,890	100,020	38,217	21,044	392,205	20,305	585,681
Expenses:							
Wages and salaries	41,735	12,698	23,450	32,656	25,445	10,258	146,242
Public works maintenance	61	6,694	5,910	1,950	(1,447)	235	13,403
Contract services	50,867	8,957	3,609	4,609	3,552	1,484	73,078
Supplies and materials	3,094	31,151	1,777	14,438	10,641	673	61,774
Interest and finance	70	21,217	-	67	1,792	-	23,146
Transfer from (to) capital for tangible capital assets	(50)	1,113	7,353	3,241	455	1,291	13,403
Amortization of tangible capital assets	2,750	8,070	26,809	6,921	11,764	1,331	57,645
Loss (gain) on disposal of tangible capital assets	(27)	59	(115)	-	347	96	360
	98,500	89,959	68,793	63,882	52,549	15,368	389,051
Annual surplus (deficit)	\$ (84,610)	\$ 10,061	\$ (30,576)	\$ (42,838)	\$ 339,656	\$ 4,937	\$ 196,630

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

23. Segmented reporting (continued):

	Total City subtotal	Richmond Olympic Oval	Richmond Public Library	2018 Consolidated	2017 Consolidated
Revenue:					
Taxation and levies	\$ 216,908	\$ -	\$ -	\$ 216,908	\$ 206,901
User fees	102,915	-	-	102,915	99,493
Sales of services	30,684	8,346	81	39,111	39,430
Payments-in-lieu of taxes	15,489	-	-	15,489	14,647
Provincial and federal grants	7,076	2,899	380	10,355	9,276
Development cost charges	17,432	-	-	17,432	15,710
Other capital funding sources	95,859	-	-	95,859	57,570
Other revenue:					
Investment income	20,686	-	19	20,705	17,832
Gaming revenue	16,837	-	-	16,837	16,753
Licenses and permits	13,637	-	-	13,637	13,011
Other	46,667	1,764	247	48,678	31,502
Equity income	1,491	-	-	1,491	1,042
	585,681	13,009	727	599,417	523,167
Expenses:					
Wages and salaries	146,242	8,919	7,170	162,331	159,576
Public works maintenance	13,403	-	2	13,405	14,973
Contract services	73,078	-	401	73,479	64,912
Supplies and materials	61,774	4,798	1,347	67,919	65,959
Interest and finance	23,146	-	3	23,149	23,216
Transfer from (to) capital for tangible capital assets	13,403	-	(96)	13,307	25,712
Amortization of tangible capital assets	57,645	1,707	1,190	60,542	58,012
Loss (gain) on disposal of tangible capital assets	360	-	(36)	324	924
	389,051	15,424	9,981	414,456	413,284
Annual surplus (deficit)	\$ 196,630	\$ (2,415)	\$ (9,254)	\$ 184,961	\$ 109,883

CITY OF RICHMOND

Notes to Consolidated Financial Statements (continued)
(Tabular amounts expressed in thousands of dollars)

Year ended December 31, 2018

24. Budget data:

The budget data presented in these consolidated financial statements is based on the Consolidated Financial Plan adopted by Council on March 12, 2018. The table below reconciles the adopted Consolidated Financial Plan to the budget amounts reported in these consolidated financial statements.

	Financial plan Bylaw No. 9800	Financial statement budget
Consolidated financial plan:		
Revenue	\$ 521,494	\$ 521,494
Expenses	439,367	439,367
Annual surplus	82,127	82,127
Less:		
Acquisition of tangible capital assets	(419,998)	-
Contributed tangible capital assets	(47,410)	-
Transfer to reserves	(66,999)	-
Debt principal	(4,761)	-
Add:		
Capital funding	422,925	-
Transfer from surplus	34,116	-
Annual surplus	\$ -	\$ 82,127

25. Comparative information:

Certain comparative information has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

2018 | City of Richmond

FINANCIAL STATEMENT DISCUSSION & ANALYSIS

Prepared by Management

To be read in conjunction with the 2018
Financial Statements





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Introduction

The Community Charter requires that annual audited financial statements be prepared and presented to Council. The City's audited consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with Canadian public sector accounting standards.

The Financial Statement Discussion and Analysis (FSD&A) provides a detailed analysis of the Consolidated Financial Statements. The FSD&A explains the significant differences in the financial statements between the reported year and the previous year as well as between budgeted and actual results. This analysis has been prepared by management and is intended to be read in conjunction with the 2018 audited consolidated financial statements.

The consolidated financial statements combine the accounts of the City of Richmond, Richmond Olympic Oval (Oval), and Richmond Public Library (Library). All future references to the "City" reflect the financial results for all entities.

Lulu Island Energy Company (LIEC) is classified as a government business entity (GBE). The City's investment in LIEC as a GBE is accounted for using the modified equity method.

Further information about the basis of consolidation is listed in Note 2 to the Consolidated Financial Statements.

The consolidated financial statements include the following statements:

- **Consolidated Statement of Financial Position** summarizes the assets (financial and non-financial), liabilities, net debt, and accumulated surplus as at December 31st, 2018 and 2017.
- **Consolidated Statement of Operations** outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the general, utility, capital, and reserve funds for the City and its consolidated entities.
- **Consolidated Statement of Changes in Net Financial Assets** outlines the changes in net financial assets as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.
- **Consolidated Statement of Cash Flows** summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.

Consolidated Statement of Financial Position

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The Consolidated Statement of Financial Position shows the City's assets (financial and non-financial), liabilities and accumulated surplus. The difference between the financial assets and liabilities is the City's net financial assets, which represents the amount available for a later date.

The City maintained its strong financial position in 2018 allowing for flexibility and financial sustainability into the future.

- Financial Assets increased by \$116.6M to \$1.2B
- Liabilities increased by \$51.5M to \$467.9M
- Net financial assets increased by \$65.0M to \$763.1M
- Non-financial assets increased by \$119.9M to \$2.4B
- Accumulated surplus increased by \$185.0M to \$3.1B

The accumulated surplus includes investment in tangible capital assets, reserves, appropriated surplus, surplus, investment in LIEC and other equity. The change in accumulated surplus is referred to as annual surplus and is included on the Consolidated Statement of Operations.

Financial Assets

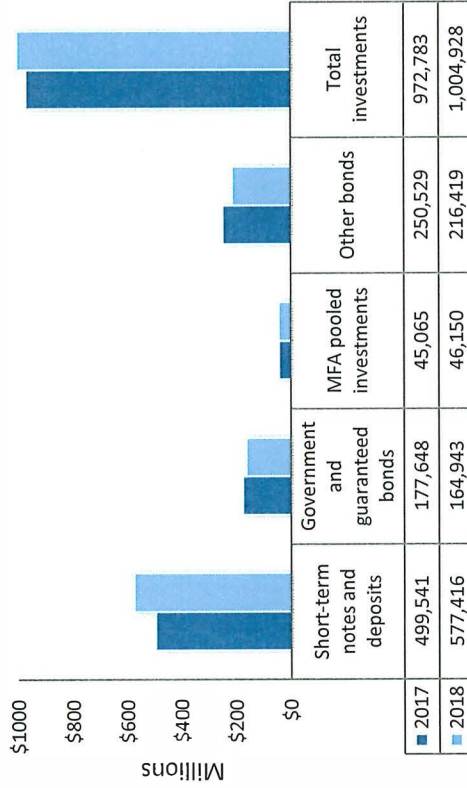
Cash

Cash increased by \$74.0M to \$121.9M mainly as a strategy to optimize overall interest yields.

Investments

Investments increased by \$32.1M to \$1.0B primarily due to the timing of cash flow.

Investment Portfolio by Type (\$000's)



Investment in LIEC

Effective January 1, 2017, LIEC was classified as a GBE. The City uses the modified equity method to account for this investment of \$29.8M (2017 – \$28.3M).

Accrued interest receivable

Accrued interest receivable increased by \$0.8M to \$7.4M due to the increased investment balance and timing of the investments.

Accounts receivable

Accounts receivable increased by \$2.1M to \$29.2M primarily due to collections of capital grants receivables and other trade receivables. The increase was partially offset by reductions to the water and sewer utilities receivable balance.

Accounts Receivable (\$000's)	2018	2017	Change
Water and sewer utilities	\$ 11,999	\$ 12,661	\$ (662)
Casino revenues	4,010	4,025	(15)
Capital grants	5,003	2,929	2,074
Other trade receivables	8,139	7,421	718
Total	\$ 29,151	\$ 27,036	\$ 2,115

Taxes receivable

Taxes receivable increased by \$2.9M to \$11.8M due to the timing of collections, rate increases and new growth from the prior year.

Financial Assets

Development fees receivable

Development fees receivable increased by \$3.2M to \$25.5M due to an increase in use of letter of credits for payment of development cost charges (DCC).

Developers have the option to pay DCCs upfront, or in installments over a 2 year period. When paying in installments, 1/3 of the total DCC is paid upfront, the next 1/3 installment is paid one year after the originating date, and the final 1/3 installment is paid at the 2 year anniversary date. The second and third payment amounts are secured by a letter of credit.

The net DCC contributions received by the City in 2018, \$42.8M, is \$15.9M higher than 2017 due to increased contribution activity during the one year grace period for in-stream applications before than new DCC rates under Bylaw No. 9499 came into effect on May 8, 2018.

Debt reserve fund - deposits

The debt reserve fund balance of \$0.5M did not change from 2017 as the City did not receive payments from the Municipal Finance Authority (MFA) during 2018.



Liabilities

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities decreased by \$3.8M to \$95.2M. The decrease is mainly attributable to the timing of payment for the RCMP contract, partially offset by the timing of payment for water purchases and capital construction invoices.

Development cost charges

The DCC balance of \$158.9M (2017 - \$130.7M) is restricted by Section 559 of the *Local Government Act* and may only be used on authorized capital expenditures.

Net contributions of \$42.8M and interest earned of \$2.8M were received in 2018. The balance was offset by \$17.4M for capital project expenses funded by DCC during the year.

Development Cost Charges (\$000's)	2018	2017	Change
Balance, beginning of year	\$ 130,684	\$ 117,597	\$ 13,087
Contributions	42,792	26,866	15,926
Interest	2,838	1,931	907
Revenue recognized	(17,432)	(15,710)	(1,722)
Balance, end of year	\$ 158,882	\$ 130,684	\$ 28,198

The \$158.9M balance includes amounts that have been allocated to active capital projects but that remain unspent. At December 31st, 2018 there is \$48.9M (2017 - \$38.5M) committed to active capital projects. Additional DCC funding of \$22.8M was approved as part of the 2019 Capital Budget.

Deposits and holdbacks

Deposits and holdbacks increased by \$30.8M to \$113.6M mainly due to an increase in security deposits for development related servicing agreements of \$31.5M, offset by decrease in contract holdbacks of \$1.2M.

Deposits and Holdbacks (\$000's)	2018	2017	Change
Security deposits	\$ 89,557	\$ 58,083	\$ 31,474
Developer contribution	7,313	6,953	360
Contract holdbacks	6,650	7,830	(1,180)
Other	10,100	9,920	180
Total deposits and holdbacks	\$113,620	\$ 82,786	\$ 30,834

Deferred revenue

Deferred revenues are funds that are set aside for specific purposes by legislation, regulation or agreement, and may only be used for the specified work. These amounts are recognized as liabilities in the year the funds are deposited and recognized into revenue in the year the related expenditures are incurred.

Deferred Revenue (\$000's)	2018	2017	Change
Taxes and utilities	\$ 20,450	\$ 19,613	\$ 837
Building permits / development	15,598	13,726	1,872
Oval	6,319	6,515	(196)
Capital grants	19,558	20,278	(720)
Other	5,439	6,155	(716)
Total deferred revenue	\$ 67,364	\$ 66,287	\$ 1,077

Liabilities

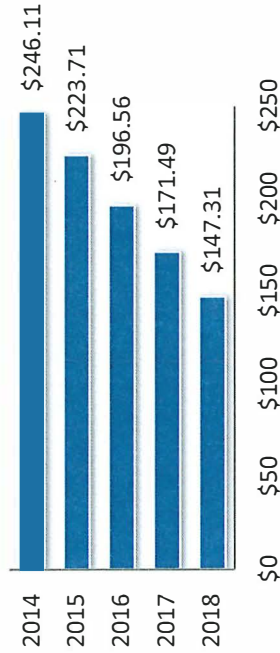
Deferred revenues increased in taxes and utilities and building permits/developments. The increases were offset by slight decreases in Oval, capital grants and other revenues, resulting in an overall \$1.1M increase compared to 2017.

Debt, net of MFA sinking fund deposits

Debt decreased by \$4.8M to \$32.8M as a result of the annual repayment made in 2018 towards the borrowing for the construction of the MCAL facility. The debt has a 10 year term and was obtained in 2014 at a rate of 3.30% for the duration of the term.

The debt per capita decreased to \$147.31 per person in 2018 from \$171.49 as of December 31, 2017. The decrease in debt per capita is the combined result of principal payments reducing the outstanding balance along with an increase in population.

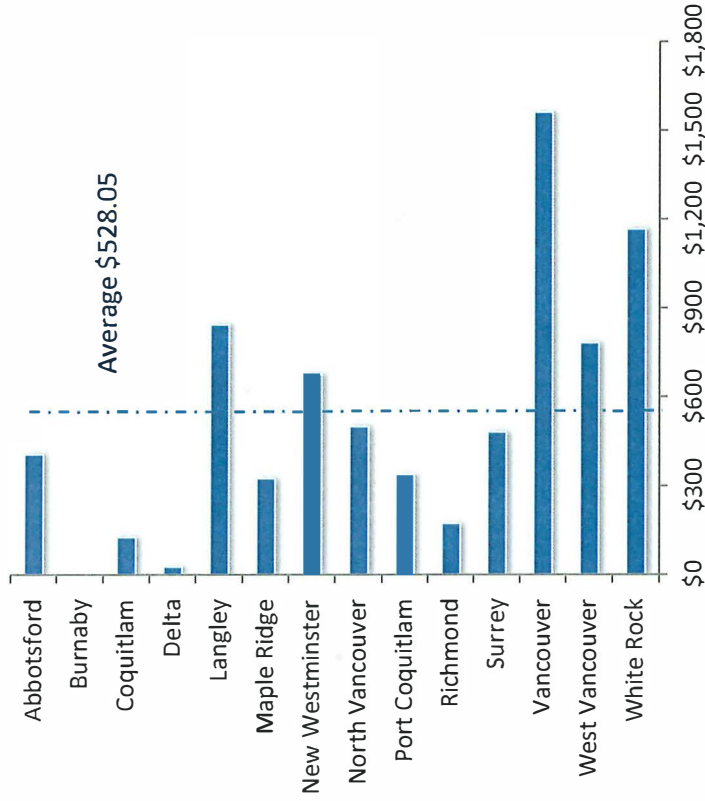
City of Richmond Debt Per Capita 2014-2018



Graph has been updated with population figures from BC Stats, Demographic Analysis Section.

The 2017 values for the other municipalities are the most current figures available from the Local Government Statistics. For comparative purposes, Richmond's 2017 debt per capita of \$171.49 is included below and is well below the 2017 regional average of \$528.05.

Debt Per Capita by City (2017)



Source data for comparative cities obtained from the Ministry of Community Sport & Cultural Development - 2017 Local Government Statistics.

Non-Financial Assets

Tangible Capital Assets

Tangible capital assets (TCA) are recorded at original cost and are amortized over their useful life. The net book value (original cost less accumulated amortization) is presented below. Additional information can be obtained in Note 12 of the consolidated financial statements.

TCA increased by \$119.8M to \$2.4B. The change is a result of \$180.9M of asset additions, less net disposal of \$0.5M, and current year amortization expense of \$60.5M.

Tangible Capital Assets (\$000's)	2018	2017	Change
Land	\$ 984,001	\$ 905,118	\$ 78,883
Buildings and building improvements	255,902	245,450	10,452
Infrastructure	921,293	907,710	13,583
Vehicles, machinery and equipment	55,967	49,516	6,451
Library's collections, furniture and equipment	3,235	3,355	(120)
Assets under construction	151,296	140,752	10,544
Total	\$2,371,694	\$2,251,901	\$119,793

Land increased by \$78.9M mainly due to \$69.7M of contributed assets received through development. It included \$60.0M road dedications of which \$29.5M relates to the Lansdowne Village development.

Buildings increased by \$10.5M mainly due to a \$26.2M increase in additions offset by \$15.7M of amortization expense. The additions in 2018 included \$18.9M for Fire Hall No. 1 and \$4.7M of contributed assets for Seasoning Child Care and Gardens Child Care.

Infrastructure increased by \$13.6M mainly due to \$44.6M increase in additions offset by \$31.0M of amortization expense. The additions in 2018 included \$13.6M of contributed assets received through development and \$5.5M for the No. 2 Road Drainage Pump Station.

Vehicles, machinery and equipment increased by \$6.5M mainly due to \$12.0M increase in additions including a fire pumper truck of \$2.3M offset by \$5.6M of amortization expense.

Library's collections, furniture and equipment decreased by \$0.1M mainly due to \$0.4M additions offset by \$0.5M of amortization expense.

Assets under construction increased by \$10.5M mainly due to the Minoru Centre for Active Living that is scheduled to open in 2019. Additions were offset by completed projects during the year.

Non-Financial Assets

Inventory of materials and supplies

Inventory decreased by \$0.2M to \$3.6M based on timing of materials issued.

Prepaid expenses

Prepaid expenses increased by \$0.3M to \$2.7M due to timing of expense utilization and increases to insurance premium costs.

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Accumulated Surplus

The accumulated surplus increased by \$185.0M to \$3.1B. The annual increase is presented on the Consolidated Statement of Operations.

Accumulated Surplus (\$'000's)	2018	2017	Change
Investment in TCA	\$ 2,336,489	\$ 2,211,771	\$ 124,718
Reserves	540,153	484,883	55,270
Appropriated surplus	207,173	205,010	2,163
Investment in LIEC	29,780	28,289	1,491
Surplus	24,029	22,618	1,411
Other equity	3,466	3,558	(92)
Total	\$3,141,090	\$2,956,129	\$ 184,961

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Investment in TCA

Investment in TCA represents the equity held in assets. This balance is equal to the net book value of tangible capital assets less any outstanding debt relating to capital and restricted capital deferred revenue (for Oval).

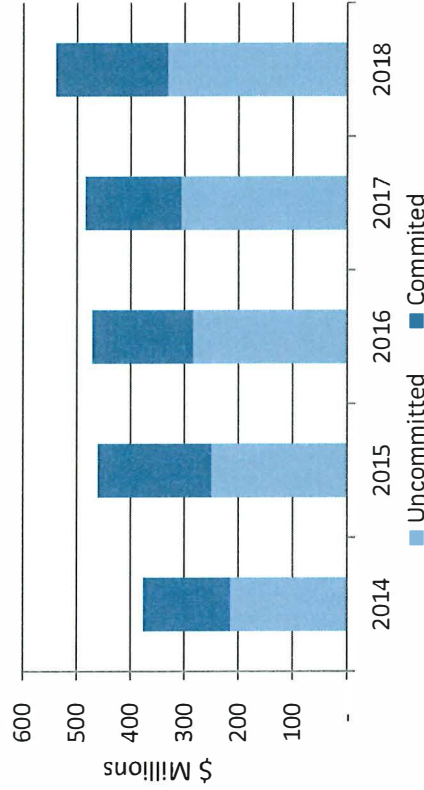
In accordance with accounting standards, this balance is accounted for using the cost method, net of accumulated amortization. It does not reflect market value or replacement value of the assets.

The investment in TCA balance increased by \$124.7M. This is the net activity of asset additions, amortization, disposals and debt reduction.

Reserves

Reserves are established by Bylaw for specific purposes, mainly capital expenditures. The balance of \$540.2M includes amounts that have been approved for expenditure but remain unspent as at December 31st. The uncommitted reserve balance is \$331.5M (2017 - \$306.8M).

Reserve Balance 2014-2018



The increase in the reserve balance is mainly attributable to the timing of capital expenditures. There are several facility construction projects approved including MCAL that have reserve funds allocated towards the project but have not been fully spent as of the reporting date December 31, 2018.

From the available \$331.5M at December 31, 2018, \$66.9M has been approved for the City's 2019 Capital Budget.

Accumulated Surplus

An additional \$356.5M is estimated for the remaining 4 years of the 5-year Capital Plan (2019-2023).

Appropriated Surplus

Appropriated surplus is internally restricted for future commitments and potential liabilities. The balance increased by \$2.2M to \$207.2M as a result of various transfers, including the transfer of the 2017 operating surplus of \$8.1M to the Rate Stabilization Account in 2018.

Investment in LIEC

The City's investment in LIEC is recorded under the modified equity method. The balance reflects the City's share equity in LIEC on December 31, 2018 at \$29.8M, an increase of \$1.5M from the 2017 balance of \$28.3M.

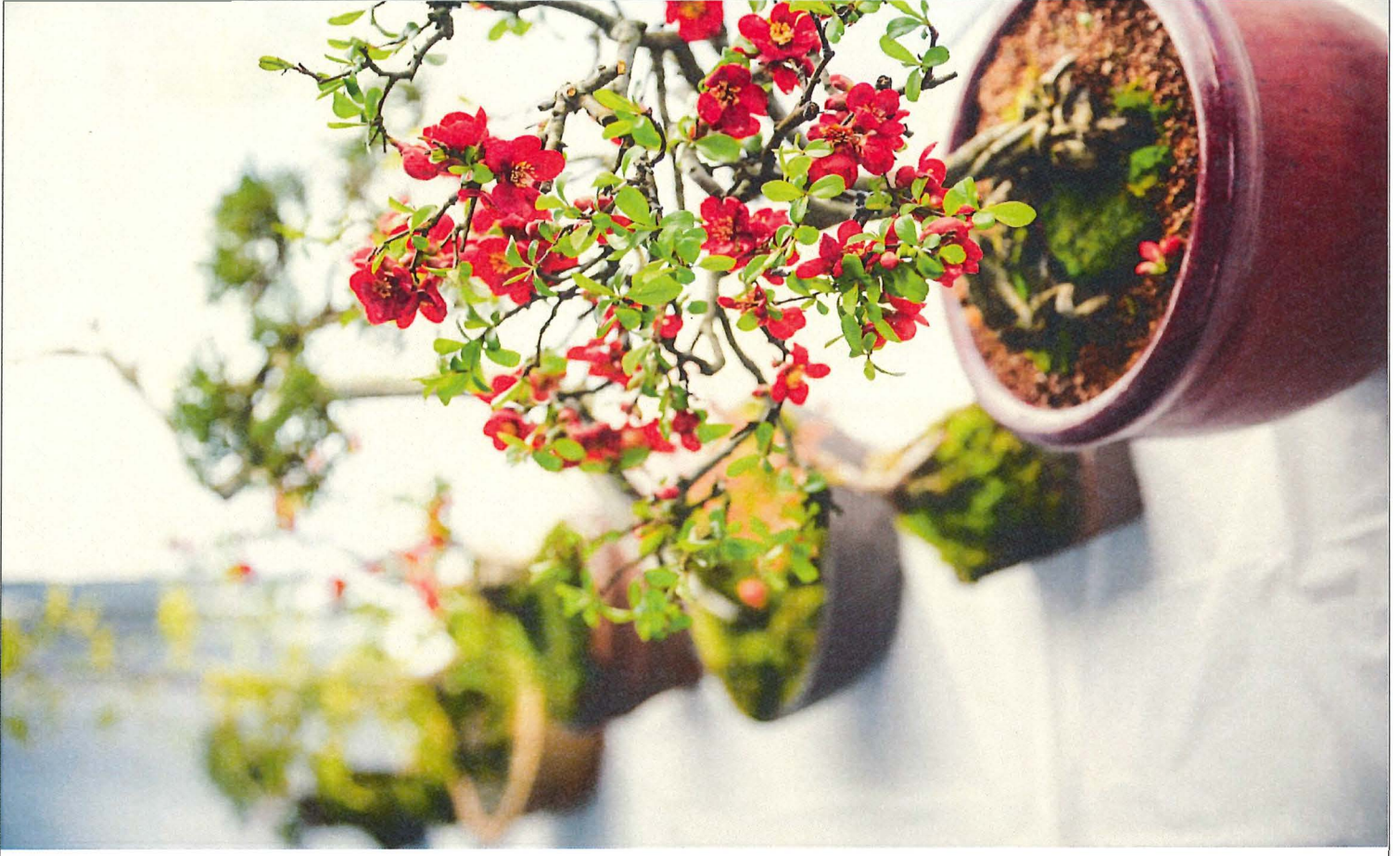
Surplus

The consolidated surplus increased by \$1.4M to \$24.0M in 2018. The increase is mainly attributed to:

- (\$8.1M) transfer of the City's 2017 operating surplus to the Rate Stabilization Account
- \$6.7M City's 2018 operating surplus
- \$2.1M internal repayments from previously funded capital projects

Other Equity

Other equity relates to the City's inventory. The balance decreased by \$0.1M to \$3.5M in 2018.



Consolidated Statement of Operations

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The Consolidated Statement of Operations provides a summary of the revenues, expenses, and surplus throughout the reporting period and outlines the change in accumulated surplus.

The 2018 budget amounts presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified 'cash requirement' basis and amounts recorded in these financial statements on a 'full accrual' basis.

Note 24 outlines the adjustments to the approved budget, particularly the exclusion of transfers to reserves and other funds, and tangible capital asset acquisitions. These adjustments to budgeted values are required to provide comparative budget values based on the full accrual basis of accounting. As the accrual based budget does not include transfers to reserves, investment in assets and other items, the budget presented on the financial statements can show a surplus or deficit while the budget as approved by Council is a balanced budget.

Revenues

2018 Budget to Actual Comparison

Total consolidated revenues are \$599.4M compared to the budgeted revenues of \$521.5M. Certain revenues will always be difficult to accurately budget due to the unpredictability of the source, development timing and use of funds for capital. Budget to actual variance explanations are below.

	2018		2018
Revenues (\$000's)	Budget	Actual	Variance
Taxation and levies	\$ 216,703	\$ 216,908	\$ 205
Utility fees	100,786	102,915	2,129
Sales of services	39,246	39,111	(135)
Payments-in-lieu of taxes	14,245	15,489	1,244
Provincial and federal grants	7,692	10,355	2,663
Development cost charges	31,638	17,432	(14,206)
Other capital funding sources	58,685	95,859	37,174
Investment income	14,694	20,705	6,011
Gaming revenue	16,500	16,837	337
Licences and permits	10,384	13,637	3,253
Other	10,921	48,678	37,757
Equity income	-	1,491	1,491
Total	\$ 521,494	\$ 599,417	\$ 77,923

Taxation and levies had a favourable variance of \$0.2M due to higher than expected new growth offset by supplemental adjustments.

Utility fees had a favourable variance of \$2.1M mainly due to construction flat rate utility prepayments which are not budgeted for, and fire hydrant usage revenue.

Sales of services includes an unfavourable variance mainly due to budgeted Minoru Centre for Active Living facility revenues which were not realized due to the delayed opening, offset by favourable lease revenue.

Payments-in-lieu of taxes had a favourable variance of \$1.2M mainly due to higher than expected payments from various government agencies.

Provincial and federal grants were favourable by \$2.7M mainly due to additional grants received for the expansion of the Major Road Network and traffic grants.

Development cost charges (DCC) had an unfavourable variance of \$14.2M due to the timing of capital expenditures. DCC revenue is recognized when the amounts are spent, while the budget represents the 2018 allocation of DCC's towards capital projects that can be spent over multiple years.

The other capital funding favourable variance of \$37.2M due to higher than budgeted amounts relating to contributed assets received through development. \$88.0M was received during 2018 compared to the budget of \$47.4M. The revenue recognition relating to these contributed assets is based on the timing of the development and when the ownership of assets are transferred to the City.

Revenues

Investment income had a favourable variance of \$6.0M due to higher returns on investments which corresponds to increases in the interest rate as prescribed by the Bank of Canada throughout the year. The timing of capital expenditures also resulted in a higher than expected investment balance throughout the year.

Gaming revenue had a favourable variance of \$0.3M.

Licences and permits had a favourable variance of \$3.3M mainly due to building permits, underpinning fees, and business licences.

Other revenue had a favourable variance of \$37.8M due to unbudgeted external developer cash contributions of \$33.7M.

Equity income relates to the City's investment in LIEC and represents LIEC's net income for the year. LIEC's net income for 2018 is \$1.5M (2017 – \$1.0M).



Revenues

2018 to 2017 Actual Comparison

Total 2018 consolidated revenues were \$599.4M compared to \$523.2M in 2017.

Revenues (\$000's)	2018 Actual	2017 Actual	Change
Taxation and levies	\$216,908	\$206,901	\$ 10,007
Utility fees	102,915	99,493	3,422
Sales of services	39,111	39,430	(319)
Payments-in-lieu of taxes	15,489	14,647	842
Provincial and federal grants	10,355	9,276	1,079
Development cost charges	17,432	15,710	1,722
Other capital funding sources	95,859	57,570	38,289
Investment income	20,705	17,832	2,873
Gaming revenue	16,837	16,753	84
Licences and permits	13,637	13,011	626
Other	48,678	31,502	17,176
Equity income	1,491	1,042	449
Total	\$599,417	\$523,167	\$ 76,250

Taxation and levies increased by \$10.0M due to the 3.30% tax rate increase for 2018 and new growth.

Utility fees increased by \$3.4M due to Council approved rate increases, consumption activity and higher construction flat rate utility prepayments.

Sales of services decreased by \$0.3M due to \$1.3M lower volume of receivable projects in 2018 mainly due to comparatively slower development activities in West Cambie

area and \$0.4M in soil revenue that did not recur, offset by a \$1.2M increase in lease revenue and \$0.2M increase in Oval revenues.

Payments-in-lieu of taxes increased by \$0.8M mainly due to increases in assessment value for Worker's Compensation Board and Port Metro Vancouver properties, which resulted in additional \$0.5M and \$0.2M, respectively.

Provincial and federal grants increased by \$1.1M due to additional grant received for the expansion of the Major Road Network and increased traffic grants.

Development cost charges increased by \$1.7M mainly due to the timing of capital expenditures and \$0.7M related to the Front Ender Agreement, Bylaw No. 9643. DCC revenue is recognized when the amounts are spent. There was a \$3.8M increase in revenue recognized relating to road and water and \$2.7M less revenue recognized in 2018 in other areas including parks and sewer.

Other capital funding sources increased by \$38.3M due to the timing of developer contributed assets, which includes a \$33.5M increase in donated assets by developers relating to land.

Investment income increased by \$2.9M due to increases in interest rates and higher average investment balance throughout the year.

Revenues

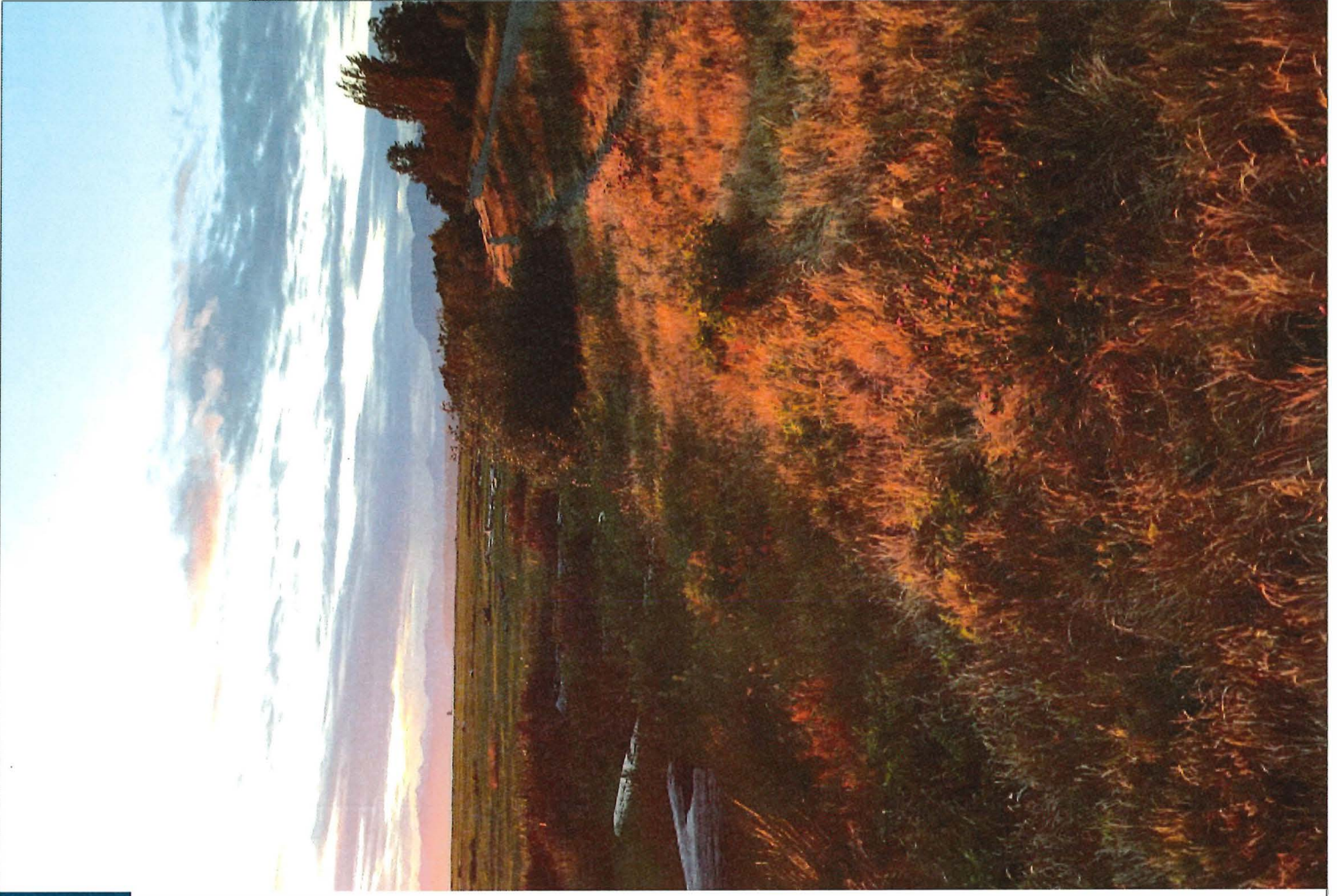
Gaming revenue is consistent with 2017.

Licences and permits increased by \$0.6M mainly due to underpinning revenue.

Other revenue increased by \$17.2M mainly due to increased developer amenity contributions, including \$8.7M for Capstan Station, \$3.4M for Child Care, and \$3.0M for Leisure Facilities.

Equity income relates to the City's investment in LIEC and represents LIEC's net income for the year. LIEC's net income increased by \$0.5M due to full year of usage and improved efficiencies in operation.

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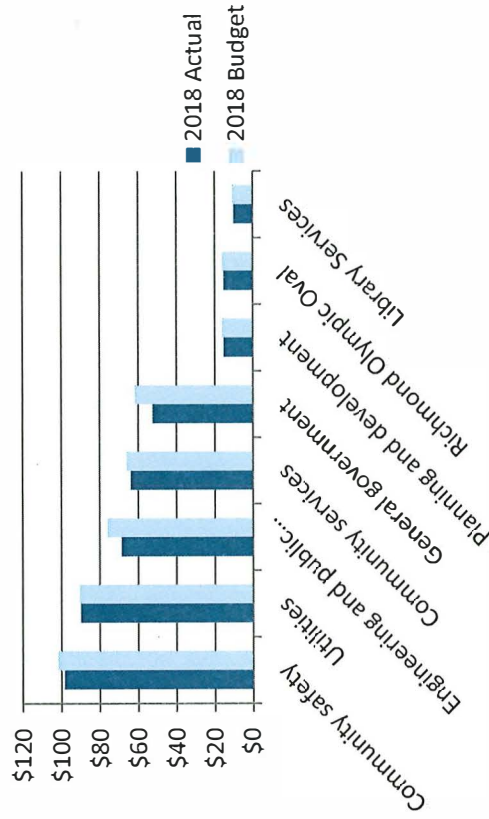


Expenses

2018 Budget to Actual Comparison

Total consolidated expenses are \$414.5M compared to the budget of \$439.4M.

2018 Expenses by Function



Utilities had a favourable variance of \$0.5M mainly due to less than budgeted water and sanitary sewer activities offset by watermain survey costs.

Engineering and public works had a favourable variance of \$7.3M mainly due to vacant positions and unutilized budget for building improvements scheduled to be completed in 2019.

Community services had a favourable variance of \$2.3M mainly due to the delay of the MCAL opening.

General government had a favourable variance of \$9.2M mainly due to timing of programs and vacant positions.

Planning and development had a favourable variance of \$0.8M mainly due to vacant positions.

Richmond Olympic Oval had a favourable variance of \$0.8M due to lower than budgeted salaries and general and administration costs.

Library services had a favourable variance of \$0.8M due to less than budgeted amortization expense.

The following comparisons are before transfers to provisions and/or reserves:

Community safety had a favourable variance of \$3.3M mainly due to RCMP contract savings from lower than budgeted complement and salary savings due to municipal employee vacancies.

Expenses

2018 to 2017 Actual Comparison

Total 2018 consolidated expenses were \$414.5M compared to \$413.3M in 2017.

Expenses (\$000's)	2018 Actual	2017 Actual	Change
Community safety	\$ 98,500	\$ 89,933	\$ 8,567
Utilities: water, sewer and sanitation	89,959	87,757	2,202
Engineering, public works and project development	68,793	66,120	2,673
Community services	63,882	77,387	(13,505)
General government	52,549	51,720	829
Planning and development	15,368	15,417	(49)
Richmond Olympic Oval	15,424	15,331	93
Library services	9,981	9,619	362
Total	\$ 414,456	\$ 413,284	\$ 1,172

Community safety expenses increased by \$8.6M mainly due to a \$6.5M increase in the RCMP contract expense as a result of additional officers and collective agreement salary increases.

Utilities expenses increased by \$2.2M mainly due to greater water consumption relative to 2017, as well as water and sewer rate increases from Metro Vancouver.

Engineering, public works and project development expenses increased by \$2.7M mainly due to Fire Hall No. 1 and Minoru Chapel restoration.

Community services decreased by \$13.5M compared to 2017 due to affordable housing contributions for the Storeys affordable housing contribution disbursed in 2017.

General government expenses increased by \$0.8M mainly due to 2018 election costs and an increase in amortization expense.

Planning and development costs are consistent with 2017.

Richmond Olympic Oval costs are consistent with 2017

Library services expenses increased by \$0.4M mainly due to salary increases and new staff positions including Librarian, Senior Services and Community Programmer.

Expenses

Expenses by Object

	2018	2017	Change
Expenses (\$'000's)	Actual	Actual	
Wages and salaries	\$162,331	\$159,576	\$2,755
Public works maintenance	13,405	14,973	(1,568)
Contract services	73,479	64,912	8,567
Supplies and materials	67,919	65,959	1,960
Interest and finance	23,149	23,216	(67)
Transfer from (to) capital for tangible capital assets	13,307	25,712	(12,405)
Amortization of tangible capital assets	60,542	58,012	2,530
Loss on disposal of tangible capital assets	324	924	(600)
Total	\$414,456	\$413,284	\$1,172

Wages and salaries increased by \$2.8M mainly due to collective agreement salary increases.

Public works maintenance decreased by \$1.6M mainly due to reduced general and receivable public work activities and increased capital work.

Contract services increased by \$8.6M mainly due to increased policing costs, contract cost increase for E-Comm 911 charges, building maintenance and traffic signal contracts.

Supplies and materials increased by \$2.0M mainly due to increase in Metro Vancouver water purchases and equipment purchases for Minoru Centre for Active Living and Fire Rescue.

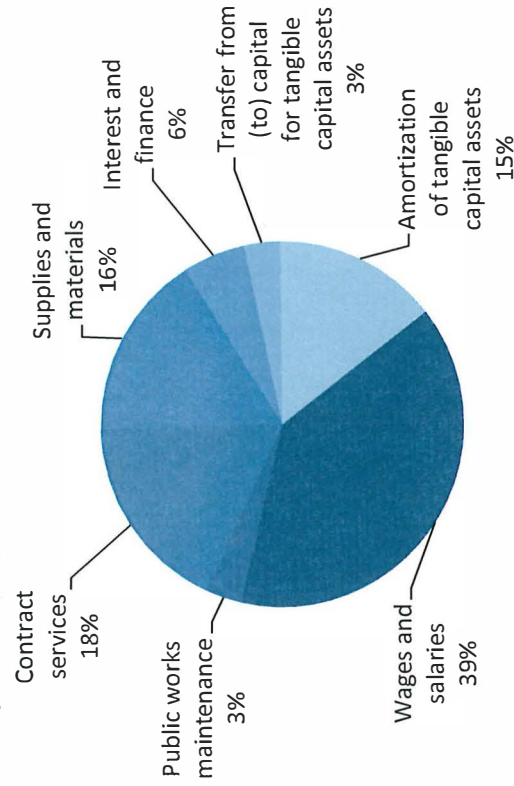
Interest and finance is consistent with 2017.

Transfer from (to) capital for tangible capital assets decreased by \$12.4M mainly due to non-capital costs relating to the contribution towards Storey Development project in 2017 that did not occur in 2018.

Amortization of tangible capital assets increased by \$2.5M due to new asset additions.

Loss on the disposal of tangible capital assets decreased by \$0.6M due to less infrastructure disposal in 2018, compared to 2017.

2018 Expenses by Object



Annual Surplus

The 2018 consolidated annual surplus of \$185.0M is calculated as the difference between revenues and expenses and is reflected in the change in the accumulated surplus.

The City's 2018 operating surplus of \$6.7M is one component of the 2018 annual surplus of \$185.0M.

Annual Surplus Distribution

The largest driver of the \$185.0M annual surplus is the change in investment in capital assets of \$124.7M. This is the net activity of asset additions \$180.9M offset by amortization expense of \$60.5M, disposals and debt reduction.

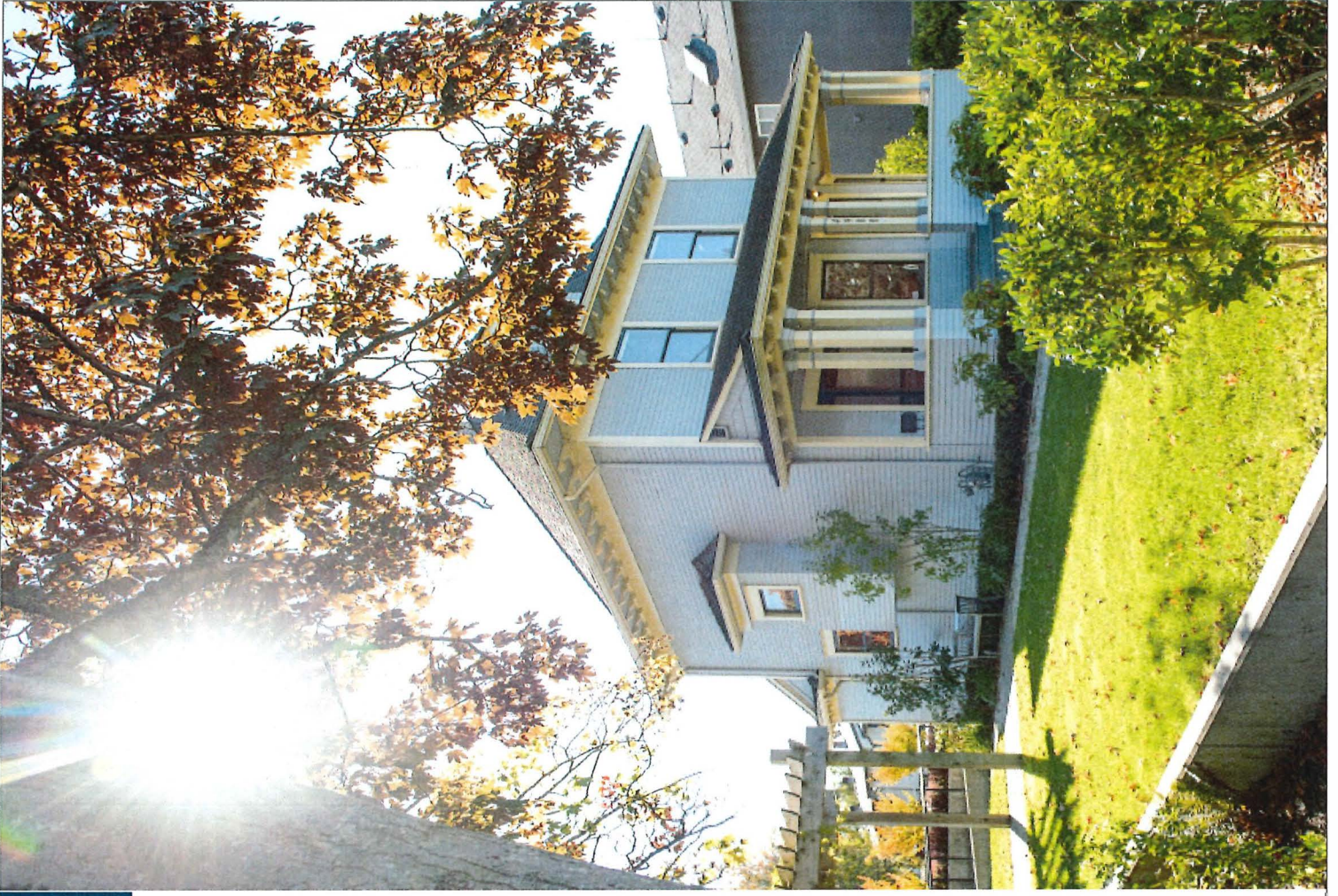
Investment in LIEC increased by \$1.5M.

Appropriated surplus increased by \$2.2M relating to future commitments and potential liabilities.

Reserves increased by \$55.3M due to the timing of capital expenditures. Included in the total reserve balance is \$208.7M committed towards active capital projects.

Surplus increased by \$1.4M due to the net impact of operating surplus transactions and repayments for internal borrowing.

Other surplus decreased by \$0.1M.



Consolidated Statement of Changes in Net Financial Assets

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The Consolidated Statement of Changes in Net Financial Assets focuses on the net assets of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly deducting the costs to acquire assets, and adding back amortization charged during the year.

An important measure of any government's financial condition is its net financial assets: calculated as financial assets (e.g. cash, receivables, and investments) less liabilities (e.g. trade and employment payables, deposits and debt).

The City's net financial assets as at December 31, 2018 increased by \$65.0M to \$763.1M (2017 - \$698.1M).

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows is a summary of how the City's cash position changed during the year, highlighting sources and uses of cash, including the use of cash to acquire capital assets.

The City's cash increased by \$74.0M to \$121.9M and investments increased by \$32.1M to \$1.0B.

In 2018, cash provided by operating activities was \$203.5M, compared to \$137.9M in 2017.

Cash used in capital activities was \$92.6M, compared to \$105.4M in 2017.

Cash used in financing activities was \$4.8M compared to \$4.6M in 2017, and was used to pay down MFA debentures.

Cash spent on investing activities was \$32.1M, compared to \$1.6M of cash provided by investing activities in 2017.

The Public Sector Accounting Board (PSAB) encourages the Government sector to conduct ratio analysis as per the Statement of Recommended Practice (SORP) 4: Indicators of Financial Condition. The analysis enables the readers of financial reports to use the indicators to assess the City's ability to respond to changes in the economic climate. It also allows readers to interpret the financial reports and assess the quality of financial management.

The analysis addresses the following three key areas:

- **Assessment of sustainability** measures and demonstrates the ability of a government entity to carry out its service commitments, settles financial commitments to creditors, employees and others without increasing the debt or tax burden in the economy that it operates.
- **Assessment of flexibility** measures and demonstrates the degree to which a government entity can change the level of debt and tax burden in order to meet its service commitments or settle financial commitments.
- **Assessment of vulnerability** measures and demonstrates the degree by which a government entity is dependent on sources of funding outside its control or influence or is exposed to risk that could impair its ability to meet its service and financial commitments.

The following table presents the ratio analysis for the three-year period 2016-2018:

Assessment of sustainability

	2018	2017	2016 (recast)
Sustainability ratios:			
Assets to liabilities (times)	7.7	8.1	8.2
Financial assets to liabilities (times)	2.6	2.7	2.7
Net debt to total revenues	5.5%	7.2%	8.6%
Net debt to the total assessment	0.03%	0.04%	0.06%
Expenses to the total assessment	0.4%	0.5%	0.6%
Flexibility ratios:	2018	2017	2016 (recast)
Debt charges to revenues	0.3%	0.3%	0.3%
Net book value of capital assets to cost	68.3%	68.3%	68.7%
Net book value of capital assets (excluding land) to cost	55.8%	56.3%	57.1%
Own source revenue to the assessment	0.5%	0.5%	0.7%
Vulnerability ratios:	2018	2017	2016 (recast)
Government transfers to total revenues	4.5%	5.0%	5.4%
Government transfers (excluding gaming revenue) to total revenues	1.7%	1.8%	1.8%

An explanation of each of the ratios is provided below.

- Assets to liabilities, indicates sustainability by the extent to which the government entity finances its operations by issuing debt. A ratio higher than one indicates that a government has accumulated surplus and has assets greater than liabilities. Included in the City's liabilities are DCCs and deferred revenue which represent an obligation to perform future works.
- Financial assets to liabilities, indicates sustainability by the degree that future revenues are required to pay for past transactions and events. A higher ratio indicates a greater ability to cover liabilities.
- Net debt to total revenue, indicates the financial burden over the earning capacity and also indicates how future revenues will be needed for financing of past transactions and events. A lower percentage indicates a lesser reliance on future revenues to finance existing debt.
- Net debt to total assessment, indicates the relationship between the level of debt and the state of the local economy. A lower percentage indicates a lesser reliance on the current assessment base to finance existing debt.

- Expenses to total assessment, indicates the trend of the government spending in connection to the state of the local economy. A lower percentage indicates a lesser reliance on the current assessment base to finance existing expenses.

Assessment of flexibility

- Debt charges to revenues, indicates the extent to which past borrowing decisions present a constraint on a government's ability to meet its financial commitments. A lower ratio indicates a lesser reliance on existing revenues to finance debt charges.
- Net book value of capital assets to cost, indicates the estimated useful life of the capital assets to provide services. A higher ratio indicates a newer asset inventory.

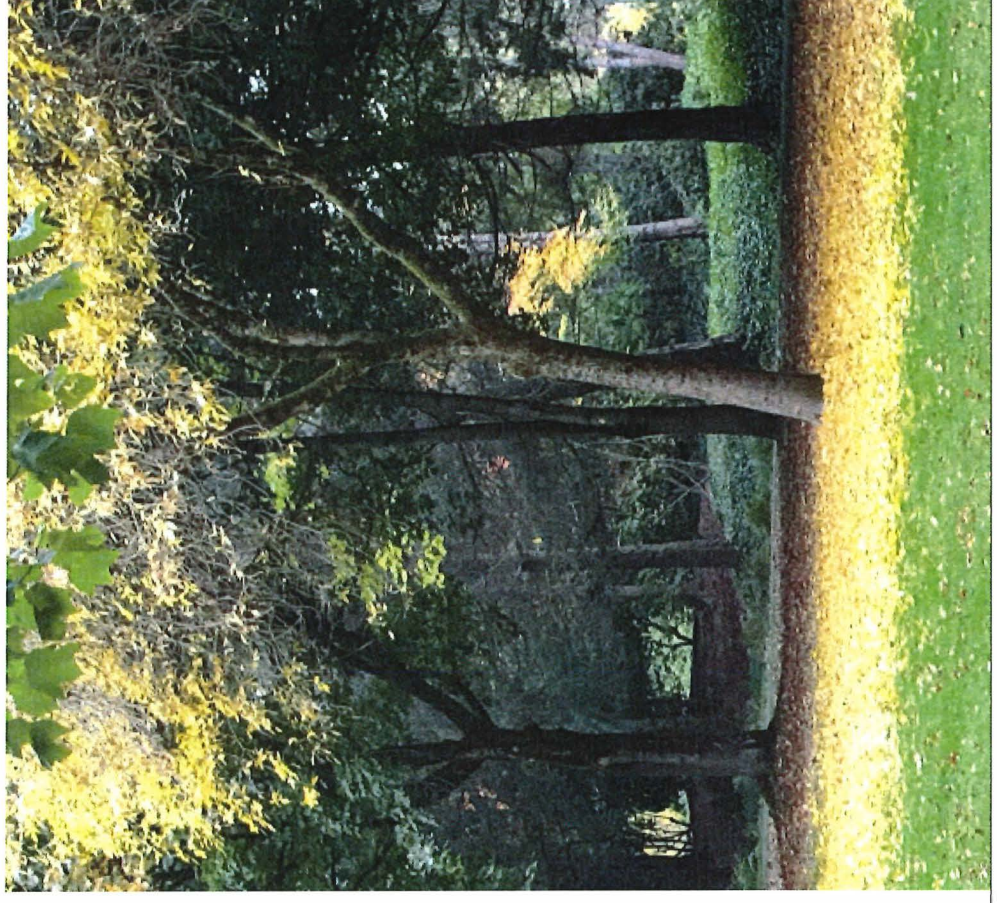
- Net book value of capital assets (excluding land) to cost, indicates the estimated useful life remaining of depreciable capital assets. Land is not a depreciable asset and its inclusion can distort the net book value to cost ratio. A higher ratio indicates a newer asset inventory.

- Own source revenue to assessment, indicates the degree to which represents the percentage of taxes taken from its own tax base. A lower ratio indicates a

lesser proportion of existing revenues from own sources on the current assessment base.

Assessment of vulnerability

- Government transfers to total revenue, indicates the degree to which the local government is dependent on provincial or federal grants. A higher ratio indicates a higher proportion of grants.



Environmental Analysis

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The City provides a wide array of services to residents, businesses and visitors. The Council Term Goals help guide the development and implementation of the City's work programs and operations.

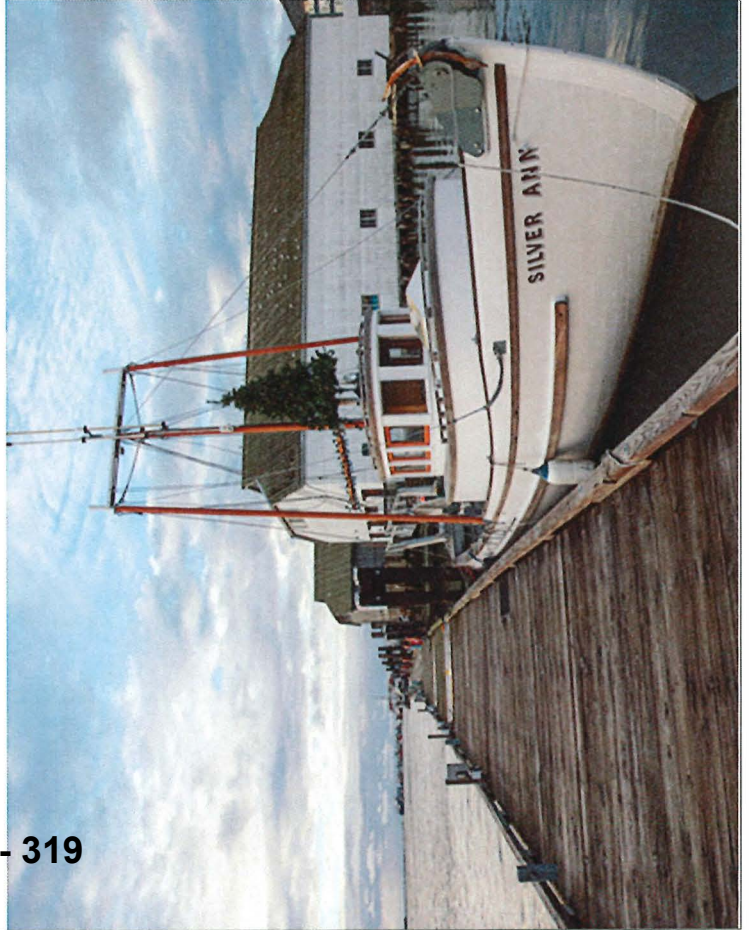
The following section highlights:

- Council Term Goals 2014 – 2018
- Environment
 - Business Licences
 - Housing Activity
 - Population
- City Services

Term Goals

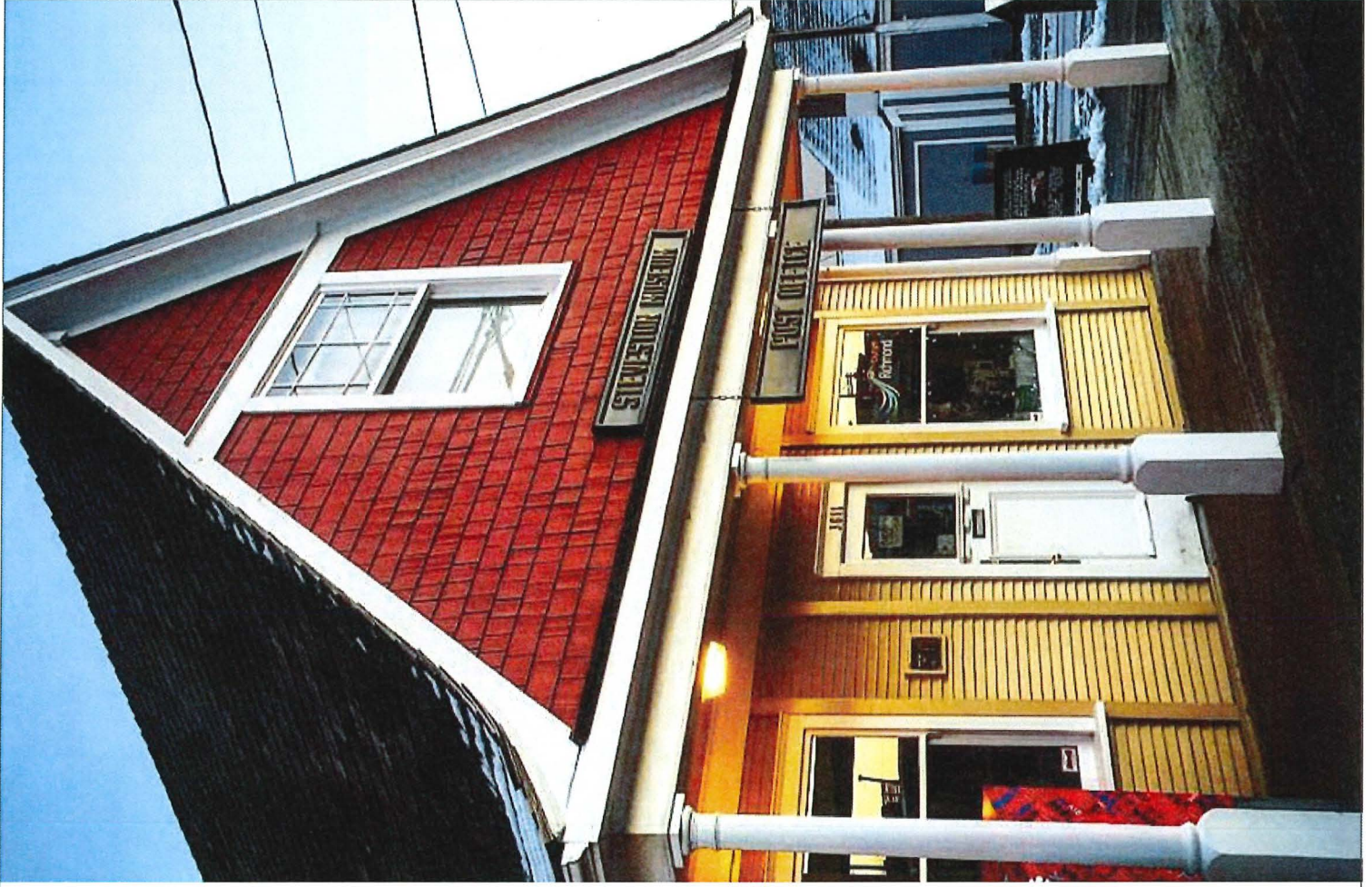
Council decisions guide and influence the City's social and physical development, the quality of life and lifestyle choices available to residents, the relative safety and protection of residents and businesses, and the role the City plays within the region. To help Council manage this important agenda, a "Term Goal Setting" process is undertaken at the start of each new term of office to determine Council's desired focus and priorities in order to ensure City work programs are appropriately aligned. This process forms an integral part of City operations, and helps to ensure a focused and productive workforce that makes the most effective use of public resources. In alphabetical order, the nine goal areas for the 2014-2018 term of Council include:

- 1. A Safe Community**
Maintain emphasis on community safety to ensure Richmond continues to be a safe community.
- 2. A Vibrant, Active, and Connected City**
Continue the development and implementation of an excellent and accessible system of programs, services, and public spaces that reflect Richmond's demographics, rich heritage, diverse needs, and unique opportunities, and that facilitate active, caring, and connected communities.
- 3. A Well-Planned Community**
Adhere to effective planning and growth management practices to maintain and enhance the livability, sustainability and desirability of our City and its neighbourhoods, and to ensure the results match the intentions of our policies and bylaws.
- 4. Leadership in Sustainability**
Continue advancement of the City's sustainability framework and initiatives to improve the short and long term livability of our City, and that maintain Richmond's position as a leader in sustainable programs, practices and innovations.
- 5. Partnerships and Collaboration**
Continue development and utilization of collaborative approaches and partnerships with intergovernmental and other agencies to help meet the needs of the Richmond community.



Term Goals

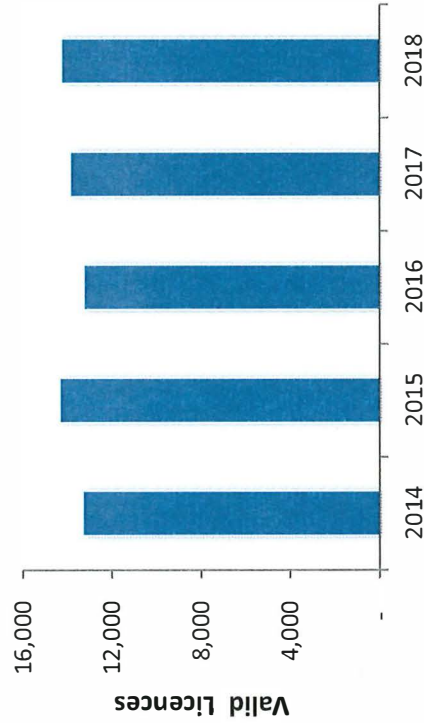
- 6. Quality Infrastructure Networks**
Continue diligence towards the development of infrastructure networks that are safe, sustainable, and address the challenges associated with aging systems, population growth, and environmental impact.
- 7. Strong Financial Stewardship**
Maintain the City's strong financial position through effective budget processes, the efficient and effective use of financial resources, and the prudent leveraging of economic and financial opportunities to increase current and long-term financial sustainability.
- 8. Supportive Economic Development Environment**
Review, develop and implement plans, policies, programs and practices to increase business and visitor appeal and promote local economic growth and resiliency.
- 9. Well-Informed Citizenry**
Continue to develop and provide programs and services that ensure the Richmond community is well-informed and engaged on City business and decision making.



Business Licences

The total number of business licences issued increased to 14,267 in 2018 compared to 13,870 licences issued in 2017.

Business Licences 2014-2018



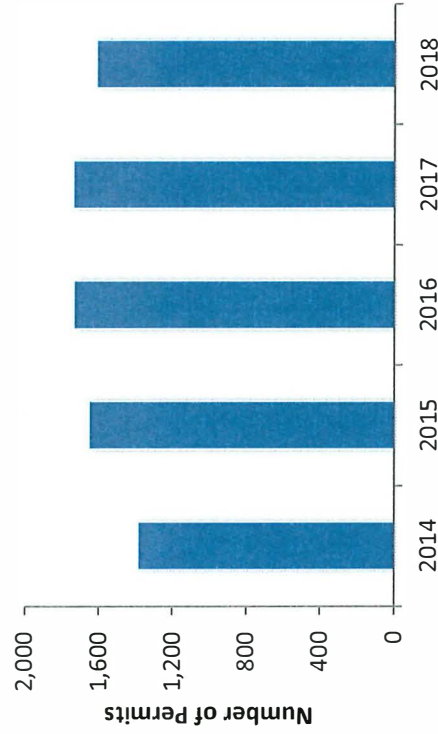
Housing Activity

Richmond house prices decreased by 10.6%, with a 2018 detached median house price of \$1,692,000. The total number of sales decreased year-over-year by 37.8% to 3,081.

In 2018, the total number of building permits issued was 1,619 which was a 7.17% decrease from 2017. The year over year decline is a result of decrease in permits issued for single family dwellings, offset by increase in multi-family developments. Although the number of building permits has

decreased, the total area permitted for new construction has increased due to multi-family developments. The actual permit fees collected for 2018 was \$10.5M.

Building Permits 2014-2018



The construction value of building permits issued in 2018 was \$879.3M, which increased by approximately 24% from 2017 of \$709.1M.

The number of development applications received in 2018 increased by 6.2% to 205 applications from 193 applications in 2017. Total fees collected in 2018 increased by 3.9%.

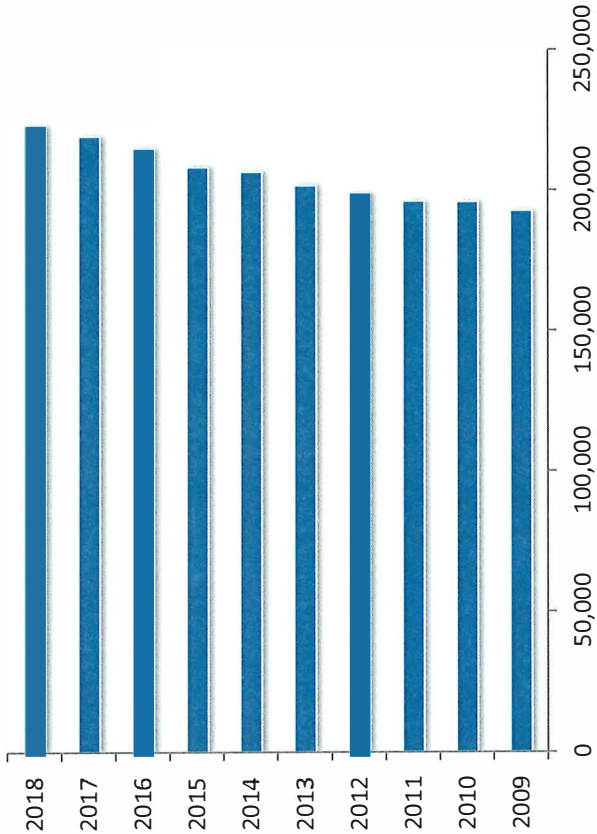


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Population

Richmond's current population is estimated at 222,945, which is a 1.7% increase from 2017. According to the 2016 Census, Richmond is the fourth most populous municipality in the Greater Vancouver region.

Richmond Population 2009-2018



Graph has been updated with population figures from BC Stats, Demographic Analysis Section.

Services

The City of Richmond provides a wide array of services to residents, businesses and visitors. The City is responsible for delivering the following services in Richmond:

- Performing land use and transportation planning, building approvals, property use and zoning.
- Providing and maintaining roads, dikes, water and sewerage systems, drainage and irrigation systems.
- Providing sanitation and recycling services.
- Providing for the safety and protection of citizens by maintaining policing, fire-rescue services, bylaw enforcement, emergency and environmental programs.
- Providing for the recreational and cultural needs of citizens by: funding library services; building and maintaining recreational and cultural facilities, including pools, arenas, community centres, art centres, theatre and numerous heritage sites.
- Designing, constructing, and maintaining a recreational trail system and a system of parks with playing fields, playgrounds, and various amenities including tennis courts and basketball courts.
- Developing a sustainable community through: affordable housing, child care programs, wellness and outreach programs, tree protection, pesticide use restrictions, waste reduction programs, pollution prevention, district energy utility, energy management programs, purchasing policies and high performance building programs.

- Providing business licences and economic development initiatives.
- Administering property taxes and utility bills.
- Working to safeguard the financial well-being of the City through the provision of effective and reliable financial services and information to Council, staff and the public.
- Working to safeguard and enhance the livability and social, financial, and environmental sustainability of our community and surrounding environment.
- Representing the interests of our citizens on various regional bodies responsible for providing services such as transit, drinking water, waste disposal, and air quality monitoring and reporting.

These services are provided through the use of funds as approved by Council in the 2018 operating, capital and utility budgets.

	2016	2017	2018
Population growth (per annum) ¹	3.06%	2.18%	1.67%
Capital construction costs (\$mil) ²	\$122.9	\$94.7	\$156.6
City Grants Program (\$mil)	\$0.78	\$0.80	\$0.82
Other grants (\$mil) ³	\$1.93	\$1.94	\$1.65
Registration in recreation programs	141,125	146,428	145,841
RCMP calls for services	69,800	66,866	69,312
Fire Rescue responses	10,947	11,216	9,805

¹ Annual growth based on updated population figures from BC Stats, Demographic Analysis Section, July 2017.

² This is the amended capital budget excluding internal transfers, debt repayment and contributions.

³ Other grants include contributions towards Gateway Theatre, Richmond Center for Disability, Richmond Therapeutic Equestrian Society, various youth grants and Provision Transfer.

Conclusion

The 2019 – 2023 Five Year Financial Plan combines the Operating, Utility and Capital Budgets. It provides details on the services provided, anticipated revenues and expenses, and planned capital projects.

Additional information about the current financial plan can be found at:

<http://www.richmond.ca/cityhall/finance/reporting/fiveyear.htm>



The City's financial management has positioned Richmond well to continue to carry out and meet Council's goals and service commitments to provide a safe and desirable community to live, work and play in, while providing value for taxpayers.

The FSD&A provides a detailed analysis of the Consolidated Financial Statements and explains the significant differences in the financial statements between the reported year and the previous year as well as between budgeted and actual results.

The Consolidated Financial Statements and FSD&A provide details about past activity and the balances at December 31st of the fiscal year. This information, in conjunction with planning documents, provides a comprehensive depiction of the future financial viability of the City.

In 2003, Council adopted the Long Term Financial Management Strategy (LTFMS) to ensure prudent fiscal practices while maintaining the City's high service standards and balancing current and long term financial needs. The effects of this policy can be seen in the current financial health of the organization.

The LTFMS policy forms the foundation for the City's financial planning, including the preparation of the Five Year Financial Plan Bylaws.