



City of Richmond

Report to Committee

To: Finance Committee
From: Andrew Nazareth
 General Manager, Finance and Corporate Services
Re: 2015 Consolidated Financial Statements

Date: April 19, 2016
File: 03-0905-01/2016-Vol 01



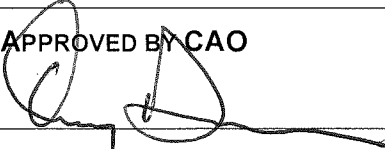
Staff Recommendation

That the City's audited consolidated financial statements for the year ended December 31, 2015 be approved.



Andrew Nazareth
 General Manager, Finance and Corporate Services
 (604-276-4095)

Att. 2

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

Staff Report

Origin

Sections 98 and 167 of the Community Charter require that annual audited financial statements be prepared and presented to Council. The City's audited consolidated financial statements for 2015 have been prepared in accordance with the generally accepted accounting principles for local governments, as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

The financial statements consist of:

- Consolidated statement of financial position – summary of financial assets and liabilities, net financial assets, non-financial assets and accumulated surplus at year end. The accumulated surplus can also be viewed as the net worth of the organization;
- Consolidated statement of operations – summary of the annual surplus for the year consisting of revenues from the operating and capital funds that were raised in the year and expenses reflecting how funds were used during the year including the annual costs for owning and using capital assets (amortization);
- Consolidated statement of changes in net financial assets – a reconciliation between the net revenues earned in the year to the change in net financial assets. This statement shows the net revenues, with a reversal of the non-cash accruals for amortization and sale of assets, less donated assets and the spending to acquire new capital assets in the year. The change in net financial assets is an indicator of whether revenues raised in the year were sufficient to cover the spending in the year; and
- Consolidated statement of cash flows – 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.

Analysis

Financial statements present information about the financial position, performance and changes in the financial position of the City. The financial statements provide accountability by supplying information about the City's resources, obligations and financial affairs. They detail the financial viability, the nature and allocation of economic resources, the revenues and financing, and the quality of management.

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 1**. 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 2015 audited consolidated financial statements.

The consolidated financial statements combine the accounts of the City of Richmond, Richmond Olympic Oval, Richmond Public Library and Lulu Island Energy Company Ltd. (LIEC). Further information about the basis of consolidation is listed in Note 2 to the consolidated financial statements. The consolidated financial statements are included in **Attachment 2**.

Financial Impact

2015 Consolidated Statement of Financial Position

The financial position of the City is strong as accumulated surplus increased in 2015 by \$153.6 million to \$2.7 billion and the net financial assets increased by \$61.4 million to \$664.0 million.

Highlights of the 2015 consolidated statement of financial position:

- \$2.7B – Accumulated surplus (net worth)
 - \$2.1B – Net book value of tangible capital assets
 - \$461.2M – Reserve balance, including \$210.7M committed towards active capital projects
 - \$194.1M – Appropriated surplus for future commitments
- \$664.0M – Net financial assets
 - \$951.4M – Cash and investments
 - (\$111.6M) – Development cost charge balance, including \$30.9M committed towards active capital projects
 - (\$58.9M) – Deposits and holdback
 - (\$46.6M) – Net debt

2015 Consolidated Statement of Operations

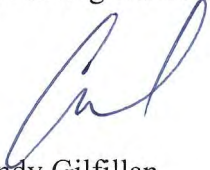
The consolidated revenues exceeded expenses by \$153.6 million. Revenues increased by \$30.8 million to \$527.1 million and expenses increased by \$12.6 million to \$373.6 million.

Highlights of the 2015 consolidated statement of operations:

- \$153.6 million – Annual surplus (the increase in net worth which includes the increase in capital equity, reserves, appropriated surplus and surplus). The 2015 annual surplus is comprised of:
 - \$86.8M increase in investment in capital assets
 - \$84.6M increase in the reserve balance
 - \$10.4M increase in appropriated surplus for future commitments
 - (\$28.1M) net decrease in surplus, inclusive of an increase of \$8.7M for the City's 2015 operating surplus
- \$527.1 million total revenues
 - \$189.1M taxation and levies
 - \$94.3M utility fees
 - \$61.8M contributed assets through development
 - \$34.2M sales of services
- \$373.6 million total expenses
 - \$148.0 million wages and benefits
 - \$59.2 million contract services, including RCMP
 - \$55.7 million supplies, materials and other
 - \$54.0 million amortization expense

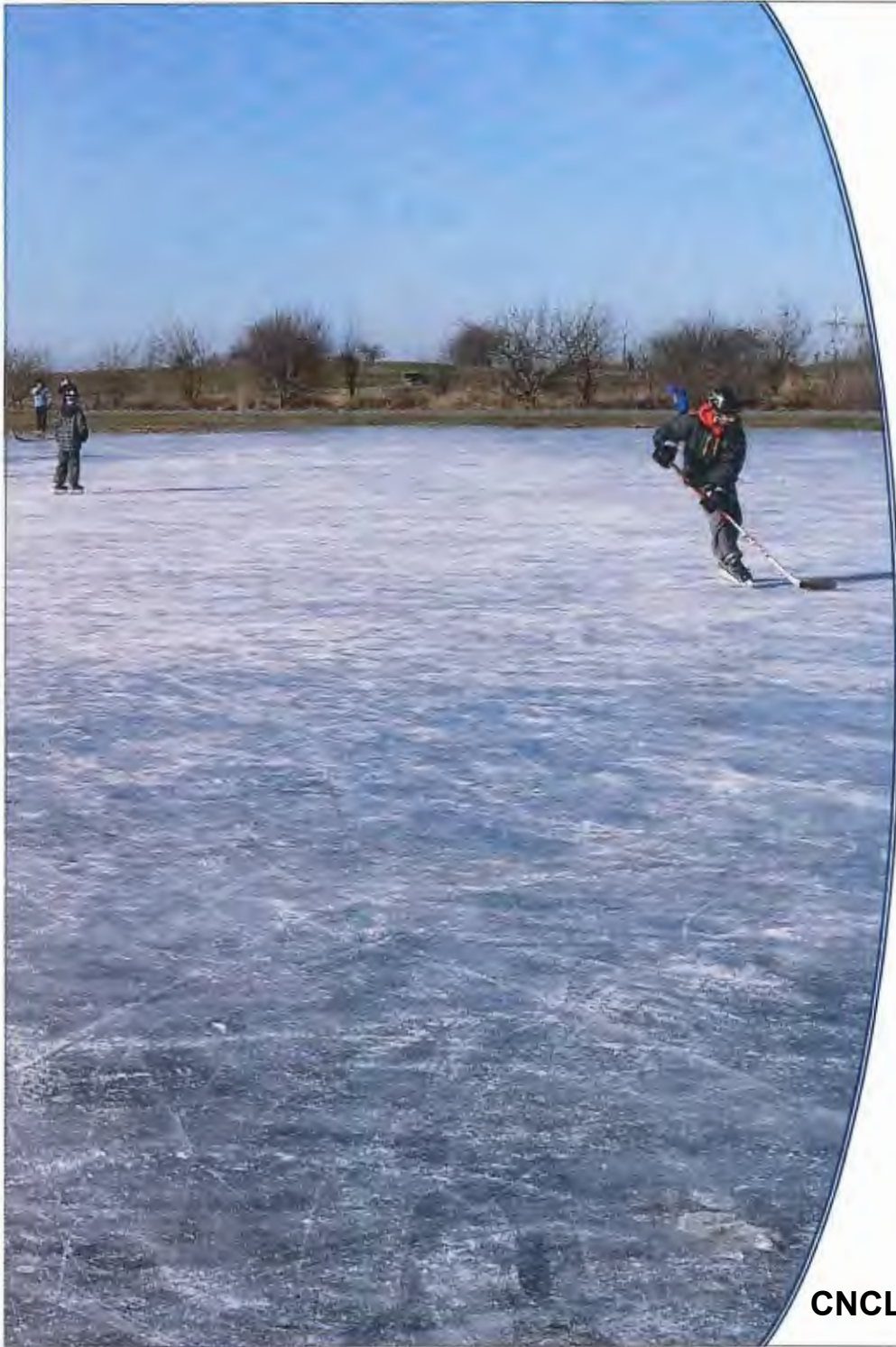
Conclusion

The financial statements are legislated reporting requirements and staff recommend that they be approved. As noted in the Auditors' Report, it is the Auditors' opinion that these consolidated financial statements present fairly the consolidated financial position as of December 31, 2015, and its consolidated results of operations and changes in net consolidated financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.



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

- Att. 1: 2015 Financial Statement Discussion and Analysis
- 2: 2015 City of Richmond Consolidated Financial Statements



2015 | City of Richmond

FINANCIAL STATEMENT DISCUSSION & ANALYSIS

CNCL - 140





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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 2015 have been prepared in accordance with the generally accepted accounting principles for local governments, as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

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 2015 audited Consolidated Financial Statements.

The Consolidated Financial Statements combine the accounts of the City of Richmond, Richmond Olympic Oval, Richmond Public Library and Lulu Island Energy Company Ltd. (LIEC). 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, 2015 and 2014.
- **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 operating, capital, and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accumulated surplus at year end.
- **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

The Consolidated Statement of Financial Position is the equivalent of the private sector's balance sheet. This statement focuses on the City's assets (financial and non-financial) and liabilities. The difference between the financial assets and liabilities is the City's net assets, which represents the amount available in the future.

The City maintained its strong financial position in 2015 allowing for flexibility and financial sustainability well into the future.

- Financial Assets increased by \$85.8M to \$1.0B
- Liabilities increased by \$24.4M to \$353.5M
- Net financial assets increased by \$61.4M to \$664.0M
- Non-financial assets increased by \$92.2M to \$2.1B
- Accumulated surplus increased by \$153.6M to \$2.7B

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

Financial Assets

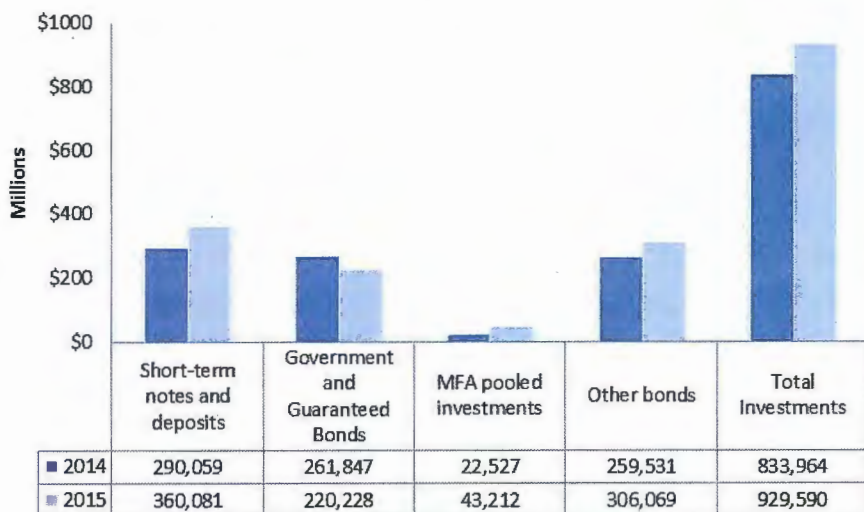
Cash and cash equivalents

Cash and cash equivalents decreased by \$8.9M to \$21.8M mainly due to repositioning cash to the investment portfolio.

Investments

Investments increased by \$95.6M to \$929.6M primarily due to the timing of capital expenditures. The increase is mainly attributed to an increase in reserves of \$84.6M and an increase in appropriated surplus of \$10.4M.

Investment Portfolio by Type



Accrued interest receivable

Accrued interest receivable increased by \$0.9M due to the increased investment balance and timing of the investments.

Accounts receivable

Accounts receivable increased by \$2.1M to \$30.2M primarily due to an increase in other trade receivables of \$4.0M and offset by the net effect of the utilities, gaming and capital receivables.

| Accounts Receivable (\$000's) | 2015 | 2014 | Change |
|-------------------------------|----------|----------|---------|
| Water and sewer utilities | \$11,381 | \$10,358 | \$1,023 |
| Casino revenues | 4,532 | 5,652 | (1,120) |
| Gaming grant | 2,482 | 4,279 | (1,797) |
| Other trade receivables | 11,767 | 7,761 | 4,006 |
| Total | \$30,162 | \$28,050 | \$2,112 |

Taxes receivable

Taxes receivable increased by \$0.5M to \$8.0M mainly due to the timing of collections.

Development fees receivable

Development fees receivable decreased by \$4.2M to \$21.1M due to receipt of instalment payments and reduced use of the instalment option on current contributions. Development cost charges can be paid in instalments where equal instalments are paid at the originating date, and at the one and two year anniversary dates.

Debt reserve fund

The debt reserve fund decreased by \$0.2M as a result of payments received from the Municipal Finance Authority (MFA) relating to the completion of the Terra Nova debt in the prior year.

Liabilities

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities decreased by \$0.6M to \$87.7M. The decrease is mainly attributable to wages payable due to the timing of year end payroll.

Development cost charges

The development cost charge (DCC) balance of \$111.6M (2014 - \$83.0M) represents the total balance of unspent DCC's and includes amounts that have been allocated to capital projects but remain unspent as at December 31st, 2015. These amounts are restricted and may only be used on authorized capital expenditures.

Contributions of \$44.9M were received in 2015 which was an increase of \$31.6M from the previous year mainly due to increased development activity.

| Development Cost Charges (\$000's) | 2015 | 2014 | Change |
|------------------------------------|-----------|----------|-----------|
| Balance, beginning of year | \$82,965 | \$87,212 | (\$4,247) |
| Contributions | 44,934 | 13,313 | 31,621 |
| Interest | 1,510 | 1,205 | 305 |
| Revenue recognized | (17,818) | (18,765) | 947 |
| Balance, end of year | \$111,591 | \$82,965 | \$28,626 |

The \$111.6M balance includes amounts that have been allocated to active capital projects but that remain unspent. At December 31st, 2015 there is \$30.9M (2014 - \$25.0M) committed to active capital projects. Additional DCC funding of \$26.9M was approved as part of the 2016 Capital Budget.

Deposits and holdbacks

Deposits and holdbacks decreased by \$6.2M to \$58.9M primarily due to security deposits decreasing by \$8.1M. This decrease is largely a result of amounts that became DCC contributions. The remaining increase is for other deposits relating to general activities.

| Deposits and Holdbacks (\$000's) | 2015 | 2014 | Change |
|----------------------------------|----------|----------|-----------|
| Security deposits | \$40,317 | \$48,377 | (\$8,060) |
| Developer contribution | 5,546 | 5,337 | 209 |
| Contract holdbacks | 2,809 | 1,968 | 841 |
| Transit Oriented Development | 1,523 | 1,523 | - |
| Other | 8,701 | 7,898 | 803 |
| Total deposits and holdbacks | \$58,896 | \$65,103 | (\$6,207) |

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 completion of the specified work. These amounts are recognized as liabilities in the year the funds are deposited and received into revenue in the fiscal year the related expenditures are incurred or services are performed.

Deferred revenues increased by \$6.9M mainly due to funds received for building permit and development applications of \$4.6M relating to increased development activity and taxes and utilities of \$2.7M. The remaining balance relates to offsetting activity in capital, Oval, business license, and other revenue recognition.

Liabilities

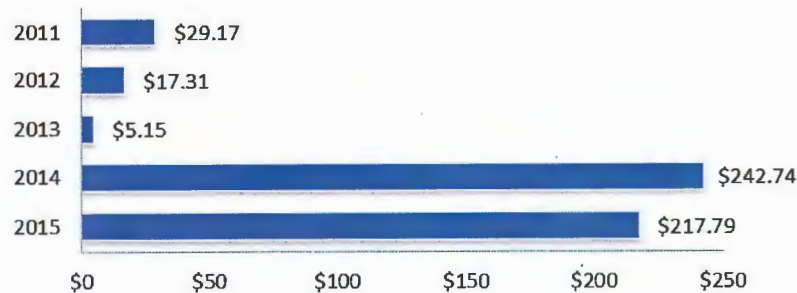
Debt, net of MFA sinking fund deposits

Debt decreased by \$4.2M to \$46.6M (2014 - \$50.8M). During 2015, the first payments were made towards the borrowing in the amount of \$50.8M for the construction of the integrated older adult Minoru aquatic facility. The debt is for 10 years at a rate of 3.30% for the duration of the term.

The annual servicing cost on the debt is approximately \$5.9M and is funded by \$5.0M of the annual gaming revenue and the reallocation of tax revenues used for the debt servicing costs on the Terra Nova debt that expired in 2014.

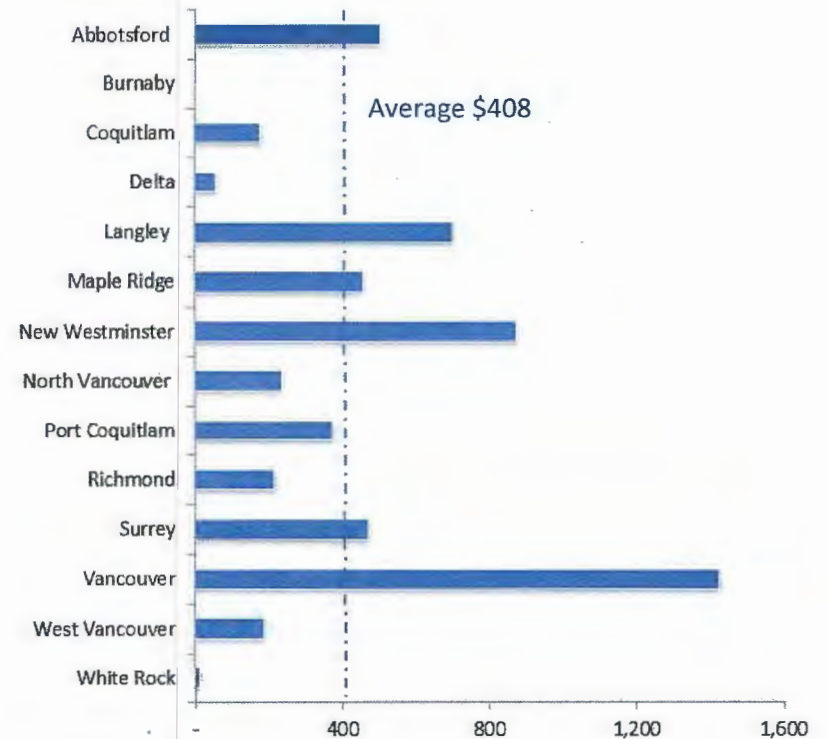
The debt per capita was down to \$5.15 per person in 2013 before new debt of \$50.8M was obtained in 2014. This new debt increased the debt per capita as at December 31, 2014 to \$242.74 and has subsequently decreased in 2015 to \$217.79 reflecting the principal payments and increase in population.

City of Richmond Debt Per Capita 2011-2015



Richmond's 2015 debt per capita figure of approximately \$218 is well below the 2014 regional average of \$408. The 2014 values for the other municipalities are the most current figures available.

Debt Per Capita by City



- Source data obtained from the Ministry of Community Sport & Cultural Development - 2014 Local Government Statistics
- Richmond figure adjusted to reflect 2015 net debt balance and the population statistics used are from Policy Planning

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.

TCA increased by \$92.3M to \$2.1B. The \$92.3M change is a result of \$148.7M of asset additions, less net disposal of \$2.5M and amortization of \$54.0M.

| Tangible Capital Assets (\$000's) | 2015 | 2014 | Change |
|---|--------------------|--------------------|-----------------|
| Land | \$803,645 | \$747,290 | \$56,355 |
| Buildings and improvements | 233,140 | 232,762 | 378 |
| Infrastructure | 916,089 | 885,358 | 30,731 |
| Machinery and equipment | 43,315 | 34,565 | 8,750 |
| Library's collections, furniture and equipment | 4,339 | 4,436 | (97) |
| Assets under construction | 62,367 | 66,223 | (3,856) |
| Total | \$2,062,895 | \$1,970,634 | \$92,261 |

Land increased by \$56.4M mainly due to land received through development valued at \$50.6M, including \$18.5M of park received from former Steveston High School development site.

Buildings increased by \$0.4M due mainly to additions of \$14.1M, including \$6.1M for City Centre Community Centre, and offset by amortization expense of \$13.7M

Infrastructure increased by \$30.7M due to additions of \$63.9M including contributed assets of \$10.9M received through development, and offset by \$32.2M of amortization expense and net disposals of \$0.9M.

Machinery and equipment increased by \$8.8M due to net additions of \$15.1M, including \$2.1M for a ladder truck, pumper truck and a Fire and Life Safety Trailer, and other various additions of traffic signal, heavy and light duty equipment, parking equipment, and IT equipment less amortization expense of \$6.3M.

Library's collections, furniture and equipment decreased by \$0.1M mainly due to additions of \$1.6M offset by \$1.7M amortization expense.

Assets under construction decreased by \$3.9M due to the timing of project completion.

Inventory of materials and supplies

Inventory decreased by less than \$0.1M.

Prepaid expenses

Prepaid expenses decreased by less than \$0.1M due to the timing of utilization of expenses.

Accumulated Surplus

Accumulated surplus is equivalent to the net worth of an organization. The accumulated surplus increased by \$153.6M to \$2.7B. The annual increase is presented on the Statement of Operations.

| Accumulated Surplus (\$000's) | 2015 | 2014 | Change |
|-------------------------------|--------------------|--------------------|------------------|
| Investment in TCA | \$2,055,479 | \$1,968,651 | \$86,828 |
| Reserves | 461,178 | 376,602 | 84,576 |
| Appropriated Surplus | 195,051 | 184,644 | 10,407 |
| Surplus | 17,264 | 45,410 | (28,146) |
| Other equity | 2,222 | 2,333 | (111) |
| Total | \$2,731,194 | \$2,577,640 | \$153,554 |

Investment in Tangible Capital Assets

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, restricted capital deferred revenue (Oval) and capital leases.

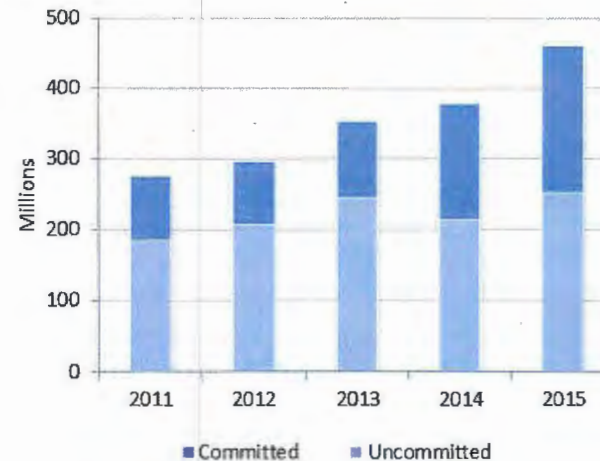
This balance is based on the historical cost of the asset net of accumulated amortization in accordance with accounting standards. This does not reflect market value or replacement value of the assets.

The investment in TCA balance increased by \$86.8M to \$2.1B. This is the net activity of asset additions of \$148.7M, amortization of \$54.0M, disposals and debt reduction.

Reserves

Reserves are established by Bylaw for specific purposes, mainly capital expenditures. The balance of \$461.2M includes amounts that have been approved for expenditure but remain unspent as at December 31st as prescribed by accounting standards. The uncommitted reserve balance is \$250.5M (2014 - \$210.8M).

Reserve Balance 2011-2015



The increase in the reserve balance is mainly attributable to the timing of capital expenditures. There are several facility construction projects approved including the Integrated aquatic and older adults centre and Fire Hall No. 1 that will have significant capital expenditures in 2016-2017.

From the available \$250.5M at December 31, 2015, \$61.5M has been approved for the City's 2016 Capital Budget.

Accumulated Surplus

Appropriated Surplus

Appropriated surplus is internally restricted for future commitments and potential liabilities. The balance increased by \$10.4M to \$195.1M mainly due to the transfer of 2014 general operating surplus to the rate stabilization account of \$5.7M, \$2.9M for the Water Fund rate stabilization, and gaming revenue surplus of \$1.5M.

Surplus

The consolidated surplus decreased by \$28.1M to \$17.3M.

This decrease is mainly attributed to:

- (\$15.5M) for the land strategy.
- (\$10.5M) for the Alexandra district energy utility capital construction project phase 3
- (\$7.6M) for the Alexandra district energy utility capital construction project phase 4
- (\$5.7M) transfer of the City's 2014 operating surplus to the rate stabilization account
- \$8.7M City's 2015 operating surplus
- \$2.1M internal repayments from previously funded capital projects

Surplus Distribution

The surplus balance is comprised of multiple funds and entities. The balance represents the cumulative activity since the inception of the fund or entity. The distribution is shown in the following chart:

| Surplus (\$000's) | 2015 | 2014 | Change |
|---------------------------|-----------------|-----------------|-------------------|
| General and Reserve Funds | \$9,566 | \$19,133 | (\$9,567) |
| Water Utility Fund | 244 | 15,536 | (15,292) |
| Sanitary Sewer Fund | 6,200 | 9,290 | (3,090) |
| Richmond Olympic Oval | 502 | 1,313 | (811) |
| Library | 201 | 115 | 86 |
| LIEC | 551 | 23 | 528 |
| Total | \$17,264 | \$45,410 | (\$28,146) |

The 2015 Capital Budget included the allocation of \$10.5M of Water Utility Surplus towards funding Phase 3 and \$7.6M towards Phase 4 of the Alexandra District Energy Utility. These amounts will be repaid with interest through the customer rates.

Other Equity

Other equity relates to equity in the City's inventory. The balance remains relatively unchanged at \$2.2M.

Consolidated Statement of Operations

The Consolidated Statement of Operations is the equivalent to the private sector's Income Statement and Statement of Retained Earnings. 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 2015 budget values 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 23 outlines the adjustments to the approved budget, particularly the exclusion of intercity and intercompany payments, principal payments, transfers to other funds and tangible capital asset purchases. These adjustments to budgeted values were 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

2015 Budget to Actual Comparison

Total consolidated revenues were \$527.1M compared to the budgeted revenues of \$468.3M.

| | 2015 Budget | 2015 Actual | Variance |
|-------------------------------|------------------|------------------|-----------------|
| Revenues (\$000's) | | | |
| Taxation and levies | \$189,796 | \$189,136 | (\$660) |
| Utility fees | 95,963 | 94,290 | (1,673) |
| Sales of services | 29,664 | 34,186 | 4,522 |
| Gaming revenue | 18,030 | 19,555 | 1,525 |
| Investment income | 16,821 | 16,303 | (518) |
| Payments-in-lieu of taxes | 13,473 | 15,109 | 1,636 |
| Provincial and federal grants | 6,833 | 8,654 | 1,821 |
| Licenses and permits | 7,874 | 10,747 | 2,873 |
| Other capital funding sources | 57,155 | 72,575 | 15,420 |
| Development cost charges | 23,828 | 17,818 | (6,010) |
| Other | 8,904 | 48,755 | 39,851 |
| Total | \$468,341 | \$527,128 | \$58,787 |

Taxation and levies had an unfavourable variance of \$0.7M due to appeals on assessment values.

Utility fees' unfavourable variance is mainly due to less than expected apartments selecting optional garbage and green waste and timing related to LIEC user fees.

Sales of service had favourable variance mainly due to increased Public Works receivable activity, rental and lease revenue and Oval memberships, admissions and program revenue.

Gaming revenue had a \$1.5M favourable variance to budget, however, gaming revenue decreased by \$1.5M from 2014.

The Investment income is consistent with budget.

Payments in lieu of taxes had a favourable variance due to conservative estimates for Port Metro and Canada Post.

Provincial and federal grants were favourable by \$1.8M mainly due to traffic fine sharing revenue, gas and carbon tax.

Licenses and permits had a favourable variance of \$2.9M mainly due to building permits, other permits and business licenses.

The other capital funding variance is the result of higher than anticipated amounts relating to contributed assets received through development at \$61.8M along with external grants for capital projects.

Development cost charges had an unfavourable variance of \$6.0M due to the timing of capital expenditures. DCC revenue is recognized when the amounts are spent, while the budget represents the 2015 allocation of DCC's towards capital projects that can be spent over multiple years.

Other revenue had a favourable variance of \$39.9M due to \$29.6M of developer community amenity contributions and \$5.9M gain on the disposal of land that are not budgeted.

Revenues

2015 to 2014 Actual Comparison

Total 2015 consolidated revenues were \$527.1M compared to \$494.3M in 2014.

| Revenues (\$000's) | 2015 Actual | 2014 Actual | Change |
|-------------------------------|------------------|------------------|-----------------|
| Taxation and levies | \$189,136 | \$183,687 | \$5,449 |
| Utility fees | 94,290 | 93,201 | 1,089 |
| Sales of services | 34,186 | 32,809 | 1,377 |
| Gaming revenue | 19,555 | 21,047 | (1,492) |
| Investment income | 16,303 | 16,568 | (265) |
| Payments-in-lieu of taxes | 15,109 | 14,546 | 563 |
| Provincial and federal grants | 8,654 | 7,480 | 1,174 |
| Licenses and permits | 10,747 | 9,819 | 928 |
| Other capital funding sources | 72,575 | 61,221 | 11,354 |
| Development cost charges | 17,818 | 18,765 | (947) |
| Other | 48,755 | 35,194 | 13,561 |
| Total | \$527,128 | \$494,337 | \$32,791 |

Taxation and levies increased by \$5.4M due to the 1.89% tax rate increase and assessment growth offset by appeals.

Utility fees increased by \$1.1M mainly due to the addition of the recycling food scraps program.

Sales of services increased by \$1.4M mainly due receivable income.

Gaming revenue for the City decreased by \$1.5M due to decreased revenues at River Rock Casino.

Investment income decreased by \$0.3M mainly due to the low interest rate environment.

Payments-in-lieu of tax revenue was consistent with 2014.

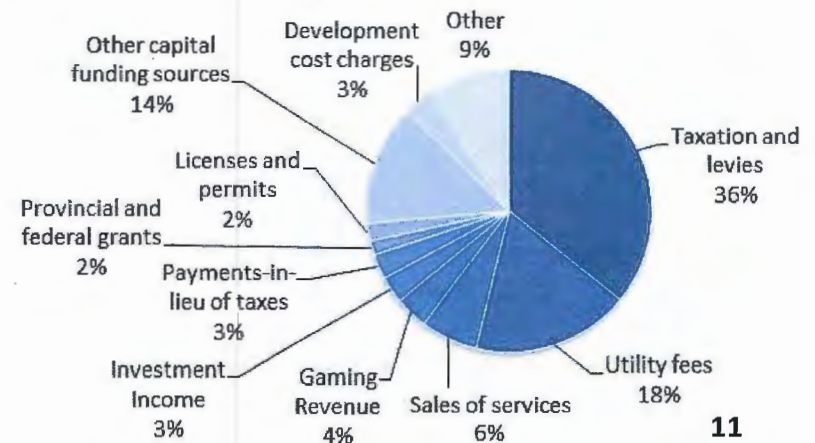
Licenses and permits increased by \$0.9M due to additional permit revenue.

Other capital funding sources increased by \$11.4M due to the timing of developer contributed assets.

Development cost charges decreased by \$0.9M due to the timing of capital expenditures. These revenues are recognized when capital expenditures are made and relate to approved capital budgets from previous years.

Other revenue increased by \$13.6M mainly due to \$29.6M of developer community amenity contributions (2014 - \$10.4M).

2015 Revenue Distribution



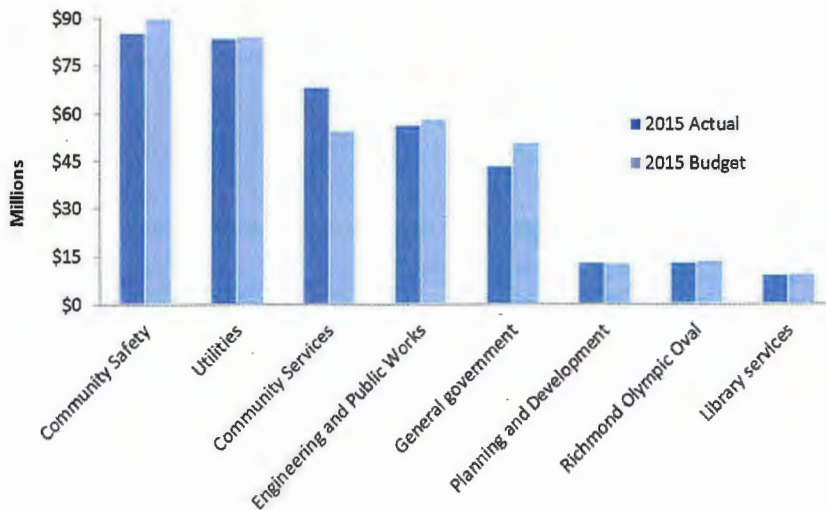
Expenses

2015 Budget to Actual Comparison

Total consolidated expenses were \$373.6M compared to the budget of \$374.6M. The budget figure represents the original approved budget. During the year, the Financial Plan Bylaw was amended, however, these amounts are not included in the budget as presented on the financial statements.

Included in the \$373.6M actual expenses are \$19.3M of expenses that were budgeted in the Capital Budget that did not meet the capitalization eligibility criteria. This amount does not impact the operating surplus.

2015 Expenses by Function



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

Law and Community Safety had a favourable variance of \$4.6M mainly due to vacancies and RCMP contract savings from lower than budgeted complement and indirect costs.

Engineering and Public Works had a favourable variance of \$1.8M mainly due to vacancies and the timing of programs which are scheduled to be completed in 2016.

Community Services had an unfavourable variance of \$13.9M due to the re-classification of \$15.9M of expenses from capital, mainly \$12.3m related to affordable housing contributions including Kiwanis and Storeys developments.

General government had a favourable variance of \$7.1M for the year mainly due to vacancies.

Utilities had a favourable variance of \$0.7M due mainly to savings in water purchase costs.

Planning and Development had an unfavourable variance of less than \$0.1M.

Library had a favourable variance of \$0.3M due to vacancies.

Richmond Olympic Oval had a favourable variance of \$0.6M mainly due to general and administration expenses, amortization and salaries.

LIEC had an unfavourable variance of \$0.2M due to expenses accrued to the concession liability.

Expenses

2015 to 2014 Actual Comparison

Total 2015 consolidated expenses were \$373.6.9M compared to \$360.9M in 2014.

| Expenses (\$000's) | 2015 Actual | 2014 Actual | Change |
|--|------------------|------------------|-----------------|
| Law and Community Safety | \$85,386 | \$83,820 | \$1,566 |
| Utilities | 83,650 | 79,552 | 4,098 |
| Community Services | 68,246 | 65,137 | 3,109 |
| Engineering, Public Works and Project Development | 56,294 | 55,899 | 395 |
| General government | 43,438 | 42,582 | 856 |
| Planning and Development | 13,211 | 13,301 | (90) |
| Richmond Olympic Oval | 13,395 | 11,065 | 2,330 |
| Library services | 9,463 | 9,563 | (100) |
| Lulu Island Energy Company | 491 | 8 | 483 |
| Total | \$373,574 | \$360,927 | \$12,647 |

Law and Community Safety expenses increased by \$1.6M mainly due collective agreement increases.

Utilities expenses increased by \$4.1M mainly due to negotiated wage increases and transfers from capital.

Community Services increased by \$3.1M mainly due to filling vacancies, amortization expense and increased transfers from capital.

Engineering, Public Works and project development increase of \$0.4M is mainly due to amortization expense.

General government expenses increased by \$0.9M mainly due to filling of vacancies.

Planning and development costs decreased by less than \$0.1M mainly due to timing of programs to be completed in 2016.

The expenses for the Oval increased by \$2.3M mainly due to costs required to service several new initiatives in 2015 as well as to meet the growth in the Oval's memberships, admissions and programs revenue.

Library services decreased by \$0.1M due to lower salary costs and promotions expenses.

LIEC expenses for 2015 relate to commencement of energy delivery to the Riva 1 and Carrera developments in June and July respectively.

Expenses

Expenses by Object

| Expenses (\$000's) | 2015 Actual | 2014 Actual | Change |
|--|------------------|------------------|-----------------|
| Wages and Benefits | \$147,996 | \$142,169 | \$5,827 |
| Contract Services | 59,165 | 58,121 | 1,044 |
| Supplies and Materials | 55,658 | 53,749 | 1,909 |
| Amortization of tangible capital assets | 53,966 | 52,106 | 1,860 |
| Interest and Finance | 21,391 | 21,367 | 24 |
| Transfer from (to) capital for tangible capital assets | 19,349 | 18,192 | 1,157 |
| PW Maintenance | 15,294 | 14,548 | 746 |
| Loss on disposal of tangible capital assets | 755 | 675 | 80 |
| Total | \$373,574 | \$360,927 | \$12,647 |

Wages and benefits increased by \$5.8M due to filling vacancies and other collective agreement increases.

Contract services increased by \$1.0M mainly due to the expanded organics program.

Supplies and materials increased by \$1.9M mainly due to the Oval's operations required to service several new initiatives.

Amortization of tangible capital assets increased by \$1.9M due to new asset additions.

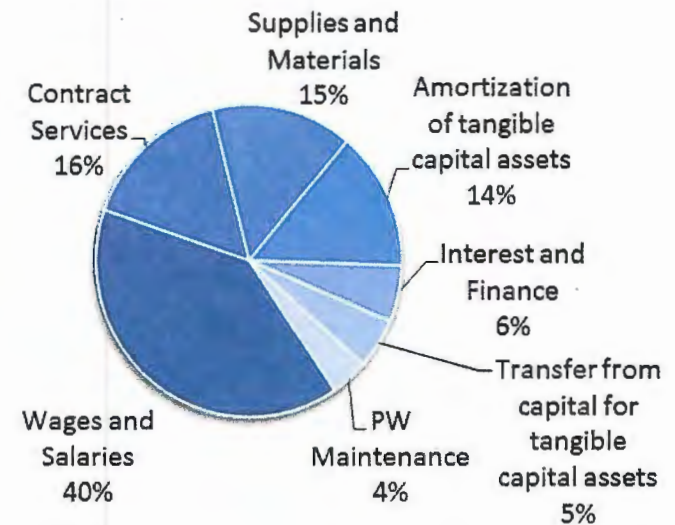
Interest and finance increased by less than \$0.1M.

Transfer from (to) capital for tangible capital assets increased by \$1.2M mainly due to the Kiwanis and Storeys affordable housing contributions.

Public works maintenance increased by \$0.7.

Loss on the disposal of tangible capital assets increased by less than \$0.1M.

2015 Expenses by Object



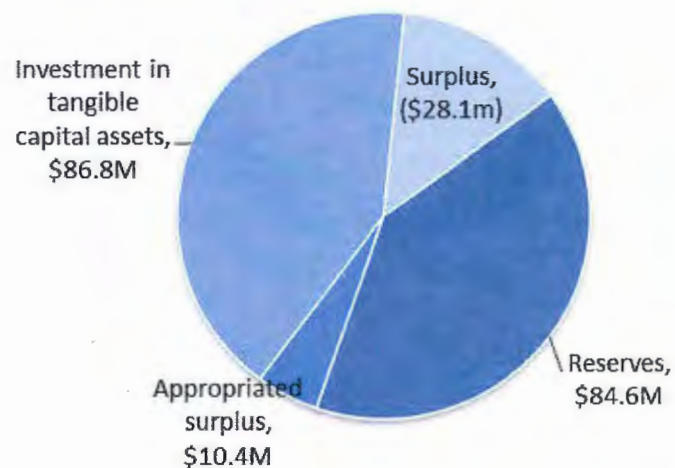
Annual Surplus

The 2015 consolidated annual surplus of \$153.6M is calculated as the difference between revenues and expenses. The annual surplus is reflected in the year over year change in the accumulated surplus on the Statement of Financial Position.

The City's 2015 operating surplus of \$8.7M is one component of the 2015 annual surplus of \$153.6M. The remaining portion of the annual surplus relates to transactions that impact the capital equity, reserves, appropriated surplus and other accumulated surplus items.

The following chart details the distribution of the items that comprise the annual surplus. These amounts represent the changes during the year.

Annual Surplus Distribution



The largest driver of the \$153.6M annual surplus is the change in investment in capital assets of \$86.8M. This amount is the net activity of asset additions \$148.7M offset by amortization expense of \$54.0M, disposals and debt reduction.

Appropriated surplus increased by \$10.4M relating to future commitments and potential liabilities.

Reserves increased by \$84.6M due to the timing of capital expenditures. Included in the total reserve balance is \$210.7M committed towards active capital projects.

Surplus decreased by \$28.1M due to allocation towards capital projects.

Consolidated Statement of Changes in Net Financial Assets

The Consolidated Statement of Net Assets is unique to governments. This statement 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, 2015 increased by \$61.4M to \$664.0M (2014 - \$602.6M). This increase is primarily due to the \$95.6M increase in investments offset by the \$28.6M increase in DCC's and \$6.9M liability increase for deferred revenue.

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 and cash equivalents decreased by \$8.9M to \$21.8M while investments increased by \$95.6M to \$929.6M. The increase in investments largely reflects the increases in capital and operating reserves.

In 2015, cash provided by operating activities was \$170.2M, compared to \$124.8M in 2014.

Cash used in capital activities was \$79.3M, compared to \$64.3M in 2014.

Cash used in investing activities was \$95.6M, compared to \$126.5M in 2014.

Cash used in financing activities was \$4.2M, compared to cash provided of \$49.7M in 2014. The 2014 activity includes:

- New debt proceeds \$50.8M
- Final Terra Nova debt payment (\$1.0M)

Ratio Analysis

Ratio analysis enables the readers of financial reports not only to interpret the financial reports but to also assess the quality of financial management.

The following ratio analysis was conducted as recommended by the Statement of Recommended Practice SOPR-4 “Indicators of financial condition” issued by the Canadian Institute of Chartered Accountants.

Based on best practice, the conducted 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 2013-2015:

| Sustainability ratios: | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|
| Assets to liabilities (times) | 8.7 | 8.8 | 10.4 |
| Financial assets to liabilities (times) | 2.9 | 2.8 | 3.1 |
| Net debt to total revenues | 8.8% | 10.2% | 0.2% |
| Net debt to the total assessment | 0.1% | 0.1% | 0.0% |
| Expenses to the total assessment | 0.6% | 0.6% | 0.6% |
| Flexibility ratios: | 2015 | 2014 | 2013 |
| Debt charges to revenues | 0.3% | 0.3% | 0.2% |
| Net book value of capital assets to cost | 68.7% | 68.7% | 68.7% |
| Net book value of capital assets (excluding land) to cost | 57.2% | 57.7% | 58.5% |
| Own source revenue to the assessment | 0.7% | 0.8% | 0.7% |
| Vulnerability ratios: | 2015 | 2014 | 2013 |
| Government transfers to total revenues | 5.4% | 5.8% | 5.5% |
| Government transfers (excluding gaming revenue) to total revenues | 1.6% | 1.5% | 1.6% |

An explanation of each of the ratios is provided below.

Assessment of sustainability

- Assets to liabilities, indicates sustainability by the extent to which the government entity finances its operations by issuing debt. A higher ratio indicates a greater ability to cover liabilities.

- 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

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
- Environment
 - Business Licenses
 - 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

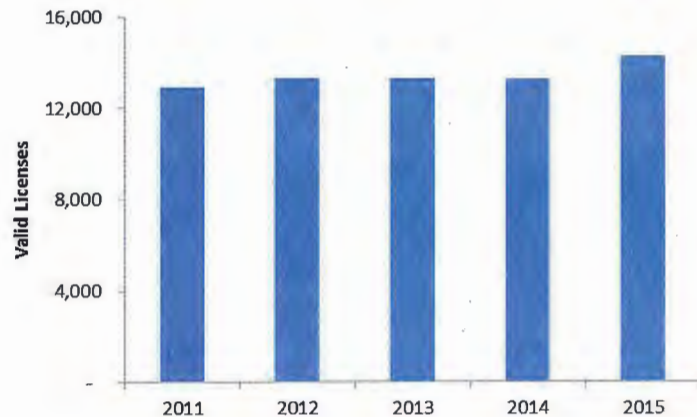
Continue to develop and provide programs and services that ensure the Richmond community is well-informed and engaged on City business and decision making.

Environment

Business Licenses

The total number of business licenses issued increased, with 14,351 and 13,322 licenses issued in 2015 and 2014 respectively.

Business Licenses 2011-2015



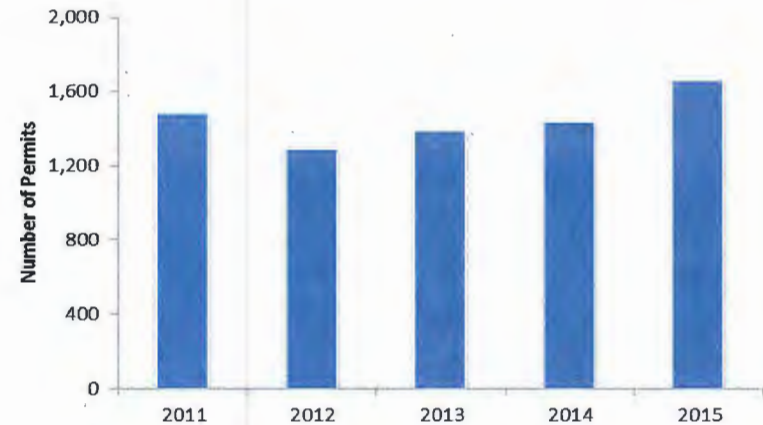
Housing Activity

Richmond house prices increased 29.7%, with a 2015 detached median house price of \$1,680,000. The total number of sales increased year-over-year by 35.7% to 5,786.

In 2015, the total number of building permits issued was 1,656 which was a 19.3% increase from 2014. Overall, the building permit fees collected increased by 86.6% a sign of increasing

development activity in Richmond compared to the previous year. The actual permit fees collected for 2015 was \$11.0M.

Building Permits 2011-2015



The construction value of permits issued in 2015 was \$998.0M, which was a record year and is an increase of approximately 107.1% from 2014.

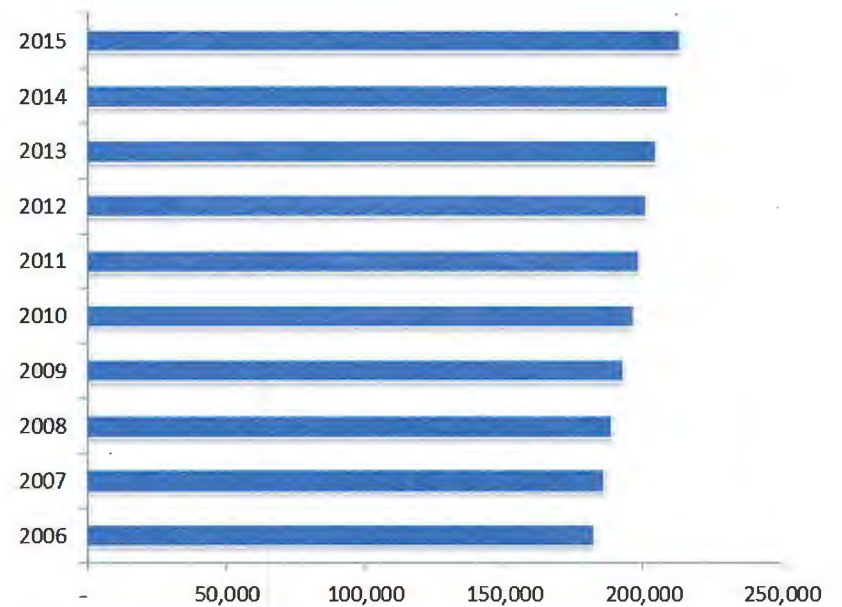
The number of development applications received in 2015 increased by 22.1% from 2014 to 243 from 199 applications. Total fees collected in 2015 increased by 83.0% compared to 2014.



Population

Richmond's current population is estimated at 213,891¹, which is a 2.17% increase from 2014. Richmond is the fourth most populous municipality in the Greater Vancouver region.

Richmond Population 2006-2015



¹City of Richmond Policy Planning

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, dykes, 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 licenses and economic development initiatives.
- Administrating 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 2015 operating, capital and utility budgets.

| | 2013 | 2014 | 2015 |
|---|-------------|-------------|-------------|
| Population Growth (per annum) | 1.82% | 2.05% | 2.17% |
| Capital construction costs (\$mil) ¹ | \$71.77 | \$193.23 | \$159.55 |
| City Grants Program | \$738,845 | \$760,735 | \$763,586 |
| Other Grants ² | \$1,395,307 | \$1,524,799 | \$1,597,959 |
| Registration in Recreation Programs | 126,410 | 141,175 | 134,786 |
| RCMP Calls for Services | 68,484 | 67,118 | 67,276 |
| Fire Rescue Responses | 9,710 | 9,643 | 10,326 |

¹ This figure represents the amended capital budget excluding internal transfers and debt repayment

² Other grants are in addition to the City Grant Program and include contributions towards Gateway Theatre, Richmond Center for Disability, Richmond Therapeutic Equestrian Society and various youth grants.

Conclusion

The City's prudent financial management has positioned it 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 good value for taxpayers.

The 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.

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.

The 2016 – 2020 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>

Consolidated Financial Statements of

CITY OF RICHMOND

Year ended December 31, 2015

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council

We have audited the accompanying consolidated financial statements of the City of Richmond, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of operations, changes in net financial assets, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City of Richmond as at December 31, 2015, and its consolidated results of operations, its changes in net consolidated financial assets, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

Date
Burnaby, Canada

DRAFT - May 4, 2016

CITY OF RICHMOND

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

December 31, 2015, with comparative figures for 2014

| | 2015 | 2014 (recast - note 3) |
|---|---------------------|------------------------------|
| Financial Assets | | |
| Cash and cash equivalents | \$ 21,800 | \$ 30,731 |
| Investments (note 4) | 929,590 | 833,964 |
| Accrued interest receivable | 6,287 | 5,363 |
| Accounts receivable (note 5) | 30,162 | 28,050 |
| Taxes receivable | 8,010 | 7,481 |
| Development fees receivable | 21,135 | 25,360 |
| Debt reserve fund - deposits (note 6) | 508 | 708 |
| | <u>1,017,492</u> | <u>931,657</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities (note 7) | 87,701 | 88,331 |
| Development cost charges (note 8) | 111,591 | 82,965 |
| Deposits and holdbacks (note 9) | 58,896 | 65,103 |
| Deferred revenue (note 10) | 48,711 | 41,823 |
| Debt, net of MFA sinking fund deposits (note 11) | 46,583 | 50,815 |
| | <u>353,482</u> | <u>329,037</u> |
| Net financial assets | 664,010 | 602,620 |
| Non-Financial Assets | | |
| Tangible capital assets (note 12) | 2,062,895 | 1,970,634 |
| Inventory of materials and supplies | 2,359 | 2,415 |
| Prepaid expenses | 1,930 | 1,971 |
| | <u>2,067,184</u> | <u>1,975,020</u> |
| Accumulated surplus (note 13) | <u>\$ 2,731,194</u> | <u>\$ 2,577,640</u> |

Commitments and contingencies (note 17)

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, 2015, with comparative figures for 2014

| | 2015 Budget (notes 2(m) and 23) | 2015 | 2014 (recast - note 3) |
|--|--|---------------------|------------------------------|
| Revenue: | | | |
| Taxation and levies | \$ 189,796 | \$ 189,136 | \$ 183,687 |
| Utility fees | 95,963 | 94,290 | 93,201 |
| Sales of services | 29,664 | 34,186 | 32,809 |
| Payments-in-lieu of taxes | 13,473 | 15,109 | 14,546 |
| Provincial and federal grants | 6,833 | 8,654 | 7,480 |
| Development cost charges | 23,828 | 17,818 | 18,765 |
| Other capital funding sources | 57,155 | 72,575 | 63,221 |
| Other revenues: | | | |
| Investment income | 16,821 | 16,303 | 16,568 |
| Gaming revenue | 18,030 | 19,555 | 21,047 |
| Licenses and permits | 7,874 | 10,747 | 9,819 |
| Other (note 20) | 8,904 | 48,755 | 35,194 |
| | <u>468,341</u> | <u>527,128</u> | <u>496,337</u> |
| Expenses: | | | |
| Law and community safety | 89,959 | 85,386 | 83,820 |
| Utilities: water, sewer and sanitation | 84,352 | 83,650 | 79,552 |
| Engineering, public works and project development | 58,128 | 56,294 | 55,899 |
| Community services | 54,370 | 68,246 | 65,137 |
| General government | 50,552 | 43,438 | 42,582 |
| Planning and development | 13,120 | 13,211 | 13,301 |
| Richmond Olympic Oval | 14,029 | 13,395 | 11,065 |
| Library services | 9,793 | 9,463 | 9,563 |
| Lulu Island Energy Company | 249 | 491 | 8 |
| | <u>374,552</u> | <u>373,574</u> | <u>360,927</u> |
| Annual surplus | 93,789 | 153,554 | 135,410 |
| Accumulated surplus, beginning of year | 2,577,640 | 2,577,640 | 2,442,230 |
| Accumulated surplus, end of year | <u>\$ 2,671,429</u> | <u>\$ 2,731,194</u> | <u>\$ 2,577,640</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, 2015, with comparative figures for 2014

| | 2015 Budget (notes 2(m) and 23) | 2015 | 2014 (recast - note 3) |
|--|---------------------------------------|------------|------------------------------|
| Surplus for the year | \$ 93,789 | \$ 153,554 | \$ 135,410 |
| Acquisition of tangible capital assets | (93,041) | (86,941) | (78,947) |
| Acquired tangible capital assets from developers | (55,000) | (61,807) | (55,388) |
| Amortization of tangible capital assets | 50,997 | 53,966 | 52,106 |
| Gain on disposal of tangible capital assets | - | (5,157) | (13,744) |
| Proceeds on sale of tangible capital assets | - | 7,678 | 14,615 |
| | (3,255) | 61,293 | 54,052 |
| Acquisition of inventories of supplies | - | (2,359) | (2,415) |
| Acquisition of prepaid expenses | - | (1,930) | (1,971) |
| Consumption of inventories of supplies | - | 2,415 | 2,363 |
| Use of prepaid expenses | - | 1,971 | 1,594 |
| Change in net financial assets | (3,255) | 61,390 | 53,623 |
| Net financial assets, beginning of year | 602,620 | 602,620 | 548,997 |
| Net financial assets, end of year | \$ 599,365 | \$ 664,010 | \$ 602,620 |

See accompanying notes to consolidated financial statements.

CITY OF RICHMOND

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

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

| | 2015 | 2014 |
|--|------------|----------------------|
| | | (recast - note 3) |
| Cash provided by (used in): | | |
| Operations: | | |
| Annual surplus | \$ 153,554 | \$ 135,410 |
| Items not involving cash: | | |
| Amortization | 53,966 | 52,106 |
| Gain on disposal of tangible capital assets | (5,157) | (13,744) |
| Contributions of tangible capital assets | (61,807) | (55,388) |
| Change in non-cash operating working capital: | | |
| Accrued interest receivable | (924) | (2,139) |
| Accounts receivable | (2,112) | (8,628) |
| Taxes receivable | (529) | 1,966 |
| Development fees receivable | 4,225 | (3,955) |
| Debt reserve fund - deposits | 200 | (508) |
| Prepaid expenses | 41 | (377) |
| Inventories of materials and supplies | 56 | (52) |
| Accounts payable and accrued liabilities | (608) | 5,157 |
| Deposits and holdbacks | (6,207) | 13,262 |
| Deferred revenue | 6,888 | 5,953 |
| Development cost charges | 28,626 | (4,247) |
| Net change in cash from operating activities | 170,212 | 124,816 |
| Capital activities: | | |
| Acquisition of tangible capital assets | (86,941) | (78,947) |
| Proceeds on disposal of tangible capital assets | 7,678 | 14,615 |
| Net change in cash from capital activities | (79,263) | (64,332) |
| Financing activities: | | |
| Increase (decrease) in debt | (4,232) | 49,759 |
| Principal payments on obligations under capital leases | (22) | (30) |
| Net change in cash from financing activities | (4,254) | 49,729 |
| Investing activities: | | |
| Net increase in investments | (95,626) | (126,528) |
| Net change in cash and cash equivalents | (8,931) | (16,315) |
| Cash and cash equivalents, beginning of year | 30,731 | 47,046 |
| Cash and cash equivalents, end of year | \$ 21,800 | \$ 30,731 |

See accompanying notes to consolidated financial statements.

CITY OF RICHMOND

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

Year ended December 31, 2015

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, environmental, recreational, water, and sewer.

2. Significant accounting policies:

These consolidated financial statements are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

(a) Basis of consolidation:

These 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"), the Richmond Olympic Oval (the "Oval") and the Lulu Island Energy Company Ltd. ("LIEC"). The Library is consolidated as the Library Board is appointed by the City. The Oval and LIEC are consolidated as they are wholly owned municipal corporations of the City and operate as other government organizations. Interfund transactions, fund balances and activities have been eliminated on consolidation.

(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 long-term 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 capital assets and long-term 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, 2015

2. Significant accounting policies (continued):

(b) Basis of accounting:

The City follows the accrual method of accounting for revenues and expenses. Revenues are recognized in the year in which they are 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. At various times during the term of each individual investment, market value may be less than cost. Such declines in value are considered temporary for investments with known maturity dates as they generally reverse as the investments mature and therefore an adjustment to market value for these market declines is not recorded.

(f) Accounts receivable:

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

(g) 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.

(h) 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.

CITY OF RICHMOND

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

Year ended December 31, 2015

2. Significant accounting policies (continued):

(i) 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:

Natural resources that have been purchased are not recognized as assets in the financial statements.

(iv) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

(v) Interest capitalization:

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

(vi) Labour capitalization:

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

CITY OF RICHMOND

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

Year ended December 31, 2015

2. Significant accounting policies (continued):

(i) Non-financial assets (continued):

(vii) 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.

(viii) Impairment of tangible capital assets:

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Company's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

(ix) 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.

(j) Revenue recognition:

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are 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 revenues.

(k) 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 or other related expenditures are incurred.

(k) 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 expenditures are incurred, deposits are recognized as revenue at amounts equal to the qualifying expenditures.

(l) Debt:

Debt is recorded net of related sinking fund balances.

CITY OF RICHMOND

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

Year ended December 31, 2015

2. Significant accounting policies (continued):

(m) Budget information:

Budget information, presented on a basis consistent with that used for actual results, was included in the City of Richmond's Five Year Financial Plan and was originally adopted through Bylaw No. 9220 on April 13, 2015.

(n) Contaminated Sites:

Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic or radioactive material or 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 standards;
- (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.

(o) Adoption of new accounting policy:

On January 1, 2015, the City adopted PS 3260 Liability for Contaminated Sites. The standard was applied on a prospective basis and resulted in the recognition of a liability of \$650,000 which has been included in accounts payable and accrued liabilities at December 31, 2015 and a corresponding increase in expenses for the year ending December 31, 2015.

(p) Use of accounting estimates:

The preparation of 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 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 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.

CITY OF RICHMOND

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

Year ended December 31, 2015

2. Significant accounting policies (continued):

(q) 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 of Richmond has provided definitions of segments used by the City as well as presented financial information in segment format (note 22).

(r) Public-private partnership projects:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. The cost of the assets under construction are estimated at fair value, based on construction progress billings and also includes other costs, if any, incurred directly by the City.

The asset cost includes development costs estimated at fair value. Interest during construction is not included in the asset cost. When available for operations, the project assets are amortized over their estimated useful lives. Correspondingly, an obligation for the cost of capital and financing received to date, net of the contributions received is recorded as a liability and included as debt on the statement of financial position.

3. Recast of prior year comparative figures:

(a) Tangible capital assets:

During the year, the City determined that certain net tangible capital assets had been omitted from its asset registers.

The impact of these immaterial errors has been recorded retrospectively and prior periods have been recast as follows:

Accumulated surplus at January 1, 2014:

| | |
|---|--------------|
| Accumulated surplus, as previously reported | \$ 2,430,252 |
| Net book value of tangible capital assets not previously recorded | 11,978 |
| Accumulated surplus, as recast | \$ 2,442,230 |

Annual surplus for 2014:

| | |
|---|------------|
| Annual surplus, as previously reported | \$ 123,856 |
| Developer contributions received in 2014, not previously recorded | 11,554 |
| Annual surplus, as recast | \$ 135,410 |

CITY OF RICHMOND

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

Year ended December 31, 2015

3. Recast of prior year comparative figures (continued):

(a) Tangible capital assets (continued):

Tangible capital assets at December 31, 2014:

| | |
|---|---------------------|
| Tangible capital assets, as previously reported | \$ 1,947,102 |
| Net book value of tangible capital assets not previously recorded | 23,532 |
| Tangible capital assets, as recast | \$ 1,970,634 |

(b) Cash equivalents:

During the year, the City determined that an adjustment was required to correct the classification of certain guaranteed investment certificates due to their highly liquid nature with a term to maturity of three months or less at the date of purchase.

The impact of these immaterial errors has been recorded retrospectively and prior periods have been recast as follows:

Cash and cash equivalents at December 31, 2014:

| | |
|--|------------------|
| Cash and cash equivalents, as previously reported | \$ 22,053 |
| Reclassification from investments to cash and cash equivalents | 8,678 |
| Cash and cash equivalents, as recast | \$ 30,731 |

Investments at December 31, 2014:

| | |
|--|-------------------|
| Investments, as previously reported | \$ 842,642 |
| Reclassification from investments to cash and cash equivalents | (8,678) |
| Investments, as recast | \$ 833,964 |

4. Investments:

| | 2015 | | 2014 (recast - note 3) | |
|---|-------------------|-------------------|------------------------|-------------------|
| | Cost | Market value | Cost | Market value |
| Short-term notes and deposits | \$ 360,081 | \$ 360,081 | \$ 290,059 | \$ 290,090 |
| Government and government guaranteed bonds | 220,228 | 227,567 | 261,847 | 265,941 |
| Municipal Finance Authority Pooled Investment | 43,212 | 43,212 | 22,527 | 22,527 |
| Other Bonds | 306,069 | 307,385 | 259,531 | 261,176 |
| | \$ 929,590 | \$ 938,245 | \$ 833,964 | \$ 839,734 |

CITY OF RICHMOND

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

Year ended December 31, 2015

5. Accounts receivable:

| | 2015 | 2014 |
|---------------------------|------------------|------------------|
| Water and sewer utilities | \$ 11,381 | \$ 10,358 |
| Casino revenues | 4,532 | 5,652 |
| Capital grant | 2,482 | 4,279 |
| Other trade receivables | 11,767 | 7,761 |
| | <u>\$ 30,162</u> | <u>\$ 28,050</u> |

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, 2015 are as follows:

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

7. Accounts payable and accrued liabilities:

| | 2015 | 2014 |
|------------------------------------|------------------|------------------|
| Trade and other liabilities | \$ 55,995 | \$ 57,576 |
| Post-employment benefits (note 15) | 31,706 | 30,755 |
| | <u>\$ 87,701</u> | <u>\$ 88,331</u> |

8. Development cost charges:

| | 2015 | 2014 |
|----------------------------|-------------------|------------------|
| Balance, beginning of year | \$ 82,965 | \$ 87,212 |
| Contributions | 44,934 | 13,313 |
| Interest | 1,510 | 1,205 |
| Revenue recognized | (17,818) | (18,765) |
| Balance, end of year | <u>\$ 111,591</u> | <u>\$ 82,965</u> |

CITY OF RICHMOND

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

Year ended December 31, 2015

9. Deposits and holdbacks:

| | Balance December 31, 2014 | Deposit contributions | Refund expenditures | Balance December 31, 2015 |
|-----------------------------------|---------------------------------|--------------------------|------------------------|---------------------------------|
| Security deposits | \$ 48,377 | \$ 16,662 | \$ 24,722 | \$ 40,317 |
| Developer contribution | 5,337 | 294 | 85 | 5,546 |
| Contract holdbacks | 1,968 | 4,114 | 3,273 | 2,809 |
| Transit Oriented Development Fund | 1,523 | - | - | 1,523 |
| Other | 7,898 | 22,638 | 21,835 | 8,701 |
| | \$ 65,103 | \$ 43,708 | \$ 49,915 | \$ 58,896 |

10. Deferred revenue:

Deferred revenue represents revenues that are collected but not earned as of December 31, 2015. These revenues will be recognized in future periods as they are earned. Deferred revenue also represents funds received from external parties for specified purposes. These revenues are recognized in the period in which the related expenses are incurred.

| | Balance December 31, 2014 | External restricted inflows | Revenue earned | Balance December 31, 2015 |
|------------------------------|---------------------------------|-----------------------------------|-------------------|---------------------------------|
| Taxes and Utilities | \$ 16,645 | \$ 19,370 | \$ 16,645 | \$ 19,370 |
| Building permits/development | 7,481 | 8,018 | 3,414 | 12,085 |
| Oval | 4,316 | 11,170 | 9,888 | 5,598 |
| Capital grants | 3,472 | 11,443 | 10,319 | 4,596 |
| Business licenses | 2,403 | 2,071 | 1,965 | 2,509 |
| Parking easement/leased land | 2,413 | 48 | 44 | 2,417 |
| Other | 5,093 | 3,353 | 6,310 | 2,136 |
| | \$ 41,823 | \$ 55,473 | \$ 48,585 | \$ 48,711 |

CITY OF RICHMOND

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

Year ended December 31, 2015

11. Debt:

The interest rate for the year ended December 31, 2015 on the principal amount of the MFA debentures was 3.30% per annum.

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 2015 | Net debt 2014 |
|--------------|-----------------------------|--|---------------------|---------------------|
| General Fund | \$ 50,815 | \$ 4,232 | \$ 46,583 | \$ 50,815 |

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

| | Total |
|------------|-----------|
| 2016 | \$ 4,402 |
| 2017 | 4,578 |
| 2018 | 4,761 |
| 2019 | 4,951 |
| 2020 | 5,149 |
| Thereafter | 22,742 |
| | \$ 46,583 |

CITY OF RICHMOND

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

Year ended December 31, 2015

12. Tangible capital assets:

| Cost | Balance at December 31, 2014 (recast - note 3) | Additions and transfers | Disposals | Balance at December 31, 2015 |
|---|--|----------------------------|-------------|------------------------------------|
| Land | \$ 747,290 | \$ 57,844 | \$ (1,489) | \$ 803,645 |
| Buildings and building improvements | 360,966 | 14,141 | (287) | 374,820 |
| Infrastructure | 1,585,726 | 63,885 | (5,405) | 1,644,206 |
| Vehicles, machinery and equipment | 98,059 | 15,116 | (3,055) | 110,120 |
| Library's collections, furniture and equipment | 9,259 | 1,618 | (1,207) | 9,670 |
| Assets under construction | 66,223 | (3,856) | - | 62,367 |
| | \$ 2,867,523 | \$ 148,748 | \$ (11,443) | \$ 3,004,828 |

| Accumulated amortization | Balance at December 31, 2014 (recast - note 3) | Disposals | Amortization expense | Balance at December 31, 2015 |
|---|--|------------|-------------------------|------------------------------------|
| Buildings and building improvements | \$ 128,204 | \$ (264) | \$ 13,740 | \$ 141,680 |
| Infrastructure | 700,368 | (4,471) | 32,220 | 728,117 |
| Vehicles, machinery and equipment | 63,494 | (3,028) | 6,339 | 66,805 |
| Library's collections, furniture and equipment | 4,823 | (1,159) | 1,667 | 5,331 |
| | \$ 896,889 | \$ (8,922) | \$ 53,966 | \$ 941,933 |

| | Net book value December 31, 2015 | Net book value December 31, 2014 (recast - note 3) |
|---|---|---|
| Land | \$ 803,645 | \$ 747,290 |
| Buildings and building improvements | 233,140 | 232,762 |
| Infrastructure | 916,089 | 885,358 |
| Vehicles, machinery and equipment | 43,315 | 34,565 |
| Library's collection, furniture and equipment | 4,339 | 4,436 |
| Assets under construction (a) | 62,367 | 66,223 |
| Balance, end of year | \$ 2,062,895 | \$ 1,970,634 |

CITY OF RICHMOND

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

Year ended December 31, 2015

12. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of approximately \$62,367,664 (2014 - \$66,223,263) 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 \$61,806,695 (2014 - \$55,388,435) comprised of infrastructure in the amount of \$10,874,576 (2014 - \$18,937,542), land in the amount of \$50,606,219 (2014 - \$36,450,893), and other assets in the amount of \$325,900 (2014 - nil).

(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 (2014 - nil).

CITY OF RICHMOND

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

Year ended December 31, 2015

13. Accumulated surplus:

| | General Funds and Reserve | Water Utility Fund | Sanitary Sewer Utility Fund | Richmond Olympic Oval | Library Services | Lulu Island Energy Co | 2015 Total | 2014 Total |
|---------------------------------------|---------------------------------|--------------------------|-----------------------------------|-----------------------------|------------------|-----------------------------|---------------------|----------------------|
| | | | | | | | | (recast - note 3) |
| Investment in tangible capital assets | \$ 2,041,691 | \$ - | \$ - | \$ 9,447 | \$ 4,341 | \$ - | \$ 2,055,479 | \$ 1,968,651 |
| Reserves (note 14) | 457,987 | - | - | 3,191 | - | - | 461,178 | 376,602 |
| Appropriated Surplus | 151,031 | 27,813 | 15,013 | 890 | 303 | - | 195,050 | 184,644 |
| Surplus | 9,567 | 244 | 6,200 | 502 | 201 | 551 | 17,265 | 45,410 |
| Other equity | 2,222 | - | - | - | - | - | 2,222 | 2,333 |
| Balance, end of year | \$ 2,662,498 | \$ 28,057 | \$ 21,213 | \$ 14,030 | \$ 4,845 | \$ 551 | \$ 2,731,194 | \$ 2,577,640 |

CITY OF RICHMOND

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

Year ended December 31, 2015

14. Reserves:

| | 2014 | Change during year | 2015 |
|---------------------------------------|-------------------|-----------------------|-------------------|
| Reserve funds: | | | |
| Affordable housing | \$ 12,551 | \$ 12,383 | \$ 24,934 |
| Arts, culture and heritage | 4,362 | 87 | 4,449 |
| Capital building and infrastructure | 55,651 | 4,761 | 60,412 |
| Capital reserve | 103,806 | 53,972 | 157,778 |
| Capstan station | 8,241 | 1,267 | 9,508 |
| Child care development | 2,201 | 134 | 2,335 |
| Community legacy and land replacement | 16,720 | 274 | 16,994 |
| Drainage improvement | 44,505 | 8,417 | 52,922 |
| Equipment replacement | 17,241 | (359) | 16,882 |
| Leisure facilities | 3,621 | 1,654 | 5,275 |
| Local improvements | 6,643 | 124 | 6,767 |
| Neighborhood improvement | 6,724 | 251 | 6,975 |
| Public art program | 2,554 | 502 | 3,056 |
| Sanitary sewer | 39,504 | 2,183 | 41,687 |
| Steveston off-street parking | 293 | 6 | 299 |
| Steveston road ends | 623 | (165) | 458 |
| Waterfront improvement | 659 | (17) | 642 |
| Watermain replacement | 46,375 | 239 | 46,614 |
| Oval | 4,328 | (1,137) | 3,191 |
| | \$ 376,602 | \$ 84,576 | \$ 461,178 |

15. Post-employment benefits:

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

| | 2015 | 2014 |
|--------------------------------|------------------|------------------|
| Balance, beginning of year | \$ 30,755 | \$ 30,042 |
| Current service cost | 1,924 | 1,791 |
| Interest cost | 912 | 1,054 |
| Amortization of actuarial loss | 93 | 430 |
| Benefits paid | (1,978) | (2,562) |
| Balance, end of year | \$ 31,706 | \$ 30,755 |

CITY OF RICHMOND

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

Year ended December 31, 2015

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, 2013 and the results are extrapolated to December 31, 2015. The difference between the actuarially determined accrued benefit obligation of approximately \$28,657,000 and the liability of approximately \$31,706,000 as at December 31, 2015 is an unamortized net actuarial gain of \$3,049,000. This actuarial gain is being amortized over a period equal to the employees' average remaining service lifetime of 10 years.

| | 2015 | 2014 |
|-----------------------------------|-----------|-----------|
| Actuarial benefit obligation: | | |
| Liability, end of year | \$ 31,706 | \$ 30,755 |
| Unamortized actuarial loss (gain) | (3,049) | (1,554) |
| Balance, end of year | \$ 28,657 | \$ 29,201 |

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

| | 2015 | 2014 |
|------------------------------------|-------|-------|
| Discount rate | 3.10% | 3.10% |
| Expected future inflation rate | 2.00% | 2.00% |
| Expected wage and salary increases | 2.50% | 2.50% |

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, 2014, the plan has about 185,000 active members and approximately 80,000 retired members. Active members include approximately 37,000 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, 2015

16. Pension plan (continued):

The most recent valuation for the Municipal Pension Plan as at December 31, 2012, indicated a \$1,370 million funding deficit for basic pension benefits on a going concern basis.

The next valuation will be as at December 31, 2015, with results available in 2016.

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.

The City paid \$11,766,393 (2014 - \$10,649,936) for employer contributions while employees contributed \$9,736,747 (2014 - \$8,780,321) to the plan in fiscal 2015.

17. 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:

In addition to the obligations under capital leases, at December 31, 2015, the City was committed to operating lease payments for premises and equipment in the following approximate amounts:

| | | |
|---------------------|----|--------|
| 2016 | \$ | 5,016 |
| 2017 | | 4,484 |
| 2018 | | 4,243 |
| 2019 | | 3,601 |
| 2020 and thereafter | | 19,704 |

(c) Litigation:

As at December 31, 2015, 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.

CITY OF RICHMOND

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

Year ended December 31, 2015

17. Commitments and contingencies:

(d) Municipal Insurance Association of British Columbia:

The City is a participant in the Municipal Insurance Association of British Columbia (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.

On October 30, 2014, Lulu Island Energy Company Ltd. ("LIEC") and Corix Utilities Inc. ("Corix") entered into a 30 year Concession Agreement (the "Agreement"), where Corix 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 the Corporation.

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

The City is a shareholder of the Emergency Communications for Southwest British Columbia Incorporated ("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 28 Class A and 23 Class B shares issued and outstanding as at December 31, 2015). 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 a close relationship with the various community associations which operate the community centers throughout the City. While they are separate legal entities, the City does generally provide the buildings and grounds for the use of the community associations as well as pay the operating costs of the facilities. Typically the community associations are responsible for providing programming and services to the community. The community associations retain all revenue which they receive. The City provides the core staff for the facilities as well as certain additional services such as information technology services.

CITY OF RICHMOND

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

Year ended December 31, 2015

18. 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 financial statements.

| | 2015 | 2014 |
|---------------------------------|----------|----------|
| Richmond Community Associations | \$ 1,248 | \$ 1,127 |

19. Collections for other governments:

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

| | 2015 | 2014 |
|--|------------|------------|
| Province of British Columbia - Schools | \$ 146,405 | \$ 134,272 |
| Greater Vancouver Regional District and others | 41,772 | 41,131 |
| | \$ 188,177 | \$ 175,403 |

20. Other revenue:

| | 2015 | 2014 |
|--|-----------|-----------|
| Developer contributions | \$ 29,648 | \$ 10,382 |
| Tangible capital assets net gain on land | 5,912 | 14,419 |
| Taxes and fines | 3,350 | 2,844 |
| Parking program | 2,108 | 1,932 |
| Other | 7,737 | 5,617 |
| | \$ 48,755 | \$ 35,194 |

CITY OF RICHMOND

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

Year ended December 31, 2015

21. 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:

| | 2015 | 2014 |
|----------------------|-----------|-----------|
| Operating | | |
| Province of BC | \$ 24,553 | \$ 25,161 |
| TransLink | 2,329 | 2,200 |
| Government of Canada | 1,327 | 1,166 |
| Capital | | |
| Government of Canada | 3,098 | 2,742 |
| TransLink | 76 | 1,292 |
| Province of BC | 474 | 459 |
| | \$ 31,857 | \$ 33,020 |

22. Segmented reporting:

The City of Richmond 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:

Law and Community Safety brings together the City's public safety providers such as Police (RCMP), Fire-Rescue, Emergency Programs, and Community Bylaws along with sections responsible for legal and regulatory matters. It is responsible for ensuring safe communities by providing protection services with a focus on law enforcement, crime prevention, emergency response, protection of life and properties, and legal services.

Utilities provide such services as planning, designing, constructing, operating, and maintaining the City's infrastructure of water and sewer networks and sanitation and recycling.

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.

CITY OF RICHMOND

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

Year ended December 31, 2015

22. Segmented reporting (continued):

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.

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, providing sound management of human resources, information technology, City finance, and ensuring high quality services to Richmond residents.

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.

Richmond Olympic Oval 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. The financial statements include the Oval's 50% proportionate share of operations of VROX Sport Simulation Ltd ("VROX"). VROX is a government partnership established to develop, manufacture and sell sport simulators to the Oval and third party customers, as well as to maintain the simulators for the Oval.

Richmond Public Library provides public access to information by maintaining 5 branches throughout the City.

Lulu Island Energy Company Ltd. ("LIEC") was incorporated on August 19, 2013 under the Business Corporations Act of British Columbia as a municipal corporation wholly-owned by the City of Richmond for the management of district energy utilities.

CITY OF RICHMOND

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

Year ended December 31, 2015

22. Segmented reporting (continued):

| | Law and Community Safety | Utilities | Engineering, public works and project development | Community services | General government | Planning and development | Total City |
|---|--------------------------------|-----------|--|-----------------------|-----------------------|--------------------------------|------------|
| Revenues: | | | | | | | |
| Taxation and levies | \$ - | \$ - | \$ - | \$ - | \$ 189,136 | \$ - | \$ 189,136 |
| Utility fees | - | 82,628 | 11,484 | - | - | - | 94,112 |
| Sales of services | 5,408 | 3,138 | 3,212 | 9,213 | 3,921 | 1,511 | 26,403 |
| Payments-in-lieu of taxes | - | - | - | - | 15,109 | - | 15,109 |
| Provincial and federal grants | 96 | 16 | 2,506 | 91 | 3,057 | 13 | 5,779 |
| Development cost charges | - | 938 | 4,927 | 6,084 | 5,173 | 696 | 17,818 |
| Other capital funding sources | - | 828 | 15,739 | 1,623 | 53,057 | 508 | 71,755 |
| Other revenue from own sources: | - | - | - | - | - | - | - |
| Investment income | - | 592 | - | - | 15,711 | - | 16,303 |
| Gaming revenue | 642 | - | - | - | 18,913 | - | 19,555 |
| Licenses and permits | 299 | - | 101 | - | 3,770 | 6,556 | 10,726 |
| Other | 2,534 | 2,559 | 338 | 502 | 40,295 | 65 | 46,293 |
| | 8,979 | 90,699 | 38,307 | 17,513 | 348,142 | 9,349 | 512,989 |
| Expenses: | | | | | | | |
| Wages and salaries | 40,163 | 12,452 | 20,894 | 29,047 | 20,849 | 10,147 | 133,552 |
| PW maintenance | 30 | 6,268 | 8,156 | 2,079 | (1,330) | 89 | 15,292 |
| Contract services | 40,096 | 8,188 | 2,277 | 2,885 | 3,738 | 1,099 | 58,283 |
| Supplies and materials | 2,469 | 27,442 | 633 | 11,788 | 6,975 | 523 | 49,830 |
| Interest and finance | 40 | 19,064 | - | 1 | 2,243 | - | 21,348 |
| Transfer from(to) capital for tangible capital assets | 9 | 2,025 | 976 | 15,946 | 339 | 260 | 19,555 |
| Amortization of tangible capital assets | 2,571 | 7,661 | 23,436 | 6,258 | 10,623 | 1,076 | 51,625 |
| Loss on disposal of tangible capital assets | 8 | 550 | (78) | 242 | 1 | 17 | 740 |
| | 85,386 | 83,650 | 56,294 | 68,246 | 43,438 | 13,211 | 350,225 |
| Annual surplus (deficit) | \$ (76,407) | \$ 7,049 | \$ (17,987) | \$ (50,733) | \$ 304,704 | \$ (3,862) | \$ 162,764 |

CITY OF RICHMOND

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

Year ended December 31, 2015

22. Segmented reporting (continued):

| | Total City (from above) | Richmond Olympic Oval | Richmond Public Library | Lulu Island Energy Company | 2015 Consolidated | 2014 Consolidated (recast - note 3) |
|---|----------------------------|--------------------------|----------------------------|----------------------------------|----------------------|--|
| Revenues: | | | | | | |
| Taxation and levies | \$ 189,136 | \$ - | \$ - | \$ - | \$ 189,136 | \$ 183,687 |
| Utility fees | 94,112 | - | - | 178 | 94,290 | 93,201 |
| Sales of services | 26,403 | 7,643 | 140 | - | 34,186 | 32,809 |
| Payments-in-lieu of taxes | 15,109 | - | - | - | 15,109 | 14,546 |
| Provincial and federal grants | 5,779 | 2,464 | 411 | - | 8,654 | 7,480 |
| Development cost charges | 17,818 | - | - | - | 17,818 | 18,765 |
| Other capital funding sources | 71,755 | - | - | 820 | 72,575 | 63,221 |
| Other revenue from own sources: | | | | | - | |
| Investment income | 16,303 | - | - | - | 16,303 | 16,568 |
| Gaming revenue | 19,555 | - | - | - | 19,555 | 21,047 |
| Licenses and permits | 10,726 | - | - | 21 | 10,747 | 9,819 |
| Other | 46,293 | 2,223 | 239 | - | 48,755 | 35,194 |
| | 512,989 | 12,330 | 790 | 1,019 | 527,128 | 496,337 |
| Expenses: | | | | | | |
| Wages and salaries | 133,552 | 7,868 | 6,576 | - | 147,996 | 142,169 |
| PW maintenance | 15,292 | - | 2 | - | 15,294 | 14,548 |
| Contract services | 58,283 | 112 | 425 | 345 | 59,165 | 58,121 |
| Supplies and materials | 49,830 | 4,809 | 971 | 48 | 55,658 | 53,749 |
| Interest and finance | 21,348 | - | 13 | 30 | 21,391 | 21,367 |
| Transfer from(to) capital for tangible capital assets | 19,555 | - | (206) | - | 19,349 | 18,192 |
| Amortization of tangible capital assets | 51,625 | 606 | 1,667 | 68 | 53,966 | 52,106 |
| Loss on disposal of tangible capital assets | 740 | - | 15 | - | 755 | 675 |
| | 350,225 | 13,395 | 9,463 | 491 | 373,574 | 360,927 |
| Annual surplus (deficit) | \$ 162,764 | \$ (1,065) | \$ (8,673) | \$ 528 | \$ 153,554 | \$ 135,410 |

CITY OF RICHMOND

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

Year ended December 31, 2015

23. Budget data:

The audited budget data presented in these consolidated financial statements is based on the 2015 operating and capital budgets approved by Council on April 13, 2015 and approved budget for Richmond Public Library, Richmond Olympic Oval and Lulu Island Energy Company. Below is the reconciliation of the approved budget to the budget amount reported in these financial statements.

| | Budget Amount |
|---|------------------|
| Revenues: | |
| Approved Operating and Utility Budget | \$ 438,331 |
| Approved Capital Budget | 407,216 |
| Approved Oval Budget | 14,811 |
| Approved Library Budget | 9,600 |
| Approved LIEC Budget | 1,268 |
| Less: | |
| Transfer from other funds | 64,645 |
| Intercity recoveries | - |
| Intercompany recoveries | 12,007 |
| Capital Transfer from Other Funds and Reserves | 67,058 |
| Carried forward capital expenditures | 259,175 |
| Total revenue | 468,341 |
| Expenses: | |
| Approved Operating and Utility Budget | 438,331 |
| Approved Capital Budget | 408,204 |
| Approved Oval Budget | 14,029 |
| Approved Library Budget | 9,793 |
| Approved LIEC Budget | 249 |
| Less: | |
| Transfer to other funds | 71,611 |
| Intercity payments | - |
| Intercompany payments | 12,007 |
| Capital expenditures | 93,041 |
| Capital expenditures - Developer contributed assets | 55,988 |
| Debt principal payments | 4,232 |
| Carried forward capital expenditures | 259,175 |
| Total expenses | 374,552 |
| Annual surplus per statement of operations | \$ 93,789 |