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AUDIT FINDINGS LETTER

PRIVATE & CONFIDENTIAL
Finance Committee
City of Richmond
6911 No. 3 Road
Richmond BC V6Y 2C1

April 20, 2016

To: Chair and Members of the Finance Committee of City of Richmond

We are pleased to provide the following information for your review and consideration in order to assist you in carrying out your responsibilities with respect to the review and recommendation to Council of the audited consolidated financial statements of the City of Richmond (the "City") for the year ended December 31, 2015. A summary of the information provided is as follows:

Description

- Audit status and opinion
- Significant audit, accounting and reporting matters
- Significant qualitative aspects of accounting practices
- Misstatements
- Control deficiencies
- Documents containing or referring to the audited financial statements
- Confirmation of independence
- Current developments

This report is intended to communicate to you the results of our examination. We would be pleased to receive any comments or suggestions for improvements, which you may have.

We would like to thank the staff of the City for their cooperation and assistance during the course of our audit fieldwork. We appreciate the opportunity to serve you and look forward to a continuing relationship.

This letter is for the use of the Finance Committee for the purposes of carrying out and discharging its responsibilities and exercising oversight over our audit. This letter should not be used for any other purpose or by anyone other than the Finance Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this document has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

C.J. James, CPA, CA
Engagement Partner
(604) 527-3635

Archie G. Johnston, FCPA, FCA, CIA
Client Relationship and Quality Review Partner
(604) 527-3757

Enclosures:
Appendix 1 - Management representation letter

AUDIT STATUS AND OPINION

As of the date of this letter, we have completed our audit of the consolidated financial statements with the exception of the following procedures:

- completing our discussion with the Finance Committee
- subsequent event updates to the date of our auditors' report;
- obtaining the signed management representation letter as of the date of the auditors' report;
- obtaining evidence that those with approved authority to take responsibility for the City's consolidated financial statements have done so.

We will update the Finance Committee on any significant matters arising from the completion of the above procedures, as additional procedures or adjustments to the financial statements may be necessary.

Our audit report will be dated no earlier than the date on which we have obtained sufficient appropriate audit evidence on which to base our audit opinion on the consolidated financial statements, including evidence that:

- all the statements that comprise the financial statements, including the related notes, have been prepared;
- Council has accepted the consolidated financial statements.

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

Liability for Contaminated Sites

The new accounting standard PS3260 *Liability for Contaminated Sites* was effective for the City's December 31, 2015 year-end. This accounting standard requires the City to recognize any liabilities for remediation of contaminated sites provided certain criteria are met.

We reviewed the approved contaminated sites policy prepared by management to identify contaminated sites and performed a detailed walkthrough to ensure the policy was being followed for each City owned site. We determined the policy was appropriate and correctly applied for the analysis of contaminated sites.

Management completed its assessment of contaminated sites and recognized a liability of $650,000 in estimated remediation costs. We reviewed the third party environmental assessment reports supporting this estimate, and concur with management's conclusions. We also ensured that appropriate note disclosures have been added to the consolidated financial statements for the adoption of the new accounting standard.

Recast of prior year comparative figures

During the land reconciliation process as part of its contaminated sites assessment, the City identified certain developer-contributed land from prior years that were not recorded on its consolidated financial statements. The City also identified certain Rights of Way that should not have been previously recorded as tangible capital assets. The net impact of these items was an immaterial understatement of 2014 tangible capital assets, annual surplus, and opening accumulated surplus. Accordingly, management has recorded the impact of these immaterial errors retrospectively and recast the comparative figures on the consolidated financial statements. Note 3 of the consolidated financial statements describe the details of these adjustments. We reviewed management's analysis, including testing a sample of the revisions, and concur with management's assessment. We also ensured that appropriate note disclosures have been made to indicate the impact of the errors on 2014 tangible capital assets, annual surplus, and opening accumulated surplus.

We recommend that on a go-forward basis, management develop a process to ensure that any land contributions and disposals are communicated internally on a timely basis and thus appropriately recorded on the consolidated financial statements.

In addition, the City also recast its 2014 comparative figures by reclassifying $8,678,000 from investments to cash and cash equivalents, relating to certain guaranteed investment certificates held by the Richmond Olympic Oval Corporation that had a term to maturity of three months or less at the date of purchase. We reviewed the adjustments made by management and the related disclosures and found them to be appropriate.

Concession agreement with Corix Utilities Inc. (Corix)

On October 30, 2014, the Lulu Island Energy Company Ltd. ("LIEC") and 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. The total estimated concession liability to finance the construction is $30,909,000 and will be accrued over time. The concession liability balance outstanding as of December 31, 2015 is $3,926,000, of which $38,000 represents interest.

In addition, on October 30, 2014, Corix and the City entered into a Limited Guarantee Agreement. The City is the Guarantor and agreed to guarantee the performance of LIEC's obligations under the Concession Agreement described above up to a total of $18.2 million.

We reviewed the limited guarantee agreements and the concession agreement and noted that all related liabilities relating to the concession agreement have been properly recorded and disclosed in the financial statements. We did not note that indicators that LIEC would default on its concession liability, and as such, the City has not recognized any liabilities associated with the limited guarantee agreement.

Significant Qualitative aspects of accounting practices

The following are the significant qualitative aspects of accounting practices:

Significant accounting policies	• Critical accounting policies and practices adopted by the City are appropriate and properly disclosed in the consolidated financial statements. • There were no significant changes in accounting policies during 2015, other than the adoption of *PS 3260 Liability for Contaminated Sites*. • There are no significant accounting policies in controversial or emerging areas. • The transactions were correctly recorded in relation to the period in which they are related to. • There were no significant unusual transactions undertaken during the year.
Significant accounting estimates	• Management's identification of accounting estimates and process for making such accounting estimates are appropriate. • There were no indicators of possible management bias noted during our audit. • Disclosure of estimation uncertainty in the consolidated financial statements is appropriate.
Significant disclosures	• There are no particularly sensitive financial statement disclosures. • The disclosures in the consolidated financial statements are consistent and clear. Any potential effect on the consolidated financial statements of significant risks, exposures and uncertainties have been appropriately disclosed.

Misstatements

Audit Misstatements – Identification

Misstatements identified during the audit have been categorized as follows:

– uncorrected audit misstatements, including disclosures, and
– corrected audit misstatements, including disclosures.

Uncorrected Audit Misstatements

There were no uncorrected audit misstatements noted from the audit.

Corrected Audit Misstatements

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the consolidated financial statements.

CONTROL DEFICIENCIES

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described in the preceding paragraph and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Identification

We did not identify any control deficiencies that we consider to be significant deficiencies in ICFR.

DOCUMENTS CONTAINING OR REFERRING TO THE AUDITED FINANCIAL STATEMENTS

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the City within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2015 up to the date of this letter.

CURRENT DEVELOPMENTS

Related Party Disclosures and Inter-Entity Transactions

- Two new Handbook sections were approved in December 2014, effective for fiscal years beginning on or after April 1, 2017.
- Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity

- Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
- Determining which related party transactions to disclose is a matter of judgment based on assessment of:
  - the terms and conditions underlying the transactions;
  - the financial significance of the transactions;
  - the relevance of the information; and
  - the need for the information to enable users' understanding of the financial statements and for making comparisons.
- A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.
- Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

Assets, Contingent Assets, and Contractual Rights

- Three new Handbook sections were approved in March 2015, effective for fiscal years beginning on or after April 1, 2017.
- The intended outcome of the three new Handbook Sections is improved consistency and comparability.
- The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity.
- Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.

Revenue

- PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and comments are currently under deliberation.
- A request for information is under development and expected for release in 2016. Adoption of these principles would result in a need to assess current accounting policies.
- In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
- For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Retirement obligations

- A new standard is under development addressing the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use.

Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB current contains no specific guidance in this area.

- In August 2014, a Statement of Principles was issued with responses and feedback solicited by November 2014.
- PSAB is currently deliberating responses and an exposure draft is under development, expected for release in the 2016.

Conceptual Framework

- A consultation paper was issued on the conceptual framework and closed in August 2015. A Statement of Principles anticipated in 2016 which includes a number of presentation recommendations to enhance accountability objective of public sector financial statements.
- A new "Statement of Comprehensive Financial Results" replaces the Statement of Operations and Statement of Remeasurement Gains and Losses.
- Revenues and expenses to be grouped to show the net results of services.
- Below net results of services, non-operating items presented such as: grants recognized for the acquisition of tangible capital assets, unrealized remeasurement gains and losses, and unusual transactions.
- Grants received for the purpose of a tangible capital asset used to provide services for a defined number of years proposed to be recognized in operating revenue as the liability is settled.

Financial Instruments

- Effective for governments for fiscal years beginning on or after April 1, 2019.
- This standard requires that all financial instruments that are equity instruments and trade in an active market or derivatives be recorded at fair value.
- The standard requires that all other financial instruments are recorded at cost but permits the option of fair value for any financial instruments that are managed and reported at fair value.
- This standard also includes a requirement to identify and report embedded derivatives separate from the host contract with an option to value the full contract which includes the embedded derivatives at fair value.

APPENDIX 1 – MANAGEMENT REPRESENTATION LETTER

KPMG LLP
Chartered Professional Accountants
Metrotower I
Suite 2400 – 4710 Kingsway
Burnaby, BC V5H 4M2

Date of approval of financial statements

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of the City of Richmond ("the City") as at and for the period ended December 31, 2015.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 4, 2013, for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework

   b) providing you with all relevant information, such as all financial records and related data, including the names of all related parties and information regarding all relationships and transactions with related parties, and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and Committees of Council that may affect the financial statements, and access to such relevant information

   c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

   d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

   a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

   b) all information in relation to fraud or suspected fraud that we are aware of and that affects the City and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements

   c) all information in relation to allegations of fraud, or suspected fraud, affecting the City's financial statements, communicated by employees, former employees, analysts, regulators, or others

   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements

   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

COMMITMENTS & CONTINGENCIES:

4) There are no:

   a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation

   b) guarantees, whether written or oral, under which the City is contingently liable.

SUBSEQUENT EVENTS:

5) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

6) We have disclosed to you the identity of the City's related parties.

7) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

8) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

9) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

10) Significant estimates, which could change materially within the near term, and all areas of measurement uncertainty have been properly recorded or disclosed in the financial statements.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

11) We confirm that the City is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the City will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

MISSTATEMENTS:

12) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

ASSETS & LIABILITIES - GENERAL:

13) The City has satisfactory title to all owned assets.

14) We have no knowledge of any liens or encumbrances on assets and /or assets that have been pledged or assigned as security for liabilities, performances of contracts, etc., not disclosed in the financial statements.

15) We have no knowledge of any plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

RECEIVABLES:

16) Receivables reported in the financial statements represent valid claims against taxpayers and other debtors for taxes, fees or other charges arising on or before the balance sheet date. Receivables have been appropriately recorded at their net realizable value.

CONTRACTUAL AGREEMENTS:

17) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

ENVIRONMENTAL MATTERS:

18) The City has appropriately recognized, measured and disclosed environmental matters in the financial statements.

EMPLOYEE FUTURE BENEFITS:

19) The employee future benefit costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

20) We have no knowledge of arrangement (contractual or otherwise) by which programs have been established to provide post-employment benefits, except as disclosed to you.

21) The significant accounting policies the City has adopted in applying PS 3255, Post-employment benefits, compensated absences and termination benefits (hereinafter referred to as "PS 3255") are disclosed in notes to the financial statements.

22) All arrangements (contractual or otherwise) by which programs have been established to provide post-employment benefits have been disclosed to you and included in the determination of pension and post-employment costs and obligations. This includes:

   a) pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries.

   b) post-employment benefits expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include unused sick leave and severance benefits.

   c) compensated absences for which it is expected employees will be paid. These benefits include accumulating sick days; and

   d) termination benefits.

23) The post-employment benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with PS 3255. In particular:

a) each of the best estimate assumptions used reflects management's judgment of the most likely set of conditions affecting future events; and

b) the best estimate assumptions used are, as a whole, consistent within themselves, and with the valuation method adopted for purposes of this evaluation.

24) The assumptions included in the actuarial valuation are those that management instructed Mercer Human Resource Consulting ("Mercer") to use in computing amounts to be used by us in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3255.

25) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.

26) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

27) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension and other post-employment benefit costs.

28) We agree with Mercer's findings in evaluating the accuracy and completeness of employee future benefits and have adequately considered their qualifications in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give nor cause any instructions to be given to Mercer with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on Mercer's independence and objectivity.

COMPARATIVE INFORMATION:

29) In respect of the recasts related to tangible capital assets and cash equivalents adjustments made to correct immaterial misstatements in the comparative information, we reaffirm that the written representations we previously provided to you, in respect of the prior period financial statements, remain appropriate.

OTHER:

30) We have appropriately prepared the Form C2 – Home Owner Grant: Treasurer/Auditor Certification in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act.

31) We have complied with subsection 2 and 3 section 124 of Part 8 of the School Act for the year ended December 31, 2015.

32) All transfers out of statutory reserves have been approved by bylaw except for those transfers allowed by Council resolution.

Yours very truly,

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Andrew Nazareth, General Manager, Finance & Corporate Services

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Jerry Chong, Director of Finance

We have the recognized authority to take, and assert that we have taken, responsibility for the financial statements

cc: Finance Committee

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Public Sector Accounting Standards, a *related party* is defined as:

- exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

In accordance with Public Sector Accounting Standards, a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II – Summary of Audit Misstatements Schedule(s)

Summary of Corrected audit misstatements

Ref	Description	Assets Increase/ (Decrease)	Liabilities Decrease/ (Increase)	Annual Surplus Decrease/ (Increase)	Opening Accumulated Surplus Decrease/ (Increase)
1	Dr. Cash equivalents	8,631,723	-	-	-
	Cr. Investments	(8,631,723)	-	-	-
	Dr. Cash equivalents – 2014 (recast)	8,677,855	-	-	-
	Cr. Investments – 2014 (recast)	(8,677,855)	-	-	-
	To reclassify short term investments as cash equivalents.				
2	Dr. Tangible capital assets – 2014 (recast)	23,532,000	-	-	-
	Cr. Annual surplus – 2014 (recast)	-	-	-	(11,554,000)
	Cr. Opening accumulated surplus – 2014 (recast)	-			(11,978,000)
	To recast prior year tangible capital assets and corresponding impact on annual surplus and accumulated surplus related to previously unrecorded developer contributions.				
	Total	23,532,000	-	-	(23,532,000)

Summary of Uncorrected audit misstatements

There were no uncorrected audit misstatements for the year ended December 31, 2015.