



Finance Committee

**Anderson Room, City Hall
6911 No. 3 Road**

Monday, November 7, 2016

**Immediately following the Open General Purposes Committee
meeting**

Pg. # ITEM

MINUTES

FIN-3 *Motion to adopt the **minutes** of the meeting of the Finance Committee held on October 3, 2016.*



RICHMOND PUBLIC LIBRARY

1. **IMPACTS OF PROPOSED LIBRARY BUDGET INCREASES**
(File Ref. No. 03-0970-25-2016-01) (REDMS No. 5206633)

FIN-5

See Page FIN-5 for full report

Designated Speaker: Greg Buss

STAFF RECOMMENDATION

- (1) *That the staff report titled “Impacts of Proposed Library Budget Increases” dated October 28, 2016 from the Director, Finance be received for information; and*

- (2) *That the Richmond Public Library Board be requested to submit a same level of service budget for 2017 that maintains current levels of service, while limiting the increase in the municipal contributions to 2.1%, consistent with the Long Term Financial Management Strategy; and*
- (3) *That the impact of additional levels of service proposed by the Richmond Public Library be considered in the 2017 Budget process.*

☐

FINANCE AND CORPORATE SERVICES DIVISION

2. **RESERVE FUNDS UPDATE 2016**

(File Ref. No. 03-0900-01) (REDMS No. 5193273 v. 3)

FIN-29

[See Page FIN-29 for full report](#)

Designated Speaker: Cindy Gilfillan

STAFF RECOMMENDATION

That the staff report titled, “Reserve Funds Update 2016,” dated October 13, 2016 from the Director, Finance be received for information.

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3. **2016 AUDIT ENGAGEMENT**

(File Ref. No. 03-0905-01) (REDMS No. 5195303 v. 2; 5195457; 5195459)

FIN-48

[See Page FIN-48 for full report](#)

Designated Speaker: Cindy Gilfillan

STAFF RECOMMENDATION

That the 2016 Audit Planning Letter from KPMG, LLP, dated October 13, 2016, as provided in Attachment 1 of the staff report titled, “2016 Audit Engagement,” dated October 14, 2016, from the Director, Finance, be received for information.

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ADJOURNMENT

☐



Finance Committee

Date: Monday, October 3, 2016

Place: Anderson Room
Richmond City Hall

Present: Mayor Malcolm D. Brodie, Chair
Councillor Chak Au
Councillor Derek Dang
Councillor Ken Johnston
Councillor Alexa Loo
Councillor Bill McNulty
Councillor Linda McPhail
Councillor Harold Steves

Absent: Councillor Carol Day

Call to Order: The Chair called the meeting to order at 5:29 p.m.

MINUTES

It was moved and seconded

That the minutes of the meeting of the Finance Committee held on September 6, 2016, be adopted as circulated.

CARRIED

FINANCE AND CORPORATE SERVICES DIVISION

1. **PERMISSIVE EXEMPTION (2017) BYLAW NO. 9575**
(File Ref. No. 03-0925-02-01; 12-8060-20-009575) (REDMS No. 5032619 v. 2; 5032669)

It was moved and seconded

That Permissive Exemption (2017) Bylaw No. 9575 be introduced and given first, second and third readings.

CARRIED

Finance Committee
Monday, October 3, 2016

2. CONSOLIDATED FEES BYLAW NO. 8636, AMENDMENT BYLAW NO. 9602

(File Ref. No. 03-1240-01; 12-8060-20-009602) (REDMS No. 5123332 v. 2; 5159854 v. 2)

It was moved and seconded

That Consolidated Fees Bylaw No. 8636, Amendment Bylaw No. 9602 be introduced and given first, second and third readings.

CARRIED

3. AMENDMENTS TO THE 5 YEAR CONSOLIDATED FINANCIAL PLAN (2016-2020) BYLAW 9521

(File Ref. No. 03-0970-01; 12-8060-20-009616) (REDMS No. 5163436 v. 7; 5162264 v. 5)

It was moved and seconded

That the 5 Year Consolidated Financial Plan (2016-2020) Bylaw 9521, Amendment Bylaw 9616, which would incorporate and put into effect changes previously approved by Council and changes to the 2016 Capital, Utility and Operating Budgets, be introduced and given first, second and third readings.

CARRIED

ADJOURNMENT

It was moved and seconded

That the meeting adjourn (5:30 p.m.).

CARRIED

Certified a true and correct copy of the Minutes of the meeting of the Finance Committee of the Council of the City of Richmond held on Monday, October 3, 2016.

Mayor Malcolm D. Brodie
Chair

Amanda Welby
Acting Legislative Services Coordinator



City of Richmond

Report to Committee

To: Finance Committee

Date: October 28, 2016

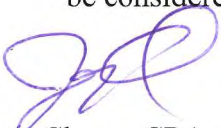
From: Jerry Chong, CPA, CA
Director, Finance

File: 03-0970-25-2016-
01/2016-Vol 01



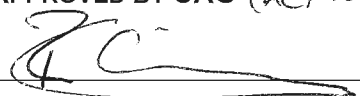
Re: Impacts of Proposed Library Budget Increases

Staff Recommendation

1. That the staff report titled "Impacts of Proposed Library Budget Increases" dated October 28, 2016 from the Director, Finance be received for information; and
2. That the Richmond Public Library Board be requested to submit a same level of service budget for 2017 that maintains current levels of service, while limiting the increase in the municipal contributions to 2.1%, consistent with the Long Term Financial Management Strategy; and
3. That the impact of additional levels of service proposed by the Richmond Public Library be considered in the 2017 Budget process.


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

App. 1

REPORT CONCURRENCE		
ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER
Arts, Culture & Heritage	<input checked="" type="checkbox"/>	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS: 	APPROVED BY CAO (ACTING): 

Staff Report

Origin

At the Finance Committee meeting held on July 4, 2016 the “Update on Richmond Public Library Strategies to Reduce Expenses and Increase Revenue” report was presented. These strategies were developed as a result of a Council referral arising from the 2015 budget.

Under Section 10 of the *Library Act*, the Richmond Public Library is required to submit its annual budget to Council on or before March 1 in each year and the municipal Council must approve, with or without amendment, the budget submitted. Council must include the approved municipal contribution, to balance the library’s budget, in the municipality’s annual budget.

This report is in response to the following Committee referrals:

(2) That staff explore the impacts of adding a minimum of \$1 per capita to the library budget;

(3) That staff provide an analysis on borrowing limits; and

(4) That staff provide an analysis of municipal services that municipal libraries should and currently provide.

The response to all three referrals provided by library staff is included as Appendix 1. This report provides the tax impact of the increased funding requested by the library.

This report supports Council’s 2014-2018 Term Goal #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.

7.1. Relevant and effective budget processes and policies.

7.2. Well-informed and sustainable financial decision making.

7.3. Transparent financial decisions that are appropriately communicated to the public.

7.4. Strategic financial opportunities are optimized.

Analysis

2016 Municipal Contribution to the Library

In 2016, the City’s Operating Budget includes a Municipal Contribution to fund library operations of \$8,744,000. This means 91.6% of the libraries operations are funded through property taxes. The remaining funding comes from Provincial grants, Interlink reimbursement and book fines.

Preliminary estimates for the 2017 budget indicate that other sources of revenue will continue to decline, resulting in the Municipal Contribution covering 92.4% of library operations.

Request for Additional Funding

The Richmond population in 2016 is estimated at approximately 218,000. Increasing the library budget by \$218,000 should result in a tax impact of 0.11%.

The Richmond Public Library has provided the impacts that an additional \$200,000 would have on library operations.

Additional Service	Amount Requested	Tax Impact
Restoring Branch Hours	\$200,000	0.10%
Expanded Service for Children and Families	\$200,000	0.10%
Expanded Service for Seniors	\$200,000	0.10%
Total	\$600,000	0.30%

Property Tax Impact of Additional Funding

The forecasted Vancouver Consumer Price Index increase for 2017 is 2.1%. In accordance with Council's Long Term Financial Management Strategy, the tax increase is expected to approximate 2.1% plus 1% for infrastructure replacement.

Each year the City reviews requests to increase levels of service provided to the community, such as additional police officers and expanded community programs. Each request for additional services has a direct correlation to the property tax increase. In order to moderate tax increases, each request is prioritized and only the high priority increases are recommended.

Staff are currently in the process of reviewing and prioritizing additional level requests for the 2017 Budget. It is recommended that the three requests totaling \$600,000 be considered in the 2017 Budget process.

Financial Impact

None.

Conclusion

The Richmond Public Library's request for funding to provide additional services will be considered as part of the 2017 Budget process.



Melissa Shiau, CPA, CA
Manager, Financial Planning and Analysis
(604-276-4231)

MS:ms

App. 1: Richmond Public Library Report: Referral Report on Borrowing Limits, Municipal Library Services and Impact of Increased Per Capita Funding

DATE: October 26, 2016
TO: Finance Committee
FROM: Greg Buss, Chief Librarian
RE: **Referral Report on Borrowing Limits, Municipal Library Services and Impact of Increased Per Capita Funding**

ORIGIN

The **Update on Richmond Public Library Strategies to Reduce Expenses and Increase Revenue Report** (June 21, 2016) was presented at the July 4, 2016 City Finance Committee meeting. That report addressed revisions to library borrowing policies, increased fines and reduced branch hours that were approved by the Library Board on June 29, 2016.

In reviewing the report Finance Committee members requested further information and analysis in the following areas:

1. An analysis on borrowing limits;
2. An analysis of municipal services that municipal libraries should and currently provide; and
3. The impacts of adding a minimum of \$1 per capita to the library budget.

On October 12, 2016 the Library Board met to discuss these three areas and in particular to identify the priority areas of library service where additional funding is needed.

The attached report **Analysis for Council Referral Report on Borrowing Limits, Municipal Library Services and Impact of Increased Per Capita Funding** (Attachment 1) was prepared by Susan Walters, Deputy Chief Librarian and provides detailed analysis of the suggested areas.

This cover report summarizes the information and discussion from the October 12th Library Board meeting and outlines Board direction to library staff regarding possible additional funding.

SUMMARY OF FINDINGS**1. ANALYSIS ON BORROWING LIMITS**

The attached report indicates that the revised circulation policies implemented in early 2016 have achieved the desired effect of improving the effective use of library resources to ensure fair and equitable access to the collections. The analysis shows:

- a) Members aren't borrowing more than they can practically consume;

- b) Material is being returned in a timely manner; and
- c) Renewal of material is not excessive

Based on this analysis the Library Board does not see the need to make further adjustments to borrowing policies at this time but has requested library staff to continue to monitor collection use and to provide the Board with regular updates.

2. ANALYSIS OF MUNICIPAL SERVICES THAT MUNICIPAL LIBRARIES SHOULD AND CURRENTLY PROVIDE

What Services a Municipal Library Should Provide

The UNESCO *Public Library Manifesto* outlining the roles and missions of public libraries was jointly developed by the International Federation of Library Associations (IFLA) and UNESCO. The Library Board is committed to the missions described in the *Manifesto* (page 9 of attached report) and has incorporated the document in the Library's *Strategic and Long Range Plan 2014–2018*.

The Richmond Public Library provides services in all of the areas outlined by the *Manifesto*. The library puts its full resources behind these endeavours with the exception of number 6) Providing access to cultural expressions of all performing arts. In this area the library provides collections and information but leaves programming initiatives to other groups in the community. The library does not engage in areas of service that are not covered by the *Manifesto*.

Comparison of Municipal Library Services

A review of library services provided by seven public libraries across the lower mainland identified five broad areas of core library services that are provided in each municipality:

1. Public space;
2. Collections and resources;
3. Information services;
4. Access to technology; and
5. Programming and learning

Pages 11 to 15 of the attached report provide a description of each core area and outline the specific services various libraries are providing.

Richmond's services are very comparable to other municipalities. While these core services are common to all of the libraries, each library tailor fits their services to meet the unique needs of its community. For example, Richmond has stronger collections in Chinese language materials and provides a higher level of digital literacy programming as a reflection of the interests of our community.

Comparison of Municipal Library Cost and Effectiveness

The chart below indicates that Richmond expenditures per capita and municipal support per capita are both below the average for the comparable libraries; however, Richmond's service levels and use of the library, as shown by Circulation Per Capita and Visits Per Capita, are

above average. This demonstrates that Richmond is very cost effective and provides good value for money spent.

City	Population	Floor Space Per Capita Sq. Ft.	Circulation Per Capita	In Person Visits Per Capita	Virtual Visits Per Capita	Total Visits Per Capita	Expenditure Per Capita	Municipal Support Per Capita
Vancouver	613,500	0.75	15.52	11.09	10.47	20.60	\$85.67	\$68.68
Surrey	504,661	0.39	8.30	4.87	4.40	9.30	\$35.71	\$31.85
Burnaby	234,559	0.44	14.90	7.41	12.75	20.20	\$54.13	\$56.70
Richmond	201,303	0.35	15.40	8.13	13.98	22.10	\$46.74	\$43.55
Coquitlam	138,761	0.45	8.60	5.86	n.d.	5.90	\$38.27	\$35.20
North Vancouver City	51,497	0.69	12.20	9.44	4.90	14.30	\$73.57	\$69.32
West Vancouver	44,807	1.19	21.80	11.27	10.90	22.20	\$112.66	\$98.69
Average	255,584	0.61	13.82	8.30	9.57	16.37	\$63.82	\$57.71
Richmond	201,303	0.35	15.40	8.13	13.98	22.10	\$46.74	\$43.55

Based on BC Ministry of Education Public Library Services for 2015 (latest available).

3. IMPACT OF ADDING A MINIMUM OF \$1 PER CAPITA TO THE LIBRARY BUDGET

Each increase in funding of \$1 per capita adds approximately \$200,000 to the library's budget. The Library Board identified three areas where additional funding is needed and would provide high impact service improvements:

- a) Restoring branch hours;
- b) Expanded services for children and families; and
- c) Expanded services for seniors.

The restoration of branch hours is the first priority for the Library Board. If additional per capita funding of \$1 to \$2 were available it would allow for expansion of children and families and seniors services while still maintaining a lower than average funding level.

To achieve maximum success in each area requires \$200,000, for a total increase of \$600,000 or \$3 per capita. The Library Board recognizes the pressures City Council faces when appropriating funds for community services. The order of priority for the Library Board is as follows:

Priority	Service Expansion	Service Cost	Cumulative Operating Cost	Cumulative Per Capita Support
1	Branch Hours Restored	\$200,000	\$200,000	\$44.55
2	Expanded Children and Family Services	\$200,000	\$400,000	\$45.55
3	Expanded Seniors Services	\$200,000	\$600,000	\$46.55

Should all priorities be met it would result in a per capita support of \$46.55 which continues to be below the current average per capita support of \$57.71 for comparable libraries.

CONCLUSION

1. Analysis of borrowing patterns demonstrates that the library's collections are being utilized in a fair and effective manner. The vast majority of users are borrowing a limited number of items, renewing them sparingly and returning them on or before the due date. Users are not borrowing more material than they can reasonably consume.
2. Richmond Public Library is providing the full range of services outlined by the UNESCO *Public Library Manifesto* and offers a service mix comparable to other lower mainland libraries; it is not engaged in activities that go beyond the library's mandate.
3. The Library's operation is cost effective and efficient. Expenditure per capita is well below comparable libraries in the lower mainland while use of the library as demonstrated by circulation of materials and visits is higher than average.
4. The Library's current per capita municipal funding at \$43.55 is below the \$57.71 average for comparable lower mainland libraries.
5. Additional operating funds are required to support expanded services. An increase of \$1 per capita would support the Library Board's first priority of restoring branch hours and result in a per capita support of \$44.55.
6. Additional per capita support of \$1 to \$2 would address the Library Board's priorities for:
 - Expanding Children and Family Services -- \$200,000
 - Expanding Seniors Services -- \$200,000
7. Council support for all three priority areas of service would require a total of \$3 per capita resulting in a per capita support of \$46.55 which continues to be below the current average per capita support of \$57.71 for comparable libraries.

Greg Buss
Chief Librarian & Secretary to the Board
Richmond Public Library
(604-231-6418)

Attachment 1: **Analysis for Council Referral Report on Borrowing Limits, Municipal Library Services and Impact of Increased Per Capita Funding**

**LIBRARY BOARD REPORT**

DATE: October 19, 2016
TO: Richmond Public Library Board
FROM: Susan Walters, Deputy Chief Librarian
RE: **Analysis for Council Referral Report on Borrowing Limits,
Municipal Library Services and Impact of Increased Per
Capita Funding**

BACKGROUND

City Council has requested from the Library Board an analysis and review of the following three areas:

1. An analysis on borrowing limits;
2. An analysis of municipal services that municipal libraries should and currently provide; and
3. The impacts of adding a minimum of \$1 per capita to the library budget.

ANALYSIS ON BORROWING LIMITS

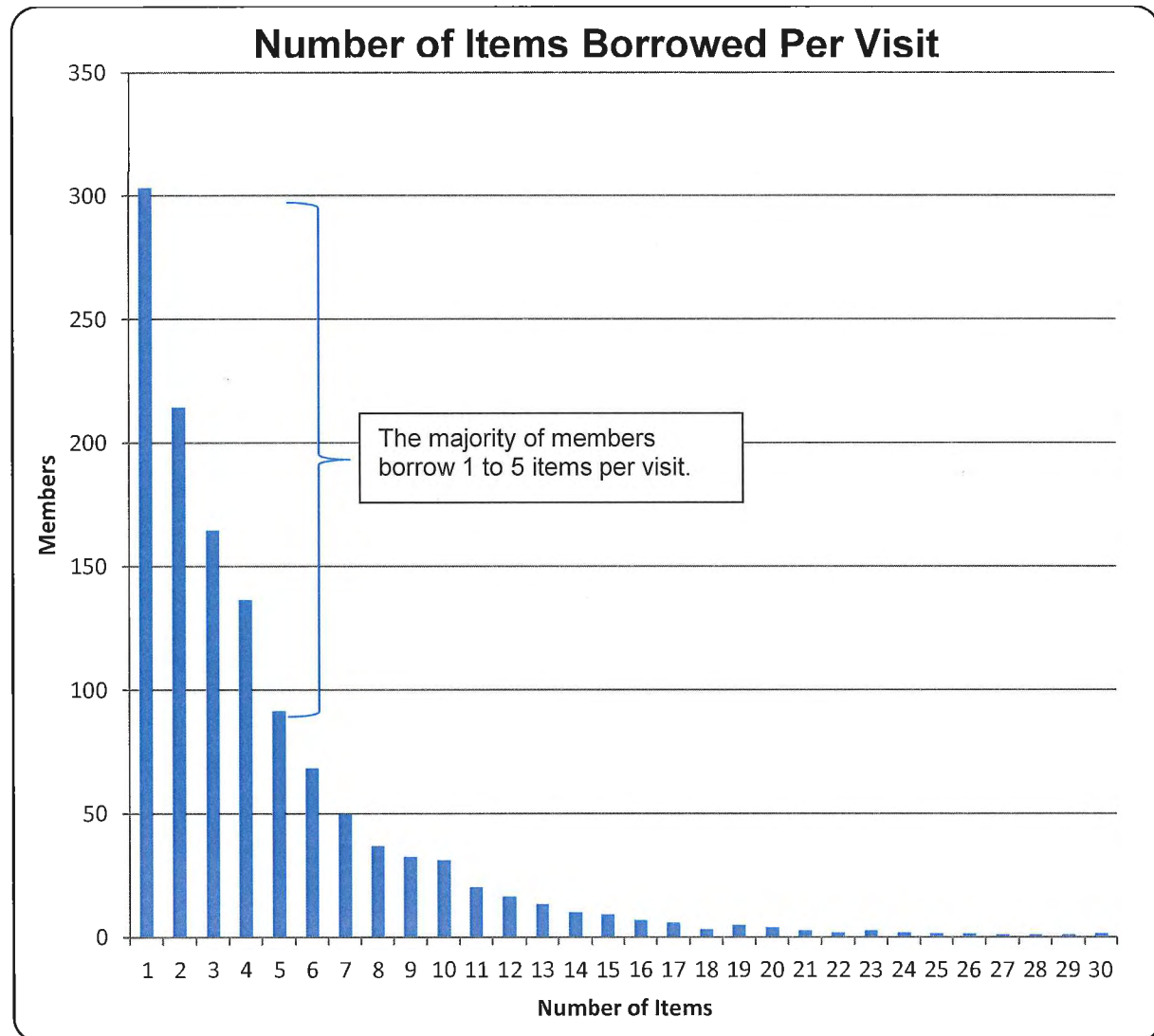
The library has consistently shown very heavy per capita use relative to other libraries in the lower mainland and across the country. However, in response to the library's requests for additional collection funding, Council sought assurances that the collection is not only heavily used, but effectively used. Questions raised included: Are some members borrowing too many items; holding material too long; or abusing renewal privileges and thus effectively denying access to other members? In response to these concerns, the library revised circulation policies by reducing loan and renewal periods and increasing fines for some materials.

Concurrently, the library developed some new statistical measures in order to better understand our members' borrowing behaviour. The following charts and tables demonstrate that the revised circulation policies implemented in early 2016 have achieved the desired effect of ensuring fair and equitable access to the collections:

- Members aren't borrowing more than they can practically consume (Chart 1, page 6 and Chart 2, page 7);
- Material is being returned in a timely manner (Table 1, page 8); and
- Renewal of material is not excessive (Table 2, page 8).

CHART 1 – How many items do members typically borrow per visit?

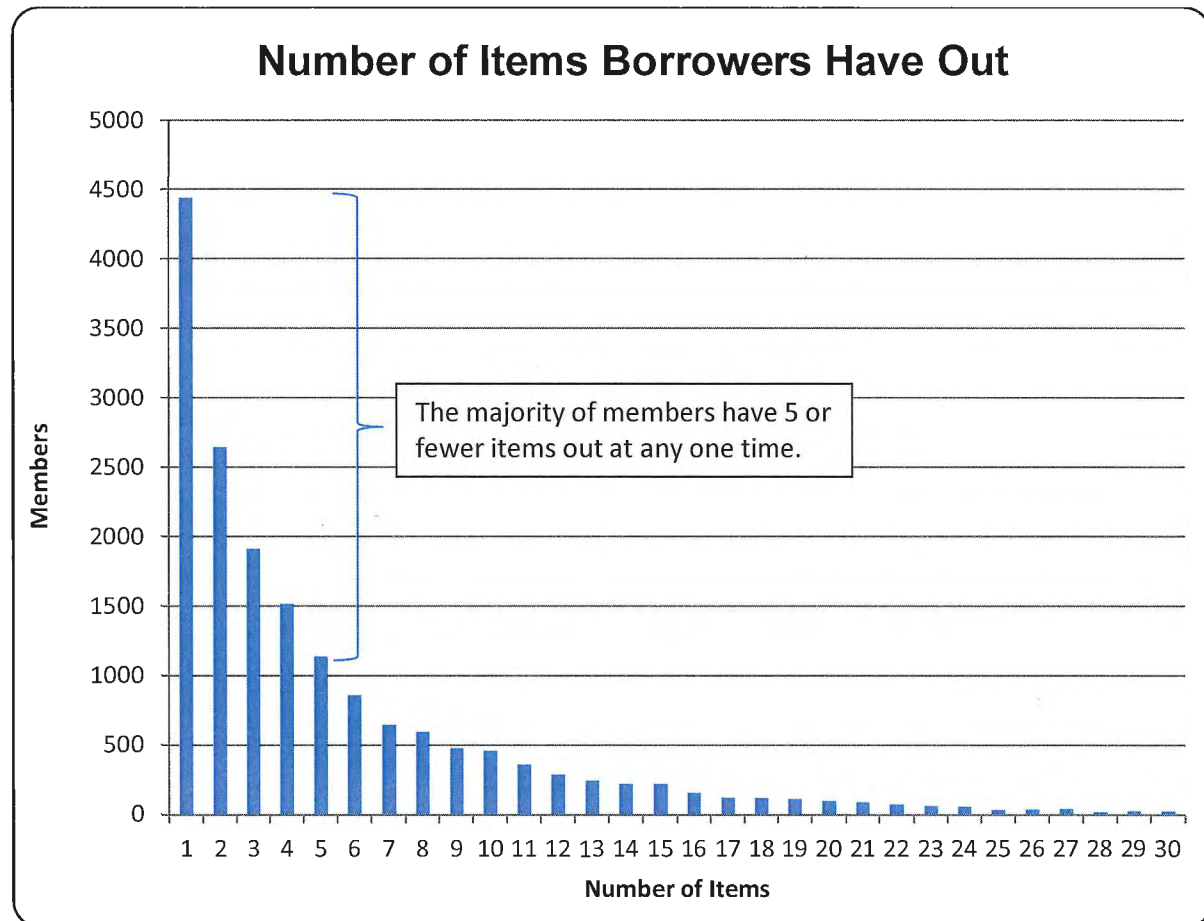
A majority of members borrow one to five items, while very few borrow close to the 30 item limit. (Based on an average of monthly sample days January – September 2016)



Number of items borrowed per visit	Members	%
1-5	911	73%
6-10	219	18%
11-15	68	5%
16-20	25	2%
21-25	11	1%
26-30	6	0%
TOTAL	5,613	100%

CHART 2 - How many items do borrowers typically have out at a time?

A majority of members have fewer than five items on loan at any one time and very few of the remaining borrowers have more than 20 items on loan. Sample date: October 5, 2016



Number of items out on loan		Members	%
1-5		11,651	66%
6-10		3,043	17%
11-15		1,346	8%
16-20		1,242	7%
21-25		326	2%
26-30		157	1%
TOTAL	90,540	17,765	100%

TABLE 1 – Are materials being returned on time?

Description	Count	Percentage
Items returned on or before due dates	1,267,252	92.86%
Items returned after due dates	97,293	7.13%
Total items returned	1,364,545	100.00%

The vast majority of library materials are returned on or before the due date. Through various means of notification and ultimately late charges, the library encourages members to return material on time in order to ensure rapid turnover of material and effective use of collections.

Reporting period: January – August 2016. (Note that this includes material borrowed prior to January 2016, so the total will not match that in TABLE 2 which includes only items checked out between January and August 2016).

TABLE 2 – How often are materials being renewed?

Description	Count	Percentage
Checkouts that have never been renewed	1,013,052	74.52%
Checkouts that have been renewed once	261,849	19.26%
Checkouts that have been renewed twice	42,309	6.22%
Total checkouts January to August 2016	1,317,210	100%

The majority of items are not renewed and only a small proportion is renewed twice.
Reporting period: January – August 2016.

CONCLUSION OF BORROWING ANALYSIS

The analysis shows that the revised circulation policies implemented in early 2016 have achieved the desired effect of improving the use of library resources to ensure fair and equitable access:

- Members aren't borrowing more than they can practically consume,
- Material is being returned in a timely manner; and
- Renewal of material is not excessive.

Given the above analysis the Library Board has determined that no further revisions are required to circulation policies at this time but has directed library staff to continue to monitor collection use and to provide the Board with regular updates.

ANALYSIS OF MUNICIPAL SERVICES THAT MUNICIPAL LIBRARIES SHOULD AND CURRENTLY PROVIDE

What Services a Municipal Library Should Provide

The Library Board recognizes the importance of remaining firmly grounded in the library's core values and missions. In this respect the Library Board is guided by the UNESCO *Public Library Manifesto*¹ jointly developed by the International Federation of Library Associations (IFLA) and UNESCO. The *Manifesto* is incorporated into the Library's *Strategic and Long Range Plan 2014–2018* and is reproduced below. It outlines the role and missions of public libraries internationally and provides a useful guideline as to what a public library's business is and where it should focus its activities and resources.

UNESCO Public Library Manifesto

The Public Library

The Public Library is the local centre of information, making all kinds of knowledge and information readily available to its users. The services of the public library are provided on the basis of equality of access for all, regardless of age, race, sex, religion, nationality, language or social status. Specific services and materials must be provided for those who cannot, for whatever reason, use the regular services and materials, for example linguistic minorities, people with disabilities or people in hospital or prison.

All age groups must find material relevant to their needs. Collections and services have to include all types of appropriate media and modern technologies as well as traditional materials. High quality and relevance to local needs and conditions are fundamental. Material must reflect current trends and the evolution of society, as well as the memory of human endeavour and imagination. Collections and services should not be subject to any form of ideological, political or religious censorship, nor commercial pressures.

Missions of the Public Library

The following key missions which relate to information, literacy, education and culture should be at the core of public library services:

- 1) Creating and strengthening reading habits in children at an early age;*
- 2) Supporting both individual and self-conducted education as well as formal education at all levels;*
- 3) Providing opportunities for personal creative development;*
- 4) Stimulating the imagination and creativity of children and young people;*
- 5) Promoting awareness of cultural heritage, appreciation of the arts, scientific achievements and innovations;*
- 6) Providing access to cultural expressions of all performing arts;*
- 7) Fostering inter-cultural dialogue and favouring cultural diversity;*
- 8) Supporting the oral tradition;*
- 9) Ensuring access for citizens to all sorts of community information;*
- 10) Providing adequate information services to local enterprises, associations and interest groups;*
- 11) Facilitating the development of information and computer literacy skills;*
- 12) Supporting and participating in literacy activities and programmes for all age groups, and initiating such activities if necessary.*

¹ IFLA/UNESCO, *Public Library Manifesto* (1994), <http://www.ifla.org/publications/iflaunesco-public-library-manifesto-1994>

The Richmond Public Library provides services in all of the areas outlined by the *Manifesto*. The library puts its full resources behind these endeavours with the exception of number 6) Providing access to cultural expressions of all performing arts. In this area the library provides collections and information but leaves programming initiatives to other groups in the community. The library does not engage in areas of service that are not covered by the *Manifesto*.

Comparison of Municipal Library Services

A review of library services provided at seven public libraries across the lower mainland identified five broad areas of core library services that are provided by each municipality:

1. Public space;
2. Collections and resources;
3. Information services;
4. Access to technology; and
5. Programming and learning

Richmond's services are very comparable to other municipalities. While these core services are common to all of the libraries, each library tailor fits their services to meet the unique needs of its community. For example, Richmond has stronger collections in Chinese language materials and provides a higher level of digital literacy programming as a reflection of the interests of our community.

Increasingly, what sets Richmond's library services apart is the extent and nature of our programming to the community. Not only do we have a high number of programs for both children and adults, but much of the programming is designed and carried out with extensive community participation utilizing our Community Volunteer Program resources. This approach serves the dual purpose of not only increasing the amount of programming taking place, but equally important provides the community with multiple opportunities to develop and demonstrate their leadership capabilities and builds community capacity.

Following is a description of the specific services provided by various libraries in each core area.

1. Public Space

A core service of public libraries is to provide access to physical space for people of all ages, cultures and backgrounds. As trusted community focused institutions, the public library welcomes people to use the space and resources free of charge. Acting as a community hub, the library supports and contributes to life-long learning for all Richmond residents.

Public libraries:

- encourage literacy and learning by welcoming members into spaces created for reading, studying or relaxing in quiet, comfortable environments
- welcome people to get together informally to talk, learn, and share ideas in collaborative gathering spaces
- provide spaces for children and families, teens, adults and seniors that encourage literacy activities and engagement

Analysis of Services							
	Burnaby	Coquitlam	North Van. City	Richmond	Surrey	Vancouver	West Van.
Public Space							
Open 7 days/week all year				X	X		
Dedicated Kids Space	X	X	X	X	X	X	X
Dedicated Teen Space					X		X
Quiet reading	X	X	X	X	X	X	X
Individual Study Space	X	X	X	X	X	X	X
Group Study Space	X	X	X	X	X	X	X
Public Meeting Rooms		X	X		X	X	X
Digital Creation Space		Innovation Hub	Creation Stations	Launchpad		Inspiration Lab	
Unique Space		Public Use Display Cases			Coffee Shop		Coffee Shop
					Prayer Room		Art Gallery
							War Memorial

2. Collections and Resources

Public libraries have a responsibility to ensure all age groups have free access to material relevant to their needs. Collections and resources need to include all types of appropriate media and modern technologies as well as traditional materials. Collections should also reflect the local community ensuring that the library provides resources in multiple languages and formats for residents who have accessibility issues.

Public libraries:

- provide free access to physical material which includes books, audiobooks, newspapers and magazines, music CDs, movies and informational DVDs
- provide access to digital material which includes downloadable eBooks and eAudiobooks; streaming music and video; online newspapers, magazines and instructional courses and practice tests; and research databases with access to journals, consumer reports and demographic data
- provide multilingual and language learning collections to support newcomers
- provide specialized collections for residents unable to read print due to a visual, learning or physical disability

Analysis of Services							
	Burnaby	Coquitlam	North Van. City	Richmond	Surrey	Vancouver	West Van.
Collections and Resources							
Physical material (books, audiobooks, CDs, DVDs, newspapers, magazines)	X	X	X	X	X	X	X
eBooks & eAudiobooks	X	X	X	X	X	X	X
Digital magazines & newspapers	X	X	X	X	X	X	X
Streaming music & video	Music only		X	X	Movies only	X	X
Multilingual physical material	X	X	X	X	X	X	X
Multilingual digital material				Chinese & French	Chinese	French	
Home Delivery Services	X	X	X	X	X	X	X
Targeted Collections				Special Collection on Chinese Culture		Archival photographs	Archival photographs
						Musical instruments	Music scores

3. Information Services

Public libraries facilitate access to a wide range of information and inspire citizens and communities to respond to local, provincial, national and global social and economic opportunities, ensuring their cities are vibrant places to live and work. In-person and online, library staff are available to answer a diverse range of questions from residents of all ages and connect citizens to the information they need.

Public libraries:

- assist with access to wide range of information resources
- provide residents with instruction and guidance on using library information resources
- connect citizens with government and local information

Analysis of Services							
	Burnaby	Coquitlam	North Van. City	Richmond	Surrey	Vancouver	West Van.
Information Services							
Reference service by phone	X	X	X	X	X	X	X
Reference Service by email	X	X		X	X	X	X
Databases	X	X	X	X	X	X	X
One-on-One Technology Instruction			X	X	X	X	X
Distinct Information Services			Homework Help Phone Line	Reference service by Chat	Genealogy/ Family History Services	InfoAction Research Business Services	
			Exam Invigilation	BC Driving Test	Exam Invigilation		
				Citizenship Test			
				Early Years Centre			
				Community Table			

4. Access to Technology

A core service of public libraries is to provide access to technology in order to bridge the digital divide that will otherwise exist in our communities. A connected community has access to computers and the internet; digital collections, devices and tools; and emerging technologies. As more information shifts to a digital format, public libraries have an increasing role to play in assisting citizens to navigate this new information environment.

Public libraries:

- provide free access to Wi-Fi and computers
- offer hands-on learning and exposure to new and emerging technologies
- provide access to digital collections connected to local community reading, informational and learning needs

Analysis of Services							
	Burnaby	Coquitlam	North Van. City	Richmond	Surrey	Vancouver	West Van.
Access to Technology							
Computers and free Wi-Fi	X	X	X	X	X	X	X
Printers, photocopiers and scanners	X	X	X	X	X	X	X
Dedicated Digital Space		Innovation Hub	Creation Station	Launchpad		Inspiration Lab	
3D Printers		X	X	X	X	X	
Photograph/slide scanners		X		X	X	X	X
Digital learning collections and technology			X	X		X	X
eReader lending service				X			X
Tablets and/or laptop lending service							X
Targeted Technology Services				Create & Learn (digital publishing)		Sound recording booths	
				Digital Programs w/STEM focus			
				Digital Programs w/local experts			

5. Programming and Learning

Public libraries provide a wide range of programs and learning services for children, teens, adults, seniors and newcomers. Each of these user groups has unique learning needs and libraries develop and deliver programs, many in partnership, to meet literacy, learning, and social needs.

Public libraries:

- provide early literacy programs for babies, toddlers and preschoolers
- provide programs that support literacy and learning for school age children, from K-12
- deliver adult programs on a wide range of subjects
- offer programs to engage and connect seniors programs that support newcomers adapt to their new communities
- provide programs that support newcomers adapt to their new communities
- provide instructional programs and tours to support the use of library resources
- enable volunteer opportunities for youth and adults to contribute to programs
- offer programs to encourage multicultural awareness, understanding and acceptance

Analysis of Services							
	Burnaby	Coquitlam	North Van. City	Richmond	Surrey	Vancouver	West Van.
Programming and Learning							
Babytimes and storytimes	X	X	X	X	X	X	X
Reading Buddies and club programs for kids and teens	X	X	X	X	X	X	X
Summer Reading Clubs	X	X	X	X	X	X	X
Homework help programs		X					
Community-led programs				X		X	
Volunteer program	Teens	Teens	Teens	Teens & adults	Teens & adults	Teens	Teens
Newcomer programs & New to BC	X	X	X	X	X	X	X
Multicultural programs & series	X	X	X	X	X	X	X
Outreach services	Book Van & Dedicated Outreach staff	Book Bus (book delivery service)				Dedicated Outreach staff	
Targeted Programming and Learning		Programs for people with developmental disabilities	Writing with writers series	Writer in Residence (w/City)	Surrey Poet Laureate (w/City)	Writer & Aboriginal Storyteller in Residence	
				Clubs for kids (writing & chess)		Inspiration Pass	Music Halls

Comparison of Municipal Library Cost and Effectiveness

Richmond expenditures per capita and municipal support per capita are both below the average of other libraries. For 2015 Richmond's expenditure per capita was \$46.74, well below the average expenditure of \$63.82. Richmond's municipal support per capita was \$43.55, also well below the average of \$57.71. In addition Richmond's floor space per capita, at 0.35 sq. ft., is the lowest amongst the libraries compared with the average being 0.61 sq. ft. per capita.

However Richmond's service levels and use of the library, as measured by Circulation Per Capita and Visits Per Capita, are above average. Richmond Library is providing above average services with modest funding and limited floor space. The Library's operation is cost effective and efficient and the Library Board provides very good value for dollars spent.

City	Population	Floor Space Per Capita Sq. Ft.	Circulation Per Capita	In Person Visits Per Capita	Virtual Visits Per Capita	Total Visits Per Capita	Expenditure Per Capita	Municipal Support Per Capita
Vancouver	613,500	0.75	15.52	11.09	10.47	20.60	\$85.67	\$68.68
Surrey	504,661	0.39	8.30	4.87	4.40	9.30	\$35.71	\$31.85
Burnaby	234,559	0.44	14.90	7.41	12.75	20.20	\$54.13	\$56.70
Richmond	201,303	0.35	15.40	8.13	13.98	22.10	\$46.74	\$43.55
Coquitlam	138,761	0.45	8.60	5.86	n.d.	5.90	\$38.27	\$35.20
North Vancouver City	51,497	0.69	12.20	9.44	4.90	14.30	\$73.57	\$69.32
West Vancouver	44,807	1.19	21.80	11.27	10.90	22.20	\$112.66	\$98.69
Average	255,584	0.61	13.82	8.30	9.57	16.37	\$63.82	\$57.71
Richmond	201,303	0.35	15.40	8.13	13.98	22.10	\$46.74	\$43.55

Based on BC Ministry of Education Public Library Services for 2015 (latest available).

IMPACT OF ADDING A MINIMUM OF \$1 PER CAPITA TO THE LIBRARY BUDGET

Each \$1 per capita increase represents approximately a \$200,000 ongoing increase to the library's operating budget. The Library Board has identified three priority areas where library services require further development and expansion. To achieve success in each area requires \$200,000 for a total of \$600,000.

1. Restoring branch hours;
2. Expanded service for children and families; and
3. Expanded services for seniors

Restoring Branch Hours

In the 2016 budget the Library Board cut \$200,000 from salaries and benefits. Of this amount \$150,000 was reallocated to the collections budget to ensure the library was providing sufficient material in both the print collections and digital collections, and \$50,000 was used to reduce the municipal contribution down to a 2.38% increase.

The impact of this was to reduce branch operating hours by 26 hours per week. Reduced hours were implemented in February. Two months of informal feedback was supplemented by a public survey in April. Public feedback indicates that reduced access to library services at the Cambie, Ironwood and Steveston branches has created a significant barrier for library members, in particular families with children and seniors. The public provided 286 comments on the reduction broken down as follows:

Comments	
Neutral and positive	76
Negative	202
Questions	8
Total comments	286

Examples of neutral and positive comments:

- *"Doesn't impact us eBook readers."*
- *"Brighthouse is my branch so this does not directly affect me."*
- *"Not a problem now that I am aware of the new open hours."*
- *"I just have to pay attention to what day it is, so I don't accidentally come when it is closed."*

Examples of negative comments:

- *"There is a group of about thirty seniors, on a regular basis that go to the Steveston fitness classes at 10:30 am on Fridays. We are all very upset that we cannot get into the library before our class. Please find a way to change the Friday start time to at least 10am".*
- *"Very frustrated, should not have to travel out of my community to come to Brighthouse."*
- *"Again, very limiting for families. Morning closures are especially problematic as mornings are prime time for preschool aged children."*
- *"It is very confusing to have different opening and closing hours on different days."*
- *"I came from East Richmond to the Cambie branch to find the library unexpectedly closed today. Disappointing, but at least now I know to check the hours first."*
- *"Used to be able to add a visit to the Steveston branch after the kid's activities. No we don't visit as much as we would like."*
- *"Not good for Steveston preschoolers who get off class 1pm the latest... and they did not have a chance to go to the library after school. Also, many kids like to go to the library after dinner its family time."*
- *"Dislike the shortened hours although this hasn't greatly impacted me, I believe libraries should increase accessibility, not put barriers in place."*
- *"Wasted time and gas to visit other libraries that are open."*
- *"Disappointed and inconvenienced by reduced hours- increase was needed."*
- *"Smaller branches are supposed to serve their respective neighborhoods. Limited hours create too much inconvenience for those working or going to school at hours such as 9:00 am - 5:00 pm. Limited local branch hours also make more people driving longer distance to Main branch, and may cause insufficient parking in that area, since there are also other facilities in Brighthouse."*
- *"We can't use the library when we want to, such as after work, after school, pro-D days, and school breaks."*
- *"As a parent who frequents the Steveston Library on Fridays, I am disappointed to see the reduced hours. Our two kids (and myself) are only able to attend the Friday morning Storytime and now this is no longer an option for us. We really hope the reduced hours are reconsidered."*
- *"Friday change is annoying. Libraries with opening hours on one day that are different from any other day are difficult to remember and I keep turning up on Friday morning and finding it not open. I randomly do errands in the mornings and this is harder to keep track of. Variable hours in the evenings isn't a big deal because all libraries and stores do this so one knows to check..."*

Restoring the 26 hours per week to the branch libraries is the first priority and can be implemented quickly with a \$1 increase in per capita support.

Expanded Services for Children and Families and Seniors

Services for families with children and seniors are core services of public libraries that must continually adapt to meet changing needs. Numerous initiatives are underway which are focused on increasing the quantity and quality of collections and programs to meet the needs of these growing audiences.

Collaborating with City staff, private and public schools, and Richmond service organizations, library staff are working to remove barriers to service for these two groups. Recent initiatives include centralized parent information services with the library as the designated hub of the Early Years Centre, participation in the United Way's Avenues of Change program which connects families with children 0-6 years with community services and fosters peer learning, a summer pilot outreach program at two low-income housing communities, a Stay and Play program at Cambie Community Centre, Pop-up Library sessions at seniors' independent living and residential housing like the Kiwanis Towers and Maple Gardens, and delivering digital instruction at Minoru Seniors Residence.

Strategically planned outreach that sees library services delivered where they are most needed in our community meets the library's strategic goals and will contribute to various Council Term Goals, helping to create a more informed, vibrant and connected community.

With current staffing levels, it is not possible to assign individual staff responsibility for expanded and accessible children and senior services. The library is not positioned to move as quickly on the development and delivery of these services as it needs to be doing in order to meet community needs. Increased per capita spending would ensure that all children and seniors in Richmond have equal access to library services, both in our library branches and out in the community, where it is most needed.

The following pages outline the impacts of an increase in per capita support and the operational costs involved.

Impacts of Increase in Per Capita Support

Restoring Branch Hours - \$200,000

Restore hours of operation at the Cambie, Ironwood & Steveston branches to pre-2016 levels on Mondays and Friday evenings for a total of 26 additional hours of service.

Operational Costs:

Salaries and benefits

(\$200,000 to fund staffing costs)

Impact

Removes barriers to children, families and seniors unable to access the Brighthouse (Main) branch for their library services.

Expanded Service for Children and Families - \$200,000

Pilot afterschool programs at the Brighthouse (Main) branch aimed at middle years children that strengthen existing core services with the opportunity to develop academic, social, emotional maturity and communication skills using library resources and targeted volunteer opportunities for teens and adults.

Develop children's outreach services strategy for implementation and expand the library's community volunteer program.

Significantly expanded services and programs for children to branches and deliver programs and services for children in schools, preschools, daycares, community centres, housing complexes/residences, shelters, food banks and other centres in the community, increasing awareness and use of library resources.

Operational Costs:

Children's Librarian (\$100,000 salary and benefits, office equipment and set-up)

Children's Community Programmer (\$65,000 salary and benefits)

Leasing of van, equipment & resources (\$35,000)

Impact

Afterschool programs meet goals of developing strong literacy, social, cognitive, emotional and social health skills; preparing children for academic readiness; building capacity of RPL's Community Volunteer program; increasing awareness and use of library resources.

Library services and programs are delivered to children where they are in the community; new synergies and partnerships developed with community organizations.

Library outreach services reduce levels of vulnerability and improve well-being for early and middle years children; increased RPL Community Volunteer capacity to support library outreach services to children.

Impacts of Increase in Per Capita Support

Expanded Service for Seniors - \$200,000

Pilot at the Brighthouse (Main) branch series of programs for seniors that focus on technology and digital library resources, intergenerational programming featuring Nostalgia Kits, and provide meaningful volunteer opportunities that strengthen existing core services with library facilities.

Impact

Seniors kept connected and able to navigate information and access library resources in an increasingly digital environment; supporting intergenerational learning; creating meaningful volunteer opportunities for seniors; providing access to library resources that support reading and learning for seniors who cannot access a physical branch; and increasing awareness and use of specialized collections and resources for seniors.

Develop seniors' outreach services strategy for implementation; refocus home delivery services; and expand the library's community volunteer program.

Library services and programs are delivered to seniors where they are in the community; new synergies and partnerships developed with community organizations.

Significantly expanded services and series of programs for seniors extended to branches and seniors in community centres, the new Minoru Older Adult Centre, residences, care homes, shelters, food banks and other community hubs; home delivery service expanded; programs delivered by both staff and volunteers.

Seniors have library cards and access to library resources and services; an increasing awareness and use of library resources, seniors are connected and report less isolation; increased RPL Community Volunteer capacity to support library outreach services to seniors.

Operational Costs:

Seniors Librarian (\$100,000 salary and benefits, office equipment and set-up)

Seniors Community Programmer (\$65,000 salary and benefits)

Leasing of van, equipment & resources (\$35,000)

The Library Board has demonstrated its ability to provide extremely good value for funding received. An additional \$3 per capita to fund the recommended restoration of branch hours and service expansion for children and families and seniors would significantly increase service levels while still maintaining a lower than average per capita funding level as compared to other libraries in the lower mainland.

Susan Walters
Deputy Chief Librarian
Richmond Public Library
(604-231-6466)



City of Richmond

Report to Committee

To: Finance Committee

Date: October 13, 2016

From: Jerry Chong
Director, Finance

File: 03-0900-01/2016-Vol
01



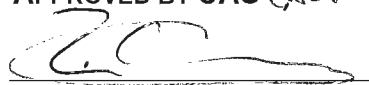
Re: Reserve Funds Update 2016

Staff Recommendation

That the staff report titled, "Reserve Funds Update 2016", dated October 13, 2016 from the Director, Finance be received for information.


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

Att. 5

REPORT CONCURRENCE		
ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER
Arts, Culture & Heritage	<input checked="" type="checkbox"/>	
Community Social Development	<input checked="" type="checkbox"/>	
Parks Services	<input checked="" type="checkbox"/>	
Recreation Services	<input checked="" type="checkbox"/>	
Engineering	<input checked="" type="checkbox"/>	
Project Development	<input checked="" type="checkbox"/>	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS: 	APPROVED BY CAO (Acting) 

Staff Report

Origin

The following report provides details on the current status of the reserve funds, the impact of Policy 3707 Long Term Financial Management Strategy and the future outlook on major reserves. The reserve fund information provides Council a gauge of the City's ability to fund future capital requirements and also identifies outstanding funding gaps.

This report supports Council's 2014-2018 Term Goal #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.

7.1. Relevant and effective budget processes and policies.

7.2. Well-informed and sustainable financial decision making.

Section 188 of the *Community Charter* authorizes Council to establish a reserve fund, by bylaw, for a specified purpose and direct that money be placed to the credit of the reserve fund.

The City of Richmond has 21 reserve funds established through the following Bylaws:

- Reserve Fund Establishment – Bylaw 7812 (2004)
- Affordable Housing Operating Reserve Fund Establishment – Bylaw 8206 (2007)
- Community Legacy & Land Replacement Reserve Fund – Bylaw 8282 (2007)
- Capstan Station Capital Reserve Fund Establishment – Bylaw 8854 (2012)
- Child Care Operating Reserve Fund Establishment – Bylaw 8877 (2012)
- Arts, Culture and Heritage Capital Reserve Fund Establishment – Bylaw 9032 (2013)
- Hamilton Area Plan Community Amenity Capital Reserve Fund Establishment – Bylaw 9276 (2015)

The majority of these reserves are for capital purposes except for the Affordable Housing Operating Reserve and Child Care Operating Reserve. The list of all reserve funds and their purpose is included in Attachment 1.

These reserve funds form part of the accumulated surplus balance on the Statement of Financial Position. The amount reported in the financial statements includes amounts allocated to projects that remain unspent as they are still in progress at the reporting date. For example, at December 31, 2015 the total reserve balance was \$461.2 million, of which \$210.7 million was previously approved by Council towards projects leaving \$250.5 million uncommitted. This report will focus on the uncommitted funds and future funding requirements.

Reserves are funded through several channels including tax revenue, gaming revenue, utility fees, development contributions and other revenue. Development contributions are based on each development and the amounts are generally determined through the rezoning process. These amounts are difficult to predict each year as they are dependent on external factors. The amounts

that can be better predicted are budgeted for as part of the annual operating budget transfer to reserves. The list of the budgeted transfer to reserves is included in Attachment 2.

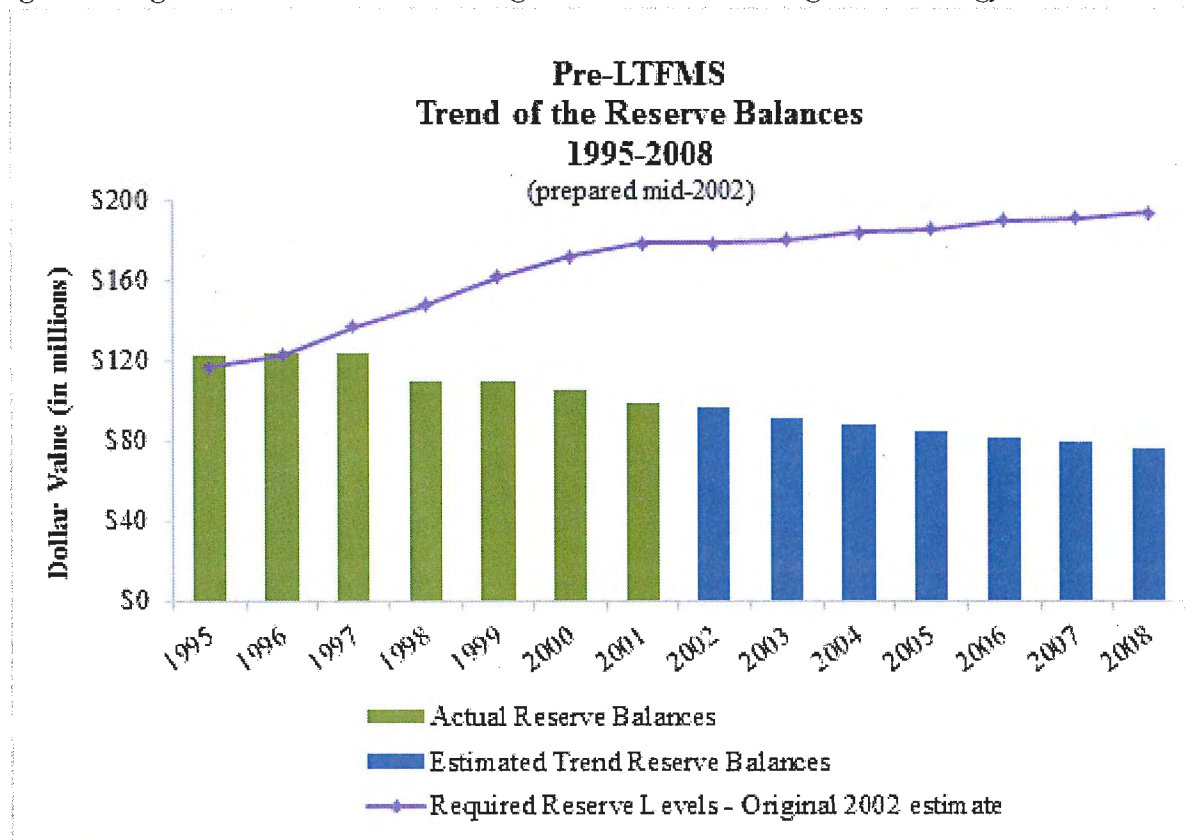
Analysis

Long Term Financial Management Strategy

In mid-2002, after a review of the trend of the City's reserves (blue bars in *Figure 1*), the Chief Administrative Officer directed staff to prepare a plan to address the long term financial sustainability of the City. Up to that point in time, the City's long term financial direction was driven by the annual budget decisions, which in turn were driven by Council's desire to keep the tax impacts artificially low. In the mid to late 1990's for instance, the City absorbed approximately \$5.7 million in loss of grants from the Province, absorbed growth and incurred debt, while keeping tax increases in the range of 0% to 1.8%. The City obtained \$37.6 million in debt for the Terra Nova land acquisition and No. 2 Road Bridge construction at rates of 5.99% and 8.5% respectively. The outstanding obligation on this debt was only recently extinguished in 2014.

The consequence of these decisions was the gradual deterioration of the City's reserves (green bars in *Figure 1*). This path was clearly not sustainable and a more comprehensive financial strategy was required.

Figure 1 Original Reserve Trend Pre-Long Term Financial Management Strategy



To develop the vision, Council held a number of workshops to gain an understanding of the environmental factors that were impacting the City's financial position as well as 'gaps' reflected in the operating budgets, capital plans, ageing infrastructure funding plans and reserve balances. The end result being that Council decided to focus on *"enhancing the City's economic well-being for present and future generations as part of the well managed component of the vision without sacrificing the overall liveability of the community"* and in September 2003, Council approved the Long Term Financial Management Strategy (the Strategy).

Council went a step further in order to guide and protect the sustainability of the City's long term financial position and approved 10 supporting policies. From the time that the Strategy was adopted, Council has approved updates to the supporting policies. The 10 supporting policies as currently adopted are as follows:

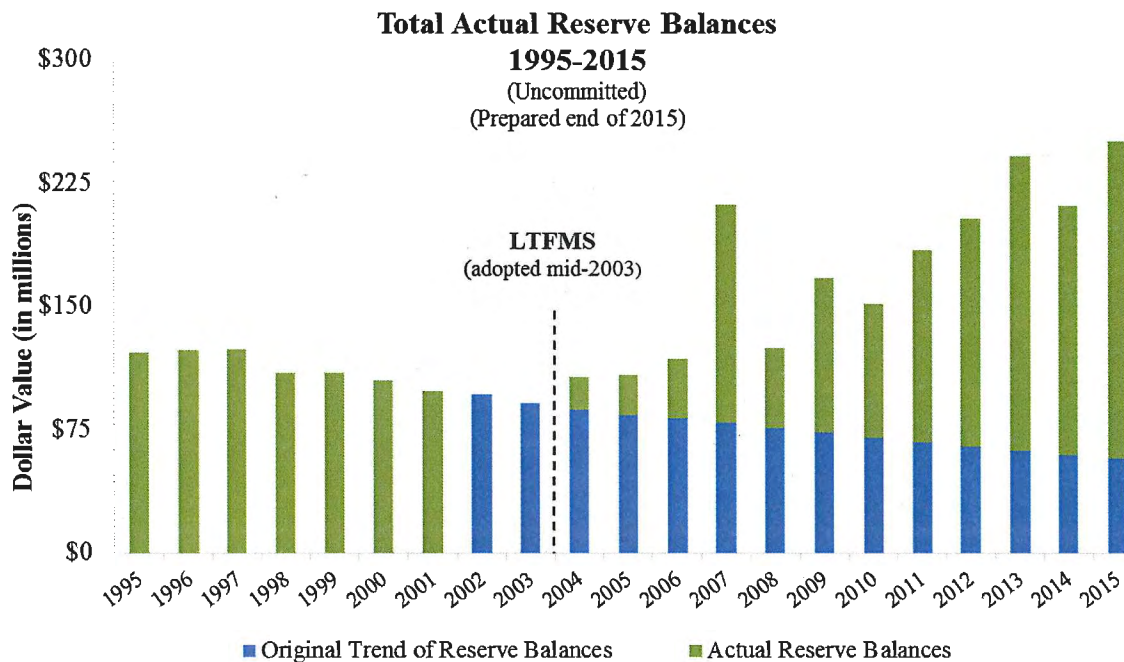
1. **Tax Revenue** - Tax increases will be at Vancouver's Consumer Price Index (CPI) rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1.0 % towards infrastructure replacement needs.
2. **Gaming Revenue** - Gaming revenues are designated for the capital reserves, the major capital community facility replacement program, the grants program, the Council initiatives account and towards the cost of policing relating to gaming activities.
3. **Alternative Revenues & Economic Development** - Any increases in alternative revenues and economic development beyond all the financial strategy targets can be utilized for increased levels of service or to reduce the tax rate.
4. **Changes to Senior Government Service Delivery** - Any additional costs imposed on the City as a result of mandatory senior government policy changes should be identified and added to that particular year's taxes above and beyond the CPI and infrastructure percentage contribution.
5. **Capital Plan** - Ensure that long term capital funding for infrastructure (e.g. parks, trails, facilities, roads, etc.) is in place in order to maintain community liveability and generate economic development.
6. **Cost Containment** - Staff increases should be achieved administratively through existing departmental budgets, and no pre-approvals for additional programs or staff beyond existing budgets should be given. A continuous review of the relevancy of the existing operating and capital costs should be undertaken to ensure that the services, programs and projects delivered continue to be the most effective means of achieving the desired outcomes of the City's vision.
7. **Efficiencies and Service Level Reductions** - Savings due to efficiencies or service level reductions identified in the strategy targets should be transferred to the capital reserves. Any savings due to efficiencies beyond the overall strategy targets can be utilized to reduce the tax rate or for increased levels of service.
8. **Land Management** - Sufficient proceeds from the sales of City land assets will be used to replenish or re-finance the City's land inventory. Any funds in excess of such proceeds may be used as directed by Council.

9. **Administrative** - As part of the annual budget process, the following shall be undertaken:
- all user fees will be automatically increased by CPI;
 - the financial model will be used and updated with current information; and
 - the budget will be presented in a manner that will highlight the financial strategy targets and indicate how the budget meets or exceeds them.
10. **Debt Management** - Utilize a “pay as you go” approach rather than borrowing for financing infrastructure replacement unless unique circumstances exist that support borrowing.

These policies are used by staff during the budget process and are integral to the financial decision making of the City in ensuring a long-term focus and financial sustainability.

The progress that has been made to date due to the Strategy can be measured by the increase to the reserves. The building of the reserves was one of the initial drivers behind the creation of the Strategy. Prior to the implementation of the Strategy, the reserves were steadily declining as depicted by the green bars and the future reserve projections represented by the blue bars continued the decline. After the adoption of the Strategy, the reserve balances have shown a steady increase peaking at \$250.5 million at the end of 2015.

Figure 2 – Total Actual Reserve Balances (Uncommitted)



The above chart shows the overall reserve balances and the increases since the adoption of the Strategy. Though the overall reserves balances are growing, the Capital Building and Infrastructure Reserve which is used to fund major capital facility replacement is a key indicator of the effectiveness of the Strategy as the recipient of the 1% annual increase in transfer to

reserves. The uncommitted balance of all reserve funds, including sub-funds as of September 30, 2016 is included in Attachment 3.

Facility Reserves

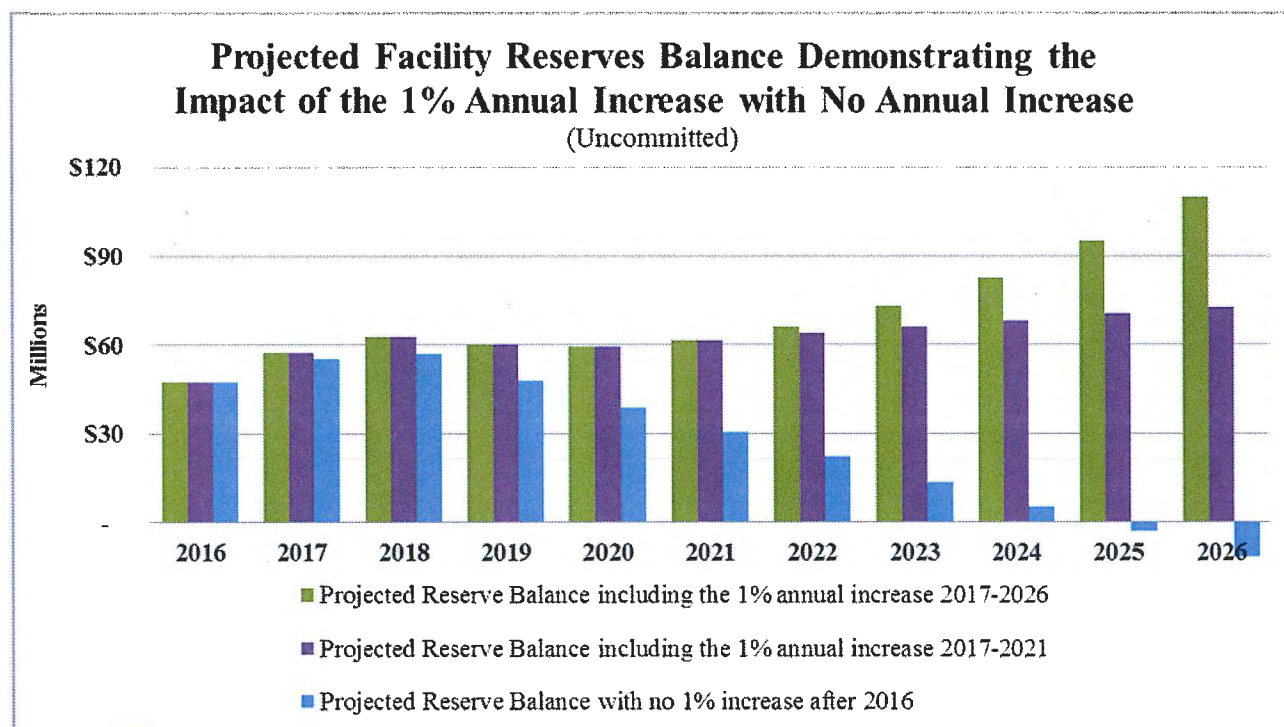
There are two reserves that comprise the facility reserves, the Capital Building and Infrastructure (CBI) Reserve excluding the special sports sub-fund, and the Leisure Facilities Reserve.

The Leisure Facilities Reserve is currently funded through developer contributions. The amounts and timing of these contributions are dependent on development activity.

The CBI Reserve has been utilized recently for partial funding towards Phase 1 of the Corporate Facilities Implementation Plan. Staff are currently reviewing Phase 2 and beyond of the Corporate Facilities Implementation Plan. As these plans are in the initial stages of development, cost estimates range from \$200 - \$350 million. For this analysis, several assumptions have been made to project future facility reserve balances and the ongoing impact of the 1% annual transfer.

Note that this is for illustration purposes based on several assumptions including tax amounts, gaming revenue allocation, funding increases, capital requirements, construction timing, etc. Many of these variables will only be known once detailed analysis, public consultation and design works have been completed. Also, adjustments to the 1% funding increase amounts or timing will impact the projected balances.

Figure 3 – Projected Facility Reserve Balances Demonstrating the Impact of the 1% Annual Increase with No Annual Increase



Based on the current assumptions, if there are no further 1% increases and the current contribution level is maintained while the Phase 2 and 3 facilities plans are implemented, the facility reserves would deplete in approximately 2025 as represented by the blue bars in figure 3.

The purple bars represent a 1% annual increase in the transfer to the CBI Reserve for the years 2017-2021 with the 2021 annual tax transfer of approximately \$21.2 million maintained into the future. This projection results in a stable balance of the facility reserves.

A 1% increase to the transfer to reserves for the years 2017-2026 would result in a growing reserve balance due to the compounding impact of the annual transfer.

The combined uncommitted balance at September 30, 2016 of these facility reserves is \$43.4 million. The CBI Reserve is estimated to receive funding of approximately \$14.5 million in 2016 through property taxes and gaming revenues. The CBI Reserve is the recipient of the 1% annual tax increase for transfer to reserves, and as of 2016, the cumulative 1% increase contributes \$10.6 million annually. The gaming revenue portion of the funding is estimated to be \$3.9 million for 2016. The actual amount of funding from gaming revenue will vary from this estimate based on the final gaming revenues received during the year with any surplus or shortfall compared to budget being added or reduced from the \$3.9 million allocation.

Since the implementation of the Strategy in 2003, \$65.0 million has been directed to the CBI Reserve as a result of the 1% annual tax increase for transfer to reserves. The 1% increase has been fully met in six years and partially met in two. The detail of the 1% annual tax increase is included in Attachment 4.

Staff will continue to gather information and update the reserve projections as the building scope is determined, construction estimates are updated and the timing defined. A separate report will be presented on the Corporate Facilities Implementation Plan funding options at a later date.

The above analysis is concentrated on major facility replacement and construction, it does not factor in the costs associated to preventative maintenance programs, repair and restoration works. These amounts are currently funded through the City's operating budget for maintenance and minor works, and the Capital Reserve fund for major repair and restoration works. A separate report, "Ageing Facility Infrastructure – Update" was presented to Council on July 27, 2015 detailing these funding requirements.

Capital Reserve

The Capital Reserve is comprised of two sub-funds: the Revolving and the Industrial Use Reserve sub-funds. The Industrial Use Reserve is for the acquisition of land and its uncommitted balance at September 30, 2016 is \$23.5 million.

The Revolving fund can be used for general capital purposes and is typically utilized for replacement park and road infrastructure which are not eligible for Development Cost Charges (DCC) funding, the City assist factor on park and road DCC projects, building repair and restoration work and other various projects. This fund was also utilized for partial funding towards Phase 1 of the Corporate Facilities Implementation Plan. The uncommitted balance at September 30, 2016 is \$42.5 million.

Utility Reserves

The Utility Reserves consist of the Drainage Improvement Reserve, Sanitary Sewer Reserve and Watermain Replacement Reserve and are funded through the utility rates.

The funding requirements of these reserves have been reported to Council through Ageing Infrastructure Assessment reports, the latest of which, the “Ageing Infrastructure Planning – 2015 Update” was presented to on Council July 27, 2015. That report also includes information on road paving which is outside the scope of this Reserve Update report as there is no reserve for this purpose.

The estimated infrastructure replacement costs are planned over a 75 year horizon and have produced a funding requirement range (in 2015 dollars). This range represents the estimated level of uncertainty in the long-term annual funding levels due to: potential overlap between capacity based improvements due to development or climate change, variability in the potential service life of the infrastructure, variability in the economy and the cost of infrastructure replacement and unanticipated or emergency events that initiate early infrastructure replacement.

The City has made considerable infrastructure funding gains since initiating its strategy to close the funding gap and the latest increases in 2016 eliminated the funding gap for drainage infrastructure and narrowed the gap for the sanitary sewer infrastructure. Figure 4 summarizes the current and required annual infrastructure funding levels.

Figure 4 – Utility Infrastructure Funding Levels, amounts in (\$ million)

Infrastructure Type	2015 Actual Annual Funding Level	Required Funding Range (in 2015 dollars)	2016 Actual Annual Funding Level	Increase from 2015 Funding Level
Drainage*	\$10.4	\$10.2 – \$12.7	\$11.0	\$0.6
Sanitary	4.3	6.2 – 7.5	5.3	1.0
Water	7.5	6.8 – 8.6	7.5	-
Total	\$22.2	\$23.2 – \$28.8	\$23.7	\$1.6

*Long-term dike replacement costs are yet to be determined and are excluded.

Where possible, the City obtains provincial and federal grants to offset costs. In April 2016, the City received \$16.6 million of funding from the Province of British Columbia to rebuild four drainage pump stations and upgrade various sections of the dike. This amount was based on a 2/3 to 1/3 provincial/municipal split of the estimated capital cost.

Staff will continue to monitor the required funding levels and identify strategies to address any funding shortfalls through the budget process.

Municipal Comparison

A comparison of reserve balances across municipalities is useful to gauge how the City stands related to its comparator group. However, since not all municipalities report their reserves in a similar fashion, direct comparison of accumulated surplus net of equity in tangible capital assets is recommended.

Accumulated surplus net of equity in tangible capital assets represents the amount that each city has in its operating fund, capital fund, water, sewer and other statutory reserve funds. These amounts are unspent and Council can authorize their use within any defined restrictions. Included in these balances are amounts that have been allocated to projects but remain unspent as of the reporting date.

Relative to its comparator group, Richmond has the second highest of the five cities of accumulated surplus net of equity in tangible capital assets at \$3,252 per capita. This indicates that there are more funds set aside for future spending on a per capita basis in Richmond than in the cities with lower figures.

The per capita amount Richmond has set aside for future spending is one of the highest of the comparator group, however, the ratio of net book value of tangible capital assets to cost is one of the lowest. This signifies that Richmond's assets are relatively older than other cities' and more funds are required for future replacement of the assets. As Richmond continues to complete the Corporate Facilities Implementation Plan and to replace its ageing infrastructure, the net book value of tangible capital assets to cost ratio will improve.

The detail of each city's financial indicators is included in Attachment 5.

Each city's required reserve funding level should be analysis based on future needs and funding strategies. Though it is good to have an idea where Richmond ranks relative to its comparators, the age and condition of assets, the City's goals and objectives and other factors will influence future funding requirements.

Financial Impact

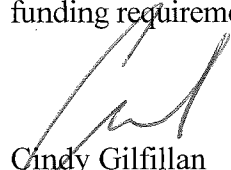
None.

Conclusion

Since 2003, Council has allocated over \$65.0 million towards the reserves through the Strategy policy directing a 1% increase in transfer to reserves. This long-term view has helped partially fund the Phase 1 of the corporate facilities implementation plan and will continue to be used to fund Phase 2 and beyond.

Overall, Council is on track towards its goal of *“enhancing the City's economic well-being for present and future generations as part of the well managed component of the vision without sacrificing the overall liveability of the community”* as per the Strategy. The long term financial sustainability of the City has improved since the implementation of the Strategy and its policies help guide the city in its long-term focus and decision making. The strategies employed to address the

funding shortfalls in the facility reserves and utility reserves are showing substantial progress toward narrowing the funding gaps. Staff will continue to gather information about future plans and funding requirements.



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

CG:cg

- Att. 1: Reserve Fund Purposes
- 2: 2016 Budgeted Transfer to Reserve Summary by Funding Source
 - 3: Reserve Fund Uncommitted Balances as at September 30, 2016
 - 4: Analysis of the Long Term Financial Management Strategy's 1% Increase tax rate for transfer to reserves
 - 5: Comparison of Top 5 BC Municipalities' Financial Indicators

Reserve Fund Purposes

Affordable Housing Reserve Fund

The Affordable Housing Reserve Fund was established for the purchase of property for, and the development of social housing. This reserve is funded through development contributions.

Affordable Housing Operating Reserve Fund

The Affordable Housing Operating Reserve Fund was established for the administration costs related to the Richmond Affordable Housing Strategy, agreements and management of City owned affordable housing units. This reserve is funded through development contributions.

Arts, Culture & Heritage Capital Reserve Fund

The Arts, Culture & Heritage Capital Reserve Fund was established for the development of arts, cultural or heritage facilities, restoration of heritage properties, or the renovation or restoration of facilities or properties that will be used for arts, cultural and heritage activities. This reserve was established with net funds from a land exchange and is currently funded through development contributions.

Capital Reserve Fund

The Capital Reserve Fund includes two sub-funds (i) the Revolving Fund and (ii) the Industrial Use Fund. The Revolving Fund is for general capital projects and is also the funding source for the assist factor for roads and parkland DCC's. The Industrial Use Fund is for land acquisition. The Capital Reserve is funded from taxes, gaming and other revenues.

Capital Building and Infrastructure Reserve Fund

The Capital Building and Infrastructure Fund includes two sub-funds (i) the Capital Building and Infrastructure General Fund and (ii) the Capital Building and Infrastructure Special Sports Fund. The Capital Building and Infrastructure General Fund is for facility construction and is funded from taxes and gaming revenue. The Capital Building and Infrastructure Special Sports Fund is for construction costs relating to artificial turf fields and is funded from sports field fees and other recoveries.

Capstan Station Capital Reserve Fund

The Capstan Station Capital Reserve Fund was established for the cost of constructing the Capstan Station, improvements to City infrastructure within the area that facilitate or enhance public use of the Capstan Station and related transportation. Or in the event that Capstan Station is deemed not feasible, the reserve will fund the cost of alternative public transportation improvements or other capital public improvements in the area. This reserve is funded through development contributions.

Child Care Development Reserve Fund

The Child Care Development Reserve Fund was established for the development of child care facilities and equipment which meet the City's child care objectives. This reserve is funded through development contributions.

Child Care Operating Reserve Fund

The Child Care Operating Reserve Fund was established for non-capital expenditures relating to childcare within the City. This reserve is funded through development contributions.

Community Legacy & Land Replacement Reserve Fund

The Community Legacy & Land Replacement Reserve Fund was established with the net proceeds received from the sale of the Oval Lands to be used for the purpose of acquiring land, land improvements and other assets of a capital nature with the intent that current and future constituents of Richmond continue to receive benefits of lasting value. There is no current funding mechanism for this reserve.

Drainage Improvement Reserve Fund

The Drainage Improvement Reserve Fund was established for drainage and diking infrastructure. This reserve is funded through utility rates.

Equipment Replacement Reserve Fund

The Equipment Replacement Reserve Fund was established to provide machinery and equipment and includes the following sub-funds: Computer Systems, Fire Rescue Vehicles, Mechanical Equipment, Public Works Vehicles, Telecommunications Systems and Other. This reserve is funded through taxes and utility rates.

Hamilton Area Plan Community Amenity Capital Reserve Fund

The Hamilton Area Plan Community Amenity Capital Reserve Fund was established for capital costs for community amenities located within the Hamilton Area and those specified in the Hamilton Area Plan. This reserve is funded through development contributions.

Leisure Facilities Reserve Fund

The Leisure Facilities Reserve Fund includes two sub-funds (i) Leisure Facility Development Fund and (ii) City Centre Facility Development Fund. The Leisure Facility Development Fund was established to accept the Cash In Lieu of Amenity Space funds contributed by developers for the building of additional recreation and cultural facilities within the City. The City Centre Facility Development Fund was established for the development of recreation and cultural facilities in City Centre. This reserve is funded through development contributions.

Local Improvements Reserve Fund

The Local Improvements Reserve Fund was established to fund Local Area Services Program works to be repaid by the property owners benefiting, with some financial assistance from the City.

Neighbourhood Improvement Reserve Fund

The Neighbourhood Improvement Reserve Fund was established to collect funds from developers in lieu of completing street frontage works where the City will complete the works at a later time.

Public Art Program Reserve Fund

The Public Art Program Reserve Fund was established for the provision of public artwork. This reserve is funded through development contributions.

Sanitary Sewer Reserve Fund

The Sanitary Sewer Reserve Fund is for sanitary sewer capital works. This reserve is funded through utility rates.

Steveston Off-Street Parking Reserve Fund

The Steveston Off-Street Parking Reserve Fund is for the acquisition and development of parking in the Steveston area. This reserve is funded through development contributions.

Steveston Road Ends Reserve Fund

The Steveston Road Ends Reserve Fund was established to receive the proceeds from the sale of road ends in the Steveston area, to be used towards park development in the Steveston Area, and other capital projects.

Waterfront Improvement Reserve Fund

The Waterfront Improvement Reserve Fund was established for capital improvements to the waterfront. There is no funding mechanism in place for this reserve, amounts have historically been allocated from the Capital Reserve.

Watermain Replacement Reserve Fund

The Watermain Replacement Statutory Reserve Fund is for the replacement of ageing water mains. This reserve is funded through utility rates.

2016 Budgeted Transfer to Reserve Summary by Funding Source (in \$ millions)

Statutory Reserve	Gaming Revenue	Tax Revenue	Utility Fees	Other Revenue	Total 2016 Funding
Capital Reserve	\$5.4	\$4.4	\$ -	\$1.6	\$11.4
Capital Building and Infrastructure Reserve	3.9	10.6	-	0.3	14.8
Drainage Improvement Reserve	-	-	11.0	-	11.0
Equipment Replacement Reserve	-	2.7	0.1	-	2.8
Sanitary Sewer Reserve	-	-	5.3	-	5.3
Watermain Replacement Reserve	-	-	7.5	-	7.5
Investment income allocation to reserves	-	-	-	9.6	9.6
Total Transfer by Funding Source	\$9.4	\$17.6	\$23.8	\$11.4	\$62.2
% by Funding Source	15.0%	28.4%	38.3%	18.3%	100.0%

The above transfer amounts represent budgeted transfers to reserves. The figures do not include amounts which are dependent on timing of external factors such as development contributions, proceeds on disposition of assets or internal repayments etc.

Reserve Fund Uncommitted Balances as at September 30, 2016 (in \$ millions)

Reserve Fund	September 30, 2016 Balance
<i>Affordable Housing General Sub-fund</i>	<i>\$1.0</i>
<i>Affordable Housing West Cambie Sub-fund</i>	<i>2.2</i>
Total Affordable Housing Reserve Fund	3.2
Affordable Housing Operating Reserve Fund	1.4
Arts, Culture & Heritage Capital Reserve Fund	4.4
<i>Capital Building and Infrastructure – General Sub-fund</i>	<i>38.1</i>
<i>Capital Building and Infrastructure – Special Sports Sub-fund</i>	<i>1.5</i>
Total Capital Building and Infrastructure Reserve Fund	39.6
<i>Capital Reserve – Revolving Sub-fund</i>	<i>42.5</i>
<i>Industrial Use Reserve Sub-fund</i>	<i>23.5</i>
Total Capital Reserve Fund	66.0
Capstan Station Capital Reserve Fund	14.6
<i>Child Care Development – General Sub-fund</i>	<i>1.6</i>
<i>Child Care Development – West Cambie Sub-fund</i>	<i>0.7</i>
Total Child Care Development Reserve Fund	2.3
Child Care Operating Reserve Fund	0.2
Community Legacy & Land Replacement Reserve Fund	0.4
Drainage Improvement Reserve Fund	30.7
<i>Computer Systems Sub-fund</i>	<i>0.6</i>
<i>Fire Rescue Vehicles Sub-fund</i>	<i>1.2</i>
<i>Mechanical Equipment Sub-fund</i>	<i>0.1</i>
<i>Other Sub-fund</i>	<i>0.2</i>
<i>Public Works Vehicles Sub-fund</i>	<i>9.8</i>
<i>Telecommunications Systems Sub-fund</i>	<i>0.2</i>
Total Equipment Replacement Reserve Fund	12.1
Hamilton Area Plan Community Amenity Capital Reserve Fund	0.0
<i>Leisure Facilities Development Sub-fund</i>	<i>2.2</i>
<i>City Centre Facility Development Sub-fund</i>	<i>3.1</i>
Total Leisure Facilities Reserve Fund	5.3
Local Improvements Reserve Fund	5.8
Neighbourhood Improvement Reserve Fund	6.6
Public Art Program Reserve Fund	1.4
Sanitary Sewer Reserve Fund	26.8
Steveston Off-Street Parking Reserve Fund	0.3
Steveston Road Ends Reserve Fund	0.1
Watermain Replacement Reserve Fund	40.6
Waterfront Improvement Reserve Fund	0.1
Total Uncommitted Reserve Funds	\$261.9

Analysis of Long Term Financial Management Strategy's 1% Increase tax rate for transfer to reserves (in \$ millions)

Year	% Increase to Reserves	Annual \$ Increase to Reserves	Cumulative Actual Transfer to Reserves	Compound Contribution to Reserves
2003	1.00%	\$1.0	\$1.0	\$1.0
2004	0.47%	0.5	1.5	2.5
2005	-	-	1.5	4.0
2006	1.00%	1.1	2.6	6.6
2007	0.82%	1.0	3.6	10.3
2008	-	-	3.6	13.9
2009	-	-	3.6	17.6
2010	-	-	3.6	21.2
2011	-	-	3.6	24.9
2012	1.00%	1.6	5.3	30.1
2013	1.00%	1.7	6.9	37.1
2014	1.00%	1.7	8.7	45.7
2015	-	-	8.7	54.4
2016	1.00%	1.9	10.6	65.0
Total		\$10.6	\$65.0	

There were two one-time funding allocations distributed in lieu of the 1% tax increase, \$1.0 million in 2011 and \$1.8 million in 2015.

On July 23, 2007, Council approved a temporary cessation of the 1% tax increase for 2008 to 2011, due to the additional interest earned on the Community Legacy & Land Replacement Reserve Fund.

Comparison of Top 5 BC Municipalities' Financial Indicators

Municipalities' financial indicators on a per capita basis (based on 2015 Financial Statements)

	Burnaby	Coquitlam	Richmond	Surrey	Vancouver	Richmond Rank
Total cash and investments	\$3,910	\$2,405	\$4,579	\$1,367	\$2,862	1
Financial assets	\$5,241	\$2,627	\$4,897	\$1,655	\$3,085	2
Debt	\$0	\$150	\$224	\$433	\$1,524	3
Net financial assets	\$4,319	\$1,609	\$3,196	\$63	\$113	2
Liabilities	\$923	\$1,018	\$1,701	\$1,592	\$2,972	2
Tangible capital assets (Net book value)	\$10,786	\$12,594	\$9,929	\$15,457	\$9,950	5
Reserves and other surplus*	\$4,334	\$1,771	\$3,252	\$419	\$1,618	2
Invested in tangible capital assets	\$10,786	\$12,441	\$9,893	\$15,110	\$8,479	4
Total accumulated surplus	\$15,120	\$14,212	\$13,145	\$15,529	\$10,097	4
Total revenues	\$2,189	\$1,960	\$2,537	\$1,625	\$2,441	1
Total expenses	\$1,651	\$1,509	\$1,798	\$1,277	\$2,102	2
Population**	238,209	144,668	207,773	526,004	648,608	4

*Each municipality defines components of their accumulated surplus differently and amounts may not be directly comparable. For the purposes of this analysis, "reserves and other surplus" contains all operating, capital, water, sewer and other statutory reserve funds.

**Population figures for 2015 for all municipalities obtained from BC statistics

2015 Ratio Analysis

	Burnaby	Coquitlam	Richmond	Surrey	Vancouver
Sustainability ratios					
Assets to liabilities (times)	17.4	15.0	8.7	10.8	4.4
Financial assets to liabilities (times)	5.7	2.6	2.9	1.0	1.0
Net debt to total revenues	0.0%	7.6%	8.8%	26.7%	62.4%
Expenses to the total assessment	0.6%	0.7%	0.6%	0.7%	0.6%
Flexibility ratios					
Net book value of capital assets to its cost	72.2%	77.6%	68.7%	81.8%	67.1%
Net book value of capital assets to its cost excluding land	50.3%	65.4%	57.2%	68.1%	60.1%
Debt charges to revenues	0.0%	0.5%	0.3%	0.9%	2.4%
Vulnerability ratios					
Government transfers to total revenues*	3.7%	6.0%	5.4%	5.4%	2.9%

* 2014 figures were used for the government transfers to total revenue ratio as this figure is obtained through the LGDE statistics and the figures for 2015 were not published at the time of preparation.

The ratio analysis addresses the following 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.

Sustainability Ratios

- **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.
- **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.

Flexibility Ratios

- **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 to cost excluding land:** indicates the estimated useful life of the capital assets to provide services. A higher ratio indicates a newer asset inventory.

- **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.

Vulnerability Ratios

- **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.



City of Richmond

Report to Committee

To: Finance Committee
From: Jerry Chong
Director, Finance
Re: 2016 Audit Engagement



Date: October 14, 2016
File: 03-0905-01/2016-Vol
01

Staff Recommendation

That the 2016 Audit Planning Letter from KPMG, LLP, dated October 13, 2016, as provided in Attachment 1 of the staff report titled, "2016 Audit Engagement", dated October 14, 2016, from the Director, Finance, be received for information.


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

Att. 2

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER 	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS: DW
APPROVED BY CAO (Chong). 	

Staff Report

Origin

Pursuant to Section 169 (1) of the *Community Charter*, a Council must appoint an auditor for the municipality (municipal auditor). Under Section 169 (3), a municipal auditor has the power and duty to conduct the examinations necessary to prepare the required reports.

Section 171 of the *Community Charter* directs that the municipal auditor must report to Council on the annual financial statements of the municipality. The report must be in accordance with the form and the reporting standards recommended by the Chartered Professional Accountants of Canada.

This report outlines the terms of the audit engagement for the period ending December 31, 2016.

Analysis

At the November 13, 2012 Council meeting, KPMG, LLP (KPMG) was re-appointed as the City's auditor for the years 2012 to 2017.

Audit Plan

KPMG's planned scope and timing for the audit of the consolidated financial statements is provided in their Audit Planning Letter (Attachment 1). The overall audit strategy and audit approach is designed to address any significant risks identified during the planning process.

A summary of observations will be provided at the completion of the audit that may include comments on risks and the City's approach to those risks, performance improvement observations, or other industry trends and developments.

Annual Inquiries of the Committee

Professional standards require that KPMG ask questions of the Finance Committee (the Committee) in connection with oversight of management's process for identifying and responding to risks of fraud. The specific questions asked of the Committee are:

- Are you aware of, or have you identified any instances of, actual, suspected, possible, or alleged non-compliance of laws and regulation or fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have these instances been appropriately addressed to your satisfaction?
- Are you aware of any significant fraud risks facing the City?
- Do you believe that the Committee exercises effective oversight of management's process for identifying and responding to the risk of fraud in the City and the internal controls that management has established to mitigate these fraud risks?
- Are you aware of the City entering into any significant unusual transactions?

The above questions are the same as prior years and relate to the consolidated City entity including the City, Richmond Olympic Oval, Library and Lulu Island Energy Corporation.

As with previous years, KPMG requests that if the Committee has any comments on the above questions that the Committee believes should be brought to KPMG's attention, that the KPMG Engagement Partner be contacted.

Audit Scope

The objectives of the audit, KPMG's responsibilities in carrying out the audit, as well as management's responsibilities are set out in the Engagement Letter, dated November 4, 2013 (Attachment 2).

The scope of the audit engagement includes:

- Audit of the City's consolidated financial statements
- Audit of the Home Owner Grant
- Audit of the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act

Financial Impact

There is no financial impact. The audit fee is provided for within the City's Operating Budget.

Conclusion

KPMG has been engaged to perform the audit for the year ended December 31, 2016. Their Audit Plan communicates KPMG's overall audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. The 2016 audit standards continue to focus the audit on areas where there is greater risk of misstatement.



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

CG:cg

Att. 1: Audit Planning Letter
2: Engagement Letter



KPMG LLP
Metro Tower I
4710 Kingsway, Suite 2400
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Canada
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Fax (604) 527-3636

AUDIT PLANNING LETTER

PRIVATE & CONFIDENTIAL

Chair and Members of the Finance Committee
City of Richmond
6911 No. 3 Road
Richmond BC, V6Y 2C1

October 13, 2016

To the Chair and Members of the Finance Committee of the City of Richmond (the "Committee"):

We are pleased to provide for your review the following information relating to the planned scope and timing for the audit of the consolidated financial statements of the City of Richmond (the "City") for the year ended December 31, 2016.

We would be pleased to receive any comments or suggestions you may have with respect to the planned audit scope or timing and we look forward to discussing the letter and answering questions that you may have. If you have any specific areas of concerns or other issues you would like addressed in the audit, please contact us. We appreciate the opportunity to serve you and look forward to our continuing relationship.

This letter is for the use of the Committee for the purpose of carrying out and discharging your responsibilities and exercising oversight over our audit. This letter should not be used for any other purpose or by anyone other than the Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter 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, MBA
Client Relationship and Quality Review Partner
(604) 527-3757

cc: Mr. George Duncan, Chief Administrative Officer
Mr. Andrew Nazareth, General Manager, Finance & Corporate Services
Mr. Jerry Chong, Director of Finance

Enclosures:

Appendix 1 – Engagement letter



CONSIDERATIONS IN DEVELOPING OUR AUDIT PLAN

There are no significant changes in the operations of the City in the current year that will impact the financial statements.

There are no significant changes in accounting standards in the current year that will impact the audit of the City's financial statements.

There are no significant changes in the auditing and other professional standards in the current year that will impact the audit of the City's financial statements.

SCOPE AND TIMING OF THE AUDIT

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter which is included in the appendices to this letter.

We design an overall audit strategy and audit approach to address the significant risks identified during the planning process.

Materiality

We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The determination of materiality requires judgment and is based on a combination of quantitative and qualitative assessments, including the nature of account balances and financial statement disclosures.

We determine performance materiality (from materiality) in order to assess risks of material misstatement and to determine the nature, timing and extent of audit procedures.

We determine an audit misstatement posting threshold (from materiality) in order to accumulate misstatements identified during the audit.

For the current period, the following amounts have been determined:

Materiality	Performance Materiality	Audit Misstatement Posting Threshold
\$7,500,000	\$5,625,000 which has been set at 75% of materiality	\$375,000, which has been set at 5% of materiality.

We will reassess materiality based on period-end results or new information to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.



Identification of significant risks

As part of our audit planning, we identify the significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we establish an overall audit strategy and effectively target our audit procedures.

The significant financial reporting risks identified during our audit planning are listed below:

Significant unusual transactions

There were no significant unusual transactions noted through our discussion with management.

Risk of management override of controls

Although the level of risk of management override of controls will vary from entity to entity, professional standards presume the risk of management override of controls is nevertheless present in all entities and requires the performance of specific procedures to address this presumed risk. We plan on performing the required procedures under professional standards. These include testing journal entries and performing a retrospective review of areas of estimate.

Timing of audit and deliverables

<i>Topic:</i>	<i>Dates:</i>
Conduct interim audit field work	November 7 - 11, 2016
Provide our audit planning letter	October 13, 2016
Conduct year-end audit field work	February 20 - March 10, 2017
Present our year-end audit findings letter, including independence communications to the Committee	Date to be determined
Provide audit opinion on financial statements	Upon acceptance by Council of the financial statements.

ANNUAL INQUIRIES OF THE COMMITTEE

Professional auditing standards require that we annually inquire concerning the Committee's oversight of management's process for identifying and responding to the risks of fraud within the City. Accordingly, we ask whether you:

- Are aware of, or have identified any instances of, actual, suspected, possible, or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have these instances been appropriately addressed to your satisfaction?
- Are aware of any significant fraud risks facing the City?
- Believe that the Committee exercises effective oversight of management's process for identifying and responding to the risk of fraud in the City and the internal controls that management has established to mitigate these fraud risks?
- Aware of the City entering into any significant unusual transactions?

If you have any comments on the above questions that you would like to bring to our attention, please contact C.J. James, Engagement Partner.

OBSERVATIONS AND INSIGHTS

During the course of our audit, we may become aware of a number of observations that may be of interest to you. These observations may include comments on risks and the City's approach to those risks, performance improvement observations, or other industry trends and developments. These observations are based on, among other things, our understanding of the affairs and processes of the City, as well as our understanding of many other entities in the same or other industries.

We will discuss any such observations with management and provide our insights. We will also include a synopsis of these observations and insights in our discussions with you at the completion of the audit.

CURRENT DEVELOPMENTS

Financial Instruments and Foreign Currency Translation

- New Accounting Standards, Financial Instruments PS3450 and Foreign Currency Translation PS2601 have been approved by the PSAB and are effective for years commencing on or after April 1, 2019. Early adoption is permitted. Management has decided not to early adopt the standard for the current year.
- Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.
- Hedge accounting is not permitted.
- A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.

Related Party Disclosures and Inter-Entity Transactions

- PSAB issued Section PS2200 Related Party Transactions which defines related party and provides disclosures requirements. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.
- Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements.
- This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.
- This standard is effective for fiscal periods beginning on or after April 1, 2017.

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.

Retirement Obligations

- PSAB issued a statement of principles in August 2014 on Retirement Obligations associated with tangible capital assets.
- The statement of principles recommended that retirement obligations associated with tangible capital assets increase the carrying amount of the related tangible capital assets and be expenses in rational and systematic manner. Retirement obligations include post-retirement operation, maintenance and monitoring.
- PSAB is still reviewing the comments it received on this document and expects to review an exposure draft at its December 2016 meeting.

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.
- The statement of principles recommended that in 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.
- 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. A request for information is under development and expected for release in 2015. Adoption of these principles would result in a need to assess current accounting policies.
- The comments are still under deliberation by the Board.



Public Private Partnership

- In PSAB's 2014 Project Priority Survey, the Board approved a project to develop authoritative guidance specific to public private partnerships.
- In 2016, PSAB initiated the project by assembling a task force that will develop a public sector accounting standard specific to public private partnerships.
- This project is expected to develop in two stages. The first stage will involve contemplating specific issues, including project scope, recognition and measurement of a public private partnership and disclose requirements. Other issues will be considered. The second stage will involve determining how to account for public private partnerships.
- PSAB expected to review a statement of principles at its December 2016 meeting.

If you have any questions or comments on the above current developments, please contact either C.J. James, Engagement Partner or Archie Johnston, Client Relationship and Quality Review Partner.



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Mr. Andrew Nazareth
General Manager, Finance and Corporate Services
City of Richmond
6911 No. 3 Road
Richmond BC V6Y 2C1

November 4, 2013

Dear Mr. Nazareth:

The purpose of this letter is to outline the terms of the following audit engagements for the City of Richmond ("the City") commencing for the period ending December 31, 2013:

- audit engagement for the consolidated financial statements
- audit of the Home Owner Grant
- audit of the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act

This letter supersedes our previous letter to the City dated November 20, 2012. The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the "Engagement Letter").

FINANCIAL REPORTING FRAMEWORK FOR THE FINANCIAL STATEMENTS

The financial statements will be prepared and presented in accordance with Canadian public sector accounting standards (hereinafter referred to as the "financial reporting framework").

The financial statements will include an adequate description of the financial reporting framework.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management acknowledges and understands that they are responsible for:

- (a) the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above
- (b) ensuring that all transactions have been recorded and are reflected in the financial statements
- (c) such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



*City of Richmond
November 4, 2013*

- (d) providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters
- (e) providing us with additional information that we may request from management for the purpose of the audit
- (f) providing us with unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence
- (g) providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that professional standards require that we disclaim an audit opinion when management does not provide certain written representations required

An audit does not relieve management or those charged with governance of their responsibilities.

AUDITORS' RESPONSIBILITIES REGARDING THE AUDIT OF THE FINANCIAL STATEMENTS

Our function as auditors of the City is:

- to express an opinion on whether the City's consolidated financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above and
- to report on the consolidated financial statements.

We will conduct the audit of the City's consolidated financial statements in accordance with Canadian generally accepted auditing and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable "professional standards").

We will plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error. Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the City and its environment, including the City's internal control.
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- form an opinion on the City's consolidated financial statements based on conclusions drawn from the audit evidence obtained.
- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the board of directors.



City of Richmond
November 4, 2013

**AUDITORS' RESPONSIBILITIES REGARDING THE AUDIT OF THE HOME OWNER GRANT:
TREASURER/AUDITOR CERTIFICATE**

We will also perform audit procedures with respect to the Home Owner Grant: Treasurer/Auditor Certificate (the "Certificate") in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion on whether the financial information in the Certificate presents fairly, in all material respects, in accordance with Section 12 of the Home Owner Grant Act. However, we cannot provide assurance that an opinion without reservation will be rendered. Circumstances may arise in which it is necessary for us to modify our audit report or withdraw from the audit engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to management and the Finance Committee.

The report will indicate that it is intended solely for the information and use of the City and the Ministry of Community, Sport and Cultural Development and that it is not intended to be and should not be used by anyone other than these specified parties.

**AUDITORS' RESPONSIBILITIES REGARDING THE COMPLIANCE WITH SUBSECTIONS 2 AND 3 OF
SECTION 124 OF PART 8 OF THE SCHOOL ACT**

We will also perform audit procedures with respect to the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion on whether the City is in compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act. However, we cannot provide assurance that an opinion without reservation will be rendered. Circumstances may arise in which it is necessary for us to modify our audit report or withdraw from the audit engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to management and the Finance Committee.

The report will indicate that it is intended solely for the information and use of the City and the Ministry of Community, Sport and Cultural Development and that it is not intended to be and should not be used by anyone other than these specified parties.

AUDITORS' DELIVERABLES

The expected form and content of our audit reports is provided in Appendix B – Expected Form of Report. However, there may be circumstances in which a report may differ from its expected form and content.

**AUDITORS' AND MANAGEMENT'S RESPONSIBILITIES REGARDING CONTINUOUS DISCLOSURE
DOCUMENTS**

When the City intends to file an annual report and we are requested to consent to the use of the audit report on the City's consolidated financial statements, professional standards require that we read the information contained in the annual report and consider whether such information is materially inconsistent with the related consolidated financial statements.



City of Richmond
November 4, 2013

Management is responsible for providing us with adequate notice of the preparation of the annual report and providing us with copy, prior to their issuance, of the annual report. Furthermore, management has the responsibility for identifying subsequent events and providing appropriate disclosure in, or adjustment of, the consolidated financial statements as a result of such events as required by the financial reporting framework and for providing updated written representations to the date of our consent.

INCOME TAX ADVISORY SERVICES

This letter details the general tax advisory services to be provided to the City of Richmond for the 2013 calendar year. If there are tax services to be delivered outside the scope of those described in this letter, we will require a separate engagement letter for those services.

Our advice generally falls under one of the following situations:

- 1) On an ongoing basis, we will provide advisory services of a general nature relating to various income, capital, payroll and indirect tax matters as they arise. This type of service generally arises on a periodic basis as a result of preliminary inquiries made by you. In rendering these services, it is important to recognize that the advice provided is dependent on the detail of the information provided and the environment in which it is rendered. When professional judgment suggests written confirmation of the facts and advice is necessary, we will draft the appropriate correspondence to ensure the appropriate standard of care is met by all parties.
- 2) Periodically, you will seek detailed advice from us in connection with a specific transaction or undertaking you are contemplating. In such a situation, our advice will be based on the information provided to us. It is the responsibility of the City to ensure we are provided with all the information necessary in order for us to render the advice sought. Our tax advice will most likely be communicated to you, or your designate, in writing.

Our tax advisory services, both written and oral, will be based on the facts and assumptions submitted to us. We will not independently verify this information. Inaccuracy or incompleteness of the information could have a material effect on our conclusions.

To be of greatest assistance to the City, we should be advised in advance of any proposed transactions. If such matters exceed the scope of this engagement letter, we will issue additional engagement letters to confirm the particular scope and terms.

FEES

Appendix A – Fees for Professional Services to this letter lists our fees for professional services to be performed under this Engagement Letter.

We are available to provide a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.



City of Richmond
November 4, 2013

We are proud to provide you with the services outlined above and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements and terms are acceptable, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

KPMG LLP

C.J. James, CA

Partner responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body
(604) 527-3635

CJ/BH

Enclosure

cc: Mr. Jerry Chong, Director of Finance
Finance Committee

The terms of the engagement set out are as agreed:

Name and Title

ANDREW NAZARETH

A

Date (dd/mm/yy)

7/11/13



City of Richmond
November 4, 2013

Appendix – Fees for Professional Services

The estimated fee for the services described in this letter is in accordance with the Request for Expressions of Interest – Provision of Municipal Audit Services dated August 7, 2012. Routine administrative expenses such as long distance telephone calls, photocopies, fax charges, printing of statements and reports, postage and delivery and secretarial and report department assistance are included in the estimated fee.

Where matters arise and require research, consultation and work beyond that include in the estimated fee, the City and KPMG will discuss revision of the estimated fee.



City of Richmond
November 4, 2013

Appendix – Expected Form of Report 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, 2013 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, 2013, 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.



City of Richmond
November 4, 2013

INDEPENDENT AUDITORS' REPORT

To the City of Richmond and the Ministry of Community, Sport and Cultural Development

We have audited the accompanying financial information in the Form C2 - Home Owner Grant: Treasurer/Auditor Certificate comprised of total Home Owner Grants of \$xxx, total reimbursement by Province of \$xxx and balance due from Province of \$xxx for the City of Richmond, for the year ended December 31, 2013 and notes, comprising a summary of significant accounting policies (together "the Certificate"). The Certificate has been prepared by management in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act.

Management's Responsibility for the Certificate

Management is responsible for the preparation of the Certificate in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act, and for such internal control as management determines is necessary to enable the preparation of the Certificate that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Certificate 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 Certificate is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Certificate. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Certificate, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the Certificate 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 Certificate.

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 financial information in the Form C2 - Home Owner Grant: Treasurer/Auditor Certificate comprised of total Home Owner Grants of \$xxx, total reimbursement by Province of \$xxx and balance due from Province of \$xxx for the City of Richmond, for the year ended December 31, 2013, is prepared, in all material respects, in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act.



City of Richmond
November 4, 2013

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 1 to the Certificate, which describes the basis of accounting. The Certificate is prepared to meet the requirements of Section 12(1) of the Home Owner Grant Act. As a result, the Certificate may not be suitable for another purpose. Our report is intended solely for the City of Richmond and the Ministry of Community, Sport and Cultural Development and should not be used by parties other than the City of Richmond and the Ministry of Community, Sport and Cultural Development.



City of Richmond
November 4, 2013

**AUDITORS' REPORT ON SUBSECTIONS 2 AND 3 OF SECTION 124 OF
PART 8 OF THE SCHOOL ACT**

To the Ministry of Community, Sport and Cultural Development

We have audited the City of Richmond's (the "City") compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act for the year ended December 31, 2013. Compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act is the responsibility of the City's management. Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the City complied with subsections 2 and 3 of section 124 of Part 8 of the School Act. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act and, where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, the City has complied, in all material respects, with subsections 2 and 3 of section 124 of Part 8 of the School Act for the year ended December 31, 2013.

Our report is intended solely for the City and the Ministry of Community, Sport and Cultural Development and should not be used by parties other than the City or the Ministry of Community, Sport and Cultural Development.



TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS

The Terms and Conditions are an integral part of the accompanying engagement letter from KPMG that identifies the engagement to which they relate (and collectively form the "Engagement Letter"). The Engagement Letter supersedes all written or oral representations on this matter.

1. SEVERABILITY.

If any of the provisions of this Engagement Letter are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

2. GOVERNING LAW.

This Engagement Letter shall be subject to and governed by the laws of the province where KPMG's principal office performing this engagement is located (without regard to such province's rules on conflicts of law) and all disputes arising hereunder or related thereto shall be subject to the exclusive jurisdiction of the courts of such province of Canada.

3. LLP STATUS.

KPMG LLP is a registered limited liability Partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial legislation. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or by any other person under that other partner's direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the relevant professional bodies. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.

4. DOCUMENTS AND INFORMATION.

Management's cooperation in providing us with documents and related information and agreed-upon assistance on a timely basis is an important factor in being able to issue our report. KPMG shall be entitled to share all information provided by the Entity with all other member firms of KPMG International Cooperative ("KPMG International") performing services hereunder. All work papers, files and other internal materials created or produced by KPMG during the engagement and all copyright and intellectual property rights in our work papers are the property of KPMG.

5. INFORMATION PROCESSING OUTSIDE OF CANADA.

In some circumstances, information entered into KPMG's time and billing system regarding the Entity and the services performed by KPMG hereunder will be stored in the United States of America by KPMG or a third party processor, and such information may be subject to disclosure in accordance with the laws applicable in the United States of America. KPMG acknowledges and represents to the Entity that only the name of the Entity, time incurred and description of the time incurred will be entered into KPMG's time and billing system regarding the Entity. Under no circumstances will KPMG's time descriptions include any information that would be covered by privacy legislation in effect in British Columbia and no other information related to the Entity will be stored outside British Columbia or made available to any person or entity without the consent of the Entity unless ordered pursuant to a competent court in British Columbia or professional regulatory body KPMG is subject to.

6. PERSONAL INFORMATION CONSENTS AND NOTICES.

Any collection, use or disclosure of personal information is subject to KPMG's Privacy Policy available at www.kpmg.ca. KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement.

The Entity represents and warrants that: (i) it will obtain any consents reasonably required to allow KPMG to collect, use and disclose personal information in the course of the engagement, and (ii) it has provided notice of the potential processing of such personal information outside of Canada (as described in paragraph 5 above). KPMG's Privacy Officer noted in KPMG's Privacy Policy is able to answer any individual's questions about the collection of personal information required for KPMG to deliver services hereunder.

The Entity consents to KPMG sending to the Entity, its officers, directors and employees, as applicable, electronic messages (including emails)

relating to KPMG products and services and other matters of interest to the Entity. The Entity, its officers, directors or employees may withdraw such consent by contacting KPMG's National Office located at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5. Attention: Unsubscribe; or info@kpmg.ca.

7. OFFERS OF EMPLOYMENT.

In order to allow issues of independence to be addressed, management agrees that prior to extending an offer of employment to any KPMG partner, employee or contractor, the matter is communicated to the engagement partner or associate partner.

8. OFFERING DOCUMENTS.

If the Entity wishes to include or incorporate by reference the financial statements and our report thereon in an offering document, we will consider consenting to the use of our report and the terms thereof at that time. Nothing in this Engagement Letter shall be construed as consent and KPMG expressly does not consent to the use of our audit report(s) in offering documents. If the Entity wishes to obtain KPMG's written consent to the use of our audit report(s) in an offering document, or wishes us to provide a comfort or advice letter, we will be required to perform procedures as required by professional standards; any agreement to perform such procedures will be documented in a separate engagement letter. Management agrees to provide us with adequate notice of the preparation of such documents.

9. FEE AND OTHER ARRANGEMENTS.

KPMG's estimated fee is based on the quality of the Entity's accounting records, the agreed-upon level of preparation and assistance from the Entity's personnel, and adherence to the agreed-upon timetable. KPMG's estimated fee also assumes that the Entity's financial statements are in accordance with the applicable financial reporting framework and that there are no significant new or changed accounting policies or issues, or financial reporting, internal control over financial reporting or other reporting issues. KPMG will inform the Entity on a timely basis if these factors are not in place.

Additional time may be incurred for such matters as significant issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where these matters arise and require research, consultation and work beyond that included in the estimated fee, the Entity and KPMG agree to revise the estimated fee. No significant additional work will proceed without management's concurrence, and, if applicable, without the concurrence of those charged with governance. Upon completion of these services KPMG will review with the Entity any fees and expenses incurred in excess of KPMG's estimate, following which KPMG will render the final billing. Routine administrative expenses such as long distance telephone calls, photocopies, fax charges, printing of statements and reports, postage and delivery and secretarial and report department assistance will be charged on the basis of a percentage of KPMG's professional costs. Other disbursements for items such as travel, accommodation and meals will be charged based on KPMG's actual disbursements.

KPMG's invoices are due and payable upon receipt. Amounts overdue are subject to interest. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG's independence, it is important that KPMG's bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG's independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing the report and, if applicable, any consent.

Fees for any other services will be billed separately from the services described in this engagement letter and may be subject to written terms and conditions supplemental to those in this letter.

Canadian Public Accountability Board (CPAB) participation fees, when applicable, are charged to the Entity based on the annual fees levied by CPAB.

To the extent that KPMG partners and employees are on the Entity's premises, the Entity will take all reasonable precautions for the safety of KPMG partners and employees at the Entity's premises.

10. LEGAL PROCESSES.

The Entity on its own behalf hereby acknowledges and agrees to cause its subsidiaries and affiliates to hereby acknowledge that KPMG may from time to time receive requests or orders from the Canadian Public



TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS

Accountability Board or from professional, securities or other regulatory, judicial or governmental authorities (both in Canada and abroad) to provide them with information and copies of documents in KPMG's files including working papers and other work-product relating to the affairs of the Entity, its subsidiaries and affiliates. Except where prohibited by law, if a request or order is directly related to an inspection or investigation of KPMG's audit of the Entity, KPMG will advise the Entity of the request or order. The Entity hereby acknowledges that KPMG will provide these documents and information without further reference to, or authority from, the Entity, its subsidiaries and affiliates.

When such an authority requests access to KPMG's working papers and other work-product relating to the Entity's affairs, KPMG will, on a reasonable efforts basis, refuse access to any document over which the Entity has expressly informed KPMG at the time of delivery that the Entity asserts privilege, except where disclosure of documents is required by law. The Entity must mark any document over which it asserts privilege as "privileged". If and only if the authority requires such access to privileged documents pursuant to the laws of a jurisdiction in which express consent is required for such disclosure, then the Entity hereby provides its consent. Where privileged Entity documents are disclosed, KPMG is directed to advise the authority that the Entity is permitting disclosure only to the extent required by law and for the limited purpose of the authority's exercise of statutory authority. KPMG is directed to advise the authority that the Entity does not intend to waive privilege for any other purpose and that the Entity expects its documents to be held by the authority as privileged and confidential material (held securely, limited distribution, etc.). For greater certainty, the Entity and KPMG hereby agree that this acknowledgement (and, if required, consent) does not negate or constitute a waiver of privilege for any purpose and the Entity expressly relies upon the privilege protections afforded under statute and otherwise under law.

The Entity agrees to reimburse KPMG, upon request, at standard billing rates for KPMG's professional time and expenses, including reasonable legal fees, incurred in dealing with the matters described above.

11. KPMG INTERNATIONAL MEMBER FIRMS.

The Entity agrees that any claims that may arise out of this engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International Cooperative ("KPMG International") member firms participating in this engagement or such third party service providers referred to in Section 5 above.

12. CONNECTING TO THE ENTITY'S IT NETWORK.

KPMG personnel are authorized to connect their computers to the Entity's IT Network, subject to any restrictions communicated to KPMG from time to time. Connection to the Entity's IT Network or the Internet via the Network, while at the Entity's premises, will be for the express purpose of conducting normal business activities, primarily relating to facilitating the completion of work referred to in this letter.

13. DELIVERABLES OR COMMUNICATIONS.

KPMG may issue other deliverables or communications as part of the services described in this Engagement Letter. Such deliverables or communications may not be included in, summarized in, quoted from or otherwise used or referred to, in whole or in part, in any documents or public oral statement.

KPMG expressly does not consent to the use of any communication, report, statement or opinion prepared by us on the interim financial statements and such communication, report, statement or opinion may not be included in, summarized in, quoted from or otherwise used in any document or public oral statement.

14. ALTERNATIVE DISPUTE RESOLUTION.

The parties hereby agree that they will first attempt to settle any dispute arising out of or relating to this Engagement Letter or the services provided hereunder through good faith negotiations in the spirit of mutual cooperation between representatives of each of the parties with authority to resolve the dispute. In the event that the parties are unable to settle or resolve their dispute through negotiation within 30 days of the dispute first arising or such longer period as the parties may mutually agree upon, such dispute shall, as promptly as is reasonably practicable, be subject to mediation pursuant to the National Mediation Rules of the ADR Institute of Canada, Inc. All disputes remaining unsettled for more than 60 days following the parties first meeting with a mediator or such longer period as

the parties may mutually agree upon shall, as promptly as is reasonably practicable, be subject to arbitration pursuant to the National Arbitration Rules of the ADR Institute of Canada, Inc. (the "Arbitration Rules"). Such arbitration shall be final, conclusive and binding upon the parties, and the parties shall have no right of appeal or judicial review of the decision. The parties hereby waive any such right of appeal which may otherwise be provided for in any provincial arbitration statute made applicable under the Arbitration Rules. The place of mediation and arbitration shall be the city in Canada in which the principal KPMG office that performed the engagement is located. The language of the mediation and arbitration shall be English.



TERMS AND CONDITIONS FOR ADVISORY AND TAX SERVICES

1. TERMS AND CONDITIONS.

a. The Terms and Conditions are an integral part of the accompanying Proposal or Engagement Letter from KPMG that identifies the engagement to which they relate.

b. In the event of conflict between the Proposal or Engagement Letter and the Terms and Conditions, the Terms and Conditions shall prevail unless specific reference to a provision of the Terms and Conditions being varied is made in the Proposal or Engagement Letter. Other capitalized words in the Terms and Conditions shall have the meanings given to them in the Proposal or Engagement Letter.

2. SERVICES.

KPMG will use reasonable efforts to complete the performance of the services within any agreed-upon time-frame. It is understood and agreed that KPMG's services may include advice and recommendations, but all decisions in connection with the implementation of such advice and recommendations, shall be the responsibility of, and made by, Client. KPMG will not perform management functions or make management decisions for Client. Nothing in the Terms and Conditions shall be construed as precluding or limiting in any way the right of KPMG to provide services of any kind or nature whatsoever to any person or entity as KPMG in its sole discretion deems appropriate.

3. CLIENT RESPONSIBILITIES.

a. Client agrees to cooperate with KPMG in the performance of the services under the Engagement Letter and shall provide or arrange to provide KPMG with timely access to and use of the personnel, facilities, equipment, data and information necessary for KPMG to perform the services under the Engagement Letter. To the extent that KPMG personnel are on Client premises, Client will take all reasonable precautions for the safety of KPMG partners and employees at Client premises. Client shall be responsible for the performance of its employees and agents and for the accuracy and completeness of all data and information provided to KPMG for purposes of the performance by KPMG of its services hereunder. The Proposal or Engagement Letter may set forth additional responsibilities of Client in connection with the engagement. Client acknowledges that Client's failure to perform these obligations could adversely impact KPMG's ability to perform its services.

b. Client agrees that Client, and not KPMG, shall perform the following functions: (i) make all management decisions and perform all management functions; (ii) designate an individual who possesses suitable skill, knowledge and experience, preferably within senior management, to oversee the performance of the services under the Engagement Letter, and to evaluate the adequacy and results of such services; (iii) accept responsibility for the results of such services; and (iv) establish and maintain internal controls over the processes with which such services are concerned, including, without limitation, monitoring ongoing activities.

c. Client acknowledges and agrees that KPMG will, in performing the services, base its conclusions on the facts and assumptions that Client furnishes and that KPMG may use data, material, and other information furnished by or at the request or direction of Client without any independent investigation or verification and that KPMG shall be entitled to rely upon the accuracy and completeness of such data, material and other information. Inaccuracy or incompleteness of such data, material and other information furnished to KPMG could have a material effect on KPMG's conclusions.

d. Client acknowledges that information made available by it, or by others on Client's behalf, or otherwise known to partners or staff of KPMG who are not engaged in the provision of the services hereunder shall not be deemed to have been made available to the individuals within KPMG who are engaged in the provision of the services hereunder. Client undertakes that, if anything occurs after information is provided by Client to KPMG to render such information untrue, unfair or misleading, Client shall promptly notify KPMG.

4. REPORTING.

a. During the performance of the services, KPMG may supply oral, draft or interim advice, reports or presentations but in such circumstances KPMG's written advice or final written report shall take precedence. No reliance should be placed by Client on any oral, draft or interim advice, reports or presentations. Where Client wishes to rely on oral advice or oral presentation, Client shall inform KPMG and KPMG will provide documentary confirmation of the advice concerned.

b. Subsequent to the completion of the engagement, KPMG will not update its advice, recommendations or work product for changes or modification to the law and regulations, or to the judicial and administrative interpretations thereof, or for subsequent events or transactions, unless Client separately engages KPMG to do so in writing after such changes or modifications, interpretations, events or transactions occur.

5. WORKING PAPERS AND USE OF REPORTS.

KPMG retains all rights in all methodologies, know-how, knowledge, applications and software developed by KPMG either prior to or during the engagement. KPMG also retains all rights (including copyright) in all reports, written advice and other working papers and materials developed by KPMG during the engagement. Unless contemplated by the Engagement Letter, all reports and written advice are intended solely for Client's internal use and, where applicable, government taxation authorities, and may not be edited, distributed, published, made available or relied upon by any other person without KPMG's express written permission. If such permission is given, Client shall not publish any extract or excerpt of KPMG's written advice or report or refer to KPMG without providing the entire advice or report at the same time. Subject to the restrictions of Section 6, KPMG is entitled to use or develop the knowledge, experience and skills of general application gained through performing the engagement.

6. CONFIDENTIALITY.

a. Except as described in section 5 above, Client will treat in confidence any KPMG methodologies, know-how, knowledge, application or software identified by KPMG as confidential information of KPMG, and will not use or disclose such confidential information of KPMG to others.

b. KPMG will treat as confidential all proprietary information and personal information obtained from Client in the course of the engagement.

c. The above restrictions shall not apply to any information that: (i) is required by law or professional standards applicable to KPMG to be disclosed; (ii) that is in or hereafter enters the public domain; (iii) that is or hereafter becomes known to Client or KPMG, as the case may be, without breach of any confidentiality obligation; or (iv) that is independently developed by KPMG.

d. KPMG shall be entitled to include a description of the services rendered in the course of the engagement in marketing and research materials and disclose such information to third parties, provided that all such information will be rendered anonymous and not subject to association with Client.

e. KPMG shall be entitled to share all information with all other member firms of KPMG International Cooperative ("KPMG International"). KPMG may also use such information to offer services that may be of interest to Client. KPMG may retain and may disclose to other member firms of KPMG International, subject to terms of this section, such information required for compliance with applicable professional standards or internal policies or for quality reviews or to share best practices.

f. Professional standards require KPMG personnel performing any audit or assurance services for clients to discuss or have available to them all information and materials that may affect the audit or assurance engagement. Client authorizes, if Client is or becomes an assurance Client, KPMG personnel performing services under the engagement to make available to the KPMG assurance engagement team and other KPMG personnel, the findings, observations and recommendations from the engagement and agrees that KPMG may use all such findings, observations and recommendations in KPMG's assurance engagement.

7. PERSONAL INFORMATION CONSENTS AND NOTICES.

Any collection, use or disclosure of personal information is subject to KPMG's Privacy Policy available at www.kpmg.ca. KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement. Client represents and warrants that: (i) it will obtain from individuals all consents required by law to permit KPMG to collect, use and disclose all personal information reasonably required in the course of the engagement, and (ii) it has provided notice of KPMG's potential processing of information outside of Canada (as described in paragraph 8 below) to all individuals whose personal information is disclosed to KPMG. Client consents to KPMG sending to Client, its officers, directors and employees, as applicable, electronic messages (including emails) relating to KPMG products and services and



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other matters of interest to Client. Client, its officers, directors or employees may withdraw such consent by contacting KPMG's National Office located at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5, Attention: Unsubscribe; or info@kpmg.ca.

8. USE OF MEMBER FIRMS AND THIRD PARTY SERVICE PROVIDERS.

Personal and/or confidential information collected by KPMG during the course of this engagement (e.g. entries into KPMG's time and billing system and into KPMG's conflicts database) may be used, processed and stored outside of Canada by KPMG, KPMG International member firms providing services hereunder or third party service providers. KPMG represents to Client that each KPMG International member firm and third party service provider providing services hereunder has agreed or shall agree to conditions of confidentiality with respect to Client's information to the same or similar extent as KPMG has agreed pursuant to Section 6. Further, KPMG is responsible to Client for causing third party service providers to comply with such conditions of confidentiality, and KPMG shall be responsible to Client for their failure to comply and failure of each KPMG International member firm providing services hereunder to comply with its obligations of confidentiality owed to KPMG. Any services performed by third party service providers shall be performed in accordance with the terms of this Engagement Letter, including Section 6, but KPMG shall remain responsible to Client for the performance of such services and services performed by each KPMG International member firm providing services hereunder. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws. KPMG's Privacy Officer noted in KPMG's Privacy Policy is able to answer any individual's questions about the collection of personal information required for KPMG to deliver services hereunder.

9. TAXES/BILLING/EXPENSES/FEEs.

- a. All fees and other charges do not include any applicable federal, provincial, or other goods and services or sales taxes, or any other taxes or duties whether presently in force or imposed in the future. Any such taxes or duties shall be assumed and paid by Client without deduction from the fees and charges hereunder.
- b. Bills, including, without limitation, a charge on account of all reasonable expenses, including travel, meals, accommodations, long distance, telecommunications, photocopying, delivery, postage, clerical assistance and database research will be rendered on a regular basis as the engagement progresses. Accounts are due when rendered. Interest on overdue accounts is calculated at the rate noted on the invoice commencing 30 days following the date of the invoice.
- c. Without limiting its rights or remedies, KPMG shall have the right to halt or terminate entirely its services until payment is received on past due invoices.
- d. In the event that the engagement is terminated and Client proceeds to complete the transaction or financing within 18 months from the termination date, then the full amount of any Completion Fee shall be payable on closing of the transaction or the completion of financing, regardless of whether KPMG provided further service.

10. LIMITATION ON WARRANTIES.

THIS IS A SERVICES ENGAGEMENT. KPMG WARRANTS THAT IT WILL PERFORM SERVICES HEREUNDER IN GOOD FAITH WITH QUALIFIED PERSONNEL IN A COMPETENT AND WORKMANLIKE MANNER IN ACCORDANCE WITH APPLICABLE INDUSTRY STANDARDS. KPMG DISCLAIMS ALL OTHER WARRANTIES, REPRESENTATIONS OR CONDITIONS, EITHER EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, WARRANTIES, REPRESENTATIONS OR CONDITIONS OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

11. LIMITATION ON LIABILITY.

- a. Client agrees that KPMG shall not be liable to Client for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the services performed hereunder for an aggregate amount in excess of the fees paid by Client to KPMG under the engagement. On a multi-phase engagement, KPMG's liability shall be

based on the amount actually paid to KPMG for the particular phase that gives rise to the liability.

- b. In the event of a claim by any third party against KPMG that arises out of or relates to the services performed hereunder, Client will indemnify KPMG from all such claims, liabilities, damages, costs and expenses, including, without limitation, reasonable legal fees, except to the extent finally determined to have resulted from the intentional, deliberate or fraudulent misconduct of KPMG.

- c. In no event shall KPMG be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, or losses (including, without limitation, lost profits and opportunity costs). In any action, claim, loss or damages arising out of the engagement, Client agrees that KPMG's liability will be several and not joint and several. Client may only claim payment from KPMG of KPMG's proportionate share of the total liability based on degree of fault.

- d. For purposes of this section, the term KPMG shall include its associated and affiliated entities and their respective partners, directors, officers and employees. The provisions of this section shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence) or otherwise.

12. LEGAL PROCEEDINGS.

- a. Client agrees to notify KPMG promptly of any request received by Client from any court or applicable regulatory authority with respect to the services hereunder, KPMG's advice or report or any related document.

- b. If KPMG is required by law, pursuant to government regulation, subpoena or other legal process or requested by Client to produce documents or personnel as witnesses arising out of the engagement and KPMG is not a party to such proceedings, Client shall reimburse KPMG at standard billing rates for professional time and expenses, including, without limitation, reasonable legal fees, incurred in responding to such requests.

- c. Client acknowledges that KPMG may from time to time receive requests or orders from professional, securities or other regulatory, judicial or governmental authorities (both in Canada and abroad) to provide them with information and copies of documents in KPMG's files including working papers and other work-product relating to Client. Except where prohibited by law, KPMG will advise Client of the request or order. Client hereby acknowledges that KPMG will provide these documents and information without further reference to, or authority from Client.

When such an authority requests access to KPMG's working papers and other work-product relating to Client's affairs, KPMG will, on a reasonable efforts basis, refuse access to any document over which Client has expressly informed KPMG at the time of delivery that the Client asserts privilege, except where disclosure of documents is required by law. Client must mark any document over which it asserts privilege as "privileged". If and only if the authority requires such access to privileged documents pursuant to the laws of a jurisdiction in which express consent is required for such disclosure, then Client hereby provides its consent.

Where privileged Client documents are disclosed, KPMG is directed to advise the authority that Client is permitting disclosure only to the extent required by law and for the limited purpose of the authority's exercise of statutory authority. KPMG is directed to advise the authority that Client does not intend to waive privilege for any other purpose and that Client expects its documents to be held by the authority as privileged and confidential material (held securely, limited distribution, etc.). For greater certainty, Client and KPMG hereby agree that this acknowledgement (and, if required, consent) does not negate or constitute a waiver of privilege for any purpose and Client expressly relies upon the privilege protections afforded under statute and otherwise under law.

13. LIMITATION PERIOD.

No alternative dispute resolution proceeding arising under or relating to the engagement, may be brought by either party more than one year after the cause of action has accrued or in any event not more than five years after completion of the engagement in the case of an advisory services engagement and not more than eight years after completion of the engagement in the case of a tax services engagement, except that an alternative dispute resolution proceeding for non-payment may be brought by a party not later than one year following the date of the last payment due to such party hereunder. For purposes of this section, the term KPMG



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shall include its associated and affiliated entities and their respective partners, directors, officers and employees.

14. TERMINATION.

Unless terminated sooner in accordance with its terms, the engagement shall terminate on the completion of KPMG's services hereunder, which completion shall be evidenced by the delivery by KPMG to Client of the final invoice in respect of the services performed hereunder. Should Client not fulfill its obligations set out herein or in the Engagement Letter and in the absence of rectification by Client within 10 days, KPMG may, upon written notice, terminate its performance and will not be responsible for any loss, cost or expense resulting. The engagement may be terminated by either party at any time by giving written notice to the other party not less than 30 calendar days before the effective date of termination. Upon early termination of the engagement, Client shall be responsible for the payment to KPMG for KPMG's time and expenses incurred up to the termination date, as well as reasonable time and expenses to bring the engagement to a close in a prompt and orderly manner.

15. E-MAIL COMMUNICATION.

Client recognizes and accepts the risks associated with communicating by Internet e-mail, including (but without limitation) the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Unless Client requests in writing that KPMG does not communicate by Internet e-mail, Client assumes all responsibility or liability in respect of risk associated with its use.

16. POTENTIAL CONFLICTS OF INTEREST.

Except as otherwise set out herein, Client should be aware that it is not uncommon for KPMG to be auditors and/or advisors of more than one of the parties involved in a transaction. In such situations, KPMG takes appropriate measures to ensure that strict confidentiality is maintained in all respects. If these circumstances are identified, KPMG will advise Client of that fact, subject to confidentiality requirements, and will consider with Client what further measures, if any, are appropriate. Client further acknowledges that at some point KPMG may act contrary to Client's interest on unrelated matters.

17. FORCE MAJEURE.

Neither Client nor KPMG shall be liable for any delays resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire or other casualty, act of God, strike or labour dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.

18. INDEPENDENT CONTRACTOR.

It is understood and agreed that each of the parties hereto is an independent contractor and that neither party is, nor shall be considered to be, an agent, distributor or representative of the other. Neither party shall act or represent itself, directly or by implication, as an agent of the other or in any manner assume or create any obligation on behalf of, or in the name of, the other.

19. SURVIVAL.

Sections 1 to 16 and 19, 20, 24, 25 and 29 to 31 hereof shall survive the expiration or termination of the engagement.

20. SUCCESSORS AND ASSIGNS.

The Terms and Conditions and the accompanying Proposal or Engagement Letter shall be binding upon the parties hereto and their respective associated and affiliated entities and their respective partners, directors, officers and employees and successors and permitted assigns. Except as provided below, neither party may assign, transfer or delegate any of the rights or obligations hereunder without the prior written consent of the other party. KPMG may assign its rights and obligations hereunder to any affiliate or successor in interest to all or substantially all of the assets or business of the relevant KPMG practice, without the consent of Client. In addition, KPMG may engage independent contractors and member firms of KPMG International to assist KPMG in performing the services hereunder.

21. SEVERABILITY.

The provisions of the Terms and Conditions and the accompanying Proposal or Engagement Letter shall only apply to the extent that they are not prohibited by a mandatory provision of applicable law. If any of these

provisions shall be held to be invalid, void or unenforceable, then the remainder of the Terms and Conditions and the attached Proposal or Engagement Letter, as the case may be, shall not be affected, impaired or invalidated, and each such provision shall be valid and enforceable to the fullest extent permitted by law.

22. ENTIRE AGREEMENT.

The Terms and Conditions and the accompanying Proposal or Engagement Letter including, without limitation, Exhibits, constitute the entire agreement between KPMG and Client with respect to the engagement and supersede all other oral and written representation, understandings or agreements relating to the engagement.

23. GOVERNING LAW.

The Terms and Conditions and the accompanying Proposal or Engagement Letter shall be subject to and governed by the laws of the province in which KPMG's principal Canadian office performing the engagement is located (without regard to such province's rules on conflicts of law).

24. PUBLICITY.

Upon the closing of a transaction, KPMG will have the right (but shall not be obliged), at its expense, to publicize its association with the transaction by way of public announcement in "tombstone" or similar format, subject to prior review of the wording for any such announcement with Client.

25. KPMG INTERNATIONAL MEMBER FIRMS.

In the case of multi-firm engagements, all member firms of KPMG International performing services hereunder shall be entitled to the benefits of the Terms and Conditions. Client agrees that any claims that may arise out of the engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International member firms or such third party service providers referred to in Section 8 above.

26. SARBANES-OXLEY ACT.

Except as set forth in the Engagement Letter, Client acknowledges that completion of the engagement or acceptance of KPMG's reports, advice, recommendations and other deliverables resulting from the engagement will not constitute a basis for Client's assessment of internal control over financial reporting or Client's evaluation of disclosure controls and procedures, or its compliance with its principal officer certification requirements under Section 302 of the *Sarbanes-Oxley Act of 2002* (the "Act"). The engagement shall not be construed to support Client's responsibilities under Section 404 of the Act requiring each annual report filed under Section 13(a) or 15(d) of the *Securities Exchange Act of 1934* to contain an internal control report from management.

27. NATIONAL INSTRUMENT 52-109.

Except as set forth in the Engagement Letter, Client acknowledges that completion of the engagement or acceptance of KPMG's reports, advice, recommendations and other deliverables resulting from the engagement will not constitute a basis for Client's evaluation of disclosure controls and procedures, or its compliance with its CEO/CFO certification requirements under *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, including those related to the design of internal control over financial reporting.

28. SPECIFIC ACCOUNTING AND OTHER ADVICE.

Except as set forth in the Engagement Letter, the engagement does not contemplate the provision of specific accounting advice or opinions or the issuance of a written report on the application of accounting standards to specific transactions and facts and circumstances of Client. Such services, if requested, would be provided pursuant to a separate engagement.

Client should consult with and/or engage legal counsel for the purpose of advising on legal aspects of matters on which KPMG provides its advice and drafting any legal documents and/or agreements that may be required. To the extent legal counsel or other professional service providers are required, Client is exclusively responsible for engaging and paying such service providers.

29. TAX SERVICES.

a. If tax work is specifically requested by Client, KPMG will perform the procedures in accordance with this section. KPMG will base its findings exclusively on the facts and assumptions provided to KPMG by Client and Client's personnel and advisors. KPMG will consider the applicable


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provisions of the relevant taxing statutes, the regulations thereunder, applicable tax treaties and judicial and administrative interpretations thereof. KPMG will also take into account all specific proposals to amend such statutes, regulations and treaties publicly announced prior to the date of KPMG's reports, based on the assumption that these amendments will be enacted substantially as proposed. These authorities are subject to change, retroactively and/or prospectively, and any such changes could affect the validity of KPMG's findings and may result in incremental taxes, interest or penalties. KPMG's findings will not otherwise take into account or anticipate any changes in law or practice, by way of judicial, governmental or legislative action or interpretation. Unless Client specifically requests otherwise, KPMG will not update tax work to take any such changes into account.

b. KPMG will use professional judgment in providing advice, and will, unless Client instructs otherwise, take the position most favourable to Client whenever reasonable. All returns are subject to examination by tax authorities, and KPMG's advice may be audited and challenged by a tax authority. Client understands that KPMG's conclusions are not binding on tax authorities or the courts and should not be construed as a representation, warranty or guarantee that the tax authorities or courts will agree with KPMG's conclusion.

c. Client is also responsible for ensuring that KPMG's advice is implemented strictly in accordance with KPMG's recommendations. KPMG is not responsible for any penalties or interest assessed against Client as a result of a failure by Client to provide KPMG with accurate and complete information.

d. Unless expressly provided for, KPMG's services do not include representing Client in the event of a challenge by the Canada Revenue Agency or other tax or revenue authorities.

30. LLP.

KPMG LLP is a registered limited liability partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial LLP legislation. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or any person under that other partner's direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the relevant professional bodies. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.

31. ALTERNATIVE DISPUTE RESOLUTION.

The parties hereby agree that they will first attempt to settle any dispute arising out of or relating to this Engagement Letter or the services provided hereunder through good faith negotiations in the spirit of mutual cooperation between representatives of each of the parties with authority to resolve the dispute. In the event that the parties are unable to settle or resolve their dispute through negotiation within 30 days of the dispute first arising or such longer period as the parties may mutually agree upon, such dispute shall, as promptly as is reasonably practicable, be subject to mediation pursuant to the National Mediation Rules of the ADR Institute of Canada, Inc. All disputes remaining unsettled for more than 60 days following the parties first meeting with a mediator or such longer period as the parties may mutually agree upon shall, as promptly as is reasonably practicable, be subject to arbitration pursuant to the National Arbitration Rules of the ADR Institute of Canada, Inc. (the "Arbitration Rules"). Such arbitration shall be final, conclusive and binding upon the parties, and the parties shall have no right of appeal or judicial review of the decision. The parties hereby waive any such right of appeal which may otherwise be provided for in any provincial arbitration statute made applicable under the Arbitration Rules. The place of mediation and arbitration shall be the city in Canada in which the principal KPMG office that performed the engagement is located. The language of the mediation and arbitration shall be English.