City of Richmond

Agenda

Finance Committee

Anderson Room, City Hall
6911 No. 3 Road

Monday, May 6, 2019
Immediately following the Open General Purposes Committee meeting

Pg. # ITEM

MINUTES

FIN-4 ***Motion to adopt the minutes of the meeting of the Special Finance Committee held on April 15, 2019.***

DELEGATION

FIN-6 1. C.J. James, Engagement Partner, KPMG LLP, and Asifa Hirji, Senior Manager, KPMG LLP, to present the 2018 Audit findings on the City's financial statements.

RICHMOND OLYMPIC OVAL CORPORATION

2. **RICHMOND OLYMPIC OVAL CORPORATION – 2018 AUDITED FINANCIAL STATEMENTS**
(File Ref. No.) (REDMS No. 6172799)

FIN-29 See Page **FIN-29** for full report

Designated Speaker: Rick Dusanj

6173642

STAFF RECOMMENDATION

That the report on the 2018 audited Financial Statements for the Richmond Olympic Oval Corporation from the Controller of the Richmond Olympic Oval Corporation be received for information.

3. **RICHMOND OLYMPIC OVAL CORPORATION – 2019 ANNUAL OPERATING AND CAPITAL BUDGETS**
(File Ref. No.) (REDMS No. 6097633)

FIN-51

See Page **FIN-51** for full report

Designated Speaker: Rick Dusanj

STAFF RECOMMENDATION

That the report on the 2019 Annual Operating and Capital budgets for the Richmond Olympic Oval Corporation from the Controller of the Richmond Olympic Oval Corporation be received for information.

LULU ISLAND ENERGY COMPANY

4. **2018 FINANCIAL STATEMENTS FOR THE LULU ISLAND ENERGY COMPANY**
(File Ref. No. 10-6600-10-01) (REDMS No. 6166416)

FIN-56

See Page **FIN-56** for full report

Designated Speakers: John Irving and Jerry Chong

STAFF RECOMMENDATION

That the Lulu Island Energy Company report titled "2018 Financial Statements for the Lulu Island Energy Company" dated April 18, 2019 from the Chief Executive Officer and Chief Financial Officer, be received for information.

RICHMOND PUBLIC LIBRARY

5. **2018 FINANCIAL STATEMENTS FOR THE RICHMOND PUBLIC LIBRARY**
(File Ref. No. 03-0905-01) (REDMS No. 6168884)

FIN-92 See Page **FIN-92** for full report

Designated Speaker: Susan Walters

STAFF RECOMMENDATION

That the 2018 Richmond Public Library audited financial statements for the year ended December 31, 2018, as presented in the attached report from the Chief Librarian, be received for information.

FINANCE AND CORPORATE SERVICES DIVISION

6. **2018 CONSOLIDATED FINANCIAL STATEMENTS**
(File Ref. No. 03-09-05-01) (REDMS No. 6168681 v. 2; 6143862; 6168895; 6172261)

FIN-114 See Page **FIN-114** for full report

Designated Speaker: Andrew Nazareth

STAFF RECOMMENDATION

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

ADJOURNMENT

Special Finance Committee

Date:	Monday, April 15, 2019
Place:	Anderson Room Richmond City Hall
Present:	Mayor Malcolm D. Brodie, Chair Councillor Chak Au Councillor Carol Day Councillor Kelly Greene Councillor Alexa Loo Councillor Bill McNulty Councillor Linda McPhail Councillor Harold Steves Councillor Michael Wolfe
Call to Order:	The Chair called the meeting to order at 6:24 p.m.

MINUTES

It was moved and seconded
That the minutes of the meeting of the Finance Committee held on April 1, 2019, be adopted as circulated.

CARRIED

FINANCE AND CORPORATE SERVICES DIVISION

1. **2019 ANNUAL PROPERTY TAX RATES BYLAW**
(File Ref. No. 12-8060-20-010016) (REDMS No. 6152233 v. 4; 6151947)

It was moved and seconded
That the Annual Property Tax Rates (2019) Bylaw No. 10016 be introduced and given first, second and third readings.

CARRIED

ADJOURNMENT

It was moved and seconded
That the meeting adjourn (6:25 p.m.).

CARRIED

Certified a true and correct copy of the Minutes of the meeting of the Special Finance Committee of the Council of the City of Richmond held on Monday, April 15, 2019.

Mayor Malcolm D. Brodie
Chair

Hanieh Berg
Legislative Services Coordinator

KPMG

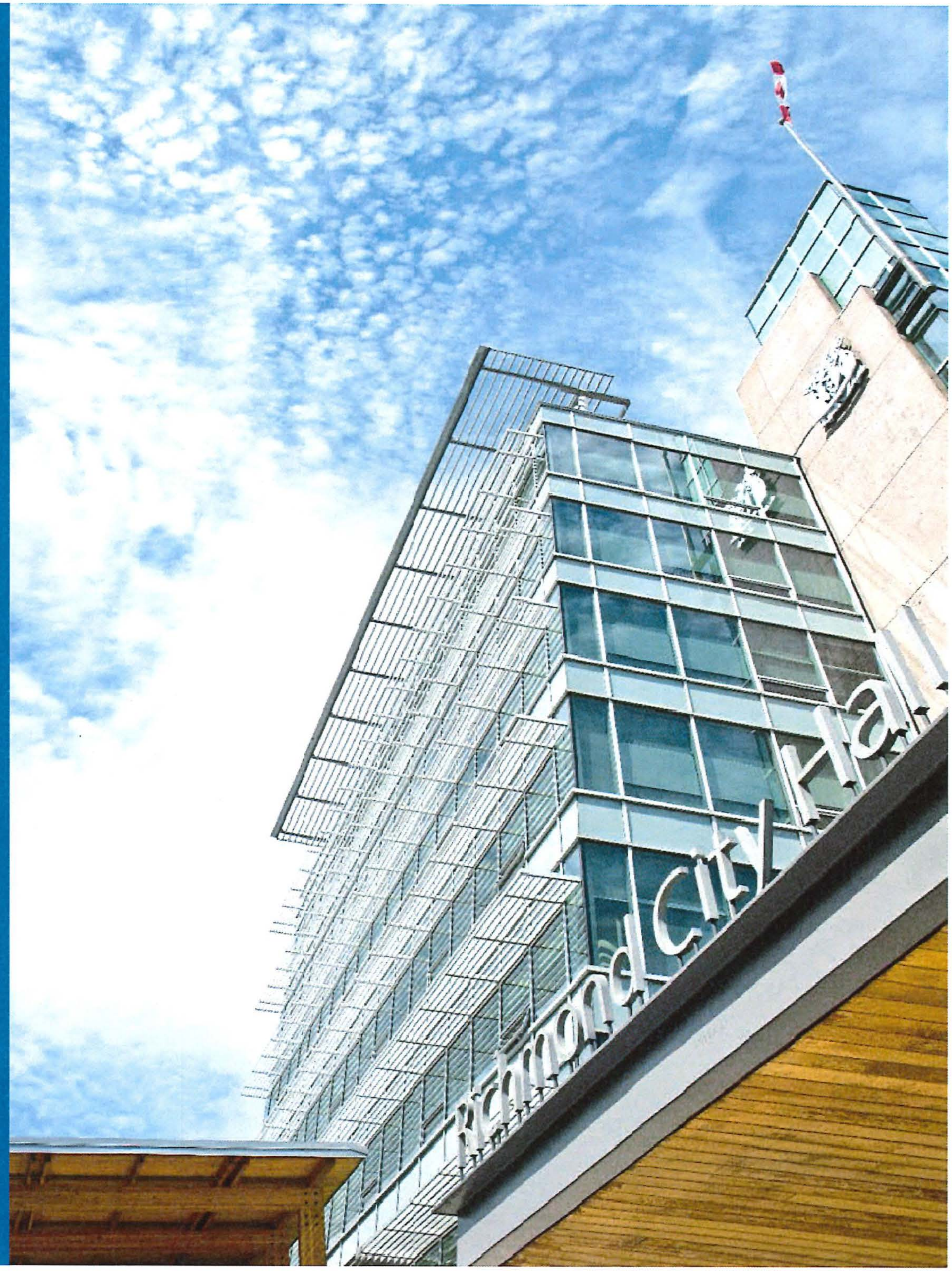
City of Richmond

Audit Findings Report for the year ended December 31, 2018

KPMG LLP

April 15, 2019, for presentation on May 6, 2019

kpmg.ca/audit



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The contacts at KPMG in connection with this report are:

C.J. James, CPA, CA
Engagement Partner
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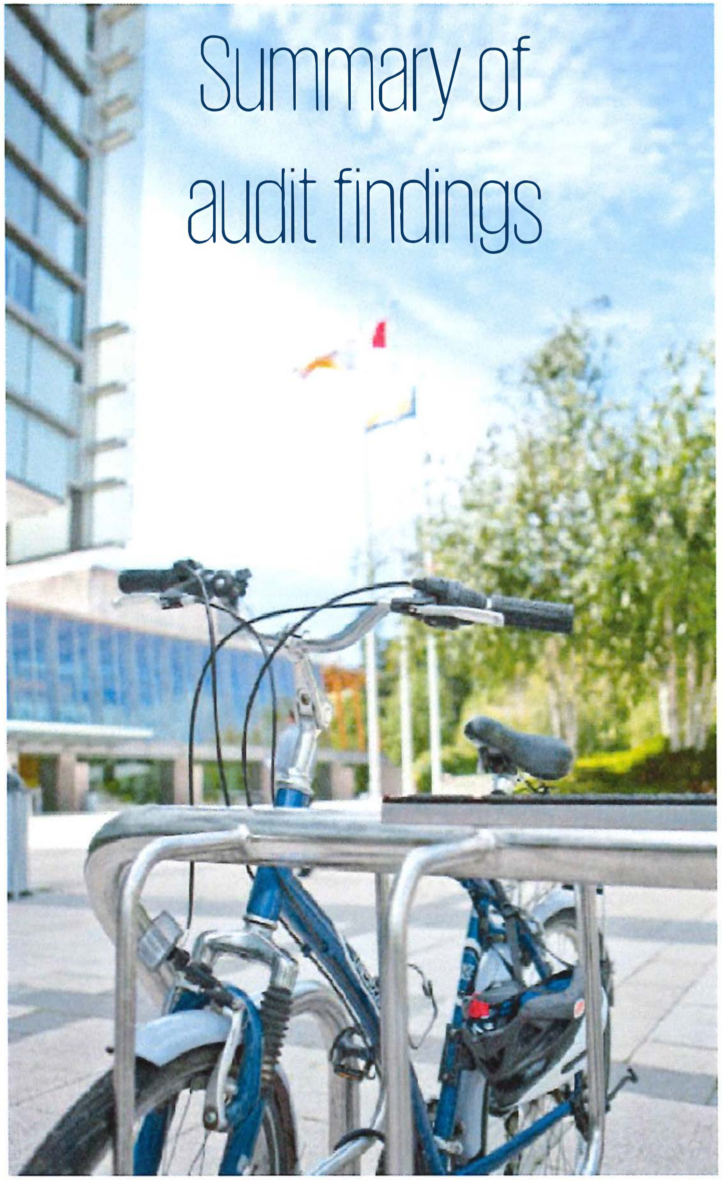
cjjames@kpmg.ca

Asifa Hirji, CPA, CA
Senior Manager
Tel: (604) 777-3921
asifahirji@kpmg.ca

Summary of audit findings



Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements of the City of Richmond ("the City") as at and for the year ended December 31, 2018.

This Audit Findings Report builds on the Audit Plan we presented to Council dated December 3, 2018.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

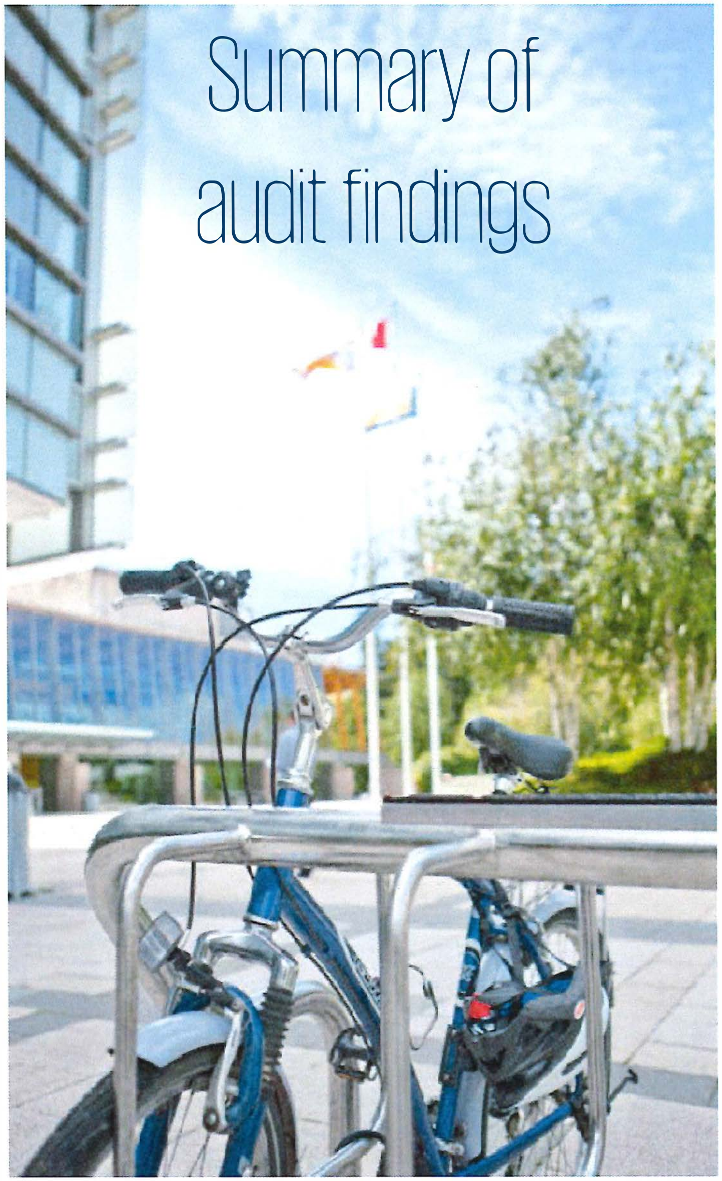
Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include:

- Completing our discussions with Council;
- Obtaining the signed management representation letter;
- Obtaining evidence of Council's acceptance of the consolidated financial statements; and,
- Completing subsequent event review procedures up to the date of Council's acceptance of the consolidated financial statements.

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Summary of audit findings



Areas of audit focus

Our audit is risk-focused. We have not identified any significant risks. However, as part of our audit, we identified areas of audit focus which include:

- Deferred revenue and development cost charges; and
- Post-employment benefits.

See page 4 for the audit findings related to these areas of audit focus.

Adjustments and differences

We did not identify any corrected or uncorrected audit adjustments.

Significant accounting policies and practices

We have reviewed the financial reporting impact of the new accounting standards effective for the City's 2018 fiscal year end with no issues noted. There have been no other initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

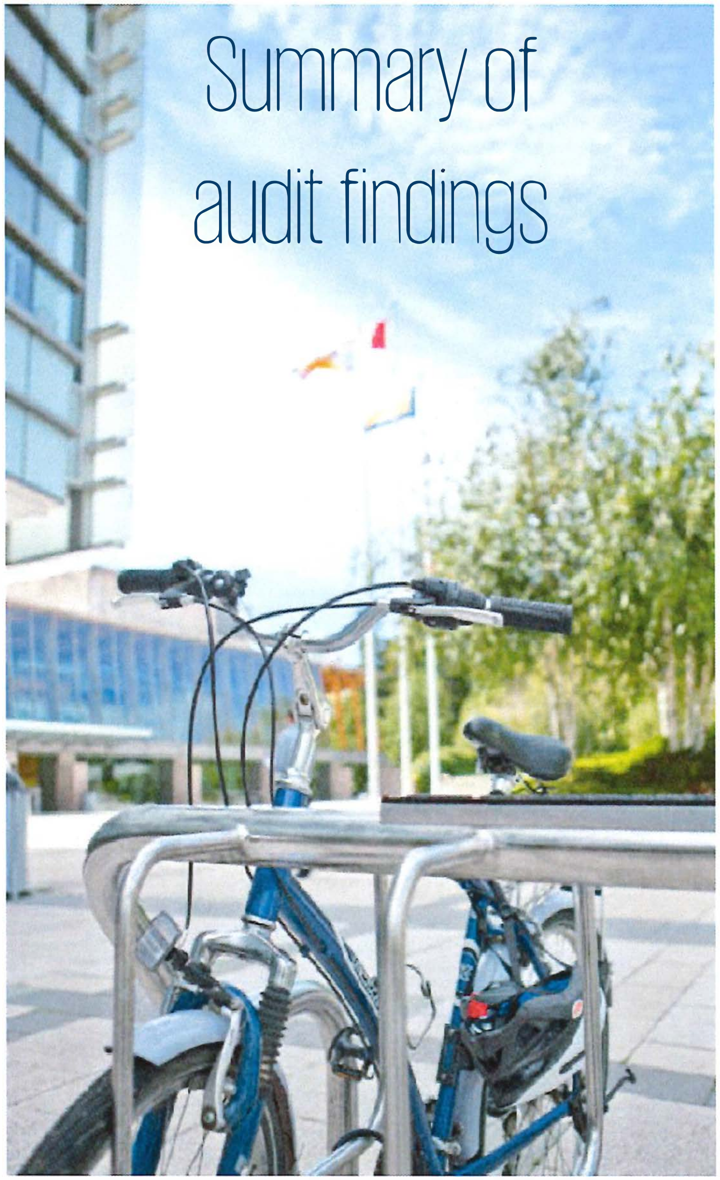
The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with Canadian public sector accounting standards. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

See page 7 for further details.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting.

See page 8 for further details.



Independence

We confirm that we are independent with respect to the City within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2018 up to the date of this report.

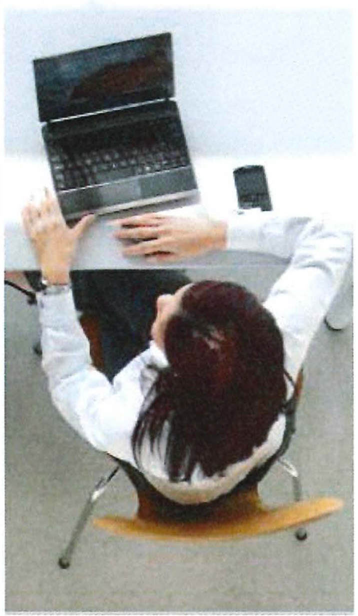
Current developments

There have been no significant updates to the current developments included in our Audit Plan previously provided to Council.

Areas of audit focus and results

We highlight our significant findings in respect of areas of audit focus as identified in our Audit Plan, as well as any additional areas of audit focus identified.

Area of audit focus	Our response and significant findings
Deferred revenue and development cost charges	– We updated our understanding of the process activities and controls over deferred revenue and development cost charges. – We reconciled permits to new development cost charges recorded in the year and inspected bylaws showing appropriation for the specified purpose. – We inspected specific contracts to determine whether there are stipulations or restrictions impacting revenue recognition. We assessed whether revenue was appropriately recognized or the amount was appropriately deferred. – We assessed whether the appropriate stipulations have been met by inspecting and recalculating expenses incurred for certain projects. – There were no issues noted in our testing.
Post-employment benefits	– We updated our understanding of the process activities and controls over post-employment benefits. – We obtained the valuation report prepared by Mercer and agreed the liability amount in the report to the amount recorded by the City. – We assessed the reasonableness of significant assumptions used by the actuary. – We reviewed the financial statement note disclosure to ensure it is complete and accurate. – There were no issues noted in our testing.



Audit risks

Professional requirements	Why is it significant?
Fraud risk from management override of controls.	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

Our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Testing of journal entries and other adjustments;
- Performing a retrospective review of significant estimates; and
- Evaluating the business rationale of significant unusual transactions.

There were no significant issues noted in our testing.

Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

Areas of the audit where Technology and Data & Analytics routines were used

Data & Analytics Routines	Our results and insights
Duplicate payment testing	We used KPMG data analytics software (IDEA) to identify any duplicate payments made during the year. We did not note any instances of duplicate payments in 2018.
Vendor-employee match testing	We used KPMG data analytics software (IDEA) to identify vendors that have the same bank account or address details as an employee. We did not note any instances of vendors and an employee having the same bank account or address details.
Testing of high-risk journal entries	We used KPMG data analytics software (IDEA) to identify journal entries with specific high-risk characteristics for further testing. There were no issues noted with the journal entries tested.

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Significant accounting policies and practices

The following items relate to the qualitative aspects of accounting practices of the City:

Significant accounting policies

- There were no changes to the critical accounting policies and practices.
- There were no changes in significant accounting policies.
- The City has appropriately implemented the new accounting standards for Related Party Disclosures, Inter-Entity Transactions, Assets, Contingent Assets and Contractual Rights.
- There were no significant accounting policies in controversial or emerging areas.
- There were no issues noted with the timing of the City's transactions in relation to the period in which they are recorded.
- There were no issues noted with the extent to which the consolidated financial statements are affected by a significant unusual transaction and extent of disclosure of such transactions.
- There were no issues noted with the extent to which the consolidated financial statements are affected by non-recurring amounts recognized during the period and extent of disclosure of such transitions.

Significant accounting estimates

- There were no issues noted with management's identification of accounting estimates.
- There were no issues noted with management's process for making accounting estimates.
- There were no indicators of possible management bias.
- There were no significant factors affecting the City's asset and liability carrying values.

Significant disclosures

- There were no issues noted with the judgments made, in formulating particularly sensitive consolidated financial statement disclosures.
- There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the consolidated financial statements.
- There were no significant potential effects on the consolidated financial statements of significant risks, exposures and uncertainties.

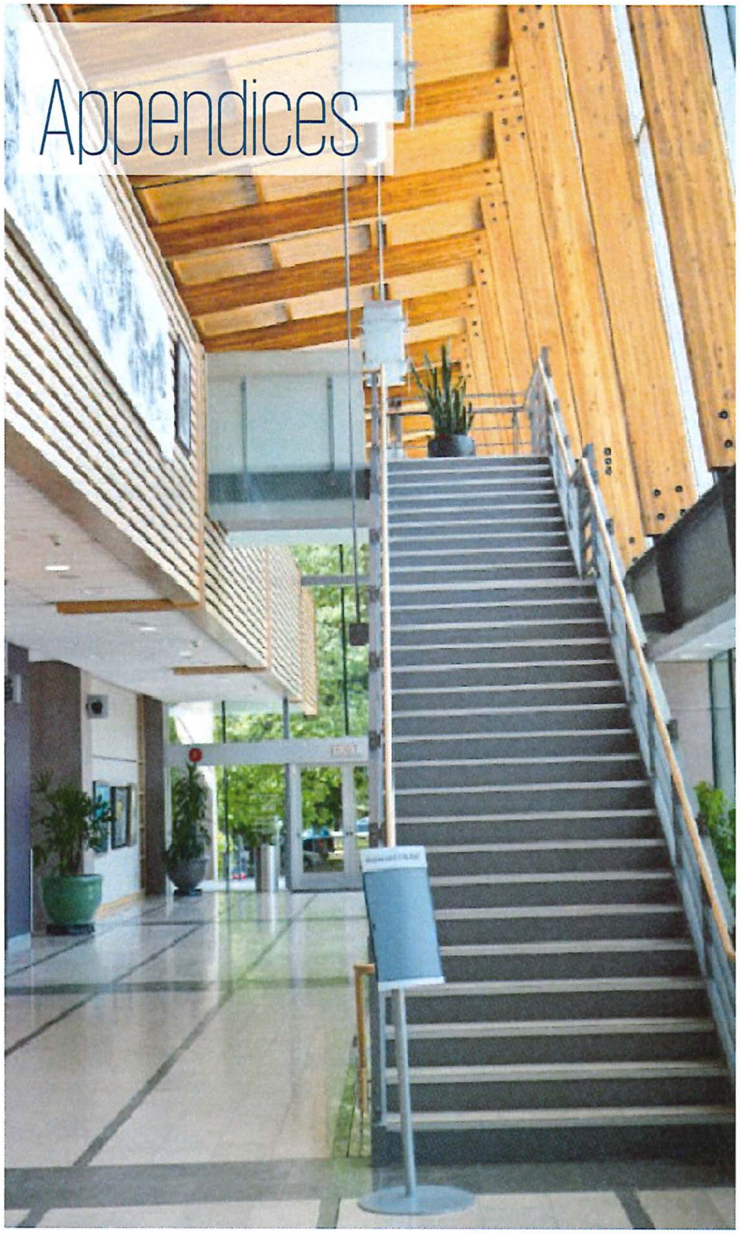
Control observations

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

Our understanding of ICFR was for the limited purpose described in the preceding paragraph and was not designed to identify all control deficiencies that might be significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing and extent of audit procedures performed, as well as other factors.

In accordance with professional standards, we are required to communicate to Council any control deficiencies that we identified during the audit and have determined to be material weaknesses or significant deficiencies in internal control over financial reporting. No significant deficiencies have been identified.

Other control deficiencies may be identified during the audit that do not rise to the level of material weakness or significant deficiency.



Appendices

- Appendix 1: Required communications
- Appendix 2: Management representation letter
- Appendix 3: Other information

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Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit.

These include:

Auditors' Report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.

Management representation letter

In accordance with professional standards, a copy of the management representation letter is provided to Council in Appendix 2.

Independence

In accordance with professional standards, we have confirmed our independence.

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Appendix 2: Management representation letter

KPMG LLP
777 Dunsmuir Street
P.O. Box 10426
Vancouver, B.C. V7Y 1K3

Date of Acceptance of the Financial Statements by Council

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the City of Richmond's ("the Entity"):

- Consolidated financial statements (hereinafter referred to as "financial statements") as at and for the period ended December 31, 2018, and
- Home Owner Grant Treasurer/Auditor Certificate (hereinafter referred to as "financial information") for the period ended December 31, 2018.

We also confirm our understanding that your engagement was for the purpose of forming an independent reasonable assurance conclusion on management's statement of compliance with subsection 2 and 3 of section 124 of Part 8 of the School Act (hereinafter referred to as "subject matter information") of the Entity for the year ended December 31, 2018.

<u>Audit of the financial statements</u>

General:

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

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

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated October 26, 2017, including for:

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

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including:

      (i) the names of all related parties and information regarding all relationships and transactions with related parties; and

      (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and committees of Council that may affect the financial statements. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

d) providing you with complete responses to all enquiries made by you during the engagement.

e) providing you with additional information that you may request from us for the purpose of the engagement.

f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

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

Internal control over financial reporting:

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

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

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

   b) all information in relation to fraud or suspected fraud that we are aware of that involves management, employees who have significant roles in internal control over financial reporting or other where such fraud or suspected fraud could have a material effect on the financial statements.

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

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

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

Subsequent events:

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

Related parties:

5) We have disclosed to you the identity of the Entity's related parties.

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

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

Estimates:

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

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Other information:

11) We confirm that the final version of the 2018 Annual Report will be provided to you when available, and prior to issuance by the Entity, to enable you to complete your audit procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

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

Audit of the Home Owner Grant financial information

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated October 26, 2017, including for:

   a) the preparation of the financial information and believe that the financial information has been prepared in accordance with the relevant financial reporting framework.

      Significant interpretations, if any, related to the financial provisions of the relevant financial reporting framework are appropriately disclosed in the financial information.

   b) determining that the basis of accounting is an acceptable basis for the preparation of the financial information in the circumstances.

   c) providing you with all information of which we are aware that is relevant to the preparation of the financial information, such as all financial records and documentation and other matters, including:

      (i) the names of all related parties and information regarding all relationships and transactions with related parties; and

      (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and committees of Council that may affect the financial information. All significant actions are included in such summaries.

   d) providing you with unrestricted access to such relevant information.

e) providing you with complete responses to all enquiries made by you during the engagement

f) providing you with additional information that you may request from us for the purpose of the engagement.

g) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

h) such internal control as we determined is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

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

2) We acknowledge that this financial information:

   i) is not general-purpose financial information.

   ii) may not comply with, or may not satisfy, the Entity's incorporating or other governing legislation.

   iii) is solely for the information and use of the addressee and is not intended to be, and should not be, used by anyone other than the specified users or for any other purpose.

   iv) is not intended for distribution to anyone other than the specified users.

3) We acknowledge that should we extend the distribution beyond the specified users, you accept no responsibility for the distribution or use of the financial information and the report thereon.

Internal control over financial reporting:

4) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting relevant to the preparation of the financial information of which we are aware.

Fraud & non-compliance with laws and regulations:

5) We have disclosed to you:

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

   b) all information in relation to fraud or suspected fraud that we are aware of that involves management, employees who have significant roles in internal control over financial reporting or others where such fraud or suspected fraud could have a material effect on the financial information.

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

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

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

Subsequent events:

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

Related parties:

7) We have disclosed to you the identity of the Entity's related parties.

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

9) All related party relationships and transactions/balances have been appropriately accounted for in the financial information and disclosed to you and disclosed in the financial information.

Estimates:

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

Reasonable assurance over compliance with School Act

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

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

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated October 26, 2017, for:

   a) the preparation of the subject matter information. We believe that the subject matter information is appropriate.

   b) evaluating or measuring the subject matter information against the applicable criteria, including that all relevant matters are reflected in the subject matter information. We believe the applicable criteria is suitable.

   c) providing you with all relevant information of which we are aware that is relevant to the preparation of the subject matter information such as all records, and documentation and other matters, including the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and committees of Council that may affect the subject matter information, and access to such relevant information

   d) providing you with additional information that you may request from us for the purpose of the engagement including, when applicable, any changes in the Entity's operations since the date of our last assurance report on the subject matter information

   e) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain evidence

f) such internal control as we determined is necessary to enable the preparation of the subject matter information that is free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud

g) ensuring that all transactions have been recorded and are reflected in the subject matter information

h) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary

i) informing you of any documents, prior to their release, that contained the subject matter information and your assurance report thereon as of the date of this letter.

Internal control over subject matter information

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

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

a) all information in relation to fraud or suspected fraud that we are aware of and that affects the subject matter information and involves; management, employees who have significant roles in internal control related to the preparation and presentation of the subject matter information, or others, where the fraud could have a material effect on the subject matter information

b) all information in relation to allegations of fraud, or suspected fraud, affecting the subject matter information communicated by employees, former employees, analysts, regulators, or others.

c) all known instances of non-compliance or suspected non- compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing the underlying subject matter information.

d) all known actual or possible litigation and claims whose effects should be considered when preparing the underlying subject matter information

Subsequent events:

4) All events subsequent to the date of the subject matter information and for which the applicable criteria requires adjustment or disclosure to the subject matter information have been adjusted or disclosed.

Estimates:

5) Measurement methods and significant assumptions used by us in making estimates included in the subject matter information are reasonable.

Yours truly,

____

Andrew Nazareth, General Manager, Finance & Corporate Services

Jerry Chong, Director of Finance

Cindy Gilfillan, Manager, Financial Reporting

cc: Council

Attachment I – Definitions

Materiality

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

Fraud & error

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

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

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

Fraud refers to an intentional act that cause a material misstatement in the subject matter information, including omissions of amounts or disclosures to deceive intended users.

Related parties

In accordance with Canadian public sector accounting standards, a *related party* exists when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

In accordance with Canadian public sector accounting standards, a *related party transaction* is defined as a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Appendix 3: Other information

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Documents containing or referring to the audited financial statements

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

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

kpmg.ca/audit

City of Richmond

Report to Committee

To: Finance Committee

Date: April 23, 2019

From: George Duncan
Chief Administrative Officer
& President and CEO
Richmond Olympic Oval

Andrew Nazareth
General Manager, Finance and Corporate Services
& Chief Financial Officer, Richmond Olympic Oval

File:

Re: **Richmond Olympic Oval Corporation – 2018 Audited Financial Statements**

Staff Recommendation

That the report on the 2018 audited Financial Statements for the Richmond Olympic Oval Corporation from the Controller of the Richmond Olympic Oval Corporation be received for information.

George Duncan
Chief Administrative Officer
& President and CEO
Richmond Olympic Oval

Andrew Nazareth
General Manager, Finance and Corporate Services
& Chief Financial Officer,
Richmond Olympic Oval

RICHMOND OLYMPIC OVAL

Report

DATE: April 23, 2019

TO: George Duncan
Chief Executive Officer, Richmond Olympic Oval Corporation

Andrew Nazareth
Chief Financial Officer, Richmond Olympic Oval Corporation

John Mills
Chief Operating Officer, Richmond Olympic Oval Corporation

FROM: Rick Dusanj, CPA, CA
Controller, Richmond Olympic Oval Corporation

Re: **Richmond Olympic Oval Corporation 2018 audited financial statements**

Origin

This staff report deals with the Richmond Olympic Oval Corporation's (the "Corporation") 2018 audited financial statements (attachment #1) which were unanimously approved by the Corporation's Board of Directors ("BOD") on April 18, 2019, as well as an update on the 4th quarter ('Q4').

Q4 Highlights

Some of the highlights of the activities undertaken by the Corporation during Q4 are highlighted below. Q4 was a successful quarter from both a program and financial perspective.

<u>Community Use</u>
The Oval executed a successful Community Legacy Day Celebration in December, which offered a variety of free activities for Richmond residents. Activities included skating with Santa, climbing, gingerbread decorating, learn to play wheelchair basketball, Olympian autographs and more.

In accordance with the Richmond Oval Agreement between the City of Richmond ("City") and the Corporation, the funding that is received from the City on an annual basis is required for the Corporation to fulfill the operating objectives which include the Corporation providing facilities, programs and services for quality sport, fitness, recreational uses and wellness services for the Richmond community, neighbouring communities and the general public. Without the Oval and the annual contribution from the City, these facilities, programs and services would have to be provided elsewhere. As in previous quarters, community group use continued to constitute the majority of Oval usage in Q4. All prime time space (ice, court & track zones) at the Oval is fully allocated. In Q4, Richmond-based organizations or programs/organizations with significant Richmond representation used 95% of prime time space.

Some of the community groups from Richmond, or groups with strong Richmond based participation, include, but are not limited to: Richmond Minor Hockey, Richmond Rockets Speed Skating Club, Richmond Ravens, Richmond Ringette, Connaught Figure Skating, Brazilian Soccer School, Volleyball BC, DRIVE Basketball, Metro Basketball League, Greater Vancouver Canadians, Vancouver Ki Society, Shoseikan Karate, the John MS Lecky Boathouse, Urban Rec, Aura Rhythmic Gymnastics, the Non-Contact Hockey League. High Performance community groups Connaught Figure Skating, Karate BC Team, Fusion FC, and the Greater Vancouver Canadians also utilized the Oval's training facilities in Q4. At the end of Q4 2018, 80% of Oval members were Richmond residents.

Sport Development and Events
Some highlights from Sport Hosting and Events held at the Oval during Q4 included the PGA Buymart, Western Marine Trade Show, Karate BC Provincials, and Paratough. Future events secured in Q4 included the RYU Warehouse Sale as well as the WHL Combine.

The Oval High Performance events and training camps that occurred during Q4 included Air Attack volleyball tryouts, Volleyball BC team training camp, Special Olympics BC Powerlifting training camp, Sledge Hockey BC training camp, Richmond Oval speed skating interclub meet, and BC Wheelchair Sports Association athletics clinic.

Notable Oval athlete successes during Q4 include:

- Chris Poljer-So and Lukas Macdonald both qualified for the Short Track Canada Cup for speed skating.
- 8 Oval trained athletes were shortlisted for the female U18 Team BC 2019 Canada Winter Games for ice hockey.
- Volleyball Canada's women's national team athlete Kiera Van Ryk was named as the Canada West athlete of the month for November.
- Avery Froh won the Western Canadian Regional Oireachtas (Irish dance) for girls U12.
- Para table tennis (PTT) athlete Peter Isherwood won silver at the PTT Copa Tango.
- David Li won Silver at the Pre-novice Canadian Figure Skating Championship.
- Jenn Gardiner was selected to play in the International Ice Hockey Federation (IIHF) U18 Women's World Championship.

Governance
Meetings of the Corporation's Audit & Finance Committee, Business Planning Committee and the Board of Directors took place during Q4.

2018 Audited Financial Statements

Please see attachment #1 for the audited financial statements of the Corporation for the year ended December 31, 2018. The comments below refer to figures included in the audited financial statements.

Independent Auditors Report
The Corporation received an unqualified audit opinion, which means that the auditor has concluded that the financial statements are presented fairly in accordance with Canadian public sector accounting standards.

Statement of Financial Position

The total financial assets of the Corporation were $13.46M, with liabilities of $8.04M, and non-financial assets of $12.11M as of December 31, 2018. The total financial assets of $13.46M primarily included investments of $11.81M which represent the Corporation's investments placed through the City, an accounts receivable balance of $0.57M and a cash balance of $0.85M. The total liabilities of $8.04M primarily included accounts payable and accrued liabilities of $1.71M and deferred revenue of $6.32M. The non-financial assets of the Corporation of $12.11M primarily included $11.62M of tangible capital assets and $0.44M of prepaid expenses.

Statement of Operations

The 2018 audited financial statements have a net income before transfers to reserves of $1.43M, which represents a favorable variance of $0.84M when compared to budget and an increase of $0.23M compared to the prior year. Total revenues for 2018 were $16.85M, which represents a favorable variance of $0.04M compared to budget and a $0.32M increase compared to the prior year. Total expenses for the year were $15.42M in 2018, which represented a favorable variance of $0.80M compared to budget and a slight increase of $0.09M (less than 1%) relative to the prior year.

Notes to the Financial Statements

The notes to the financial statements provide additional information pertaining to the Corporation's operations and financial position. Note 2 (a), basis of presentation, refers to the fact that the financial statements have been prepared in accordance with Canadian generally accepted accounting principles of the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. In addition, this note mentions that the comparative information includes the Corporation's 50% proportionate share of the operations of VROX Sport Simulation Ltd ("VROX"), a previous government partnership. The latter portion of the note is required given that the partnership with VROX existed in 2017 and the Corporation's audited financial statements includes prior year comparative data. The note goes on to state that as at December 31, 2017, VROX transferred all of its assets and liabilities to the Corporation. Specifically, the Corporation's proportionate share of the assets that were transferred had a net book value of $82,000, whereas the liabilities had a net book value of $46,000.

Rick Dusanj, CPA, CA
Controller, Richmond Olympic Oval Corporation

cc: Shana Turner
Director, Administration & Corporate Services, Richmond Olympic Oval Corporation

Attachment # 1

Financial Statements of

RICHMOND OLYMPIC OVAL CORPORATION

Year ended December 31, 2018

KPMG

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Richmond Olympic Oval Corporation

Opinion

We have audited the financial statements of the Richmond Olympic Oval Corporation (the "Corporation"), which comprise:

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

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

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

Basis for Opinion

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 18, 2019

RICHMOND OLYMPIC OVAL CORPORATION

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial Assets		
Cash	$ 854,440	$ 309,846
Investments (note 3)	11,809,612	10,576,342
Accounts receivable	569,423	907,140
Due from City of Richmond (note 4)	85,995	250,737
Inventories held for resale	136,355	203,782
	13,455,825	12,247,847
Liabilities		
Accounts payable and accrued liabilities	1,708,638	1,702,855
Deferred revenue (note 6)	6,318,796	6,514,601
Rental deposits	9,263	9,263
	8,036,697	8,226,719
Net financial assets	5,419,128	4,021,128
Non-Financial Assets		
Tangible capital assets (note 7)	11,618,088	11,648,902
Deferred lease costs (note 8)	50,762	76,412
Prepaid expenses and other deposits	440,792	354,712
	12,109,642	12,080,026
Economic dependence (note 13)		
Accumulated surplus (note 9)	$ 17,528,770	$ 16,101,154

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

RICHMOND OLYMPIC OVAL CORPORATION
Statement of Operations

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

	2018 Budget	2018	2017
	(Note 2(h))		
Revenue:			
2010 Games Operating Trust Fund (note 5)	$ 2,900,000	$ 2,899,454	$ 2,804,671
Contribution from City of Richmond (note 11(a))	3,451,446	3,451,446	3,377,146
Memberships, admissions and programs	8,347,591	8,345,640	8,099,678
Other	2,110,345	2,154,598	2,252,637
	16,809,382	16,851,138	16,534,132
Expenses:			
Salaries and benefits	9,298,717	8,918,535	8,916,249
Utilities	1,052,316	1,055,289	1,050,194
Amortization	1,800,000	1,706,527	1,513,281
Supplies and equipment	1,001,379	959,879	930,883
Insurance	338,486	320,079	342,203
General and administration	976,058	778,661	905,986
Marketing	337,694	249,210	283,826
Program services	1,265,203	1,341,239	1,300,871
Professional fees	156,090	94,103	88,209
	16,225,943	15,423,522	15,331,702
Annual surplus	583,439	1,427,616	1,202,430
Accumulated surplus, beginning of year	16,101,154	16,101,154	14,898,724
Accumulated surplus, end of year	$ 16,684,593	$ 17,528,770	$ 16,101,154

See accompanying notes to financial statements.

RICHMOND OLYMPIC OVAL CORPORATION
Statement of Changes in Net Financial Assets

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

	2018 Budget (Note 2(h))	2018	2017
Annual surplus for the year	$ 583,439	$ 1,427,616	$ 1,202,430
Acquisition/transfer of tangible capital assets	(1,361,190)	(1,675,713)	(1,483,002)
Amortization of tangible capital assets	1,800,000	1,706,527	1,513,281
	438,810	30,814	30,279
Amortization of deferred lease costs	-	25,650	25,650
Increase in prepaid expenses and other deposits	-	(654,008)	(459,544)
Use of prepaid expenses and other deposits	-	567,928	519,713
Change in net financial assets	1,022,249	1,398,000	1,318,528
Net financial assets, beginning of year	4,021,128	4,021,128	2,702,600
Net financial assets, end of year	$ 5,043,377	$ 5,419,128	$ 4,021,128

See accompanying notes to financial statements.

RICHMOND OLYMPIC OVAL CORPORATION

Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operations:		
Annual surplus	$ 1,427,616	$ 1,202,430
Items not involving cash:		
Amortization of tangible capital assets	1,706,527	1,513,281
Amortization of deferred lease costs	25,650	25,650
Net transfers of tangible capital assets	-	39,754
Changes in non-cash operating working capital:		
Accounts receivable	337,717	(341,997)
Due from City of Richmond	164,742	(239,433)
Inventories held for resale	67,427	(88,670)
Prepaid expenses and other deposits	(86,080)	60,169
Accounts payable and accrued liabilities	5,783	(25,028)
Deferred revenue	(195,805)	695,649
	3,453,577	2,841,805
Capital activities:		
Acquisition/transfer of tangible capital assets	(1,675,713)	(1,522,756)
Investing activities:		
Net purchase of investments	(1,233,270)	(1,874,492)
Increase (decrease) in cash	544,594	(555,443)
Cash, beginning of year	309,846	865,289
Cash, end of year	$ 854,440	$ 309,846

See accompanying notes to financial statements.

RICHMOND OLYMPIC OVAL CORPORATION

Notes to Financial Statements

Year ended December 31, 2018

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1. Incorporation and nature of business:

The Richmond Olympic Oval Corporation (the "Corporation") was incorporated on June 16, 2008 under the Business Corporations Act of British Columbia as a municipal corporation wholly-owned by the City of Richmond (the "City"). The business of the Corporation is to use the Richmond Olympic Oval facility (the "Oval") to provide a venue for a wide range of sports, business and community activities, including, but not limited to, being the long-track speed skating venue for the 2010 Olympic and Paralympic Winter Games (the "Games").

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") of the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

The comparative information includes the accounts of all the funds of the Corporation and the Corporation's 50% proportionate share of the operations of VROX Sport Simulation Ltd. ("VROX"), previously a government partnership. As at December 31, 2017, VROX transferred all its assets and liabilities to the Corporation.

(b) Revenue recognition:

Memberships, admissions and programs fees are recorded as revenue in the period that the services are rendered, with any unearned portion recorded as deferred revenue. Annual distributable amounts and trust income amounts are recognized as revenue when the amounts are approved by the 2010 Games Operating Trust (note 5) and when the related operating expenses and capital maintenance costs of the Oval are incurred. Any amounts received but not yet spent are recognized as deferred revenue.

Sponsorship revenues are deferred and amortized to revenue over the term of sponsorship agreements.

Restricted contributions are deferred and recognized as revenue when the resources are used for the purposes specified by the related agreement.

(c) Financial instruments:

Financial instruments are initially classified upon initial recognition as a fair value or amortized cost instrument. The Corporation holds financial instruments consisting of accounts receivables, due from City of Richmond, and term deposits that mature within one year. Due to the short-term nature of these assets, their fair values approximate book value.

The Corporation does not have any financial instruments required or elected to be subsequently recorded at fair value. As there are no financial instruments carried at fair value, the statement of remeasurement gains and losses has not been prepared.

2. Significant accounting policies (continued):

(d) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(*i*) Tangible capital assets:

Tangible capital assets are recorded at cost. Amortization is provided on a straight-line basis at rates that reflect estimates of the economic lives of the assets over the following periods:

Assets	Rate
Athletic equipment	5 years
Building improvements	5 years
Computer software and equipment	3 years
Facility equipment	3 years
Infrastructure	40 years
Signage	3 years
Simulators and exhibit fabrication	10 years
Tenant improvements	Term of the lease
Uniforms, ice skates and helmets	3 years

Work-in-progress assets are not amortized until the asset is available for use.

(*ii*) Impairment of tangible capital assets:

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

(*iii*) Deferred lease costs:

The initial direct costs incurred in connection with leases of rental properties in the Oval are deferred and amortized over the initial term of the leases. Such costs include agent commissions, legal fees, and costs of negotiating the leases.

(e) Pension plan:

The Corporation and its employees make contributions to the Municipal Pension Plan (the "Plan"). As the Plan is a multi-employer contributory defined benefit pension plan, these contributions are expensed as incurred.

2. Significant accounting policies (continued):

(f) Income taxes:

The Corporation is not subject to income taxes as it is a municipal corporation wholly-owned by the City.

(g) Functional and object reporting:

The operations of the Corporation are comprised of a single function, which includes sports, fitness, and recreation. As a result, the expenses of the Corporation are presented by object in the statement of operations.

(h) Budget data:

The budget data presented in these financial statements is based upon the 2018 budget approved by the Board of Directors on January 31, 2018.

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that could affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of valuation of accounts receivable, useful lives of tangible capital assets for amortization, and deferred lease costs. Actual results could differ from those estimates. The estimates are reviewed periodically and as adjustments become necessary, they are recorded in surplus in the year in which they become known.

(j) Government transfers:

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

3. Investments:

Investments represent term deposits as follows:

Purchase Date	Maturity Date	2018	2017
July 17, 2018	January 14, 2019	$ 2,899,454	$ -
August 20, 2018	February 18, 2019	878,855	-
October 2, 2018	April 1, 2019	3,179,844	-
October 31, 2018	October 31, 2019	1,721,445	-
November 5, 2018	November 5, 2019	2,480,014	-
December 20, 2018	June 18, 2019	650,000	-
July 4, 2017	January 5, 2018	-	1,000,000
July 10, 2017	January 5, 2018	-	3,640,899
August 22, 2017	February 19, 2018	-	1,841,571
October 2, 2017	October 2, 2018	-	4,093,872
		$ 11,809,612	$ 10,576,342

The interest rate of the term deposits range from 2.40% to 3.00% (2017- 1.60% to 2.10%).

4. Due from City of Richmond:

The amounts due from City of Richmond arise in the normal course of business and are non-interest bearing with no stated repayment terms.

5. 2010 Games Operating Trust Fund:

On November 14, 2002, under the terms of the Multiparty Agreement for the Games, the Government of Canada and the Province of British Columbia agreed to establish the Legacy Endowment Fund (the "Fund") and to each contribute $55 million. On March 31, 2004, under the terms of the 2010 Games Operating Trust Agreement, an irrevocable trust was created known as GOT and the 2010 Games Operating Trust Society (the "Society") became the trustee of the Fund. The purpose of the Fund is to fund operating expenses and capital maintenance costs of certain facilities created for the Games, specifically the Oval and the Whistler Sliding Centre and Nordic Centre, and to assist with the continued development of amateur sport in Canada. Subsequent to the formation of the GOT, the City, as owner of the Oval, became a beneficiary of the GOT and became responsible for complying with obligations set by the Society and GOT in order to receive funding.

5. 2010 Games Operating Trust Fund (continued):

Effective December 31, 2007:

(a) the Society Board divided the Fund into three funds: the Speed Skating Oval Fund; the Whistler Sliding Centre and Nordic Centre Fund, and the Contingency Fund; and

(b) the Society Board divided the capital and any accumulated but undistributed income of the Fund as follows: Speed Skating Oval Fund (40%), Whistler Sliding Centre and Nordic Centre Fund (40%), and the Contingency Fund (20%).

Effective April 21, 2009, the City entered into an agreement with the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games ("VANOC"). The agreement details the terms and conditions to which the City is required to adhere in order to receive funding from GOT. Effective September 1, 2011 VANOC assigned the agreement to the Society.

Funds from GOT are paid to the City first and the City distributes the funds to the Corporation.

Revenue from GOT is comprised of:

	2018	2017
2017 annual distributable amount approved and received in 2018	$ 2,899,454	$ -
2016 annual distributable amount approved and received in 2017	-	2,804,671
	$ 2,899,454	$ 2,804,671

6. Deferred revenue:

	2018	2017
Balance, beginning of year	$ 6,514,601	$ 5,818,952
Add: additions	10,304,433	11,047,964
Less: revenue recognized	(10,500,238)	(10,352,315)
Balance, end of year	$ 6,318,796	$ 6,514,601

Deferred revenue comprises of:

	2018	2017
Memberships and programs	$ 1,040,617	$ 1,064,226
Sponsorship fees	614,666	1,123,000
Sport Hosting funding (note 11(b))	430,407	382,189
Richmond Olympic Experience (note 11(b))	4,233,106	3,945,186
	$ 6,318,796	$ 6,514,601

7. Tangible capital assets:

	Balance, December 31, 2017	Additions	Balance, December 31, 2018
Athletic equipment	$ 2,610,259	$ 303,211	$ 2,913,470
Building improvements	1,287,996	686,174	1,974,170
Computer software and equipment	2,347,327	213,743	2,561,070
Facility equipment	989,394	141,460	1,130,854
Infrastructure	5,880,940	-	5,880,940
Signage	132,107	-	132,107
Simulators and exhibit fabrication	3,824,386	6,319	3,830,705
Tenant improvements	65,729	-	65,729
Uniforms, ice skates, and helmets	265,688	44,101	309,789
Work-in-progress	158,963	280,705	439,668
	$ 17,562,789	$ 1,675,713	$ 19,238,502

	Balance, December 31, 2017	Amortization expense	Balance, December 31, 2018
Athletic equipment	$ 1,446,640	$ 260,279	$ 1,706,919
Building improvements	345,937	331,948	677,885
Computer software and equipment	2,012,818	304,675	2,317,493
Facility equipment	711,624	208,896	920,520
Infrastructure	315,953	147,023	462,976
Signage	87,749	21,822	109,571
Simulators and exhibit fabrication	747,382	382,816	1,130,198
Tenant improvements	52,823	9,750	62,573
Uniforms, ice skates, and helmets	192,961	39,318	232,279
	$ 5,913,887	$ 1,706,527	$ 7,620,414

7. Tangible capital assets (continued):

	2018 Net book value	2017 Net book value
Athletic equipment	$ 1,206,551	$ 1,163,619
Building improvements	1,296,285	942,059
Computer software and equipment	243,577	334,509
Facility equipment	210,334	277,770
Infrastructure	5,417,964	5,564,987
Signage	22,536	44,358
Simulators and exhibit fabrication	2,700,507	3,077,004
Tenant improvements	3,156	12,906
Uniforms, ice skates, and helmets	77,510	72,727
Work-in-progress	439,668	158,963
	$ 11,618,088	$ 11,648,902

The Oval land and building complex and its major equipment components are the property of the City and are not recorded in these financial statements.

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

8. Deferred lease costs:

	2018	2017
Balance, beginning of year	$ 76,412	$ 102,062
Less amortization	(25,650)	(25,650)
Balance, end of year	$ 50,762	$ 76,412

9. Accumulated surplus:

Accumulated surplus is comprised of:

	2018	2017
Share capital	$ 1	$ 1
Capital reserve	6,323,413	4,749,421
Other reserves/provisions	1,357,010	1,683,596
Operating surplus	592,476	546,350
Invested in tangible capital assets	9,255,870	9,121,786
	$ 17,528,770	$ 16,101,154

10. Financial risk management:

The Corporation has exposure to the following risks from the use of financial instruments: credit risk, market risk, and liquidity risk. The Board of Directors ensures that the Corporation has identified its major risks and ensures that the management monitors and controls them.

(a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the Corporation consisting of account receivables. The Corporation assesses these financial assets on a continuous basis for any amounts that are not collectible or realizable.

It is management's opinion that the Corporation is not exposed to significant credit risk from its financial instruments.

(b) Market and interest rate risk:

Market risk is the risk that changes in market prices, such as interest rates, will affect the Corporation's income. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing the return of risk.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rate.

It is management's opinion that the Corporation is not exposed to significant market or interest rate risk from its financial instruments.

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation manages liquidity risks by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

It is management's opinion that the Corporation is not exposed to significant liquidity risk.

11. Related party transactions:

(a) City of Richmond:

The Corporation leases the Oval from the City for $1 annually.

In 2018, $191,690 (2017 - $204,451) of general and administration and salaries and benefits expenses were charged to the Corporation for the provision of City staff time.

In 2018, $57,581 (2017 - $104,185) of salaries and benefits expenses were charged to the City relating to the costs of the Corporation's staff time for services performed.

The Corporation is party to the Richmond Oval Agreement (the "Agreement") with the City, which had an effective date of July 1, 2008. The Agreement established the terms and conditions of the relationship between the City and the Corporation. In accordance with the Agreement, the City will provide, for the first 15-years of the term, financial support as agreed between the City and the Corporation from time to time; for the years 2010, 2011 and 2012 the annual financial support shall not be less than $1,500,000 per year indexed at the City of Vancouver's Consumer Price Index. After 15-years, any financial assistance from the City will be determined by the City in its sole discretion.

During 2018, the Corporation received a contribution from the City of $3,451,446 (2017 - $3,377,146).

(b) Sport Hosting Function:

Effective July 1, 2011, the Sport Hosting function of the City was transferred to the Corporation. This function is fully funded by the hotel tax. In 2018, $433,333 (2017 - $100,000) was transferred from the City to the Corporation as funding for the operations of that department. As at December 31, 2018, $430,407 (2017 - $382,189) has been included in deferred revenue (note 6) and $385,117 (2017 - $334,197) was recognized in memberships, admissions, and programs on the statement of operations.

The Corporation also received $452,816 from the hotel tax funding in 2018 (2017 - $1,418,070) to be used to purchase tangible capital assets related to the Richmond Olympic Experience project. In order to retain this funding, the Corporation must maintain and operate the tangible capital assets purchased with these funds over the life of the tangible capital assets. On an annual basis, the Corporation must provide a report to the City as to the use of the funds and the maintenance and operation of these tangible capital assets. As at year-end, $4,233,106 (2017 - $3,945,186) of the funds restricted for the purchase of tangible capital assets for the Richmond Olympic Experience remains in deferred revenue and the revenue will be recognized over the life of the underlying assets.

12. Pension plan:

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

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and adequacy of Plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the Plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the Plan. This rate is then adjusted to the extent there is amortization of any funding deficit. The most recent valuation for the Plan as of December 31, 2015, indicated a $2,224,000,000 funding surplus for basic pension benefits on a going concern basis. The Corporation paid $470,176 (2017 - $506,170) for employer contributions to the Plan in fiscal 2018.

The next valuation will be as at December 31, 2018, with results available in 2019. Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the Plan.

13. Economic dependence:

The Corporation is economically dependent on receiving funding from GOT and the City.

14. Contractual rights:

Contractual rights are right to economic resources arising from contracts or agreements that will result in revenues and assets in the future and are not yet recorded in the financial statements. The Corporation has contractual rights to receive sponsorship revenue and lease revenue over the next three years in the following total amounts:

2019	$ 660,699
2020	418,432
2021	146,000

In addition, the Corporation receives funding from the City (note 11(a)) and from the GOT (note 5).

City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	April 23, 2019
From:	George Duncan Chief Administrative Officer & President and CEO Richmond Olympic Oval Andrew Nazareth General Manager, Finance and Corporate Services & Chief Financial Officer, Richmond Olympic Oval	**File:**	
Re:	**Richmond Olympic Oval Corporation – 2019 Annual Operating and Capital Budgets**		

Staff Recommendation

That the report on the 2019 Annual Operating and Capital budgets for the Richmond Olympic Oval Corporation from the Controller of the Richmond Olympic Oval Corporation be received for information.

George Duncan
Chief Administrative Officer
& President and CEO
Richmond Olympic Oval

Andrew Nazareth
General Manager, Finance and Corporate Services
& Chief Financial Officer,
Richmond Olympic Oval

RICHMOND OLYMPIC OVAL

Report

DATE:	April 23, 2019
TO:	George Duncan Chief Executive Officer, Richmond Olympic Oval Corporation Andrew Nazareth Chief Financial Officer, Richmond Olympic Oval Corporation John Mills Chief Operating Officer, Richmond Olympic Oval Corporation
FROM:	Rick Dusanj, CPA, CA Controller, Richmond Olympic Oval Corporation
Re:	**Richmond Olympic Oval Corporation – 2019 Annual Operating and Capital Budgets**

Origin

This staff report deals with the Richmond Olympic Oval Corporation's (the "Corporation") 2019 annual operating and capital budgets which were unanimously approved by the Corporation's Board of Directors ("BOD"), and as stipulated in the Oval/City Operating Agreement are being presented to City Council for information.

Analysis

2019 Operating Budget

In preparing the 2019 operating budget, staff were given a mandate from the CEO that aside from allowing for non-discretionary items such as costs associated with contractual commitments, maintenance related expenses pertaining to the existing capital assets and infrastructure, and except where there was a favorable gross margin impact, there were to be no increases to the operating budget. In 2019, an additional burden has been placed by the BC Provincial Government on employers with the introduction of the Employer Health Tax ("EHT") which will have an operating budget impact of approximately $0.19M. In addition to the mandate given above, staff were asked to find additional efficiencies in order to offset this additional expense and have done so by preparing an aggressive 2019 budget. As such, despite the impact of the EHT and other non-discretionary items, an increase of $0.06M to the net 2019 budget before amortization has been prepared relative to the 2018 budget. Staff prepared and the BOD unanimously approved the 2019 operating budget as shown in Attachment 1.

2019 Outlook

Consistent with prior years, the majority of community use in 2019 will be delivered through the provision of fitness and sport drop-ins and Oval-branded registered programs such as Learn to Skate, children's camps, and climbing. Some of the community groups/organizations from Richmond or with strong Richmond based participation expected for 2019 include, but are not limited to: Richmond Arenas Community Association (RACA), Richmond Rockets Speedskating Club, Richmond FC, DRIVE Basketball, Urban Rec and the Greater Vancouver Canadians Hockey Club. In addition, the 5th annual Forever Young 8K, the only age 55+ 8 km run/walk in Canada, will start and finish at the Oval on September 8th.

As one of the primary drivers of membership sales, Oval Fitness services will continue to be diversified and enhanced in 2019. Building on the success of the launch of the Oval's new RIDE indoor cycling studio in 2018, a new studio will offer athlete inspired group programming to our fitness membership base.

High-performance sports programming at the Oval is structured to progress community athletes to the provincial and national ranks. As the home of the Canadian Women's National Volleyball Program, the Oval's weekday daytime hours from April to September will see two full national team squads training in preparation for Olympic qualifiers. Other national team programs training out of the Oval in 2019 include the senior men's national field hockey team, Canadian Wheelchair Rugby, Table Tennis Canada, Climbing Escalade Canada and Softball Canada.

Over 47 events have already been secured for 2019, including but not limited to: Karate BC Training Camp, BC Sports Rep Association Trade show, Panther Cheer Snowflake, Fencing Canada Cup, Harry Jerome Track and Field Indoor Classic, Fencing World Cup, BC High School Boys Basketball Lower Mainland Championships, Great Canadian Home Show, Peter Bakonyi Fencing World Cup, Panther Cheer – Mardi Parti, Wheel Chair Rugby Vancouver Invitational, Rhythmic Gymnastics Zone 4 Championship, Karate BC – Junior Team Selection Tournament, Pacific Judo International, Para Ice Hockey Provincials, Volleyball BC Provincial Championships, Can-Am International Martial Arts Championships, RBC Training Camp, U14 Girls Volleyball Nationals, WHL Combine, Delta Gymnastics Invitational, Volleyball BC U17/18 Volleyball Provincials, Karate Canada Open, Olympic Day, Baden Cup Volleyball Tournament, Battle of the Badges, Wheelchair Rugby National Team Training Camp, and the OKCI Vancouver Open Kettlebell Sport Competition.

2019 Capital Budget

The 2019 capital budget is a total of \$2.57M which includes a minor capital budget of \$1.35M and a major capital budget of \$1.22M. The minor capital budget is for capital projects that are required to maintain or replace the existing capital assets and infrastructure and those projects required to support Oval programming. This includes program related improvements and equipment (e.g. strength and conditioning equipment) of \$0.55M, building operations requirements of \$0.44M (e.g. heat exchangers), computer software & equipment of \$0.16M (e.g. audio equipment upgrades), and a \$0.20M contingency for any safety, security, or other related issues. The major capital budget of

$1.22M is for the Climbing Wall Infrastructure Upgrades Project ($0.75M) and the ROX Phase 2 Expansion Project ($0.47M) for which external funding was received. The Climbing Wall project will increase the height of the climbing wall and also allow for the wall to become a high-performance training environment to provide services for national-level athletes, and a venue to welcome a large number of competitors, spectators, and vendors for events and competitions. $2.10M of the Oval's overall capital budget is self funded by the Corporation through its contributions to its capital reserves and the remaining $0.47M is externally funded.

Rick Dusanj, CPA, CA
Controller, Richmond Olympic Oval Corporation

cc: Shana Turner
Director, Administration & Corporate Services, Richmond Olympic Oval Corporation

ATTACHMENT 1

2019 Operating Budget

RICHMOND OLYMPIC OVAL CORPORATION
Operating Budget

	2018 BUDGET	2019 BUDGET	$ Change	% Change
REVENUES				
2010 Games Operating Trust	$ 2,900,000	$ 2,900,000	$ -	0%
Contribution from City of Richmond	3,451,446	3,527,378	$ 75,932	2%
Memberships, admissions and programs	8,442,591	8,730,197	$ 287,606	3%
Other	2,015,345	1,976,845	$ (38,500)	-2%
	16,809,382	**17,134,420**	**325,038**	2%
EXPENSES				
Memberships, admissions and programs	5,924,776	6,124,618	$ 199,842	3%
Facility Operations	4,604,527	4,574,850	$ (29,677)	-1%
Marketing	608,575	708,575	$ 100,000	16%
Admin/Finance	3,288,065	3,287,067	$ (998)	0%
	14,425,943	**14,695,111**	**269,168**	2%
Net income before amortization and transfers	**$ 2,383,439**	**$ 2,439,309**	**$ 55,870**	2%
Amortization	1,800,000	1,900,000	$ 100,000	6%
Net after amortization and before transfers	$ 583,439	$ 539,309	$ (44,130)	-8%
Transfers to reserves/provisions (Note 1)	TBD	TBD		
Net after amortization and transfers	**TBD**	**TBD**		

Note 1 - This budgeted transfer to reserves/provisions is not estimated at this time as the amount will be determined by the Capital Works Committee.

City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	April 18, 2019
From:	John Irving, P.Eng., MPA Acting General Manager, Engineering & Public Works and Chief Executive Officer, Lulu Island Energy Company Jerry Chong, CPA, CA Director, Finance and Chief Financial Officer, Lulu Island Energy Company	**File:**	10-6600-10-01/2019-Vol 01
Re:	**2018 Financial Statements for the Lulu Island Energy Company**		

Staff Recommendation

That the Lulu Island Energy Company report titled "2018 Financial Statements for the Lulu Island Energy Company" dated April 18, 2019 from the Chief Executive Officer and Chief Financial Officer, be received for information.

John Irving, P.Eng., MPA
Acting General Manager, Engineering & Public Works and
Chief Executive Officer,
Lulu Island Energy Company
(604-276-4140)

Jerry Chong, CPA, CA
Director, Finance and
Chief Financial Officer,
Lulu Island Energy Company
(604-276-4064)

Att. 1

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER	
REVIEWED BY SMT	INITIALS: SL
APPROVED BY CAO	

Richmond

Lulu Island ENERGY COMPANY

6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: April 3, 2019

TO: Board of Directors

FROM: Jerry Chong, CPA, CA, Chief Financial Officer

Re: **2018 Financial Statements for the Lulu Island Energy Company**

Staff Recommendation

That the audited financial statements of the Lulu Island Energy Company (LIEC) for the year ending December 31, 2018, be approved, and that any two LIEC directors be authorized to sign the financial statements to confirm that approval.

Origin

Section 11.3 of the LIEC articles of incorporation requires that an auditor be appointed and audited financial statements prepared at each fiscal year end. It also requires that the audited financial statements are presented annually at an open City of Richmond Council meeting within 150 days of LIEC's fiscal year end. This report presents the 2018 audited financial statements for the LIEC Board's approval.

Background

LIEC, a corporation wholly-owned by the City of Richmond, was established to provide district energy services for the City. Under direction from Council, and following receipt of the necessary approval from the Inspector of Municipalities, the incorporation of LIEC was completed in August 2013.

In June 2014, the City and LIEC executed a District Energy Utilities Agreement, assigning LIEC the function of establishing and operating district energy systems as well as providing thermal energy services on behalf of the City.

LIEC currently owns and operates the Alexandra District Energy (ADEU) Utilities, Oval Village District Energy (OVDEU), and advances new district energy opportunities. Both the Alexandra and the Oval Village neighbourhoods are experiencing rapid redevelopment, and LIEC has been growing to meet this increased energy demand, while maintaining exceptional reliability and quality of service.

The ADEU system currently provides energy to six residential buildings, the "Central at Garden City" commercial development, the Richmond Jamatkhana temple and Fire Hall No. 3. Over 1,456 residential units and over 1.6 million square feet of floor area are currently receiving energy from the ADEU system.

The OVDEU system is managed through a 30 year concession agreement whereby Corix will design, construct, finance, and maintain infrastructure with LIEC maintaining the ownership of the utility. There are eight residential buildings connected to the OVDEU system with over 1,681 residential units and 1.9 million square feet of floor area receiving energy from the OVDEU system.

The ADEU and OVDEU service areas and the associated operations, assets and liabilities are administered by LIEC. All capital and operating costs are recovered through revenues from meter billings, ensuring that the business is financially sustainable.

The purpose of this report is to present the 2018 Financial Statements to the Board for approval. If approved by the Board, staff will present LIEC's 2018 Financial Statements to Council for information, in conjunction with the City's reporting process.

Analysis

The preparation of financial statements is the responsibility of management. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

LIEC's audited financial statements consist of:

- Statement of Financial Position – summary of assets, liabilities and shareholder's equity;
- Statement of Comprehensive Income – summary of revenues, expenses, other activities and net income for the year;
- Statement of Changes in Equity – summary of changes in share capital, contributed surplus and accumulated surplus for the year; and
- Statement of Cash Flows – summary of the sources and uses of cash in the year.

The financial statements have been audited by the independent firm KPMG LLP. Their report precedes the financial statements in Attachment 2.

Financial Position

	2018	2017	$ Changes	% Change
Current Assets	$ 10,838,195	$ 7,715,430	$ 3,122,764	40%
Non-current Assets	32,360,749	32,032,788	327,961	1%
Total Assets	$ 43,198,944	$ 39,748,218	$ 3,450,726	9%
Current Liabilities	$ 1,922,526	$ 1,550,345	$ 372,180	24%
Non-current Liabilities	11,496,652	9,908,739	1,587,914	16%
Shareholder's Equity	29,779,765	28,289,134	1,490,631	5%
Total Liabilities and Shareholder's Equity	$ 43,198,944	$ 39,748,218	$ 3,450,726	9%

The statement of financial position distinguishes current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered within twelve months; non-current assets and liabilities are those where the recovery is expected to occur more than twelve months from the reporting date. LIEC's overall financial position improved by $3,450,725 in 2018 with total assets of $43,198,943 (2017 - $39,748,218).

Total assets are comprised of current assets (cash, investments, and receivables) totaling $10,838,195 (2017 – $7,715,430) and non-current assets (plant and equipment) of $32,360,749 (2017 - $32,032,788). The current assets increased by $3,122,764, mainly due to income generated from operations and advanced payments from developers for future capital projects. The cash balances are in a provision account for future developments. Plant and equipment increased by $327,961, bringing the total to $32,360,749. The increase is the net result of capital additions of work-in-process infrastructure in the year offset by disposals and amortization expense.

LIEC's current liabilities of $1,922,526 (2017 -$1,550,345) consist of outstanding invoices and payables due within twelve months. LIEC's non-current liabilities consist of deferred contributions and concession liabilities. The non-current liabilities increased by $1,587,913 to $11,496,652 (2017 - $9,908,739), mainly due to developer contributions for capital projects. The deferred contributions are the fees received from developers to recover the cost of the initial connection, including installation of the energy transfer station infrastructure. In accordance with IFRS, the contributions are recognized over the useful life of equipment at 25 years from the available to use date. Therefore, unrecognized contributions are deferred and recognized as non-current liabilities of the company. The concession liabilities are linked to the 30 year concession agreement between LIEC and Corix Utilities Inc. (Corix), where Corix designs, constructs, finances, and maintains the infrastructure for the OVDEU. The concession liabilities are the anticipated cash outflow for future obligations under the agreement for the capital and operating costs of the assets.

The shareholder's equity represents the net worth of the company. It is equal to the total assets minus its total liabilities and measures the company's financial health. In 2018, LIEC's shareholder equity was $29,779,765 (2017 - $28,289,134), which indicates that the company's value has increased by $1,490,631, showing good financial health of the company.

Income Statement

	2018	2017	$ Changes	% Change
Revenues				
Metered Billings	$ 3,419,028	$3,028,769	$390,259	13%
Service fee	934,215	915,000	19,215	2%
	4,353,243	3,943,769	409,474	10%
Cost of Sales				
Contracts	501,682	503,967	(2,285)	0%
Utilities	627,270	609,423	17,847	3%
Amortization	1,045,228	1,131,384	31,682	2%
	2,174,180	2,136,129	38,051	2%
Gross Margin	**2,179,063**	**1,807,640**	**371,423**	**21%**
General and Administration Expenses				
Salaries and benefits	615,338	607,347	7,991	1%
Administration expenses	90,676	60,600	30,076	50%
Insurance	65,761	-	65,761	100%
Professional fees	31,346	45,930	(14,585)	(32%)
	803,121	713,878	89,243	13%
Net Income Before Other Items	1,375,942	1,093,763	282,179	26%
Contributions and Financing Expense				
Developer contributions	106,761	99,974	6,787	7%
Energy modeling review fee	151,083	115,280	35,802	31%
Net finance cost	(143,154)	(267,462)	124,309	(46%)
	114,690	(52,208)	166,898	(320%)
Net Income	**$ 1,490,632**	**$1,041,554**	**$449,077**	**43%**

Earnings before interest, taxes and amortization (EBITA)				
Net income per above	1,490,632	1,041,554	449,077	43%
Financing expense	420,009	332,644	87,365	26%
Amortization expense	1,045,288	1,022,738	22,490	2%
EBITA	2,955,868	2,396,936	558,932	23%

The income statement provides a summary of the company's revenues, expenses and profits over the fiscal year of 2018. It reports the financial performance of the company.

Year over Year Change

The metered billings reflect the first full year of energy sales to the number of buildings which were connected partway through 2017. The actual sales are based on the actual customers' energy usage and consumption. The metered billings increased by $390,259 over 2017 mainly due to:

- An increase of $283,336 in OVDEU metered billings due to annual utility rate increase and full year service of existing buildings (Amacon Tempo, Onni Riva 3, and ASPAC 9); and
- An increase of $106,923 in ADEU metered billings due to annual utility rate increase and full year service of an existing building (Fire Hall #3).

The service fee of $934, 215 (2017 - $915,000) is for LIEC services of advancing district energy opportunities in the City, which results in the numerous benefits to the City and the local community. Staff and specialty consultants working on low carbon district energy initiatives are covered by the Service Fee. With or without LIEC, the City would need to fund these costs in order to successfully implement district energy initiatives for the City and position itself at the forefront of tackling local and global environmental challenges our world faces.

The cost of sales includes contract services, utilities (electricity and natural gas) and amortization expenses. The total cost of sales increased by $38,051 to $2,174,180 (2017 - $2,135,129). The increase is due to more energy sales to customers. The amortization expense increased due to capital assets additions.

The general and administration expenses are expenditures that LIEC incurs to engage in business development activities and includes salaries and benefits, administration expenses, insurance, professional fees. The general and administration expenses increased by $89,243 over 2017, mainly due to:

- Insurance – With district energy assets under LIEC, this is the first year that LIEC set up its own insurance program, resulting in an insurance expense of $65,761 (2017 – Nil). The DEU assets were insured under the City policy in 2017; and
- Administration expenses – A fee of $59,758 (2017 - $ 48,152), paid by LIEC to the City of Richmond for the support provided by the City.

The earnings before interest, taxes and amortization (EBITA) is a common industry benchmark to evaluate financial performance. The EBITA increased from $2,396,936 to $ 2,955,868. The increase in EBITA is due to an increase in customer base and efficient operations.

Overall, LIEC's revenues exceeded expenses resulting in a net income of $1,490,632. Compared to 2017, the net income has increased by $449,007 showing positive financial results of operations.

LIEC's financial sustainability and future growth must be taken into consideration when reviewing its EBITA and net income. LIEC's success is dependent upon developing in house expertise and securing funds for the future capital replacement as the existing infrastructure components reach end of life. Other important factors are the planning of future projects, which includes research and development, and exploratory reviews on future technology and opportunities. The net income will be set aside in LIEC's equity to build a reserve fund for future capital replacement and in order to ensure long term rate stability for rate payers.

Budget Variance
(See Attachment 1 for 2018 budget to actual comparison)

Revenues

The metered billings are the total energy sales of both ADEU and OVDEU service areas. The metered billings revenue was $1,820,981 from the Alexandra District Energy Utility (ADEU) and $1,598,048 from the Oval Village District Energy Utility (OVDEU). Overall, 2018 actual revenues of $3,419,028 are in line with the projected revenues, 1% above budget.

Cost of Sales

The Cost of Sales is the accumulated total of expenses attributable to the metered billing revenue, which includes contract services, utilities (electricity and natural gas), and amortization expenses. The contract expense is below budget by 23% mainly due to less unscheduled repairs and maintenance. The utility expenses are below the budget by 14%. The main driver is lower projected use of electricity and natural gas in the ADEU service area. Because ADEU is designed to maximize the use of renewable energy sources and peaking boilers are only used when renewable capacity is exceeded, electricity and natural gas use are greatly affected by seasonal heating demand. Moderate winter conditions in 2018 resulted in ADEU being able to meet practically all heating demand using renewable sources, resulting in very low utility consumption. Overall, the cost of sales of $2,174,180 is below the budget by 14%.

General and Administration Expenses

The general and administration expenses are expenditures that LIEC will incur to engage in business activities such as salaries and benefits, administration expense, professional fees, insurance expense, etc. Overall, there is a favourable variance with respect to expenses. The total general and administration expense of $803,121 is below the budget by 9%.

Contributions and Financing Expense

The contributions and financing expense section represents other sources of income and costs:

- Asset contributions (ETS fee) – this revenue refers to all the distribution piping system, energy transfer station and construction costs inside the property line of connected developments. These costs are paid by developers. In accordance to IFRS, the revenue of asset contributions (ETS fee) will be recognized over the useful life of the energy transfer stations from the date a section is available for use;

- Energy modeling review fee – The increase of $131,083 is due to very active developments in Richmond and more building permits being reviewed. The amount of the review fee is to cover district energy review costs and is based on the overall construction value of the project;
- Net finance cost – It is the net result of the finance cost on concession liabilities in the year offset by interest income and other recoveries. The finance cost on concession liabilities was in line with the budget. The interest income was above the budget due to earned higher interest on existing cash balances. The advanced payments received from developers for future developments resulted in higher cash balances in 2018. With the growing interest rate in 2018, the interest earned was higher than expected. The net finance cost was reduced by the recovery of administration cost as a result from successful negotiation with OVDEU concessionaire. Overall, the net financing cost of $143,154 was below the budget by 63%.

LIEC's overall financial performance exceeded the budget. Although LIEC is still in start-up phase, the financial statements show that LIEC's financial position is very good.

Financial Impact

None.

Conclusion

The Auditor's Report states that these financial statements present fairly, in all material respects, the financial position of Lulu Island Energy Company Ltd. as at December 31, 2018 and the financial performance, the changes in equity, and cash flows for the year then ended in accordance with International Financial Reporting standards.

Helen Zhao, CPA, CA
Controller
Lulu Island Energy Company
(604-276-4053)

Attachment 1: 2018 Actual and Budget Comparison
Attachment 2: 2018 Audited Financial Statements

Attachment 1: 2018 Actual and Budget Comparison

	Actual	Budget	$ Changes	% Change
Revenues				
Metered Billings	$ 3,419,028	$3,379,124	$ 39,905	1%
Service fee	934,215	934,215	-	0%
	4,353,243	4,313,339	39,905	1%
Cost of Sales				
Contracts	501,682	655,569	(153,887)	(23%)
Utilities	627,270	732,313	(105,043)	(14%)
Amortization	1,045,228	1,131,384	(86,156)	(8%)
	2,174,180	2,519,266	(345,086)	(14%)
Gross margin	**2,179,063**	**1,794,073**	**384,991**	**21%**
General and Administration Expenses				
Salaries and benefits	615,338	615,393	(55)	0%
Administration expenses	90,676	133,516	(42,840)	(32%)
Insurance	65,761	65,000	761	1%
Professional Fees	31,346	65,000	(33,654)	(52%)
	803,121	878,909	(75,788)	(9%)
Net income before other items	1,375,942	915,164	460,778	50%
Contributions and Financing expense				
Developer contributions	106,761	86,325	20,436	24%
Energy modeling review fee	151,083	20,000	131,083	655%
Net finance income (cost)	(143,154)	(389,519)	246,365	(65%)
	114,690	(283,194)	397,884	(140%)
Net Income	**$ 1,490,632**	**$ 631,970**	**$ 858,662**	**136%**

Earnings before interest, taxes and amortization (EBITA)

Net income per above	1,490,632	631,969	858,662	136%
Financing expense	420,009	419,519	490	0%
Amortization expense	1,045,228	1,131,384	(86,166)	(8%)
EBITA	2,955,868	2,182,872	772,996	35%

Attachment 2 – 2018 Audited Financial Statements

Financial Statements
(Expressed in Canadian dollars)

LULU ISLAND ENERGY COMPANY LTD.

Year ended December 31, 2018

KPMG

KPMG LLP
Metro Tower I
4710 Kingsway, Suite 2401
Burnaby BC V5H 4M2
Canada
Telephone (604) 527-3600
Fax (604) 527-3636

INDEPENDENT AUDITORS' REPORT

To the City of Richmond

Opinion

We have audited the financial statements of Lulu Island Energy Company Ltd. (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of profit or loss and other comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Burnaby, Canada
April 18, 2019

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 1,640,019	$ 710,775
Accounts receivable (note 6)	2,242,644	1,487,917
Other investments (note 7)	6,955,532	5,516,738
	10,838,195	7,715,430
Non-current assets:		
Plant and equipment (note 8)	32,360,749	32,032,788
	$ 43,198,944	$ 39,748,218
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 414,437	$ 256,582
Current portion of deferred developer contributions (note 9)	106,761	106,761
Current portion of concession liability (note 10)	1,401,328	1,187,000
	1,922,526	1,550,343
Non-current liabilities:		
Deferred developer contributions (note 9)	5,267,876	3,521,677
Concession liability (note 10)	6,228,776	6,387,064
	13,419,178	11,459,084
Shareholder's equity:		
Share capital and contributed surplus (note 14)	27,397,115	27,397,115
Retained earnings	2,382,651	892,019
	29,779,766	28,289,134
	$ 43,198,944	$ 39,748,218

See accompanying notes to financial statements.

Approved on behalf of the Board:

__________________ Director   __________________ Director

LULU ISLAND ENERGY COMPANY LTD.

Statement of Profit or Loss and Other Comprehensive Income

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

	2018	2017
Revenue (note 13)	$ 4,353,243	$ 3,943,769
Cost of sales:		
Operating expenses	1,128,952	1,113,391
Depreciation	1,045,228	1,022,738
	2,174,180	2,136,129
Gross profit	2,179,063	1,807,640
General and administrative expenses	803,121	713,878
Net income before undernoted items	1,375,942	1,093,762
Developer contributions, other income and net finance cost:		
Developer contributions	106,761	99,974
Other income (note 13)	151,083	115,280
Net finance cost (note 5)	(143,154)	(267,462)
	114,690	(52,208)
Net income and comprehensive income	$ 1,490,632	$ 1,041,554

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Equity

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

	Share capital	Contributed surplus	Retained earnings (deficit)	Shareholder's equity
Balance, January 1, 2017	$ 1	$ 23,157,226	$ (149,535)	$ 23,007,692
Issuance of common shares	4	-	-	4
Net income and comprehensive income	-	-	1,041,554	1,041,554
Contributed surplus (note 13(a))	-	4,239,884	-	4,239,884
Balance, December 31, 2017	5	27,397,110	892,019	28,289,134
Net income and comprehensive income	-	-	1,490,632	1,490,632
Balance, December 31, 2018	$ 5	$ 27,397,110	$ 2,382,651	$ 29,779,766

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operations:		
Net income	$ 1,490,632	$ 1,041,554
Adjustments for:		
Depreciation	1,045,228	1,022,738
Recognition of deferred contributions	(106,761)	(99,974)
Finance expense	420,009	332,643
Change in non-cash working capital:		
Accounts receivable	(754,727)	(844,989)
Accounts payable and accrued liabilities	157,855	171,616
Deferred developer contributions	1,852,960	826,977
Net change in cash from operating activities	4,105,196	2,450,565
Investments:		
Additions to plant and equipment	(1,065,437)	(359,428)
Purchase of investments	(1,438,794)	(5,516,738)
Net change in cash from investing activities	(2,504,231)	(5,876,166)
Financing:		
Issuance of common shares	-	4
Contributed surplus	-	4,198,040
Concession liability	(671,721)	(232,026)
Net change in cash from financing activities	(671,721)	3,966,018
Net change in cash	929,244	540,417
Cash and cash equivalents, beginning of year	710,775	170,358
Cash and cash equivalents, end of year	$ 1,640,019	$ 710,775
Non-cash items:		
Transfer of plant and equipment from shareholder	$ -	$ 41,844

See accompanying notes to financial statements.

1. Incorporation and nature of business:

The Lulu Island Energy Company Ltd. (the "Company") was incorporated on August 19, 2013 under the Business Corporations Act of British Columbia as a municipal corporation wholly-owned by the City of Richmond (the "City"). The address of the Company's registered office is 6911 No. 3 Road, Richmond, British Columbia, V6Y 2C1.

The business of the Company is to develop, manage and operate district energy utilities in the City, including but not limited to energy production, generation or exchange, transmission, distribution, maintenance, marketing and sale to customers, customer service, profit generation and financial management. The Company also provides advisory services for energy and infrastructure.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

The financial statements were approved and authorized for issue by the Board of Directors April 18, 2019.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis and on a going concern basis.

(c) Presentation of financial statements:

The Company uses a classified statement of financial position. The statement of financial position distinguishes between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered within twelve months from the reporting date and non-current assets and liabilities are those where the recovery is expected to occur more than twelve months from the reporting date. The Company classifies the statement of comprehensive income using the function of expense method, which classifies expenses according to their functions, such as cost of sales and general and administrative expenses.

(d) Functional and presentation currency:

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

2. Basis of presentation (continued):

(e) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Note 9 - recognition of deferred developer contributions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 8 - useful lives of plant and equipment

Note 12 - determination of the future minimum obligations and commitments for the concession liability.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

(a) Plant and equipment:

(*i*) Recognition and measurement:

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes amounts that are directly attributable to acquisition, construction, development, or betterment of the asset. The cost of self-constructed assets include the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

3. Significant accounting policies (continued):

(a) Plant and equipment (continued):

(*i*) Recognition and measurement (continued):

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and are recognized net within other income in profit and loss.

(*ii*) Subsequent costs:

The cost of replacing a part of an item of plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of plant and equipment are recognized in profit or loss as incurred.

(*iii*) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Depreciation of plant and equipment commences when the asset is deemed available for use and is recognized in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment as follows:

Asset	Useful life - years
Energy plant center	75
Distribution piping	50
General equipment	25

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3. Significant accounting policies (continued):

(b) Revenue recognition:

The Company adopted IFRS 15, *Revenue from Contracts with Customers* on January 1, 2018. IFRS 15 replaced IAS 11 *Construction Contracts,* IAS 18 *Revenue* and related interpretations ("IAS 18").

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application, January 1, 2018. Accordingly, the information presented for 2017 has not been restated. It is presented, as previously reported, under IAS 18 and related interpretations.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. There was no impact as a result of adoption of the standard.

The Company recognizes revenue for the provision of energy and supply of other services. Revenue for the provision of energy is based on meter readings and is billed on a cyclical basis. Revenue is accrued for energy delivered but not yet billed. Revenue for other services is recognized upon completion of service. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is made. Revenue is measured at the fair value of the consideration received or receivable.

(c) Public-private partnership project:

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

When deemed available for use, the project assets are amortized over their estimated useful lives. Correspondingly, an obligation for the cost of capital and financing received to date, net of the developer contributions received and repayments, is recorded under concession liabilities (note 10).

(d) Income taxes:

Under Section 149(1) (d) of the Income Tax Act, the Company is exempt from income and capital taxes by virtue of the fact that it is a wholly owned subsidiary of the City. Accordingly, no provision for such taxes has been made in financial statements.

(e) Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. At December 31, 2018 all cash and cash equivalents related to cash balances (2017 – cash balances).

3. Significant accounting policies (continued):

(f) Finance income and finance cost:

Finance income comprises interest on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(g) Financial instruments:

The Company adopted IFRS 9, *Financial Instruments* on January 1, 2018.

The Company had adopted IFRS 9 with retrospective application taking exemption from restatement of financial assets and financial liabilities already derecognized on initial application.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39").

(*i*) Classification and measurement of financial assets and financial liabilities:

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities at amortized cost using the effective interest method. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("FVOCI") - debt instrument, FVOCI - equity instrument, or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*i*) Classification and measurement of financial assets and financial liabilities (continued):

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized costs or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to subsequent measurement of financial assets:

- Financial assets at FVTPL: these assets are subsequent measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
- Financial assets at amortized cost: these assets are subsequently measured at amortized costs using the effective interest method. The amortized cost is reduced by impairment losses (see note 3(g)(ii)). Interest income and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- Debt investments at FVOCI: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method and impairment are recognized in profit or loss. Other net gains are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
- Equity investments at FVOCI: these assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*i*) Classification and measurement of financial assets and financial liabilities (continued):

The following table show the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at January 1, 2018.

	New classification Under IFRS 9	Original classification under IAS 39
Financial assets		
Cash and cash equivalents	Amortized cost	Loans and receivables
Accounts receivable	Amortized cost	Loans and receivables
Other investments	Amortized cost	Loans and receivables
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Other financial liabilities
Concession liability	Other financial liabilities	Other financial liabilities

On adoption of IFRS 9, no changes in the carrying amounts of the financial assets have been recorded.

(*ii*) Measurement categories:

The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2018, and 2017. Unless otherwise noted, the fair values on the instruments approximate their carrying amount due to their short-term nature and / or due to application of market rates of interest.

	2018	2017
Financial Assets:		
Financial assets at amortized cost:		
Cash and cash equivalents	$ 1,640,019	$ 710,775
Accounts receivable	2,242,644	1,487,917
Other investments	6,955,532	5,516,738
	$ 10,838,195	$ 7,715,430
Financial Liabilities:		
Financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	$ 414,437	$ 256,582
Concession liability	7,630,104	7,574,064
	$ 8,044,541	$ 7,830,646

3. Significant accounting policies (continued):

(h) Impairment:

(*i*) Financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of cash and cash equivalents, accounts receivable and other investments.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime EFLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs. The Company has elected to measure loss allowances for accounts receivable at an amount equal to lifetime ECLs.

Measurement of ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

On adoption of IFRS 9, there was no change to the impairment of the Company's financial assets.

(*ii*) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

3. Significant accounting policies (continued):

(h) Impairment (continued):

(*ii*) Non-financial assets (continued):

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Pension benefits:

The Company and its employees participate in the Municipal Pension Plan, a multi-employer defined benefit plan. Defined contribution plan accounting is applied to this plan because separate information for the Company is unable to be provided to apply defined benefit accounting. The expenses associated with this plan are equal to the actual contributions required by the Company during the reporting period.

(j) Standards issued but not yet effective:

(*i*) IFRS 16 Leases:

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company has evaluated the standard and the impact of adoption is not expected to have a material impact on the financial statements of the Company.

4. Personnel expenses:

	2018	2017
Wages and salaries	$ 611,625	$ 578,697
Other payroll expenses	3,713	28,650
	$ 615,338	$ 607,347

5. Net finance cost:

	2018	2017
Finance income:		
Investment interest	$ 149,435	$ 55,587
Bank interest	29,520	6,902
Other	97,900	2,692
	276,855	65,181
Finance cost:		
Finance expense on concession liability	(420,009)	(332,643)
Net finance cost	$ (143,154)	$ (267,462)

6. Accounts receivable:

	2018	2017
Trade receivables (note 13)	$ 1,375,799	$ 373,929
Unbilled trade receivables	852,840	1,094,777
Sales tax receivable	14,005	19,211
	$ 2,242,644	$ 1,487,917

7. Other investments:

Investments represent cash term deposits as follows:

Purchase date	Maturity date (interest rate)	2018
May 12, 2018	May 12, 2019 (2.80%)	$ 2,072,391
June 5, 2018	June 5, 2019 (2.80%)	1,016,033
Aug 23, 2018	Aug 23, 2019 (2.85%)	1,515,226
Nov 28, 2018	Feb 26, 2019 (2.30%)	302,442
Nov 28, 2018	Nov 28, 2019 (3.00%)	1,548,656
Dec 07, 2018	June 5, 2019 (2.60%)	500,784
		$ 6,955,532

8. Plant and equipment:

	Energy plant centre	General equipment	Distribution piping	Total
Cost:				
Balance as at January 1, 2017	$ 5,031,915	$ 20,043,182	$ 6,463,548	$ 31,538,645
Additions	-	703,368	1,096,236	1,799,604
Balance as at December 31, 2017	$ 5,031,915	$ 20,746,550	$ 7,559,784	$ 33,338,249
Additions	-	764,247	608,942	1,373,189
Balance as at December 31, 2018	$ 5,031,915	$ 21,510,797	$ 8,168,726	$ 34,711,438
Accumulated depreciation:				
Balance as at January 1, 2017	$ -	$ 237,203	$ 45,520	$ 282,723
Depreciation	67,092	812,936	142,710	1,022,738
Balance as at December 31, 2017	$ 67,092	$ 1,050,139	$ 188,230	$ 1,305,461
Depreciation	67,092	828,882	149,254	1,045,228
Balance as at December 31, 2018	$ 134,184	$ 1,879,021	$ 337,484	$ 2,350,689
Net book value:				
At January 1, 2017	$ 5,031,915	$ 19,805,979	$ 6,418,028	$ 31,255,922
At December 31, 2017	4,964,823	19,696,411	7,371,554	32,032,788
At December 31, 2018	4,897,731	19,631,776	7,831,242	32,360,749

Included in plant and equipment is $1,494,780 (2017 - $127,055) of assets under construction being $788,741 (2017 - $29,957) general equipment and $706,039 (2017 - $97,098) distribution piping. For the year ended December 31, 2018, capitalized borrowing costs related to the construction of the distribution system amounted to be nil (2017 - $43,935).

9. Deferred developer contributions:

The Company defers contribution amounts received from developers related to the cost of initial connection, including installation of the energy transfer station. The developer contributions are recognized over the useful life of the associated general equipment from the date the respective building is deemed available to use.

The following table summarizes the amounts recognized as at year end:

	2018	2017
Deferred developer contributions, beginning of year	$ 3,628,438	$ 2,785,654
Developer contributions received	1,852,960	1,011,793
Recognized revenue from developer contributions	(106,761)	(169,009)
	5,374,637	3,628,438
Less: current portion of deferred developer contributions	106,761	106,761
Non-current deferred developer contributions	$ 5,267,876	$ 3,521,677

10. Oval Village District Energy Utility ("OVDEU") Concession Agreement:

On October 30, 2014, the Corporation and the OVDEU developer ("the Concessionaire") entered into a 30 year Concession Agreement, which is a public-private partnership project ("P3"), where the Concessionaire will design, construct, finance, operate and maintain the infrastructure for the district energy utility at the Oval Village community. The total estimated concession liability to finance the construction of the OVDEU at full build out is $38,344,000 (2017 - $31,931,000) and will be accrued over time as the services are rendered.

The Concession Agreement is payable monthly in accordance with the Concession Agreement terms. Required concession liability payment obligations are disclosed in note 12.

OVDEU Concession Agreement liability:

	2018	2017
Concession Agreement liability – capital	$ 6,605,178	$ 6,548,070
Concession Agreement liability – non-capital	1,024,926	1,025,994
	7,630,104	7,574,064
Less: current capital portion of concession liability	609,742	551,617
Less: current non-capital portion of concession liability	791,586	635,383
Non-current portion of concession liability	$ 6,228,776	$ 6,387,064

The average finance cost on the concession liability is 5.50% for the year ended December 31, 2018 (2017 - 5.50%).

10. Oval Village District Energy Utility ("OVDEU") Concession Agreement (continued):

The concession liability is repayable as follows:

2019	$ 1,401,328
2020	1,457,381
2021	1,515,676
2022	1,576,303
2023 and thereafter	1,679,416
Total	$ 7,630,104

The following tables summarizes the changes in the concession liability due to financing cash flows and liability related charges:

Balance January 1, 2018	$ 7,574,064
Additions	307,755
Finance expense	420,009
Net repayment	(671,724)
Balance December 31, 2018	$ 7,630,104

11. Limited Guarantee Agreement:

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

12. Commitments and contingencies:

Public-private partnership commitments:

Payments to the Concessionaire under the Concession Agreement are based on the Concessionaire's Annual Revenue Requirement, which is based on the utility cost of service rate-setting principles in British Columbia utilizing forward test years. The Annual Revenue Requirement is a combination of Capital and Operating charges. The Capital charge is comprised of capital expenditures and depreciation, and Operating charge is comprised of services costs, financing costs, income and other taxes and return on equity.

12. Commitments and contingencies (continued):

Public-private partnership commitments (continued):

The information presented below shows the expected committed cash outflow for the next year under the Concession Agreement for the capital and operating costs of the assets. As construction progresses the asset values are recorded as plant and equipment and the corresponding liabilities are recorded as concession agreement liabilities as disclosed in note 10.

	Capital commitment	Operating commitment	Total commitment
2018	$ 609,742	$ 791,586	$ 1,401,328

13. Related party transactions:

Included in these financial statements are transactions with various Crown corporations, ministries, agencies, boards and commissions related to the Company by virtue of common control by the City, the Province of British Columbia or the Government of Canada. The Company has applied the modified disclosure requirements under IAS 24, *Related Party Disclosures*, which is only applicable for government-related entities.

(a) Transactions with City of Richmond

During 2018, the Company received and recognized in revenues $934,215 (2017 - $915,000) for its services of advancing district energy opportunities in the City. Staff and advanced design activities on low carbon district energy initiatives are covered by this fee. With or without the Company, the City would need to fund these costs in order to successfully implement district energy initiatives for the City and position itself at the forefront of tackling local and global environmental challenges our world faces.

In addition, included in revenue for 2018 is $33,482 (2017 – $29,972) for district energy utility services rendered by the Company to the City.

During 2018, the Company received and recognized energy model review fees into other income of $151,083 (2017 - $115,280) relating to district energy permit fees collected by the City for in-building district energy related equipment reviews performed by the Company.

During 2018, $157,085 (2017 – $93,560) of salary and benefit expenses were charged to the City for the costs incurred due to Company staff being assigned to perform project management duties for the City projects. These costs have been charged to the City on a cost recovery basis and are included as a reduction to general and administrative expenses.

The total amount due from City of Richmond as a result of the above transactions as at December 31, 2018 is $1,375,799 (2017 – $360,766) and is included within trade receivables in accounts receivable.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. Related party transactions (continued):

(b) Key management personnel:

The Company did not enter into any transactions with key management personnel in the year ended December 31, 2018 (2017 - none).

No key management personnel are remunerated by the Company. A fee of $59,758 (2017 - $48,152), included in general and administration expenses, was paid to the City for the day-to-day support that the Company received from the City staff over the year. These costs have been charged to the Company on a cost recovery basis and include an element of re-charge for City key management personnel.

14. Share capital:

At December 31, 2018, the authorized share capital comprised 10,000 (2017 - 10,000) common shares without par value.
As at December 31, 2018, the Company has issued 450 common shares (2017- 450) at $0.01 per share totaling $4.50 (2017 - $4.50) and contributed surplus of $27,397,110 (2017 - $27,397,110).

15. Fair values:

The Company uses the following hierarchy to determine and disclose fair value of financial instruments:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 - inputs other than quoted prices that are observable for asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of fair value hierarchy, then the fair value measurement is categorized in its entirely in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(a) Financial assets and liabilities not measured at fair value:

The carrying amounts for cash and cash equivalents, accounts receivable, other investments, accounts payable and accrued liabilities approximate their fair values due to their short-term nature.

(b) Non-current financial liabilities:

Subsequent to initial recognition the concession liability is accounted for at amortized cost using the effective interest method. The carrying amount of the concession liability approximates its fair value due to the nature of liabilities accrued and benchmark market rate of interest rate applied (level 3 inputs).

16. Financial risk management and financial instruments:

(a) Overview:

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (interest rate risk).

(b) Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The management reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(c) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the Company consisting of its cash and cash equivalents, trade accounts receivables and other investments. The Company assesses these financial assets on a continuous basis for any amounts that are not collectible or realizable. It is management's opinion that the Company is not exposed to significant credit risk from its financial instruments.

(*i*) Trade and unbilled trade receivables:

The Company trades mainly with recognized and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

At December 31, 2018 and 2017 all trade and other receivables were neither past due (current) nor impaired and related to end-user customers in the City's geographic region or services provided to the City.

(*ii*) Other investments:

Credit risk arising from other financial assets of the Company comprises cash and cash equivalents and other investments. The Company's exposure to credit risk arises from default of the counterparties. The Company manages credit risk through investing only in cash term deposits with established financial institutions which are considered to be low risk.

16. Financial risk management and financial instruments (continued):

(d) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's terms of business require amounts to be paid from customers within 30-days of the date of invoice. The accounts payable and accrued liabilities and due from the City are in the normal course of operations and paid within the following fiscal year. The commitments under the concession liability are disclosed in note 12.

The information presented below shows the undiscounted contractual maturities of the concession liability, including estimated interest payments.

	Carrying amount	Contractual cash flow	Less than 1 year	1 – 2 years	2 – 5 years
December 31, 2018	$ 7,630,104	$ 8,793,982	$ 1,439,485	$ 1,579,702	$ 5,774,795
December 31, 2017	7,574,064	8,713,553	1,219,206	1,598,346	5,896,001

(e) Market risk:

Market risk is the risk that changes in market prices, such as interest rates and other rate risks, will affect the Company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in the market interest rate.

It is management's opinion that the Company is not exposed to significant market (interest rate) risk from its financial instruments.

17. Capital management:

The Company's objective when managing capital is to maintain a strong capital base to sustain future development of the business, so that it can provide return for the shareholder and benefits for other stakeholders.

The Company considers the items included in shareholder's equity and the concession liability as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may request additional investment from its shareholder. The Company is not required to meet any debt covenants. The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year (2017 - no changes).

18. Pension plan:

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

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

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

The Company paid $63,598 (2017 - $40,148) for employer contributions to the Plan in 2018.
The next valuation will be at December 31, 2018, with results available in 2019. Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting).

19. Comparative information:

Certain 2017 comparative information has been reclassified to conform to the financial statement presentation adopted for 2018.

City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	April 18, 2019
From:	Andrew Nazareth General Manager, Finance and Corporate Services	**File:**	03-0905-01/2019-Vol 01
Re:	**2018 Financial Statements for the Richmond Public Library**		

Staff Recommendation

That the 2018 Richmond Public Library audited financial statements for the year ended December 31, 2018, as presented in the attached report from the Chief Librarian, be received for information.

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

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

6168884

Richmond
Public Library

REPORT TO COMMITTEE

To:	Finance Committee	Date: April 18, 2019
From:	Susan Walters, Chief Librarian	
Re:	2018 Financial Statements of the Richmond Public Library Board	

Recommendation

That the 2018 Financial Statements of the Richmond Public Library Board be received for information.

SWalters.

Susan Walters
Chief Librarian & Secretary to the Board
Richmond Public Library

Attachment:
Financial Statements of Richmond Public Library Board Year Ended December 31, 2018

Origin
The Library Act, Part 2, Section 11(2) states: "The library board must provide to the municipality annual financial statements that have been audited in the same manner and at the same time as the financial statements of the municipality."

This report deals with the 2018 financial statements of the Richmond Public Library Board.

Analysis
Please see the attached Financial Statements of the Richmond Public Library Board for the year ended December 31, 2018. The library's financial statements are prepared in accordance with Canadian public sector accounting standards.

KPMG did not identify any control deficiencies that they consider to be significant deficiencies in internal control for financial reporting.

The Library Board reviewed the statements and approved them at their regular meeting on Wednesday, April 17, 2019.

Statement of Financial Position
Financial Assets
The amount due from the City of Richmond ($2,075,485) and accounts receivable ($63,918) arose in the normal course of business.

Liabilities
Accounts payable and accrued liabilities as of December 31, 2018 were $1,175,615 and primarily included accrued payroll liabilities and post-employment benefits. Deferred revenue of $110,865 is the amount of restricted donations received. Donation revenue is recognized in the year in which the related expenses are incurred.

Non-Financial Assets
As of December 31, 2018 the library had $3,235,405 in tangible capital assets, which includes the library's collections, computer hardware and software, equipment and furniture. Note 6 in the financial statements contain a breakdown of cost, accumulated depreciation and net book value.

The 2018 net book value of tangible capital assets declined by $126,748 due to a decline in the collection's net book value as a result of amortization exceeding additions.

Prepaid expense of $569,795 consists of e-book subscriptions with durations longer than one year.

Accumulated Surplus
The accumulated surplus at December 31, 2018 was $4,658,123 and consists of tangible capital assets of $3,235,405, appropriated surplus of $230,313 and surplus of $1,192,405. Appropriated surplus included $64,879 approved for capital expenditures and $33,401 from community foundation interest.

Statement of Operations
Revenue
The library received $9,422,954 in contributions from the City, $380,074 from grants, $280,118 from fines and miscellaneous charges and $19,087 from investment income. Book fine revenue was expected to decrease after the change in the fine collection threshold from $10 to $5 was introduced in early 2016 and decrease in physical collections. Online services increased and other libraries improved their

collections, causing InterLINK revenues to fall by $17,908. Miscellaneous income increased by $14,492 due to PST refund from the Province as e-book was self-assessed incorrectly in prior years. Donation revenue matches the donations expenses incurred during 2018. The 2018 figure of $47,524 is an increase of $5,923 over the previous year.

Expenses

Salaries and benefits had a budget favourable variance of $213,681 due to various vacant positions throughout the year as the recruitment process to fill vacancies takes time but were $339,068 higher than 2017 mainly due to 2% collective agreement increase.

Amortization of tangible capital assets is on a straight-line basis with library collections over 4 to 20 years, furniture and fixtures over 10 to 20 years and equipment over 5 to 10 years. In 2018 this amounted to $1,189,876.

Library subscriptions and databases include "eBooks", multimedia, databases, newspapers and magazines. The increasing popularity of "eBooks" accounts for the increase of $69k over the previous year.

Supplies and equipment services expense is a consolidation of various items including cataloguing, supplies, printing and equipment purchases and maintenance. This expense decreased by $45,895 compared to prior year due to lower failure rate from IT equipment. The budget figure of $413,000 includes $96,388 for equipment purchases and most of this amount is capitalized accounting for the budget variance.

Building, leases and maintenance expenses were $34,350 higher than budget and $37,973 higher than 2017 due to an increase in branch operating costs charged by the landlord as well as a new cleaning contract to reflect the market price.

General and administration expenses were $20,150 higher than last year but $62,014 lower than budget. There was a favourable budget variance due to underrun in printing & publications, telephones and cancellation of postage metre.

Overall, 2018 expenses were $304,943 higher than 2017 due to contractual increases such as collective agreement, leases and other service agreements .

Library Board Approval

The Library Board reviewed the statements and approved them at their regular meeting on Wednesday, April 17, 2019

Susan Walters

SWalters.

Chief Librarian & Secretary to the Board
Richmond Public Library

Financial Statements of

RICHMOND PUBLIC LIBRARY BOARD

Year ended December 31, 2018

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the Richmond Public Library Board

Opinion

We have audited the financial statements of Richmond Public Library Board (the "Library"), which comprise:

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

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

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

Basis for Opinion

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 17, 2019

RICHMOND PUBLIC LIBRARY BOARD

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial Assets		
Due from City of Richmond (note 3)	$ 2,075,485	$ 1,921,989
Accounts receivable	63,918	105,239
	2,139,403	2,027,228
Liabilities		
Accounts payable and accrued liabilities (note 4)	1,175,615	1,181,311
Deferred revenue (note 5)	110,865	66,811
	1,286,480	1,248,122
Net financial assets	852,923	779,106
Non-Financial Assets		
Tangible capital assets (note 6)	3,235,405	3,362,153
Prepaid expenses	569,795	447,389
	3,805,200	3,809,542
Accumulated surplus (note 8)	$ 4,658,123	$ 4,588,648

Commitments (note 15)
Economic dependence (note 19)

See accompanying notes to financial statements.

Approved on behalf of the Library Board:

_______________ Trustee

_______________ Trustee

RICHMOND PUBLIC LIBRARY BOARD

Statement of Operations

Year ended December 31, 2018 with comparative information for 2017

	Budget 2018	2018	2017
	(notes 2(a) and 17)		
Revenue:			
Municipal contribution	$ 9,423,000	$ 9,422,954	$ 8,994,000
Grants (note 9)	402,200	380,074	420,875
Fines and miscellaneous (note 10)	295,500	280,118	292,864
Donations (note 11)	-	47,524	41,601
Investment income (note 12)	-	19,087	68,438
Gain on sale of tangible capital assets	-	35,803	13,501
	10,120,700	10,185,560	9,831,279
Expenses:			
Salaries and employee benefits	7,374,300	7,160,619	6,821,551
Amortization	1,538,700	1,189,876	1,221,696
Library subscriptions and databases (note 13)	566,300	590,350	516,534
Supplies and equipment services	413,000	239,388	285,283
General and administration	382,000	319,986	299,836
Building, leases and maintenance	350,400	384,750	346,777
Utilities	133,200	131,717	147,090
Contribution for capital improvements (note 18)	-	99,399	172,375
	10,757,900	10,116,085	9,811,142
Annual surplus (deficit)	(637,200)	69,475	20,137
Accumulated surplus, beginning of year	4,588,648	4,588,648	4,568,511
Accumulated surplus, end of year	$ 3,951,448	$ 4,658,123	$ 4,588,648

See accompanying notes to financial statements.

RICHMOND PUBLIC LIBRARY BOARD

Statement of Changes in Net Financial Assets

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

	Budget 2018 (notes 2(a) and 17)	2018	2017
Annual surplus (deficit)	$ (637,200)	$ 69,475	$ 20,137
Acquisition of tangible capital assets	(892,400)	(1,066,941)	(1,113,754)
Amortization of tangible capital assets	1,538,700	1,189,876	1,221,696
Gain on disposal of tangible capital assets	-	(35,803)	(13,501)
Proceeds on disposal of tangible capital assets	-	39,616	38,689
Increase in prepaid expenses	-	(122,406)	(32,757)
Change in net financial assets	9,100	73,817	120,510
Net financial assets, beginning of year	779,106	779,106	658,596
Net financial assets, end of year	$ 788,206	$ 852,923	$ 779,106

See accompanying notes to financial statements.

RICHMOND PUBLIC LIBRARY BOARD

Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operations:		
Annual surplus	$ 69,475	$ 20,137
Items not involving cash:		
Amortization	1,189,876	1,221,696
Gain on disposal of tangible capital assets	(35,803)	(13,501)
Changes in non-cash operating working capital:		
Due from City of Richmond	(153,496)	(103,355)
Accounts receivable	41,321	4,493
Prepaid expenses	(122,406)	(32,757)
Accounts payable and accrued liabilities	(5,696)	5,374
Deferred revenue	44,054	(27,022)
Net change in cash from operating activities	1,027,325	1,075,065
Capital activities:		
Proceeds on disposal of tangible capital assets	39,616	38,689
Acquisition of tangible capital assets	(1,066,941)	(1,113,754)
Net change in cash from capital activities	(1,027,325)	(1,075,065)
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

See accompanying notes to financial statements.

1. Operations:

The Richmond Public Library Board (the "Library") is responsible for the administration of public libraries in the City of Richmond (the "City"). Funding for the provisions of these services is primarily through an annual contribution from the City and from provincial government grants. In addition, revenue is received from library fees, donations and other miscellaneous sources. The Library is a registered charity under provisions of the Income Tax Act (Canada) and is not a taxable entity. The Library receives accounting services from, and operates primarily in facilities provided free of charge by, the City.

2. Significant accounting policies:

The accounting policies of the Library conform to Canadian generally accepted accounting principles as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada and include the following specific policies:

(a) Budget data:

The budget data presented in these financial statements is based on the 2018 budget approved by the Board of Trustees on September 27, 2017. Note 17 reconciles the approved budget to the budget figures reported in these financial statements.

(b) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant areas requiring the use of management estimates relate to the determination of accrued sick benefits and useful lives of tangible capital assets. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

(c) Deferred revenue:

The Library records the receipt of restricted donations as deferred revenue and recognizes the revenue in the year in which related expenses are incurred.

(d) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

2. Significant accounting policies (continued):

(e) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of the asset. The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Rate
Library collections	4 - 20 years
Furniture and fixtures	10 - 20 years
Equipment	5 - 10 years

Amortization is charged over the asset's useful life commencing when the asset is available for use.

(f) Donations of tangible capital assets:

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

(g) Functional and object reporting:

The operations of the Library are comprised of a single function, Library operations. As a result, the expenses of the Library are presented by object in the statement of operations.

(h) Employee future benefits:

The Library and its employees make contributions to the Municipal Pension Plan (the "Plan"). These contributions are expensed as incurred.

Sick leave and post-employment benefits are available to the Library's employees. The costs of these benefits are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The liabilities under these benefits plans are accrued based on projected benefits as the employees render services necessary to earn the future benefits (note 7).

(i) Government transfers:

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

(j) Library subscriptions and databases:

Library subscriptions and databases not owned by the Library or that have useful lives that are less than one operating cycle are recorded as an expense when incurred.

3. Due from City of Richmond:

Due from City of Richmond is comprised of funds held by the City on behalf of the Library. This balance is non-interest bearing and is due on demand.

4. Accounts payable and accrued liabilities:

	2018	2017
Accounts payable	$ 252,035	$ 144,174
Accrued liabilities	10,223	8,500
Accrued payroll liabilities	371,657	501,937
Post-employment benefits (note 7)	541,700	526,700
	$ 1,175,615	$ 1,181,311

5. Deferred revenue:

	2018	2017
Balance, beginning of year	$ 66,811	$ 93,833
Contributions	91,578	49,558
Revenue recognized	(47,524)	(76,580)
Balance, end of year	$ 110,865	$ 66,811

6. Tangible capital assets:

Cost	Balance at December 31, 2017	Additions	Disposals	Balance at December 31, 2018
Library collections	$ 6,191,136	$ 903,746	$ (674,768)	$ 6,420,114
Furniture and fixture	1,203,787	109,521	-	1,313,308
Equipment	1,652,832	59,196	-	1,712,028
Work in progress	5,522	(5,522)	-	-
	$ 9,053,277	$ 1,066,941	$ (674,768)	$ 9,445,450

Accumulated amortization	Balance at December 31, 2017	Amortization	Disposals	Balance at December 31, 2018
Library collections	$ 3,463,185	$ 1,063,625	$ (670,955)	$ 3,855,855
Furniture and fixture	815,429	18,665	-	834,094
Equipment	1,412,510	107,586	-	1,520,096
	$ 5,691,124	$ 1,189,876	$ (670,955)	$ 6,210,045

6. Tangible capital assets (continued):

Net book value	Balance at December 31, 2017	Balance at December 31, 2018
Library collections	$ 2,727,951	$ 2,564,259
Furniture and fixture	388,358	479,214
Equipment	240,322	191,932
Work in progress	5,522	-
	$ 3,362,153	$ 3,235,405

7. Post-employment benefits:

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

Details of the accrued employee future benefit liability are as follows:

	2018	2017
Balance, beginning of year	$ 526,700	$ 513,700
Current service cost	33,200	30,600
Interest cost	13,900	16,500
Amortization of actuarial gain	(8,200)	(4,300)
Benefits paid	(23,900)	(29,800)
Balance, end of year	$ 541,700	$ 526,700

An actuarial valuation for these benefits was performed to determine the Library's accrued benefit obligation as at December 31, 2018. The difference between the actuarially determined accrued benefit obligation of $452,000 and the liability of $541,700 as at December 31, 2018 is an unamortized net actuarial gain of $89,700. This actuarial gain is being amortized over a period equal to the employees' average remaining service lifetime of 10 years.

	2018	2017
Actuarial benefit obligation:		
Accrued liability, end of year	$ 541,700	$ 526,700
Unamortized net actuarial gain	(89,700)	(46,500)
Balance, end of year	$ 452,000	$ 480,200

7. Post-employment benefits (continued):

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

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

8. Accumulated surplus:

	2018	2017
Operating:		
Appropriated surplus	$ 230,313	$ 291,299
Surplus	1,192,405	935,196
Invested in tangible capital assets	3,235,405	3,362,153
	$ 4,658,123	$ 4,588,648

Appropriated surplus includes $64,879 (2017 - $165,478) approved for capital expenditures, $49,030 (2017 - $9,417) for future capital acquisitions, $33,401 (2017 - $33,401) from community foundation interest, and $83,003 (2017 - $83,003) for future salary and benefit obligations.

9. Grants:

	2018	2017
Provincial Revenue Sharing Grant (a)	$ 352,990	$ 369,836
One Card Grant (b)	20,593	30,299
Government of Canada - Tech Buddies Grant (c)	-	12,274
British Columbia Equity Grant (d)	4,500	4,500
Writers in Library Grant (e)	-	1,800
Resource Sharing Grants (f)	1,991	2,166
	$ 380,074	$ 420,875

(a) Provincial Revenue Sharing Grant is funded by the Libraries Branch of the Ministry of Education.

(b) The One Card Grant is provided by the Libraries Branch of the Ministry of Education to ensure that every British Columbian with a valid library card has complete access to all public libraries within the province, and that every school-age child in Richmond is given their own library card so that they may take full advantage of the library's resources.

9. Grants (continued):

(c) This Government of Canada grant was from the “New Horizons for Seniors” program for a project called “Tech Buddies”.

(d) British Columbia Equity Grant is awarded by the Libraries Branch of the Ministry of Education to support the Library in its role in fostering literacy and life-long learning in our community through the purchase of additional library materials in the area of literacy and English as a Second Language (“ESL”).

(e) The Writers in Library Grant was funded by the Canada Council for the Arts for the secondment of writers to attend libraries and perform readings.

(f) Resource Sharing Grants - Annual grants are provided to BC public libraries to encourage their participation in the province-wide inter library loan system.

10. Fines and miscellaneous:

	2018	2017
Book fines	$ 160,382	$ 173,003
InterLINK revenue	30,068	47,976
Photocopy and printer revenue	50,580	47,289
Miscellaneous	39,088	24,596
	$ 280,118	$ 292,864

11. Donations:

Donations revenue is a combination of unrestricted donations received in the year and the recognition of restricted donations relating to expenses incurred in the year.

	2018	2017
Friends of the Library	$ 35,847	$ 30,730
Other	11,677	10,871
	$ 47,524	$ 41,601

12. Investment income:

The Library has endowment funds administered by the Vancouver Foundation and Richmond Community Foundation. The Library receives the net income generated from each fund after deduction of administrative costs.

(a) Richmond Public Library Endowment Fund administered by Vancouver Foundation:

The fund was established in 1994 and the contributed capital in the fund amounts to $282,900 at December 31, 2018 (2017 - $282,900). The balance is comprised of donations from Friends of the Library ($156,000), Vancouver Foundation's matching program ($75,000), and other donors ($51,900).

As at December 31, 2018, the fair value of the capital in the fund amounted to $353,839 (2017 - $372,829).

Under the terms of the agreement, the Library is entitled to withdraw only the investment income generated from the fund. Investment income for the year ended December 31, 2018 was $13,872 (2017 - $48,087) and is presented as investment income on the statement of operations.

(b) Richmond Public Library Permanent Agency Endowment Fund administered by the Richmond Community Foundation:

The fund was established in 2010 and the contributed capital in the fund amounts to $135,518 at December 31, 2018 (2017 - $130,518). The balance is comprised of donations from Friends of the Library ($44,000) and other donors ($91,518).

As at December 31, 2018, the fair value of the capital in the fund amounted to $145,376 (2017 - $152,250).

Under the terms of the agreement, the Library is entitled to withdraw only the investment income generated from the fund. Investment income for the year ended December 31, 2018 was $5,215 (2017 - $20,351) and is presented as investment income on the statement of operations.

13. Library subscriptions and databases:

	2018	2017
Digital books and multimedia	$ 404,472	$ 335,389
Databases, newspapers and magazines	185,878	181,145
	$ 590,350	$ 516,534

14. Pension plan:

The Library and its employees contribute to the Municipal Pension Plan (a jointly trusteed pension plan). The Board of Trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2018, the plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 contributors from local governments.

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

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

The Library paid $560,852 (2017 - $501,329) for employer contributions while employees contributed $485,427 (2017 - $432,191) to the plan in fiscal 2018.

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

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

15. Commitments:

The Library has committed to operating lease payments for the Ironwood and Cambie Branch premises, with minimum annual lease payments as follows:

2019	$ 267,442
2020	171,825
2021	171,825
2022	171,825
2023 and thereafter	157,506

16. Contractual rights:

The Library has a longstanding agreement with InterLINK, entitling them to compensation subject to net circulation services to non-residents. The compensation varies from year to year.

17. Budget data:

The budget data presented in these financial statements is based on the 2018 budget approved by the Board on September 27, 2017. The table below reconciles the approved budget to the budget figures reported in these financial statements.

	Board Approved Budget	Financial Statement Budget
Revenue:		
Operating budget	$ 10,120,700	$ 10,120,700
Expenses:		
Operating budget	(9,219,200)	(9,219,200)
Less: Transfer to surplus	(9,100)	-
Less: Acquisition of tangible capital assets	(892,400)	-
Less: Amortization of tangible capital assets	-	(1,538,700)
Annual deficit	$ -	$ (637,200)

18. Contribution for capital improvements:

In 2018, the Library incurred $99,399 (2017 - $172,375) for capital improvements towards Brighouse Library. As the infrastructure is owned by the City, the Library's contribution is expensed in the year that it was incurred.

19. Economic dependence:

The Library is economically dependent on receiving funding from the City.

20. Comparative information:

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

RICHMOND PUBLIC LIBRARY BOARD

Unaudited Statement of Operations by Fund

Year ended December 31, 2018

	2018			2017		
	Operating	Capital	Total	Operating	Capital	Total
Revenue:						
Municipal contribution	$ 8,453,604	$ 969,350	$ 9,422,954	$ 7,719,600	$ 1,274,400	$ 8,994,000
Grants	380,074	-	380,074	420,875	-	420,875
Fines and miscellaneous	280,118	-	280,118	292,864	-	292,864
Donations	47,524	-	47,524	41,601	-	41,601
Investment income	19,087	-	19,087	68,438	-	68,438
Gain on sale of tangible capital assets	-	35,803	35,803	-	13,501	13,501
	9,180,407	1,005,153	10,185,560	8,543,378	1,287,901	9,831,279
Expenses:						
Salaries and employee benefits	7,160,619	-	7,160,619	6,821,551	-	6,821,551
Amortization	-	1,189,876	1,189,876	-	1,221,696	1,221,696
Library subscriptions and databases	590,350	-	590,350	516,534	-	516,534
Supplies and equipment services	239,388	-	239,388	285,283	-	285,283
General and administration	319,986	-	319,986	299,836	-	299,836
Building, leases and maintenance	384,750	-	384,750	346,777	-	346,777
Utilities	131,717	-	131,717	147,090	-	147,090
Contribution for capital improvements	99,399	-	99,399	172,375	-	172,375
	8,926,209	1,189,876	10,116,085	8,589,446	1,221,696	9,811,142
Annual surplus (deficit)	254,198	(184,723)	69,475	(46,068)	66,205	20,137
Accumulated surplus, beginning of year	435,440	4,153,208	4,588,648	481,508	4,087,003	4,568,511
Accumulated surplus, end of year	$ 689,638	$ 3,968,485	$ 4,658,123	$ 435,440	$ 4,153,208	$ 4,588,648

City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	April 15, 2019
From:	Jerry Chong Director, Finance	**File:**	03-0905-01/2019-Vol 01
Re:	**2018 Consolidated Financial Statements**		

Staff Recommendation

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

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

Att. 2

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

Staff Report

Origin

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

Analysis

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

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

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

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

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

Highlights of the 2018 consolidated statement of financial position:

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

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

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

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

<u>2018 Consolidated Statement of Operations</u>
The consolidated revenues exceeded expenses by $185.0 million. These figures represent the activity during 2018 from January 1 to December 31.

Highlights of the 2018 consolidated statement of operations:

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

Financial Impact

None.

Conclusion

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

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

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

Consolidated Financial Statements of

CITY OF RICHMOND

Year ended December 31, 2018

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the City of Richmond

Opinion

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

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

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

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

Basis for Opinion

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

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

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

DRAFT - April 15, 2019

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Chartered Professional Accountants

Vancouver, Canada

[Date]

CITY OF RICHMOND

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

December 31, 2018, with comparative information for 2017

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

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

See accompanying notes to consolidated financial statements.

General Manager, Finance and Corporate Services

DRAFT - April 15, 2019

CITY OF RICHMOND

Consolidated Statement of Operations
(Expressed in thousands of dollars)

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

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

See accompanying notes to consolidated financial statements.

CITY OF RICHMOND

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

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

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

See accompanying notes to consolidated financial statements.

CITY OF RICHMOND

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

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

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

See accompanying notes to consolidated financial statements.

DRAFT - April 15, 2019

1. Operations:

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

2. Significant accounting policies:

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

(a) Basis of consolidation:

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

(*i*) General Revenue Fund:

This fund is used to account for the current operations of the City as provided for in the Annual Budget, including collection of taxes, administering operations, policing, and servicing general debt.

(*ii*) General Capital and Loan Fund:

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

(*iii*) Waterworks and Sewerworks Funds:

These funds have been established to cover the costs of operating these utilities, with related capital and loan funds to record the related tangible capital assets and debt.

(*iv*) Reserve Funds:

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

2. Significant accounting policies (continued):

(b) Basis of accounting:

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

(c) Government transfers:

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

(d) Cash and cash equivalents:

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

(e) Investments:

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

(f) Investment in government business enterprises:

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

(g) Accounts receivable:

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

(h) Development cost charges:

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

2. Significant accounting policies (continued):

(i) Post-employment benefits:

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

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

(j) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(*i*) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of the assets. The cost, less the residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

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

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

(*ii*) Contributions of tangible capital assets:

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

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

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

2. Significant accounting policies (continued):

(j) Non-financial assets (continued):

(*iv*) Interest capitalization:

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

(*v*) Labour capitalization:

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

(*vi*) Leased tangible capital assets:

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

(*vii*) Impairment of tangible capital assets:

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

(*viii*) Inventory of materials and supplies:

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

(k) Revenue recognition:

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

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

(l) Property taxes:

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

2. Significant accounting policies (continued):

(m) Deferred revenue:

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

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

(n) Deposits:

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

(o) Debt:

Debt is recorded net of related sinking fund balances.

(p) Budget information:

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

(q) Contaminated sites:

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

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

(*i*) An environmental standard exists;

(*ii*) Contamination exceeds the environmental standard;

(*iii*) The City is directly responsible or accepts responsibility;

(*iv*) It is expected that future economic benefits will be given up; and

(*v*) A reasonable estimate of the amount can be made.

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

(Tabular amounts expressed in thousands of dollars)

2. Significant accounting policies (continued):

(r) Use of accounting estimates:

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

(s) Segment disclosures:

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

3. Investments:

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

(Tabular amounts expressed in thousands of dollars)

4. Investment in Lulu Island Energy Company Ltd:

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

Summarized financial information relating to LIEC is as follows:

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

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

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

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

(Tabular amounts expressed in thousands of dollars)

5. Accounts receivable:

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

6. Debt reserve fund deposits and contingent demand notes:

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

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

7. Accounts payable and accrued liabilities:

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

(Tabular amounts expressed in thousands of dollars)

8. Development cost charges:

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

9. Deposits and holdbacks:

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

10. Deferred revenue:

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

(Tabular amounts expressed in thousands of dollars)

11. Debt, net of MFA sinking fund deposits:

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

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

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

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

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

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

(Tabular amounts expressed in thousands of dollars)

12. Tangible capital assets:

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

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

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

(Tabular amounts expressed in thousands of dollars)

12. Tangible capital assets (continued):

(a) Assets under construction:

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

(b) Contributed tangible capital assets:

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

(c) Tangible capital assets disclosed at nominal values:

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

(d) Works of art and historical treasures:

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

(e) Write-down of tangible capital assets:

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

13. Accumulated surplus:

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

(Tabular amounts expressed in thousands of dollars)

14. Reserves:

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

15. Post-employment benefits:

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

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

(Tabular amounts expressed in thousands of dollars)

15. Post-employment benefits (continued):

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

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

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

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

16. Pension plan:

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

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

(Tabular amounts expressed in thousands of dollars)

16. Pension plan (continued):

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

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

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

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

17. Contingent assets and contractual rights:

(a) Contingent assets:

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

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

(b) Contractual rights:

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

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

(Tabular amounts expressed in thousands of dollars)

17. Contingent assets and contractual rights (continued):

(b) Contractual rights (continued):

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

18. Commitments and contingencies:

(a) Joint and several liabilities:

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

(b) Lease payments:

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

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

(c) Litigation:

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

(d) Municipal Insurance Association of British Columbia (“Association”):

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

(e) Contractual obligation:

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

(Tabular amounts expressed in thousands of dollars)

18. Commitments and contingencies (continued):

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

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

(g) Community associations:

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

19. Trust funds:

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

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

(Tabular amounts expressed in thousands of dollars)

20. Collections for other authorities:

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

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

21. Other revenue:

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

22. Government transfers:

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

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

23. Segmented reporting:

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

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

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

(c) **Engineering, Public Works and Project Development** comprises of General Public Works, Roads and Construction, Storm Drainage, Fleet Operations, Engineering, Project Development, and Facility Management. The services provided are construction and maintenance of the City's infrastructure and all City owned buildings, maintenance of the City's road networks, managing and operating a mixed fleet of vehicles, heavy equipment and an assortment of specialized work units for the City operations, development of current and long-range engineering planning and construction of major projects.

(d) **Community Services** comprises of Parks, Recreation, Arts, Culture and Heritage Services and Community Social Development. These departments ensure recreation opportunities in Richmond by maintaining a variety of facilities such as arenas, community centres, pools, etc. It designs, constructs and maintains parks and sports fields to ensure there is adequate open green space and sports fields available for Richmond residents. It also addresses the economic, arts, culture, and community issues that the City encounters.

(e) **General Government** comprises of Mayor and Council, Corporate Administration, and Finance and Corporate Services. It is responsible for adopting bylaws, effectively administering city operations, levying taxes, legal services, providing sound management of human resources, information technology, City finance, and ensuring high quality services to Richmond residents.

(f) **Planning and Development** is responsible for land use plans, developing bylaws and policies for sustainable development in the City including the City's transportation systems.

(g) **Richmond Olympic Oval Corporation** is formed as a wholly owned subsidiary of the City. The City uses the Richmond Olympic Oval facility as a venue for a wide range of sports, business and community activities.

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

CITY OF RICHMOND

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

Year ended December 31, 2018

23. Segmented reporting (continued):

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

(Tabular amounts expressed in thousands of dollars)

23. Segmented reporting (continued):

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

(Tabular amounts expressed in thousands of dollars)

24. Budget data:

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

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

25. Comparative information:

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

2018 | City of Richmond

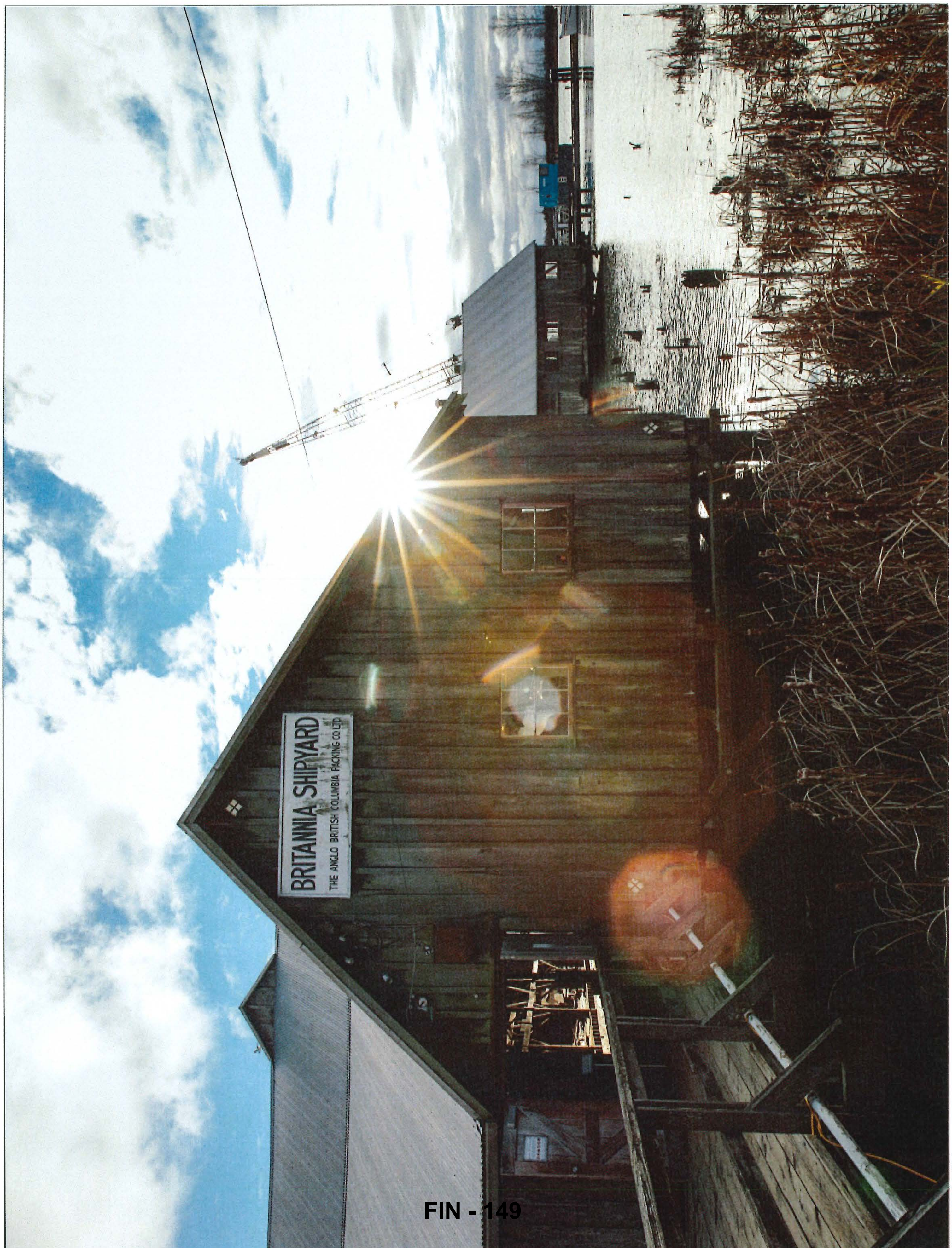
FINANCIAL STATEMENT DISCUSSION & ANALYSIS

Prepared by Management

To be read in conjunction with the 2018 Financial Statements

Richmond

Attachment 2


BRITANNIA SHIPYARD
THE ANGLO BRITISH COLUMBIA PACKING CO LTD

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Introduction

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

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

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

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

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

The consolidated financial statements include the following statements:

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

Consolidated Statement of Financial Position

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

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

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

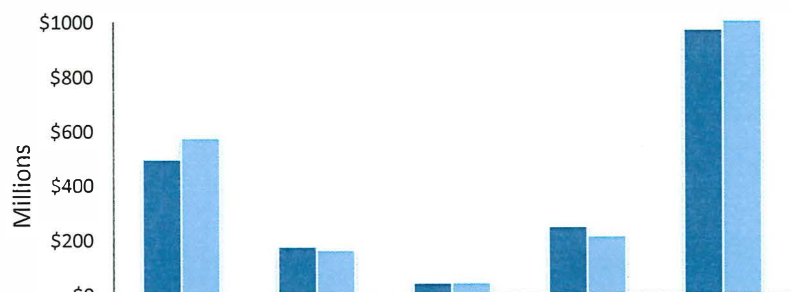
The accumulated surplus includes investment in tangible capital assets, reserves, appropriated surplus, surplus, investment in LIEC and other equity. The change in accumulated surplus is referred to as annual surplus and is included on the Consolidated Statement of Operations.

Financial Assets

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

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

Investment Portfolio by Type ($000's)



	Short-term notes and deposits	Government and guaranteed bonds	MFA pooled investments	Other bonds	Total investments
2017	499,541	177,648	45,065	250,529	972,783
2018	577,416	164,943	46,150	216,419	1,004,928

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

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

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

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

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

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Financial Assets

Development fees receivable

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

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

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

Debt reserve fund - deposits

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

Liabilities

Accounts payable and accrued liabilities

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

Development cost charges

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

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

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

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

Deposits and holdbacks

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

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

Deferred revenue

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

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

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Liabilities

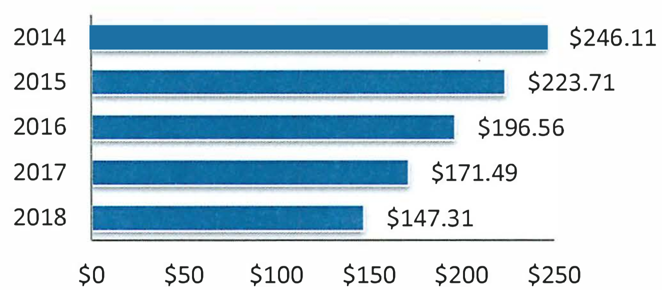
Deferred revenues increased in taxes and utilities and building permits/developments. The increases were offset by slight decreases in Oval, capital grants and other revenues, resulting in an overall $1.1M increase compared to 2017.

Debt, net of MFA sinking fund deposits

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

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

City of Richmond Debt Per Capita 2014-2018



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

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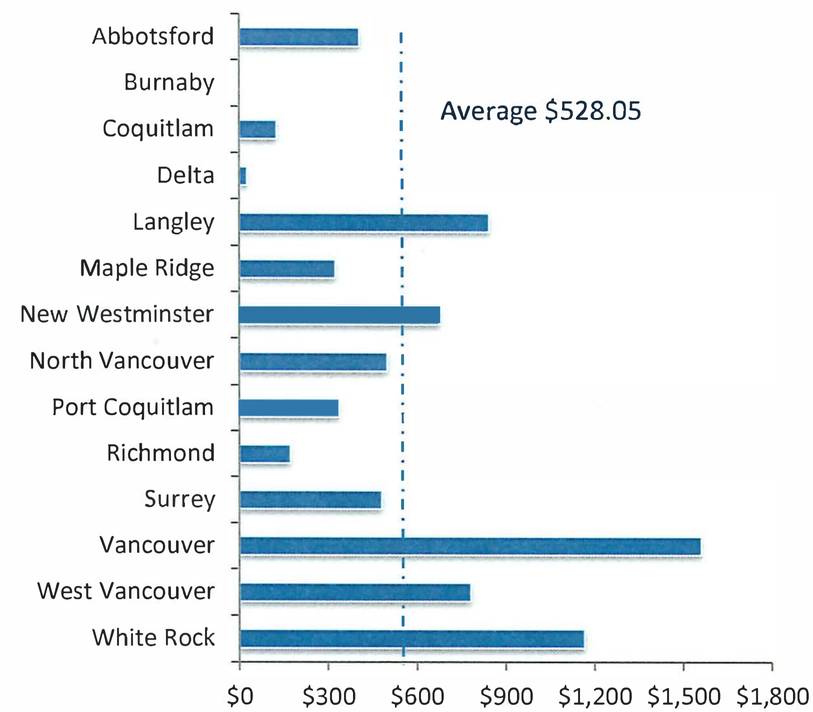
The 2017 values for the other municipalities are the most current figures available from the Local Government Statistics. For comparative purposes, Richmond's 2017 debt per capita of $171.49 is included below and is well below the 2017 regional average of $528.05.

Debt Per Capita by City (2017)



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

Non-Financial Assets

Tangible Capital Assets

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

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

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

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

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

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

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

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

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

Non-Financial Assets

Inventory of materials and supplies

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

Prepaid expenses

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

Accumulated Surplus

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

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

Investment in TCA

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

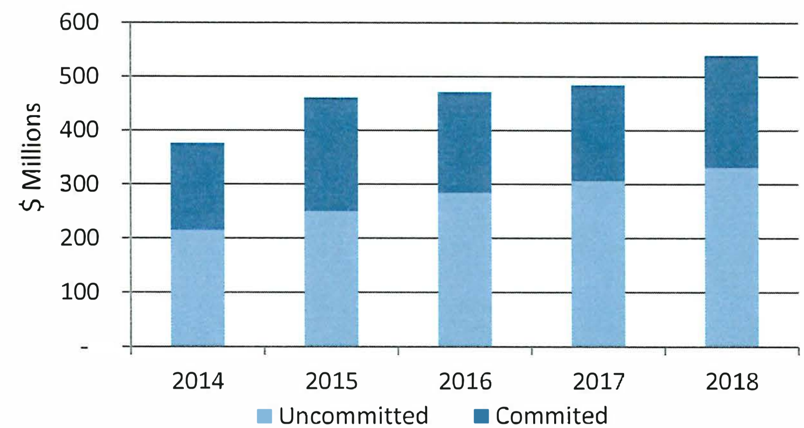
In accordance with accounting standards, this balance is accounted for using the cost method, net of accumulated amortization. It does not reflect market value or replacement value of the assets.

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

Reserves

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

Reserve Balance 2014-2018



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

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

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Accumulated Surplus

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

Appropriated Surplus

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

Investment in LIEC

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

Surplus

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

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

Other Equity

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

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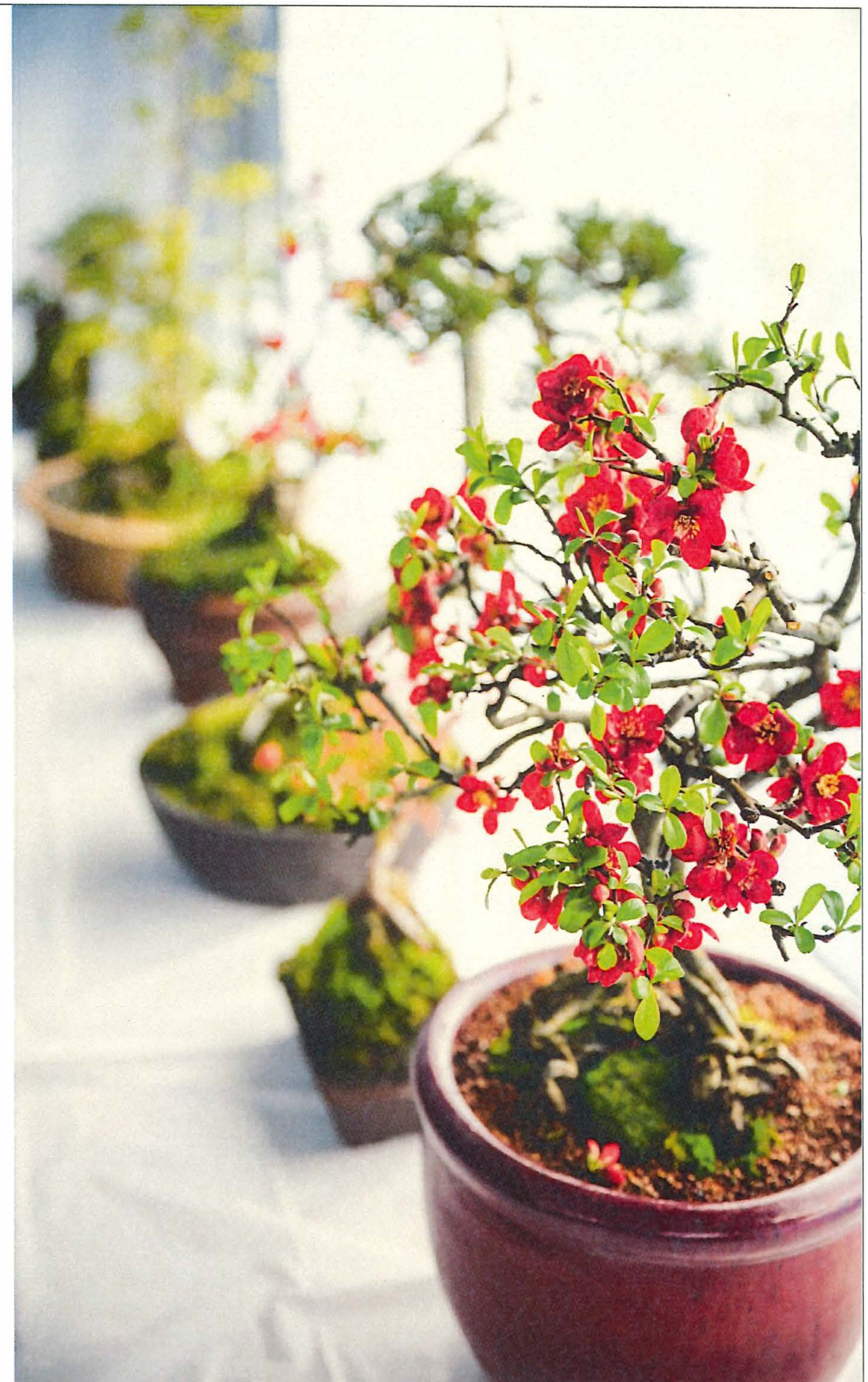


Consolidated Statement of Operations

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

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

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

Revenues

2018 Budget to Actual Comparison

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

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

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

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

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

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

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

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

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

Revenues

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

Gaming revenue had a favourable variance of $0.3M.

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

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

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

2018 to 2017 Actual Comparison

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

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

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

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

Sales of services decreased by $0.3M due to $1.3M lower volume of receivable projects in 2018 mainly due to comparatively slower development activities in West Cambie area and $0.4M in soil revenue that did not recur, offset by a $1.2M increase in lease revenue and $0.2M increase in Oval revenues.

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

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

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

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

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

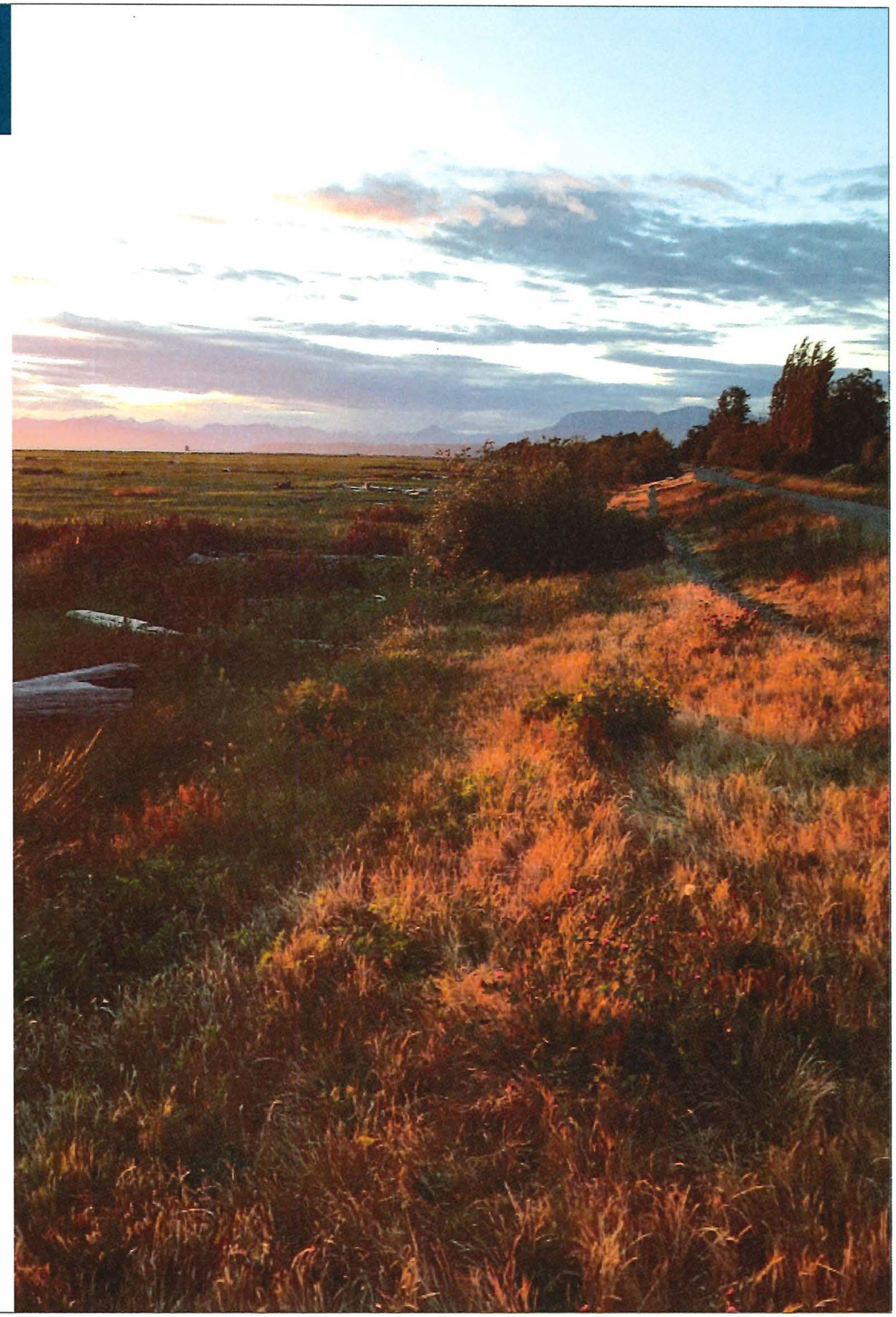
Revenues

Gaming revenue is consistent with 2017.

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

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

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

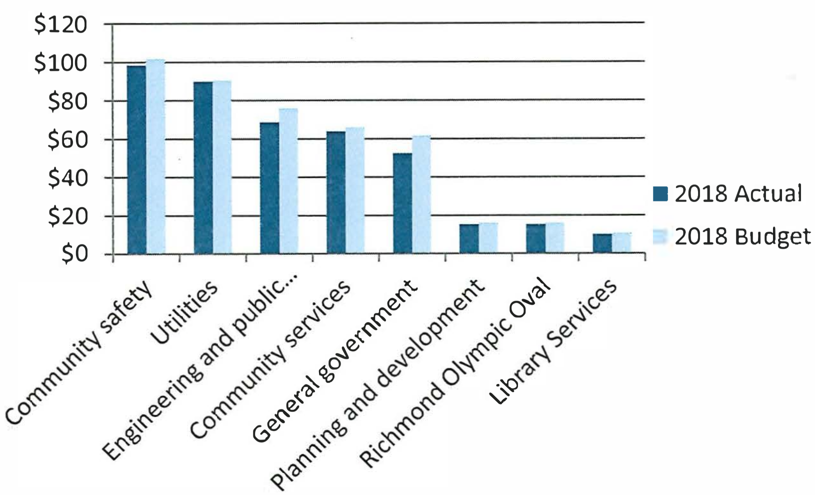


Expenses

2018 Budget to Actual Comparison

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

2018 Expenses by Function



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

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

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

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

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

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

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

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

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

Expenses

2018 to 2017 Actual Comparison

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

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

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

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

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

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

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

Planning and development costs are consistent with 2017.

Richmond Olympic Oval costs are consistent with 2017

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

Expenses

Expenses by Object

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

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

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

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

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

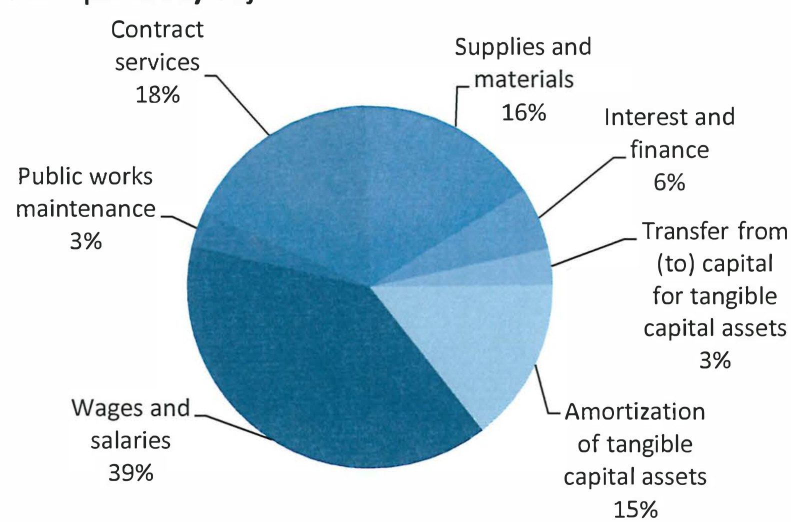
Interest and finance is consistent with 2017.

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

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

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

2018 Expenses by Object



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Annual Surplus

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

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

Annual Surplus Distribution

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

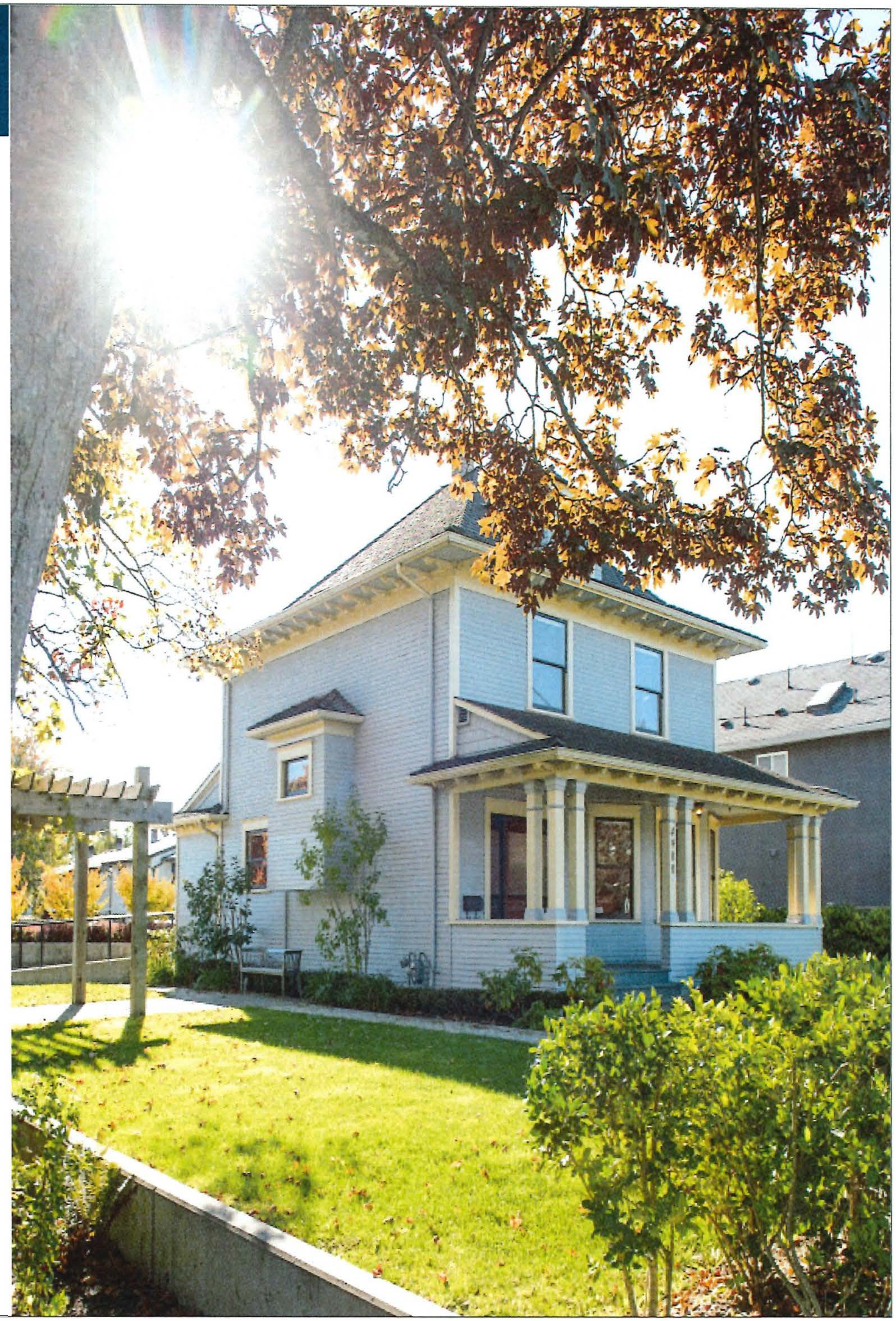
Investment in LIEC increased by $1.5M.

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

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

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

Other surplus decreased by $0.1M.



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Consolidated Statement of Changes in Net Financial Assets

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

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

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

Consolidated Statement of Cash Flows

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

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

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

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

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

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

Ratio Analysis

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

The analysis addresses the following three key areas:

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

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

Sustainability ratios:	**2018**	**2017**	**2016 (recast)**
Assets to liabilities (times)	7.7	8.1	8.2
Financial assets to liabilities (times)	2.6	2.7	2.7
Net debt to total revenues	5.5%	7.2%	8.6%
Net debt to the total assessment	0.03%	0.04%	0.06%
Expenses to the total assessment	0.4%	0.5%	0.6%

Flexibility ratios:	**2018**	**2017**	**2016 (recast)**
Debt charges to revenues	0.3%	0.3%	0.3%
Net book value of capital assets to cost	68.3%	68.3%	68.7%
Net book value of capital assets (excluding land) to cost	55.8%	56.3%	57.1%
Own source revenue to the assessment	0.5%	0.5%	0.7%

Vulnerability ratios:	**2018**	**2017**	**2016 (recast)**
Government transfers to total revenues	4.5%	5.0%	5.4%
Government transfers (excluding gaming revenue) to total revenues	1.7%	1.8%	1.8%

An explanation of each of the ratios is provided below.

Assessment of sustainability

- Assets to liabilities, indicates sustainability by the extent to which the government entity finances its operations by issuing debt. A ratio higher than one indicates that a government has accumulated surplus and has assets greater than liabilities. Included in the City's liabilities are DCCs and deferred revenue which represent an obligation to perform future works.

- Financial assets to liabilities, indicates sustainability by the degree that future revenues are required to pay for past transactions and events. A higher ratio indicates a greater ability to cover liabilities.

- Net debt to total revenue, indicates the financial burden over the earning capacity and also indicates how future revenues will be needed for financing of past transactions and events. A lower percentage indicates a lesser reliance on future revenues to finance existing debt.

- Net debt to total assessment, indicates the relationship between the level of debt and the state of the local economy. A lower percentage indicates a lesser reliance on the current assessment base to finance existing debt.

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

Assessment of flexibility

- Debt charges to revenues, indicates the extent to which past borrowing decisions present a constraint on a government's ability to meet its financial commitments. A lower ratio indicates a lesser reliance on existing revenues to finance debt charges.

- Net book value of capital assets to cost, indicates the estimated useful life of the capital assets to provide services. A higher ratio indicates a newer asset inventory.

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

- Own source revenue to assessment, indicates the degree to which represents the percentage of taxes taken from its own tax base. A lower ratio indicates a lesser proportion of existing revenues from own sources on the current assessment base.

Assessment of vulnerability

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

Environmental Analysis

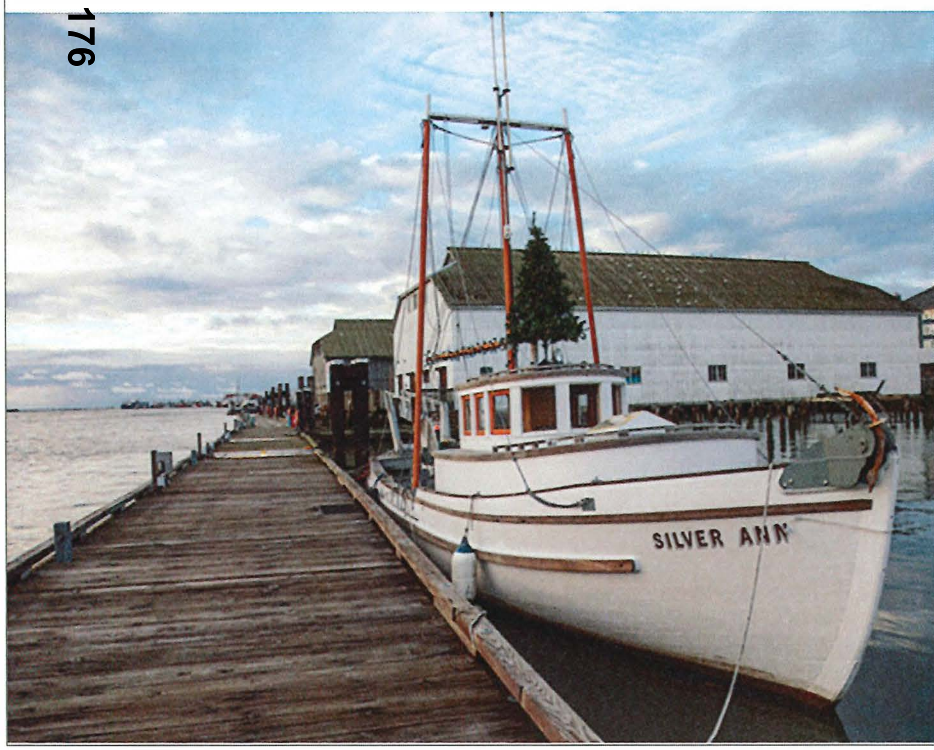
The City provides a wide array of services to residents, businesses and visitors. The Council Term Goals help guide the development and implementation of the City's work programs and operations.

The following section highlights:

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

Term Goals

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



1. A Safe Community
Maintain emphasis on community safety to ensure Richmond continues to be a safe community.

2. A Vibrant, Active, and Connected City
Continue the development and implementation of an excellent and accessible system of programs, services, and public spaces that reflect Richmond's demographics, rich heritage, diverse needs, and unique opportunities, and that facilitate active, caring, and connected communities.

3. A Well-Planned Community
Adhere to effective planning and growth management practices to maintain and enhance the livability, sustainability and desirability of our City and its neighbourhoods, and to ensure the results match the intentions of our policies and bylaws.

4. Leadership in Sustainability
Continue advancement of the City's sustainability framework and initiatives to improve the short and long term livability of our City, and that maintain Richmond's position as a leader in sustainable programs, practices and innovations.

5. Partnerships and Collaboration
Continue development and utilization of collaborative approaches and partnerships with intergovernmental and other agencies to help meet the needs of the Richmond community.

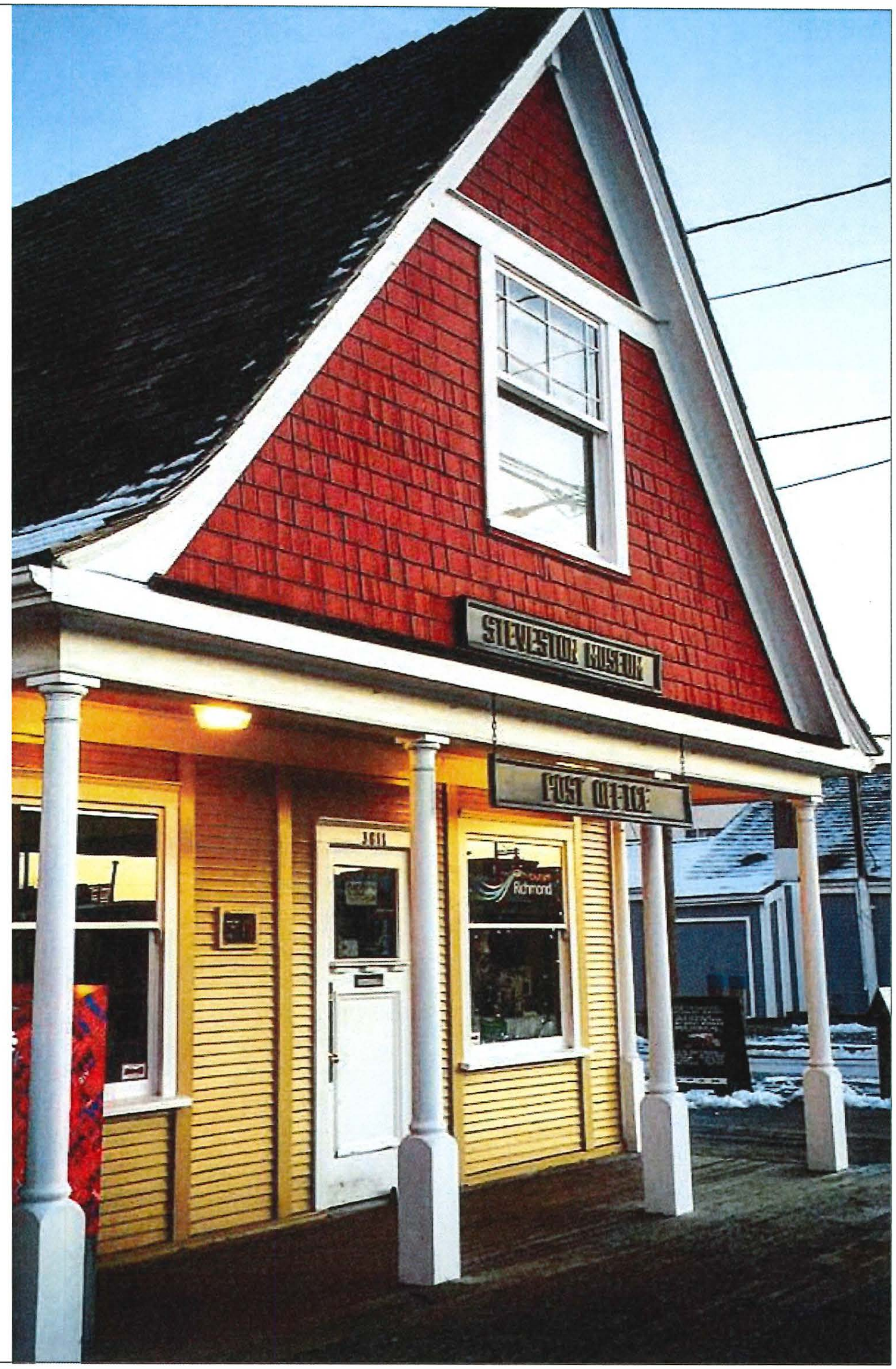
Term Goals

6. **Quality Infrastructure Networks**
Continue diligence towards the development of infrastructure networks that are safe, sustainable, and address the challenges associated with aging systems, population growth, and environmental impact.

7. **Strong Financial Stewardship**
Maintain the City's strong financial position through effective budget processes, the efficient and effective use of financial resources, and the prudent leveraging of economic and financial opportunities to increase current and long-term financial sustainability.

8. **Supportive Economic Development Environment**
Review, develop and implement plans, policies, programs and practices to increase business and visitor appeal and promote local economic growth and resiliency.

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



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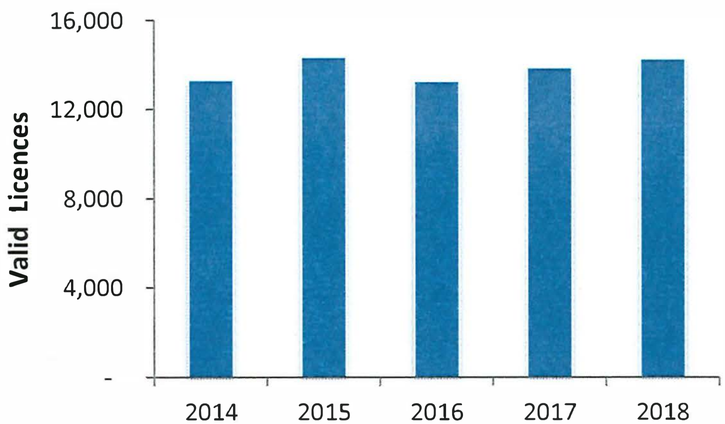
Environment

Business Licences

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

Business Licences 2014-2018

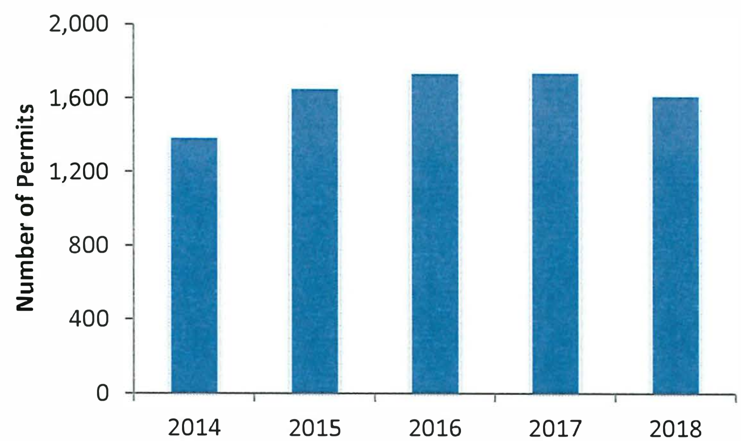


Housing Activity

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

In 2018, the total number of building permits issued was 1,619 which was a 7.17% decrease from 2017. The year over year decline is a result of decrease in permits issued for single family dwellings, offset by increase in multi-family developments. Although the number of building permits has decreased, the total area permitted for new construction has increased due to multi-family developments. The actual permit fees collected for 2018 was $10.5M.

Building Permits 2014-2018



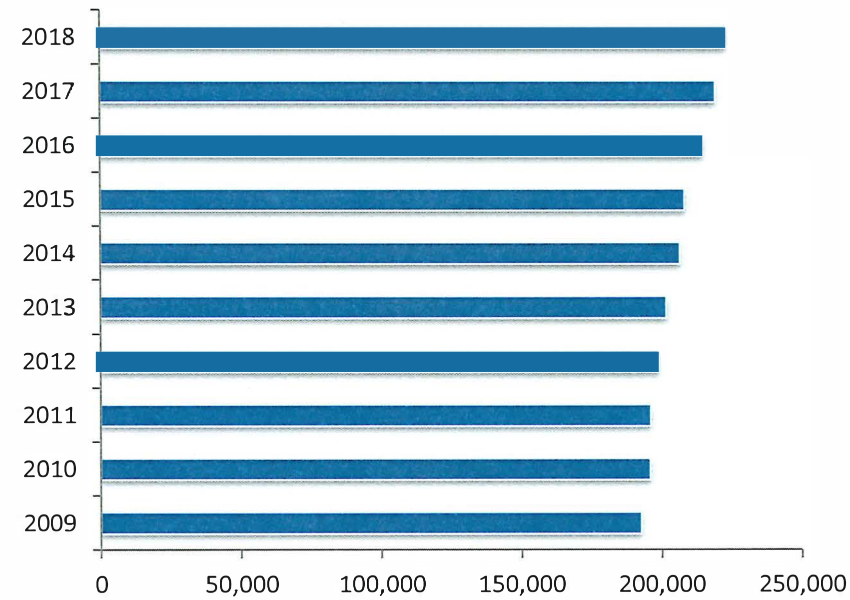
The construction value of building permits issued in 2018 was $879.3M, which increased by approximately 24% from 2017 of $709.1M.

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

Population

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

Richmond Population 2009-2018



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

Services

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

- Performing land use and transportation planning, building approvals, property use and zoning.
- Providing and maintaining roads, dikes, water and sewerage systems, drainage and irrigation systems.
- Providing sanitation and recycling services.
- Providing for the safety and protection of citizens by maintaining policing, fire-rescue services, bylaw enforcement, emergency and environmental programs.
- Providing for the recreational and cultural needs of citizens by: funding library services; building and maintaining recreational and cultural facilities, including pools, arenas, community centres, art centres, theatre and numerous heritage sites.
- Designing, constructing, and maintaining a recreational trail system and a system of parks with playing fields, playgrounds, and various amenities including tennis courts and basketball courts.
- Developing a sustainable community through: affordable housing, child care programs, wellness and outreach programs, tree protection, pesticide use restrictions, waste reduction programs, pollution prevention, district energy utility, energy management programs, purchasing policies and high performance building programs.
- Providing business licences and economic development initiatives.
- Administrating property taxes and utility bills.
- Working to safeguard the financial well-being of the City through the provision of effective and reliable financial services and information to Council, staff and the public.
- Working to safeguard and enhance the livability and social, financial, and environmental sustainability of our community and surrounding environment.
- Representing the interests of our citizens on various regional bodies responsible for providing services such as transit, drinking water, waste disposal, and air quality monitoring and reporting.

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

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

[1] Annual growth based on updated population figures from BC Stats, Demographic Analysis Section, July 2017.
[2] This is the amended capital budget excluding internal transfers, debt repayment and contributions.
[3] Other grants include contributions towards Gateway Theatre, Richmond Center for Disability, Richmond Therapeutic Equestrian Society, various youth grants and Provision Transfer.

Conclusion

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

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

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

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

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

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

Additional information about the current financial plan can be found at:
http://www.richmond.ca/cityhall/finance/reporting/fiveyear.htm

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