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REPORT TO THE FINANCE COMMITTEE
MEETING OF WEDNESDAY, MAY 05, 2021

SUBJECT **CRD 2020 Audit Findings Report and Statement of Financial Information**

ISSUE SUMMARY

To approve the Capital Regional District (CRD) 2020 Statement of Financial Information (SoFI) and receive the 2020 Audit Findings Report for information.

BACKGROUND

The *Local Government Act* and the *Community Charter* require local governments to prepare financial statements each calendar year. The financial statements must be prepared in accordance with Generally Accepted Accounting Principles for Local Government (Canadian Public Sector Accounting Board (PSAB) Standards) and independently audited by a qualified auditor.

These statements, along with the annual filing of the Local Government Data Entry (LGDE) form, must be submitted to the Inspector of Municipalities by May 15 each year and must be available for public viewing at this time. The Statement of Financial Information and the annual municipal report must be completed by June 30 each year.

The audit has now been completed. The 2020 Audited Financial Statements have been prepared by management in accordance with Canadian Public Sector Accounting Board (PSAB) Standards. Under PSAB regulations, governments are required to present five statements with explanatory notes:

1. Statement of Financial Position
2. Statement of Operations
3. Statement of Change in Net Debt
4. Statement of Remeasurement Gains and Losses
5. Statement of Cash Flows

In addition to the required statements listed above, the 2020 Consolidated Statements of Financial Information (Appendix A) include:

1. Schedule of Remuneration and Expenses – Employees
2. Schedule of Remuneration and Expenses – Directors & Alternate Directors
3. Schedule of Remuneration and Expenses – Committee & Commission Members
4. Schedule of Remuneration and Expenses – Project Board Members
5. Statement of Severance Agreements
6. Schedule of Payments to Suppliers for Goods and Services
7. Schedule of Guarantee and Indemnity Agreements

Also included in the package are unaudited statements (Appendix B) that present long term debt, reserve and financial statements for each service, a whitepaper on rating Canadian Municipal Governments (Appendix D) which describes DBRS's credit rating methodology, additional financial analysis (Appendix E) that provides financial indicators on 2020 financial results, and the 2020 Audit Findings Report (Appendix F).

The Audit Findings Report summarizes responsibilities of the auditor, scope of work, and audit results. The report also confirms there were no significant changes in the audit approach from the Audit Planning Report presented to the Board on January 13, 2021. In summary, the auditor did not identify any significant uncorrected differences or significant control deficiencies.

ALTERNATIVES

Alternative 1
The Finance Committee recommends to the Capital Regional District Board:
That the Capital Regional District 2020 Audit Findings Report be received and the Capital Regional District 2020 Statement of Financial Information be approved.

Alternative 2
That the Capital Regional District 2020 Audit Findings Report be received and the Capital Regional District 2020 Statement of Financial Information be referred back to staff for additional information.

IMPLICATIONS

Financial Implications

Audit Findings Report

The Auditor's opinion is included as part of the Independent Auditors' Report within the financial statements (Appendix A). In KPMG's opinion, the financial statements present fairly, in all material respects, the financial position of the Capital Regional District as at December 31, 2020, in accordance with Canadian public sector accounting standards.

The Audit Findings report (Appendix F) provides the results of their audit, and further discusses areas of focus identified in the Audit Planning Report presented to Board on January 13, 2021. Also included in the report is a summary of corrected and uncorrected adjustments on pages 28 and 29. Adjustments made during the course of audit field work are a result of both those detected by management and by KPMG through various reconciliation and testing activities.

Generally, adjustments may remain uncorrected when an element of uncertainty exists and/or the adjustment has a material impact on accounting activities in a closed period but not considered to have a material impact on decision making. All uncorrected adjustments are below the materiality threshold determined by the auditor. KPMG concurs with managements' assessment of year-end adjustments.

Financial Statements

The Consolidated Statement of Financial Position and the Consolidated Statement of Operations form the basis of the audited financial statements and are similar to the Balance Sheet and Income Statement in private organizations.

The Capital Region Housing Corporation (CRHC) financials are consolidated in the CRD financial statements, as required by PSAB.

HIGHLIGHTS

1. Consolidated Statement of Financial Position

The Statement of Financial Position highlights the following four key elements that together, describe the financial status of the organization:

a. Financial Assets and Liabilities (cash resources and obligations),
b. Net Debt position (calculated as the difference between assets and liabilities)
c. Non-financial assets that are held for service provision (such as tangible capital assets), and,
d. The accumulated surplus (referred to as equity in private organizations).

Financial Assets

Financial assets are non-physical assets whose value is derived from a contractual claim. The financial assets as of year-end consist of cash, short and long term investments, accounts receivable and debt recoverable from member municipalities. As an example, these assets can be used to pay vendors, employees, and make debt payments.

Total financial assets are $548.5 million as of year-end, an increase of $61.3 million or 13%. Table 1 details balances within the financial assets as of December 31 and provides the change year over year:

Table 1 – Change in Financial Assets Year over Year ($ millions)

Description	2020	2019	$ Change	% Change
Cash and cash equivalents	176.9	184.5	(7.6)	(4%)
Investments	185.7	114.2	71.5	63%
Accounts Receivable	35.0	23.2	11.8	51%
Member Debt & MFA Debt Reserve Fund	150.9	157.0	(6.1)	(4%)
Land held for resale	-	8.3	(8.3)	100%
Total Assets	**$548.5**	**$487.2**	**$61.3**	**13%**

Cash and cash equivalents includes cash on hand, bank deposits and cashable investments. The balance decreased in 2020 by $7.6 million ($184.5 million to $176.9 million). Further detail on changes in cash are discussed below in section 5, Consolidated Statement of Cash Flows.

Investments include short term deposits of $141.7 million and long term holdings in the MFA bond fund of $44.0 million. Investments increased compared to 2019 by $71.6 million. The year-end investment balance will vary depending on timing of operational cash needs and whether higher investment yields can be obtained with term deposits (classified as investments on the financial statements) or HISA accounts (classified as cash on the financial statements).

Accounts receivable are due through the normal course of business. The balance at year-end will vary as a result of the timing of invoicing and payments. The increase of $11.8 million, or 51%

from prior year, was due to $11.1 million in federal grants for the Wastewater Treatment Project (WTP).

Regional districts and municipalities are required to finance debt through the MFA. In the financial statements, debt recoverable from member municipalities is a receivable for their respective financing obligations, as such, there is no direct impact on CRD net debt. In 2020, member municipalities had a net decrease of $6.1 million in debt, decreasing the outstanding amount receivable, caused by $6.3 million in additional borrowing offset by $12.4 million of repayments leaving a year-end balance of $146.9 million.

The debt reserve fund is the amount held by the MFA as security for debt obligations issued to the District. These amounts are refundable, with interest upon debenture maturity. Cash deposits of $3.9 million (excluding member municipalities) are presented as a receivable on the financial statements. This balance fluctuates with debt issues and maturities.

Liabilities

Liabilities are obligations or debt that will be settled through financial assets. These obligations represent the costs for goods and services consumed and owed by the CRD. Liabilities are used to finance operations and large capital construction or acquisitions. As of December 31, 2020, liabilities totaled $628.8 million, an increase of $41.2 million or 7% from prior year. Table 2 provides balances and year over year changes:

Table 2 – Change in Liabilities Year over Year ($ millions)

Description	2020	2019	$ Change	% Change
Accounts Payable and Other Liabilities	117.1	111.3	5.8	5%
Deferred revenue	32.7	16.0	16.7	105%
Short term debt	61.3	-	61.3	-
Long term debt	405.0	447.3	(42.3)	(9%)
Landfill closure and post-closure liability	11.3	10.7	0.6	6%
Other liabilities	1.4	2.3	(0.9)	(38%)
Total Liabilities	**$628.8**	**$587.6**	**$41.2**	**7%**

Compared to 2019, accounts payable increased by $5.8 million or 5% due to WTP construction invoices outstanding at year-end. The increase in deferred revenue of $16.7 million or 105% is due to $15.4 million received through the Reaching Home and Rapid Housing grant programs for affordable housing projects in 2021.

Short-term debt, as detailed in note 3 of the financial statements, was held by CRHC directly related to $61.3 million from the BC Housing Mortgage Corporation. The short-term debt was used to finance the purchase of Spencer and West Park properties and converted to long-term mortgages in January 2021.

Long-term debt includes balances for CRD, CRHC, and member municipalities as detailed in note 4 of the financial statements. CRD and CRHC Long term debt decreased by $36.2 million to $258.2 million, while member municipality debt decreased by $6.1 million to $146.9 million. Long term debt is decreasing as repayments have outpaced new financing.

Landfill closure and post-closure liability increased by $0.6 million, representing an additional year of capacity usage. The total liability represents an estimate of the present value of future cost obligations due to required closure and post-closure activities. Changes in estimated costs, useful life of the landfill, discount rate and capacity estimates can have significant impacts on recorded liability.

The decrease of $0.9 million in other liabilities relates to $0.7 million of remediation work completed, $0.5 million relating to WTP and $0.2 million at the Weeks Lake gravel pit. The remaining $0.2 million decrease was due to new information provided in 2020 relating to the Millstream Septage Lagoon liability which reduced the known scope of contamination.

Non-Financial Assets

Non-financial assets are resources held for service delivery over one or more future periods. Examples include tangible capital assets, inventories of supplies, and prepaid portions of land leases. Table 3 lists balances of non-financial assets and changes from 2019:

Table 3 – Change in Non-Financial Assets Year over Year ($ millions)

Description	2020	2019	$ Change	% Change
Tangible capital assets	1,760.5	1,529.6	230.9	15%
Other Non-Financial Assets	2.6	1.7	0.9	53%
Total Non-Financial Assets	**$1,763.1**	**$1,531.3**	**$231.8**	**15%**

Non-financial assets increased by $231.8 million to $1.76 billion in 2020, mainly driven by an increase in tangible capital assets of $230.9 million. The change consists of $268.4 million of tangible capital assets acquired or contributed and an offset of $33.8 million amortization and a loss on disposal of $3.6 million for WTP. The loss is on disposal of sewer infrastructure at Macaulay Point and Clover Point that was replaced with new WTP assets that were put into use at the end of 2020.

Significant asset additions for 2020 include:

- $133.2 million for the Wastewater Treatment Project; and
- $75.5 million for the West Park and Spencer housing property acquisitions.

Accumulated Surplus

The accumulated surplus or net book value of equity for the CRD is $1.68 billion, showing the organization has assets (Financial and Non-Financial) of greater value than what it owes (Liabilities). Table 4 summarizes accumulated surplus by significant category.

Table 4 – Accumulated Surplus Categories ($ millions)

Description	2020	2019
Equity Invested in Tangible Capital Assets	1,441.1	1,243.5
Capital and Operating Reserves	141.4	137.5
Net Operating Funds	99.7	50.5
2020 Accumulated Surplus	**$1,682.2**	**$1,431.8**

2020 CRD net operating funds of $99.7 million represents 5.9% of accumulated surplus. The balance is primarily in tangible capital assets, operating and capital reserves representing 94.1% of accumulated surplus.

Operating Reserve Funds enable each service area to set aside funds to mitigate fluctuations in revenue driven by cyclical expenditures, unforeseen operating expenses and special one-time operating projects. Capital Reserve Funds accumulate resources for future capital expenditures. Periodically, services transfer either budgeted or operating surplus funds to their respective capital reserve fund. The practice of building capital reserves for funding ongoing infrastructure renewal is essential to ensure long-term sustainability of infrastructure-dependent CRD services.

2. Consolidated Statement of Operations

The Statement of Operations identifies results of financial activities for the fiscal year by presenting revenues less expenses on an accrual basis. Under accrual accounting and the matching principle, the CRD records economic events regardless of when cash is actually received or used, with the objective of matching period revenues with incurred costs.

As required by PSAB reporting standards, the budget authorized by bylaw is included on the Statement of Operations and has been adjusted to exclude reserve transfers and principal repayment, and any other items not classified as expenses under the accounting standards. Other differences from budget exist due to adjustments to actuals for elimination and classification purposes. These differences include labour allocations, inter-service recoveries, grant revenue, deferred revenue, donations and amortization expense.

Revenue

2020 Revenue was $433.2 million, an increase of $1.8 million or 0.4%. Revenue totals by type and changes from 2019 are summarized in Table 5:

Table 5 – Change in Revenue Year over Year ($ millions)

Description	2020	2019	$ Change	% Change
Government transfers	302.1	305.1	(3.0)	(1%)
Sale of services	77.7	77.1	0.6	1%
Other revenue	16.3	15.7	0.6	4%
Interest earnings	5.6	6.3	(0.7)	(11%)
Developer contributions	5.7	3.3	2.4	73%
Affordable housing - rental income	17.0	15.7	1.3	8%
Other revenues	8.8	8.2	0.6	7%
Total Revenue	**$433.2**	**$431.4**	**$1.8**	**0%**

Primary drivers for changes in revenue are:

- $3.0 million decrease in government transfers primarily due to a $64.1 million decrease in federal grants offset by a $59.0 million increase in provincial grants.

- $0.6 million increase in sale of services due to $2.6 million increase in water revenue, $0.3 million increase in Hartland landfill refuse revenue, offset by $2.3 million decrease in recreation services revenue.
- $0.6 million increase in other revenues driven by $0.5 million in proceeds from an insurance claim and $0.1 million relating to COVID bylaw enforcement recoveries.
- $0.7 million decrease in interest earnings due to declining interest rates.
- $2.4 million increase in developer contributions relating to water infrastructure assets and household water connections in the Juan de Fuca Water Distribution service. Lead drivers include $0.7 million relating to the Belmont Market development and $1.3 million due to Kemp Lake Waterworks.
- $1.3 million increase in affordable housing revenue driven by rental units increasing from 1,418 in 2019 to 1,773 in 2020.

Expenses

Expenses in 2020 increased by $5.6 million or 3.2% to $182.8 million. As shown through segmented reporting, note 19 in the financial statements, the change by expense type over 2019 is summarized in table 6:

Table 6 – Change in Expenses Year over Year ($ millions)

Description	2020	2019	$ Change	% Change
Salaries, Wages and Benefits	68.9	65.2	3.7	6%
Contract for services and consultants	22.1	19.9	2.2	11%
Other expenses	91.8	92.1	(0.3)	0%
Total Expenses	**$182.8**	**$177.2**	**$5.6**	**3%**

Expense changes were driven by:
- $3.7 million increase in salaries, wages and benefits related to contractual agreements and benefit load costs.
- $2.2 million increase in contract for services and consultants due to $0.4 million increase in CRHC, $1.0 million increase in WTP, $0.4 million increase in curbside recycling, $0.3 million increase in solid waste landfilling operations and $0.1 million increase in lab services relating to marine assessment in environmental health services.

2020 Annual Surplus

The net difference between revenues and expenses for 2020 is an annual surplus of $250.3 million, which is summarized in table 7 below:

Table 7 – Surplus Reconciliation ($ millions)

Description	2020	2019
Operating surplus (final budget)	1.3	2.3
Add: Increase in Capital Equity	185.1	215.7
Add: Increase in Capital and Operating Reserves	3.6	3.8
Add: Increase in Operating Funds	61.7	34.3
All Other Eliminating/PSAB Entries	(1.4)	(1.9)
2020 Annual Surplus	**$250.3**	**$254.2**

The Operating surplus of $1.3 million is 0.5% of annual budgeted revenues and driven by surpluses in Environmental Health Services, Landfill operations, Water Services, Sewer Services and Recreational and Cultural Services.

The increase in equity, reserves and operating funds account for the difference from operating surplus for final budget and the surplus for financial statement purposes. The amounts represent use of surplus to fund capital, reserves and annual operating costs in the future.

3. Other Financial Statements Analysis

Summaries and analysis of the remaining 3 statements can be found in Appendix C;

3. Statement of Change in Net Debt,
4. Statement of Remeasurement Gains and Losses; and
5. Statement of Cash Flows

Financial Indicators

As in prior years, the consolidated financial health of the organization is monitored and reported through financial indicators (Appendix D). These measures demonstrate a consistent, healthy financial position based on operational needs, market conditions and debt servicing costs.

COVID-19 Impacts

An assessment was made by management and the auditor regarding organizational impacts due to COVID-19. Overall, there was no significant financial impact in the 2020 fiscal year. Notable service impacts occurred in the recreation and cultural services, specifically, as a result of Provincial health orders requiring the temporary closure of the Panorama Recreation Center, SEAPARC Leisure Complex and the Rainbow Road Aquatic Centre on Salt Spring Island. As the pandemic is still impacting service levels at recreation centers budgets have been adjusted to balance against available revenue.

In September 2020, the Province announced joint Provincial and Federal funding to support local government operations as part of BC's Economic Recovery Plan. The CRD received $1.4 million in grants from this initiative in November 2020 and an additional $0.6 million was received in March 2021.

The economic conditions and the CRD's response to the pandemic did not have a material impact on the District's operating results and financial position in 2020.

Emerging Accounting Issues

As identified in appendix 3 of the Audit Findings report (Appendix F), the upcoming asset retirement obligation change is a significant accounting standard that will be effective for the year ending December 31, 2021. The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with the retirement of tangible capital assets. It will require the CRD to record a liability in the financial statements related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital asset.

It is expected the introduction of the new accounting standards for asset retirement obligations will result in a significant revaluation of the landfill liability and recognition of all closure and post-closure costs. The standard will require the entire post-closure liability to be recorded upfront rather than overtime as is currently done. The change in standard does not address or direct how the liability will be funded.

As staff begin preparing to implement the standard across all services, scope, timing and financial implications will be reported to the Board through Committee. The standard change will require a significant level of effort and be addressed in the annual service planning process.

CONCLUSION

Board approval of the CRD 2020 Statement of Financial Information is required under the *Local Government Act*, *Community Charter*, and *Financial Information Act*. As noted in the Audit Findings Report, it is the auditors' opinion that these financial statements present fairly the consolidated financial position of the CRD as of December 31, 2020, and the results of financial activities for the year then ended in accordance with Canadian Public Sector Accounting Standards.

RECOMMENDATION

The Finance Committee recommends to the Capital Regional District Board:
That the Capital Regional District 2020 Audit Findings Report be received and the Capital Regional District 2020 Statement of Financial Information be approved.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Senior Manager, Financial Services
Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

ATTACHMENT(S)

Appendix A: 2020 Statement of Financial Information
Appendix B: 2020 Unaudited Statements
Appendix C: 2020 Other Financial Statements Analysis
Appendix D: DBRS Rating Methodology
Appendix E: 2020 Additional Financial Analysis
Appendix F: 2020 Audit Findings Report
Appendix G: 2020 KPMG Management Letter