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**REPORT TO FINANCE COMMITTEE
MEETING OF WEDNESDAY, MAY 01, 2024**

SUBJECT **Capital Regional District 2023 Audit Findings Report and Statement of Financial Information**

ISSUE SUMMARY

This report summarizes the Capital Regional District (CRD) 2023 Statement of Financial Information (SOFI), the 2023 Audit Findings Report and requests approval of the SOFI.

BACKGROUND

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

The financial statements, along with the annual filing of the Local Government Data Entry form, must be submitted to the Inspector of Municipalities and available for public viewing by May 15. The SOFI and the annual report must be completed and submitted to the Inspector of Municipalities by June 30.

With the annual audit complete, and in accordance with PSAB regulations, management has prepared the required five statements with explanatory notes:

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

The SOFI (Appendix A) includes:

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

The financial package also includes Appendix B through Appendix F, identified as follows:

- Unaudited statements that present long-term debt, reserves and financial statements for each service (Appendix B)
- Analysis of the Consolidated Statement of Change in Net Debt, Consolidated Statement of Remeasurement Gains and Losses and Consolidated Statement of Cash Flows (Appendix C)
- Canadian Municipal Governments Credit Rating Methodology (Appendix D)

- Financial indicator analysis on the 2023 CRD results (Appendix E)
- The 2023 Audit Findings Report from KPMG (Appendix F)
- KPMG Management Letter (Appendix G)

The Audit Findings Report summarizes responsibilities of the auditor, the 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 3, 2024. The audit findings confirm the financial statements present fairly, in all material respects, the financial position of CRD as at December 31, 2023.

ALTERNATIVES

Alternative 1

The Finance Committee recommends to the Capital Regional District Board:
That the Capital Regional District 2023 Statement of Financial Information be approved.

Alternative 2

That the Capital Regional District 2023 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).

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 3, 2024. Also included in the report is a summary of corrected misstatements (Appendix F, page 14).

New Accounting Standards

Asset Retirement Obligations

On January 1, 2023, the CRD adopted Public Sector Accounting Standard PS 3280 *Asset Retirement Obligations* (PS 3280). The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets (TCAs). The standard was adopted on a modified retroactive basis and prior year balances have been restated to meet new reporting requirements.

The removal of certain hazardous materials from structures, and the landfill closure and post-closure costs are two categories of Asset Retirement Obligations (AROs) the CRD is required to report. The landfill liability that had been previously reported is now replaced by an ARO as expected through the adoption of PS 3280.

As described on pages 7 and 8 of the Audit Findings Report (Appendix F), the auditor agreed with the approach and key assumptions used in estimating AROs.

Financial Statements

The Consolidated Statement of Financial Position and the Consolidated Statement of Operations form the basis of the audited financial statements (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 Standards.

HIGHLIGHTS

1. Consolidated Statement of Financial Position

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

1. Financial Assets and Liabilities (cash resources and obligations)
2. Net Debt Position (calculated as the difference between financial assets and liabilities)
3. Non-Financial assets that are held for service provision (such as TCAs) and
4. 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, investments, accounts receivable and debt recoverable from member municipalities. Total financial assets were \$627.0 million as of year-end, an increase of \$20.8 million or 3% from prior year. Table 1 summarizes financial assets as of December 31, 2023 with comparative changes year over year:

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

Description	2023	2022 (Restated)	\$ Change	% Change
Cash and Cash Equivalents	43.6	56.6	(13.0)	(23%)
Investments	369.4	344.4	25.0	7%
Accounts Receivable	36.3	24.7	11.6	47%
Member and Third-Party Debt	174.7	176.4	(1.7)	(1%)
Municipal Finance Authority (MFA) Debt Reserve Fund	3.0	4.1	(1.1)	(27%)
Total Assets	\$627.0	\$606.2	\$20.8	3%

The \$(13.0) million decrease in cash and cash equivalents were a result of more funds held in investments that offer higher interest rates than cash deposits. Further details on changes in cash are described in Other Financial Statement Analysis in the Consolidated Statement of Cash Flows (Appendix C).

The \$25.0 million increase in investments is due to guaranteed investment certificates (GICs) offering higher returns than cash deposits resulting in a greater portion of working capital being allocated to GICs than cash.

The \$11.6 increase in accounts receivable is due to the following increases:

- \$5.7 million in accrued interest due to higher investment returns
- \$3.1 million in holdback and progress draw receivables relating to ongoing housing redevelopment projects
- \$1.0 million in developer cost charge receivables
- \$0.9 million in federal grants receivable for the Rocky Point upgrade project
- \$0.9 million in various services across the organization

The \$(1.7) million decrease in member and third-party debt is due to the net debt position of municipalities decreasing slightly in the period.

The \$(1.1) million decrease in MFA debt reserve fund is due to several large debt issuances paid off in the year.

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 capital construction or acquisitions. As of December 31, 2023, liabilities totaled \$721.5 million, an increase of \$27.5 million or 4% from prior year. Table 2 provides balances and year over year changes.

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

Description	2023	2022 (Restated)	\$ Change	% Change
Accounts Payable and Accrued Liabilities	39.9	37.4	2.5	7%
Deferred Revenue	33.2	48.1	(14.9)	(-31%)
Short-Term Debt	44.4	23.0	21.4	93%
Long-Term Debt	575.5	559.0	16.5	3%
AROs	27.3	25.1	2.2	9%
Other Liabilities	1.2	1.4	(0.2)	(-14%)
Total Liabilities	\$721.5	\$694.0	\$27.5	4%

The \$2.5 million increase in accounts payable and accrued liabilities is due to an increase in construction holdback and progress draw payables for housing redevelopment projects.

The \$(14.9) million decrease in deferred revenue is due to increased revenue recognized for housing grants received in previous periods and spent in 2023.

The \$21.4 million increase in short-term debt is due to increased temporary financing during construction of capital projects and increased short-term financing for the construction of housing redevelopment projects.

The \$16.5 million increase in long-term debt is due to the net increase in mortgages payable as two new mortgages were placed for CRHC during the year.

The \$2.2 million increase in AROs is the result of the annual update to key assumptions in the estimate. The estimated liability is updated annually to use assumptions that are current as of the financial reporting date and further details on these changes are disclosed in Note 8 of the 2023 Statement of Financial Information (Appendix A).

Non-Financial Assets

Non-financial assets are resources held for service delivery over one or more future periods such as TCAs, inventories of supplies and prepaid portions of land leases. Table 3 lists balances of non-financial assets and changes from the previous year.

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

Description	2023	2022 (Restated)	\$ Change	% Change
TCA	2,076.6	1,991.6	85.0	4%
Other Non-Financial Assets	5.8	3.5	2.3	66%
Total Non-Financial Assets	\$2,082.4	\$1,995.1	\$87.3	4%

The \$85.0 million increase in TCA is driven by significant investments in infrastructure with \$55.6 million in additions to buildings, \$22.2 million in additions to engineering structures and land acquisitions valued at \$12.7 million. The increased asset base resulted in a corresponding increase to amortization expense reducing TCA book value by an additional \$2.7 million compared to the prior year.

The \$2.3 million increase in other non-financial assets is due to increased prepaid expenses such as software licenses and insurance costs.

Accumulated Surplus

The accumulated surplus or net book value of equity for the CRD is \$2.0 billion. The organization has assets (financial and non-financial) of greater value than what it owes (liabilities). Table 7 in Appendix C provides additional analysis on the breakdown of accumulated surplus.

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 received or used, with the objective of matching period revenues with incurred costs.

As required by PSAB reporting standards, the budget authorized by a bylaw is included on the Statement of Operations and has been adjusted to exclude reserve transfers and principal repayment to better align budget to actual revenue and expense. Note 15 to the financial statements provides more information on budget adjustments (Appendix A).

Further differences to the budget exist where accounting standards require recognition of transactions at different periods than legislative requirements. A budget is established to determine revenue requirements and set expenditure authority. There are differences due to labour allocations, inter-service recoveries, grant revenue, deferred revenue, donations and amortization expense between budget and reporting requirements.

Revenue

2023 Revenue was \$379.6 million, an increase of \$52.4 million or 16%. Revenue totals by type and changes from the previous year are summarized in Table 4.

Table 4 – Change in Revenue Year over Year (\$ millions)

Description	2023	2022 (Restated)	\$ Change	% Change
Government Transfers	211.3	174.2	37.1	21%
Sale of Services	97.8	92.1	5.7	6%
Affordable Housing – Rental Income	24.6	22.5	2.1	9%
Other Revenue	22.0	17.1	4.9	29%
Investment Earnings	14.8	8.8	6.0	68%
Actuarial Adjustment of Long-Term Debt	4.1	5.8	(1.7)	(29%)
Grants in Lieu of Taxes	3.7	4.0	(0.3)	(8%)
Developer Contributions	1.3	2.7	(1.4)	(52%)
Total Revenue	\$379.6	\$327.2	52.4	16%

The primary drivers for changes in revenue are as follows:

- \$37.1 increase in government transfers due to an increase of \$26.1 in the recognition of grant revenue from the disbursement of one-time grant payments in support of housing projects, and the receipt of \$11.6 million for the Growing Communities Fund
- \$5.7 million increase in sale of services due to increases in water sales of \$4.2 million and recreation center revenue of \$1.2 million
- \$2.1 million increase in affordable housing – rental income as tenant rent increased by \$1.6 million for two new buildings and a \$0.3 million increase in the associated subsidies
- \$4.9 million increase in other revenue as the District received land donations valued at \$1.6 million and \$3.3 million for the sale of a gravel pit
- \$6.0 million increase in interest earnings due to higher GIC interest rates and an increase in investment balances

- \$(1.7) million decrease in actuarial adjustment of long-term debt due to the repayment of large debt issues that accumulated a large actuarial balance - repayment of these issues resulted in a lower actuarial balance and less interest earned
- \$(1.4) million decrease in developer contributions as four significant development projects concluded in 2022 that accounted for \$1.5 million in the previous year

Expenses

Expenses in 2023 increased by \$41.4 million or 16% to \$301.7 million. The change by expense type over the previous year is summarized in Table 5 and in the segmented reporting (Note 20) in the consolidated financial statements (Appendix A):

Table 5 – Change in Expenses Year over Year (\$ millions)

Description	2023	2022 (Restated)	\$ Change	% Change
Salaries, Wages and Benefits	93.4	83.2	10.2	12%
Contract for Services and Consultants	32.6	28.8	3.8	13%
Amortization of TCA	64.6	61.9	2.7	4%
Interest on Debt	22.9	23.1	(0.2)	(1%)
Other Expenses	88.2	63.3	24.9	39%
Total Expenses	\$301.7	\$260.3	41.4	16%

Expense changes were driven by:

- \$10.2 million increase in salaries, wages and benefits from a 3% inflationary increase, a 4.5% increase in full-time staff and a higher average salary as departures decreased by 26% from the previous year and continuing staff earning annual salary increments
- \$3.8 million increase in contract for services and consultants for \$2.4 million Residuals Treatment Facility operating payments now being paid at contract value, with performance holdbacks no longer taken from April 2023 onwards, and for a \$1.2 million increase in heavy equipment operations contracts at the Hartland Landfill
- \$2.7 million increase in amortization of TCA due to 4% growth in TCA representing CRD's continued investment in infrastructure
- \$24.9 million increase in other expenses due to an increase of \$24.6 million in the disbursement of housing grants largely related to the Rapid Housing Initiative

2023 Annual Surplus

The net difference between revenues and expenses for 2023 is an annual surplus of \$77.9 million. Summarized in Table 6 is the change in accumulated surplus as a result.

Table 6 – Surplus Reconciliation (\$ millions)

Description	2023	2022 (Restated)
Increase in Capital Equity	30.5	55.0
Increase in Capital and Operating Reserves	12.4	4.2
Increase in Operating Funds	35.0	7.7
Annual Surplus	\$77.9	\$66.9

The increase of \$30.5 million in capital equity reflects surplus funds used to invest in TCA. The increase of \$12.4 million in capital and operating reserves was due to contributions to reserves exceeding funds used in the year and are being saved for future periods. The increase of \$35.0 million in operating funds is the result of the consolidated surplus balance across all services. It is important to note that operating funds surplus are not in a currency state like cash, but rather reflects the value of all assets net of liabilities.

3. Other Financial Statement Analysis

Summaries and analysis of the remaining three statements (Changes in Net Debt, Remeasurement Gains and Losses and Cash Flows) can be found in Appendix C.

Financial Indicators

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

Changes in Accounting Standards

As identified on page 21 of the Audit Findings Report (Appendix F), PSAB has two accounting standards' updates for the CRD effective the year ending December 31, 2024.

PS 3400 *Revenue* expands on the existing definition of revenue, providing further guidance on how public sector entities need to account for revenues.

Public Sector Guideline 8 *Purchased Intangibles* provides guidance for public sector entities on how to recognize purchased intangible assets.

The CRD has begun work in assessing the impact of the new standard on financial reporting. The changes are not expected to have significant implications to the CRD's existing reporting practices; however, further work is required to complete the assessment.

CONCLUSION

Board approval of the CRD 2023 SOFI is required under the *Local Government Act*, *Community Charter* and *Financial Information Act*. As noted in the Audit Findings Report, it is the auditor's opinion that these financial statements present fairly the consolidated financial position and the results of financial activities for the year ending December 31, 2023, in accordance with Canadian Public Sector Accounting Standards.

RECOMMENDATION

The Finance Committee recommends to the Capital Regional District Board:
That the Capital Regional District 2023 Statement of Financial Information be approved.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Sr. Mgr., Financial Services / Deputy CFO
Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer, GM Finance & IT
Concurrence:	Ted Robbins, B. Sc., C. Tech., Chief Administrative Officer

ATTACHMENTS

- Presentation: 2023 Statement of Financial Information
- Appendix A: CRD 2023 Statement of Financial Information
- Appendix B: CRD 2023 Unaudited Financial Statements
- Appendix C: CRD Other Financial Statement Analysis
- Appendix D: CRD DBRS Rating Methodology
- Appendix E: CRD 2023 Financial Performance Measures
- Appendix F: CRD Audit Findings Report
- Appendix G: CRD Management Letter