



## 2021 Consolidated Financial Statements and Audit Findings Report

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### **RECOMMENDATION**

That the consolidated financial statements of the Regional District of Nanaimo for the year ended December 31, 2021, be accepted as presented.

### **BACKGROUND**

The MNP LLP audit of the Regional District of Nanaimo (RDN) for the year ended December 31, 2021 is unqualified, assuring readers that, based on the audit procedures conducted, the statements present fairly the financial position of the Regional District of Nanaimo as at December 31, 2021. MNP LLP has submitted their audit findings report to the Board to ensure the Board is informed of the audit results and the important issues and decisions that were made during the audit and financial statement preparation process.

The 2021 Consolidated Financial Statements have been prepared and audited within the framework of the accounting policies applicable to local governments in British Columbia. The consolidated financial statements must be accepted by the Board by May 15<sup>th</sup> prior to the signing of the audit report and submission of the financial information to the Ministry.

Canadian auditing standards require that audit firms communicate the results of the audit process to the organization's board of directors for approval as well as to management staff. The audit findings report from MNP LLP (Attachment 1) summarizes key elements of the audit procedures, the roles and responsibilities of the auditors, and contains a discussion of their conclusions on the information included in the financial statements. There were no items requiring adjustment in 2021. As in prior years, the Independent Auditor's draft report (Attachment 2) is unqualified, assuring readers that, based on the audit procedures conducted, the statements present fairly the financial position of the RDN as at December 31, 2021. The report will be signed after final approval of the financial statements by the Board.

The consolidated financial statements (Attachment 3) present the financial position of the RDN as a whole incorporating the operating, reserve, and capital funds based on Public Sector Accounting Board standards for governments as legislated under the *Local Government Act*. The consolidated financial statements allow the Board, the management team, and the public to assess the overall results of all of our activities for the fiscal year ending December 31, 2021. The 2021 operating results are impacted by the pandemic in services such as Recreation resulting in reduced operating revenues with an offsetting reduction in expenditures due to reduced service levels. Overall, for the year ended December 31, 2021, operating revenues and expenses increased in 2021 compared to 2020 which is indicative of economic recovery post pandemic. As at December 31, 2021, the RDN has a good balance of assets to liabilities and highly liquid cash reserves to meet annual costs.

### **Consolidated Statement of Financial Position (Attachment 3)**

Total Financial Assets (cash, investments, accounts receivable) increased from \$210.6 million to \$225.6 million largely due to increase in portfolio investments and other jurisdictions debt receivable. Cash and investments totaling \$146.7 million in 2021 represent the deferred revenue and reserve funds held for future infrastructure. Other jurisdictions debt receivable (debt incurred on behalf of the municipalities and the Vancouver Island Regional Library) increased from \$61.8 million to \$68.4 million due to new debt incurred on behalf of the City of Nanaimo.

Total Financial Liabilities (trade payables, debt, deferred revenue and other liabilities) increased from \$191.0 million to \$196.7 million mostly due to change in the long term debt, accounts payables and deferred revenue. Long term debt increased by a net \$6.8 million and is comprised of new debt acquired for Southern Community Wastewater (Secondary Treatment upgrade project \$3.5 million) and the City of Nanaimo (\$11.1 million). This is offset by \$6.0 million in principal payments by the RDN and member municipalities. The deferred revenue increased by \$2.7 million. The majority of the increase is due to developer contributions for wastewater, sewer and water services. The increase in long term debt and deferred revenue is being offset by a decrease in accounts payable by \$3.6 million in 2021. The accounts payable amount was higher in prior years due to major capital projects such as the secondary treatment upgrade at the Nanaimo Wastewater Treatment Plant.

Total Non-Financial Assets (tangible capital assets, prepaid expenses and inventories) increased from \$284.3 million to \$296.9 million due to a \$23.1 million investment in tangible capital assets.

Over the next few years, the RDN will see shifts in the asset and liability accounts as a result of the significant capital project work being undertaken. The Amended 2022-2026 Financial Plan projected the debt to increase by up to \$98.7 million and reserves of up to \$130.3 million to be used towards funding over \$254.0 million in capital. Grant funding will continue to be pursued to offset the capital demands.

### **Future Liabilities – Employee future benefits & Landfill closure/post closure (Attachment 3)**

Future liabilities are calculated for certain post retirement employee benefits and future costs to close and monitor the regional landfill. Recording the value of these future liabilities is a means of showing that there are financial obligations which are not completely captured in the annual activities of the Regional District. This is a normal occurrence as the landfill closure reserve will be increased over time as the landfill is used.

At December 31, 2021 the future liability balances were:

	<b>Estimated obligation</b>	<b>Reserves</b>
Future employee benefits	\$2,412,617	\$1,773,853
Landfill closure costs	\$13,862,051	\$2,788,554
Landfill post closure maintenance costs	\$6,091,994	

Currently, the landfill closure and post closure costs are largely unfunded with a relatively small reserve. The 2022-2026 Financial Plan includes increased transfers to the landfill closure reserve. The funding for closure costs will be reviewed on an ongoing basis during future budget discussions for the Solid Waste service.

### ***Accumulated Surplus (Attachment 3)***

The Accumulated Surplus position increased by \$21.9 million to \$325.8 million in 2021 largely due to increase in statutory reserve fund balances and net investments in tangible assets. The statutory reserve fund balances increase from \$77.0 million to \$90.5 million. Reserve funds play a significant role in executing the capital plans of the RDN. \$130.3 million is projected to be spent from reserves for capital over the next five years. The net investment in tangible capital assets increased by \$12.3 million to \$237.7 million (2020; \$225.4 million) which is mostly due to a \$23.1 million investment in tangible capital assets offset by disposals and amortization. The net investment in tangible capital assets includes the debt financing associated with the assets. In 2021 debt financing totaled \$57.9 million (2020; \$57.6 million), an increase of \$0.3 million largely due to ongoing principal reduction on the existing debt.

### ***Consolidated Statement of Operations (Attachment 3)***

This Consolidated Statement of Operations shows the sources of revenue and expenses of the RDN as a whole based on Public Sector Accounting Board standards. Items of note from the Consolidated Statement of Operations are discussed below.

Overall revenues increased by \$11.2 million from 2020. Revenues show increased taxation revenues of \$2.6 million, increased operating revenues of \$4.1 million and increased government transfers and grants of \$6.5 million and decreased investment income of \$2.8 million resulting in negative investment income in the amount of \$494,179. The investment gains and losses are allocated proportionally based on average balances in the general revenue fund and the reserve fund. The negative investment income of \$494,179 is allocated \$262,603 to the general revenue fund (Page 37), \$16,090 to reserve accounts and \$215,486 to the statutory reserve funds (Page 32) in 2021. The decrease in investment income is due to impacts of COVID resulting in market volatility and fluctuations. It is RDN's strategy to hold these investments long-term to avoid locking in losses due to market volatility. Year over year consolidated expenses increased from \$80.9 million in 2020 to \$90.0 million in 2021. The increase in operating revenues and expenses in 2021 compared to 2020 is indicative of economic recovery post pandemic. The operating revenues and expenses were both lower in 2020 due to the impacts of the pandemic.

Overall, year over year consolidated expenses are \$90.0 million compared to budget estimate of \$91.7 million. The actual expenses of \$30.2 million under Wastewater and Solid Waste Management exceeded the budget estimate of \$26.8 million and the actual expenses of \$7.5 million under Water, Sewer and Street Lighting exceeded the budget estimate of \$6.7 million. This is because, for year-end reporting purposes, costs for non-cash items such as amortization and unfunded liabilities related to landfill closure and post closure are included in accordance with public sector accounting standards that are not included in budget figures.

### ***Development Cost Charges (DCCs) Expended in 2021 (Attachment 3)***

Local Governments are required, as per Section 569 of the *Local Government Act*, to annually report on the use of DCCs. The Schedule for Development Cost Charges outlines the amount of DCCs collected in the year, expenditures and the balance in the DCC reserve funds at the start and at the end of 2021.

## **FINANCIAL IMPLICATIONS**

The annual audit fee of \$35,700 is included in the Finance Department's budget. The post-employment benefit calculation was performed by an independent actuary which cost \$2,300 for 2021. There are no additional costs at this time.

## **STRATEGIC PLAN ALIGNMENT**

The Public Sector Accounting Board Standards for financial reporting and auditing require Board approval of final consolidated financial statements prior to the signing of the audit report. Compliance with this requirement directly supports the Board's value of Fiscal Responsibility and Good Governance, which demands transparency in financial reporting and that Directors are accountable to the public. Based on feedback from MNP LLP, who have formally acknowledged the excellent cooperation of staff through the audit process, it is evident that this Board value has trickled through the organization, influencing how staff conduct themselves in their work.

## **REVIEWED BY:**

T. Moore, Acting/Director of Finance  
D. Wells, Acting/Chief Administrative Officer

## **ATTACHMENTS:**

1. 2021 RDN Audit Findings Report
2. 2021 RDN Independent Auditor's Draft Report
3. 2021 RDN Consolidated Financial Statements