

STAFF REPORT

TO: Special Board

MEETING: May 14, 2019

FROM: Manvir Manhas
Manager, Capital Accounting &
Financial Reporting

FILE: Not applicable

SUBJECT: 2018 Consolidated Financial Statements and Audit Findings Report

RECOMMENDATION

1. That the consolidated financial statements of the Regional District of Nanaimo for the year ended December 31, 2018 be accepted as presented.

SUMMARY

The MNP LLP audit of the Regional District of Nanaimo (RDN) for the year ended December 31, 2018 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, 2018. 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 2018 Consolidated Financial Statements have been prepared and audited within the framework of the accounting policies applicable to local governments in BC. The 2018 final operating results are as expected with no major variances. The RDN remains in sound financial health with a good balance of assets to liabilities and highly liquid cash reserves to meet annual costs.

BACKGROUND

The consolidated financial statements must be accepted by the Board by May 15th 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 2018. As in prior years, the Independent Auditors' 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, 2018. 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, 2018.

Consolidated Statement of Financial Position (Page 3 of Attachment 3)

Total Financial Assets (cash, investments, accounts receivable) decreased from \$188.5 million to \$183.8 million largely due to a decrease in cash and cash equivalents as a result of the significant capital project work being undertaken such as the Southern Community Wastewater Secondary Treatment upgrade project at the Greater Nanaimo Pollution Control Centre that is currently underway. Cash and investments totaling \$111.2 million in 2018 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 \$60.6 million to \$63.4 million due to new debt incurred on behalf of the City of Nanaimo and the City of Parksville.

Total Financial Liabilities (trade payables, debt, deferred revenue and other liabilities) increased from \$151.4 million to \$161.1 million mostly due to change in the long term debt and accounts payable. Long term debt increased by a net \$3.6 million and is comprised of new debt acquired for Nanoose Bay Bulk Water upgrades (Englishman River Joint Venture project \$2.85 million), City of Nanaimo (\$3.23 million) and the City of Parksville (\$4.0 million). This is offset by \$4.8 million in principal payments by the RDN and member municipalities. The accounts payable increased by \$4.0 million due to significant capital project work being undertaken as explained above.

Total Non-Financial Assets (tangible capital assets, prepaid expenses and inventories) increased from \$213.0 million to \$249.4 million due to a \$36.2 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 approved 2019-2023 Financial Plan projected the debt to increase by up to \$60 million and reserves of up to \$73 million to be used towards funding over \$170 million in capital. Grant funding will continue to be pursued to offset the capital demands.

Unfunded Liabilities (Page 3 and Pages 16-17 of Attachment 3)

Unfunded 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.

At December 31, 2018 the unfunded liability balances were:

	Estimated obligation	Reserves
Employee retirement benefit	\$1,805,221	\$2,051,001
Employee other benefits	\$326,471	
Landfill closure costs	\$12,077,404	\$2,079,798
Landfill post closure maintenance costs	\$5,185,813	

Currently, the landfill closure and post closure costs are largely unfunded with a relatively small reserve. The 2019-2023 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 (Page 3 and Page 20 of Attachment 3)

The Accumulated Surplus position increased by \$22.0 million to \$272.1 million in 2018. Items of note that contributed to this change are:

- The net investment in tangible capital assets increased by \$35.1 million to \$211.0 million (2017; \$175.9 million).
- Statutory Reserve Fund balances decreased \$7.7 million from \$65.1 million to \$57.4 million due to significant capital work that is currently underway such as the Secondary Treatment Project at the Greater Nanaimo Pollution Control Centre. Reserve funds play a significant role in executing the capital plans of the RDN. \$73.0 million is projected to be spent from reserves for capital over the next five years.

Consolidated Statement of Operations (Page 4 of 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 \$13.4 million from 2017 as a result of increased grant revenues and developer contributions which are impacted by the timing of capital projects. Capital projects use a drawdown accounting approach where grant revenues and developer contributions are recorded when project expenses are incurred. Revenues show increased taxation revenues of \$2.1 million and increased operating revenue of \$0.9 million. Higher than expected revenues across several services such as building inspection and solid waste were the source of operating revenues exceeding both budget and 2017 levels.

Year over year consolidated expenses increased from \$75.3 million in 2017 to \$78.2 million in 2018. The majority of the difference is attributed to general operating cost increases, the impact of the solid waste unfunded liability closure adjustments and transit service expansion that began in September 2017.

Actual expenses of \$78.2 million also exceeded the budget estimate of \$72.5 million. This is because, for year-end reporting purposes, costs for non-cash items such as amortization and unfunded liabilities are included in accordance with public sector accounting standards that are not included in budget figures.

Development Cost Charges (DCCs) Expended in 2018 (Page 34 of 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 2018.

ALTERNATIVES

1. That the 2018 consolidated financial statements of the Regional District of Nanaimo be approved.
2. Provide alternate direction to staff.

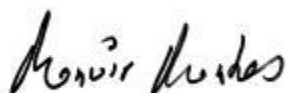
FINANCIAL IMPLICATIONS

The annual audit fee of \$27,300 is included in the Finance Department's 2018 budget. The post-employment benefit calculation was performed by an independent actuary which cost \$2,000 for 2018. There are no additional costs at this time.

STRATEGIC PLAN IMPLICATIONS

Focus On Service And Organizational Excellence - As We Invest In Regional Services We Look At Both Costs And Benefits - The RDN Will Be Effective And Efficient.

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 governing principle to *Be Transparent and Accountable*, 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. In addition, the auditors conclude that the financial sustainability of the RDN is healthy and trending in a positive direction.



Manvir Manhas
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April 26, 2019

Reviewed by:

- J. Bradburne, Director of Finance
- D. Wells, General Manager, Corporate Services
- P. Carlyle, Chief Administrative Officer

Attachments:

1. 2018 RDN Audit Findings Report
2. 2018 RDN Independent Auditors' Draft Report
3. 2018 RDN Consolidated Financial Statements