

# Regional District of Central Okanagan

Final Report to the Board of Directors

May 9, 2019



Prepared by:





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May 9, 2019

Members of the Board of Directors  
Regional District of Central Okanagan  
1450 K.L.O. Road  
Kelowna, British Columbia  
V1W 3Z4

Dear Board of Directors (the "Board"):

We are pleased to present the relevant results of our audit of the financial statements of Regional District of Central Okanagan (the "Regional District"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The purpose of our report is to summarize certain aspects of the audit that we believe to be of interest to the Board.

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Board in fulfilling its responsibilities.

We wish to express our appreciation for the co-operation we received during the audit from the Regional District's management and staff who have assisted us in carrying out our work. We look forward to meeting with you to discuss the contents of this report and any other matters that you consider appropriate.

Yours truly,

Markus Schrott, CPA, CA

Partner through a corporation  
BDO Canada LLP  
Chartered Professional Accountants

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## Section 1

### Important Canadian Auditing Standards Topics





## INDEPENDENCE

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards require us to communicate to the Board at least annually, all relationships between BDO Canada LLP and its related entities and the Regional District and its related entities, that, in our professional judgment, may reasonably be thought to bear on our independence with respect to the audit of the Regional District.

Our annual letter confirming our independence was previously provided to you in our audit planning letter. We confirm that as of the date of this letter that we remain independent with respect to the Regional District.

## RESPONSIBILITIES OF THE AUDITOR

It is important for the Board of Directors to understand the responsibilities that rest with the Regional District and its management and those that belong to the auditor. The audit of financial statements does not relieve management or those charged with governance of their responsibilities as outlined in our Planning Report to the Board dated December 11, 2018. A summary of the auditor's responsibilities is as follows:

- The auditor's responsibility is to express an opinion on each financial statement based on an audit thereof;
- An audit is performed to obtain reasonable, but not absolute, assurance as to whether the financial statements are free of material misstatement and, owing to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed;
- The audit includes:
  - (i) Assessing the risks of material misstatement of the financial statements, whether due to fraud or error;
  - (ii) Obtaining an understanding of the entity and its environment including internal control in order to plan the audit and to assess the risk that the financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;
  - (iii) Examining, on a test basis, evidence supporting the amounts and disclosures in each financial statement;
  - (iv) Assessing the accounting principles used and their application; and
  - (v) Assessing the significant estimates made by management;
- When the auditor's risk assessment includes an expectation of the operating effectiveness of controls, sufficient appropriate audit evidence is obtained through tests of controls to support the assessment, but the scope of the auditor's review of internal control is insufficient to express an opinion as to the effectiveness or efficiency of the entity's controls; and
- The auditor will express an opinion as to whether the each financial statement presents fairly in all material respects, in accordance with Canadian generally accepted accounting principles, the financial position, results of operations and cash flows of the entity.

Further details regarding our responsibilities are outlined in our engagement letter which was included in our Planning Report to the Board dated December 11, 2018.



## AUDIT FINDINGS

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the Regional District's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. In order to have a frank and open discussion, these matters will be discussed verbally with you. A summary of the key discussion points are as follows:

### ACCOUNTING AND AUDIT MATTERS

#### Grants and Revenue Recognition

Accounting standards in this area are complex and open to interpretation. There is a risk that revenue may be incorrectly deferred into future periods or recognized before stipulations have been met. In order to mitigate this risk, we performed the following procedures:

- Confirmed grant funding received through a review of the agreements, ensuring that the amounts recorded exist, are complete and are recorded accurately;
- Reviewed any stipulations in the agreement to ensure revenue was recognized when stipulations were met; and
- Other revenue streams were reviewed in accordance with the latest revenue recognition standards.

All audit testing in this area was executed as planned with no issues to be reported.

#### Management Override of Controls

Management is in a unique position to directly or indirectly manipulate accounting records by overriding controls that otherwise appear to be operating effectively.

*This risk is required to be addressed for all audits pursuant to Canadian audit standards.*

In order to mitigate this risk, we performed the following procedures:

- Tested the appropriateness of journal entries recorded in the general ledger, reviewed key estimates and other adjustments made in the preparation of the financial statements.

All audit testing in this area was executed as planned with no issues to be reported.

## AUDIT FINDINGS (Continued)

### ACCOUNTING AND AUDIT MATTERS (Continued)

#### Employee Future Benefits

A complex area that requires much estimation and reliance on actuarial experts. We performed the following procedures to mitigate this risk:

- Reviewed actuarial reports and audited the significant assumptions;
- Directly communicated with the external actuaries;
- Reviewed the underlying data provided to the actuary for accuracy and completeness; and
- Reviewed the appropriateness of financial statement disclosure.

All audit testing in this area was executed as planned with no issues to be reported.

#### Landfill Closure and Post Closure Costs

A complex area that requires estimation, reliance on expert reports and calculations, and key management assumptions. We performed the following procedures to mitigate this risk:

- Enquired with Regional District's engineers regarding any significant changes to the remaining life and associated costs of the landfill;
- Evaluated key inputs used in the valuation of the landfill closure and post closure liability; and
- Reviewed calculations and disclosures prepared by management and management's experts.

All audit testing in this area was executed as planned with no issues to be reported.

### MANAGEMENT REPRESENTATIONS

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.

A summary of the representation we have requested from management can be requested from management or us.

### ACCOUNTING ADJUSTMENTS

We discuss all significant adjusting journal entries that we proposed during the course of our audit with management. Management receives a copy of these adjustments and they are reviewed and approved by management. Copies of adjustments if so required can be requested of management.





## AUDIT FINDINGS (Continued)

### FINANCIAL STATEMENT DISCLOSURE OMISSIONS

During the course of our audit we noted no circumstances where required financial statement disclosures were either avoided or requested to be left out by management.

### UNADJUSTED AUDIT DIFFERENCES

During the course of our audit we noted no significant unadjusted audit differences.

## INTERNAL CONTROL MATTERS

During the course of our audit, we performed the following procedures with respect to the Regional District's internal control environment:

- Documented operating systems to assess the design and implementation of control activities that were relevant to the audit.
- Discussed and considered potential audit risks with management.

The results of these procedures were considered in determining, the extent and nature of substantive audit testing required.

We are required to report to you in writing, significant deficiencies in internal control that we have identified during the audit. A significant deficiency is defined as a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

During the course of our audit, there were no significant deficiencies in internal control noted.

## OTHER REQUIRED COMMUNICATIONS

Professional standards require independent auditors to communicate with those charged with governance certain matters in relation to an audit. In addition to the points communicated within this letter, the table below summarizes these additional required communications.

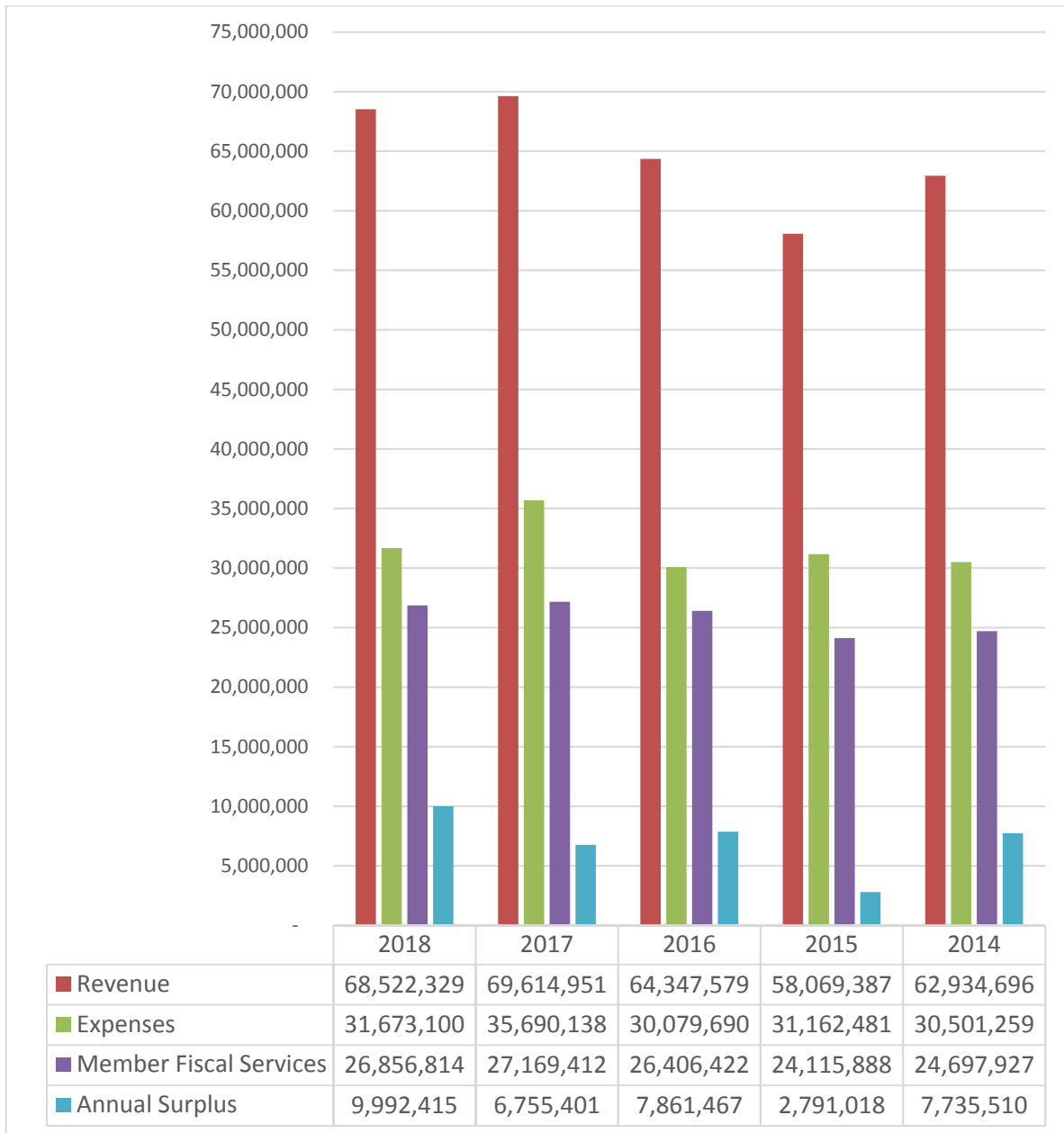
Communication Required	Auditors' Response
Potential effect on the financial statements of any material contingencies or commitments, such as pending litigation, that are required to be disclosed in the financial statements.	There are no material contingencies or commitments that need to be disclosed in the financial statements other than normal course items.
Matters involving non-compliance with laws and regulations.	We noted no instances of non-compliance with laws or regulations during the course of our audit.
Material uncertainties related to events and conditions that may cast significant doubt on the Regional District's ability to continue as a going concern.	There is no going concern issue noted.
Disagreements with management about matters that, individually or in aggregate, could be significant to the Regional District's financial statements or our audit report.	No disagreements were noted with management.
Significant related party transactions that are not in the normal course of operations and which involve significant judgments made by management concerning measurement or disclosure.	None noted.
Discussion of whether subsequent events are appropriately disclosed or resulted in adjustments.	No subsequent events noted.
Discussion of whether scope limitations were present, preventing us from carrying out our audit completely.	No scope limitations were noted.
Discussion of whether the audit report required modifications or a qualified audit report was issued.	No report modifications were needed and the opinion was unqualified.

## Section 2

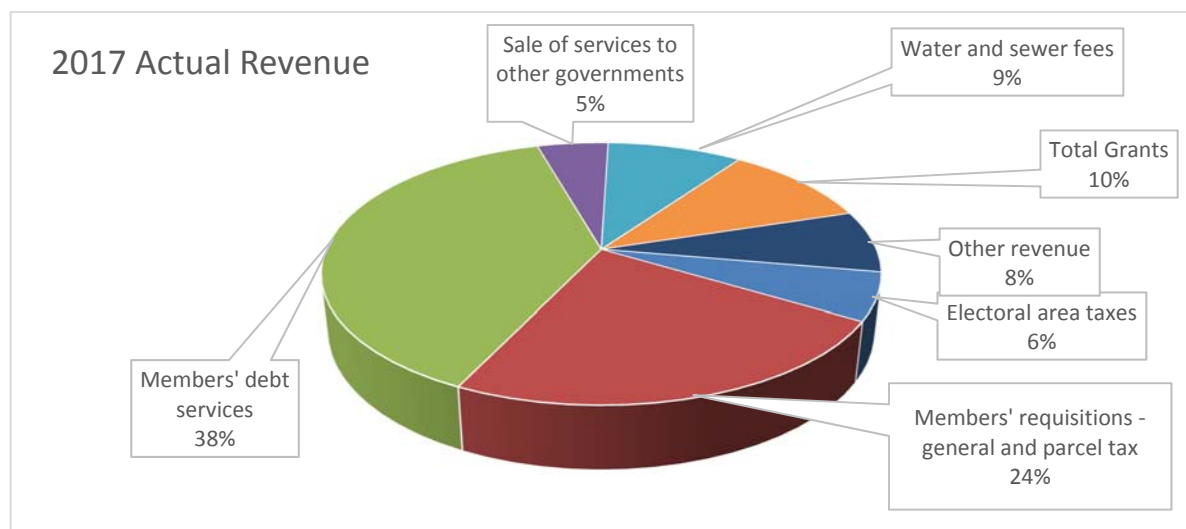
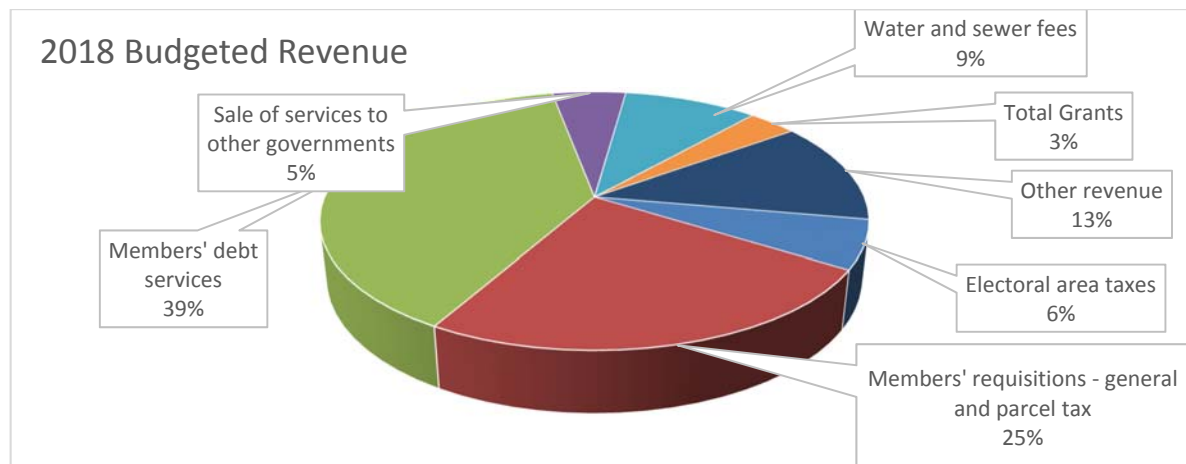
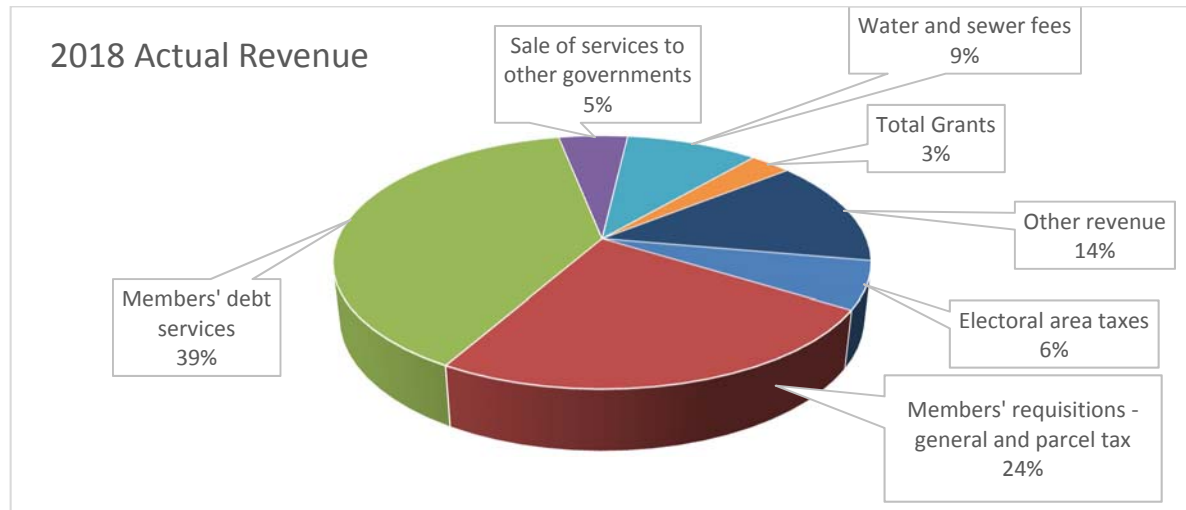
### Financial Highlights



## TOTAL REVENUE, EXPENSES, AND ANNUAL SURPLUS



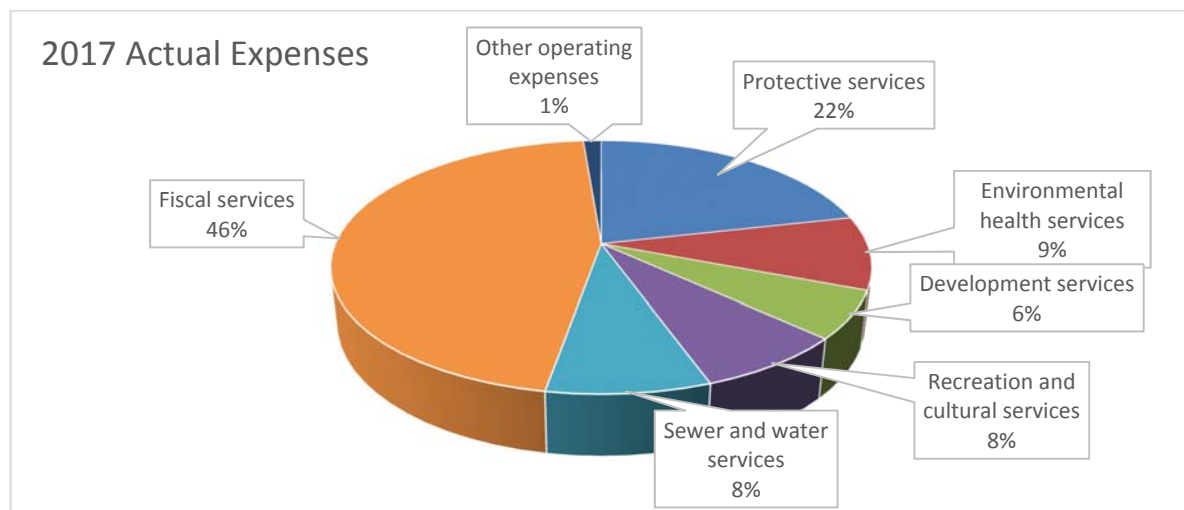
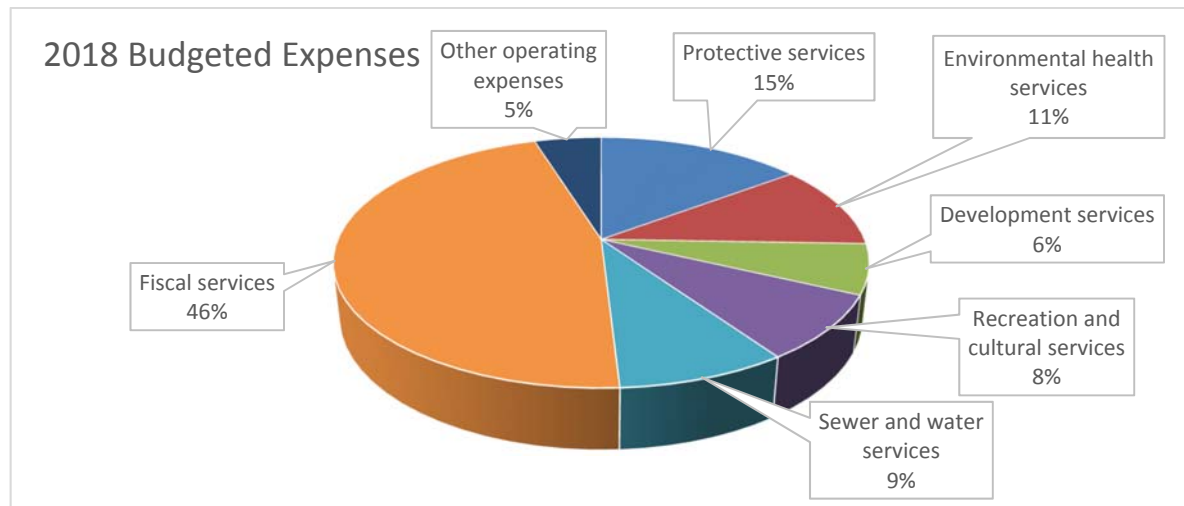
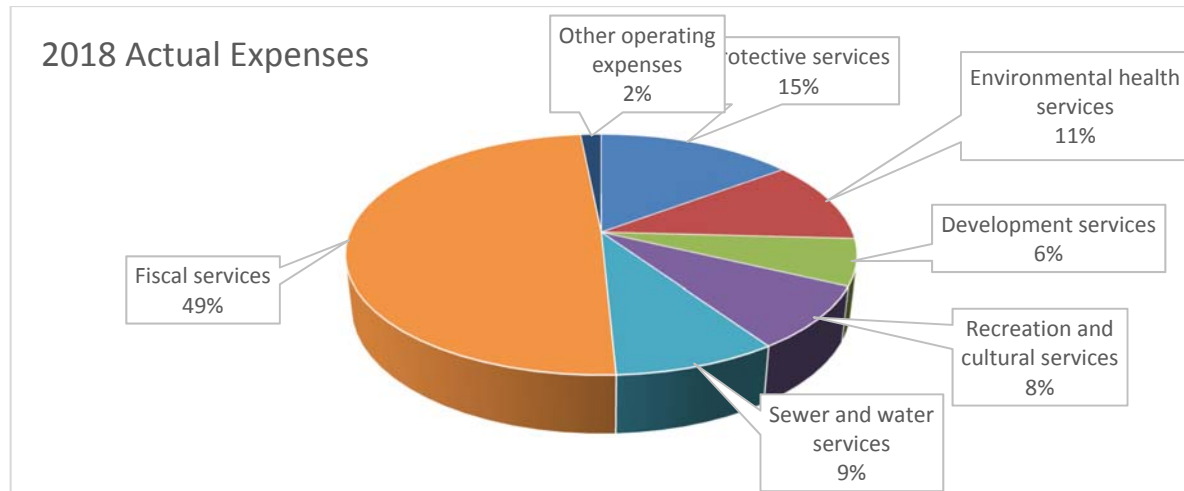
## REVENUE ANALYSIS



\* Any revenue not listed is grouped into other.



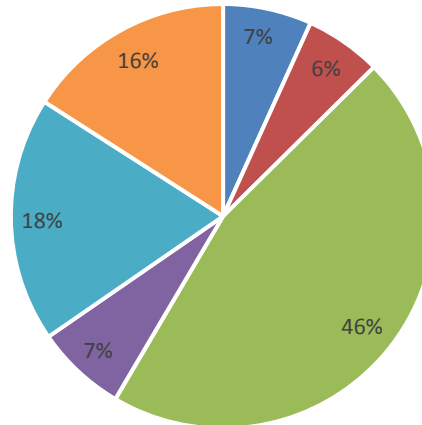
## EXPENSES BY FUNCTION



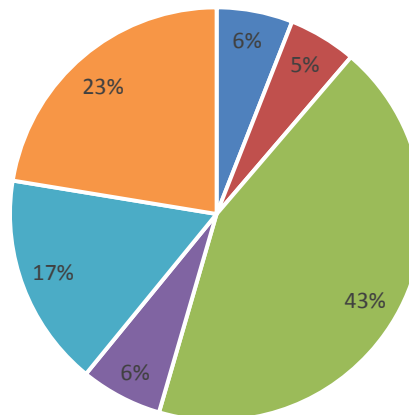
\* Any expense not listed is grouped into other. Amortization is not shown in 2018 or 2017 actual.

## OPERATING EXPENSES BY OBJECT

2018 Actual Expenses



2017 Actual Expense

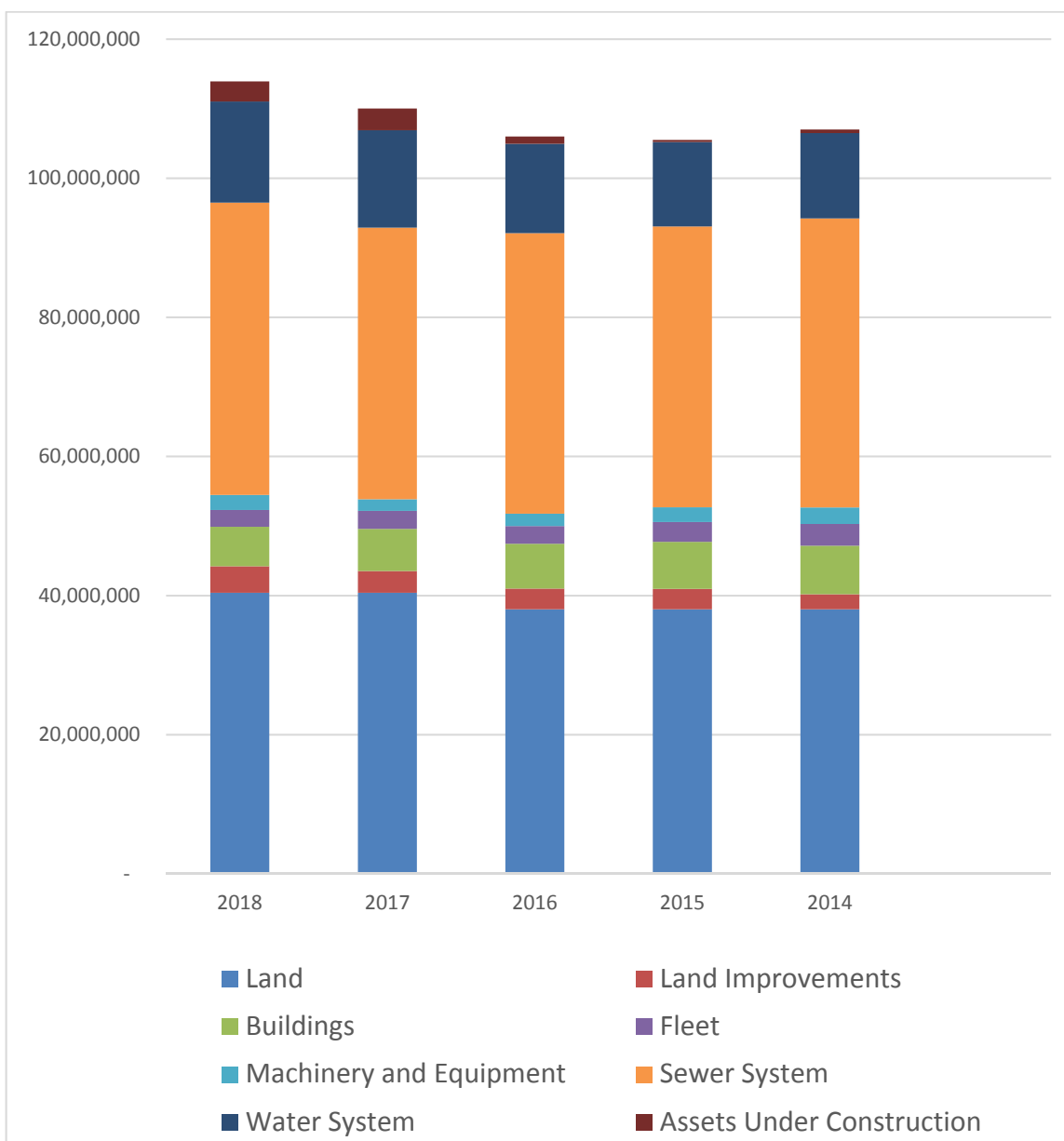


- Amortization
- Fiscal services for members
- Wages and benefits
- Contract services
- Transfers to other agencies and governments
- Other operating expenses

\* Any expense less than 5% of total expenses is included in other operating expenses

## CAPITAL ASSET ANALYSIS - CATEGORY BREAKDOWN

	2018	2017	2016	2015	2014
<b>Tangible capital assets</b>					
Beginning of year	110,033,002	105,992,776	105,495,656	106,997,153	92,989,363
Purchases	8,843,074	8,475,428	4,377,018	2,591,444	18,330,923
Disposals	(993,760)	(692,810)	(138,630)	(452,124)	(738,722)
Amortization	(3,961,742)	(3,742,392)	(3,741,268)	(3,640,817)	(3,584,412)
End of year	<u>113,920,574</u>	<u>110,033,002</u>	<u>105,992,776</u>	<u>105,495,656</u>	<u>106,997,153</u>



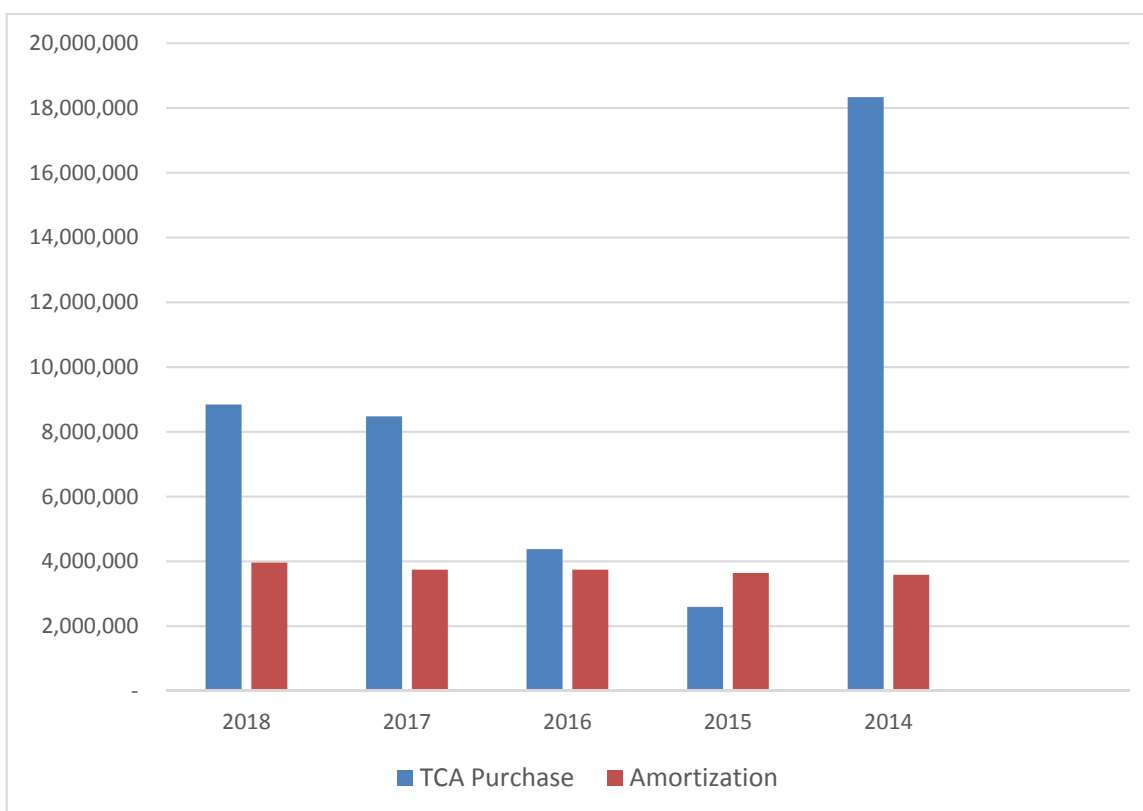
## CAPITAL ASSET ANALYSIS - TCA FINANCIAL INDICATOR

As assets age, the TCA Financial Indicator percentage will decrease. The newer the assets, the longer the remaining life of the asset and the higher the percentage.

The formula is as follows:

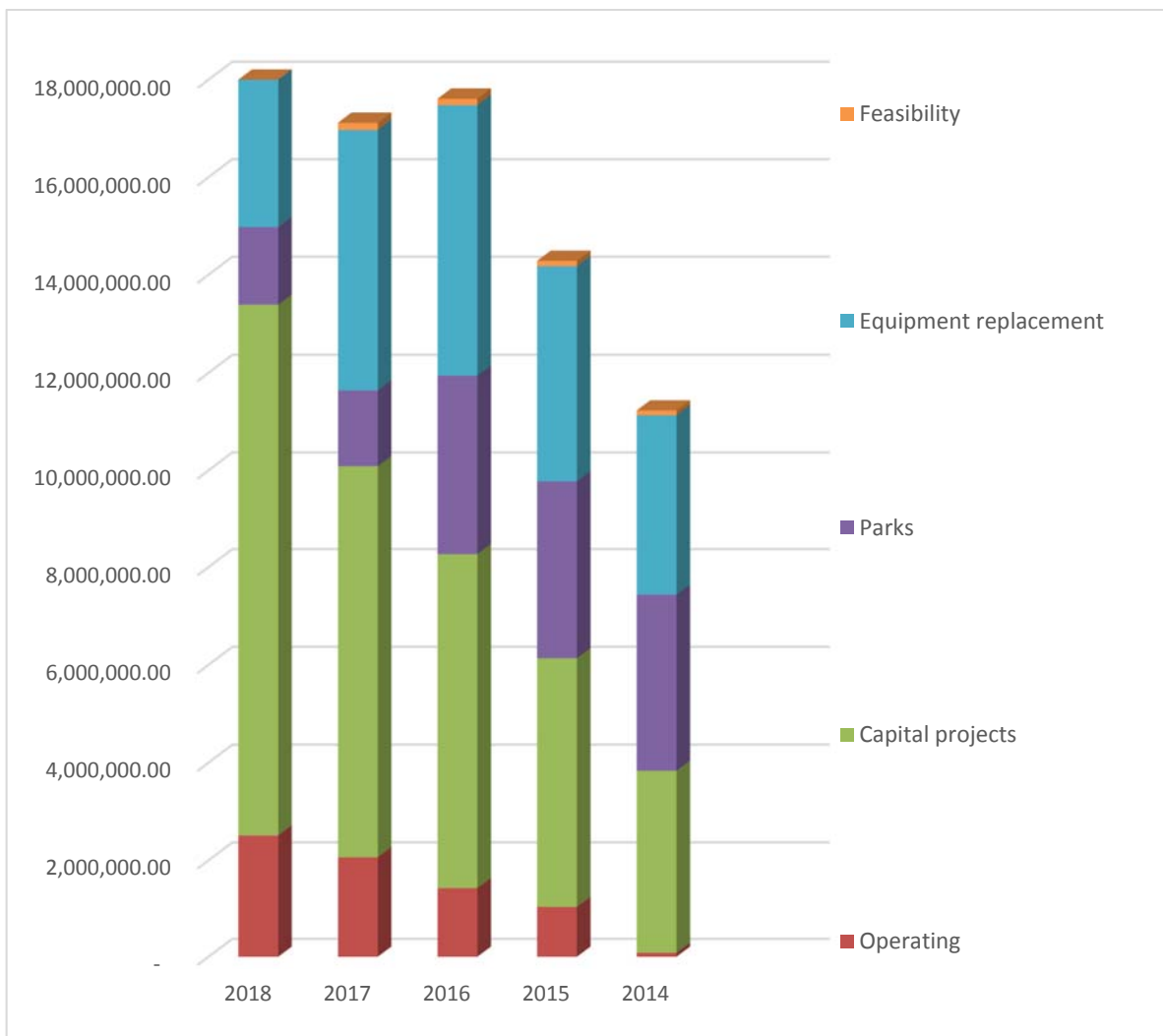
$$\text{Age of TCA Financial Indicator} = \frac{\text{Net Book Value of TCA}}{\text{Historical Cost of TCA}}$$

	2018	2017	2016	2015	2014
Buildings	47%	50%	53%	57%	60%
Sewer System	65%	65%	68%	70%	73%
Water System	71%	71%	71%	71%	72%
Fleet	36%	40%	41%	45%	48%
Miscellaneous	64%	61%	54%	55%	55%
Total	72%	73%	73%	75%	77%



## RESERVE ANALYSIS

	2018	2017	2016	2015	2014
<b>Statutory Reserve Funds</b>					
<b>Feasibility</b>	160,486	148,105	131,423	110,257	99,133
<b>Equipment replacement</b>	5,795,961	5,330,103	5,535,755	4,399,977	3,695,792
<b>Parks</b>	1,579,995	1,554,986	3,677,311	3,639,791	3,599,003
<b>Capital projects</b>	10,886,850	8,021,053	6,842,541	5,101,622	3,753,078
<b>Operating</b>	2,509,646	2,062,040	1,422,339	1,032,859	82,006
	<b>20,932,938</b>	<b>17,116,287</b>	<b>17,609,369</b>	<b>14,284,506</b>	<b>11,229,012</b>



## Section 3

### BDO Resources







## BDO PROFILE

BDO is one of Canada's largest accounting services firms providing assurance and accounting, taxation, financial advisory, risk advisory, financial recovery and consulting services to a variety of publicly traded and privately held companies.

BDO serves its clients through 105 offices across Canada. As a member firm of BDO International Limited, BDO serves its multinational clients through a global network of over 1,300 offices in 151 countries. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

Outlined below is a summary of certain BDO resources which may be of interest to the Board.

## PSAB PUBLICATIONS

BDO's national and international accounting and assurance department issues publications on the transition and application of Public Sector Accounting Standards (PSAB) as well as common differences between PSAB and Canadian generally accepted accounting principles.

For additional information on PSAB including links to archived publications and model financial statements, refer to:

<https://www.bdo.ca/en-ca/services/assurance-and-accounting/a-a-knowledge-centre/psas/>

## PSAB UPDATES

For a complete reference to PSAB updates, refer to:

[http://www.bdo.ca/BDO/media/FRS/ASNPO/PSAS\\_Update\\_24Sep18.pdf](http://www.bdo.ca/BDO/media/FRS/ASNPO/PSAS_Update_24Sep18.pdf)



SEPTEMBER 2018  
WWW.BDO.CA

ASSURANCE AND ACCOUNTING

### PUBLIC SECTOR ACCOUNTING STANDARDS (PSAS) UPDATE 2018

#### Introduction

It has been a busy year for the Public Sector Accounting Board (PSAB or the "Board"). Public sector entities began applying five new Canadian Public Sector Accounting Standards (PSA Handbook) Sections: Section PS 3430, Restructuring Transactions, became effective. New Section PS 3200, Asset Retirement Obligations, was issued in August, and a new standard on revenue is expected to be issued later this year. Additionally, the Board and its task forces advanced the progress of existing projects including issuing a Statement of Principles, a Statement of Concepts and a Consultation Paper, with an invitation for Comment expected in the fourth quarter. This publication will provide an overview of these projects as well as a review of the standards that are effective for public sector entities this year and those that will become effective over the next few years.

#### Standards Effective April 1, 2017

While entities with March 31 year ends have already adopted the following five standards, entities with December 31 year ends will be applying them for the first time in their upcoming 2018 financial statements.

#### Related Party Disclosures

##### Project Background

The Board issued new Sections PS 2200, Related Party Disclosures, and PS 3420, Inter-Entity Transactions, in 2015. Prior to the issuance of these two Sections, the PSA Handbook did not include a standard dealing with related party transactions. The reason two standards were developed instead of only one is because related party transactions can occur with individuals and entities both inside and outside of a government's reporting entity. However, the Board believes that generally issues of recognition and measurement would not arise for related party transactions that are not part of the same government reporting entity. These types of related party transactions would be recognized at the exchange amount according to their substance and the individual accounting standards applied for reporting purposes. Disclosures about these related party transactions would be sufficient for users to understand the effect of these transactions on an entity's financial position and changes in financial position. Therefore, these types of transactions would be within the scope of Section PS 2200 and disclosed in accordance with that Section, but would not be in the scope of new Section PS 3420, which provides recognition and measurement guidance for related party transactions that occur between entities within the government reporting entity (i.e., inter-entity transactions).

##### Definitions

Section PS 2200 defines a related party and a related party transaction as follows:

**Related party** — A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

**Related party transaction** — A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. 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.