



REGIONAL DISTRICT OF CENTRAL OKANAGAN

AUDIT FINAL REPORT TO THE BOARD OF DIRECTORS

July 9, 2020

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Board of Directors
Regional District of Central Okanagan
1450 KLO Road
Kelowna, BC
V1W 3Z4

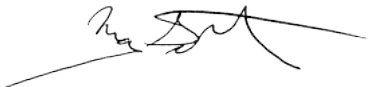
Dear Board of Directors

We are pleased to present this report on the results of our audit of the financial statements of Regional District of Central Okanagan ("Regional District") for the year ended December 31, 2019. The purpose of this report is to summarize certain aspects of the audit that we believe to be of interest to the Board of Directors and should be read in conjunction with the draft financial statements and our draft audit report which is included as Appendix B.

We would like to bring to your attention that our audit and therefore this report will not necessarily identify all matters that may be of interest to the Board of Directors in fulfilling its responsibilities.

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

Yours truly,

A handwritten signature in black ink, appearing to read 'Markus Schrott', with a long horizontal line extending to the left.

Markus Schrott, CPA, CA
Partner through a corporation
BDO Canada LLP
Chartered Professional Accountants

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SUMMARY



Status of the Audit

As of the date of this report, we have substantially completed our audit of the 2019 financial statements, pending completion of the following items:

- ▶ Receipt of signed management representation letter
- ▶ Subsequent events review through to financial statement approval date
- ▶ Approval of financial statements by the Board of Directors

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the financial statements are free from material misstatement. See Appendix B for our draft independent auditor's report.

The scope of the work performed was substantially the same as that described in our Planning Report to the Board of Directors dated December 13, 2019.



Audit Findings

Our audit focused on the risks specific to your business and key accounts. Our discussion points below focus on areas of significant risks of material misstatement, or the following items:

- ▶ Management Override of Controls



Internal Control Matters

We are required to report to you in writing, any significant deficiencies in internal control that we have identified.

There were no control deficiencies that, in our opinion, are of significant importance to discuss with those charged with governance.

There are no deficiencies noted in the management letter.



Independence

Our annual letter confirming our independence was previously provided to you. We know of no circumstances that would cause us to amend the previously provided letter. We confirm that we are still independent as of the date of this letter.



Adjusted and Unadjusted Differences

We have disclosed all significant adjusted and unadjusted differences and disclosure omissions identified through the course of our audit engagement.

During the course of our audit, we noted no significant unadjusted audit differences or disclosure omissions.



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.



Significant Audit Estimates

Management is responsible for determining Regional District of Central Okanagan's significant accounting policies. The choice between accounting policy alternatives can have a significant effect on the financial position and results of the organization. The application of those policies often involves significant estimates and judgments by management. Based on the audit work that we have performed, it is our opinion that the accounting policies and estimates in the financial statements are reasonable and the disclosures relating to accounting estimates are in accordance with Canadian public sector accounting standards.

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:

SIGNIFICANT RISKS OF MATERIAL MISSTATEMENT	RISKS NOTED	AUDIT FINDINGS
Management Override of Controls	<p>Management is in a unique position to directly or indirectly change accounting records without oversight and prepare financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p><i>This risk is required to be addressed for all audits pursuant to Canadian audit standards.</i></p>	<p>In order to mitigate this risk, we performed the following procedures:</p> <ul style="list-style-type: none"> 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. <p>All audit testing in this area was executed as planned with no issues to be reported.</p>

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.

As the purpose of the audit is for us to express an opinion on the Regional District's financial statements, our audit cannot be expected to disclose all matters that may be of interest to you. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

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

OTHER REQUIRED COMMUNICATIONS

Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.

- BDO Response: There are no material pending litigations that need to be disclosed in the financial statements other than the normal course.

Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.

- BDO Response: There is no going concern issue noted.

Disagreements with management about matters that, individually or in the aggregate, could be significant to the entity's financial statements or our audit report.

- BDO Response: No disagreements were noted with management.

Matters involving non-compliance with laws and regulations.

- BDO Response: We noted no instances of non-compliance with laws or regulations during the course of our audit.

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.

- BDO Response: None noted.

Management consultation with other accountants about significant auditing and accounting matters.

- BDO Response: No consultation required.

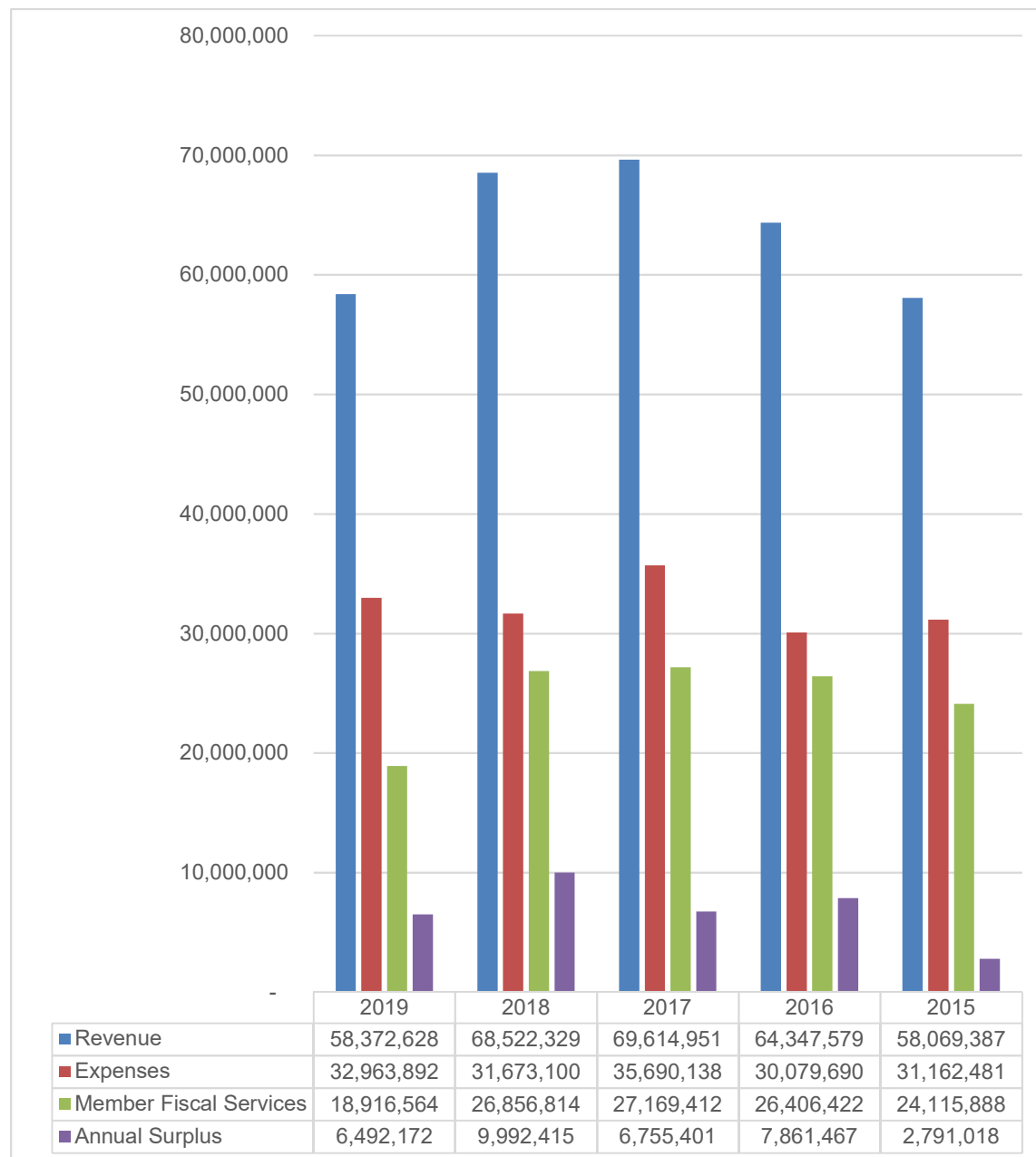
Other Matters

- BDO Response: None noted.

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 attached table summarizes these additional required communications.

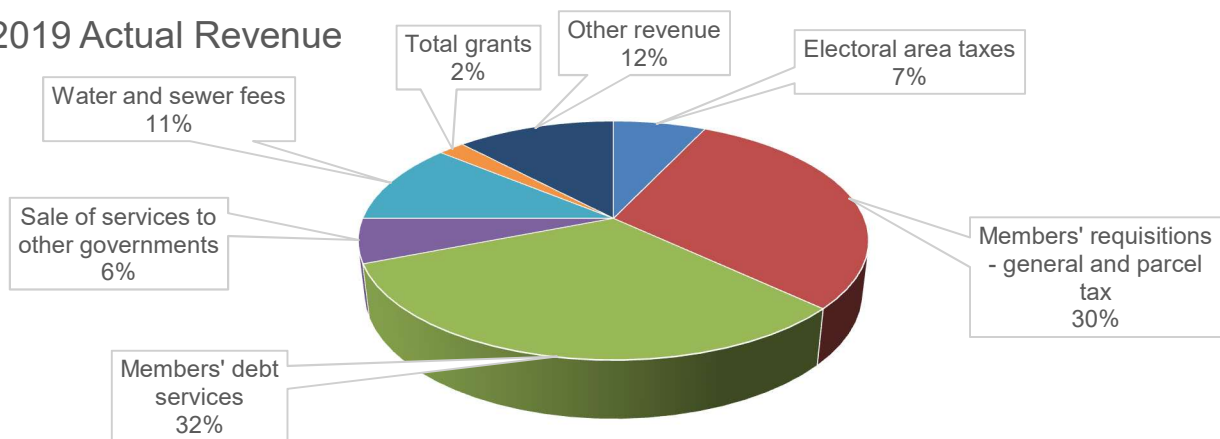
APPENDIX A

TOTAL REVENUE, EXPENSES, AND ANNUAL SURPLUS

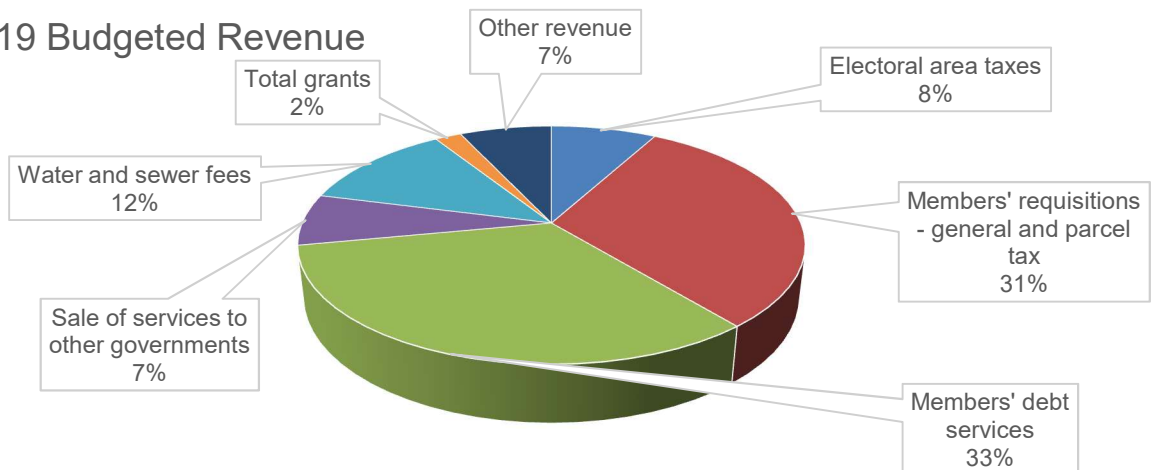


REVENUE ANALYSIS

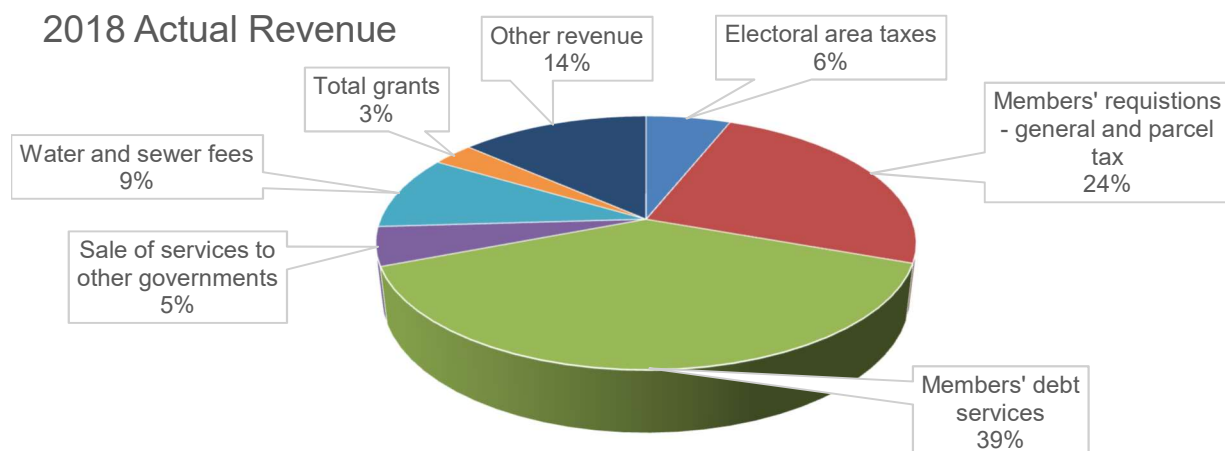
2019 Actual Revenue



2019 Budgeted Revenue



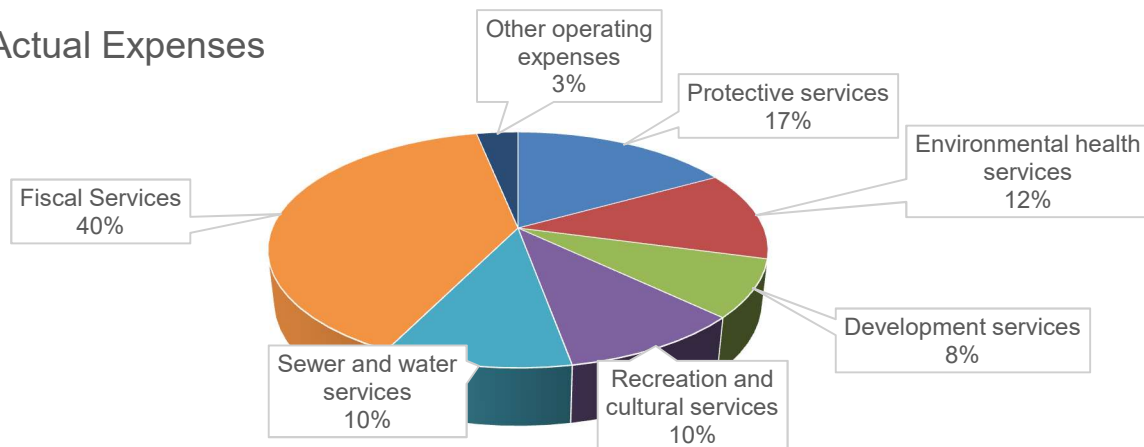
2018 Actual Revenue



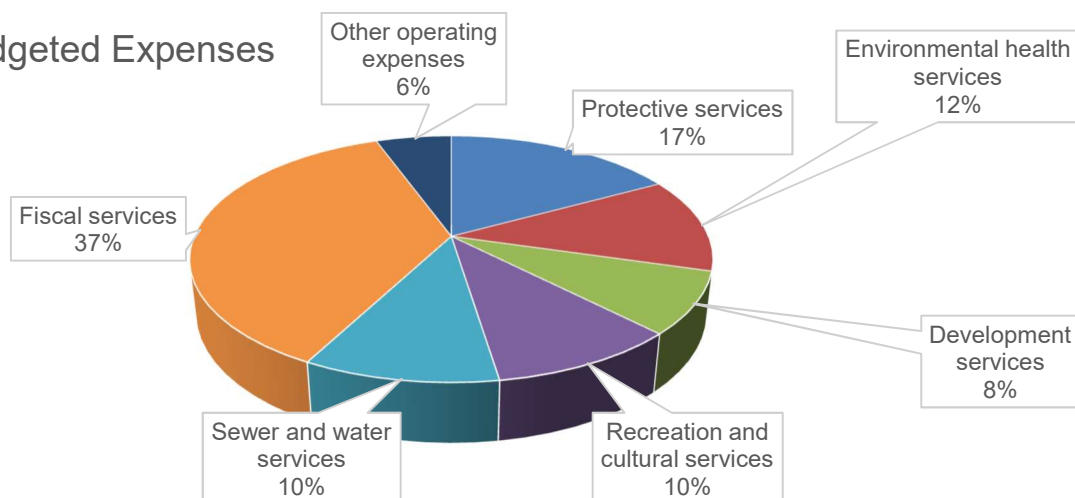
* Any revenue not listed is grouped into other

EXPENSES BY FUNCTION

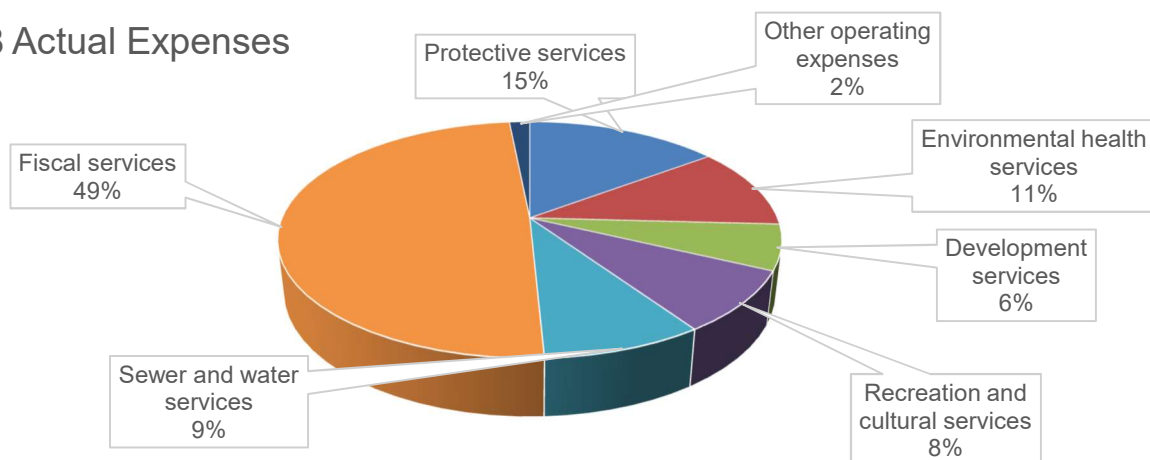
2019 Actual Expenses



2019 Budgeted Expenses



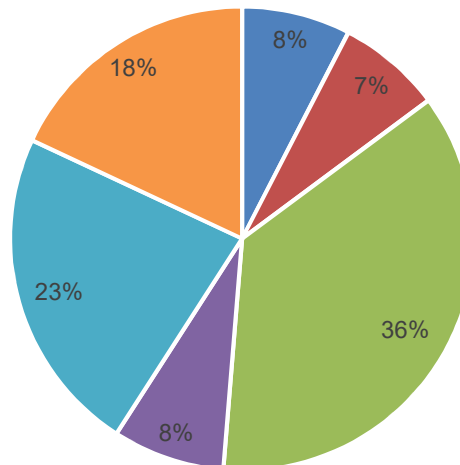
2018 Actual Expenses



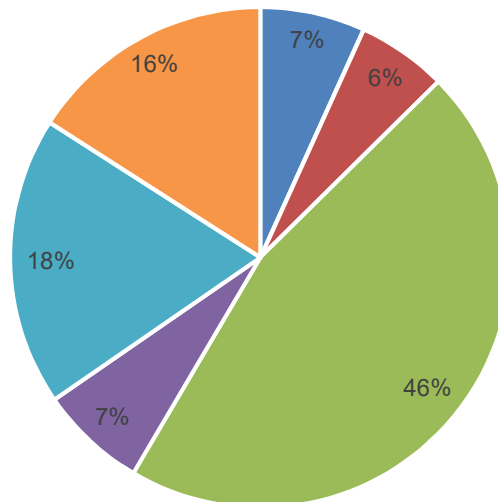
*Any expense not listed is grouped into other. Amortization is not shown in 2019 or 2018 actual

OPERATING EXPENSES BY OBJECT

2019 Actual Expenses



2018 Actual Expenses

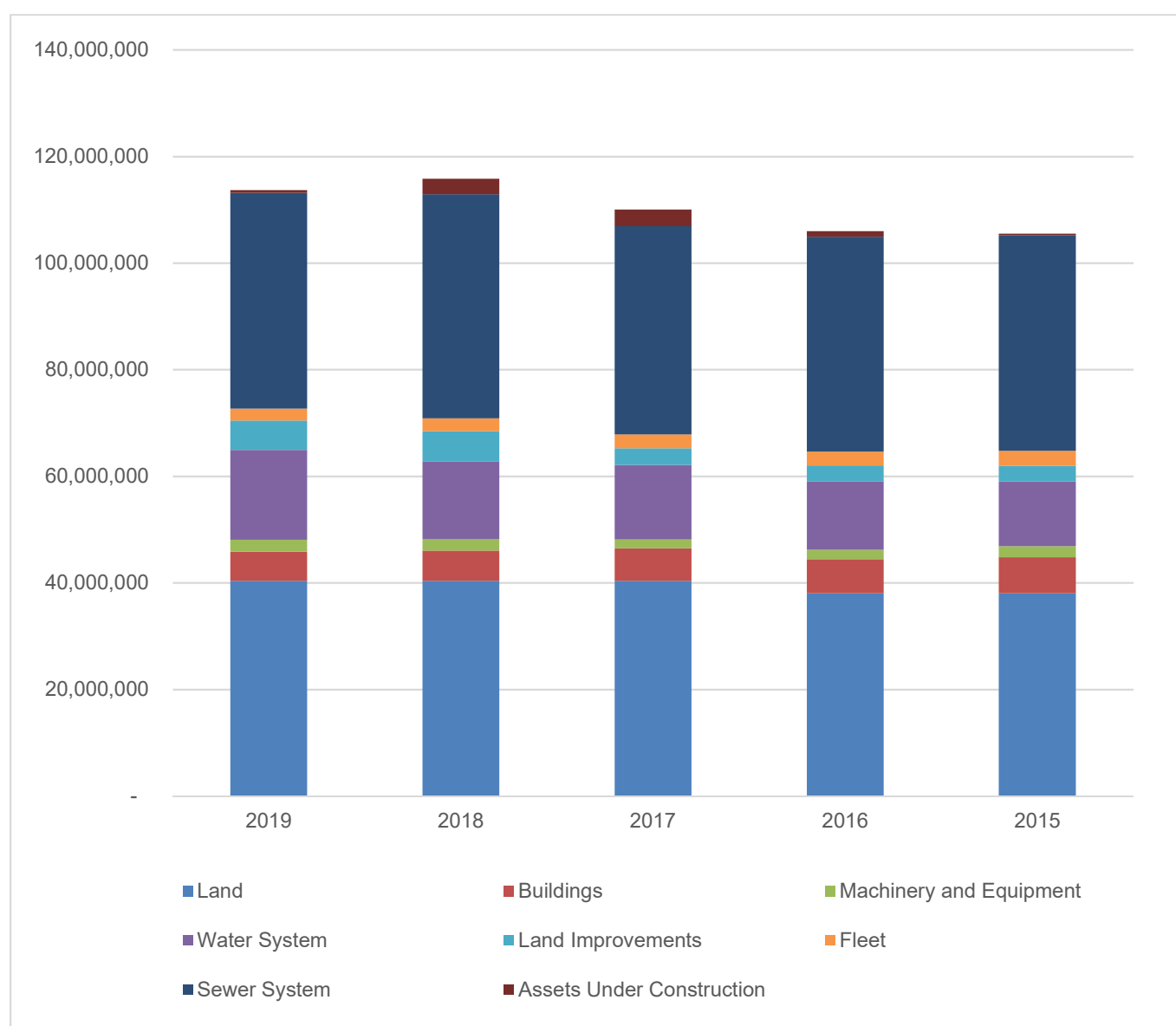


- Amortization
- Fiscal services for members
- Wages and benefits
- Contract services
- Transfers to other agencies and governments
- Other operating expenses

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

CAPITAL ASSET ANALYSIS - CATEGORY BREAKDOWN

	2019	2018	2017	2016	2015
Tangible Capital Assets					
Beginning of year	113,920,574	110,033,002	105,992,776	105,495,656	106,997,153
Purchases	3,741,562	8,843,074	8,475,428	4,377,018	2,591,444
Disposals	(56,856)	(993,760)	(692,810)	(138,630)	(452,124)
Amortization	(3,931,605)	(3,961,742)	(3,742,392)	(3,741,268)	(3,640,817)
End of year	<u>113,673,675</u>	<u>113,920,574</u>	<u>110,033,002</u>	<u>105,992,776</u>	<u>105,495,656</u>



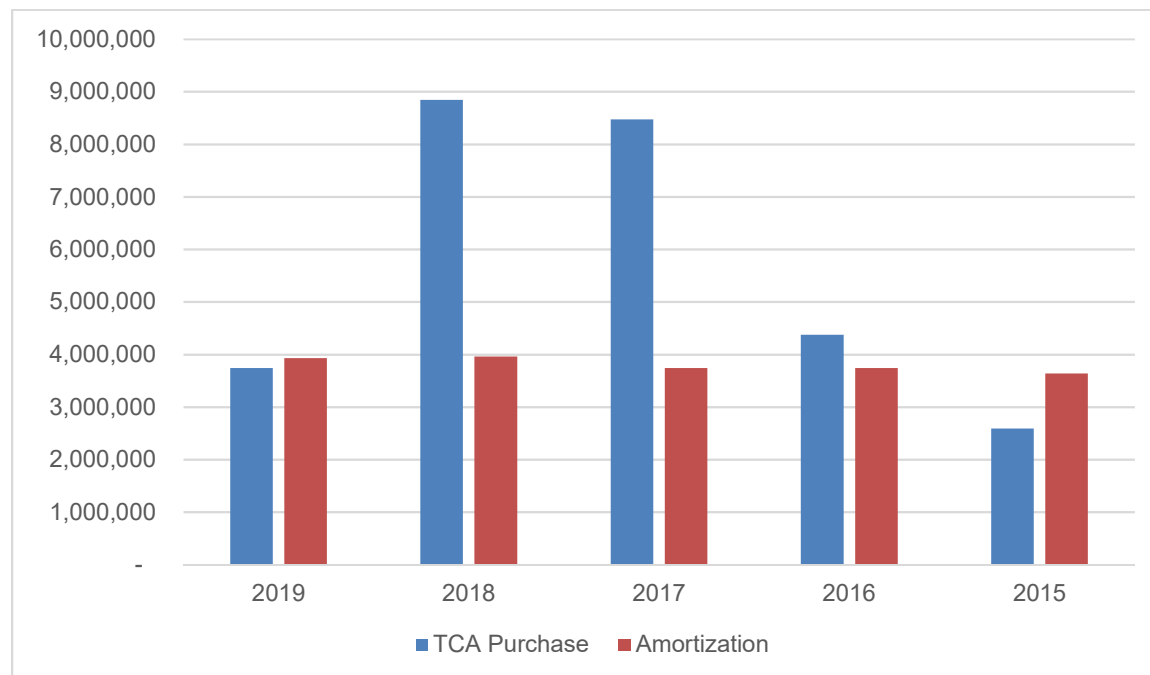
CAPITAL ASSET ANALYSIS - TCA FINANCIAL INDICATOR

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:

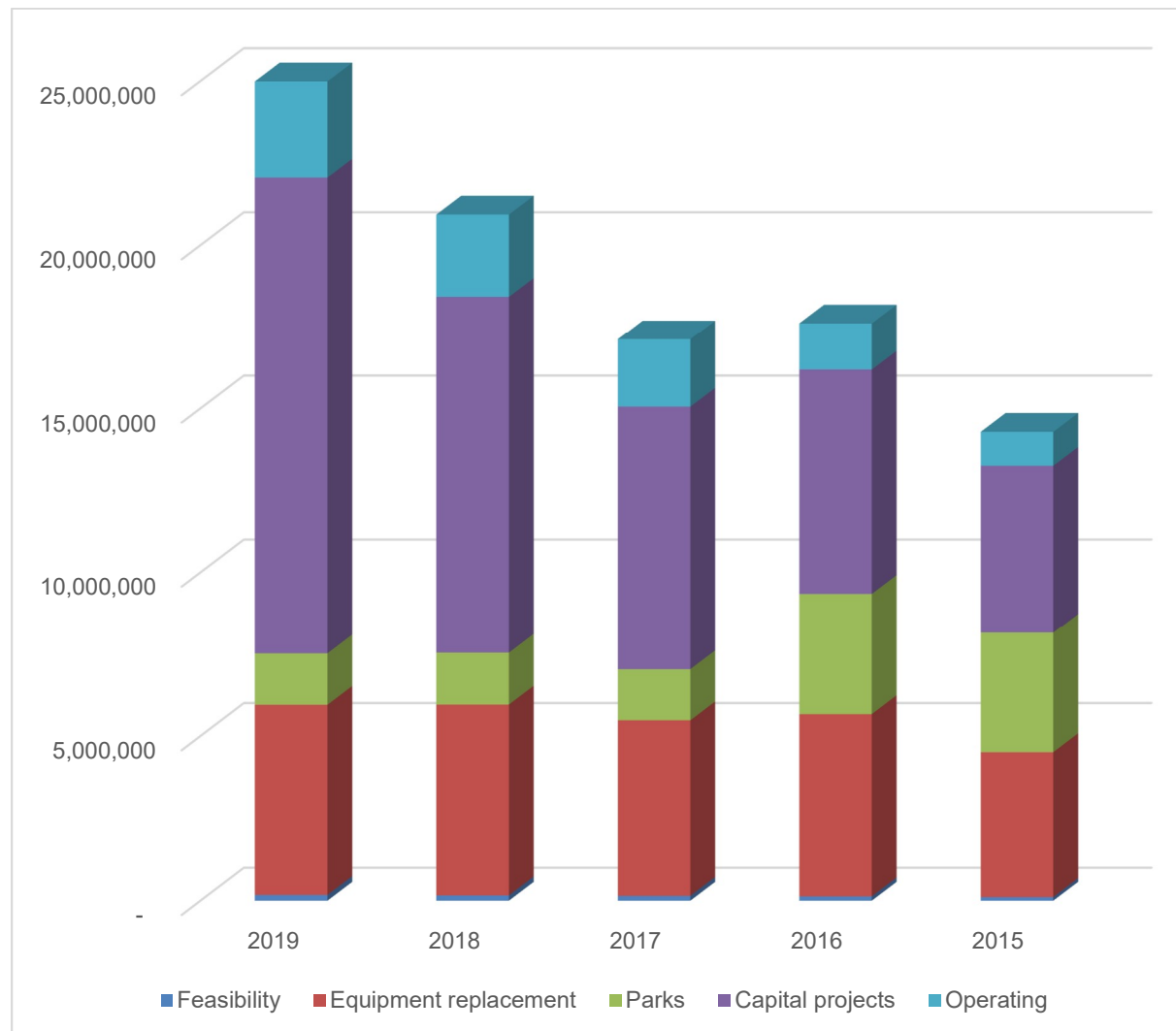
$$\text{Age of TCA Financial Indicator} = \frac{\text{Net Book Value of TCA}}{\text{Historical Cost of TCA}}$$

	2019	2018	2017	2016	2015
Buildings	44%	47%	50%	53%	57%
Sewer System	63%	65%	65%	68%	70%
Water System	72%	71%	71%	71%	71%
Fleet	33%	36%	40%	41%	45%
Miscellaneous	62%	64%	61%	54%	55%
Total	71%	72%	73%	73%	75%



RESERVE ANALYSIS

	2019	2018	2017	2016	2015
Statutory Reserve Funds					
Feasibility	173,054	160,486	148,105	131,423	110,257
Equipment replacement	5,776,461	5,795,961	5,330,103	5,535,755	4,399,977
Parks	1,566,933	1,579,995	1,554,986	3,677,311	3,639,791
Capital projects	14,544,378	10,886,850	8,021,053	6,842,541	5,101,622
Operating	2,927,803	2,509,646	2,062,040	1,422,339	1,032,859
	24,988,629	20,932,938	17,116,287	17,609,369	14,284,506



APPENDIX B: INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

To the Directors of the Regional District of Central Okanagan

Opinion

We have audited the financial statements of the Regional District of Central Okanagan (the "Regional District"), which comprise the statement of financial position as at December 31, 2019, and the statements of operations, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Regional District as at December 31, 2019, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Regional District in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unaudited Information

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information included in the annual report or the information included in exhibits 1 through 28 of the Regional District's financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Regional District's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Regional District or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Regional District's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Regional District's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Regional District's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Regional District to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants

Kelowna, British Columbia
July 9, 2020