

To: Fraser Valley Regional District Board
From: Beth Klein, Controller/Deputy CFO

Date: 2024-04-25
File No: 1880-25

Subject: 2023 Fraser Valley Regional District Financial Statements - Audited

RECOMMENDATION

THAT the Fraser Valley Regional District Board approve the 2023 Audited Financial Statements for the Fraser Valley Regional District.

BACKGROUND

Section 376 of the Local Government Act and Section 167 of the Community Charter require annual financial statements for the preceding year be presented and approved by the Board. Once approved, the financial statements are required to be submitted to the Inspector of Municipalities by May 15th. The Regional District submits the statements through an online portal called the Local Government Information System (LGIS).

The financial statements for the Fraser Valley Regional District (FVRD) have now been audited by **KPMG, the FVRD's appointed independent auditor**. **Representatives from** KPMG, along with Staff will be presenting the 2023 Financial Statements to the Board and reviewing the Audit Findings Report.

The FVRD's 2023 Audited Consolidated Financial Statements are attached to this report. Copies of the final version will be available for inspection by the public on the Regional District's website subsequent to the approval by the Board.

DISCUSSION

In 2023 staff made significant changes to **FVRD's** asset management records and financial reporting due to a complex, new accounting standard. Finance staff continued to improve processes while managing legislative requirements and increased capital project expenses. There was a shift in focus from stabilizing processes to supporting growth and assisting other departments through a decentralized environment. Operating efficiencies were at the forefront as a new Assistant Controller started with the FVRD mid-year. The finance team worked to ensure business continuity work continued to make room for new reporting requirements and resolve outstanding claims from the emergency operations that have occurred in past years.

Finance completed the financial year for 2023, with an operating budget of \$33M, investment income of nearly \$2M, and over \$18M of government grant funds recognized. These achievements are in

addition to the completion of the cross-departmental implementation of the Asset Retirement Obligations (ARO) standard.

Audit Findings

KPMG has confirmed, in their 2023 Audit Findings Report (AFR) attached, that the 2023 Financial Statements accurately reflect the financial position of the FVRD as at December 31, 2023. There was one audit finding requiring adjustments to the financial statements related to how the Growing Communities Fund (GCF) was recorded. In addition, there were two new accounting standards adopted in 2023: Financial Instruments and the ARO. Although the FVRD did not require any change to processes or recording due to the Financial Instrument standard, there was significant work throughout the last two years in preparation for the ARO standard.

Asset Retirement Obligation

Throughout the last two years, more heavily in 2023, finance staff have been working with consultants, consulting reports, the full management team, and many other staff members to gather asset information. The information gathered included expected useful life, hazardous materials testing, expected changes in asset function, and much more, all of what is required as proof of having a complete list for this standard. The standard requires organizations to calculate and record the extra cost of disposing of an asset at the end of its life, including depreciation. As an example, this could be **related to remediating asbestos or lead paint at the end of a building's life or decommissioning water infrastructure.**

As FVRD staff have been working towards updating the overall Asset Management records and processes, finance staff have been leveraging this work to complete the transition to the new accounting standard, ARO. As with most of the FVRD financial records, the asset listing report requires processes in place for the entire organization in order to **meet an auditor's test of** ensuring all obligations are recorded. The FVRD departments managing the assets are the business experts and have comprehensive information that is not typically managed by finance, as it has not been required for financial reporting requirements.

After gathering the necessary information from the business experts, consulting reports and FVRD records on leases, finance staff worked with a consultant to consolidate the information and create the calculation used for financial records. Further to this, finance staff participated in webinars and used conferences to obtain shared learnings from other local governments on how to record the calculation in our financial records and reports. Staff are pleased with the positive audit of this significant new accounting standard.

Staff will be continuing the FVRD Asset Management journey, and the ARO standard will now be part of the financial records process each year.

Financial Statement Highlights

In the attached Financial Statement package, there are four consolidated financial statements, with the required notes further detailing line items.

Financial Position – Financial Assets

At December 31st, 2023 the FVRD's Financial Assets increased \$17.6M overall from 2022, as shown on Page 5 of the Financial Statements.

Staff continue to manage the FVRD's investment portfolio and cash flow ensuring to stagger maturities and leverage the continued high-interest rates while there is a required need for liquidity for large ongoing capital projects. In 2023, \$6M of additional investments were secured, and an additional \$7M of increased cash was kept liquid, as shown in Note 2, which will be re-evaluated for longer-term investments.

Accounts Receivable increased \$3M from 2022 as staff made claims to collect approved grant funds and Disaster Financial Assistance (DFA) claims on approved projects from the 2021 Atmospheric River. Finally, there was a significant increase in the Investment in Partnership with the Cascade Lower Canyon Community Forest (CLCCF) for 2023, as the CLCCF focused on leveraging an active logging market in 2022.

Financial Position – Financial Liabilities

Overall, Financial Liabilities increased \$4.6M and has a balance of almost \$40M at the end of 2023.

The significant change from 2022 was due to increases in Trades Payable and adoption of the new ARO standard; however, these accounts represent the lower values in overall liabilities. Payables typically fluctuate due to timing of ongoing projects and the invoices subsequently being paid. Trades Payable experienced an increase of \$2.4M due to the timing of construction projects at year end. Increases due to the ARO standard adoption relate to both a shift from Landfill Retirement Costs into a new line called Asset Retirement Obligation and an increase to include other retirement obligations. In previous years, the FVRD was only required to record the cost of closing the landfill. The landfill now falls under the ARO standard and therefore, is part of the \$2M of overall costs of ARO in 2023.

The FVRD continues to pay down existing debt and, in addition, took out a new debt issue on behalf of the District of Hope in 2023. Notes 7 and 8 provide a breakdown of issued debt by organization, including projected costs for the next 5 years. This note only includes debt that has been formally issued by the Municipal Finance Authority (MFA) as at December 31, 2023. At year-end, the following debt balances exist:

Regional District debt balances at December 31, 2023: \$7.2M

Member Municipality debt balances at December 31, 2023: \$54.4M

The most significant portion of Financial Liabilities is related to grant funds the FVRD holds but has not yet spent. The Deferred Revenue account continues to increase due to increased grant funds being received or carried over and not yet spent from prior years. At December 31, 2023, there were sixteen grants (ten new grants in 2023) with funds the FVRD has received (but has not spent in full), totalling \$12.8M. In addition, the FVRD had an ending balance of \$7.8M of Community Works Funds (CWF) it manages for future and ongoing projects.

Financial Position – Non-Financial Assets

Tangible Capital Assets had a significant increase from 2022 which included \$10M of new capital assets acquired. Out of the \$10M in new assets, \$1.5M was contributed by developers which were required due to subdivision requirements. \$6.3M was added through Assets still under Construction and 90% of those were from the Cultus Lake WWTP and the Hope Heat Exchange project. The remainder were spread out across multiple service areas.

Each year, capital assets depreciate and continue to be managed until they are disposed of or decommissioned and the monitoring requirements are met. In the attached Audit Findings Report, KPMG provides a trend analysis (page 32) to depict the overall decline relating to aging infrastructure.

At the end of 2023, Tangible Capital Assets had a net value of \$61M overall and are categorized into 4 sub-categories within each service area.

Financial Activities – Revenue

Revenues in 2023 increased by almost \$21M from 2022. In the Audit Finding Report, KPMG categorizes the revenue included in the Statement of Financial Activities as follows:

Requisition Revenue = Member Requisitions

Own Source Revenue = Utility User Fees & Sales of Service

Third-Party Revenue = Government Grants, Other, Interest, and Income from Partnerships

Requisition Revenue aligns with budgeted taxation and makes up 39.5% of total revenues in 2023.

Own Source Revenue saw an increase in utility user fees due to the requirement of funding for future replacement of aging infrastructure and to partially fund the WWTP debt. In addition, there was a significant increase to Sales of Service due to developer contributions received in physical assets and funds for various subdivisions and projects.

As shown in the AFR report from KPMG, the greatest growth in revenue was in third-party revenues, increasing 272.7% from 2022. Third-party revenue makes up 42.8% of total revenues and includes Government Grants, Other revenue such as E911 Call Answer Levy or Community Works Fund, Investment Interest, and Income from Partnerships with the CLCCF.

In 2023, as staff continue to look for ways to reduce taxpayer burden, the FVRD successfully managed over 50 different grants or provincial claims, such as Emergency Operation Centre or Wildfire claims,

which were shown as recognized revenue throughout the year. Some of these grants receive funds in-advance of spending, some based on claims in the future, and some deducted directly from invoices, such as BC Transit. Third-party funding increased by \$17M from 2022, GCF making up \$8.8M of that total. The second largest amount was for \$3M; which represents the portion of the Cultus Lake WWTP grant recognized in 2023.

Financial Activities – Expenses

Expenses listed on the Consolidated Statement of Financial Activities are based on services provided. For a further breakdown, Note 19 provides a segmented statement and attached for reference is the guiding document used for budget orientation.

Expenses in 2023 were within budget values, being less than 1% difference, overall. Although Protective Services makes up the highest percentage of expenses, this category saw a slight decrease from 2022. As shown in the trend analysis on the AFR, over 5 years, the greatest growth in expenses was seen in Environmental Development Services, averaging 6.3% per year. This category includes Regional and Electoral Area Planning and Mapping.

Staff managing the FVRD's services continued to compete with inflation rates and an increasingly tough job market to continue providing program support. With benefits costs increasing, increased fire services, and an attempt to close the vacancy rate for staffing, there was an increase in salaries and benefits compared to 2022.

COST

There are no further costs associated with the report's recommendation. The costs of the annual external financial audit are within budget.

CONCLUSION

The 2023 Financial Statements are being presented to the Fraser Valley Regional District's Board for approval following completion of a comprehensive audit by KPMG.

COMMENTS BY:

Kelly Lownsbrough, Director of Corporate Services/CFO: Reviewed and supported.

Jennifer Kinneman, Chief Administrative Officer: Reviewed and supported.