



Fraser Valley Regional District

**Audit Findings Report
For year ended December 31, 2017**

KPMG LLP

April 24, 2018

kpmg.ca/audit

The contacts at KPMG in connection with this report are:

SEAN REID, CPA, CA

Engagement Partner

Tel: 604-793-4708

srreid@kpmg.ca

STEVE FEHALUER, CPA, CA

Audit Senior Manager

Tel: 604-854-2227

sfehlaue@kpmg.ca

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Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Board of Directors, in your review of the results of our audit of:

- (1) Consolidated financial statements of the Fraser Valley Regional District ("Regional District") as at and for the year ended December 31, 2017, and
- (2) Consolidated financial statements of the Fraser Valley Regional Hospital District ("Hospital District") as at and for the year ended December 31, 2017.

Audit materiality

FRASER VALLEY REGIONAL DISTRICT

Materiality was determined based on the total expenses of the Regional District. For the year ended December 31, 2017 we determined materiality to be \$575,000.

FRASER VALLEY REGIONAL HOSPITAL DISTRICT

Materiality was determined based on the total revenues of the Hospital District. For the year ended December 31, 2017 we determined materiality to be \$342,000.

Adjustments and differences

We identified adjustment that were communicated to management and subsequently corrected in the consolidated financial statements.

We did not identify differences that remain uncorrected.

See page 12.

Audit risks and results

We have not identified any significant financial reporting risks. However, as a part of our audit, we identified other areas of audit focus as follows:

FRASER VALLEY REGIONAL DISTRICT

- Deferred revenues
- Capital asset additions
- Investments
- Chaumox Landfill asset retirement obligation

FRASER VALLEY REGIONAL HOSPITAL DISTRICT

- Investments

*This Audit Findings Report should not be used for any other purpose or by anyone other than the Board of Directors. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

We have identified other observations with respect to the Chaumox Landfill asset retirement obligation.

See page 13.

Significant accounting policies and practices

We have identified two initial selections of accounting policies in relation to the acquisition of the Vedder River Campground and to the commencement of operations of the 9005 Mary Street parking lot respectively.

See page 11.

Independence

We confirm that we are independent with respect to the Districts within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation from January 1, 2017 to the date of this report.

Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Obtaining signed management representation letters;
- Completing our discussions with the Board; and
- Obtaining evidence of the Board's approval of the consolidated financial statements.

We will update the Board on significant matters arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

How we deliver audit quality



Materiality

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

The first step is the determination of the amounts used for planning purposes as follows:

Materiality determination	Comments	Amount / Percentage
FRASER VALLEY REGIONAL DISTRICT		
Metrics	Relevant metrics included net assets, total revenues, and total expenses.	
Benchmark	Based on total expenses. This benchmark is consistent with the prior year.	\$22,061,000
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the consolidated financial statements. The corresponding amount for the prior year's audit was \$550,000.	\$575,000
% of Benchmark	The corresponding percentage for the prior year's audit was 2.9%.	2.8%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was \$412,500.	\$430,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$27,500.	\$28,000

Materiality (continued)

Materiality determination	Comments	Amount / Percentage
FRASER VALLEY REGIONAL HOSPITAL DISTRICT		
Metrics	Relevant metrics included net assets, total revenues, and total expenses.	
Benchmark	Based on total revenues. This benchmark is consistent with the prior year.	\$11,483,000
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$346,000.	\$342,000
% of Benchmark	The corresponding percentage for the prior year's audit was 3.0%.	3.0%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was \$259,000.	\$256,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$17,300.	\$17,000

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate. Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

Areas of focus

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls. We highlight our findings in respect of areas of audit focus.

Area of focus	Why	Our response and significant findings
Deferred Revenues REGIONAL DISTRICT	Public Sector Accounting Standards requires that government grants without eligibility criteria, stipulations, or obligations must be recognized as revenue when the transfer is authorized. The Regional District received and deferred a material amount of government grants in 2017. Development levies and deferred revenues have increased \$11.3 million compared to 2016.	The Regional District received a total of \$10.5 million in grants from the BC Provincial Government for the Nicomen Island Dike Widening Project and Nicomen Island Drainage Improvement Project. The funding was received in 2017, but the project start date has been postponed. The full \$10.5 million in grant revenue has been deferred. KPMG Comments <ul style="list-style-type: none"> • We confirmed the amount of funding through inspection of the funding agreements. • We inspected the agreement to confirm appropriateness of the deferral of revenues. • No issues were noted from our testing results.
Capital Asset Additions REGIONAL DISTRICT	The Regional District has acquired and constructed a material amount of capital assets in 2017. Capital assets have increased \$5.0 million compared to 2016.	The Regional District continues to build and acquire assets to meet their strategic priorities to better provide services that meet the needs of the communities in the District. KPMG Comments <ul style="list-style-type: none"> • We obtained and inspected support for capital asset additions to confirm their cost and classification. • We inspected the agreement to confirm appropriateness of deferral of grant revenues. • See page Appendix 2 for adjustments made as a result of our audit procedures.

Areas of focus (continued)

Area of focus	Why	Our response and significant findings
<p>Investments</p> <p>REGIONAL DISTRICT</p>	<p>Investments in bonds and GICs have increased \$7.8 million compared to 2016.</p>	<p>The Regional District continues to invest in bonds and GICs.</p> <p>KPMG Comments</p> <ul style="list-style-type: none"> • We confirmed the value of investments at December 31, 2017 with the Regional District's investment advisors at Raymond James and National Bank Financial Wealth Management. • We performed substantive analytical procedures over investment income. • No issues were noted from our testing results.
<p>Government Business Partnership</p> <p>REGIONAL DISTRICT</p>	<p>Public Sector Accounting Standards requires investments in Government Business Partnerships to be accounted for using the modified equity method using the Regional District's share of the partnership.</p>	<p>The Regional District is one of three partners in the Cascade Lower Canyon Community Forest Partnership ("Partnership").</p> <p>KPMG Comments</p> <ul style="list-style-type: none"> • We obtained the March 31, 2017 audited financial statements of the Partnership and recalculated the value of the District's 1/3 interest and share of loss. • No issues were noted from our testing results.

Areas of focus (continued) Area of focus	Why	Our response and significant findings
Chaumox Landfill Liability REGIONAL DISTRICT	Public Sector Accounting Standards requires that financial statements should recognized a liability for closure and post-closure costs for all landfill sites operated by the District.	The Regional District operates the Chaumox Landfill in Boston Bar. KPMG Comments <ul style="list-style-type: none"> • We obtained and inspected the 2012 engineering report to confirm the estimated current and future closure and post-closure costs. • We recalculated the liability to confirm the amounts presented on the Consolidated Statement of Financial Position and disclosed in the notes to the consolidated financial statements. • No differences were noted from our testing results, however KPMG recommends the District obtain an updated report to re-calculate the liability. We understand the District has engaged a specialist to prepare a new report, and that this is currently underway. • See page 13 for our recommendation.
Investments HOSPITAL DISTRICT	Investments in bonds and GICs have increased \$5.5 million compared to 2016.	The Hospital District continues to invest in bonds and GICs. KPMG Comments <ul style="list-style-type: none"> • We confirmed the value of the portfolio at December 31, 2017 with the Hospital District's investment advisors at Raymond James and National Bank Wealth Management. • We performed substantive analytical procedures over investment income. • No issues were noted from our testing results.

Significant accounting policies and practices

Significant accounting policies and practices are disclosed in notes to the consolidated financial statements.

Initial selections

The following new accounting policies and practices were selected and applied during the period:

FRASER VALLEY REGIONAL DISTRICT

When the Regional District purchased the Vedder River Campground, the acquisition included the purchase of the License of Occupation with the Crown – an intangible asset.

Management has determined that the intangible asset will be depreciated over its useful life and has estimated the useful life to be 20 years, which includes the initial term of the License and one renewal term.

We consider the selection and application of this accounting policy to be appropriate.

FRASER VALLEY REGIONAL HOSPITAL DISTRICT

The 9005 Mary Street parking lot has commenced operations; assets in use should be amortized.

Management has determined that the asset will be amortized over its useful life and has estimated the useful life of the parking lot to be 20 years.

We consider the selection and application of this accounting policy to be appropriate.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences. Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the consolidated financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.

Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

Significant deficiencies

No significant deficiencies in ICFR were identified.

Other observations

Observation and implication:

It was identified that the engineering report used to calculate the asset retirement obligation related to the Chaumox Landfill was issued in 2012. Using a dated report to estimate the asset retirement obligation could lead to inaccurate reporting of the associated liability.

Recommendation:

Although there is no material effect on the Regional District's December 31, 2017 consolidated financial statements, we recommend that an updated report be performed by a third party specialist in 2018 and that this updated report be used to calculate the asset retirement obligation in upcoming years. Further, we recommend that the engineering report be updated every three to four years to ensure the liability is appropriately measured.

It is our understanding that the Regional District has engaged an engineering firm to provide a new report and that updated report will be available for the December 31, 2018 financial reporting date.

Appendices

Appendix 1: Required communications

Appendix 2: Management representation letter

Appendix 3: Financial statement trend analysis

Appendix 4: Value for fees

Appendix 5: Audit Quality and Risk Management

Appendix 6: Background and professional standards

Appendix 7: KPMG's Cyber Security Protocol

Appendix 8: Current developments

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Required inquiries** – professional standards require that we obtain your views on risk of fraud. We make similar inquiries to management as part of our planning process.
- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft consolidated financial statements
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to the Board. The management representation letter is attached.
- **Independence** – In accordance with professional standards, we have confirmed our independence on page 4.

Appendix 2: Management representation letters

FRASER VALLEY REGIONAL DISTRICT
45950 CHEAM AVENUE
CHILLIWACK, BC V2P 1N6

KPMG LLP
200-9123 Mary Street
Chilliwack, BC V2P 4H7
Canada

April 24, 2018

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of Fraser Valley Regional District ("the Entity") as at and for the period ended December 31, 2017.

GENERAL:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

RESPONSIBILITIES:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated February 17, 2017, including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and providing you with access to such relevant information. All significant board and committee actions are included in the summaries.
 - c) providing you with additional information that you may request from us for the purpose of the engagement.
 - d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
 - e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

- f) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.
- h) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the financial statements and involves: management, employees who have significant roles in internal control over financial reporting, or others, where the fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

GOING CONCERN:

- 9) We have provided you with all relevant information relevant to the use of the going concern assumption in the financial statements.

MISSTATEMENTS:

- 10) We approve the corrected misstatements identified by you during the audit described in Attachment II.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 11) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

By: Mr. Mike Veenbaas, Director of Financial Services / CFO

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Public Sector Accounting Standards *related party* is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

In accordance with Public Sector Accounting Standards a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. 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.

Attachment II

Summary of corrected misstatements

#	Account #	Account Name	Description / Identified During	Error Type	Amount	Income Effect DR (CR)	Impact on financial statement captions - DR(CR)										Statement of Comprehensive Income - Debit (Credit)	Recorded by
							Balance Sheet Effect					Cash Flow Effect						
							Equity at period end	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Operating Activities	Investing Activities	Financing Activities				
					DR (CR)	Income effect	\$	\$	\$	\$	\$	\$	\$	\$	\$			
1	12.01.01	Land	To adjust purchase of intangible asset and record amortization of intangible assets for the year.	Factual	(608,500)				(608,500)									
	12.03.01	Intangibles			608,500					608,500								
	12.03.11	Acc. Amortization - Intangibles			(30,425)					(30,425)								
	56.01	Amortization of intangibles			30,425				30,425									
Total effect of corrected misstatements								30,425		(30,425)								

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April 24, 2018

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We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Fraser Valley Regional Hospital District ("the Entity") as at and for the period ended December 31, 2017.

GENERAL:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

RESPONSIBILITIES:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated February 17, 2017, including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and providing you with access to such relevant information. All significant board and committee actions are included in the summaries.
 - c) providing you with additional information that you may request from us for the purpose of the engagement.
 - d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
 - e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
 - f) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

- g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.
- h) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the financial statements and involves: management, employees who have significant roles in internal control over financial reporting, or others, where the fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 5) We have disclosed to you the identity of the Entity's related parties.
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- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

GOING CONCERN:

- 9) We have provided you with all relevant information relevant to the use of the going concern assumption in the financial statements.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 10) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

By: Mr. Mike Veenbaas, Director of Financial Services / CFO

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RELATED PARTIES

In accordance with Public Sector Accounting Standards *related party* is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence.

In accordance with Public Sector Accounting Standards a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. 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.

Appendix 3: Financial statement trend analysis

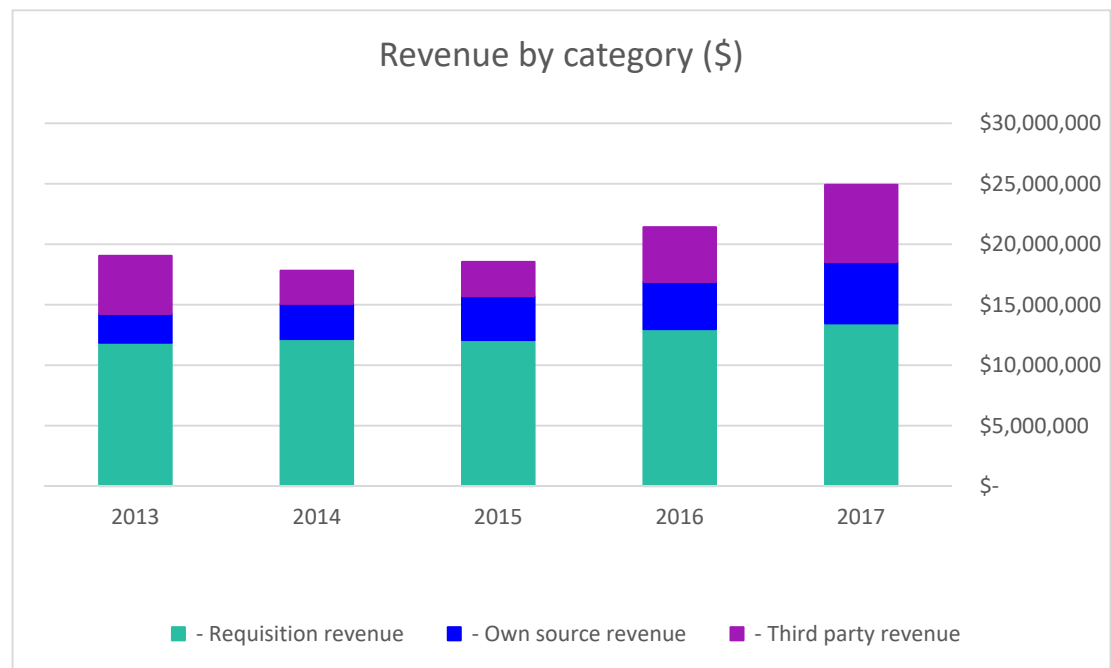
FRASER VALLEY REGIONAL DISTRICT – 5 year trend analysis

Overall revenues have increased 17% compared to 2016 and have increased an average of 7% per year.

The greatest growth in revenues was seen in third-party revenues which includes investment income, government grants, developer contributions, and other third party contributions – these revenues have increased 19% from 2016 with an average increase of 18%. Third party revenues make up 26% of total revenues (2016 – 19%).

Own-source revenues make up 20% of total revenues (2016 – 19%) and have increased by an average of 12%. This includes utility service fees and sales of services.

Taxation revenues make up 54% of total revenues (2016 – 62%), and has increased an average of 2.0% per year.



FRASER VALLEY REGIONAL DISTRICT – 5 year trend analysis (continued)

Total expenses (excluding amortization and depreciation) have increased 15% over the prior year (2016 – 4%) with an average increase of 8% per year.

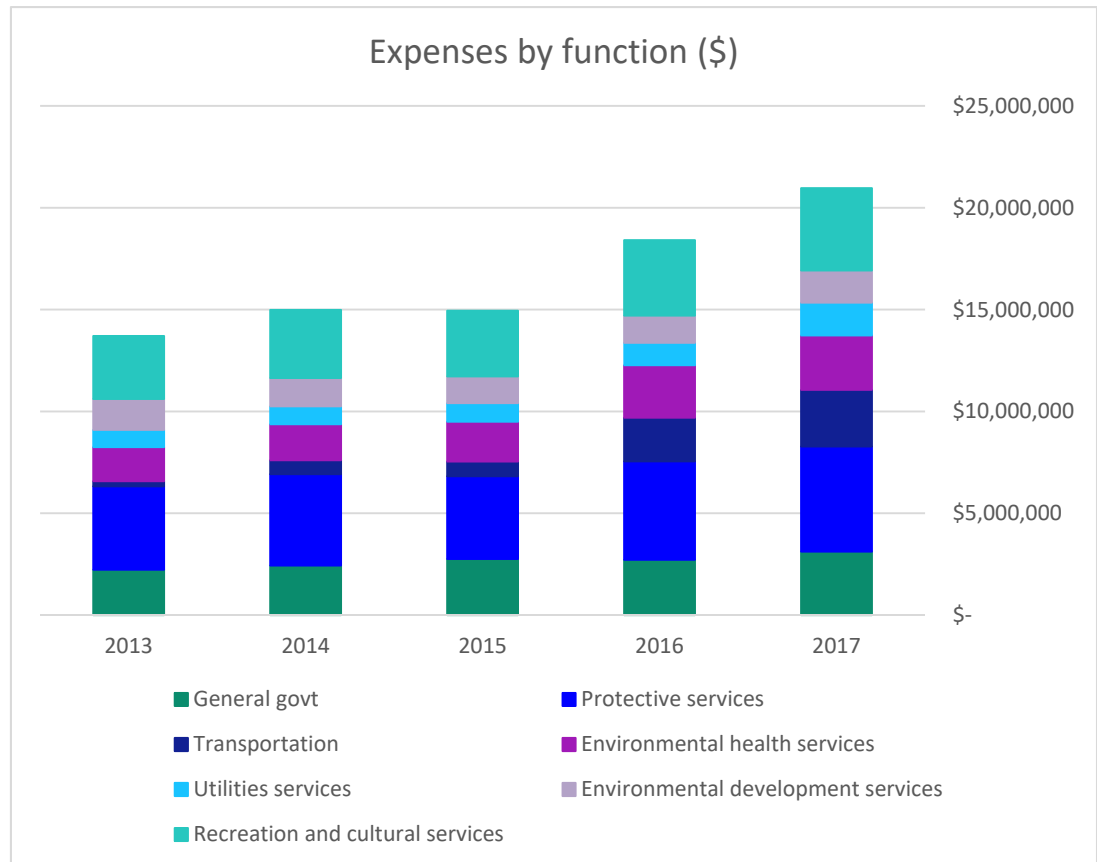
The greatest average growth in expenses was seen in transportation services. Transportation make up 13% of total expenses (2016 – 14%) and have increased an average of 33% per year.

Utilities services make up 7% of total expenses (2016 – 6%) and has increased an average of 13% per year.

Environmental health services make up 12% of total expenses (2016 – 12%) and have increased an average of 9% per year.

General government services make up 14% (2016 – 15%) of total expenses and have increased an average of 5% per year.

Protective, environmental development, and recreational and cultural services have experienced less growth, with average growth rates of 3%, 3%, and 4% per year, respectively.

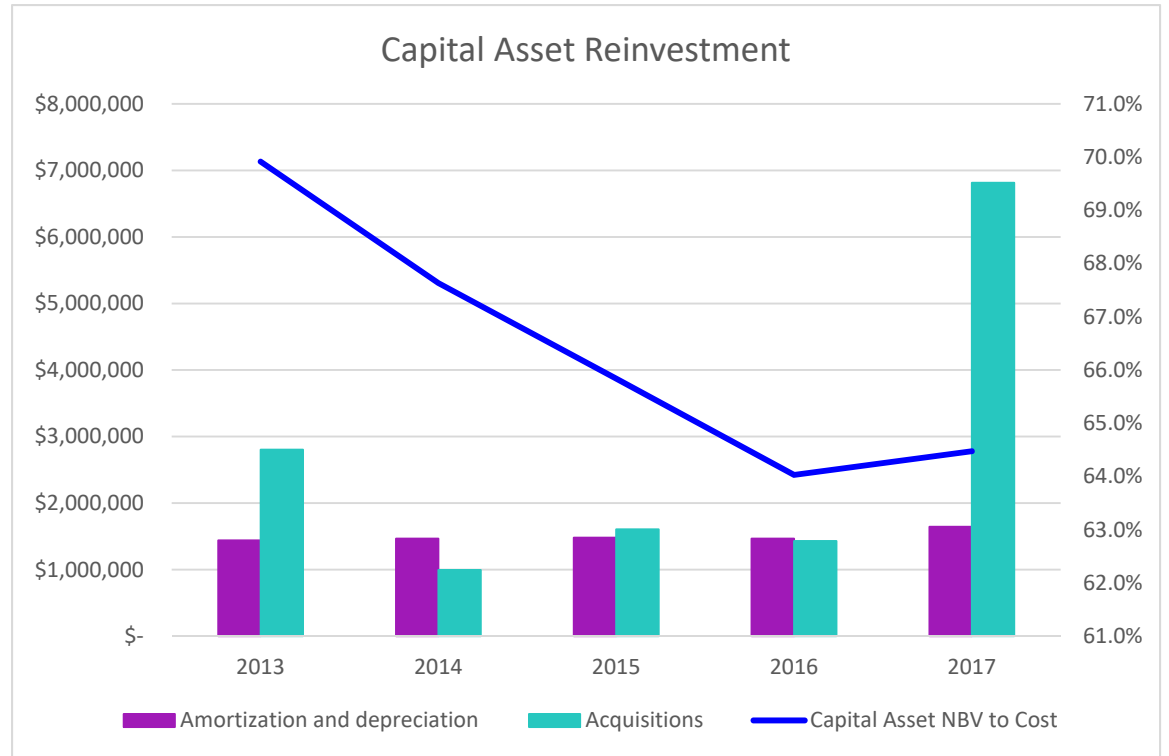


FRASER VALLEY REGIONAL DISTRICT – 5 year trend analysis (continued)

Capital asset net book value to cost is a metric that can be used to analyse the District’s infrastructure. Total capital asset NBV as a percentage of cost has remained consistent with 2016 at around 64%. The decline in this metric from 2013 to 2016 indicated aging infrastructure, and the plateau in 2017 is a result of the District’s significant investment in capital assets during the year.

Total annual acquisition of capital assets has increased to nearly \$7.0 million. This is a significant increase over prior years where annual capital asset acquisition averaged about \$1.7 million per year. \$4.8 million of the acquisitions in 2017 remain in assets under construction at year end.

Amortization and depreciation has remained consistent at approximately \$1.5 million per year but can be expected to increase as the District acquires and constructs more capital assets and invests in infrastructure.

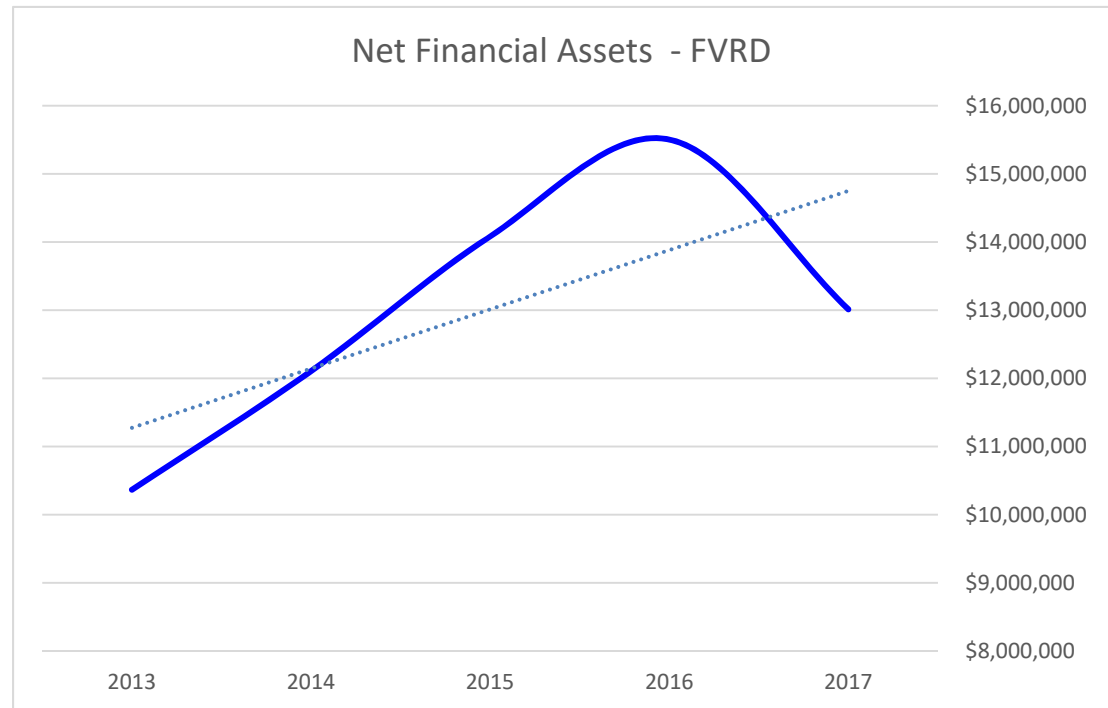


FRASER VALLEY REGIONAL DISTRICT – 5 year trend analysis (continued)

Net financial assets is a measurement of the available financial resources that the Regional District has to finance future operations.

On average, net financial assets has increased at a rate of 4.7% per year, representing an accumulation of financial assets and unspent revenues.

In the current year, net financial assets has decreased 16% from 2016. This is a result of the Regional District's significant investment in capital assets funded from their own resources.

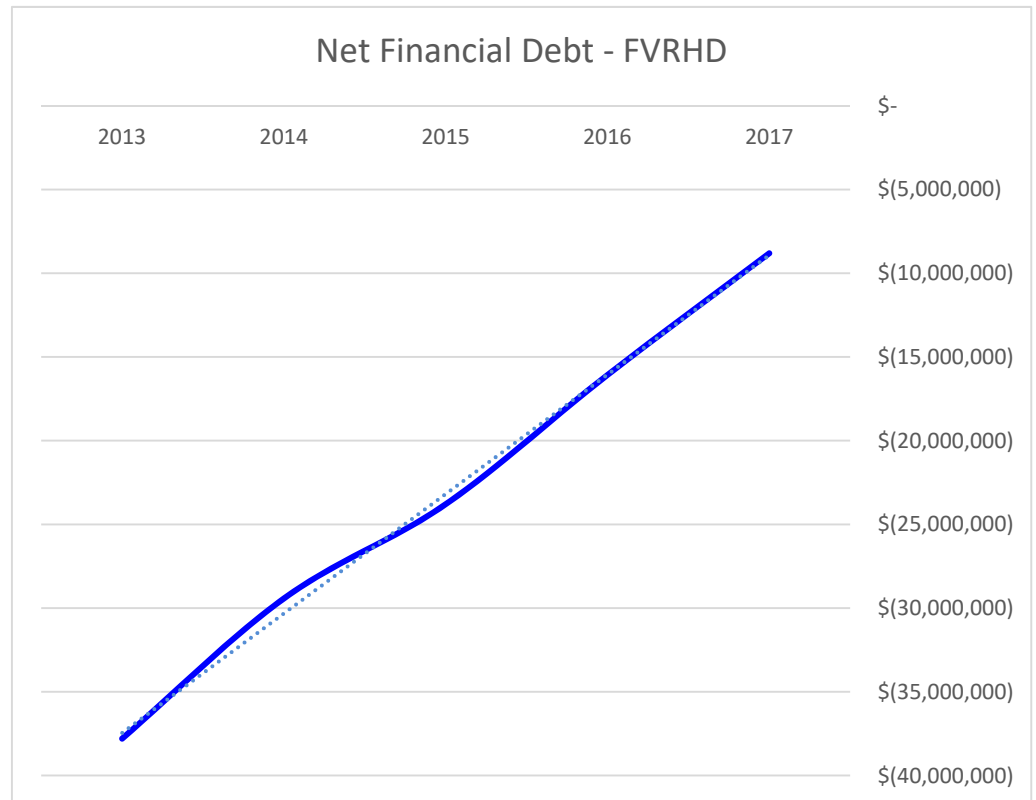


FRASER VALLEY REGIONAL HOSPITAL DISTRICT – 5 year trend analysis

Net financial debt is a measurement of the net indebtedness that the Hospital District is carrying from period-to-period.

The net financial debt has been decreasing at an average rate of 25.3% per year with a decrease of 45% when compared to 2016. This represents an accumulation of financial assets and paying down of indebtedness. Specifically, investments have increased \$5.5 million and debenture debt has decreased \$2.9 million compared to 2016.

We note that FVRHD is able to reduce this debt from future requisitions.



Appendix 4: Value for fees

The Value of our Audit Services

We recognize that the primary objective of our engagement is the completion of the audit of the consolidated financial statements in accordance with professional standards. We also believe that our role as external auditor of the District and the access to information and people in conjunction with our audit procedures, place us in a position to provide other forms of value. We know that you expect this of us.

We understand your expectations. To facilitate a discussion (either in the upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhanced the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit.

We welcome your feedback.

- Extensive industry experience on our audit team – as you have experienced, the senior members of our team have extensive experience in audits of organizations in the public sector. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you.
- Current development update sessions – we organize seminars for our clients on current developments on financial reporting and other matters that are likely to be significant to the District and your team. These sessions will assist the District in proactively responding to / addressing financial reporting and regulatory changes.
- Involvement of specialists – Our audit team is supported by KPMG specialists in CRA compliance and information risk management. We expect each of these specialists to provide insights and observations as a result of their audit support processes.

Appendix 5: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources page](#) for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
 - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 6: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited consolidated financial statements

We are required by our professional standards to read only documents containing or referring to audited consolidated financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited consolidated financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the consolidated financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

Appendix 7: KPMG's Cyber Security Protocol

This summary is intended to provide management and the Board with some insight into KPMG's strategies and procedures regarding our cyber defence.

KPMG Global

KPMG Global provides managed security services for member firms which includes 24x7 monitoring and alerting services to identify potential attacks on our environment. We use a series of centrally managed firewalls among our network of member firms to identify and address potential attacks to member firms and to prevent attacks from spreading between member firms. This approach was in place during the Wanna Cry outbreak and was a critical element in our successful defence against that incident.

KPMG Global has also implemented enhanced email protection to address malware and attacks through email and we have implemented automated vulnerability detection services. This service scans equipment that is exposed to the Internet and identifies known vulnerabilities on a real-time basis. "Good housekeeping" is a central tenet of our approach and we continue to focus on known vulnerabilities and patching.

KPMG Global believes the cloud represents a secure environment when appropriately configured and monitored as a platform to deliver services. Our approach to secure the cloud includes deploying full-time, dedicated security and privacy resources, integrating the cloud platform into our managed security services to promote "good housekeeping," and deploying a continuous monitoring plan for each of the cloud platforms that we deploy to member firms and to our clients.

KPMG Global has invested heavily in enhancing the security of our environment, evidenced by the introduction of our Global Security Operations Centre, managed services and other enhancements to our cyber defence.

KPMG Canada Approach

- KPMG Canada does not currently use Office 365 or Cloud based email.
- Cloud environments provide robust security when properly configured, with proper password management.
- The Canadian firm's email servers are hosted in Canada and controlled and managed by KPMG Canada.
- In compliance with our global security controls, we enforce strong passwords that need to be renewed at regular intervals.
- We also maintain a specific IT security platform for the maintenance and management of privileged accounts.
- KPMG's Information Security Program is built on a comprehensive framework of policies, standards, and processes based on ISO 27001:2013.
- KPMG's security requirements are set out in Global Information Security Policies and Standards (GISP).
- The Canadian firm undergoes an internal audit every year to ensure compliance to key security controls in the GISP.
- Every three years, the Canadian firm goes through a Compliance Review conducted by a team from non-Canadian member firms.

Appendix 8: Current developments

The following is a summary of the current developments that are relevant to the District:

Canadian public sector accounting standards

Standard	Summary and implications
Related Party Transactions and Inter-entity Transactions	<ul style="list-style-type: none"> — Two new Handbook sections were approved in December 2014, effective for fiscal years beginning on or after April 1, 2017. — Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity. — Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required. — Determining which related party transactions to disclose is a matter of judgment based on assessment of: <ul style="list-style-type: none"> • the terms and conditions underlying the transactions; • the financial significance of the transactions; • the relevance of the information; and • the need for the information to enable users' understanding of the consolidated financial statements and for making comparisons. — A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis. — Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

Standard	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none"> — A new standard is under development addressing the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. — PSAB recently released an Exposure Draft following the consideration of comments received in response to the previously released Statement of Principles. Responses are currently under deliberation. — The proposed ARO standard would require the District to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). — As a result of the proposed standard, the Regional District would have to <ul style="list-style-type: none"> ○ consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; ○ carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; and ○ begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues. — The Exposure Draft has a proposed effective date of April 1, 2021 for the standard.

Standard	Summary and implications
Employee future benefit obligations	<ul style="list-style-type: none"> — Given the complexity of issues involved and potential implications of any changes that may arise from review of PS3250 Retirement Benefits and PS3255 Post-Employment Benefits, PSAB is undertaking this project in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. — An Invitation to comment was issued in November 2016 and closed March 2017, seeking guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. Responses are currently under deliberation. — The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Revenue	<ul style="list-style-type: none"> — PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. — An Exposure Draft (ED) was issued in May 2017 seeking feedback from stakeholders. Responses are currently under deliberation. — The ED proposes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. — The ED proposes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue. — The new section would be applied retroactively with restatement for fiscal years beginning on or after April 1, 2021.
Assets, Contingent Assets and Contractual Rights	<ul style="list-style-type: none"> — Three new Handbook sections were approved in March 2015, effective for fiscal years beginning on or after April 1, 2017. — The intended outcome of the three new Handbook Sections is improved consistency and comparability. — The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity. — Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.

kpmg.ca/audit



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