



AGENDA ITEM

Presentation of the 2020 Audited Financial Statements

April 22, 2021

BACKGROUND

Representatives from BDO LLP, the County's appointed external auditors, will be before Council to present the draft 2020 audited financial statements as well as 1) final report to Council, 2) management letter, and 3) letter of representation.

In addition to presenting the statements and answering questions from Council in open session, Council will also have the option to go in camera with the auditors to discuss any items without Administration present.

A copy of the draft statements and support documents are attached.

ANALYSIS

The County's 2020 financial statements reflect the position of the County as of December 31, 2020 and have been prepared in accordance with the recommendations of the CPA's Public Sector Accounting Board Handbook.

Approved financial statements must be submitted to the Minister of Municipal Affairs by May 1st each year.

The auditors will provide a summary of the results included in the financial statements and in particular:

1. **Statement of Financial**, page 3. This statement shows the cumulative assets, liabilities, and surplus for the County as of December 31, 2020.
2. **Statement of Operations**, page 4. This statement shows the activities of the County for the calendar 2020 year. Activities funded through the annual operating budget are reflected in this statement.
3. **Statement of Change in Net Financial Assets**, page 5. This statement reflects the changes in liquid (financial) assets year over year and is a barometer for the County's financial health.
4. **Statement of Cash Flow**, page 6. This statement summarizes the sources and uses of cash by the County over the calendar 2020 year.

Included in the statements is also a series of notes. The notes provide further detail in support of the statements themselves. There are two notes that help the



reader reconcile the financial statements to the budget that is approved by County Council.

1. **Note 22** highlights the difference between the budget approved in May 2020 and the budget included in the financial statements. The biggest change is the inclusion of amortization of capital assets. Amortization must be reported in the financial statements as an expense, but there is no requirement to include this non-cash expense in the County's budget.
2. **Note 23** reconciles the operating surplus included on page 4 of the statements with the surplus as calculated using the County's budget. The difference again is related to the reporting of amortization and other non-cash expenses in the financial statements but not included in the County's budget.

Included in the package is the "Summary of Unadjusted Misstatements." These are items that are not recorded correctly, in the view of our auditors. The overall impact to the current year's surplus is understating expense for \$23,309. These amounts are immaterial; however, they are above BDO's trivial number. Below are explanations of the misstatements:

1. **Property Tax Receivable** – this amount represents property tax rolls that show a prepayment of 2021 taxes on their tax rolls. They are reported within the receivable account (negative asset) as opposed to a deferred revenue (positive liability). This is a presentation issue and has no impact on the net financial position of the County.
2. **Sick Leave Liability** – this is an estimate based on historical sick leave utilization and sensitivity analysis to project future sick leave costs. The analysis by the auditor suggest that the liability increased in 2020 due to increased sick leave usage - long-term sick leaves and Covid-19 health measures. Administration believes that these are one-time events, and the overall liability did not increase. Staff will review the liability requirement in 2021 and increase if this trend is more than a one- or two-year phenomenon. It should be noted that this liability is an impairment, and the County does not actually draw from this liability account.
3. **Sand excluded in inventory** – a new process of manufacturing sand occurred in 2020. Historically, raw material gravel inventory was used for crushing sand. In 2020, reject gravel material was used to produce sand. The costs associated with this process were expensed in 2020. The auditors believe this amount should have remained in inventory resulting in an over expense for 2020. A review of this accounting process will occur in 2021.
4. **Land taken as Security** – In 2014, land was taken from a developer as a form of a development security. The financial transaction was recorded incorrectly in 2014 and showed as a capital asset acquisition and a



corresponding contributed (non-cash) asset revenue. This meant the 2014 statements were misstated at the time. In 2020, the asset was disposed of a loss on disposal was recorded. This results in the misstatement in 2020 (as an over expense) but it does correct the original error. This item does not impact the 2020 cash surplus as the loss is also a non-cash expense.

The draft statements do not include Council's input on final allocation to reserves for 2020. Administration has prepared a separate report on this matter, and Council will have the opportunity to approve these final allocations.

Based on direction from Council on this matter, the statements would be amended to reflect these changes.

ALTERNATIVES

1. Approved the statements as presented. This assumes that Council has no changes to the draft statements as presented.
2. Approve changes to the statements based on Council's input on final transfers to reserves.

BUDGET IMPLICATIONS

The 2020 Budget includes \$56,720 for audit services and services for the triannual LAPP audit. The 2020 audit will be at budget.

LEGISLATIVE RESPONSIBILITIES

- CPA's Public Sector Accounting Handbook.
- Section 276(1) of the Municipal Government Act (MGA) states that each municipality must prepare annual financial statements of the municipality for the immediately preceding year.
- Section 281(1) of the MGA states that the auditor for the municipality must report to the Council on the annual financial statements and financial information return on the municipality.
- Section 281(3) of the MGA states that the auditor must separately report to the Council any improper or unauthorized transaction or non-compliance with this (the MGA) or another enactment or a bylaw that is noted during the course of an audit.



PUBLIC PARTICIPATION

Lacombe County sees the value in engaging and informing the public/stakeholders through a variety of mediums as outlined in the Policy AD(40): Public Participation Policy. The appropriate level of engagement for each public participation opportunity is selected on a project-to-project basis.

For this item, the following engagement will take place: Administration will inform the public of Council’s decision through Council Highlights. In addition, the approved statements will be published on the County’s website and in the County News.

STRATEGIC PLAN

The following elements of the County’s Strategic Plan are relevant to this issue:

Our Vision: “An attractive, balanced and progressive community”.

Our Mission: “Building a safe and vibrant community through leadership, innovation and the development of healthy relationships”.

Key Principles: 1) “Integrity: Honesty and Trustworthy”, and 2) “Accountability and Transparent for our decisions and for our actions”.

Key Success Measures – Financial/Viability: “Levels of our reserves – financial and physical” and “Success at working within budgets.”

Key Success Measures – Sustainability: “Current services are maintainable and provide benefits for the future, while minimizing negative impacts on the community.”

RECOMMENDATION

Following the meeting with BDO representatives, pass the following resolution:

That the 2020 Audited Financial Statements be approved as amended to include the 2020 surplus allocation to reserves.

PREPARED BY: Wendy Wiebe, Manager of Finance



REVIEWED BY: Michael Minchin, Director of Corporate Services



REVIEWED BY: Tim Timmons, County Manager

