

Financial Statements

**BRITISH COLUMBIA
ASSESSMENT AUTHORITY**

Year Ended December 31, 2018



BC ASSESSMENT

Management's Responsibility for the Financial Statements

The accompanying financial statements of British Columbia Assessment Authority (the "Authority") are the responsibility of the Authority's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for public sector organizations established by the Public Sector Accounting Board of the Chartered Professional Accountants. A summary of the significant accounting policies is described in note 2 of the accompanying notes to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Authority's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Audit and Risk Management Committee meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to the Board's approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by the Authority. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Authority's financial statements.

Andy Hoggarth
Vice President & Executive Financial
Officer

Jason Grant
President & Chief Executive Officer



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of British Columbia Assessment Authority, and
To the Minister of Municipal Affairs and Housing, Province of British Columbia

Opinion

We have audited the financial statements of British Columbia Assessment Authority (the Authority), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and accumulated surplus for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of British Columbia Assessment Authority as at December 31, 2018, and its results of operations, its changes in 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 "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Authority 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.

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

Management is responsible for the preparation and fair presentation of the 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 Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Authority'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 Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Authority 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.
- 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.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
April 16, 2019

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Statement of Financial Position

(Tabular amounts in thousands of dollars)

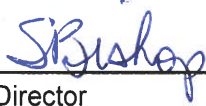
As at December 31, 2018

	2018	2017
Financial assets		
Cash and cash equivalents (note 3)	\$ 33,992	\$ 33,236
Accounts receivable	3,287	3,680
Due from provincial government (note 10)	195	416
	37,474	37,332
Liabilities		
Accounts payable and accrued liabilities	6,752	5,436
Due to provincial government (note 10)	702	1,226
Employee future benefits and other liabilities (note 4)	8,673	7,997
Lease inducements	2,443	2,622
Capital lease obligations	206	258
	18,776	17,539
Net financial assets	18,698	19,793
Non-financial assets		
Tangible capital assets (note 5)	25,815	19,923
Prepaid expenses	2,602	1,838
	28,417	21,761
Accumulated surplus (note 6)	\$ 47,115	\$ 41,554

Commitments (note 7)

Contractual rights (note 11)

Approved on behalf of the Board:



Director



Director

The accompanying notes are an integral part of these financial statements.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Statement of Operations and Accumulated Surplus

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

	Budget (note 9)	2018	2017
Revenues			
Tax levies	\$ 93,006	\$ 92,907	\$ 89,454
Data access services	4,109	5,316	4,200
Payments in lieu of taxes	950	892	922
First Nations	640	672	667
Investment income	350	532	340
Other	20	35	1,636
Gain on disposal of tangible capital assets	-	26	10
Total revenues	99,075	100,380	97,229
Expenses			
Employee expenses	65,364	63,616	63,218
Information technology	10,534	10,760	9,737
Office premises	6,467	6,178	6,278
Corporate and office	3,005	2,926	2,538
Amortization of tangible capital assets	3,693	3,483	3,236
Appeal costs (note 8)	4,035	3,795	3,682
Travel	1,768	1,782	1,612
Assessment notice printing and postage	2,209	2,279	2,258
Total expenses	97,075	94,819	92,559
Annual surplus	2,000	5,561	4,670
Accumulated surplus, beginning of year	41,554	41,554	36,884
Accumulated surplus, end of year (note 6)	\$ 43,554	\$ 47,115	\$ 41,554

The accompanying notes are an integral part of these financial statements.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Statement of Change in Net Financial Assets

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

	Budget (note 9)	2018	2017
Annual surplus	\$ 2,000	\$ 5,561	\$ 4,670
Acquisition of tangible capital assets	(15,277)	(9,375)	(7,306)
Acquisition of tangible capital assets through capital lease	-	-	(278)
Amortization of tangible capital assets	3,693	3,483	3,236
Gain on sale of tangible capital assets	-	(26)	(10)
Proceeds on sale of tangible capital assets	-	26	10
Change in tangible capital assets	(11,584)	(5,892)	(4,348)
Change in prepaid expenses	-	(764)	(531)
Change in net financial assets (debt)	(9,584)	(1,095)	(209)
Net financial assets, beginning of year	19,793	19,793	20,002
Net financial assets, end of year	\$ 10,209	\$ 18,698	\$ 19,793

The accompanying notes are an integral part of these financial statements.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Statement of Cash Flows

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

	2018	2017
Cash provided by (used in):		
Operating activities		
Annual surplus	\$ 5,561	\$ 4,670
Items not involving cash		
Amortization of tangible capital assets	3,483	3,236
Change in lease inducements	(179)	(568)
Gain on disposal of tangible capital assets	(26)	(10)
Change in employee benefits and other liabilities	676	146
Change in non-cash assets and liabilities		
Accounts receivable	393	(1,231)
Due from provincial government	221	(349)
Accounts payable and accrued liabilities	1,316	(2,867)
Due to provincial government	(524)	87
Prepaid expenses	(764)	(531)
Net change in cash from operating activities	10,157	2,583
Capital activities		
Proceeds on sale of tangible capital assets	26	10
Acquisition of tangible capital assets	(9,375)	(7,306)
Net change in cash from capital activities	(9,349)	(7,296)
Financing activities		
Principal payments on capital lease obligations	(52)	(20)
Net change in cash from financing activities	(52)	(20)
Net change in cash and cash equivalents	756	(4,733)
Cash and cash equivalents, beginning of year	33,236	37,969
Cash and cash equivalents, end of year	\$ 33,992	\$ 33,236

The accompanying notes are an integral part of these financial statements.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

1. Nature of Organization

British Columbia Assessment Authority (the "Authority") was established in 1974 as an independent Crown corporation by the Province of British Columbia by enactment of the *Assessment Authority Act*. The purpose of the Authority is to establish and maintain assessments that are uniform in the whole of the province in accordance with the *Assessment Authority Act*. The Authority is exempt from income taxes under the *Income Tax Act*.

2. Significant Accounting Policies

The financial statements of the Authority are prepared by management in accordance with Canadian Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounting Board (PSAB) standards. Significant accounting policies adopted by the Authority are as follows:

(a) Basis of accounting

The Authority follows the accrual method of accounting for revenues and expenses. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Financial instruments

Financial instruments are accounted for in accordance with Public Sector Accounting Standard 3450. Financial instruments consist of cash and cash equivalents, accounts receivable, due from provincial government, accounts payable and accrued liabilities, due to provincial government, all of which are reported at amortized cost.

(c) Revenues

Revenues are recorded in the period in which the transactions or events occurred that gave rise to the revenues.

Tax levies: The Authority, each year by by-law and subject to the prior approval of the Lieutenant Governor in Council, imposes and levies a tax upon all taxable real property in the province, but excluding property that is taxable for school purposes only by special Act. A copy of this by-law is forwarded to the Tax Collector of every municipality in the province, to the Surveyor of Taxes, Treaty First Nations, and Nisga'a Nations in order that the taxes levied will be placed on the tax rolls. The proceeds of the taxes levied and collected by the municipalities or the Minister of Finance constitutes the Authority's tax levy revenue. This revenue is recognized equally across all periods in the year.

Other revenue: Other revenue includes revenue from data access services, payments in lieu of taxes, contracts with First Nations, and other miscellaneous revenue. Data access revenue and other miscellaneous revenue are recognized when earned, while payments in lieu of taxes and First Nations revenue are recognized equally across all periods throughout the year.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

2. Significant Accounting Policies (continued)

(c) Revenues (continued)

Investment: Investment revenue includes interest on deposits in banks and earnings generated by short-term investments, and are reported as revenue in the period earned.

(d) Property leasehold improvement inducements

Lease inducements include cash payments, tenant improvement allowances, reduced rent and rent free periods. The lease inducement benefits are amortized on a straight-line basis over the term of the lease.

(e) Cash and cash equivalents

Cash equivalents include liquid investments that can be redeemed on demand without penalty. Investments are recorded at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments. When there has been a loss in value that is not a temporary decline in value, the respective investment is written down to recognize the loss.

(f) Employee future benefits

(i) The Authority and its employees make contributions to the Public Service Pension Plan. This plan is a multi-employer defined benefit plan providing a pension at retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. Inflation adjustments are contingent upon available funding. The joint trustee board of the plan determines the required plan contributions annually. These contributions are expensed as incurred.

(ii) Retirement and other future benefits are also available to the Authority's employees. The costs of these benefits are actuarially determined based on service and best estimates of retirement ages, expected future salary and wage increases, long-term inflation rates and discount rates. The obligations under these benefit plans are accrued based on projected benefits as the employees render services necessary to earn the future benefits. Actuarial gains and losses are amortized over the expected average remaining service life of the employees.

(g) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

2. Significant Accounting Policies (continued)

(h) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Buildings	40
Property assessment software	10 to 15
Furniture and equipment	5
Motor vehicles	5
Computer equipment	3 to 5
Enterprise, productivity and other software	3 to 5
Leasehold improvements	Equal to the lease term
Leased equipment	Equal to the lease term

Amortization is performed on a straight-line basis, and is dependent on the value and timing of each purchase transaction, and when each asset was available for productive use. Software under development is not amortized until it is available for productive use. The useful life of property assessment software will be determined on a case by case basis. Tangible capital assets are written down when conditions indicate that they no longer contribute to the Authority's ability to provide services, or when the value of the future economic benefits associated with the tangible capital assets is less than their net book value. The net write-down is accounted for as an expense in the statement of operations and accumulated surplus in the year recognized.

(i) Leased tangible capital assets

Leases that transfer substantially all the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(j) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, the useful life of capital assets and in performing actuarial valuations of employee future benefits. Actual results could differ from these estimates.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

2. Significant Accounting Policies (continued)

(k) Newly adopted accounting standards

Effective January 1, 2018 the Authority adopted the following new accounting standards:

(i) PS 2200 Related Party Disclosure

PS 2200 defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when the transactions have occurred at a value different from that which would have been arrived at if the parties were unrelated, and the transactions have, or could have, a material financial effect on the financial statements.

(ii) PS 3380 Contractual Rights

PS 3380 defines and establishes standards for contractual rights. Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. Disclosure of information about contractual rights is required including description of their nature and extent, and the timing.

(iii) PS 3420 Inter-entity Transactions

PS 3420 provides the recognition and measurement requirements for transactions between public sector entities that comprise a government's reporting entity from both a provider and a recipient perspective. Requirements of this standard are considered in conjunction with requirements of PS 2200.

3. Cash and cash equivalents

The cash and cash equivalents, reported on the statement of financial position, are made of the following:

	2018	2017
Cash	\$ 1,012	\$ 2,400
Cash equivalents	32,980	30,836
Total	\$ 33,992	\$ 33,236

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

4. Employee future benefits and other liabilities

The employee future benefit and other liabilities, reported on the statement of financial position, are made up of the following:

	2018	2017
Employee future benefits	\$ 4,098	\$ 3,831
Other liabilities	4,575	4,166
Total	\$ 8,673	\$ 7,997

Other liabilities include outstanding payables for employer remittances, accrued salaries, vacation, and overtime.

(a) Employee future benefits

Outside of the Public Service Pension Plan, the Authority annually accrues future obligations under the defined retirement benefit plan as the employees render the services necessary to earn the benefit. These retirement benefit plans include a retirement allowance, unearned vacation entitlement, and death benefits. An independent actuarial valuation of the employee future benefits obligation and net periodic benefit cost was calculated at December 31, 2017, by Eckler Ltd. and extrapolated to December 31, 2018, using management's estimates of salary escalation and expected retirement ages. The recorded liability represents these estimated future costs discounted to a present value using market interest rates applicable to the Authority.

Information about the Authority's retirement benefit plans are as follows:

Accrued employee future benefits obligation	2018	2017
Balance, beginning of the year	\$ 3,831	\$ 3,745
Current benefit cost	321	306
Interest	142	115
Benefits paid	(250)	(360)
Amortization of loss	54	25
Balance, end of year	\$ 4,098	\$ 3,831

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

4. Employee future benefits and other liabilities (continued)

(a) Employee future benefits (continued)

Actuarial reconciliation at the end of year	2018	2017
Actuarial employee future benefits liability	\$ 4,297	\$ 4,352
Unamortized actuarial loss	(199)	(521)
Employee future benefits	\$ 4,098	\$ 3,831

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations are as follows:

	2018	2017
Discount rate	3.46%	3.17%
Expected future inflation rate	2.00%	2.00%
Expected productivity and seniority increases	0.50% to 4.20%	0.50% to 4.20%

Over time, changes in assumptions and actuarial experience compared to expected results will cause actuarial gains and losses in future valuations. Actual benefit payments in 2018 differing from expected payments resulted in a gain of \$161 thousand. Additionally, the change in discount rate reflecting the cost of borrowing as at December 31, 2018 resulted in a gain of \$107 thousand. Overall, this created a net actuarial gain at December 31, 2018 of \$268 thousand.

The cumulative unamortized actuarial loss on future payments, net of the gain in 2018, is amortized over the estimated average service lives of the employees, which is 11 years (2017 - 11 years).

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

4. Employee future benefits and other liabilities (continued)

(b) Employee pension benefits

The Authority and its employees contribute to the Public Service Pension Plan (a jointly trustee pension plan). The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for administering the plan, including investments of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at March 31, 2018, the plan has about 62,000 active members and approximately 48,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. The rate is then adjusted to the extent there is amortization of any funding deficit.

The latest actuarial valuation as at March 31, 2017 indicated a funding surplus of \$1,896 million for basic pension benefits on a going concern basis.

The Authority paid \$4.9 million for employer contributions to the plan in fiscal 2018 (2017 - \$4.7 million). In addition, the Authority collected and remitted to the Public Service Pension Plan \$4.0 million in employee contributions (2017 - \$3.9 million).

The next valuation will be as at March 31, 2020, with results available in 2021.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

5. Tangible capital assets

(a) Changes to tangible capital asset categories during the year

Cost	2017	Additions	Disposals & transfers	2018
Land	\$ 354	\$ -	\$ -	\$ 354
Buildings	2,787	-	-	2,787
Furniture	5,671	313	(462)	5,522
Computer equipment	5,942	1,099	(605)	6,436
Motor vehicles	1,630	254	(254)	1,630
Leasehold improvements	7,246	133	-	7,379
Leased equipment	283	-	-	283
Property assessment software	14,698	-	-	14,698
Enterprise, productivity and other software*	5,668	240	805	6,713
Software under development	9,917	7,336	(1,174)	16,079
Total	\$ 54,196	\$ 9,375	\$ (1,690)	\$ 61,881

Accumulated amortization	2017	Disposals	Amortization expense	2018
Buildings	\$ 2,514	\$ -	\$ 135	\$ 2,649
Furniture	4,218	(462)	577	4,333
Computer equipment	3,998	(605)	985	4,378
Motor vehicles	1,507	(254)	99	1,352
Leasehold improvements	4,268	-	615	4,883
Leased equipment	19	-	56	75
Property assessment software	14,391	-	307	14,698
Enterprise, productivity and other software	3,358	(369)	709	3,698
Total	\$ 34,273	\$ (1,690)	\$ 3,483	\$ 36,066

*Enterprise, productivity and other software disposals and transfers includes \$1,174 thousand in transfers from software under development into production and \$369 thousand in disposals.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

5. Tangible capital assets (continued)

(a) Changes to tangible capital asset categories during the year (continued)

Net book value	2017	2018
Land	\$ 354	\$ 354
Buildings	273	138
Furniture and equipment	1,453	1,189
Computer equipment	1,944	2,058
Motor vehicles	123	278
Leasehold improvements	2,978	2,496
Leased equipment	264	208
Property assessment software	307	-
Enterprise, productivity and other software	2,310	3,015
Software under development	9,917	16,079
Total	\$ 19,923	\$ 25,815

During the year, the Authority decreased cost and accumulated amortization by the value of fully amortized assets that were no longer available for use by the Authority.

(b) Software under development

Software development projects can often span multiple fiscal periods. Software under development does not contain any projects which have been terminated or placed on hold indefinitely. Software under development is not amortized as it represents the costs incurred to date on projects, which are not substantially complete at the end of the fiscal year, which is in accordance with Public Sector Accounting Standard 3150.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

6. Accumulated surplus

Accumulated surplus consists of individual fund surplus and reserves as follows:

	2018	2017
Surplus:		
Invested in tangible capital assets	\$ 25,609	\$ 19,665
Reserves		
Future tangible capital asset acquisitions	18,506	18,889
Operating	3,000	3,000
Total reserves	21,506	21,889
Accumulated surplus, end of year	\$ 47,115	\$ 41,554

Certain amounts are set aside in accumulated surplus for future financial obligations and the purchase of tangible capital assets. In 2018, \$5.2 million has been applied to the reserve for future tangible capital asset acquisitions in accordance with Board direction.

Future tangible capital asset acquisitions reserve: the purpose of this reserve is to help stabilize the financing requirements of large fluctuations in capital spending from one year to the next. Certain high value tangible capital assets such as property assessment software have long term economic usefulness. This reserve assists in the financing of these expenditures to limit the impact to revenue requirements in those years.

Operating reserve: the purpose of this reserve is to finance an unintended deficit. Unintended deficits would be caused largely by unexpected changes in revenues or costs for items that are outside management's control.

7. Commitments

The Authority is committed to make payments under operating leases for premises and contracts for goods and services as follows:

Year(s)	Payment
2019	\$ 19,430
2020	15,407
2021	9,513
2022	6,610
2023	4,614
2024 - 2031	4,410
Total	\$ 59,984

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

8. Appeal costs

Appeal costs include legal costs incurred by the Authority as well as the operating costs of the Property Assessment Review Panel and the Property Assessment Appeal Board, both operated independently by the Province of British Columbia. By legislation, the Authority is required to reimburse the Province for the Review Panel and Appeal Board costs which amounted to \$3.0 million in 2018 (2017 - \$2.9 million).

9. Budget data

The 2018 budget figures have been provided for comparison purposes and have been derived from the budget approved by the Board on March 23, 2018.

10. Related party transactions

The Authority is related through common ownership to all Province of British Columbia ministries, agencies, Crown corporations, and all public sector organizations such as school districts, colleges, universities, and health authorities that are included in the provincial government reporting entity. In addition, transactions with senior management, directors, immediate family members of senior management and directors, and companies with which any of the above have a financial interest are also considered related parties. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year the Authority provides data access services to related parties. The payment and collection terms with related parties are due within 30 days from the invoice date. The total discount provided to related parties is \$1.7 million. This is approximately 1.7% of the Authority's total revenue. These transactions are also included in the table below.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

10. Related party transactions (continued)

The statement of financial position and the statement of operations and accumulated surplus includes the following transactions with related parties of the Province of British Columbia:

	2018	2017
Revenue		
Data access services	\$ 2,617	\$ 3,043
Expenses		
Appeal costs	3,017	2,930
Information technology	1,410	1,601
Employee expenses	672	1,221
Office premises	534	587
Assessment notice printing and postage	104	113
Corporate and office	129	163
Travel	70	61
Assets (liabilities) at December 31 with related parties:		
Motor vehicles	-	(2)
Accounts receivable	195	416
Accounts payable and accrued liabilities	\$ (702)	\$ (1,226)

The Authority contracts the disposal of surplus assets to the Province of British Columbia. Sale proceeds net of disposal costs were \$42 thousand in 2018 (2017 - \$13 thousand).

11. Contractual rights

The Authority has entered into various revenue contracts for the provision of data access services within the normal course of operations. The estimated contractual rights under these contracts for the years ending December 31 are as follows:

Year(s)	Amount
2019	\$ 1,522
2020	904
2021	725
2022	258
2023	8
Total	\$ 3,417

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

12. Financial risk management

In the normal course of operations, the Authority is exposed to a number of risks that can affect its operating performance. The Authority has exposure to the following risks from its use of financial instruments: credit risk, market risk, currency risk, interest rate risk, and liquidity risk. Management and the Board of the Authority ensure that the Authority identifies and monitors its risks. It is management's opinion that the Authority is not exposed to significant risks arising from these financial instruments.

(a) Fair value of financial assets and financial liabilities

All financial assets and financial liabilities are recorded at amortized cost.

(b) Credit risk

Credit risk is the risk of financial loss to an institution if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise primarily from certain assets held consisting of cash, cash equivalents and accounts receivable. The Authority is exposed to credit risk in the event of non-performance by a customer. This risk is mitigated because the majority of accounts receivable are current or collected subsequent to year end; therefore, management does not consider it to be impaired. It is management's opinion that the Authority is not exposed to significant credit risk associated with cash and cash equivalents as they are placed with the British Columbia Investment Management Corporation in highly liquid units of a Canadian Money Market Fund.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk and interest rate risk.

(d) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. It is management's opinion that the Authority is not exposed to significant currency risk, as amounts held and purchases made in foreign currency are not material.

(e) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Authority is exposed to interest rate risk through its cash equivalents. It is management's opinion that the Authority is not exposed to significant interest rate risk as it invests solely in short term treasury bills that have a maturity date of no more than 91 days from date of acquisition.

BRITISH COLUMBIA ASSESSMENT AUTHORITY

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

Year ended December 31, 2018

12. Financial risk management (continued)

(f) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority manages liquidity risk by continually monitoring actual and forecasted cash flows from operations and anticipated investing activities to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they become due.