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## Business Improvement Districts' Audit Requirements

### Recommendation

That the Standing Policy Committee of Finance recommend to City Council:

1. That Clause 13 or 16, as appropriate, Fiscal Year and Annual Report of the Board for Business Improvement District Bylaw Nos. 6710, 6731, 7092 7891 and 9235 be amended to permit a Business Improvement District with less than \$250,000 in annual revenue the ability to choose a review engagement over an audit at the discretion of their Board of Directors;
2. That Clause 12 or 15, as appropriate, Auditor of the Board for Business Improvement District Bylaw Nos. 6710, 6731, 7092 7891 and 9235 be amended to outline that the selection of an external auditor is at the Business Improvement Districts Board of Director's discretion; and
3. That the City Solicitor be requested to amend BID Bylaw Nos. 6710, 6731, 7092, 7891 and 9235.

### Topic and Purpose

The purpose of this report is to receive City Council approval to amend the stipulated audit requirement for all Business Improvement Districts (BIDs).

### Report Highlights

1. Due to the size of some BIDs, it is recommended that the BID Bylaws be amended to allow for annual review engagements instead of audits for entities under \$250,000 in revenue. Although the BIDs are creatures of *The Cities Act*, this change would be in accordance with *The Non-Profit Corporations Act, 1995*, and is a trend that is occurring in most not-for-profit entities.

### Strategic Goal

Being open, accountable and transparent is a key factor in achieving the Strategic Goal of Asset and Financial Sustainability.

The five BIDs are organizations created by the City of Saskatoon (City) to create stewardship of a defined business improvement district's identity and to complete projects within these districts to improve, beautify and maintain publicly owned lands, buildings and structures in the BID, in addition to any improvement, beautification or maintenance that is provided at the expense of the urban municipality at large.

### Background

At its June 25, 2018 regular meeting when considering a report from the CFO/General Manager, Asset and Financial Management Department, regarding the Business Improvement Districts' 2017 Financial Statements, City Council resolved:

“That the Administration report back on the requirement for Business Improvement Districts to provide audited financial statements.”

## **Report**

### **BIDs' Annual Audit Requirement**

Currently, all BIDs are required to complete an annual audit and provide audited financial statements to the City no later than April 30.

*The Cities Act* provides the City with the authority to create, by bylaw, a business improvement district but does not mandate an audit. *The Act* simply provides that the incorporating bylaw will address the “reporting requirements of the board to the council.”

The provision in each of the BID Bylaws provides that the City is to receive an annual report for the preceding year and that the report “shall include a complete audited and certified financial statement of its affairs, with balance sheet and revenue and expenditure statement.”

It is this statement that would need to be changed in each of the BID Bylaws.

In general, an audit provides the highest level of assurance that an organization's financial statements are free of material misstatement and are fairly presented based upon the applicable generally accepted accounting principles. However, an audit can be expensive and utilize a significant portion of the BIDs' budget (15% in the case of the 33<sup>rd</sup> Street BID) and provide little value on top of other assurance related procedures, such as a review engagement by an independent accounting firm for smaller organizations.

In contrast to an audit, a review provides limited assurance of an organization's financial statements rather than a reasonable assurance which is provided by an audit. In simple terms, a review reports on the plausibility of the financial statements.

The audit industry has a standard for a financial review, in the case of not-for-profit entities, that is still robust, and any audit company would meet the applicable industry standard.

As some BIDs are small and have fewer than 25 total transactions in a given year, an audit requirement is excessive in some cases. Further, the Information Services Corporation under *The Non-Profit Corporations Act, 1995* requires audits on non-profit entities with over \$250,000 in revenue and reviews for entities between \$25,000 and \$250,000. Establishing a similar criteria would exclude both the 33<sup>rd</sup> Street BID and Sutherland BID from audit requirements.

Based on the above and after consultation with the BIDs, the Administration is recommending that the BIDs bylaws be adjusted to reflect *The Non-Profit Corporations Act, 1995* requirement whereby BIDs with annual revenues under \$250,000 would have

the option at the discretion of their board of directors to have a review procedure completed instead of an audit.

A short time ago, City Council mandated the financial report form for each of the BIDs, and beginning in 2019, the reports for each BID will be set out in a very similar format. The proposed audit or financial review change would align with the change of format for the reporting.

As well, the companion change recommended is that each BID be permitted to select its own auditor, which the BIDs have been doing for some time.

### **Options to the Recommendation**

Option 1: City Council has the option to maintain the current audit requirement for all BIDs. The Administration does not recommend this option as the current audit requirement is burdensome for the smaller BIDs and not in line with *The Non-Profit Corporations Act, 1995* or the changes in the audit industry.

Option 2: City Council has the option to expand the ability for all BIDs at its respective board's discretion to have a review procedure completed instead of an audit. The Administration does not recommend this option as it does not align with *The Non-Profit Corporations Act, 1995*.

### **Public and/or Stakeholder Involvement**

The Administration contacted the Executive Directors of all BIDs for their opinion and perspective. Three of the five BIDs that responded (Downtown, 33<sup>rd</sup> Street and Sutherland) support this recommendation.

### **Other Considerations/Implications**

There are no financial, policy, environmental, privacy, or CPTED implications or considerations, and a communication plan is not required.

### **Due Date for Follow-up and/or Project Completion**

If approved, the recommendation will come into effect for the year ended December 31, 2018, and the BIDs will present the City with finalized reviewed or audited financial statements by April 30, 2019.

### **Public Notice**

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

### **Report Approval**

Written by: Clae Hack, Director of Finance

Approved by: Kerry Tarasoff, CFO/General Manager, Asset and Financial Management Department