



Committee of the Whole Report

For the Meeting of April 22, 2021

To: Committee of the Whole
From: Susanne Thompson, Deputy City Manager and
Chief Financial Officer
Subject: 2020 Financial Statements

Date: April 8, 2021

RECOMMENDATION

That Council approve the 2020 Financial Statements.

EXECUTIVE SUMMARY

Under section 167 of the Community Charter, a municipality's financial statements must be prepared by its Financial Officer and presented to Council for its acceptance. The 2020 financial statements are the responsibility of management and have been prepared in accordance with "generally accepted accounting principles" for local governments established by the Public Sector Accounting Board.

The information in the Financial Statements can provide indicators of the financial condition of an organization, as will be discussed in this report.

Under section 171 of the Community Charter, the City's Municipal Auditor (BDO) must report to Council on the annual financial statements. The report must be in accordance with the form and the reporting standards recommended by CPA Canada.

As outlined in their audit findings report, the focus areas for this year's audit included risk of management overrides; deferred revenue and government grants; salaries and benefits; employee future benefits; contaminated sites; development cost charges; and COVID-19 disclosure. All testing was executed as planned and adjustments were noted.

BDO has also reviewed a number of financial policies and procedures primarily related to the focus areas listed above and have provided their observations for improvements in the management letter. The suggestions include incorporating replacement of the City's enterprise software (financial system) in the IT Strategic Plan, and a reminder of the upcoming Asset Retirement Obligation reporting requirement. City processes have been updated to address the issues identified in the recommendations, and ongoing consideration is given to further incorporate recommended actions going forward. Staff appreciate the suggestions provided by the external auditors and welcome their insight towards opportunities to refine our operations in the spirit of continuous improvement.

Once accepted by Council, BDO will issue an Auditor's Report expressing that in their opinion the financial statements present fairly, in all material aspects, the financial position of the City as at December 31, 2020.

PURPOSE

To provide Council with an overview of the City's 2020 audited Financial Statements and request Council's acceptance of the Financial Statements as required by Section 167 of the Community Charter.

BACKGROUND

Section 167 of the Community Charter requires that annual audited financial statements be prepared and presented to Council for acceptance. The City's audited consolidated financial statements for 2020 have been prepared by management in accordance with the generally accepted accounting principles for local governments, as prescribed by the Public Sector Accounting Board (PSAB) of CPA Canada.

Under PSAB reporting requirements, the following statements are presented for Council's review: (page references to Appendix A)



Statement of Financial Position (pg.4) – provides a summary of the City's economic resources (assets net of liability balances) available to meet its obligations and provide services. By continuing to grow its net financial asset position, the City strengthens its capacity to meet financial obligations.



Statement of Operations and Accumulated Surplus (pg.5) – identifies the current year contribution to the Accumulated Surplus balance from revenue and expenses



Statement of Changes in Net Financial Assets (pg.6) – supplementary detail of the changes in assets and liabilities that explain the change to the Net Financial Assets balance on the Statement of Financial Position







Statement of Cash Flows (pg.7) – supplementary detail to support the change to Cash and Cash Equivalents balance on the Statement of Financial Position



Notes to the Financial Statements (pgs.8-34) - additional detail to disclose relevant reporting information and support significant balances in the Financial Statements.

The relationship between the statements are illustrated below (Figure 1): the Statement of Operations and Accumulated Surplus, the Statement of Changes and Net Financial Assets, and the Statement of Cash Flows provide expanded detail on the balances in the Statement of Financial Position.

The Corporation of the City of Victoria					
Statement of Financial Position					
As at December 31, 2020, with comparative figures for 2019					
	2020	2019			
Financial Assets					Statement of Cash Flows
Cash and cash equivalents (Note 2)	\$ 156,464,722	\$ 144,975,587			
Accounts receivable					
Property Taxes	2,879,392	2,003,093			
Other (Note 3)	24,717,750	28,574,624			
Portfolio investments (Note 4)	170,844,995	173,000,000			
Mortgage receivable (Note 5)	950,928	921,620			
Other assets	10,852	35,605			
MFA debt reserve fund (Note 16)	1,326,811	1,300,059			
	<u>357,195,450</u>	<u>350,810,588</u>			
Liabilities					
Accounts payable and accrued liabilities (Note 6)	29,203,958	34,516,702			
Deposits and prepayments	20,702,720	20,400,100			
Deferred revenue (Note 7)	27,839,138	26,749,918			
Long-term debt (Note 8)	62,515,520	65,134,748			
Employee future benefit liability (Note 9)	18,524,182	18,032,615			
	<u>158,785,518</u>	<u>164,834,083</u>			
Net Financial Assets (net debt)	198,409,932	185,976,505			Statement of Changes in Net Financial Assets
Non-Financial Assets					
Tangible capital assets (Note 10)	585,057,216	552,503,905			
Inventories of supplies	1,732,227	1,389,253			
Deposits towards acquisition of tangible capital assets	3,400,000	1,000,000			
Prepaid expenses	894,998	885,761			
	<u>591,084,441</u>	<u>555,778,919</u>			
Accumulated Surplus (Note 11)	\$ 789,494,373	\$ 741,755,424			Statement of Operations and Accum Surplus

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

ISSUES & ANALYSIS

This report identifies the information in the Financial Statements that can be used as indicators of the City's financial condition, and highlights the operational results contributing to the Statement of Financial position at December 31, 2020, addressing areas where Council policy guides decision making.

The review of 2020 provides a unique opportunity to consider the impact of City policy as tested in a time of unforeseen global crisis and financial uncertainty which significantly impacted cash flow and service delivery of City operations.

Financial condition is a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. Applying indicators of financial condition specific

to government organizations offers readers of the financial statements insights into the short and long-term implications of policy decisions and illustrates a government's financial ability to maintain the level and quality of its services and to finance new programs.

Appendix C – Indicators of Financial Condition provides a detailed analysis of indicators applied to the City of Victoria financial statements over a 5 year period, considering the elements of sustainability, flexibility, and vulnerability.

The City's Financial Sustainability Policy states in its Primary Objective that the "policies shall be designed and structured to develop principles that guide, support, and respect the direction of the community so that taxpayers can look forward to stable, equitable and affordable property taxation". The indicators of financial condition illustrate that the application of these principles guide decisions that support building the City's financial strengths in sustainability and flexibility, while considering the risk of vulnerability.

While the global pandemic situation is not yet resolved, the indicators identify that the results of 2020 remain well within the boundaries of financial health and reflect that City policy supports the City's responsiveness to pivot on short notice to strategically mitigate risk to operations and financial stability.

Financial Statement Analysis

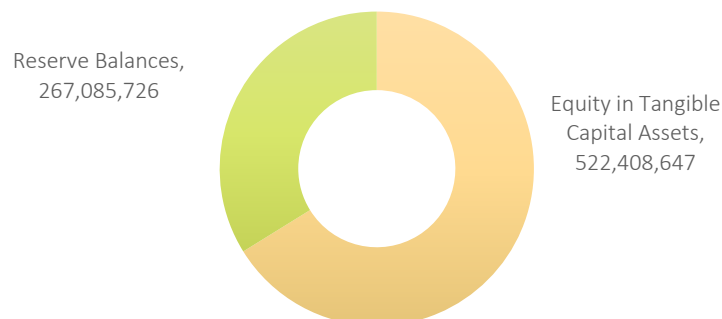
Accumulated Surplus

The Accumulated Surplus balance at December 31, 2020, as reported on the Statement of Financial Position, is \$789.5 million. This is the accumulation of the City's increases in equity in capital assets and reserve balances since its inception. The balance represents the total economic resources available to the City and indicates how much the City's assets exceed its liabilities.

Of the economic resources available, equity in capital assets makes up the most significant portion of the accumulated surplus balance, followed by reserve balances (Figure 2). The Accumulated Surplus balance normally includes a small portion that is the general operating surplus to be allocated by Council in the following year, however to avoid a deficit due to the pandemic, the risk mitigation strategies employed in 2020 resulted in a General Fund Surplus of \$0.

Figure 2. Accumulated Surplus

At December 31, 2020 \$789,494,373



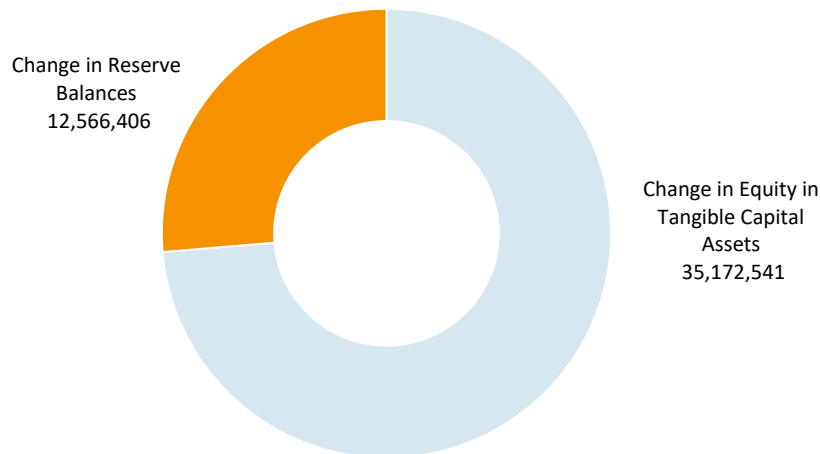
This means that the majority of the \$789 million accumulated surplus consists of the City's tangible capital assets, such as roads, underground infrastructure, land, buildings, and equipment, along with funds set aside in reserves for future spending.

Annual Surplus

The annual surplus represents the economic resources gained by the City during the year and is reported on the Statement of Operations. The City's annual surplus for 2020 is \$47.7 million. As the 2020 General Fund Surplus was \$0, this surplus is comprised of increased equity in capital assets and growth in reserve balances (Figure 3).

Figure 3. Annual Surplus

For the year ended December 31, 2020 \$47,738,947



Reserves

The City reserve funds were established by bylaw under section 188 of the Community Charter and funding from these reserves can only be used for the specific purposes outlined in the bylaw.

In 2020 the City's reserves grew by \$33.5 million, which was offset by use of reserves of \$27 million, resulting in a net increase of \$6.5 million (Table 1). The reserve balance total includes funding for capital projects in progress. Funding is only drawn down from reserves as capital projects are completed; fewer projects than planned were completed by December 31; and some projects experienced schedule adjustments to begin at a later date.

Specific to 2020, Capital projects that are underway include:

- Bicycle Master Plan Implementation
- David Foster Harbour Pathway
- Songhees Park Expansion
- Gate of Harmonious Interest
- Parkade Repair and Rehabilitation
- Public Washroom Improvements
- Public Secure Bike Parking
- Fire Hall #1 Replacement
- Topaz Park Artificial Turf Field Replacement and Southern Park Enhancements
- Wharf Street Retaining Wall
- Vehicle and Heavy Equipment Replacements
- Water, sewer, and storm water mains replacement projects

Table 1. Reserve Balances

Reserve Fund Description	Dec 31, 2019	Transfer To	Transfer From	Interest	Dec 31, 2020
Financial Stability Reserves	\$ 67,494,934	\$ 4,186,779	\$ (407,587)	\$ 1,160,915	72,435,041
Equipment & Infrastructure Replacement Fund	167,712,765	22,242,911	(24,333,391)	2,889,118	168,511,403
Tax Sale Lands Fund	3,953,316	50,000	(68,318)	67,997	4,002,995
Parks and Greenways Acquisition Fund	2,183,453	280,950	(1,005,328)	37,555	1,496,630
Local Amenities	766,246	360,893	(78,116)	13,179	1,062,201
Affordable Housing	4,264,942	1,332,500	(525,000)	73,357	5,145,799
Climate Action	1,164,075	562,378	(303,267)	20,022	1,443,208
Art In Public Places	772,180	150,000	(99,504)	13,281	835,956
Downtown Core Area Public Realm Improvements	222,384	-	-	3,825	226,209
Heritage Building Seismic Upgrades	154,728	-	(154,728)	-	-
Park Furnishing Dedication Program	14,040	14,950	(3,055)	241	26,176
Total Reserve Funds Balance	\$ 248,703,064	\$ 29,181,360	\$ (26,978,296)	\$ 4,279,490	\$ 255,185,618

Development Cost Charges

Development Cost Charges (DCCs) are contributions from developers collected under bylaw to provide funds to assist the City to pay the capital costs of providing, constructing, altering or expanding transportation, water, drainage, and sewage facilities, and of providing and improving parkland related to population growth.

DCC balances (Table 2) increased in 2020 by \$332,455 in interest revenue allocated and \$1.85 million in charges, compared to \$1.87 million in charges collected in 2019. A total of \$1.26 million was used to fund capital projects in 2020, compared to \$2.46 million funded from the DCC balances in 2019.

Table 2. DCC Balances

Development Cost Charges	Dec 31, 2019	Transfer To	Transfer From	Interest	Dec 31, 2020
Water and Environment	\$ 598,539	\$ -	\$ 25,899	\$ 10,295	\$ 582,935
Transportation	7,706,685	656,689	1,051,711	132,555	7,444,218
Water	1,100,794	192,005	-	18,934	1,311,733
Drainage	657,313	144,646	4,959	11,306	808,306
Sewage	2,357,167	206,581	54,449	40,543	2,549,842
Parkland Acquisition and Development	6,908,247	652,122	122,862	118,822	7,556,329
Total Development Cost Charges	\$19,328,745	\$ 1,852,043	\$ 1,259,880	\$ 332,455	\$ 20,253,363

Capital Assets

The City's inventory of capital assets (Table 3), cost before accumulated amortization, increased by \$47 million with the most significant increases resulting from:

- \$15.0 million of water/sewer/storm drain infrastructure
- \$10.7 million of land acquisition
- \$ 9.6 million of street rehabilitation
- \$ 7.0 million for vehicle and heavy equipment replacement
- \$ 2.8 million of bicycle master plan implementation

Table 3. Capital Assets

Capital Assets (Historical Costs)	2020	2019
Land	\$ 154,584,052	\$ 142,885,438
Buildings	118,247,260	116,904,676
Furniture, Equip, Tech & Vehicles	90,002,672	83,950,357
Roads, Bridges and Highways	251,889,684	239,593,163
Water Infrastructure	81,479,460	76,690,559
Sewer Infrastructure	38,472,289	30,996,910
Drainage Infrastructure	37,991,916	35,132,979
Assets Under Construction	24,845,475	24,192,215
Total Capital Assets	797,512,808	750,346,298
Accumulated Amortization	(212,455,592)	(197,842,395)
Total Capital Assets (Net Book Value)	\$ 585,057,216	\$ 552,503,903

Debt

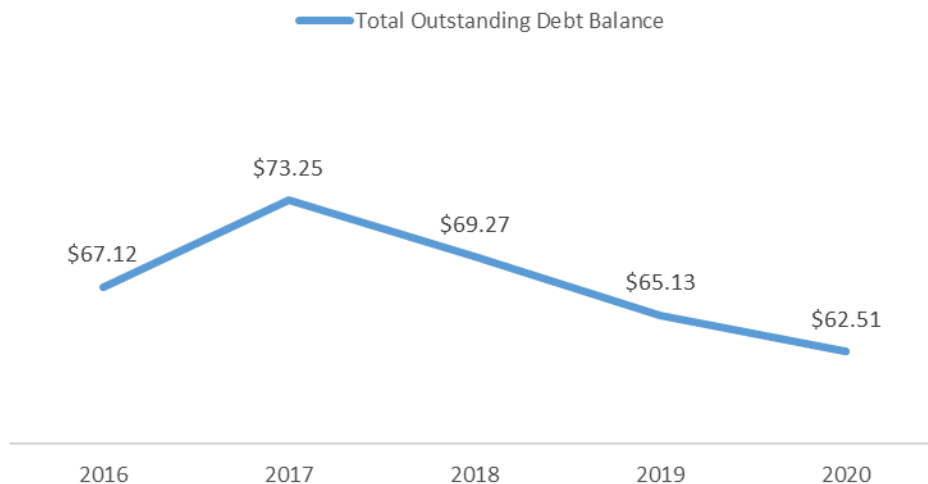
New MFA debt of \$1.86 million was issued in 2020 in the form of a 5 year equipment replacement loan. The City's total outstanding debt (Table 4) decreased in the year by \$2.62 million.

Debt Management is governed by the City's Financial Sustainability Policy, which directs that debt can only be incurred for one-time capital purchases and not for ongoing capital programs or operational expenses. The philosophy supporting the City's Financial Sustainability Policy and Reserve Fund Policy is to balance the use of debt and reserves for capital funding to recognize the appropriate sharing of funding from current taxpayers as well as future beneficiaries.

Table 4. Debt Balance Outstanding

Debt Issues (in millions)	Expiry Date	2020	2019
Equipment Financing Loan	2025	1.68	-
Debenture Debt			
Issue 79, 80, 81 – Arena	2033 / 2034	18.38	19.37
Issue 102 – City Hall Upgrades & Burnside Gorge Community Centre	2022	0.75	1.11
Issue 105 – Crystal Gardens	2024	1.07	1.33
Issue 103, 105, 110 – Parkades Upgrades	2023 / 2023 / 2025	2.97	3.62
Issue 115, 130, 139, 142 – Johnson Street Bridge	2031 / 2034 / 2036/ 2037	37.66	39.69
Total Debenture Debt		60.83	65.13
Total Debt balance outstanding at December 31, 2020		\$62.51 m	\$65.13 m

Figure 5. Total Outstanding Debt Balance over 5 years



Debt service charges (principal repayment, interest costs, and transfer to debt reduction reserve) are directed by the Financial Sustainability Policy to be maintained at a maximum of 7% of the prior year's property tax levy and new debenture debt is added only in the years when other debt issues are retired. The current debt servicing costs (principal repayment and interest) are well below this level, therefore \$3 million is transferred to the Debt Reduction Reserve to be available for internal borrowing as an alternative to incurring external debt. This internal borrowing will allow funding for the replacement of Fire Department Headquarters to occur at a lower interest cost.

Portfolio Investments

The City's investment portfolio (Tables 5 and 6) returned \$5.2 million in 2020, a decrease of \$2.25 million from 2019. The actual investment portfolio rate of return was 1.72% (2.87% in 2019). The majority of investment revenue is allocated to reserves, per the City's Reserve Fund Policy.

The decrease in investment revenue over 2020 is due to decreased rates of return in the investment market and the City's risk mitigation strategy. In response to reduced operational revenues and legislated changes to property tax due dates, term deposits were returned to the City upon maturity until it was determined that there was sufficient operational cash flow to resume the ladder investment strategy.

The investment portfolio is governed by the City's Investment Policy, which prioritizes the safety of public funds through diversification, provides liquidity to meet cash flow demands, and yields the highest returns within the limits prescribed by Community Charter s.183, Investment of Municipal Funds.

Council has also directed staff to seek out investments that are Socially Responsible and fossil fuel free. In 2020 the Municipal Finance Authority of BC (MFA) created a number of new socially responsible and fossil fuel free investment options in response to feedback from local governments. The new options include additional Pooled High Interest Savings Account options, Government Focused Ultra-Short Bond Fund, Fossil Fuel Free Short-Term Bond Fund, and Pooled Commercial Mortgage Fund. These options allowed the City to increase the portion of socially responsible investments (SRI) as a percentage of overall holdings and increase diversification in investment holdings.

Further detail on the City's SRI efforts are provided in Appendix D – Investment Status Update.

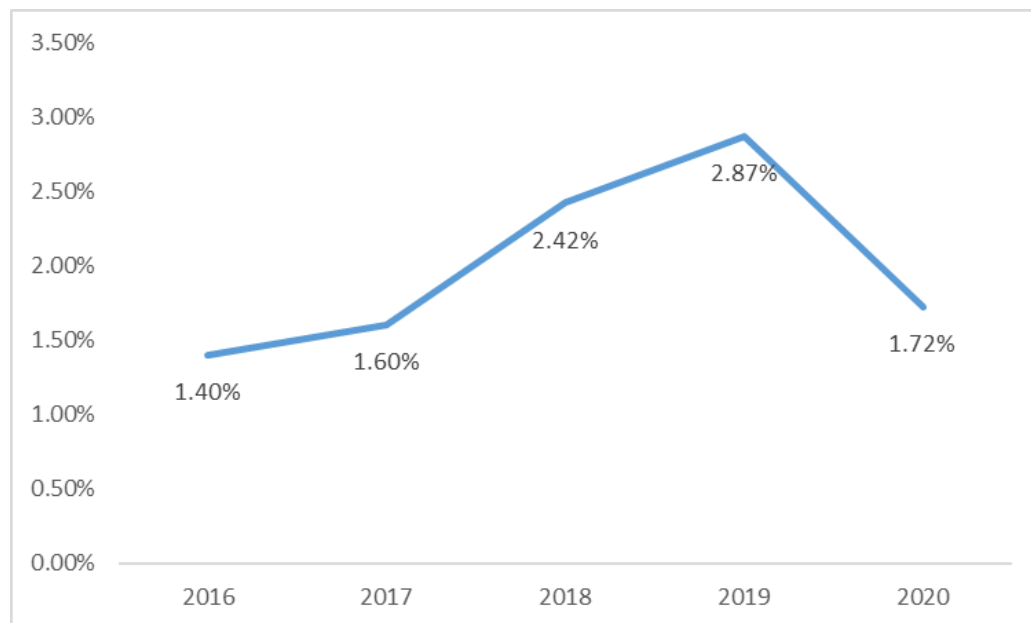
Table 5. Investment Portfolio

Investment Portfolio	2020		2019	
	Share	Value	Share	Value
MFA Pooled Money Market (Cash and Cash Equiv)	27%	\$ 82,191,149	37%	\$ 110,680,225
MFA High Interest Savings (Cash and Cash Equiv)	18%	54,243,985	6%	17,977,901
MFA Pooled Bond Funds (2 - 5 years)	12%	36,844,995		-
Term Deposits Credit Unions (1 year)	34%	103,000,000	34%	104,000,000
Term Deposits Schedule 1 Banks (1 year)	10%	31,000,000	23%	69,000,000
	100%	\$ 307,280,129	100%	\$ 301,658,126

Table 6. Investment Returns

Investment Returns	2020	2019
Investment Returns	\$ 5,199,568	\$ 7,453,389
Actual Rate of Return	1.72%	2.87%
MFA Money Market Return	0.85%	1.86%
Average Bank Interest Rate	1.18%	2.30%

Figure 7. Rate of Return on Portfolio Investments over 5 years



Revenues and Expenses

The Financial Statements are presented in accordance with PSAB reporting standards to ensure comparability between government organizations across Canada. The budget information in the Statement of Operations was developed for the purpose of the Financial Plan, which is customized to the operations of individual government organizations. The format of the financial statements does not provide an effective comparison of budget to actual performance as the budget process does not take into account adjustments made for PSAB reporting standards.

In order to provide a meaningful comparison of budget to actual performance, additional schedules are attached to this report providing 2020 comparison of budget to actual for operating revenues and expenses (Appendix E), and capital expenditures (Appendix F). These comparisons are provided in the format for budget reporting for the year.

During 2020, due to the pandemic, the City experienced significant reductions in revenues, primarily related to parking, property leases and the Victoria Conference Centre, as well as increased costs. To mitigate the impact and avoid a deficit, the City implemented a number of strategies. The following table summarizes the revenue shortfalls, additional costs and mitigation strategies.

Table 7. Summary of Revenue Shortfalls, COVID-related Costs and Mitigation Strategies

<u>Revenue Shortfall</u>	
Parking Revenue	\$ 6,973,000
Victoria Conference Centre Revenues	2,432,000
Property Lease Revenue	829,000
Arena Revenue	223,000
<u>Additional Costs due to Pandemic</u>	
PPE, Sheltering Supports, Facility and Public Washroom Cleaning, Neighbourhood Social Distancing Initiatives, Additional Bylaw and Policing Costs, Expanded COVID related Grants to Community Organizations	2,700,000
Total	\$ 13,157,000
<u>Unspent Expense Budgets</u>	
Vacancies	-\$ 3,168,000
Conferences/Travel/Training and Development	- 848,000
Recruitment Expenses	- 49,000
Withdrawn/Reduced Tax Appeals	- 824,000
Other	- 171,584
<u>Revenue Over</u>	
Traffic Fine Revenue	- 342,000
<u>Reallocation of Funding from Deferred Initiatives</u>	
Deferred Initiatives Funded by 2019 Surplus	- 658,050
Deferred Initiatives Funded by NMC	- 995,366
Reallocation of Property Tax Funding for Capital Budget	- 2,063,000
Recovery from the Province (Emergency Management BC and others)	- 645,000
<u>Savings due to Pandemic Closures</u>	
VCC, Recreation, Real Estate, Parking Services	- 2,493,000
Funding from City Reserves and Contingency Budget	- 900,000
Total	-\$ 13,157,000
Total Surplus/Deficit	\$ -

In addition to the above summary, significant staff time was redirected in response to the pandemic, which impacted capacity and delivery of initiatives and operations as reported to Council as part of the T3 Accountability Report on February 18, 2021. A very high-level estimate of this staff time is \$6.4 million.

Information Presentation

The City continues to fulfil statutory obligations to provide an Annual Report and Audited Financial Statements that meet the requirements of the Community Charter. The annual report provides an annual summary of the quarterly progress reports and provides key highlights and performance measures in visual graphics so that it is easily understood. The annual financial planning documents includes an in-depth detailed plan as well as short versions of the budget and financial information highlights.

CONCLUSION

BDO conducted the City's 2020 audit and have stated in the Auditor's Report their opinion is that these financial statements present fairly, in all material respects, the City's financial position as of December 31, 2020, and its results of operations and changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Respectfully submitted,

Laurel Westinghouse
Manager, Accounting

Susanne Thompson
Deputy City Manager/CFO

Report accepted and recommended by the City Manager

List of Appendices

Appendix A – Draft Audited Financial Statements for the year ended December 31, 2020
Appendix B – Audit Findings Report to Mayor and Council
Appendix C – Indicators of Financial Condition
Appendix D – Investment Status Update
Appendix E – Budget to Actual Operating Revenues and Expenses
Appendix F – Budget to Actual Capital Expenditures