



## Committee of the Whole Report

### For the Meeting of April 27, 2023

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**To:** Committee of the Whole **Date:** April 14, 2023  
**From:** Susanne Thompson, Deputy City Manager and  
Chief Financial Officer  
**Subject:** 2022 Financial Statements

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### RECOMMENDATION

That Council:

1. Approve the 2022 Financial Statements.
2. Forward this item to the daytime Council meeting of April 27, 2023 for ratification.

### 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 acceptance. The 2022 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 recognition of grants and government transfers; and risk of management overrides. All testing was executed as planned and no adjustments were noted.

Once accepted by Council, BDO will issue an Auditor's Report expressing that in their opinion the financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2022.

## PURPOSE

The purpose of this report is to provide Council with an overview of the City's 2022 audited financial statements and request Council's acceptance of the financial statements.

## 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 2022 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.2) – 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.3) – identifies the current year contribution to the Accumulated Surplus balance from revenue and expenses.



**Statement of Changes in Net Financial Assets** (pg.4) – 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.5) – supplementary detail to support the change to Cash and Cash Equivalents balance on the Statement of Financial Position.








**Notes to the Financial Statements** (pgs.6-27) - 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.

Figure 1. Relationship between Financial Statements

Figure 1: Relationship between Financial Statements

The Corporation of the City of Victoria								
Statement of Financial Position								
As at December 31, 2022, with comparative figures for 2021								
		2022	2021					
Financial Assets								
Cash and cash equivalents (Note 2)	\$	128,244,048	\$	136,557,283				
Accounts receivable								
Property taxes		3,047,594		2,166,692				
Other		35,679,762		25,535,871				
Portfolio investments (Note 3)		248,043,341		218,548,303				
Mortgage receivable (Note 4)		1,012,458		981,257				
Other assets		2,216		21,705				
MFA debt reserve fund (Note 14)		1,310,667		1,349,379				
		417,340,086		385,160,490				
Liabilities								
Accounts payable and accrued liabilities		30,069,020		30,313,137				
Deposits and prepayments		26,658,204		23,503,410				
Deferred revenue (Note 5)		29,359,819		29,385,444				
Long-term debt (Note 6)		54,066,383		59,482,153				
Employee future benefit liability (Note 7)		19,423,527		19,191,232				
		159,576,952		161,875,376				
Net Financial Assets (net debt)				257,763,134	223,285,114			
Non-Financial Assets								
Tangible capital assets (Note 8)		641,709,643		616,148,752				
Inventories of supplies		2,434,168		1,916,103				
Deposits towards acquisition of tangible capital assets (Note 8(d))		3,400,000		3,400,000				
Prepaid expenses and deposits		687,035		1,733,186				
		648,230,847		623,198,041				
Accumulated Surplus (Note 9)				\$	905,993,980	\$	846,483,155	Statement of Operations and Accum Surplus
The accompanying notes are an integral part of these financial statements.								

The Statement of Financial Position, accompanied by Note 9 identifying the components of the Accumulated Surplus, provides a snapshot of the City's financial health at a point in time. The Statement shows what the City owns and what it owes.

## ISSUES & ANALYSIS

This report identifies the information in the Financial Statements that can be used as indicators of the City's financial condition. The report also highlights the operational results contributing to the Statement of Financial Position at December 31, 2022, and addresses areas where Council policy guides decision making.

## Indicators of Financial Condition

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 D – 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.

## Financial Statement Analysis

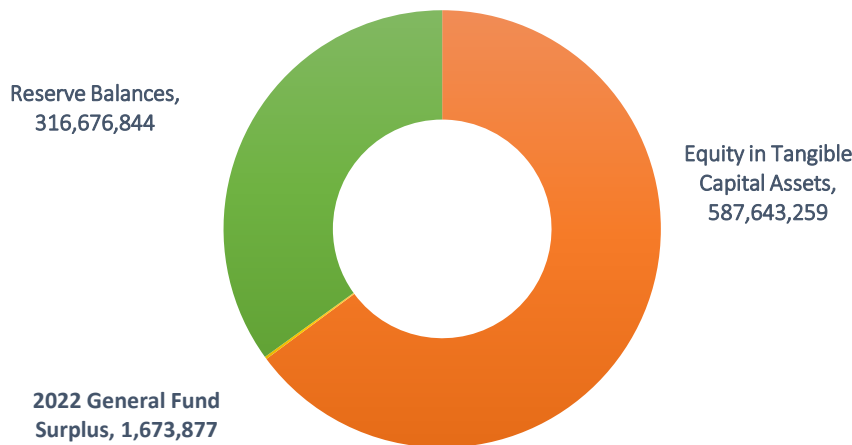
### Accumulated Surplus

The Accumulated Surplus balance at December 31, 2022, as reported on the Statement of Financial Position, is \$906.0 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 current year General Fund Surplus of \$1.67 million makes up a small portion of the Accumulated Surplus balance.

Figure 2. Accumulated Surplus

At December 31, 2022 \$905,993,980



This means that the majority of the \$906.0 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.

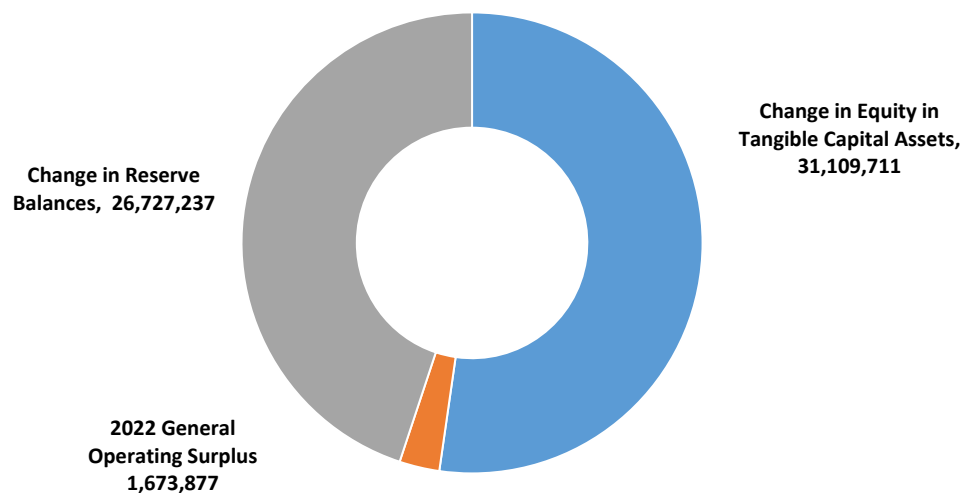
### Annual Surplus

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 2022 is \$59.5 million. Most of this surplus is comprised of increased equity in capital assets and growth in reserve balances (Figure 3). Of the total annual surplus balance, \$1.67 million is the General Fund surplus which is available for future spending.

The primary contributions to the 2022 General Fund surplus of \$1.67 million are higher than expected revenue from property leases, business licences, payments-in-lieu of taxes, parking and traffic fine revenue sharing, as well as reduced expenses due to vacancies. Council makes a decision annually on the use of the current year General Fund surplus which is incorporated into the following year's budget.

Figure 3. Annual Surplus

For the year ended December 31, 2022 \$59,510,825



### 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 2022 the City's reserves grew by \$30.4 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 are either multi-year projects or experienced schedule adjustments to begin at a later date.

Specific to 2022, Capital projects that are underway include:

- Multi-Modal Corridor Improvements
- Gate of Harmonious Interest
- Fire Hall #1 Replacement
- Topaz Park Artificial Turf Replacement
- Major and Local Street Rehabilitation
- Public Washroom Improvements
- Vehicle and Heavy Equipment Replacements
- Water, sewer, and storm water mains replacement projects

Table 1. Reserve Balances

<b>Reserve Fund Description</b>	<b>Dec 31, 2021</b>	<b>Transfer To</b>	<b>Transfer From</b>	<b>Interest</b>	<b>Dec 31, 2022</b>
Financial Stability Reserves	\$ 77,984,249	\$ 5,415,051	\$ (715,323)	\$ 1,808,376	84,492,353
Equipment & Infrastructure Replacement Fund	179,329,833	27,083,752	(16,279,784)	4,158,478	194,292,278
Tax Sale Lands Fund	3,302,195	6,035,703	(1,011,466)	76,575	8,403,007
Parks and Greenways Acquisition Fund	1,465,128	739,694	-	33,975	2,238,797
Local Amenities	1,237,520	862,333	-	28,697	2,128,550
Affordable Housing	6,925,668	1,825,349	(1,312,500)	160,599	7,599,116
Climate Action	2,108,457	844,269	-	48,893	3,001,619
Art In Public Places	896,028	150,000	(39,325)	20,778	1,027,481
Downtown Core Area Public Realm Improvements	228,428	427,610	-	5,297	661,335
Park Furnishing Dedication Program	33,323	59,540	(32,000)	773	61,636
<b>Total Reserve Funds Balance</b>	<b>\$ 273,510,829</b>	<b>\$ 43,443,301</b>	<b>\$ (19,390,397)</b>	<b>\$ 6,342,441</b>	<b>\$ 303,906,173</b>

### 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 for providing and improving parkland related to population growth.

DCC balances (Table 2) increased in 2022 by \$490,728 in interest revenue allocated and \$3.39 million in charges, compared to \$4.38 million in charges collected in 2021. A total of \$5.15 million was used to fund capital projects in 2022, compared to \$3.67 million funded from the DCC balances in 2021.

Table 2. DCC Balances

<b>Development Cost Charges</b>	<b>Dec 31, 2021</b>	<b>Transfer To</b>	<b>Transfer From</b>	<b>Interest</b>	<b>Dec 31, 2022</b>
Water and Environment	\$ 251,974	\$ -	\$ 257,816	\$ 5,843	\$ -
Transportation	6,285,035	1,037,914	2,228,783	145,744	5,239,910
Water	1,816,545	594,464	112,205	42,124	2,340,928
Drainage	901,503	229,269	8,613	20,905	1,143,064
Sewage	2,706,737	342,723	15,509	62,767	3,096,718
Parkland Acquisition and Development	9,200,280	1,183,518	2,523,489	213,345	8,073,655
<b>Total Development Cost Charges</b>	<b>\$ 21,162,074</b>	<b>\$ 3,387,888</b>	<b>\$ 5,146,414</b>	<b>\$ 490,728</b>	<b>\$ 19,894,275</b>

### Capital Assets

The City's inventory of capital assets (Table 3), cost before accumulated amortization, increased by \$43 million with the most significant increases resulting from:

- \$14.5 million of street rehabilitation
- \$9.4 million of water/sewer/storm drain infrastructure
- \$7.2 million for Topaz Park improvements
- \$2.5 million for Songhees Park expansion
- \$2.4 million for vehicle and heavy equipment replacement
- \$1.9 million of land improvements
- \$1.0 million of land acquisition

Table 3. Capital Assets

<b>Capital Assets (Historical Costs)</b>	<b>2022</b>	<b>2021</b>
Land	\$ 173,227,689	\$ 159,699,116
Buildings	123,036,756	121,277,684
Furniture, Equip, Tech & Vehicles	101,229,301	95,112,269
Roads, Bridges and Highways	290,967,030	262,620,744
Water Infrastructure	93,165,280	87,625,234
Sewer Infrastructure	48,134,590	44,855,131
Drainage Infrastructure	46,099,711	40,126,625
Assets Under Construction	11,895,939	33,445,429
Total Capital Assets	887,756,296	844,762,232
Accumulated Amortization	(246,046,653)	(228,613,480)
Total Capital Assets (Net Book Value)	\$ 641,709,642	\$ 616,148,752

### Debt

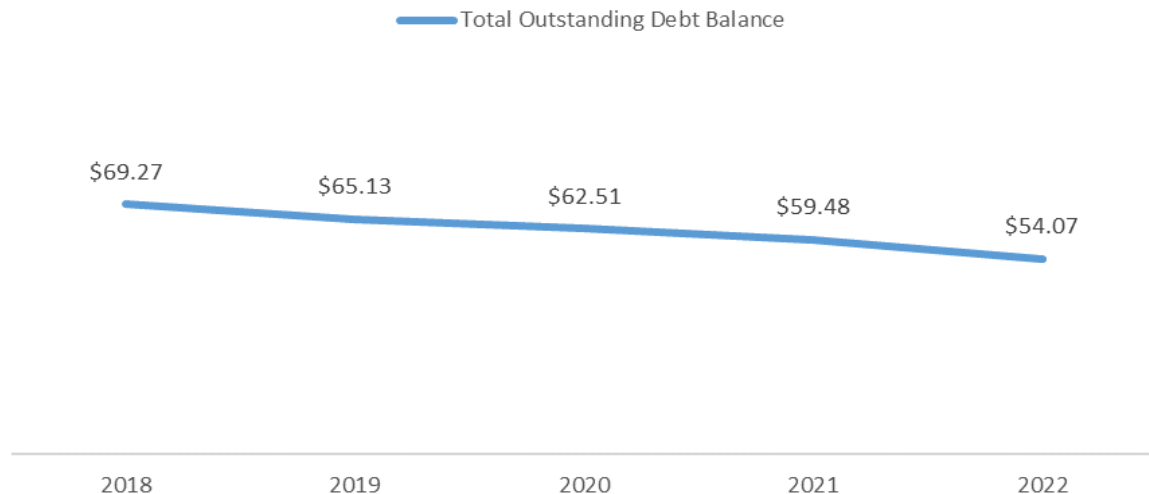
No new MFA debt was issued in 2022. The City's total outstanding debt (Table 4) decreased in the year by \$5.41 million.

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

<b>Debt Issues (in millions)</b>	<b>Expiry Date</b>	<b>2022</b>	<b>2021</b>
Equipment Financing Loan	2026	2.37	3.13
<b>Debenture Debt</b>			
Issue 79, 80, 81 – Arena	2033 / 2034	16.24	17.33
Issue 102 – City Hall Upgrades & Burnside Gorge Community Centre	2022	0.00	0.38
Issue 105 – Crystal Gardens	2024	0.52	0.79
Issue 103, 105, 110 – Parkades Upgrades	2023 / 2023 / 2025	1.57	2.29
Issue 115, 130, 139, 142 – Johnson Street Bridge	2031 / 2034 / 2036/ 2037	33.37	35.56
Total Debenture Debt		51.70	56.35
Total Debt balance outstanding at December 31, 2022		\$54.07 m	\$59.48 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 external debt servicing costs (principal repayment and interest) are below this level, therefore approximately \$3.2 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 be completed in 2023) to occur at a lower interest cost.

#### Portfolio Investments

The City's investment portfolio (Tables 5 and 6) returned \$7.8 million in 2022, an increase of \$3.0 million from 2021. The actual investment portfolio rate of return was 2.24% (0.98% in 2021). The majority of investment revenue is allocated to reserves, per the City's Reserve Fund Policy.

The increase in investment revenue over 2022 is due to increase rates of return in the investment market from increased interest rates.

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 (Figure 8).



Table 5. Investment Portfolio

Investment Portfolio	2022		2021	
	Share	Value	Share	Value
MFA Pooled Money Market (Cash and Cash Equiv)	6%	\$ 21,509,861	18%	\$ 62,056,554
MFA High Interest Savings (Cash and Cash Equiv)	20%	65,600,482	20%	69,156,109
MFA Pooled Bond Funds (2 - 5 years)	26%	87,028,547	19%	66,548,303
Term Deposits Credit Unions (1 year)	29%	96,014,795	27%	96,000,000
Term Deposits Schedule 1 Banks (1 year)	9%	31,000,000	16%	56,000,000
GICs (5 year)	10%	34,000,000	0%	-
	100%	\$ 335,153,685	100%	\$ 349,760,966

Table 6. Investment Returns

Investment Returns	2022	2021
Investment Returns	\$ 7,840,487	\$ 3,013,638
Actual Rate of Return	2.24%	0.98%
MFA Money Market Return	0.12%	0.15%
Average Bank Interest Rate	2.48%	0.80%

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

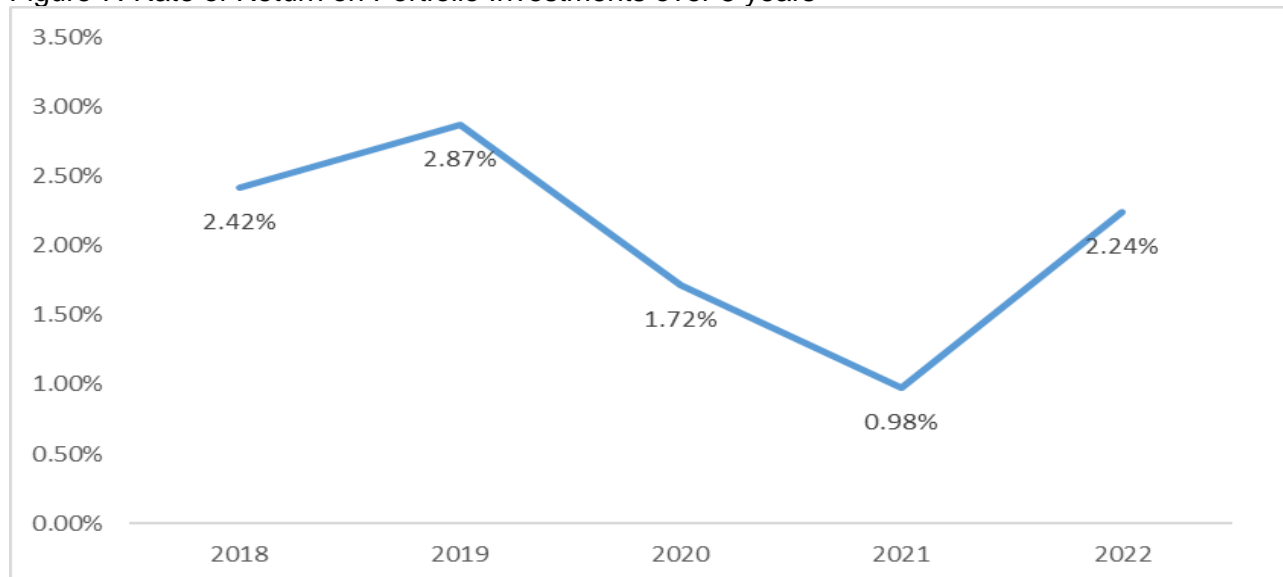


Figure 8. City of Victoria SRI Investments

The City of Victoria

## Socially Responsible Investments

Socially responsible investing (SRI) is an investment strategy which seeks to deliver positive social impact.



### 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 2022 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.

### 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 key highlights and performance measures in visual graphics so that it is easily understood.

### CONCLUSION

BDO conducted the City's 2022 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, 2022, 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,

Raymond Lin  
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, 2022  
Appendix B – Audit Findings Report to Mayor and Council  
Appendix C – Independent Auditor's Report  
Appendix D – Indicators of Financial Condition  
Appendix E – Budget to Actual Operating Revenues and Expenses  
Appendix F – Budget to Actual Capital Expenditures