



Committee of the Whole Report For the Meeting of May 9, 2024

To: Committee of the Whole **Date:** April 29, 2024
From: Susanne Thompson, Deputy City Manager and
Chief Financial Officer
Subject: 2023 Financial Statements

RECOMMENDATION

That Council:

1. Approve the 2023 Financial Statements.
2. Forward this item to the daytime Council meeting of May 9, 2024 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 2023 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, 2023.

PURPOSE

The purpose of this report is to provide Council with an overview of the City's 2023 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 2023 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.6-28) - additional detail to disclose relevant reporting information and support significant balances in the Financial Statements.

The relationship between the statements is 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 details on the balances in the Statement of Financial Position.

Figure 1. Relationship between Financial Statements

The Corporation of the City of Victoria Statement of Financial Position As at December 31, 2023, with comparative figures for 2022			
	2023	2022	
Financial Assets			
Cash and cash equivalents (Note 3)	\$ 97,276,196	\$ 128,244,048	Statement of Cash Flows
Accounts receivable			
Property taxes	4,189,736	3,047,594	
Other (note 3)	37,500,804	35,679,761	
Portfolio investments (Note 4)	272,967,247	248,043,341	
Mortgage receivable (Note 5)	1,044,652	1,012,458	
Other assets	403	2,216	
MFA debt reserve fund (Note 16)	1,323,540	1,310,667	
	<u>414,302,578</u>	<u>417,340,085</u>	
Liabilities			
Accounts payable and accrued liabilities	35,189,523	30,069,020	
Deposits and prepayments	28,717,848	26,658,204	
Deferred revenue (Note 6)	31,127,016	29,359,819	
Long-term debt (Note 7)	48,962,799	54,066,383	
Employee future benefit liability (Note 8)	19,987,861	19,423,526	
Asset retirement obligation (Note 10)	1,706,893	-	
	<u>165,691,940</u>	<u>159,576,952</u>	
Net Financial Assets (net debt)	248,610,638	257,763,134	Statement of Changes in Net Financial Assets
Non-Financial Assets			
Tangible capital assets (Note 9)	722,459,962	641,709,643	
Inventories of supplies	2,655,209	2,434,168	
Deposits towards acquisition of tangible capital assets (Note 9(d))	535,000	3,400,000	
Prepaid expenses and deposits	2,539,789	687,035	
	<u>728,189,960</u>	<u>648,230,846</u>	
Accumulated Surplus (Note 11)	\$ 976,800,598	\$ 905,993,980	Statement of Operations and Accumulated Surplus
The accompanying notes are an integral part of these financial statements.			

The Statement of Financial Position, accompanied by Note 11 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, 2023, 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

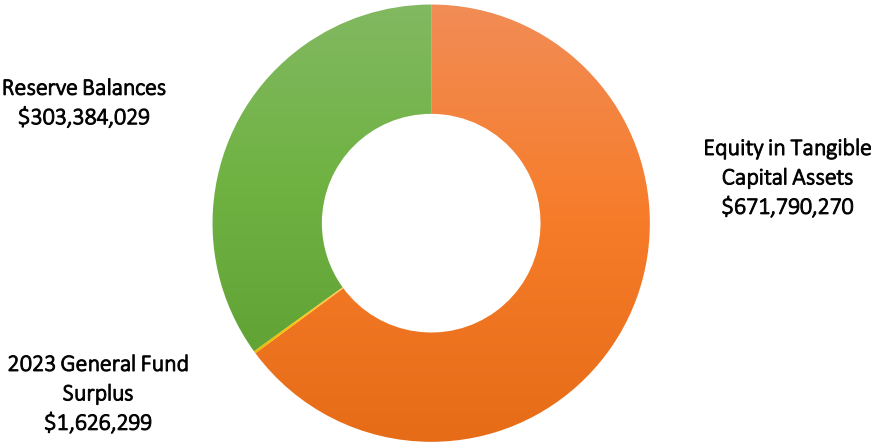
Accumulated Surplus

The Accumulated Surplus balance at December 31, 2023, as reported on the Statement of Financial Position, is \$976.8 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 \$1.63 million makes up a small portion of the Accumulated Surplus balance.

Figure 2. Accumulated Surplus

At December 31, 2023 \$976,800,598



This means that the majority of the \$976.8 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.

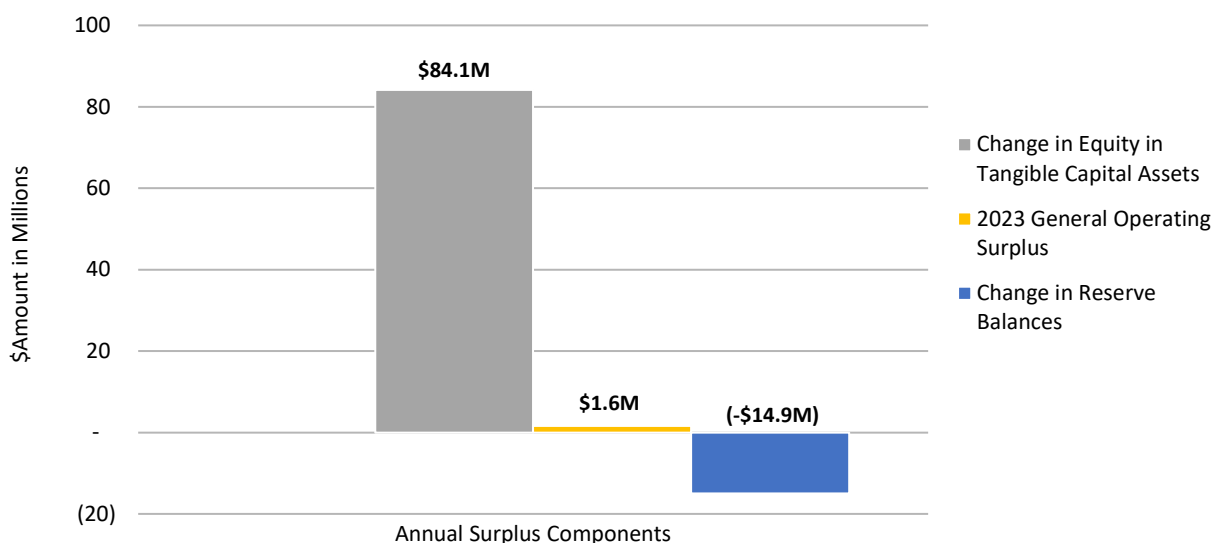
Annual Surplus

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 2023 is \$70.8 million. Most of this surplus is comprised of increased equity in capital assets offset by decrease from use of the reserve balances (Figure 3). Of the total annual surplus balance, \$1.63 million is the General Fund surplus which is available for future spending.

The primary contributions to the 2023 General Fund surplus of \$1.63 million are higher than expected revenue from the Victoria Conference Centre, payments-in-lieu of taxes, as well as reduced expenses due to staff 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, 2023 \$70,806,618



Statutory Reserves

The City statutory 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 2023 the City's statutory reserves decreased by \$14.4 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. Some projects are either multi-year projects or experienced schedule adjustments to begin at a later date.

Specific to 2023, 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
- Crystal Pool boiler replacement

Table 1. Statutory Reserve Balances

Reserve Fund Description	Dec 31, 2022	Transfer To	Transfer From	Interest	Dec 31, 2023
Financial Stability Reserves	\$ 84,492,353	\$ 2,584,578	\$ (36,503,076)	\$ 4,042,960	54,616,815
Equipment & Infrastructure Replacement Fund	194,292,278	25,664,331	(35,156,259)	9,296,886	194,097,236
Tax Sale Lands Fund	8,403,007	50,000	(103,982)	402,084	8,751,109
Parks and Greenways Acquisition Fund	2,238,798	-	-	107,125	2,345,923
Local Amenities & Tree	2,128,550	523,940	(96,445)	103,292	2,659,337
Affordable Housing	7,599,116	1,555,677	(622,500)	363,618	8,895,911
Climate Action	3,001,619	1,005,628	(410,646)	143,627	3,740,228
Art In Public Places	1,027,481	150,000	(95,419)	49,165	1,131,227
Downtown Core Area Public Realm Improvements	661,335	-	(360,110)	14,414	315,639
Park Furnishing Dedication Program	61,636	67,500	(38,825)	2,949	93,260
Growing Communities Fund	-	12,852,000	-	-	12,852,000
Total Reserve Funds Balance	\$ 303,906,173	\$ 44,453,654	\$ (73,387,262)	\$ 14,526,120	\$ 289,498,685

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 2023 by \$951,941 in interest revenue allocated and \$2.27 million in charges, compared to \$3.39 million in charges collected in 2022. A total of \$6.13 million was used to fund capital projects in 2023, compared to \$5.15 million funded from the DCC balances in 2022.

Table 2. DCC Balances

Development Cost Charges	Dec 31, 2022	Transfer To	Transfer From	Interest	Dec 31, 2023
Water and Environment	\$ -	\$ -	\$ -	\$ -	\$ -
Transportation	5,239,910	768,223	5,239,000	250,730	1,019,862
Water	2,340,928	245,366	513,000	112,013	2,185,307
Drainage	1,143,064	175,913	572	54,696	1,373,101
Sewage	3,096,718	249,930	313,588	148,178	3,181,238
Parkland Acquisition and Development	8,073,655	829,765	68,628	386,324	9,221,116
Total Development Cost Charges	\$ 19,894,275	\$ 2,269,197	\$ 6,134,789	\$ 951,941	\$ 16,980,624

Capital Assets

The City's inventory of capital assets (Table 3), cost before accumulated amortization, increased by \$101.4 million with the most significant increases resulting from:

- \$35.2 million for Firehall #1 replacement
- \$19.0 million of street rehabilitation
- \$14.3 million of water/sewer/storm drain infrastructure
- \$12.4 million in multi-modal corridor improvements
- \$3.2 million in vehicle and heavy equipment replacement
- \$2.1 million for Topaz Park artificial turf replacement
- \$1.7 million from adoption of new PSAS (Public Sector Accounting Standards) related to asset retirement obligations
- \$1.4 million in computer equipment
- \$1.2 million in Crystal Pool boiler replacement

Table 3. Capital Assets

Capital Assets (Historical Costs)	2023	2022
Land	\$ 177,594,904	\$ 173,227,689
Buildings	162,199,741	123,036,756
Furniture, Equip, Tech & Vehicles	111,406,401	101,229,301
Roads, Bridges and Highways	313,075,960	290,967,030
Water Infrastructure	95,937,823	93,165,280
Sewer Infrastructure	51,099,968	48,134,590
Drainage Infrastructure	47,754,283	46,099,711
Assets Under Construction	30,135,841	11,895,939
Total Capital Assets	989,204,921	887,756,296
Accumulated Amortization	(266,744,959)	(246,046,653)
Total Capital Assets (Net Book Value)	\$ 722,459,962	\$ 641,709,643

Debt

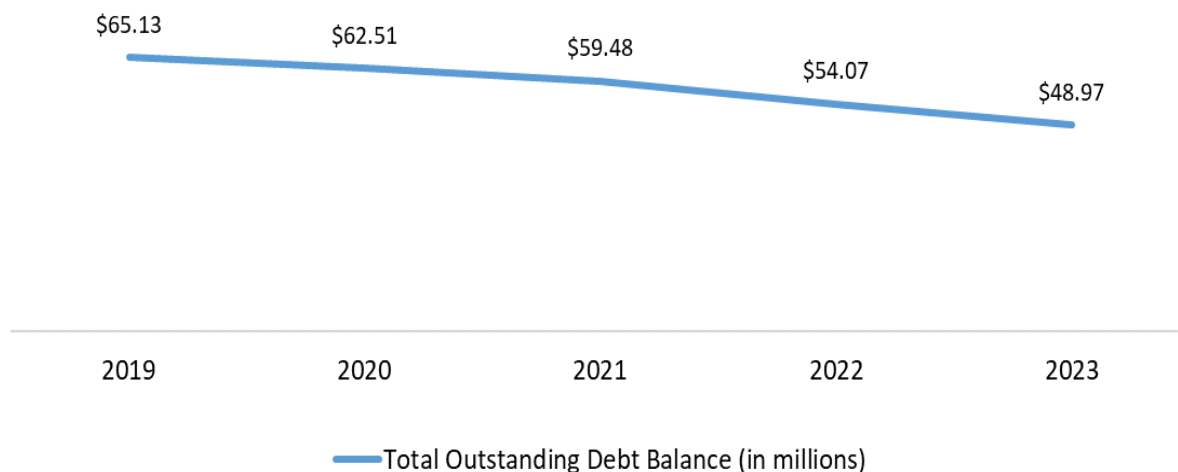
No new MFA debt was issued in 2023. The City's total outstanding debt (Table 4) decreased in the year by \$5.11 million.

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 consider intergenerational equity by balancing 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	2023	2022
Equipment Financing Loan	2026	1.65	2.37
Debenture Debt			
Issue 79, 80, 81 – Arena	2033 / 2034	15.10	16.24
Issue 105 – Crystal Gardens	2024	0.23	0.52
Issue 103, 105, 110 – Parkades Upgrades	2023 / 2023 / 2025	0.88	1.57
Issue 115, 130, 139, 142 – Johnson Street Bridge	2031 / 2034 / 2036/ 2037	31.10	33.37
Total Debenture Debt		47.31	51.70
Total Debt balance outstanding at December 31, 2023		\$48.96 m	\$54.07 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 that if possible, 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 \$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 funded the replacement of Fire Department Headquarters in 2023 resulting in a lower interest cost.

Portfolio Investments

The City's investment portfolio (Tables 5 and 6) returned \$17.4 million in 2023, an increase of \$9.5 million from 2022. The actual investment portfolio rate of return was 5.19% (2.24% in 2022). The majority of investment revenue is allocated to reserves, per the City's Reserve Fund Policy.

The increase in investment revenue over 2023 is due to increased 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 Accounts, 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	2023		2022	
	Share	Value	Share	Value
MFA Pooled Money Market (Cash and Cash Equiv)	4%	\$ 12,000,000	6%	\$ 21,509,861
MFA High Interest Savings (Cash and Cash Equiv)	15%	50,473,553	20%	65,600,482
MFA Pooled Bond Funds (2 - 5 years)	35%	115,967,266	26%	87,028,546
Term Deposits Credit Unions (1 year)	27%	91,999,981	29%	96,014,795
Term Deposits Schedule 1 Banks (1 year)	9%	31,000,000	9%	31,000,000
GICs Credit Unions (5 year)	3%	9,000,000	3%	9,000,000
GICs Schedule 1 Banks (5 year)	7%	25,000,000	7%	25,000,000
	100%	\$ 335,440,800	100%	\$ 335,153,684

Table 6. Investment Returns

Investment Returns	2023	2022
Investment Returns	\$ 17,388,869	\$ 7,840,487
Actual Rate of Return	5.19%	2.24%
MFA Money Market Return	5.38%	0.12%
Average Bank Interest Rate	5.29%	2.48%

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

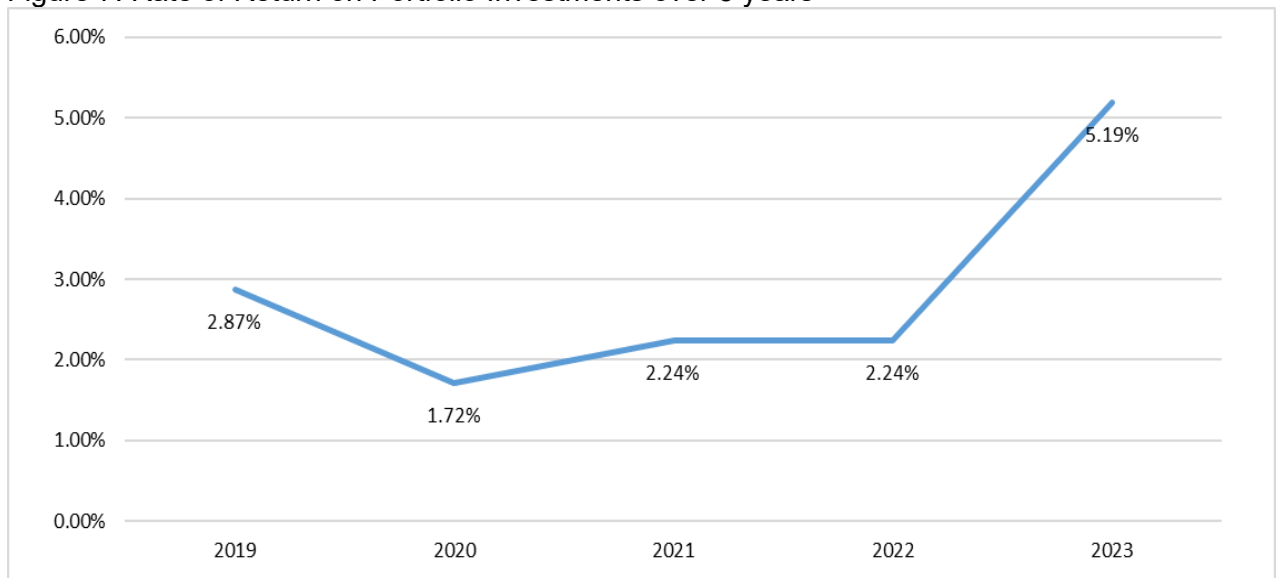
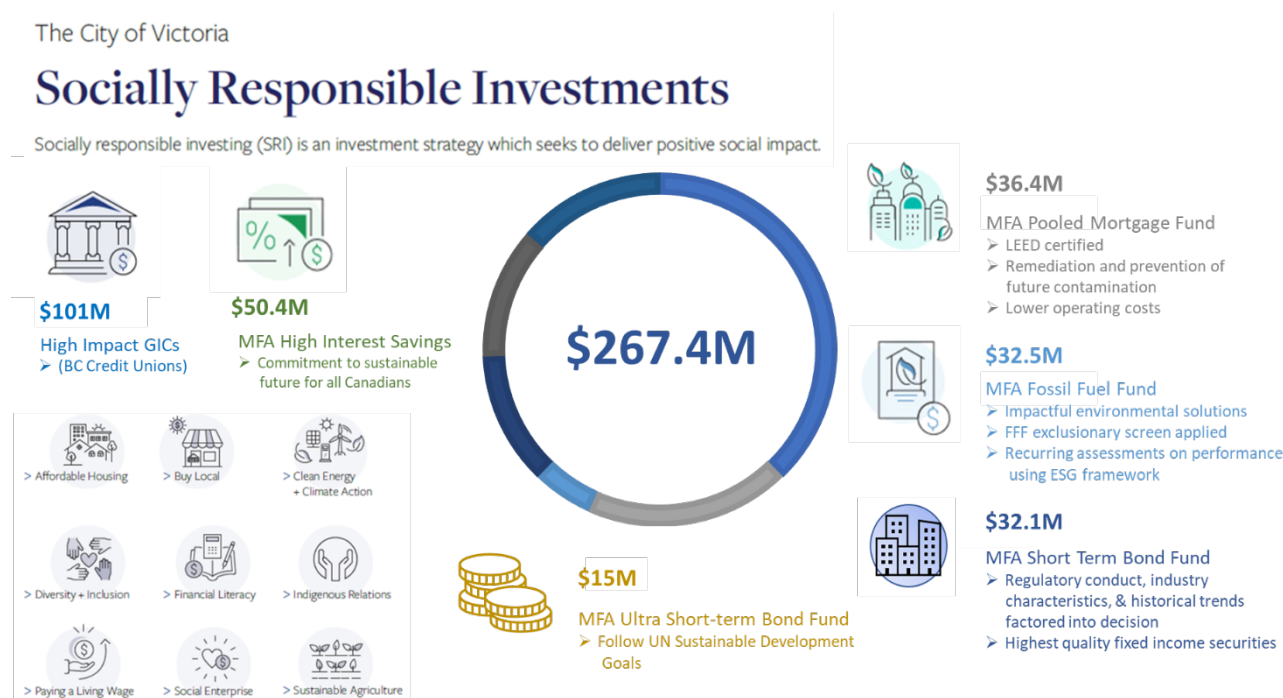


Figure 8. City of Victoria SRI Investments



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 2023 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 2023 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, 2023, 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, 2023

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