



Governance and Priorities Committee Report

Date: April 15, 2014 **From:** Laurel Westinghouse, Manager of Accounting
Subject: 2013 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 2013 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.

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

Today's presentation will provide an overview of the City's 2013 Financial Statements.

Following this presentation, KPMG will present their audit findings report. Once accepted by Council, KPMG 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, 2013.

Recommendation:

That Council accept the 2013 Financial Statements.

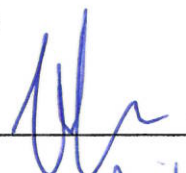
Respectfully submitted


Laurel Westinghouse
Manager of Accounting


Susanne Thompson
Acting Director of Finance

Report accepted and recommended by the City Manager:

Date:


April 16, 2014

Purpose

To provide Council with an overview of the City's 2013 audited Financial Statements and request Council's acceptance 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 2013 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 the Canadian Institute of Chartered Accountants.

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

1. **Statement of Financial Position** (pg. 3) – provides a summary of the City's economic resources 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.
2. **Statement of Operations and Accumulated Surplus** (pg. 4) – identifies the current year contribution to the Accumulated Surplus balance from revenue and expenses
3. **Statement of Changes in Net Financial Assets** (pg. 5) – 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
4. **Statement of Cash Flows** (pg. 6)– supplementary detail to support the change to Cash and Cash Equivalents balance on the Statement of Financial Position
5. **Notes to the Financial Statements** (pgs. 7 – 33) - additional detail to disclose relevant reporting information and support significant balances in the Financial Statements.

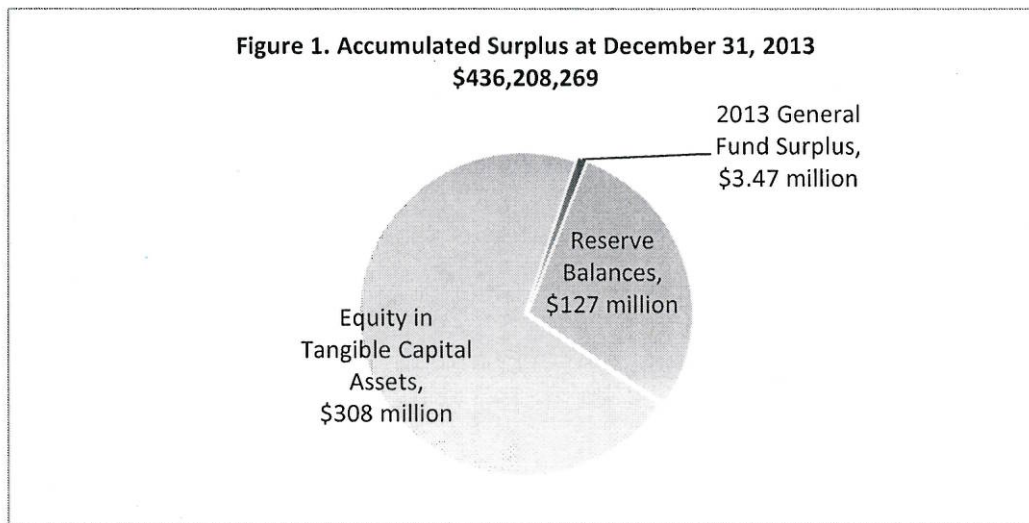
Issues & Analysis

Accumulated Surplus

The Accumulated Surplus balance at December 31, 2013, as reported on the Statement of Financial Position, is \$436 million. This is the accumulation of the City's increases in equity in capital assets and reserve balances since its inception. The balance is an indication of how much the City's assets exceed its liabilities and represents the total 'economic resources' available to the City.

Of these 'economic resources' available, equity in capital assets makes up the most significant portion of the accumulated surplus balance, followed by reserve balances (Figure 1). The current year General Fund Surplus of \$3.47 million makes up a small portion of the Accumulated Surplus balance.

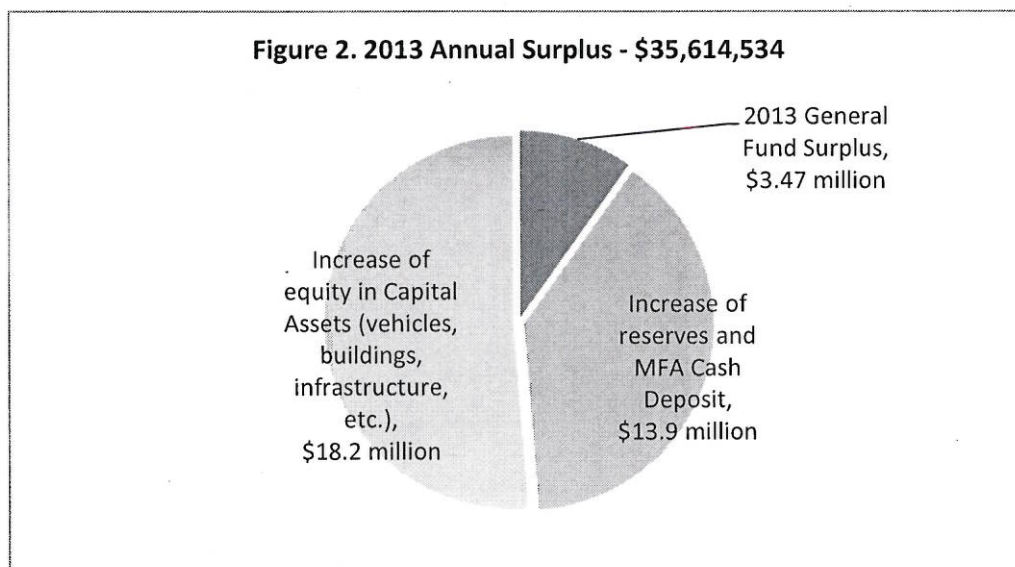
This means that the majority of the \$436 million consists of the City's tangible capital assets, such as roads, underground infrastructure, land, buildings, and equipment, along with funds set aside in reserves for future spending.



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 2013 is \$35.6 million. Most of this surplus is comprised of increased equity in capital assets and growth in reserve balances (Figure 2). Of the total annual surplus balance, \$3,474,559 is the General Fund surplus which is available for future spending.

Council makes a decision annually on the use of the current year General Fund surplus which is incorporated into the following year's budget.



Reserves

All of the City reserve funds were established by bylaw under section 188 of the Community Charter. Funding from these reserves can only be used for the specific purposes outlined in the bylaw. In 2013 the City's reserves grew by \$13.9 million (Table 1).

Transfers from reserves, to fund capital projects and programs, were \$8.6 million less than budget due to the following circumstances: 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 2013, Capital projects that were delayed include:

- Sewer Main Upgrade project – delayed pending completion of the Sewer Master Plan, which is scheduled to be complete in 2015
- Douglas Street Retaining Wall – the site investigation and design was completed in 2013 and the construction will take place in 2014
- Rock Bay Remediation – dependent on start date of BC Hydro and Transport Canada's environmental remediation project in Rock Bay
- Victoria Harbour Marine Protection – project planning in 2013 and design and construction in 2014

Table 1. Reserve Balances

RESERVE BALANCES	Dec 31, 2012	Transfer To	Transfer From	Interest	Dec 31, 2013
Financial Stability Reserves	\$ 3,227,324	\$ 100,000	\$ (769,150)	\$ 40,341	\$ 2,598,515
Equipment & Infrastructure Replacement Fund	53,037,267	11,086,320	(12,121,519)	662,965	52,665,033
Gas Tax	5,137,696	2,146,764	(911,683)	64,221	6,436,998
Economic development	725,378	-	-	9,067	734,445
Debt Reduction	13,335,722	7,752,593	-	166,697	21,255,012
Self Insurance	3,687,282	-	-	46,091	3,733,373
Working Capital Fund	3,789,711	-	-	47,371	3,837,082
Tax Sale Lands Fund	10,326,723	50,000	(842,165)	129,084	9,663,642
Parks and Greenways Acquisition Fund	2,241,446	-	-	28,018	2,269,464
Local Amenities	100,784	-	-	1,260	102,044
Affordable Housing	2,051,341	250,000	(430,000)	25,643	1,896,984
Climate Action	253,415	124,367	-	3,168	380,950
Water Utility	1,844,385	3,033,533	-	23,055	4,900,973
Sewer Utility	13,434,671	2,801,083	-	167,933	16,403,687
Tree conservation	306,403	29,640	-	3,830	339,873
Art in public places	234,205	135,000	(70,569)	2,928	301,564
Downtown Core Area Public Realm Improvements	-	57,373	-	-	57,373
Heritage Building Seismic Upgrades	-	19,124	-	-	19,124
TOTAL RESERVES	\$113,733,753	\$27,585,798	\$(15,145,086)	\$1,421,672	\$ 127,596,137

DCCs

Development Cost Charges (DCC) 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.

DCC balances (Table 2) increased in 2013 by \$83,420 in interest revenue allocated and \$858,176 in charges, compared to \$2.6 million in charges collected in 2012. There was no capital activity funded from the DCC balances in 2013, compared to \$277,382 transferred to capital in 2012.

Table 2. DCC Balances

DEVELOPMENT COST CHARGES	Dec 31, 2012	Transfer To	Transfer From	Interest	Dec 31, 2013
Water and Environment	\$ 890,418	\$ -	\$ -	\$ 11,130	\$ 901,548
Streets	19,508	-	-	244	19,752
Transportation	2,598,109	329,043	-	32,476	2,959,628
Water	248,914	37,057	-	3,111	289,082
Drainage	152,005	20,898	-	1,900	174,802
Sewage	851,617	165,222	-	10,645	1,027,484
Parkland Acquisition	1,429,198	215,269	-	17,865	1,662,332
Parkland Development	483,939	90,688	-	6,049	580,675
TOTAL DEVELOPMENT COST CHARGES	\$ 6,673,707	\$ 858,176	\$ -	\$ 83,420	\$ 7,615,303

Capital Assets

The City's inventory of capital assets (Table 3) increased by \$25.4 million with the most significant increases resulting from:

- \$8.9 million of road infrastructure – construction of Johnson Street Bridge
- \$8 million of water/sewer/storm drain infrastructure built
- \$5.5 million of vehicle and equipment purchases
- \$1.8 million of building infrastructure built – City Hall customer service/access improvement

Table 3. Capital Assets

CAPITAL ASSETS (Historical Costs)	2013	2012
Land	\$136,693,575	\$135,784,270
Buildings	90,770,544	85,145,510
Furniture, Equip, Tech & Vehicles	58,088,624	50,884,754
Roads, Bridges and Highways	86,295,730	83,685,450
Water Infrastructure	53,077,355	51,259,470
Sewer Infrastructure	16,440,681	16,108,253
Drainage Infrastructure	12,436,445	12,078,440
Assets under Construction	34,846,843	28,301,636
Total Capital Assets	\$488,649,797	\$463,247,783
Accumulated Amortization	-130,907,113	-122,063,816
TOTAL CAPITAL ASSETS (Net Book Value)	\$357,742,684	\$341,183,967

Debt

The City's outstanding debt (Table 4) decreased in the year by \$3.1 million. No new debt was issued in 2013 and the only debt authorized but not issued is \$39 million for the Johnson Street Bridge. This debt is planned to be issued as the bridge is constructed, with \$23 million planned for 2014.

Table 4. Debt

DEBT ISSUES (in millions)	EXPIRY DATE	2013
Issue 79, 80, 81 – Multipurpose Facility (Arena)	2033/34	24.42
Issue 85 – City Hall Seismic Upgrades	2019	1.32
Issue 95 – Upgrade Fire Halls	2020	0.68
Issue 102 – City Hall Upgrades & Burnside Gorge Community Centre	2022	3.01
Issue 105 – Crystal Gardens	2024	2.69
Issue 103/105/110 – Parkades Upgrades	2023 / 2023 / 2025	7.07
Issue 115 – Johnson Street Bridge	2023	9.5
TOTAL DEBT		\$48.7 million

Investments

The City's investment portfolio (Table 5) returned \$2.3 million in 2013, an increase of \$95,000 as compared to 2012. The actual investment portfolio rate of return was 1.74%:

- 59% greater than the return of the MFA money market fund
- 40% greater than the City's average bank account interest rate

The investment portfolio is governed by the City's Investment Policy which is designed to invest public funds in a prudent manner, to yield the highest returns within the limits prescribed by Community Charter s.183, Investment of Municipal Funds.

The majority of investment revenue is allocated to reserves, as per the City's Reserve Fund Policy.

Table 5. Investments

INVESTMENT PORTFOLIO	2013	2012
Investment Returns	\$2,313,072	\$2,218,046
Actual Rate of Return	1.74%	1.78%
MFA Money Market Return	1.09%	1.06%
Average Bank Interest Rate	1.25%	1.25%

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

Appendix A - Budget to Actual Operating Revenues and Expenses

City of Victoria - Operating Budget Revenues For the Twelve Months Ending December 31, 2013

Description	Actual 31-Dec-13	2013 Budget	Budget Remaining	%	Comments
Corporate					
Payment in Lieu of Taxes	6,064,362	5,810,400	(253,962)	104%	Revenue higher than expected
Special Assessments	1,506,548	1,507,000	452	100%	
Fees and Interest	3,181,519	2,480,000	(701,519)	128%	Investment revenue higher than expected; offsetting transfer to reserves
Business and Other Licences	1,383,696	1,385,500	1,804	100%	
Overhead Recoveries	2,769,589	2,780,163	10,574	100%	
					Gas Tax received (offsetting transfer to Gas Tax Reserve); recreation ticket surcharge (offsetting transfer to reserves); secondary suites grants transferred from reserve; DCAP Public Realm and Downtown Heritage Seismic density bonus revenues (offsetting transfer to reserves)
Miscellaneous	4,245,258	1,762,180	(2,483,078)	241%	Offsetting transfers to VCC & Tourism Victoria (Destination Marketing)
Hotel Tax	2,058,724	1,800,000	(258,724)	114%	
Prior Year's Surplus	1,228,387	1,228,387	-	100%	
Sustainability	21,454	96,000	74,546	22%	BC Hydro grant carried forward to 2014
Legislative and Regulatory Services	1,196,419	1,106,000	(90,419)	108%	Higher than expected lease, dog licence and fine revenues
Sustainable Planning and Community Development	2,633,365	2,479,050	(154,315)	106%	Higher than expected plumbing permit, electrical permit and rezoning fees
Engineering and Public Works					
Solid Waste Operations	2,592,561	2,571,523	(21,038)	101%	Offsets higher expenditures
Asphalt Plant, Permits & Fees, Municipal Access Agreement	232,122	346,107	113,985	67%	
Third Party Billings	1,171,581	525,000	(646,581)	223%	Sale of reclaimed asphalt lower than expected
Parking Services	15,755,445	15,717,000	(38,445)	100%	Offsetting expenditures
	46,041,030	41,594,310	(4,446,720)	111%	
Parks, Recreation and Culture					
Parks	878,333	839,665	(38,668)	105%	BC Hydro Community Regreening grant
Recreation & Culture	590,416	544,900	(45,516)	108%	Revenues exceeded expectations in recreation programs, summer day camps, and rental of public space, ice and festival equipment
Crystal Pool	919,347	937,256	17,909	98%	
Royal Athletic Park	480,746	462,500	(18,246)	104%	New baseball team (which also increased expenditures)
	2,868,842	2,784,321	(84,521)	103%	
Fire Department/VEMA					
Police	94,189	44,250	(49,939)	213%	Higher than expected training revenues (training provided to external parties)
Property Taxes	9,668,561	9,792,281	123,720	99%	Lower than expected revenues
	111,993,215	111,992,479	(736)	100%	
Total City Operations	170,665,836	166,207,641	(4,458,195)	103%	
Self Financed Programs					
Conference Centre	8,851,290	8,717,259	(134,031)	102%	Event flow-through cost paid by clients higher than expected
Water Utility	18,236,251	17,410,408	(825,843)	105%	Revenue higher than expected (offsetting transfer to reserve)
Sewer Utility	8,210,317	7,603,503	(606,814)	108%	Revenue higher than expected (offsetting transfer to reserve)
Total Self Financed	35,297,859	33,731,170	(1,566,689)	105%	
	205,963,695	199,938,811	(6,024,884)	103%	

City of Victoria - Operating Budget Expenses
For the Twelve Months Ending December 31, 2013

Description	Actual 31-Dec-13	2013 Budget	Budget Remaining	%	Comments
Corporate					
Contingencies	-	2,211,438	2,211,438	0%	Includes funds for Fire collective agreement increases 2010 - 2013
Fees and Interest	156,687	170,000	13,313	92%	
Grants	431,570	391,796	(39,774)	110%	Offsetting transfer from Housing Reserve
Insurance	471,897	531,301	59,404	89%	Insurance allocations to departments higher than budget
Miscellaneous	859,017	1,287,998	428,981	67%	Tax appeals to BC Assessment lower than expected
Vehicle Depreciation Allocation	(1,192,000)	(1,000,000)	192,000	119%	Transfer equals actual recoveries
Economic Development Implementation	200,599	250,000	49,401	80%	Function started June 2013
Hotel Tax	2,063,150	1,800,000	(263,150)	115%	Offsetting revenue (transfers to VCC & Tourism Victoria for Destination Marketing)
Transfers to Own Funds	14,794,244	10,949,346	(3,844,898)	135%	Gas tax revenue \$2.15M; higher than expected interest revenue \$937K; vehicle depreciation recovery higher than expected; recreation ticket surcharge; DCAP Public Realm and Downtown Heritage Seismic density bonus revenues
Greater Victoria Public Library	4,310,017	4,275,183	(34,834)	101%	Additional building maintenance costs
Debt Principal, Interest and Reserve Transfer	7,827,583	7,827,583	-	100%	
Transfer to Capital Budget	10,794,852	10,794,852	-	100%	
Council	550,533	581,648	31,115	95%	Committee meeting costs less than expected
Offices of the Mayor and City Manager	918,059	1,003,908	85,849	91%	Elimination of one position
Finance	5,897,155	6,148,983	251,828	96%	Vacancies, reduced telephone costs
Human Resources	1,663,173	1,576,392	(86,781)	106%	Recruitment and arbitration costs higher than budget
Sustainability Department	731,564	880,783	149,219	83%	Department eliminated, grant carried forward to 2014
Legislative and Regulatory Service	3,301,792	3,470,849	169,057	95%	Vacancies, webcasting start later in the year, lower than expected leasing costs and repair and maintenance costs for City properties
Office of the City Solicitor	664,800	718,017	53,217	93%	Vacancies
Corporate Communications	670,591	723,007	52,416	93%	Vacancies
Sustainable Planning and Community Development	4,776,003	5,037,736	261,733	95%	Vacancies
Engineering and Public Works	12,244,820	12,700,976	456,156	96%	Vacancies
Public Works	987,012	1,027,244	40,232	96%	Vacancies
Support Services	2,500,091	2,518,522	18,431	99%	
Transportation	1,090,973	425,000	(665,973)	257%	Offsetting revenues
Third Party Billings	3,912,133	3,904,359	(7,774)	100%	
Underground Utilities and Facilities	7,735,850	7,661,000	(74,850)	101%	Higher than budgeted parking fine write-offs, partially offset by additional revenues
Parking Services	2,728,823	2,707,785	(21,038)	101%	Offsetting revenues
Solid Waste & Recycling	31,199,702	30,944,886	(254,816)	101%	
Subtotal Engineering & Public Works					
Parks, Recreation and Culture					
Parks, Rec & Culture Administration	221,148	263,636	42,488	84%	Vacancies
Recreation & Culture	2,423,299	2,714,466	291,167	89%	Vacancies, reduced grant program uptake
Parks	8,632,730	9,002,298	369,568	96%	Vacancies
Community Centres	739,911	756,707	16,796	98%	School District delayed maintenance work at James Bay
Crystal Pool	2,093,162	2,190,448	97,286	96%	Community School
Royal Athletic Park	826,140	617,965	(208,175)	134%	Vacancies
Subtotal Parks, Recreation and Culture	14,936,389	15,545,520	609,131	96%	New baseball team, partially offsetting revenue
Fire Department					
Fire	14,108,248	12,869,445	(1,238,803)	110%	Accrual for Fire salary increases 2010-2013; budget in contingencies
Victoria Emergency Management Agency	401,252	438,850	37,598	91%	
Police Department	46,654,400	46,778,120	123,720	100%	Net surplus transferred to employee benefit obligation reserve as per the financial agreement between Esquimalt, Victoria and the Police Board
Total City Operations	167,191,277	166,207,641	(983,636)	101%	
Self Financed Programs					
Conference Centre	8,851,290	8,717,259	(134,031)	102%	Event flow-through cost paid by clients higher than expected
Water Utility	18,236,252	17,410,408	(825,844)	105%	Reserve transfer higher due to higher than expected revenue
Sewer Utility	8,210,317	7,603,503	(606,814)	108%	Reserve transfer higher due to higher than expected revenue
Total Self Financed	35,297,859	33,731,170	(1,566,689)	105%	
	202,489,136	199,938,811	(2,550,325)	101%	
Operating Revenue	205,963,695				
Current year surplus	3,474,559				

Appendix B - Budget to Actual Capital Expenditures

City of Victoria Capital Budget Expenditures For the Twelve Months Ending December 31, 2013

	2013 Actual	2013 Budget	Budget Remaining	% Spent	Comments
EXPENDITURES (excludes commitments)					
Capital Equipment	5,475,663	9,630,986	4,155,323	56.85%	Vehicles ordered but not received until 2014, \$639,000 Projects in progress: Data Centre, \$1,000,000 IT Management System, \$684,130 Asset Application Support, \$710,818 Corporate
Capital Programs					
Sewer Utility	2,218,771	3,510,287	1,291,516	63.21%	Project underway to be completed in 2014: Wharf St sewer main relocation, \$117,000 Other projects delayed pending completion of Sewer Master Plan, \$1.1 million
Water Utility	2,715,627	3,153,168	437,541	86.12%	Project underway to be completed in 2014: Wharf St water main relocation
Downtown Beautification	368,863	428,199	59,336	86.14%	
Buildings	3,111,276	3,154,534	43,258	98.63%	
Parks Upgrades	1,275,855	1,254,888	(20,967)	101.67%	
Storm Drains	2,161,924	2,619,569	457,645	82.53%	
Transportation and Streets	3,164,128	3,245,340	81,212	97.50%	Project underway to be completed in 2014: Wharf St storm drain main relocation
Capital Projects (A)	15,016,445	17,365,985	2,349,540	86.47%	
Sewer Utility	186,334	825,000	638,666	22.59%	Delay in sewer main upgrade project pending completion of the Sewer Master Plan
Buildings	4,347,046	5,550,723	1,203,677	78.31%	Projects underway to be completed in 2014: City Hall Accessibility, \$280,000 Parkade Rehabilitation, \$560,000 Crystal Pool Capital Planning, \$184,000 Fire Hall Assessment, \$172,000
Environmental and Shoreline	880,026	3,581,547	2,701,521	24.57%	Projects underway to be completed in 2014: Remediation of City properties, \$1,634,000 Victoria Harbour Marine Protection, \$681,000 Dallas Road Seawall Balustrade Replacement, \$386,000
Parks Acquisition	-	2,000,000	2,000,000	0.00%	Project dependent on availability of land: new park in Burnside Gorge area
Parks Upgrades, Pathways and Greenways	401,933	779,818	377,885	51.54%	Projects underway to be completed in 2014: Outdoor Fitness Equipment, \$108,000 Rose Garden, \$78,000 Harbour Pathways, \$87,000
Planning	3,566	483,494	479,928	0.74%	Funding for a multi-year implementation of the Official Community Plan and Downtown Core Area Plan. Funding carried forward to 2014 for Inner Harbour Revitalization project, Bonus Density study outside downtown core area and Downtown Beautification Strategy
Storm Drains	911,683	2,040,191	1,128,508	44.69%	Project underway to be completed in 2014: Storm Drain Brick Main, \$553,000 Rock Bay remediation dependent on start date of Transport Canada's environmental remediation project in Rock Bay, \$575,000
Transportation and Streets (A)	8,886,772	41,811,006	32,924,234	21.25%	Projects underway: Street Bridge Replacement, \$31.2 million Vic West Transportation Plan Implementation, \$300,000 Douglas Street Retaining Wall, \$1,300,000
Total Capital Expenditures	36,109,468	84,068,750	47,959,282	42.95%	

Notes:

A Johnson Street Bridge Replacement is included under Transportation and Streets.