

Subject: 2022 City of Ottawa Consolidated Financial Statements

File Number: ACS2023-FCS-FIN-0006

Report to Audit Committee on 9 June 2023

and Council 14 June 2023

Submitted on May 30, 2023 by Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Finance and Corporate Services Department

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Ward: Citywide

Objet : États financiers consolidés de 2022 de la Ville d'Ottawa

Dossier : ACS2023-FCS-FIN-0006

Rapport au Comité de la vérification

le 9 juin 2023

et au Conseil le 14 juin 2023

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Quartier : À l'échelle de la ville

REPORT RECOMMENDATION

That the Audit Committee recommend Council approve the 2022 City of Ottawa Consolidated Financial Statements.

RECOMMANDATION DU RAPPORT

Que le Comité de la vérification recommande au Conseil d'approuver les états financiers consolidés de 2022 de la Ville d'Ottawa.

EXECUTIVE SUMMARY

Section 294 of the *Municipal Act, 2001*, requires that the City prepare annual audited consolidated financial statements in accordance with generally accepted accounting principles recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

The Draft Consolidated Financial Statements (Document 1) have been prepared by management in accordance with Canadian Public Sector Accounting Standards established by PSAB of CPA Canada.

The City's external auditors Ernst & Young LLP have also provided their audit results to date and outlined steps for completion in the attached report (Document 2).

Financial Highlights

- The construction of the Light Rail Transit Stage 2 (Stage 2 LRT) continued to be a significant item on the consolidated financial statements.
- Accounts receivable increased mainly due to receivables from senior levels of government for funding claims related to cost recoveries for policing of two large scale national demonstrations that took place in Ottawa, as well as for claims related to Stage 2 LRT cost recoveries.
- Net long-term debt increased from the previous year due to a new \$286 million debt issuance and new loans of \$23 million. This was offset by the City paying off \$137 million of debt principal during 2022 from its overall outstanding debt.
- Tangible capital assets increased primarily due to Stage 2 LRT, water and wastewater infrastructure, roads and the new central library construction.
- Increase to revenue from fees and user charges as a result of COVID-19 restrictions being lifted, which led to more residents using transit and recreation programs.

RÉSUMÉ

L'article 294 de la *Loi de 2001 sur les municipalités* exige que la Ville prépare des états financiers consolidés et audités chaque année conformément aux principes comptables généralement reconnus recommandés par le Conseil sur la comptabilité dans le secteur public (CCSP) de Comptables professionnels agréés du Canada (CPA Canada).

Les états financiers consolidés provisoires (document 1) ont été préparés par la direction conformément aux normes comptables du secteur public canadien, établies par le CCSP de CPA Canada.

L'auditeur externe de la Ville, la société à responsabilité limitée Ernst & Young, a aussi publié les résultats de l'audit et défini les étapes à réaliser dans le rapport ci-joint (document 2).

Faits saillants des états financiers

- La construction de l'Étape 2 du train léger sur rail (Étape 2 du TLR) continue d'occuper une place importante dans les états financiers consolidés.
- Les comptes débiteurs ont augmenté principalement en raison de sommes à recevoir d'ordres supérieurs de gouvernement pour des demandes de financement relatives à des recouvrements de coûts dus à l'utilisation de ressources policières dans le cadre de deux manifestations nationales de grande envergure qui ont eu lieu à Ottawa, ainsi que pour des demandes de financement pour des recouvrements de coûts de l'Étape 2 du TLR.
- Les passifs nets à long terme ont augmenté par rapport à l'année précédente en raison d'une nouvelle émission de titres de créances de 286 millions de dollars et de nouveaux prêts de 23 millions de dollars. Ceci a été compensé par le paiement de la Ville de 137 millions de dollars du capital de la dette durant l'année 2022 à partir de sa dette globale en souffrance.
- Les immobilisations corporelles ont augmenté surtout en raison de la construction de l'Étape 2 du TLR, de l'infrastructure de l'eau et des eaux usées, des routes et de la nouvelle bibliothèque centrale.
- L'augmentation des recettes provenant des frais et redevances d'utilisation entraînée par la levée des restrictions imposées pendant la COVID-19, ce qui a amené plus de résidents à utiliser le transport en commun et les programmes de loisirs.

BACKGROUND

Section 294 of the *Municipal Act, 2001*, requires that the City prepare annual audited consolidated financial statements in accordance with generally accepted accounting principles recommended by PSAB of CPA Canada. These audited financial statements must be made available to the public.

On February 17, 2023, Ernst & Young LLP provided an audit plan ([ACS2023-FSD-FIN-0002](#)), outlining the scope of key issues affecting the 2022 audit for the information of Audit Committee and Council.

DISCUSSION

The consolidated financial statements have been prepared by management in accordance with the Canadian Public Sector Accounting Standards established by PSAB of CPA Canada. These accounting standards require the reporting of revenues and expenses on an accrual basis of accounting. The accrual basis of accounting recognizes revenues and expenses, as they are incurred and measurable.

These consolidated financial statements include the operation of all local boards and agencies, such as the Police Services Board, Ottawa Public Library Board, the Ottawa Community Housing Corporation, and the Business Improvement Areas. The City's investment in Hydro Ottawa is recorded in the consolidated financial statements on a modified equity basis.

Consolidated Financial Statements

The consolidated financial statements are comprised of four individual statements and detailed notes to the consolidated financial statements.

The Consolidated Statement of Financial Position focuses on the City's assets (financial and non-financial) and liabilities. The difference between the liabilities and the financial assets is the City's net debt, which represents the liabilities that must be financed from future revenues.

The Consolidated Statement of Operations and Accumulated Surplus outlines the revenue, expenses, surplus, and changes in accumulated surplus for the year. It includes the combined financial activity of the operating, capital, and reserve funds of the City and its consolidated entities.

The Consolidated Statement of Change in Net Debt outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, and changes in other non-financial assets.

The Consolidated Statement of Cash Flows summarizes the City's cash position and changes during the year based on sources and uses of cash.

Key Terms

It is important to highlight some key terms used in the consolidated financial statements from an accounting perspective, which differ from similar terms used from a budgeting perspective.

Accruals The consolidated financial statements are prepared using the accrual basis of accounting which records expenses and revenues, for which the City expects to expend or receive cash in a future reporting period.

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Liabilities represent obligations that must be paid over the short and long term. Liabilities include accounts payable and accrued liabilities, deferred revenue, employee future benefits and pension agreements, environmental liabilities for landfill closure/post closure and contaminated sites, and liabilities for debt obligations including mortgages and capital lease obligations.

Net debt is the difference between financial assets and liabilities. It is a measure of the future revenues required to pay for past transactions.

Non-financial assets are comprised primarily of tangible capital assets which include roads, water and waste-water infrastructure, buildings and improvements, land, machinery, plant and equipment, vehicles, and assets under construction. Tangible capital assets represent the largest item on the City's Consolidated Statement of Financial Position. As tangible capital assets do not provide liquidity, and are generally used to deliver government services, they are reported separately with inventories and prepaid expenses, as non-financial assets.

The **Annual Surplus** is reported on the Consolidated Statement of Operations. Annual surplus represents the difference between the revenue and expenses of the City from an accrual accounting perspective.

Accumulated Surplus essentially is the overall equity. It represents the net of all the City's assets (financial and non-financial) and liabilities. These assets are available to service future generations.

Reserves comprise funds set aside for specific purposes by Council and are a component of Accumulated Surplus. Amounts received for specific purposes under legislation, regulation or agreement, such as development charges, represent a liability and are reported as Deferred Revenue and not Accumulated Surplus.

Operating and Capital Budgets

The City's Operating and Capital Budgets are based upon a modified cash basis of accounting. This results in differences between the City's external financial statements, which are reported on an accrual basis, and its Operating and Capital Budgets. PSAB accounting policies require that the consolidated financial statements show a comparison of the actual financial results for the period to those originally planned (budgeted). These policies also state that those "planned" (budgeted) results should be presented for the same scope of activities and on a basis consistent with that used for actual results. Since the City prepares its Operating and Capital budgets on a different basis from that used to account for transactions in the consolidated financial statements, it is necessary to provide a reconciliation of Council's approved budgets to the budget figures reported in the financial statements. This reconciliation is provided in Note 23 to the consolidated financial statements.

The City uses the modified accrual basis for budgeting because it is the most accurate way of determining how much taxation needs to be levied in any one year. It is the cash requirement that determines what the tax rate is and what tax rate increase may be required. The full accrual basis of accounting used in the consolidated financial statements includes expenses that do not need to be financed or tax levied for in the near term.

Table 1: Consolidated Statement of Financial Position

	2022 (in thousands \$000s)	2021 (in thousands \$000s)
Financial Assets		
Cash and cash equivalents	782,034	709,280
Accounts receivable	1,176,999	995,943
Investments	1,796,577	1,711,196
Investment in government business enterprise	526,944	507,295
Loan receivable	212,012	219,051
<i>Total financial assets</i>	<i>4,494,566</i>	<i>4,142,765</i>
Liabilities		
Accounts payable and accrued liabilities	1,631,603	1,437,383
Deferred revenue	1,147,279	1,011,774
Employee future benefits and pension agreements	732,484	728,210
Environmental liabilities	45,607	43,584
Net long-term debt	3,211,582	3,039,703
Other liabilities	475,743	477,412
<i>Total liabilities</i>	<i>7,244,298</i>	<i>6,738,066</i>
Net debt	(2,749,732)	(2,595,301)
Non-Financial Assets		
Tangible capital assets	20,903,977	19,636,263
Other non-financial assets	98,129	91,525
<i>Total non-financial assets</i>	<i>21,002,106</i>	<i>19,727,788</i>
Accumulated Surplus	18,252,374	17,132,487

Analysis of the Consolidated Statement of Financial Position

In 2022, there was an increase to cash and cash equivalents as the City used more promissory notes to help smooth the cash flows of the City during the fiscal year. More promissory notes were used to cover cash outflows at year end as compared to the previous year.

Accounts receivable increased by \$181 million mainly for cost recoveries of estimated eligible claims of \$52 million for policing due to two large downtown demonstrations, transit safe restart funding for the recovery of 2022 expenditures and lost revenues due to COVID-19 of \$45 million, 2022 COVID vaccine distribution funding of \$28 million, with the remainder made up of various smaller balances.

Investments increased due to capital deferrals and other discretionary spending savings, which allowed more funds to be put towards investments.

The investment in government business enterprise, which represents the net value of Hydro Ottawa, increased by \$20 million. This increase represents the net of the City's share of Hydro Ottawa's net income of approximately \$44 million and dividends paid from Hydro Ottawa to the City of \$24 million.

Accounts payable and accrued liabilities increased by approximately \$194 million in 2022 related primarily to a short-term promissory note that was issued in 2022 and was due to mature in 2023, as well as childcare, where the 2022 revised funding was received late in the year resulting in amounts not yet paid out to the providers.

Deferred revenue increased by approximately \$136 million mainly due to higher development charge revenues, as well as government funding that was received but not yet spent, primarily within social services. Development charge receipts are recorded as deferred revenue until the fiscal year when the related expenses are incurred, at which time they are recorded as revenue.

Employee future benefits and pension agreements increased by approximately \$4 million, primarily due to an increase in the discount rate. The City engages the services of an actuarial consulting firm to provide a determination of the City's obligation with regards to post-retirement and post-employment benefits, as well as for WSIB benefits.

Net long-term debt increased by approximately \$172 million reflecting the difference between \$309 million of new debt issues and loans, which is offset by \$137 million of debt principal repayment.

The growth in tangible capital assets is due mainly to continued spending on the Stage 2 LRT, which accounted for approximately \$710 million, as well as \$456 million for water and wastewater infrastructure, \$182 million for roads and \$43 million for the new central library. Much of this investment includes assets contributed from developers to the City of \$469 million.

The accumulated surplus increased by \$1.120 billion and is made up of increases in the City's investment in tangible capital assets of \$1.031 billion, increases in reserves of \$62 million, increases in the City's investment in Hydro Ottawa of \$20 million, increases of \$5 million in the City's Endowment Fund on a cost basis, and decreases in unfunded liabilities of \$2 million.

Table 2: Consolidated Statement of Operations and Accumulated Surplus - Revenue (in thousands \$000s)

Revenue	2022 Budget	2022 Actual	2021 Actual
Taxes	2,131,221	2,137,217	2,022,302
Government transfers	1,506,625	1,569,569	1,622,478
Fees and user charges	915,634	873,192	772,857
Contributed tangible capital assets	393,947	469,303	532,071
Development charges	150,043	168,419	208,393
Investment income	54,479	74,237	61,257
Fines and penalties	55,675	46,791	41,073
Other revenue	43,503	84,875	23,067
Share of earnings of government business enterprise	33,800	39,674	47,356
Total revenue	5,284,927	5,463,277	5,330,854

Analysis of Revenue

The largest source of revenue is property tax revenue at 39 per cent, while government transfers, and fees and user charges represent 29 per cent, and 16 per cent, respectively of the total consolidated revenue.

Taxation revenue increased by \$115 million to \$2.137 billion (2021 - \$2.022 billion). This increase is made up of a tax levy increase of approximately \$103 million, higher payments-in-lieu of taxes of \$4 million, and an increase in hotel taxes of \$8 million as hotel accommodations start to return to pre-COVID 19 levels. The tax levy increase

includes a 3 per cent overall property tax bill increase combined with an increase in the assessment base due to new properties.

Government transfers revenue decreased by \$52 million to \$1.570 billion (2020 - \$1.622 billion). The decrease is mainly due to decreases in COVID-19 related funding (\$138 million) such as the safe restart program and vaccination programs, one-time payment for federal gas tax funding that was received in 2021 but not in 2022 (\$57 million), as well as decreases in capital funding for various programs (\$27 million) such as Light Rail cost recovery funding for Stage 2 and Federal Public Transit Infrastructure Funding (PTIF). These were offset by increases in the National Capital Extraordinary Policing Costs Program (estimated claim of \$52 million), new childcare programs for Canada Wide Early Learning and Child Care System including one-time funding initiatives (\$71 million), social services funding related to increased caseloads (\$18 million) and a policy change for OCHC which regards forgivable loans as government grants (\$29 million).

Fees and user charges revenue increased by \$100 million to \$873 million (2021 - \$773 million). Transit revenue increased by \$42 million as residents physically returned back to work and campus, water and sewer revenue increased by \$14 million due to rate increases, as well as increases in recreation of \$22 million as facilities and programs start to return to normal operations after COVID-19. There were also increases of \$22 million related to increases in parking and permit fees (\$7 million), parking fines (\$5 million) as well as increases in social housing rent (\$10 million) for OCHC due to an increase in the number of market rate units and a decrease in Rent Geared to Income (RGI) units.

Contributed tangible capital assets represent assets that are donated or contributed to the City by developers. In 2022, contributed assets decreased by approximately \$63 million to \$469 million (2021 - \$532 million). The amounts vary from year-to-year based on the timing of development work.

Development charges applied to capital spending decreased by \$40 million to \$168 million (2021 - \$208 million). Development charges revenue is not recognized until the funds are spent for its intended purposes. The decrease in revenue is related to Stage 2 LRT, as well as some larger infrastructure projects.

Fines and penalties increased in 2022 by \$6 million to \$47 million (2021 - \$41 million) due to increased road activity, as well as an increased number of automated speed enforcement cameras which resulted in higher provincial offences fees.

The City's share of earnings of a government business enterprise (Hydro Ottawa) decreased to \$40 million in 2022 (2021 - \$47 million). Hydro Ottawa's net income in 2022 was lower than 2021 primarily due to additional expenditures that resulted from the May 2022 derecho storm.

Table 3: Consolidated Statement of Operations and Accumulated Surplus - Expenses (in thousands \$000s)

Expenses	2022 Budget	2022 Actual	2021 Actual
General government	112,946	122,466	108,433
Protection to persons and property	682,710	709,318	663,964
Roads, Traffic and Parking	494,424	445,752	421,652
Transit	893,716	765,326	719,757
Environmental Services	537,976	486,398	451,934
Health Services	273,148	283,287	294,234
Social and Family Services	591,099	608,730	502,889
Social Housing	305,636	457,705	354,510
Recreation and Cultural Services	395,877	372,844	346,481
Planning and Development	102,719	95,239	79,561
Total Expenses	4,390,251	4,347,065	3,943,415

Analysis of Expenses

General government expenses increased by \$14 million to \$122 million in 2022 (2021 - \$108 million) primarily due to expenditures relating to the municipal election.

Protection to persons and property increased by \$45 million in 2022 to \$709 million (2021 - \$664 million) primarily related to the additional costs associated with policing for two national demonstrations.

Roads, Traffic and Parking expenses increased by \$24 million to \$446 million in 2022 (2021 - \$422 million) primarily due to the significant weather event (derecho) in May 2022, which resulted in increased cleanup and repairs expenditures.

Transit expenses increased by \$45 million to \$765 million in 2022 (2021 - \$720 million) primarily due to increased operating costs as a result of the unplanned convoy occupation, increased fuel costs, and due to COVID-19.

Environmental Services increased by \$34 million in 2022 to \$486 million (2021 - \$452 million) due to increases in repairs and maintenance expenditures and higher amortization on assets.

Health Services decreased by \$11 million to \$283 million in 2022 (2021 - \$294 million) primarily related to the reduction in the COVID-19 response.

Social and Family Services increased by \$106 million to \$609 million in 2022 (2021 - \$503 million) primarily due to the increase in caseloads and benefits, as well as the introduction of the Canada-Wide Early Learning and Child Care System in 2022 which saw a significant increase in funding to childcare providers.

Social Housing increased by \$103 million to \$458 million in 2022 (2021 - \$355 million) primarily due to various affordable housing programs, including increased operating and capital expenditures related to the Ottawa Community Housing Corporation.

Recreation and Cultural Services increased by \$27 million to \$373 million in 2022 (2021 - \$346 million) primarily for operating costs due to the lifting of COVID-19 restrictions for recreation and library programs.

Planning and Development increased by \$15 million to \$95 million in 2022 (2021 - \$80 million) primarily due to increased operating costs from an organizational re-alignment that grew this area.

External Audit

The City's external auditors have performed an audit of the Draft Consolidated Financial Statements. Under accounting standards, the City's external auditors are required to extend their subsequent events review procedures up until Council approves the Draft Consolidated Financial Statements.

These audit procedures include the review of bank statements, payments and receipts in the subsequent period, as well as additional standard inquiries. In order to reduce the amount of post-audit review, this report should be brought for Council's review at the earliest opportunity.

Once Council approves the Draft Consolidated Financial Statements, the City will receive the signed audit report at which time the financial statements will be considered final and be posted on the City's web site.

Financial Information Return

The City also prepares a financial information return for submission to the province, based on the financial results contained in the consolidated financial statements. That information is also available publicly through the Province of Ontario's financial information web site.

FINANCIAL IMPLICATIONS

Financial implications are discussed in the body of this report.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report.

COMMENTS BY THE WARD COUNCILLOR(S)

This report is administrative and city-wide in nature and does not require comments by Ward Councillors.

ADVISORY COMMITTEE(S) COMMENTS

Not applicable. This report is administrative in nature and for informational purposes only.

CONSULTATION

This report is administrative in nature and therefore no consultation was required.

ACCESSIBILITY IMPACTS

There are no accessibility impacts as a result of receiving this report for information.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications identified related to this information report.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

TERM OF COUNCIL PRIORITIES

This report supports the City's on-going commitment to financial sustainability and transparency.

SUPPORTING DOCUMENTATION

Document 1 – Draft 2022 City of Ottawa Consolidated Financial Statements

Document 2 – Ernst & Young Audit Results, Consolidated Financial Statements

DISPOSITION

Once Council approves the Draft Consolidated Financial Statements, the City will receive the signed audit report at which time the financial statements will be considered final and will be posted on the City's web site.