

Subject: 2023 City of Ottawa Consolidated Financial Statements

File Number: ACS2024-FCS-FIN-0006

Report to Audit Committee on 10 June 2024

and Council 26 June 2024

Submitted on May 30, 2024 by Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Finance and Corporate Services Department

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Ward: Citywide

Objet : États financiers consolidés de 2023 de la Ville d'Ottawa

Numéro de dossier : ACS2024-FCS-FIN-0006

Rapport au Comité de la vérification

le 10 juin 2024

et au Conseil le 26 juin 2024

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Quartier : À l'échelle de la ville

REPORT RECOMMENDATION

That the Audit Committee recommend Council approve the 2023 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 2023 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 KPMG 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.
- Asset retirement obligations (ARO) is a new liability item to the financial statements for 2023 and is made up of costs that are expected to be incurred as a result of the retirement of tangible capital assets. The liability balance of \$76 million as of December 31, 2023 relates primarily to buildings and active landfills which are now reported under ARO as per the newly adopted PS 3280 accounting standard.
- Net long-term debt increased by \$94 million reflecting the difference between \$202 million of new debt issues and new loans and the net of the bond premium payable and bond discount and commission receivable of \$40 million, which is offset by \$136 million of debt principal repayments as well as \$12 million of sinking fund earnings.
- Tangible capital assets increased primarily due to Stage 2 LRT construction, as well as assets contributed to the City.
- Revenue from fees and user charges increased primarily due to more residents using public transit, higher water and sewer revenue, and increased registrations for recreation programs and arena rentals.

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 KPMG, 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 obligations liées à la mise hors service d'immobilisations (OMSA) sont un nouveau poste de passif dans les états financiers pour 2023 et se composent des coûts anticipés pour la mise hors service d'immobilisations corporelles. Le solde du passif, qui s'élevait à 76 millions de dollars en date du 31 décembre 2023, se rapporte principalement aux bâtiments et aux décharges actives, qui sont désormais comptabilisés en tant qu'obligations liées à la mise hors service d'immobilisations, conformément à la norme comptable SP 3280 récemment adoptée.
- La dette nette à long terme a progressé de 94 millions de dollars, ce qui correspond à l'écart entre 202 millions de dollars d'émissions de nouvelles dettes et de nouveaux prêts et le montant net de la prime d'émission d'obligations à payer et de l'escompte d'émission d'obligations et de la commission à recevoir de 40 millions de dollars, compensés par le remboursement de 136 millions de dollars du capital de la dette et 12 millions de dollars de recettes issues du fonds d'amortissement.
- Les immobilisations corporelles ont augmenté principalement en raison des dépenses liées à la construction de l'Étape 2 du train léger, ainsi que des actifs apportés à la Ville.
- Les recettes provenant des frais et aux redevances d'utilisation ont augmenté principalement en raison du nombre accru de résidents qui utilisent les transports en commun, de la hausse des recettes d'aqueduc et d'égouts et de l'augmentation des inscriptions aux programmes de loisirs et des locations d'arénas.

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 March 8, 2024, KPMG LLP provided an audit plan ([ACS2024-FCS-FIN-0001](#)), outlining the scope of key issues affecting the 2023 audit for the information of Audit Committee and Council.

DISCUSSION

The City's Draft 2023 Consolidated Financial Statements (Document 1) have been prepared by management in accordance with the Canadian Public Sector Accounting Standards established by PSAB of CPA Canada. These accounting policies 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 five 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.

The Consolidated Statement of Remeasurement Gains and Losses is where unrealized changes in fair value are recognized relating to the City's equity investments within the endowment fund. They will remain as unrealized until they are realized and then transferred to the consolidated statement of operations and accumulated surplus.

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.

The consolidated financial statements are prepared using the **accrual basis of accounting (accruals)** 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, asset retirement obligations, environmental liabilities for 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 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 and gas tax funding, 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

	2023 (in thousands \$000s)	2022 (Restated) (in thousands \$000s)
Financial Assets		
Cash and cash equivalents	1,300,718	782,034
Accounts receivable	607,445	1,176,999
Investments	1,724,076	1,796,577
Investment in government business enterprise	529,669	526,944
Loan receivable	204,630	212,012
<i>Total financial assets</i>	<i>4,366,538</i>	<i>4,494,566</i>
Liabilities		
Accounts payable and accrued liabilities	1,637,887	1,662,160
Deferred revenue	1,405,018	1,267,679
Employee future benefits and pension agreements	772,958	732,484
Asset retirement obligations	76,199	74,559
Net long-term debt	3,305,549	3,211,582
Other liabilities	535,895	466,517
<i>Total liabilities</i>	<i>7,733,506</i>	<i>7,414,981</i>
Net debt	(3,366,968)	(2,920,415)
Non-Financial Assets		
Tangible capital assets	22,250,618	20,918,781
Other non-financial assets	116,528	98,129
<i>Total non-financial assets</i>	<i>22,367,146</i>	<i>21,016,910</i>
Accumulated Surplus	19,000,178	18,096,495

Analysis of the Consolidated Statement of Financial Position

In 2023, there was an increase to cash and cash equivalents as the City received Stage 2 LRT related funding before the end of the year. There was also less cash required as end of year 2023 expenditures were lower than anticipated, resulting in higher cash balances at year end.

Accounts receivable decreased by \$570 million mainly due to reduced funding claims outstanding at year end for Light Rail of \$453 million, reduced cost recoveries accrual for extraordinary policing of \$39 million, and no year-end receivable balance for the recovery of 2023 expenditures for transit safe restart funding related to COVID-19 as compared to a year-end receivable of \$63 million at the end of 2022.

Investments decreased mainly due to transferring more funds to the high interest savings accounts in anticipation of payments for larger projects. The high interest savings accounts are classified as cash and cash equivalents on the statement of financial position.

The investment in government business enterprise, which represents the net value of Hydro Ottawa, increased by \$3 million. This increase represents the net of the City's share of Hydro Ottawa net income of approximately \$23 million and dividends paid from Hydro Ottawa to the City of \$20 million.

Accounts payable and accrued liabilities decreased by approximately \$24 million in 2023 related primarily to a reclassification of the bond premium liability that was moved in 2023 to net-long term debt.

Deferred revenue increased by approximately \$137 million mainly due to government funding that was received but not yet recognized as revenue.

Employee future benefits and pension agreements increased by approximately \$40 million. This was mainly due to increases for WSIB related to certain cancers. The City engages the services of an actuarial consulting firm to provide a determination of the City's obligations with regards to post-retirement and post-employment benefits, as well as for WSIB benefits.

Asset retirement obligations (ARO) is a new liability item to the financial statements and is made up of costs that are expected to be incurred as a result of the retirement of tangible capital assets. Active landfill sites are now included as part of the ARO liability. The largest items making up the ARO liability relate to buildings and landfills.

Net long-term debt increased by approximately \$94 million reflecting the difference between \$202 million of new debt issues and loans and the net of the bond premium payable and bond discount and commission receivable of \$40 million, which is offset by \$136 million of debt principal repayments as well as \$12 million of sinking fund earnings. The netting of the bond premium and the bond and commission receivable has been moved to net long-term debt in 2023 due to the implementation of a new accounting standard. They were previously reported in the corresponding accounts payable and accounts receivable balances.

The growth in tangible capital assets is due mainly to continued spending on the Stage 2 LRT, which accounted for approximately \$598 million, as well as assets contributed

from developers to the City of \$488 million, which together make up \$1.086 billion of the total \$1.332 billion increase.

Accumulated surplus increased by \$904 million and is made up of increases in the City's investment in tangible capital assets of \$1.006 billion, increases in the City's investment in Hydro Ottawa of \$3 million, increases of \$45 million in the City's Endowment Fund (\$40 million of which is an unrealized gain to adjust the equity holdings of the endowment fund to market value), which was offset by decreases in reserves of \$119 million and increases in unfunded liabilities of \$31 million.

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

Revenue	2023 Budget	2023 Actual	2022 Actual
Taxes	2,230,703	2,282,933	2,137,217
Government transfers	1,548,222	1,308,108	1,546,685
Fees and user charges	980,069	959,863	873,192
Contributed tangible capital assets	441,038	488,087	469,303
Development charges	190,694	170,256	168,419
Investment income	61,283	95,691	73,143
Fines and penalties	59,038	55,048	46,791
Other revenue	40,429	56,603	84,875
Share of earnings of government business enterprise	34,300	24,104	39,674
Total revenue	5,585,776	5,440,693	5,439,299

Analysis of Revenue

The largest source of revenue is property tax revenue at 42 per cent, while government transfers and fees and user charges represent 24 per cent, and 18 per cent, respectively of the total consolidated revenue.

Taxation revenue increased by \$146 million to \$2.283 billion (2022 - \$2.137 billion). This increase is made up of a tax levy increase of approximately \$99 million, higher payments in lieu of taxes (PILT) of \$44 million, and an increase in hotel tax of \$3 million. The majority of the increase to payments in lieu of taxes is due to the 2023 one-time municipal PILT mitigation payment of \$35 million. The tax levy increase includes a 2.5 per cent overall property tax increase combined with an increase in the assessment base due to new properties.

Government transfers revenue decreased by \$239 million to \$1.308 billion (2022 - \$1.547 billion). The decrease is mainly made up of decreases in the National Capital Extraordinary Policing Costs Program (\$16 million), COVID-19 related funding (\$133 million) such as the safe restart program and vaccination programs, as well as decreases in capital funding for various programs (\$166 million) such as Light Rail cost recovery funding for Stage 2 LRT and Federal Public Transit Infrastructure Funding (PTIF). Funding for gas tax (federal and provincial) are only recognized as revenue when the funds are applied to expenditures. Gas tax revenue recognized in 2023 was \$20 million lower than in 2022. These were offset by increases in childcare programs for Canada Wide Early Learning and Child Care (\$80 million) and social services funding related to increased caseloads (\$18 million).

Fees and user charges revenue increased by \$87 million to \$960 million (2022 - \$873 million). Transit revenue increased by \$29 million as residents physically returned back to work and campus, water and sewer revenue increased by \$31 million due to rate increases and increased consumption, as well as increases in recreation of \$14 million mainly due to increased registrations and arena rentals. There were also increases of \$13 million related to increases in parking and permit fees (\$3 million), parking fines (\$5 million) as well as increases in waste and recycling (\$5 million) due to increased user fees.

Contributed tangible capital assets represent assets that are donated or contributed to the City by developers. In 2023, contributed assets increased by approximately \$19 million to \$488 million (2022 - \$469 million). The amounts vary from year-to-year based on the timing of development work.

Development charges applied to capital spending increased by \$2 million to \$170 million (2022 - \$168 million). Development charges revenue is not recognized until the funds are spent for its intended purposes.

Fines and penalties increased in 2023 by \$8 million to \$55 million (2022- \$47 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 \$24 million in 2023 (2022 - \$40 million). This figure represents the net income of Hydro Ottawa as per their consolidated financial statements.

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

Expenses	2023 Budget	2023 Actual	2022 Actual
General government	114,877	115,682	122,496
Protection to persons and property	687,250	758,321	709,384
Roads, traffic and parking	464,888	493,362	445,868
Transit	793,699	781,055	765,405
Environmental services	500,852	517,004	485,899
Health services	260,398	258,974	283,289
Social and family services	782,176	724,130	608,750
Social housing	359,543	435,553	457,784
Recreation and cultural services	399,722	404,117	373,097
Planning and development	94,839	87,639	95,240
Total expenses	4,458,244	4,575,837	4,347,212

Analysis of Expenses

General government expenses decreased by \$6 million to \$116 million in 2023 (2022 - \$122 million). The higher amount in 2022 was related to the municipal election.

Protection to persons and property increased by \$49 million in 2023 to \$758 million (2022 - \$709 million). Specific increases include compensation costs and group insurance benefits.

Roads, traffic and parking expenses increased by \$47 million to \$493 million in 2023 (2022 - \$446 million) primarily due to higher-than-average snow accumulation, the July 2023 tornado, and continued residual cleanup associated with the 2022 derecho, all of which resulted in increased repairs and maintenance expenditures.

Transit expenses increased by \$16 million to \$781 million in 2023 (2022 - \$765 million) primarily due to increased repairs and maintenance expenditures.

Environmental services increased by \$31 million in 2023 to \$517 million (2022 - \$486 million) due to increases in chemical costs, repairs and maintenance expenditures and higher amortization on assets.

Health services decreased by \$24 million to \$259 million in 2023 (2022 - \$283 million) primarily related to the reduction in the COVID-19 response.

Social and family services increased by \$115 million to \$724 million in 2023 (2022 - \$609 million) primarily due to the increase in caseloads and benefits, as well as Phase 2 of the implementation of the Canada Wide Early Learning and Child Care System which saw a significant increase in funding to childcare providers.

Social housing decreased by \$22 million to \$436 million in 2023 (2022 - \$458 million) primarily due to lower COVID-19 expenditures and lower affordable housing program expenditures.

Recreation and cultural services increased by \$31 million to \$404 million in 2023 (2022 - \$373 million) primarily for increased operating costs due to resuming normal pre-pandemic operations for recreation and library programs, after the lifting of COVID-19 restrictions.

Planning and development decreased by \$7 million to \$88 million in 2023 (2022 - \$95 million) primarily due to decreased operating costs which included staffing vacancies and purchased services savings.

Restatement of Comparative Year Information

The City adopted new public sector accounting standards that went into effect for the year ended December 31, 2023, some of which required restatement of the affected financial statement line items for the prior period. The newly adopted standard requiring restatement of prior year's figures is for Public Sector PS 3280 Asset Retirement Obligations (ARO). The significant impacts of the restatements for ARO for the 2022 fiscal year are as follows:

- A new ARO liability of \$75 million was recorded on the statement of financial position and an amount of \$14 million for inactive landfill sites was added to the contaminated sites liability. This was offset by the removal of \$39 million of landfill closure and post-closure liability which is now reported as part of the ARO liability noted above. The net impact of the above added \$50 million to the total liabilities of the City for 2022.
- The new ARO standard added \$15 million to tangible capital assets which resulted in a net reduction of \$35 million to the City's accumulated surplus for 2022.

In addition to the restatements for new accounting standards, the City also adjusted the 2022 comparative year information for an immaterial prior period error relating to the recognition and presentation of transfers of gas tax funds from the Government of

Canada and the Province of Ontario under their respective gas tax agreements. In previous year's financial statements, the City took the accounting position that the transfers of gas tax funds should be recognized as revenue in the period the transfers were authorized based upon an interpretation that the gas tax agreements did not contain sufficient stipulations restricting the use of the gas tax funds to create a liability at the time of receipt. As such, gas tax transfers were recorded in government transfers revenue in the period received and presented in accumulated surplus.

In the current year, the City reviewed this accounting position with respect to gas tax funding, including reviewing the practices of other major cities in Ontario, and concluded that their interpretation with respect to the sufficiency of the stipulations restricting the use of gas tax funds was inconsistent with that of the other major cities in Ontario. The City determined that the past recognition and presentation of the transfers of gas tax funds as revenue in the period received should have been recorded as a liability and has corrected this immaterial prior period error in the comparative information by:

- Decreasing the accumulated surplus and increasing deferred revenue by \$120 million.
- Decreasing government transfers revenue by \$23 million and investment income by \$1 million.
- Decreasing the accumulated surplus, beginning of year, by \$96 million.

External Audit

The City's external auditors 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 City of Ottawa Consolidated Financial Statements (Document 1).

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 City of Ottawa Consolidated Financial Statements (Document 1), the City will receive the signed audit report at which time the statements will be considered final and be posted on the City's web site.

Financial Information Return

In addition to consolidated financial statements, the City also prepares an annual 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

There are no financial implications to this report.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendation 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.

ACCESSIBILITY IMPACTS

Finance and Corporate Services adheres to the requirements of the *Accessibility for Ontarians with Disabilities Act, (2005)* in its operations, programs and initiatives. This report is administrative in nature and has no associated accessibility impacts.

TERM OF COUNCIL PRIORITIES

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

SUPPORTING DOCUMENTATION

Document 1 – Draft 2023 City of Ottawa Consolidated Financial Statements

Document 2 – KPMG Audit Results, Consolidated Financial Statements

DISPOSITION

Once Council approves the Draft 2023 City of Ottawa Consolidated Financial Statements (Document 1), the City will receive the signed audit report at which time the statements will be considered final and will be posted on the City's web site.