

<p>1. 2018 CITY OF OTTAWA CONSOLIDATED FINANCIAL STATEMENTS ÉTATS FINANCIERS CONSOLIDÉS DE 2018 DE LA VILLE D'OTTAWA</p>

COMMITTEE RECOMMENDATION

That Council approve the draft 2018 City of Ottawa Consolidated Financial Statements.

RECOMMANDATION DU COMITÉ

Que le Conseil approuve les États financiers consolidés de 2018 de la Ville d'Ottawa.

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's Report, Corporate Finance, dated May 17, 2019 (ACS2019-CSD-FIN-0015)

Rapport de la Trésorière municipale adjointe, Finances municipales, daté le 17 mai 2019 (ACS2019-CSD-FIN-0015)
2. Extract of draft Minutes, Audit Committee 29 May 2019

Extrait de l'ébauche du procès-verbal, Comité de la vérification, le 29 mai 2019

**Report to
Rapport au:**

**Audit Committee
Comité de la vérification
29 May 2019 / 29 mai 2019**

**and Council
et au Conseil
12 June 2019 / 12 juin 2019**

**Submitted on May 17, 2019
Soumis le 17 mai 2019**

**Submitted by
Soumis par:
Isabelle Jasmin, Deputy City Treasurer, Corporate Finance / Trésorière
municipale adjointe, Finances municipales**

**Contact Person
Personne ressource:
Peter Moutsatsos, Program Manager, Accounting, Corporate Finance Services,
Corporate Services Department / Gestionnaire de programme, Comptabilité,
Services des finances municipales, Direction générale des services
organisationnels
*613-580-2424, ext / poste 21674, Peter.Moutsatsos@ottawa.ca***

Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2019-CSD-FIN-0015

SUBJECT: 2018 CITY OF OTTAWA CONSOLIDATED FINANCIAL STATEMENTS

OBJET: ÉTATS FINANCIERS CONSOLIDÉS DE 2018 DE LA VILLE D'OTTAWA

REPORT RECOMMENDATIONS

That the Audit Committee recommends Council approve the draft 2018 City of Ottawa Consolidated Financial Statements.

RECOMMANDATIONS DU RAPPORT

Que le Comité de la vérification recommande au Conseil d'approuver les États financiers consolidés de 2018 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

- Accounts receivable and government transfer revenue increased mainly due to Public Transit Infrastructure Funding (PTIF) as well as Combined Water Wastewater Funding (CWWF).
- Accounts payable increased due to additional expenditures for Confederation Line as well as additional accruals for Brownfields relating to the Zibi development on the Ottawa River.
- Employee future benefits increased due to increases in long-term disability and health claims.
- Deferred revenue for development charges increased due to the delay in the requirement for substantial completion payments for Stage 1 of the Confederation Line.

- Net long-term debt decreased from the previous year. The planned 2018 debt issue was advanced and combined with the 2017 new debt issuance to reduce the cost impact of increasing interest rates.

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 EY, 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

- Les comptes débiteurs et les recettes tirées des paiements de transfert ont augmenté, cette hausse étant principalement attribuable au financement reçu du Fonds pour l'infrastructure de transport en commun (FITC) et du Fonds pour l'eau potable et le traitement des eaux usées (FEPTU).
- Les comptes créditeurs ont augmenté en raison de dépenses supplémentaires dans la Ligne de la Confédération et de charges à payer additionnelles pour les friches industrielles associées au projet d'aménagement Zibi sur les berges de la rivière des Outaouais.
- Les avantages sociaux futurs des employés ont augmenté en raison d'une hausse des réclamations en invalidité de longue durée et des demandes de remboursement de frais médicaux.
- Les produits reportés des redevances d'aménagement ont augmenté en raison du report de l'échéance des paiements pour l'achèvement substantiel des travaux à l'Étape 1 de la Ligne de la Confédération.
- Les passifs nets à long terme ont diminué par rapport à l'année précédente.
L'émission obligataire prévue pour 2018 a été devancée et combinée aux nouveaux

titres de créance émis en 2017, afin de réduire l'incidence financière de la hausse des taux d'intérêt.

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 25, 2019, Ernst & Young LLP provided an audit plan ([ACS2019-CSD-FIN-0002](#)), outlining the scope of key issues affecting the 2018 audit for the information of Committee and Council.

DISCUSSION

The consolidated financial statements have been prepared by management in accordance with 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 as the result of the receipt of goods and services.

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 statement 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 outline 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, 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 21 to the consolidated financial statements.

The City uses cash accounting 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 also what tax rate increase may be required. The 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. An example is the future cost of closing landfill sites.

Table 1 Consolidated Statement of Financial Position

	2018 (in thousands \$000)	2017 (in thousands \$000)
Financial Assets		
Cash and cash equivalents	347,875	383,259
Accounts receivable	648,303	510,621
Investments	1,229,247	1,237,136
Investment in government business enterprise	462,975	438,190
Total financial assets	2,688,400	2,569,206
Liabilities		
Accounts payable and accrued liabilities	1,355,224	1,219,317
Deferred revenue	588,707	482,619
Employee future benefits and pension agreements	652,413	621,390
Environmental liabilities	34,323	34,431
Net long-term debt	1,912,085	2,032,895
Other liabilities	390,434	397,862
Total liabilities	4,933,186	4,788,514
Net debt	(2,244,786)	(2,219,308)
Non-Financial Assets		
Tangible capital assets	15,980,167	15,340,462
Other non-financial assets	60,086	60,673
Total non-financial assets	16,040,253	15,401,135
Accumulated Surplus	13,795,467	13,181,827

Analysis of the Consolidated Statement of Financial Position

Accounts receivable increased by \$140 million mostly due to receivables for additional grants from the Federal and Provincial levels of government. The bulk of this increase is for Public Transit Infrastructure Funding (PTIF) as well as Combined Water Wastewater Funding (CWWF).

The investment in government business enterprise, which represents the net value of Hydro Ottawa, increased by \$25 million. This increase represents the net of the City's share of Hydro Ottawa income of approximately \$47 million and dividends paid of \$22 million.

Accounts payable and accrued liabilities increased by approximately \$136 million in 2018 and includes additional payables at the end of the year for the Confederation Line of \$87 million as well as additional accruals for Brownfields relating to the Zibi development on the Ottawa River. Accrued liabilities increased by \$8 million due to timing differences in scheduled pay, contract settlements and other employee costs.

Deferred revenue increased by approximately \$106 million mainly due to higher development charges. Development charge receipts are recorded as deferred revenue until the fiscal year when the related expenses are incurred at which point they are recorded as revenue. In 2018, there was an increase in the collection of development charges and a decrease in development charge transfers for related expenses, which resulted in an overall increase in development charge deferred revenue.

Employee future benefits and pension agreements increased by approximately \$31 million. Employee future benefits include increases of \$34 million due to an increase in long-term disability claims associated with mental health and an increase in back and shoulder claims. These liabilities were partially offset by a \$3 million reduction in the liability for the City of Ottawa Superannuation Fund.

The City's environmental liabilities include liabilities for landfill closure and post-closure and contaminated sites. The landfill closure and post-closure liability increased by \$0.5 million in 2018 based on revised estimates. This increase was partially offset with a decrease in the liability for contaminated sites of approximately \$0.6 million due to the disposal of eleven properties.

Net long-term debt decreased by approximately \$121 million reflecting the 2018 debt principal repayments. No new debt was issued in 2018 as the planned 2018 debt issue was advanced and combined with the 2017 new debt issuance to reduce the cost impact of increasing interest rates.

The growth in tangible capital assets is due partly to continued spending on the Confederation Line including preliminary work for Phase 2, which accounted for approximately \$290 million as well as assets contributed from developers to the City of \$319 million, which together make up \$608 million of the total \$640 million.

Accumulated surplus increased by \$614 million and is net of increases in the City's investment in tangible capital assets of \$575 million, increases in reserves of \$65 million, increase in the City's investment in Hydro Ottawa of \$25 million, and increase of \$8 million for the City's Endowment Fund offset by increases in unfunded liabilities of \$59 million.

The growth in the City's reserves is in part due to the closing out of the City's capital projects, as well as an accumulation in gas tax reserves to be used in future years.

Table 2: Analysis of Key Accounts Consolidated Statement of Operations and Accumulated Surplus (in thousands \$000)

Revenue	2018 Budget	2018 Actual	2017 Actual
Taxes	1,774,124	1,776,722	1,703,630
Government transfers	937,532	957,513	683,114
Fees and user charges	857,077	857,795	819,865
Contributed tangible capital assets	318,684	318,684	205,693
Development charges	81,360	80,032	217,076
Investment income	42,959	48,550	37,778
Fines and penalties	28,692	35,439	34,168
Other revenue	45,816	43,513	51,214
Share of earnings of government business enterprise	40,238	42,138	35,975
Total revenue	4,126,482	4,160,386	3,788,513

The largest source of revenue is property tax revenue at 43 per cent, while government transfers and fees and user charges represent 23 per cent, and 21 per cent, respectively of the total consolidated revenue.

Taxation revenue increased by \$73 million to \$1.777 billion (2017 - \$1.704 billion). This increase is net of a tax levy increase of approximately \$65 million, lower remissions of \$38 million offset by lower payments in lieu of taxes of \$25 million and lower supplementary assessments of \$5 million. The tax levy increase includes a 2 per cent overall property tax bill increase combined with an increase in the assessment base due to new properties.

Government transfer revenue increased by \$274 million to \$957 million (2017 - \$683 million). The majority of the increase was for new funding from the Federal Public Transit Infrastructure Fund in the amount of \$116 million as well as increased funding for clean water and waste water (\$51 million), and the Ottawa River integrated protection plan (\$16 million). Childcare also received enhanced funding for childcare availability of \$45 million as well as new program funding of \$16 million.

Fees and user charge revenue increased by \$38 million to \$857 million (2017 - \$819 million). The majority of the increase was for rate increases for water and sewer surcharges as well as higher water volume billing for 2018 for a combined increase of \$30 million. The remainder of the increase was for rate increases in transit and building permits.

Contributed tangible capital assets represent assets that are donated or contributed to the City by developers. In 2018 contributed assets increased by approximately \$113 million to \$318 million (2017 - \$205 million). The amounts vary from year to year based on the timing of development work.

Development charges applied to capital spending decreased by \$137 million to \$80 million (2017 - \$217 million). Development charge revenue is not recognized until the funds are spent for its intended purposes. The decrease is related to lower expenditures primarily for LRT Stage 1 in 2018, due to delays in substantial completion and revenue service availability payments required.

Fines and penalties increased in 2018 by \$1 million to \$35 million (2017- \$34 million) due to higher collections for provincial offences.

Other revenue decreased by \$8 million to \$43 million in 2018 (2017 - \$51 million) primarily due to lower proceeds from the sale of land administered by the city's wholly owned land corporation.

Share of earnings of government business enterprises increased to \$42 million in 2018 (2017 - \$36 million).

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

Expenses	2018 Budget	2018 Actual	2017 Actual
General government	111,730	113,541	98,821
Protection to persons and property	600,443	601,818	563,103
Roads, traffic and parking	394,949	412,620	410,761
Transit	597,803	582,903	554,548
Environmental services	391,779	388,684	368,356
Health services	176,845	175,583	177,062
Social and family services	561,185	552,559	484,138
Social housing	266,129	290,699	270,532
Recreation and cultural services	335,932	331,752	329,542
Planning and development	97,838	101,134	70,367
Total Expenses	3,534,633	3,551,293	3,327,230

Overall, expenditures increased by \$224 million, primarily due to inflation but also as the result of other expenditure variances:

- General government expenses increased by \$14 million to \$113 million in 2018 (2017 - \$99 million) mainly due to the 2018 municipal election.
- Protection to persons and property increased by \$39 million in 2018 to \$602 million (2017 - \$563 million) due to increased compensation costs related to contract settlements, overtime, sick leave, group insurance and WSIB.
- Roads, traffic and parking expenses increased by \$2 million to \$413 million in 2018 (2017 - \$411 million).

- Transit expenses increased by \$28 million to \$583 million in 2018 (2017 - \$555 million) relating to increases in bus detours and service hours relating to the delay in LRT as well as increases in operating expenditures for items such as repairs and maintenance and fuel costs.
- Environmental services increased by \$20 million in 2018 to \$388 million (2017 - \$368 million) mainly due to increased repair and maintenance activities and costs in 2018 compared to 2017.
- Health services decreased by \$1 million to \$176 million in 2018 (2017 - \$177 million) due to lower costs for WSIB in 2018 compared to 2017.
- Social and family services increased by \$68 million to \$552 million in 2018 (2017 - \$484 million) mainly due to enhanced childcare program costs funded by the province.
- Social Housing increased by \$20 million to \$291 million in 2018 (2017 - \$271 million) mainly due to the administration of a new social infrastructure program as well as increased costs associated with affordable rental housing.
- Recreation and Cultural Services increased by \$3 million to \$332 million in 2018 (2017 - \$329 million).
- Planning and Development increased by \$31 million to \$101 million in 2018 (2017 - \$70 million) due to higher costs for Brownfield programs relating to the Zibi development on the Ottawa River.

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 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 Statements, 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

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.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

CONSULTATION

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

COMMENTS BY THE WARD COUNCILLOR(S)

This report is administrative and city wide in nature

ADVISORY COMMITTEE(S) COMMENTS

Not applicable.

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

There are no risk implications.

ASSET MANAGEMENT IMPLICATIONS

There are no asset management implications

FINANCIAL IMPLICATIONS

Financial implications are discussed in the body of this report.

ACCESSIBILITY IMPACTS

There are no accessibility implications to receiving this report.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications to this information report

TERM OF COUNCIL PRIORITIES

This report meets Council's priority with respect to financial responsibility.

SUPPORTING DOCUMENTATION (*Held on file with the City Clerk*)

Document 1 – Draft 2018 City of Ottawa Consolidated Financial Statements

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

DISPOSITION

Once Council approves the Draft Consolidated Statements, 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.