

1. 2016 CITY OF OTTAWA CONSOLIDATED FINANCIAL STATEMENTS

COMMITTEE RECOMMENDATION

That Council approve the draft 2016 City of Ottawa Consolidated Financial statements.

RECOMMANDATION DU COMITÉ

Que le Conseil approuve les États financiers consolidés de 2016 de la Ville d'Ottawa.

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's report, Corporate Finance dated 16 May 2017 (ACS2017-CSD-FIN-0010)

Rapport de la Trésorière municipale adjointe, Finances municipales daté 16 mai 2017 (ACS2017-CSD-FIN-0010)

2. Extract of draft Minutes, Audit Committee, 25 May 2017

Extrait de l'ébauche du procès-verbal, Comité de la vérification, le 25 mai 2017

**Report to
Rapport au:**

**Audit Committee
Comité de la vérification
25 May 2017 / 25 mai 2017**

**and Council
et au Conseil
14 June 2017 / 14 juin 2017**

**Submitted on May 16, 2017
Soumis le 16 mai 2017**

**Submitted by
Soumis par:
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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2017-CSD-FIN-0010

SUBJECT: 2016 CITY OF OTTAWA CONSOLIDATED FINANCIAL STATEMENTS

OBJET: ÉTATS FINANCIERS CONSOLIDÉS DE 2016 DE LA VILLE D'OTTAWA

REPORT RECOMMENDATION

That the Audit Committee recommends Council approve the draft 2016 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 2016 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

- Construction of the Confederation Line continued to be a significant item on the consolidated financial statements.
- Shift from longer term investments to cash to align with cash flow requirements for major City projects in 2017.
- Accounts payable increased due to a change in accounting to record front ending agreement balances as a liability and accrued expenditures for Confederation Line and planning for stage 2 of light rail.
- Employee future benefits increased due to increases in long term disability and health claims. Fire WSIB costs continue to be significant due to presumptive cancer legislation.
- Deferred revenue increased due to an influx of building permit applications received in 2016 in advance of new building code legislation that came into effect in January 2017 that increased the development charges received.
- The City's net long-term debt increased due to new debt issuance.
- Increase in government transfers due to new federal and provincial funding for the combined sewer storage tunnel and increased funding for financial assistance.

RÉSUMÉ

L'article 294 de la Loi de 2001 sur les municipalités exige que la Ville prépare des états financiers consolidés et vérifiés 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.

Le vérificateur externe de la Ville, la société à responsabilité limitée EY, a aussi publié les résultats de la vérification et définit les étapes à réaliser dans le rapport ci-joint (document 2).

Faits saillants des états financiers

- La construction de la Ligne de la Confédération continue d'occuper une place importante dans les états financiers consolidés.
- La Ville troque les investissements à long terme contre les liquidités pour répondre aux besoins de trésorerie des grands projets municipaux en 2017.
- Les comptes créditeurs ont augmenté en raison d'un changement aux pratiques de comptabilité (le solde des ententes initiales est maintenant consigné comme une dette) et d'une augmentation des dépenses pour le projet de la Ligne de la Confédération et la planification de l'Étape 2 du projet de train léger.
- 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 coûts liés à la CSPAAT pour les pompiers demeurent considérables en raison de la législation présomptive pour les réclamations relatives à un cancer.
- Les revenus reportés ont augmenté en raison du grand nombre de demandes de permis de construire reçues en 2016, avant l'entrée en vigueur des nouvelles règles du Code du bâtiment sur les redevances d'aménagement en janvier 2017.
- Le passif à long terme de la Ville a augmenté en raison de l'émission de nouveaux titres de créance.

- On note une augmentation des paiements de transfert en raison du nouveau financement fédéral et provincial pour le tunnel de stockage des égouts unitaires et de l'octroi de fonds supplémentaires pour l'aide financière.

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 December 1st, 2016 Ernst & Young LLP provided an audit plan outlining the scope of key issues affecting the 2016 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.

Core 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, reserves 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 and reserve funds 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 significant differences between the City's external financial statements 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 immediate near term. An example is the future cost of closing landfill sites.

Table 1 Consolidated Statement of Financial Position

	2016 \$000's	2015 \$000's
Financial Assets		
Cash and cash equivalents	257,124	95,017
Accounts Receivable	630,299	626,590
Investments	1,273,376	1,387,644
Investment in government business enterprise	426,795	413,397
Total financial assets	2,587,594	2,522,648
Liabilities		
Accounts payable and accrued liabilities	1,148,444	1,001,255
Deferred Revenue	563,272	497,903
Employee future benefits and pension agreements	595,152	588,553
Environmental liabilities	34,050	27,629
Net long-term debt	1,710,431	1,621,896
Other liabilities	369,262	349,886
Total liabilities	4,420,611	4,087,122
Net debt	(1,833,017)	(1,564,474)
Non-financial assets		
Tangible capital assets	14,494,891	13,741,490

Other non-financial assets	62,650	46,060
Total non-financial assets	14,557,541	13,787,550
Accumulated Surplus	12,724,524	12,223,076

Analysis of the Consolidated Statement of Financial Position

At the end of 2016, there was a shift from long term investments to cash and cash equivalents to align with cash flow requirements for major City projects including the Confederation Line in 2017.

Accounts receivable increased approximately \$4 million primarily due to trade receivables. This was due to increases in government receivables for a new storm sewer storage tunnel and additional funding for financial assistance due to caseload growth. As at December 31, 2016 the City has recognized \$600 million of provincial and approximately \$595 million of federal revenue of the combined \$1.2 billion approved government funding envelope for the Confederation Line. A 10% holdback for this funding remains in accounts receivable and will be released once final completion and compliance reports are completed in 2018.

The investment in government business enterprise, which represents the net value of Hydro Ottawa, increased by \$13 million. Part of this increase, approximately \$15 million, represents the net of the City's share of Hydro Ottawa income of approximately \$34 million and dividends paid of \$19 million. This increase of \$15 million is offset by a \$2 million decrease related to accumulated other comprehensive income of Hydro Ottawa.

Accounts payable and accrued liabilities increased approximately \$147 million in 2016 compared to 2015. The increase in accounts payable makes up \$119 million of the total. Approximately \$51 million related to a change in accounting treatment for front ending agreements where developers have built specific growth related projects in advance of the City's capital budget project plans and recording these as liabilities until they are repaid. Payables associated with the Confederation line and early planning stages of Light Rail Stage 2 increased by \$28 million. The balance of the increase in accounts payable relates primarily to higher taxation payables due to increases in tax reassessments and vacancy rebates, liabilities for Brown fields properties and legal claims and other trade payables. Accrued liabilities increased by approximately \$27

million due to timing differences in scheduled pay, accruals for unsettled collective agreements and other employee costs.

Deferred revenue increased by approximately \$65 million. 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. Development charge receipts in 2016 were approximately \$50 million higher in 2016 compared to 2015 and accounted for the bulk of the increase in deferred revenue. There was a provincially mandated building code change in 2017 that created an influx of building permit applications in 2016.

Employee future benefits and pension agreements increased by approximately \$7 million. Employee future benefits include increases of \$21 million due to an increase in long term disability claims and an \$8 million increase in post retirement benefits. Employees are retiring at an older age and are requiring more health benefits. These liabilities were partially offset by a \$9 million reduction in the total liability for WSIB. While the WSIB total liability declined overall, the proportion related to Fire Services continues to increase and represents approximately 30% of the City's total WSIB liability as at December 31, 2016. Recent provincial legislation deeming a number of cancers as work related continues to have a significant impact for the City. There was a \$13 million decrease 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 \$4 million in 2016 partly due to a reduction in the discount rate and the addition of 10 years to the monitoring of the Nepean closed landfill site. The liability for contaminated sites increased by \$2 million mainly due to the results of additional investigative work.

Net long-term debt increased by approximately \$88 million reflecting the difference between \$190 million of new debt issues and \$102 million of debt principal retirement.

The growth in tangible capital assets is due primarily to continued increased spending on the Confederation Line which accounted for approximately \$402 million of the total \$753 million increase as well as other projects such as the combined sewer storage tunnel.

Accumulated surplus consists of fund surplus, reserves and reserve funds and equity in government business enterprise. Fund surplus increased by approximately \$533 million

and is the net of increases in investment in tangible capital assets of \$567 million and increases in unfunded liabilities of approximately \$34 million. Reserves and reserve funds decreased approximately \$43 million while investment in government business enterprises increased by approximately \$13 million resulting in an overall \$503 million increase in accumulated surplus.

Table 2 Analysis of Key accounts Consolidated Statement of Operations and Accumulated Surplus

Revenue	2016 Budget	2016 Actual	2015 Actual
	\$000's	\$000's	\$000's
Taxes	1,671,093	1,653,541	1,626,544
Government transfers	881,439	907,057	858,647
Fees and user charges	809,566	815,294	783,282
Contributed tangible capital assets	182,296	182,296	184,121
Development charges	123,579	121,851	137,743
Investment income	36,241	40,570	29,575
Fines and penalties	27,387	31,618	27,416
Other revenue	34,191	30,730	22,010
Share of earnings of government business enterprise	32,436	34,836	32,370
Total revenue	3,798,228	3,817,793	3,701,708

The largest source of revenue is property tax revenue (43%), while government transfers, and fees and user charges represent (24%), and (21%), respectively of the total consolidated revenue.

Taxation revenue increased by \$27 million to \$1.653 billion (2015 - \$1.626). There was an increase of approximately \$50 million relating to a combination of property tax bill increases and an increase in the tax base due to new properties. This was offset by higher remissions and lower supplementary tax revenue as compared to 2015 of \$23 million.

Government transfer revenue increased by \$49 million to \$907 million (2015 - \$858 million). Government transfers increased partly due to increased social assistance funding that was associated with higher caseload volume and wage enhancement funding for child care services. This accounted for approximately half of the overall increase. The balance of the increase reflects increases in funding for Investment in Affordable Housing, additional cost sharing for long term care services as well as new government funding for the combined sewer storage tunnel.

Fees and user charge revenue increased by \$32 million to \$815 million (2014 - \$783 million). This was primarily due to the increase of water and sewer surcharge rate revenue combined with increased water consumption for a total increase of \$28 million. The balance, \$4 million was due to the 2.5% increase in transit rates.

Contributed tangible capital assets represent assets that are donated or contributed to the city by developers. In 2016 contributed assets increased decreased slightly by approximately \$2 million to \$182 million (2015 - \$184 million).

Development charges applied to capital spending decreased by \$16 million to \$122 million (2015 - \$138 million). Development charge revenue is not recognized until the funds are spent for its intended purposes.

Investment income increased in 2016 by \$11 million to \$41 million (2015 - \$30 million) in part due to the higher performance of the City's Endowment Fund compared to 2015 combined with higher realized gains on the disposition of the City's bond holdings.

Fines and penalties increased in 2016 by \$4 million to \$32 million (2015- \$27 million). This was due to the combination of higher collections for provincial offenses and higher late payment penalties.

Other revenue increased by \$8 million to \$30 million in 2016 (2015 - \$22 million) partly due to additional revenue received for recreational and cycling lane projects. This was combined with additional revenue recognized to match increased expenses for cash in lieu initiatives. Sale of surplus land also contributed to the overall increase.

Share of earnings of government business enterprises increased to \$35 million in 2016 (2015 - \$32 million).

Expenses	2016 Budget \$000's	2016 Actual \$000's	2015 Actual \$000's
General government	95,903	92,017	95,681
Protection to persons and property	573,864	578,309	557,516
Roads, traffic and parking	400,538	413,504	426,978
Transit	578,035	563,769	556,332
Environmental services	389,704	381,763	378,303
Health services	161,832	162,164	163,260
Social and family services	441,283	463,604	441,631
Social housing	271,256	273,291	259,246
Recreation and cultural services	318,062	316,348	333,828
Planning and development	65,690	69,538	61,739
Total expenses	3,296,167	3,314,307	3,274,514

General government expenses decreased by \$4 million to \$92 million in 2016 (2015 - \$96 million) due to the organizational restructuring and savings achieved through the discretionary spending and hiring freeze in 2016.

Protection to persons and property increased by \$20 million in 2016 to \$578 million (2015 - \$558 million) mainly due to recent provincial legislation deeming certain types of cancer as work related.

Roads, traffic and parking expenses decreased by \$13 million to \$414 million in 2016 (2015 - \$427 million) mainly due to lower costs associated with road maintenance.

Transit expenses increased by \$8 million to \$564 million in 2016 (2015 - \$556 million) mainly due to higher costs required for the transition to light rail, including costs associated with bus detours and bus service hours.

Environmental services increased by \$4 million in 2016 to \$382 million (2015 - \$378 million) mainly due to additional investigation work in 2016 on contaminated sites.

Health services decreased slightly to \$162 million in 2016 (2015 - \$163 million).

Social and family services increased by \$22 million to \$464 million in 2016 (2015 - \$442 million) due to higher caseload volume combined with changes in provincial legislation for child care allocation.

Social Housing increased by \$14 million to \$273 million in 2016 (2015 - \$259 million) for the renovation and rehabilitation of social housing units.

Recreation and Cultural Services decreased by \$18 million to \$316 million in 2016 (2015 - \$334 million) due to a decrease in repairs and maintenance to recreational facilities compared to 2015.

Planning and development expenses increased by \$8 million to \$70 million in 2016 (2015 - \$62 million) primarily due to an increase in repairs and maintenance for projects such as river restoration and streetscaping.

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 recommendations 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

There are no implications on Council priorities

SUPPORTING DOCUMENTATION

(distributed separately and held on file with the City Clerk and Solicitor)

Document 1 – Draft 2016 City of Ottawa Consolidated Financial Statements

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

DISPOSITION

No action required