

**Report to
Rapport au:**

**Council
Conseil**

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**Submitted by
Soumis par:**

**Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Finance Services
Department / Trésorière municipale adjointe, Services des finances municipales,
Direction générale des services des finances**

Contact Person

Personne ressource:

**Luke Senecal, Manager, Accounting & Reporting, Corporate Finance, Finance
Services Department / Gestionnaire, Comptabilité et Rapports, Services des
finances municipales, Direction générale des services des finances
613-580-2424, ext / poste 22356, Luke.Senecal@ottawa.ca**

Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2020-FSD-FIN-0012

SUBJECT: 2019 CITY OF OTTAWA CONSOLIDATED FINANCIAL STATEMENTS

OBJET: ÉTATS FINANCIERS CONSOLIDÉS DE 2019 DE LA VILLE D'OTTAWA

REPORT RECOMMENDATIONS

That Council approve the 2019 City of Ottawa Consolidated Financial Statements.

RECOMMANDATIONS DU RAPPORT

Que le Conseil approuve les états financiers consolidés de 2019 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 transfers revenue increased mainly due to agreements with Infrastructure Canada for funding related to Stage 2 of Light Rail Transit (LRT).
- Accounts payable decreased due to the fact that \$300M of accounts payable was converted into long-term debt during 2019 as Stage 1 of LRT went into service, per the contract agreement.
- Employee future benefits increased due to increases in long-term disability and health claims.
- Deferred revenue for development charges increased due to an influx of building permit applications in advance of new building code application rate increases.
- Net long-term debt increased from the previous year due to the \$300M of debt related to Stage 1 of LRT. This new debt is repayable over the next 27 years.
- Tangible capital assets increased primarily due to completion of Stage 1 of LRT and start of construction on Stage 2 in 2019.

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

- Hausse des recettes des comptes débiteurs et des paiements de transfert, notamment en raison des ententes avec Infrastructure Canada visant le financement lié à l'Étape 2 du projet de train léger sur rail (TLR).
- Baisse des comptes fournisseurs due au fait que 300 M\$ liés à ces comptes fournisseurs ont été convertis en dette à long terme en 2019 alors que l'Étape 1 du projet de TLR était mise en service, conformément à l'entente du contrat.
- Augmentation des futurs avantages sociaux des employés en raison de la hausse des demandes de règlement pour soins de santé et des demandes d'invalidité de longue durée.
- Hausse des recettes reportées liées aux redevances d'aménagement due au grand nombre de demandes de permis de construire en prévision de l'augmentation des droits des demandes en lien avec le Code du bâtiment
- Hausse de la dette à long terme nette par rapport à l'année précédente en raison de la dette de 300 M\$ liée à l'Étape 1 du TLR. Cette nouvelle dette est remboursable au cours des 27 prochaines années.
- Augmentation des immobilisations corporelles en raison de l'achèvement de l'Étape 1 du TLR et du début des travaux de construction de l'Étape 2 en 2019.

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 11, 2019, Ernst & Young LLP provided an audit plan ([ACS2019-FSD-FIN-0008](#)), outlining the scope of key issues affecting the 2019 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 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 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 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

	2019 (in thousands \$000s)	2018 (in thousands \$000s)
Financial Assets		
Cash and cash equivalents	665,693	347,875
Accounts receivable	678,671	648,303
Investments	1,026,571	1,229,247
Investment in government business enterprise	470,297	462,975
<i>Total financial assets</i>	<i>2,841,232</i>	<i>2,688,400</i>
Liabilities		
Accounts payable and accrued liabilities	900,351	1,355,224
Deferred revenue	746,275	588,707
Employee future benefits and pension agreements	692,312	652,413
Environmental liabilities	42,955	34,323
Net long-term debt	2,557,194	1,912,085
Other liabilities	396,134	390,434
<i>Total liabilities</i>	<i>5,335,221</i>	<i>4,933,186</i>
Net debt	(2,493,989)	(2,244,786)
Non-Financial Assets		

Tangible capital assets	17,080,405	15,980,167
Other non-financial assets	66,013	60,086
<i>Total non-financial assets</i>	<i>17,146,418</i>	<i>16,040,253</i>
Accumulated Surplus	14,652,429	13,795,467

Analysis of the Consolidated Statement of Financial Position

In 2019, there was a continued shift from long-term investments to cash and cash equivalents to better align investments with market conditions.

Accounts receivable increased by \$30 million mainly for light rail stage 2 funding from senior levels of government.

The investment in government business enterprise, which represents the net value of Hydro Ottawa, increased by \$7 million. This increase represents the net of the City's share of Hydro Ottawa income of approximately \$29 million and dividends paid of \$22 million.

Accounts payable and accrued liabilities decreased by approximately \$455 million in 2019 due primarily to the completion and implementation of stage 1 of light rail.

Deferred revenue increased by approximately \$158 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 time they are recorded as revenue. In 2019 there was an increase in the number of building permit applications received prior to the adoption of higher building permit fees.

Employee future benefits and pension agreements increased by approximately \$40 million. Employee future benefits include increases of \$25 million due to an increase in long-term disability claims associated with mental health and an increase in back and shoulder claims. An increase of \$16 million was recorded for the indexation of the City of Ottawa Superannuation Fund for the past cost of living adjustments and was recorded for the first time in the financial statements in 2019 due to a change in accounting treatment. These liabilities were partially offset by a \$1 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 \$9 million in 2019 based on revised estimates as well as a change in the net discount rate used for the calculations. This increase was partially offset with a decrease in the overall liability for contaminated sites of approximately \$0.2 million due to the disposal of 9 properties and addition of 4 properties.

Net long-term debt increased by approximately \$645 million reflecting the difference between \$770 million of new debt issues and \$125 million of debt principal repayment.

The growth in tangible capital assets is due partly to continued spending on the Confederation Line for both Phase 1 and Phase 2, which accounted for approximately \$479 million as well as assets contributed from developers to the City of \$475 million, which together make up \$954 million of the total \$1.1 billion increase.

Accumulated surplus increased by \$857 million and is the net of increases in the City's investment in tangible capital assets of \$1.013 billion, decrease in reserves of \$77 million, and increase in the City's investment in Hydro Ottawa of \$7 million, offset by increases in unfunded liabilities of \$79 million and a \$7 million decrease in the City's Endowment Fund.

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

Revenue	2019 Budget	2019 Actual	2018 Actual
Taxes	1,857,172	1,864,760	1,776,722
Government transfers	937,282	1,083,242	957,513
Fees and user charges	892,042	903,328	857,795
Contributed tangible capital assets	474,514	474,514	318,684
Development charges	132,242	127,164	80,032
Investment income	37,342	45,866	48,550
Fines and penalties	32,042	37,897	35,439
Other revenue	62,868	63,245	43,513
Share of earnings of government business enterprise	30,129	32,429	42,138
Total revenue	4,455,633	4,632,445	4,160,386

The largest source of revenue is property tax revenue at 40 per cent, while government transfers and fees and user charges represent 23 per cent, and 20 per cent, respectively of the total consolidated revenue.

Taxation revenue increased by \$88 million to \$1.865 billion (2018 - \$1.777 billion). This increase is made up of a tax levy increase of approximately \$76 million, higher remissions of \$7 million and higher payments in lieu of taxes of \$5 million. 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 transfer revenue increased by \$125 million to \$1.083 billion (2018 - \$958 million). The increase included a one time increase of gas tax funding (\$58 million), increase of light rail phase 2 funding (\$227 million), which were offset by funding decreases as projects are nearing completion in 2019 from the Federal Public Transit Infrastructure Fund (\$106 million), as well as clean water and waste water funding (\$39 million). Childcare funding also decreased by \$15 million due to one-time funding amounts received in 2018 and not renewed in 2019.

Fees and user charges revenue increased by \$45 million to \$903 million (2018 - \$858 million). \$20 million of this increase was for rate increases for water and sewer surcharges as well as rate increases for other areas such as transit, police and building permits. There was a \$7 million increase in the area of planning and development for items such as design review and inspection, subdivision agreements and sewer connections. The remainder of the increase was for various items such as parking and roads.

Contributed tangible capital assets represent assets that are donated or contributed to the City by developers. In 2019 contributed assets increased by approximately \$157 million to \$475 million (2018 - \$318 million). The amounts vary from year to year based on the timing of development work.

Development charges applied to capital spending increased by \$47 million to \$127 million (2018 - \$80 million). Development charge revenue is not recognized until the funds are spent for its intended purposes. The increase is related to the start of phase 2 of Confederation Line as well as some larger road and wastewater projects.

Fines and penalties increased in 2019 by \$3 million to \$38 million (2018- \$35 million) due to higher collections for provincial offences and late payment fees.

Other revenue increased by \$20 million to \$63 million in 2019 (2018 - \$43 million) primarily due to recoveries from LRT operations.

The City's share of earnings of a government business enterprise (Hydro Ottawa) decreased to \$32 million in 2019 (2018 - \$42 million).

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

Expenses	2019 Budget	2019 Actual	2018 Actual
General government	109,224	108,960	113,541
Protection to persons and property	635,365	637,309	601,818
Roads, traffic and parking	408,196	433,170	412,620
Transit	695,384	697,815	582,903
Environmental services	425,885	427,317	388,684
Health services	179,453	180,945	175,583
Social and family services	554,312	537,006	552,559
Social housing	290,658	301,255	290,699
Recreation and cultural services	377,801	372,347	331,752
Planning and development	72,484	76,552	101,134
Total Expenses	3,748,762	3,772,676	3,551,293

Overall, expenditures increased by \$221 million, primarily due to inflation but also as the result of other expenditure variances as described below:

- General government expenses decreased by \$5 million to \$109 million in 2019 (2018 - \$114 million).
- Protection to persons and property increased by \$35 million in 2019 to \$637 million (2018 - \$602 million) due to increased compensation costs related to contract settlements, overtime, sick leave, group insurance and WSIB. As well, there were the 2019 spring flood support costs that contributed to the increase.
- Roads, traffic and parking expenses increased by \$20 million to \$433 million in 2019 (2018 - \$413 million) due to harsh winter weather at the beginning of fiscal 2019, as compared to 2018, which led to increases in the application of abrasives as well as increases in fleet related costs (maintenance, fuel).
- Transit expenses increased by \$115 million to \$698 million in 2019 (2018 - \$583 million) relating mainly to the implementation of stage 1 of light rail. The increases included transition costs relating to bus detours and bus service hours as well as maintenance for items such as fare control devices. There were also increases in operating expenditures for items such as repairs and maintenance and fuel costs.

- Environmental services increased by \$38 million in 2019 to \$427 million (2018 - \$389 million) mainly due to increased repair and maintenance activities and costs, increased organics processing costs due to increased volume, as well as an increase in the liability for the Trail Road Landfill.
- Health services increased by \$5 million to \$181 million in 2019 (2018 - \$176 million).
- Social and family services decreased by \$16 million to \$537 million in 2019 (2018 - \$553 million) mainly due to enhanced childcare program costs that were funded by the province in 2018.
- Social Housing increased by \$10 million to \$301 million in 2019 (2018 - \$291 million) mainly due to increased costs associated with affordable rental housing.
- Recreation and Cultural Services increased by \$40 million to \$372 million in 2019 (2018 - \$332 million) due to increases in repairs and maintenance costs.
- Planning and Development decreased by \$24 million to \$77 million in 2019 (2018 - \$101 million) as 2018 had 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 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

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

SUPPORTING DOCUMENTATION

Document 1 – Draft 2019 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 statements will be considered final and be posted on the City's web site.