

Subject: 2021 City of Ottawa Consolidated Financial Statements

File Number: ACS2022-FSD-FIN-0008

Report to Audit Committee on 13 June 2022

and Council 22 June 2022

Submitted on May 26, 2022 by Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Finance Services Department

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Ward: Citywide

Objet : Étas financiers consolidés de 2021 de la Ville d'Ottawa

Dossier : ACS2022-FSD-FIN-0008

Rapport au Comité de la vérification

le 13 juin 2022

et au Conseil le 22 juin 2022

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Quartier : À l'échelle de la ville

REPORT RECOMMENDATION

That the Audit Committee recommend Council approve the 2021 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 2021 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

- COVID-19 and construction of the Light Rail Transit Stage 2 (LRT-2) continued to be significant items on the consolidated financial statements.
- Accounts receivable and government transfers revenue increased mainly due to receivables from senior levels of government for funding claims related to LRT-2 eligible cost recoveries.
- Accounts payable increased mainly due to LRT-2 expenses incurred but not yet paid.
- Net long-term debt increased from the previous year due to a new \$225 million debt issuance.
- Tangible capital assets increased primarily due to LRT-2 construction related expenses.

RÉSUMÉ

L'article 294 de la *Loi de 2001 sur les municipalités* exige que la Ville prépare des états financiers consolidés et audités chaque année conformément aux principes comptables

généralement reconnus recommandés par le Conseil sur la comptabilité dans le secteur public (CCSP) de Comptables professionnels agréés du Canada (CPA Canada).

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

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

Faits saillants des états financiers

- La COVID-19 et la construction de l'Étape 2 du train léger sur rail (TLR-2) continue d'avoir une impacte significative sur les états financiers consolidés.
- Les comptes débiteurs et les recettes tirées des paiements de transfert ont augmenté surtout en raison de sommes à recevoir des ordres supérieurs de gouvernement pour des demandes de financement liées au recouvrement admissible des coûts relativement au TLR-2.
- Les comptes créditeurs ont augmenté surtout en raison des dépenses engagées pour le TLR-2, mais pas encore payées.
- Les passifs nets à long terme ont augmenté par rapport à l'année précédente en raison d'une nouvelle émission de titres de créance de 225 millions de dollars.
- Les immobilisations corporelles ont augmenté principalement en raison des dépenses liées à la construction du TLR-2.

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 8, 2021, Ernst & Young LLP provided an audit plan ([ACS2021-FSD-FIN-0027](#)), outlining the scope of key issues affecting the 2021 audit for the information of Committee and Council.

DISCUSSION

The consolidated financial statements have been prepared by management in accordance with the Canadian Public Sector Accounting Standards established by PSAB of CPA Canada. These accounting 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 are the consolidated financial statements are prepared using the accrual basis of accounting which records expenses and revenues, for which the City expects to expend or receive cash in a future reporting period.

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

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

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

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

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

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

Reserves comprise funds set aside for specific purposes by Council and are a component of Accumulated Surplus. Amounts received for specific purposes under

legislation, regulation or agreement, such as development charges, represent a liability and are reported as Deferred Revenue and not Accumulated Surplus.

Operating and Capital Budgets

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

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

Table 1 Consolidated Statement of Financial Position

	2021 (in thousands \$000s)	2020 (in thousands \$000s)
Financial Assets		
Cash and cash equivalents	709,280	974,811
Accounts receivable	995,943	814,786
Investments	1,711,196	1,174,679
Investment in government business enterprise	507,295	480,224
Loan receivable	219,051	224,243
<i>Total financial assets</i>	<i>4,142,765</i>	<i>3,668,743</i>
Liabilities		
Accounts payable and accrued liabilities	1,437,383	946,238
Deferred revenue	1,011,774	928,707
Employee future benefits and pension agreements	728,210	706,628
Environmental liabilities	43,584	45,549
Net long-term debt	3,039,703	2,954,052
Other liabilities	477,412	459,226
<i>Total liabilities</i>	<i>6,738,066</i>	<i>6,040,400</i>
Net debt	(2,595,301)	(2,371,657)
Non-Financial Assets		
Tangible capital assets	19,636,263	18,033,022
Other non-financial assets	91,525	83,168
<i>Total non-financial assets</i>	<i>19,727,788</i>	<i>18,116,190</i>
Accumulated Surplus	17,132,487	15,744,533

Analysis of the Consolidated Statement of Financial Position

In 2021, there was a decrease to cash and cash equivalents as the City leveraged funding previously received from senior levels of government for the COVID-19 pandemic operating pressures, shifted short-term investments held for the pandemic to longer term investments and returned liquidity back to normal levels.

Accounts receivable increased by \$181 million mainly for LRT-2 funding from senior levels of government.

Investments increased due to the City shifting short-term investments to longer term investments back to more normal pre-pandemic levels. Capital deferrals and other spending savings continued into 2021 to help fund COVID-19 budget pressures.

The investment in government business enterprise, which represents the net value of Hydro Ottawa, increased by \$27 million. This increase represents the net of the City's share of Hydro Ottawa income of approximately \$48 million and dividends paid of \$21 million.

Accounts payable and accrued liabilities increased by approximately \$491 million in 2021 related primarily to LRT-2 where services were received but not yet paid, as well as a short-term promissory note that was issued in 2021 and will mature in 2022.

Deferred revenue increased by approximately \$83 million mainly due to increased 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.

Employee future benefits and pension agreements increased by approximately \$22 million. The City engages the services of an actuarial consulting firm to provide a determination of the City's obligation with regards to post-retirement and post-employment benefits, as well as for WSIB benefits.

The City's environmental liabilities include liabilities for landfill closure and post-closure and contaminated sites. The landfill closure and post-closure liability decreased by \$1 million in 2021 which was primarily based on the revised discount rates used. The overall liability for contaminated sites decreased by approximately \$1 million due to the disposal of eleven properties and the addition of three properties.

Other liabilities increased by \$18 million. This is due to a \$35 million increase to mortgages payable related to Ottawa Community Housing Corporation, which was

offset by an \$11 million decrease to the Hydro Ottawa note payable for the LED lighting program, as well as a \$6 million reduction in capital lease obligations resulting from repayments of principal on capital leases.

Net long-term debt increased by approximately \$86 million reflecting the difference between \$225 million of new debt issues, which is offset by \$139 million of debt principal repayment.

The growth in tangible capital assets is due mainly to continued spending on the LRT-2, which accounted for approximately \$1 billion as well as assets contributed from developers to the City of \$532 million, which together make up \$1.532 billion of the total \$1.603 billion increase.

Accumulated surplus increased by \$1.388 billion and is the net of increases in the City's investment in tangible capital assets of \$1.240 billion, increases in reserves of \$166 million, and increase in the City's investment in Hydro Ottawa of \$27 million, offset by increases in unfunded liabilities of \$36 million and a \$9 million decrease in the City's Endowment Fund on a cost basis.

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

Revenue	2021 Budget	2021 Actual	2020 Actual
Taxes	2,042,047	2,022,302	1,944,683
Government transfers	1,507,260	1,622,478	1,493,210
Fees and user charges	852,175	772,857	743,391
Contributed tangible capital assets	419,035	532,071	363,556
Development charges	137,769	208,393	169,683
Investment income	49,846	61,257	50,716
Fines and penalties	45,800	41,073	35,617
Other revenue	49,140	23,067	44,215
Share of earnings of government business enterprise	33,300	47,356	34,120
Total revenue	5,136,372	5,330,854	4,879,191

Analysis of Revenue

The largest source of revenue is property tax revenue at 38 per cent, while government transfers and fees and user charges represent 30 per cent, and 15 per cent, respectively of the total consolidated revenue.

Taxation revenue increased by \$77 million to \$2.022 billion (2020 - \$1.945 billion). This increase is made up of a tax levy increase of approximately \$90 million, which has been offset by lower remissions of \$1 million and lower payments in lieu of taxes of \$12 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 transfers revenue increased by \$129 million to \$1.622 billion (2020 - \$1.493 billion). The increase is mainly made up of COVID-19 related funding (\$109 million) such as the safe restart program and vaccination programs, one-time payment for federal gas tax funding (\$57 million), and for provincial gas tax revenue related to 2020 but not confirmed and recognized until 2021 (\$38 million). These were offset by decreases in LRT-2 cost recovery funding (\$21 million) and for programs nearing completion such as Clean Water and Wastewater (\$3 million) and the Ottawa River Integrated Action Protection Plan (\$18 million). Social Services funding also decreased by \$28 million related to COVID-19 as there were fewer qualifying clients due to the Canada Recovery Benefit (CRB), and reduced EquiPass/Community Pass subsidies required due to lower transit ridership.

Fees and user charges revenue increased by \$30 million to \$773 million (2020 - \$743 million). Water and sewer revenue increased by \$21 million due to rate increases and water consumption, as well as increases in waste and recycling revenue of \$14 million due to an increase in tons of material collected as well as increased commodity prices. Various other fees and user charges increased by \$19 million as City operations were returning to pre-COVID-19 levels. These increases were offset by a decrease in Transit revenue of \$24 million due to continuing reduced fare revenue related to COVID-19 with many residents working from home.

Contributed tangible capital assets represent assets that are donated or contributed to the City by developers. In 2021 contributed assets increased by approximately \$168 million to \$532 million (2020 - \$364 million). The amounts vary from year-to-year based on the timing of development work.

Development charges applied to capital spending increased by \$38 million to \$208 million (2020 - \$170 million).

Development charges revenue is not recognized until the funds are spent for its intended purposes. The increase in revenue is related to LRT-2, as well as some larger infrastructure projects.

Fines and penalties increased in 2021 by \$5 million to \$41 million (2020- \$36 million) due to increased road activity after COVID-19 closures started to be relaxed, 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) increased to \$47 million in 2021 (2020 - \$34 million).

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

Expenses	2021 Budget	2021 Actual	2020 Actual
General government	111,450	108,433	103,481
Protection to persons and property	666,543	663,964	628,673
Roads, Traffic and Parking	485,354	421,652	415,144
Transit	802,234	719,757	737,369
Environmental Services	515,365	451,934	424,270
Health Services	236,665	294,234	216,679
Social and Family Services	583,314	502,889	535,892
Social Housing	273,977	354,510	302,952
Recreation and Cultural Services	415,903	346,481	346,493
Planning and Development	99,568	79,561	74,541
Total Expenses	4,190,373	3,943,415	3,785,494

Analysis of Expenses

General government expenses increased by \$5 million to \$108 million in 2021 (2020 - \$103 million). The lower amount in 2020 was due to discretionary spending savings realized during the initial phases of COVID-19. The \$108 million total in 2021 brought general government spending back to the 2019 pre-COVID-19 level.

Protection to persons and property increased by \$35 million in 2021 to \$664 million (2020 - \$629 million). Specific increases include compensation costs and group insurance benefits.

Roads, Traffic and Parking expenses increased by \$7 million to \$422 million in 2021 (2020 - \$415 million) primarily due to increases in the number of significant weather events, which resulted in increased repairs and maintenance expenditures.

Transit expenses decreased by \$17 million to \$720 million in 2021 (2020 - \$737 million) primarily due to reduced operating expenses.

Environmental Services increased by \$28 million in 2021 to \$452 million (2020 - \$424 million) due to increases in repairs and maintenance expenditures, higher amortization, and higher loss on disposal of assets.

Health Services increased by \$77 million to \$294 million in 2021 (2020 - \$217 million) mainly due to COVID-19 related costs due to the vaccination campaign and case and outbreak management. These increased costs included temporary staffing level increases, overtime, pandemic pay, purchase of personal protective equipment, medical supplies and other equipment.

Social and Family Services decreased by \$33 million to \$503 million in 2021 (2020 - \$536 million) primarily due to the reduction in caseloads and benefits as a result of federal COVID-19 response benefits.

Social Housing increased by \$52 million to \$355 million in 2021 (2020 - \$303 million) primarily due to various homelessness temporary shelters put in place due to COVID-19, as well as payments to community partners for COVID-19 costs such as personal protective equipment. There was also an increase relating to various affordable housing programs.

Recreation and Cultural Services remained constant at \$346 million in 2021 (2020 - \$346 million).

Planning and Development increased by \$5 million to \$80 million in 2021 (2020 - \$75 million) primarily due to increased operating costs.

External Audit

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

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

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

Financial Information Return

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

FINANCIAL IMPLICATIONS

Financial implications are discussed in the body of this report.

LEGAL IMPLICATIONS

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

COMMENTS BY THE WARD COUNCILLOR(S)

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

ADVISORY COMMITTEE(S) COMMENTS

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

CONSULTATION

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

ACCESSIBILITY IMPACTS

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

RISK MANAGEMENT IMPLICATIONS

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

RURAL IMPLICATIONS

There are no rural implications associated with this report.

TERM OF COUNCIL PRIORITIES

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

SUPPORTING DOCUMENTATION

Document 1 – Draft 2021 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 will be posted on the City's web site.