

<p>1. 2020 CITY OF OTTAWA CONSOLIDATED FINANCIAL STATEMENTS</p> <p>ÉTATS FINANCIERS CONSOLIDÉS DE 2020 DE LA VILLE D'OTTAWA</p>

COMMITTEE RECOMMENDATION

That Council approve the 2020 City of Ottawa Consolidated Financial Statements.

RECOMMANDATION DU COMITÉ

Que le Conseil approuve les états financiers consolidés de 2020 de la Ville d'Ottawa.

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's report, Corporate Finance, Finance Services Department dated May 13, 2021 (ACS2021-FSD-FIN-0009)

Rapport de la Trésorière municipale adjointe, Services des finances municipales, Direction générale des services des finances daté le 13 mai 2021 (ACS2021-FSD-FIN-0009)

2. Extract of draft Minutes, Audit Committee – May 25, 2021.

Extrait de l'ébauche du procès-verbal, Comité de la vérification, le 25 mai 2021.

**Report to
Rapport au:**

**Audit Committee
Comité de la vérification
25 May 2021 / 25 mai 2021**

**and Council
et au Conseil
9 June 2021 / 9 juin 2021**

**Submitted on May 13, 2021
Soumis le 13 mai 2021**

**Submitted by
Soumis par:**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2021-FSD-FIN-0009

SUBJECT: 2020 CITY OF OTTAWA CONSOLIDATED FINANCIAL STATEMENTS

OBJET: ÉTATS FINANCIERS CONSOLIDÉS DE 2020 DE LA VILLE D'OTTAWA

REPORT RECOMMENDATION

That the Audit Committee recommend Council approve the 2020 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 2020 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 receivables from senior levels of government for funding claims related to Stage 2 of Light Rail Transit (LRT) eligible cost recoveries as well as COVID-19 related funding.
- Accounts payable increased due to Stage 2 of LRT expenses incurred but not yet paid.
- Employee future benefits increased due to increases in long-term disability and health claims.
- Deferred revenue increased due to development charges related to an increase in building permit applications as well as receipt of COVID-19 related funding, a portion of which was deferred to 2021.

- Net long-term debt increased from the previous year due to a new \$300 million debt issuance as well as the recognition of the RTG debt financing which is offset by the loan receivable in the same amount.
- Tangible capital assets increased primarily due to Stage 2 of LRT 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 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 surtout en raison de sommes à recevoir des ordres supérieurs de gouvernement pour des demandes de financement liées au recouvrement admissible des coûts relativement à l'Étape 2 du train léger sur rail (TLR), ainsi que pour le financement lié à la COVID-19.
- Les comptes créditeurs ont augmenté en raison des dépenses engagées pour l'Étape 2 du TLR, mais pas encore payées.
- Les avantages sociaux futurs des employés ont augmenté en raison d'une hausse des réclamations en invalidité de longue durée et des demandes de règlement pour soins de santé.
- Les produits reportés ont augmenté en raison des redevances d'aménagement associées à une augmentation des demandes de permis de construire ainsi qu'à l'obtention d'un financement lié à la COVID-19.
- Les passifs nets à long terme ont diminué par rapport à l'année précédente en raison d'une nouvelle émission de titres de créance de 300 millions de dollars et de

la comptabilisation du financement par emprunt du GTR qui est compensé par le prêt en cours du même montant.

- Les immobilisations corporelles ont augmenté principalement en raison des dépenses liées à la construction de l'Étape 2 du TLR.

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, 2020, Ernst & Young LLP provided an audit plan ([ACS2020-FSD-FIN-0024](#)), outlining the scope of key issues affecting the 2020 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 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

	2020 (in thousands \$000s)	2019 (in thousands \$000s)
Financial Assets		
Cash and cash equivalents	974,811	665,693
Accounts receivable	814,786	678,671
Investments	1,174,679	1,026,571
Investment in government business enterprise	480,224	470,297
Loan receivable	224,243	0
<i>Total financial assets</i>	<i>3,668,743</i>	<i>2,841,232</i>
Liabilities		
Accounts payable and accrued liabilities	946,238	900,351
Deferred revenue	928,707	746,275
Employee future benefits and pension agreements	706,628	692,312
Environmental liabilities	45,549	42,955
Net long-term debt	2,954,052	2,557,194
Other liabilities	459,226	396,134
<i>Total liabilities</i>	<i>6,040,400</i>	<i>5,335,221</i>
Net debt	(2,371,657)	(2,493,989)

	2020 (in thousands \$000s)	2019 (in thousands \$000s)
Non-Financial Assets		
Tangible capital assets	18,033,022	17,080,405
Other non-financial assets	83,168	66,013
Total non-financial assets	18,116,190	17,146,418
Accumulated Surplus	15,744,533	14,652,429

Analysis of the Consolidated Statement of Financial Position

In 2020, there was an increase to cash and cash equivalents in order to increase liquidity during the COVID-19 pandemic and to accommodate a higher level of payments at year end which did not materialize as anticipated.

Capital deferrals and other spending savings in 2020 were the key financial strategies implemented in 2020, to help fund any future COVID budget pressures, if required.

Accounts receivable increased by \$136 million mainly for Light Rail Stage 2 funding from senior levels of government as well as COVID-19 funding for Transit and other municipal services relating to enhanced cleaning and safe restart programs.

The investment in government business enterprise, which represents the net value of Hydro Ottawa, increased by \$10 million. This increase represents the net of the City's share of Hydro Ottawa income of approximately \$33 million and dividends paid of \$23 million.

Accounts payable and accrued liabilities increased by approximately \$46 million in 2020 related primarily to Stage 2 of light rail where services were received but not yet paid as well as childcare where the 2020 revised funding was received late in the year resulting in amounts not yet paid out to the providers.

Deferred revenue increased by approximately \$182 million mainly due to higher development charges and COVID-19 related government funding. 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. The government funding related to COVID-19 was received in 2020 for expenses incurred related to the Safe Restart program and other social programs which had not all been spent in 2020.

Employee future benefits and pension agreements increased by approximately \$14 million. Employee future benefits include increases of \$13 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 \$1 million was recorded for the indexation of the City of Ottawa Superannuation Fund for the past cost of living adjustments.

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 2020 primarily based on revised estimates on the year of closure for Trail Road from 2041 to 2036. This increase was partially offset with a decrease in the overall liability for contaminated sites of approximately \$1 million due to the disposal of 15 properties and addition of one property.

Other liabilities increased by \$63 million. This is due to the reclassification of the Brownfields liability previously recorded under accounts payable and accrued liabilities and now moved to other liabilities in the amount of \$57 million. Also included in the other liabilities balance is the Hydro Ottawa note payable in the amount of \$11 million related to the conversion of streetlights to LED. The above increases to other liabilities were offset by a decrease of \$5 million in capital lease obligations resulting from repayments of principal on capital leases.

Net long-term debt increased by approximately \$397 million reflecting the difference between \$300 million of new debt issues and \$225 million for RTG debt financing which is offset by \$128 million of debt principal repayment. The offsetting \$224.2 million principal repayment receivable from RTG is recorded under Loans Receivable.

The growth in tangible capital assets is due partly to continued spending on the Light Rail Stage 2 project, which accounted for approximately \$512 million as well as assets contributed from developers to the City of \$364 million, which together make up \$876 million of the total \$953 million increase.

Accumulated surplus increased by \$1.092 billion and is the net of increases in the City's investment in tangible capital assets of \$1,045 million, increases in reserves of \$65

million, and increase in the City's investment in Hydro Ottawa of \$10 million, offset by increases in unfunded liabilities of \$24 million and a \$4 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	2020 Budget	2020 Actual	2019 Actual
Taxes	1,944,867	1,944,683	1,864,760
Government transfers	1,013,982	1,493,210	1,083,242
Fees and user charges	933,597	743,391	903,328
Contributed tangible capital assets	396,599	363,556	474,514
Development charges	138,986	169,683	127,164
Investment income	46,171	50,716	45,866
Fines and penalties	37,782	35,617	37,897
Other revenue	57,442	44,215	63,245
Share of earnings of government business enterprise	30,129	34,120	32,429
Total revenue	4,599,555	4,879,191	4,632,445

The largest source of revenue is property tax revenue at 40 per cent, while government transfers and fees and user charges represent 31 per cent, and 15 per cent, respectively of the total consolidated revenue.

Taxation revenue increased by \$80 million to \$1.945 billion (2019 - \$1.865 billion). This increase is made up of a tax levy increase of approximately \$51 million, higher remissions of \$27 million and higher payments in lieu of taxes of \$2 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 \$410 million to \$1.493 billion (2019 - \$1,083 million). The increase included COVID-19 related funding (\$175 million), increase of Light Rail Stage 2 funding (\$294 million), increase in the Rapid Housing Initiative (\$33 million), which were offset by a one-time increase in 2019 of gas tax funding (\$58 million). Other funding decreases occurred for projects that are nearing completion in 2020 from the various funding programs such as the Federal Public

Transit Infrastructure Fund (\$2 million), as well as Clean Water and Wastewater funding (\$9 million). Social Services funding also decreased by \$23 million related to COVID-19 as there were fewer qualifying clients due to the Canada Emergency Response Benefit (CERB) and reduced EquiPass/Community Pass subsidies required due to lower transit ridership as well as the termination of the Addiction Services Initiative in 2019.

Fees and user charges revenue decreased by \$160 million to \$743 million (2019 - \$903 million). Transit revenue decreased by \$107 million due to COVID-19 due to lower fare and advertising revenue. Parks and Recreation revenue decreased by \$38 million due to COVID-19 that resulted in cancelled programs and activities, as well as limited capacity and programming when programming did resume. The remainder of the decrease (\$15 million) related to COVID-19 such as decreased parking revenue and parking fines as well as a reduction in planning and zoning fees due to the business permit desk closure for a few months and then by appointment only when services resumed.

Contributed tangible capital assets represent assets that are donated or contributed to the City by developers. In 2020 contributed assets decreased by approximately \$111 million to \$364 million (2019 - \$475 million). The amounts vary from year to year based on the timing of development work.

Development charges applied to capital spending increased by \$43 million to \$170 million (2019 - \$127 million).

Development charge revenue is not recognized until the funds are spent for its intended purposes. The increase is related to LRT Stage 2, as well as some larger road projects.

Fines and penalties decreased in 2020 by \$2 million to \$36 million (2019- \$38 million) due to COVID-19 resulting in lower provincial offences and late payment fees.

Other revenue decreased by \$19 million to \$44 million in 2020 (2019 - \$63 million) primarily due to a reduction in performance deductions and recoveries for LRT operations.

The City's share of earnings of a government business enterprise (Hydro Ottawa) increased to \$34 million in 2020 (2019 - \$32 million).

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

Expenses	2020 Budget	2020 Actual	2019 Actual
General government	113,877	103,481	108,960
Protection to persons and property	651,870	628,673	637,309
Roads, Traffic and Parking	453,335	415,144	433,170
Transit	755,921	737,369	697,815
Environmental Services	468,251	424,270	427,317
Health Services	188,271	216,679	180,945
Social and Family Services	561,664	535,892	537,006
Social Housing	295,900	302,952	301,255
Recreation and Cultural Services	396,486	346,493	372,347
Planning and Development	77,760	74,541	76,552
Total Expenses	3,963,335	3,785,494	3,772,676

Expenditure variances are described below:

- General government expenses decreased by \$6 million to \$103 million in 2020 (2019 - \$109 million) due to discretionary spending savings and savings related to vacancies.
- Protection to persons and property decreased by \$8 million in 2020 to \$629 million (2019 - \$637 million) due to reduced discretionary spending and fleet cost savings.
- Roads, Traffic and Parking expenses decreased by \$18 million to \$415 million in 2020 (2019 - \$433 million) primarily due to a less severe winter season in 2020 as compared to 2019 which saw substantial snowfall accumulation and freeze-thaw cycles.
- Transit expenses increased by \$39 million to \$737 million in 2020 (2019 - \$698 million) relating to bus and Para Transpo service expansion, increase in Presto fees, non-recoverable COVID-19 costs, as well as increases in operating expenditures for items such as repairs and maintenance and fuel costs.
- Environmental Services decreased by \$3 million in 2020 to \$424 million (2019 - \$427 million) due to reduced repair costs.

- Health Services increased by \$36 million to \$217 million in 2020 (2019 - \$181 million) mainly due to COVID-19 costs such as an increase in temporary staffing levels, overtime, pandemic pay, purchase of personal protective equipment, medical supplies and other equipment. There was also an increase in the number of paramedic full-time employees in order to obtain Council approved response times.
- Social and Family Services decreased by \$1 million to \$536 million in 2020 (2019 - \$537 million).
- Social Housing increased by \$2 million to \$303 million in 2020 (2019 - \$301 million).
- Recreation and Cultural Services decreased by \$26 million to \$346 million in 2020 (2019 - \$372 million) due to COVID-19 that resulted in lower compensation due to part-time staff placed on emergency leave, facility closures, and savings from discretionary spending.
- Planning and Development decreased by \$2 million to \$75 million in 2020 (2019 - \$77 million).

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 inquires. 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 2020 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.