



## REPORT

### Council

**Meeting Date: May 25, 2021**

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**FROM:** Finance Department

**DATE:** May 11, 2021

**SUBJECT:** 2020 Financial Statements Report

**LOCATION:**

**WARD:** Town-wide

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#### **RECOMMENDATION:**

That the 2020 Town of Oakville Consolidated Financial Statements and the 2020 Town of Oakville Trust Fund Financial Statements be approved.

#### **KEY FACTS:**

The following are key points for consideration with respect to this report:

- KPMG is prepared to issue an unqualified (or “clean”) opinion on the 2020 financial statements.
- KPMG will be able to issue their final opinion once all aspects of the audit are completed. Part of their final procedures include reporting to Council and obtaining Council’s approval of the financial statements.
- The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards, and, as such, do not reflect “fund balances”; rather, they report the town’s Accumulated Surplus, which includes the value of the town’s tangible capital assets.
- The town still maintains operating, capital and reserve funds for budget purposes and the impact of these various funds on the town’s final surplus can be seen in Appendix C.
- The 2020 consolidated financial statements reflect a surplus of \$131.1 million.
- The town continues to maintain a strong financial position, as evidenced by having net financial assets of \$379.4 million (up \$54.9 million from 2019).
- The town’s accumulated surplus is now \$2.2 billion.
- The town’s reserves and reserve funds have increased by \$59.7 million.

**BACKGROUND:****Annual financial statements**

As required by the Municipal Act, the town must prepare annual financial statements. The draft 2020 Town of Oakville Consolidated Financial Statements and the draft 2020 Town of Oakville Trust Fund Financial Statements are contained in Appendices A and B. The statements are to be reviewed and approved by Council, at which point they can be finalized.

The town's financial statements are considered "consolidated" as they include not only the operations of the town, but also those of the local business improvement areas, Oakville Public Library, Oakville Enterprises Corporation, and Oakville Municipal Development Corporation.

The financial statements provide Council and the public with information on the town's year-end financial position and on the town's operations (revenues and expenses) for the town's major functional areas for the 2020 year.

The financial statements include a number of different individual statements and sections. For a description of each statement and section, see Appendix D.

**Audit**

Finance is responsible for the coordination of the annual audit process for the town and its local boards, as well as the content and accuracy of the town's consolidated financial statements and the trust fund financial statements. Staff ensure the financial statements are prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. The town's external auditors, KPMG, have audited the statements in accordance with Canadian generally accepted auditing standards.

The auditors are prepared to express an unqualified opinion that the consolidated statements present fairly, in all material respects, the consolidated financial position of the town as at December 31, 2020 and its consolidated results of operations, its consolidated change in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

The external auditor's opinion provides assurance to third parties that the financial statements can be reasonably relied upon. The auditors' findings with respect to control deficiencies and material misstatements are included in their 2020 Audit Findings Report, which is also included on the agenda.

**Canadian Award for Financial Reporting Achievement**

In 2020 the town did not submit an application for the award in financial reporting to the Government Finance Officers Association (GFOA). We prioritized adjusting to the COVID-19 changes in order to keep residents and staff safe, and intend to submit an application in the future when the COVID-19 crisis has stabilized.

**Provincial Reporting Requirements**

The provincial reporting requirement for municipalities is the Financial Information Return (FIR). The FIR is not subject to audit; however, it is prepared in accordance with the prescribed policies issued by the Ministry of Municipal Affairs and Housing.

The 2020 FIR will be forwarded to the province once it has been completed and once the consolidated statements have been approved by Council.

**COMMENT/OPTIONS:****2020 Financial Highlights****Statement of Financial Position:**

- Net financial assets grew to \$379.4 million in 2020 from \$324.5 million in 2019, an increase of over \$54.9 million. The town continues to maintain a strong financial asset position, allowing it sufficient financial resources to fund its obligations.
- More specifically:
  - The town's year end cash and investments balance increased by \$41.2 million from 2019 as a result of activity reported on the statement of operations.
  - The town's taxes receivable balance increased \$12.0 million over 2019 as a result of the Council approved program to waive penalties and interest due to the pandemic. Subsequent to December 31, 2020 and the program ending, this amount has not decreased significantly confirming the pandemic has negatively impacted our resident's ability to pay their property taxes. Although this increase is significant, the town collected over 97% of total taxes billed in 2020 and has mechanisms in place to ultimately collect outstanding balances. Council has also approved a 2021 tax deferral program to further assist residents.
  - Other receivables increased \$14.2 million over 2019 and relates to the timing of invoicing to the Region for road reconstruction, provincial grants receivable, as well development charges loans. The development charges loans were a result of new legislation in 2020 to increase affordable housing within the community. With the exception of the new loans, the remaining increase in other receivables is timing only and does not indicate any issues associated with collectability.
  - The town's investment in Oakville Municipal Development Corporation decreased by \$.3 million as a result of their operating loss for the year.

- The town's investment in Oakville Enterprises Corporation (formerly Oakville Hydro) increased \$13.2 million due to their operating results and the impact of the revaluation of the financing lease signed with the town.
- Accounts payable and accrued liabilities decreased \$12.1 million over 2019 due mainly to the timing of payroll and capital project disbursements. At the end of 2019 there were large capital projects in progress whereas the level of capital activity at the end of 2020 was lower. Similarly, the decrease in payroll accrual relates simply to the timing of when December 31<sup>st</sup> fell within the payroll cycle.
- Deferred revenue – obligatory reserve funds increased \$36.5 million. Obligatory reserve fund balances fluctuate based on the timing of the receipt of funds from development charges and gas tax and the transfer of funds for operating and capital projects. In 2020, the town received \$59.5 million in development charges and \$10.7 million in gas tax into the funds; however, the town also recognized \$37.3 million in transfers to capital projects from the funds.
- Long-term liabilities decreased by \$1.8 million which consists of debt repayments of \$8.5 million offset against debt issued of \$6.7 million.
- Tangible capital assets, including work-in-progress, increased \$75.9 million. Note 11 of the financial statements breaks down the additions and disposals in each of the categories throughout the year.

#### Statement of Operations:

- The town reported a PSAB surplus in 2020 of \$131.1 million, an increase of \$43.9 million from 2019.
- Revenue:
  - Taxation revenue increased by \$7.3 million and exceeded budget by \$1.1 million due to supplementary tax bills.
  - User fees decreased by \$18.3 million compared to 2019. As outlined on note 13 of the financial statements, the main decreases relates to user fees and facility closures that were impacted by the COVID-19 pandemic such as recreation and culture programs, transit, and facility rentals and usage fees.
  - Province of Ontario transfers increased \$7.4 million over 2019 which relates mainly to the Safe Restart funding that was put in place to help offset some of the financial impacts related to COVID-19 mentioned above.
  - Gas tax revenue decreased by \$2.5 million compared to 2019. These revenues are recognized when costs on eligible projects are incurred and in 2020 the activity on eligible projects was lower.
  - Revaluation on the finance lease increased by \$7.5 million. The Town has provided a direct financing lease to Oakville Enterprises Corporation for the property at 861 Redwood Square. The lease was renegotiated in 2020 and the corresponding change in value has been reflected as a gain.

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- Developer contributions and charges earned increased by \$15.0 million and came in over budget by \$66.3 million; however this increase is primarily due to tangible capital assets contributed by developers. Of the \$93.5 million earned in 2020, \$60.8 million is from tangible capital assets contributed by developers. To contrast this with 2019, of the \$78.5 million earned in that year, \$44.6 million was from tangible capital assets contributed by developers.
  - Expenses:
    - General government expenses decreased by \$9.0 million. This decrease is comprised mainly of a decline in legal fees of \$1.2 million, a decline in employee future benefit costs of \$2.4 million, and an increase on the gain on the sale of assets of \$3.7 million.
    - Protection to persons and property increased by \$2.8 million of which \$1.7 million related to the increase in salaries and benefits which is consistent with the town being a service based organization.
    - Recreation and cultural services decreased by \$14.3 million. \$8 million related to the decrease in salaries and benefits and \$5.7 million related to the decrease in contracted services, both impacted by facility and program closures due to COVID-19.
    - Planning and development decreased by \$4.3 million of which over half related to the reduction in non-tangible capital asset expenses included within the financial statements in 2019.
  - In comparing some of the budgeted expenses to the actual expenses there are a number of things to keep in mind:
    - The financial statements are prepared in accordance with the public sector accounting standards while the budget is predominantly prepared on a cash basis.
    - Amortization is not included in the budget. The town expensed \$48.2 million of amortization in 2020 and this is included in the PSAB results.
    - Capital expenditures incurred in the current year that are not considered tangible capital assets are included in the current year expenses.
    - The approved expenditures for the capital budget are not included in the budget column on the Statement of Operations.
    - There is no requirement to budget for either post-employment liability expenses or contaminated sites liability expenses.
    - There is constant monitoring being done comparing budget to actuals:
      - Management receives monthly variance reports and has up-to-date, on-line access to their financial transactions.
      - Quarterly, the Finance department provides a projection to year end for Council approval, and then takes a report early in the subsequent year to provide a summary of the budget to actual variances and seek approvals for the disposition of any applicable surplus. That report was presented to Council on April 26, 2021.

Reconciliation between the operating results and the audited results:

Appendix C has been prepared by management to show how the operating surplus reconciles to the annual surplus reported on the Statement of Operations.

Notes to the financial statements:

The financial statements include a number of notes which provide additional financial information. A number of these notes are highlighted here:

## Investment in the town's government business enterprises:

- The town owns and controls two organizations which are considered government business enterprises and are accounted for on the modified equity basis in the town's financial statements.
- These are Oakville Municipal Development Corporation (MDC) (note 4) and Oakville Enterprises Corporation (formerly Oakville Hydro) (note 5).
- Oakville MDC is still in the start-up phase.
- In 2020, Oakville Enterprises posted income net of taxes of \$11.6 million and made a dividend payment to the town of \$6.1 million.

## Reserves (notes 6 and 12):

- The town holds reserves, discretionary reserve funds, and obligatory reserve funds. Each type of reserve has its own unique characteristics:
  - Reserves – an allocation of funds set aside for general purposes at the discretion of Council. Examples include the Tax Rate Stabilization Reserve and the Capital Financing Reserve. See note 12 in the financial statements for the 2020 balances.
  - Discretionary Reserve Funds – an allocation of funds set aside at the discretion of Council for more specific purposes. Examples include Harbours Reserve Fund and Parking Reserve Fund. See note 12 in the financial statements for the 2020 balances.
  - Obligatory reserve funds – funds held under provincial and federal regulations and can only be collected and spent as prescribed by various acts. Examples include Gas Tax and Development Charges. Due to their nature, obligatory reserve funds are considered a liability on the town's balance sheet and are treated in a manner consistent with deferred revenue. See note 6 in the financial statements for a full table.
- All transfers to and from reserves and reserve funds were approved by Council either through the 2020 budget process or through recommendations from the quarterly or year-end variance reporting.

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Employment benefits and other liabilities (note 10):

- The town has two employment benefit obligations for which the current liability and expense are actuarially determined. The first is related to post-employment benefit liabilities (ex. health benefits after retirement but pre-age 65) and the second is for Workplace Safety and Insurance Board (WSIB) benefit liabilities.
- The town obtains a full actuarial valuation report every three years, with updates in the other years. The results of these valuations are then reflected directly in the town's financial statements. Some key findings from the full valuations obtained for 2020 are:
  - The town's obligation for post-employment benefits increased \$2.2 million in 2020 as a result of an actuarial gain being reported in 2020 offset by lower current year service costs.
  - Due to increased service costs and projected interest on the town's future obligation, the total WSIB obligation has increased by \$.3 million.
- The town also maintains a reserve fund related to these employment benefit obligations. As a result of the above changes and due to increased contributions in the current year, the reserve now stands at 75% of the town's obligations (78% in 2019).

Trust funds (note 14):

The town administers trust funds which are not consolidated within the financial statements, as detailed in note 14. These funds are reported and audited separately and must also be reviewed and approved by Council. Please refer to Appendix B for these trust fund statements.

**CONSIDERATIONS:**

**(A) PUBLIC**

By publishing these financial statements, the town fulfills its duty to be publicly accountable by giving ratepayers and users the opportunity to evaluate the annual operating results, assess the services provided, and confirm the town's ability to meet its obligations as they become due. The statements indicate how the town financed its activities and met cash requirements.

**(B) FINANCIAL**

N/A

**(C) IMPACT ON OTHER DEPARTMENTS & USERS**

N/A

**(D) CORPORATE STRATEGIC GOALS**

An unqualified audit opinion on the financial statements supports the strategic plan of being accountable and fiscally responsible.

**(E) CLIMATE CHANGE/ACTION**

N/A

**APPENDICES:**

Appendix A 2020 Consolidated Financial Statements (draft)

Appendix B 2020 Trust Fund Financial Statements (draft)

Appendix C 2020 Reconciliation - Operating budget surplus to financial statement surplus

Appendix D Financial Statement Descriptions

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