



REPORT

Council

Meeting Date: May 27, 2024

FROM: Finance Department

DATE: May 21, 2024

SUBJECT: 2023 Financial Statements Report

LOCATION:

WARD: Town-wide

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RECOMMENDATION:

That the 2023 Town of Oakville Consolidated Financial Statements and the 2023 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 2023 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.
- There were two accounting policies changes that occurred in 2023 that were retroactively adjusted by restating 2022 comparative figures.
- The 2023 consolidated financial statements reflect a surplus of \$183.2 million.
- The town continues to maintain a strong financial position, as evidenced by having net financial assets of \$611.9 million (up \$58.7 million from 2022).

- The town's accumulated surplus is now \$2.7 billion.
- The town specific reserves and reserve funds have decreased by \$0.6 million in 2023. Note this does not include the obligatory reserves included on the year end report received at the April Council meeting.

BACKGROUND:**Annual financial statements**

As required by the Municipal Act, the town must prepare annual financial statements. The draft 2023 Town of Oakville Consolidated Financial Statements and the draft 2023 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 "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, Oakville Municipal Development Corporation, and Halton Digital Access Services 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 2023 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 auditor, KPMG, has audited the statements in accordance with Canadian generally accepted auditing standards.

The auditor is 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, 2023, and its consolidated results of operations, change in net financial assets, remeasurement gains/losses, and consolidated cash flows for the year ended.

The external auditor's opinion provides assurance to third parties that the financial statements can be reasonably relied upon. The auditor's findings with respect to

control deficiencies and material misstatements are included in their 2023 Audit Findings Report, which is also included on the agenda.

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 2023 FIR will be forwarded to the province once it has been completed and once the consolidated statements have been approved by Council.

COMMENT/OPTIONS:

2023 Financial Highlights

Statement of Financial Position:

- Net financial assets grew to \$611.9 million in 2023 from the restated \$553.2 million in 2022, an increase of over \$58.7 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 \$97.9 million from 2022 due to the activity reported on the statement of operations and statement of cash flows. At the end of 2022 more cash was held in anticipation of the rising interest rates, which was invested in 2023 allowing for higher interest returns.
 - The town's taxes receivable balance increased \$8.5 million from 2022. Although this increase is significant, the town collected over 94% of the total taxes billed in 2023 and has mechanisms in place to ultimately collect outstanding balances. \$0.75 million of this increase relates to decreasing the allowance related to assessment appeals, as the province has not moved forward with a property reassessment as planned in 2021 and the majority of challenges to the last assessment have been completed.
 - Other receivables increased \$8.5 million over 2022 and relates mainly to the increase in interest receivable on the town's investments.
 - The town's investment in Oakville Municipal Development Corporation decreased by \$0.36 million due to their operating loss of \$0.6 million, offset by the increase in shareholder loan of \$0.24 million.
 - The town invested in Halton Digital Access Services Corporation during the year with 20% ownership. The loss of \$0.025 million is related to the town's portion of the organization's operating loss in 2023.
 - The town's investment in Oakville Enterprises Corporation increased \$22.5 million due to its operating results for the year net of dividends paid to the town.

- The town's accounts payable and accrued liabilities increased \$19.5 million. This increase relates mainly to an increase in trade accounts payable and holdbacks on construction projects which is itself partially due to timing but also due to more capital projects in progress at year end. There was also an accrual set up for lands that were expropriated in 2023 that will be fully settled in future years.
- Deferred revenue – obligatory reserve funds increased \$63.1 million. Obligatory reserve fund balances fluctuate based on the timing of the receipt of funds from restricted activities such as development charges, building permits, and gas tax. In 2023 the town collected \$116.7 million and the transfer of funds for operating and capital projects was \$53.6 million.
- Long-term liabilities decreased by \$5.5 million which was the scheduled debt repayment. Although a debt issuance was initially planned in 2023, the need to borrow in 2023 was not required, so the issuance was postponed, which should hopefully save the town as interest rates are anticipated to come down.
- Tangible capital assets, including work-in-progress, increased \$124.6 million. Note 14 of the financial statements details the additions and disposals in each of the categories throughout the year.

Statement of Operations:

- The town reported a PSAB surplus in 2023 of \$183.2 million, a decrease of \$81.7 million from 2022.
- Revenue:
 - Taxation revenue increased by \$19.0 million and exceeded budget by \$5.4 million due to supplementary tax bills.
 - User fees increased by \$9.7 million compared to 2022. As outlined on Note 16 of the financial statements, all main user fee categories increased except for development fees which decreased slightly which is in line with the slowdown in the general economy.
 - Federal transfers increased \$2.7 million over 2022, which relates mainly to the increase in the Canada Community Building Fund. This revenue is recognized when costs on eligible projects are incurred. Note 19 of the financial statements provides the specific details.
 - Province of Ontario transfers decreased \$0.75 million over 2022, which relates mainly to the end of the Safe Restart – Transit funding coming to an end. This decrease was partially offset by an increase in the Investing in Canada Infrastructure Grant as outlined in Note 19.
 - Developer contributions and charges earned decreased by \$75.2 million and came in over budget by \$79.1 million; however, this decrease is primarily due to tangible capital assets contributed by developers. Of the \$187.1 million earned in 2022, \$137.2 million is from tangible capital assets contributed by developers. To contrast this with 2023, of the \$111.9

million earned, \$77.6 million was from tangible capital assets contributed by developers. The revenue related to donated assets fluctuates from year to year depending on when subdivisions are registered.

- Expenses
 - The segmented breakdown of the expenses is included in Note 20 of the financial statements.
 - General government expenses increased \$6.7 million over 2022 and is higher than budgeted amounts by \$10.9 million. The increase over prior year relates to increases in salaries and benefits of \$2.6 million, and contracted services of \$3.3 million. The increase in General Government expenses over budget is directly due to the contracted services amount of which \$15.1 million relates to purchases in the capital budget that do not meet the definition of a tangible capital asset for accounting purposes.
 - Protection services increased by \$1.3 million of which \$1.0 million related to the increase in salaries and benefits. This is consistent with the town being a service-based organization with a high percentage of protection services costs being wages.
 - Transportation services increased by \$3.2 million of which \$3.7 million was an increase in salaries and wages partially offset by lower non-tangible capital expenditures.
 - Environmental services expenses decreased by \$1.3 million due to a decrease in non-tangible capital assets.
 - Recreation and cultural services increased by \$6.3 million. \$3.5 million related to the increase in salaries and benefits and an increase of \$2.3 million mainly related to non-tangible capital assets.
 - Planning and development increased by \$2.4 million of which \$1.3 million related to the addition salaries and benefits and \$0.4 million to non-tangible capital asset expenses included within the financial statements.
- In comparing 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.
 - Capital expenditures incurred in the current year that are not considered tangible capital assets are included in the current year expenses of \$28.9 million (2022 – \$45.8 million).
 - 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, asset retirement obligations, 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, online 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 seeks approval for the disposition of any applicable surplus. That report was presented to Council on April 29, 2024.

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 that provide additional financial information. A number of these notes are highlighted here:

Accounting policy changes (note 2)

Effective January 1, 2023, the Town adopted the Public Sector Account Board's (PSAB) new standard for the recognition, measurement, and disclosures of a liability for asset retirement under PS 3280 Asset Retirement Obligations. The new standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in buildings. This change was applied retroactively using the modified retrospective method and prior periods have been restated to reflect liabilities outstanding as of January 1, 2022.

Effective January 1, 2023, the Town has also elected to treat the Building Enterprise Reserve and the Bonus Zoning Reserve as externally restricted assets under PS 3100. These funds have always been used for the correct purposes; however, this change helps align the funds with the Provincial reporting requirements, as well as clearly identifying that these funds are restricted and cannot be used for purposes other than their specified use governed by the *Building Code Act, 1992* (Building Enterprise Reserve) and Section 37 of the *Planning Act* (Bonus Zoning Reserve). This change in accounting treatment also reduces the administrative work of tracking the stages of building permits and recognizing revenue as progress is made on each permit. With restricted assets, any cash inflow is shown in the reserve until resources are used for the purposes specified. The Building Department will need to continue tracking all the permits for their requirements; however, they no longer need to track the status for the purposes of accounting, resulting in a more streamlined process. This change was also applied retroactively, and prior periods have been restated to reflect opening balances as of January 1, 2022.

Investment in the town's government business enterprises:

- The town owns/has partial ownership of three organizations that 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 5) and Halton Digital Access Services Corporation (HDASC) (note 6) and Oakville Enterprises Corporation (note 7).
- In 2023, MDC had a net loss of \$601 thousand.
- In 2023, HDASC had a net loss of \$127 thousand of which the town has 20% ownership resulting in a net loss of \$25 thousand. HDASC is still in the start up phase.
- In 2023, Oakville Enterprises posted income net of taxes and regulatory balances of \$30.8 million and made a dividend payment to the town of \$6.1 million.

Reserves (notes 8 and 15):

- 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 15 in the financial statements for the 2023 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 15 in the financial statements for the 2023 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 8 in the financial statements for a full table.
- All transfers to and from reserves and reserve funds were approved by Council either through the 2023 budget process or through recommendations from the quarterly or year-end variance reporting.

Employment benefits and other liabilities (note 13):

- 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. 2022 was a year for a full valuation and results for 2023 were projected as outlined in the note. WSIB costs continue to rise and a strategy for financing these expenses is currently underway and the town is constantly looking for ways to mitigate these costs.

- The town also maintains a reserve fund related to these employment benefit obligations. As a result of the above changes and due to contributions in the current year, the reserve now stands at 74% of the town's obligations (75% in 2022).

Trust funds (note 17):

- The town administers trust funds which are not consolidated within the financial statements, as detailed in note 17. 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) COUNCIL STRATEGIC PRIORITIES

This report addresses the corporate strategic goal(s) to:

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 – 2023 Consolidated Financial Statements - Draft

Appendix B – 2023 Trust Fund Financial Statements - Draft

Appendix C – 2023 Operating surplus to financial statement surplus reconciliation

Appendix D – Financial Statement Description

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