



## REPORT

### Council

**Meeting Date: May 26, 2025**

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**FROM:** Finance Department

**DATE:** May 13, 2025

**SUBJECT:** 2024 Audited Financial Statements and External Audit Findings Report

**LOCATION:**

**WARD:** Town-wide

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#### **RECOMMENDATION:**

1. That the 2024 Audit Findings Report issued by KPMG, the town's external auditor, be received for information; and
2. The 2024 Town of Oakville Consolidated Financial Statements and the 2024 Town of Oakville Trust Fund Financial Statements be approved.

#### **KEY FACTS:**

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

- The town's external auditor prepares an "Audit Findings Report" at the conclusion of the annual audit to assist members of Council with their review of the financial statements.
- There were no audit adjustments made during the audit process.
- There were no Management Letter Points issued.
- There were no significant deficiencies in internal control over financial reporting identified.
- KPMG is prepared to issue an unqualified (or "clean") opinion on the 2024 financial statements. 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 D.
- There were three new accounting standards for 2024, of which the new PS 3400 Revenue standard had an impact to the town. The impact of this new standard was an additional \$677 thousand (net of an uncollectible allowance) being recorded as revenue related to parking tickets that have been issued but not collected as of December 31, 2024. Historically, these were recorded on a cash basis due to the uncertainty of collection; however, due to the new standard, estimates are now required based on past collection experience.
- The 2024 consolidated financial statements reflect a surplus of \$236.8 million.
- The town continues to maintain a strong financial position, as evidenced by having net financial assets of \$630.5 million (up \$19.0 million from 2023).

**BACKGROUND:**Audit process

Over the past few months, town staff worked diligently to close the town and local boards' accounting records for 2024 and prepare the entities' financial statements. Once this was completed, the town's external auditor (KPMG) examined the financial records to ensure the financial statements were accurate and reasonably reflected the town's financial position and results of operations.

Upon completion of the annual audit, the external auditor prepares an Audit Findings Report, which is intended to assist Council, who serves as the town's audit committee, in their review of the town's financial statements. This report also serves as a means for the auditor to update Council on any significant matters arising from the audit. The report in Appendix A outlines audit risks and results, any adjustments or issues, any financial statement comments, and any other matters that the auditor feels necessary to bring to the attention of Council.

Annual financial statements

As required by the Municipal Act, the town must prepare annual financial statements. The draft 2024 Town of Oakville Consolidated Financial Statements and the draft 2024 Town of Oakville Trust Fund Financial Statements are contained in Appendices B and C. 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 include several individual statements and sections. For a description of each statement and section, see Appendix E.

#### 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 2024 FIR will be forwarded to the province once it has been completed and once the consolidated statements have been approved by Council.

#### **COMMENT/OPTIONS:**

##### Audit Materiality

KPMG's materiality remained at \$14.1 million, which was the amount included in their Audit Planning Report presented in November. There were also no changes to the audit misstatement positing threshold which was set at \$705 thousand. This means that any identified income statement adjustment over \$705 thousand would have been brought to Council's attention.

##### Audit risks and results

Key audit risks identified by KPMG, their audit work performed to address the risks, and their findings are provided in this section. In 2024, these included:

- Fraud risk from management override of controls – looking at unusual transactions and estimates to ensure they were appropriate;
- Tangible capital assets – ensuring that the tangible capital assets and contributed assets were appropriately recorded;
- New accounting standards – review the appropriateness of the town's implementation and note disclosures.

##### Accounting estimates

KPMG examined the critical accounting estimates made by management to ensure they are appropriate. In 2024, this includes examining the estimate prepared for the remediation of contaminated sites, asset retirement obligations, and the estimate prepared for post-employment liabilities.

Significant accounting policies

The town's financial statements are prepared and presented as per the public sector accounting standards ("PSAS").

**2024 Financial Highlights**Statement of Financial Position:

- Net financial assets grew to \$630.5 million in 2024 from the \$611.5 million in 2023, an increase of \$19 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 \$86.1 million from 2023 due to the various activities reported on the statement of operations and statement of cash flows but mainly related to a debt issuance of \$50 million which was previously approved by Council.
  - The town's taxes receivable balance increased \$7.7 million from 2023. Although this increase is significant, the town collected over 93% of the total taxes billed in 2024 and has mechanisms in place to ultimately collect outstanding balances. \$0.38 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 \$13.8 million over 2023 and relates mainly to the increase in interest receivable on the town's investments, as well as an increase in grants receivables where the project work was done in 2024, but the funds are not collected until the grant reporting has been reviewed.
  - The town's investment in Oakville Municipal Development Corporation increased by \$0.173 million due to their operating loss of \$0.526 million, offset by the increase in shareholder loan of \$0.699 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 2024 and 2023.
  - The town's investment in Oakville Enterprises Corporation increased \$19.8 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 \$20.5 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. Another timing difference relates to development charges collected in December on three large developments where the funds were transferred to the Region and School Boards in January in line with the regulations.

- Security deposits held by the town decreased by \$3.9 million in 2024 related to a town procedure change on aged deposits. \$6.6 million of deposits greater than six years on inactive files was brought into income in 2024 and transferred to the capital reserve to fund deficiencies in the future if required. These funds related to deposits on permits issued as early as 2000 where the obligation is on the permit holder to follow up to get a final inspection. Going forward this will be reviewed annually using the same methodology as the approved procedure.
- Deferred revenue – obligatory reserve funds increased \$46.6 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 restricted government grants (BFF, gas tax, CCBF). In 2024 the town collected \$87.6 million and the transfer of funds for operating and capital projects was \$59.8 million.
- Long-term liabilities increased by \$44.4 million which relates to the debt issuance of \$50.0 million offset by scheduled annual debt repayments.
- Tangible capital assets, including work-in-progress, increased \$215.5 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 2024 of \$236.8 million, an increase of \$53.6 million from 2023.
- Revenue:
  - Taxation revenue increased by \$19.8 million and exceeded budget by \$3.9 million due to supplementary tax bills.
  - User fees increased by \$6.8 million compared to 2023. 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, and Cemeteries, where the revenue fluctuates between years.
  - Federal transfers increased \$6.95 million over 2023, 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 breakdown of the specific grants.
  - Province of Ontario transfers increased \$5.4 million over 2023, which relates to the Building Faster Fund as well as the Investing in Canada Infrastructure Program. This revenue is also recognized when costs on eligible projects are incurred. Note 19 of the financial statements provides the breakdown of the specific grants.
  - Penalties and interest increased \$9.1 million of which \$6.6 million relates to the review of the aged security deposits that have been forfeited and transferred to the capital reserve.

- Developer contributions and charges earned increased by \$37.1 million and came in over budget by \$103.6 million; however, this increase is primarily due to tangible capital assets contributed by developers. Of the \$149.0 million earned in 2024, \$109.4 million (2023 - \$77.6 million) is 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 \$5.4 million over 2023 and is higher than budgeted amounts by \$12.8 million. The increase over prior year relates to increases in salaries and benefits of \$12.1 million, partially offset by a decrease of contracted services of \$8.3 million. The main contributor of this is the restructuring of the facilities and recreation and culture programs. Facilities salaries increased as costs were reallocated from recreation and culture to general government, and the contracted services decreased to show they received a recovery for providing these services to the recreation and culture department. The increase in General Government expenses is over budget due to \$15.3 million being included in contracted services for purchases that were budgeted in the capital budget, but do not meet the definition of a tangible capital asset for accounting purposes.
  - Protection services increased by \$3.3 million of which \$2.5 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 \$8.8 million of which \$3.4 million was an increase in salaries and wages plus an additional \$2.7 million in higher non-tangible capital expenditures.
  - Environmental services expenses increased by \$2.8 million due mainly to an increase in non-tangible capital assets within contracted services and also due to budgeted operating repairs on Lower Base Line and removing soil materials to comply with new legislation.
  - Recreation and cultural services increased by \$10.8 million. \$3.2 million related to an increase in non-tangible capital assets within contracted services, \$1.2 million related to the additional borrowing costs related to the new debt for Sixteen Mile. There was a decrease in salaries due to the restructuring of how the facilities are now managed corporately, this was offset by an increase in contracted services which relates mainly to an increase in internal charges, as well as the non-tangible capital assets mentioned above.

- Planning and development increased by \$1.5 million of which \$.5 million related to a decrease in salaries and benefits offset by an increase of \$1.9 in contracted services of which \$0.4 million related to non-tangible capital asset expenses and the remaining \$1.5 million related to an increase in internal charges between departments.
- 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 \$37.8 million (2023 – \$28.9 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 also 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 May 1, 2025.

Reconciliation between the operating results and the audited results:

Appendix D 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:

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 2024, MDC had a net loss of \$526 thousand.

- In 2024, HDASC had a net loss of \$125 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 2024, Oakville Enterprises posted income net of taxes and regulatory balances of \$30.2 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 2024 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 2024 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 2024 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 2024 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.

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 C for these trust fund statements.

## **CONSIDERATIONS:**

### **(A) PUBLIC**

The audit findings report assists Council and interested citizens in understanding the town's financial statements. It confirms that the town has accurate reporting and that key internal controls are in place and working.

### **(B) FINANCIAL**

N/A

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

N/A

### **(D) COUNCIL STRATEGIC PRIORITIES**

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

### **(E) CLIMATE CHANGE/ACTION**

N/A

## **APPENDICES:**

Appendix A – KPMG's 2024 Audit Findings Report

Appendix B – 2024 Consolidated Financial Statements - Draft

Appendix C – 2024 Trust Fund Financial Statements - Draft

Appendix D – 2024 Operating surplus to financial statement surplus reconciliation

Appendix E – Financial Statement Description

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