

## City of Ottawa Accrual Budget Presentation

This supplement to the 2021 budget book was prepared to present the City's budget on a full accrual accounting basis used for Financial Statement reporting for comparison purposes.

### Budgeting on a Modified Accrual Versus Full Accrual Basis

There are differences between how municipalities, set out their spending plans at the beginning of the year in the budgets and then how they report on the results in their financial statements at year-end.

The budget presentation follows the requirements of Ontario Regulation 284/09 of the *Municipal Act*. The *Municipal Act* requires that municipalities prepare balanced budgets, which include estimates of all sums required during the year for the purposes of the municipality. This means that municipalities need to have or raise sufficient funds each year, through the setting of tax rates, water rates and user fees, to cover the operating and capital spending requirements for the year. The City of Ottawa, like other municipalities, continues to prepare its annual budgets on a modified accrual basis, with no anticipated surplus or deficit. Modified accrual treats certain cash items, including borrowings, the initial cost of assets, and debt repayments, as revenues and expenses. However, it accrues these and other transactions by recognizing them at the time they happen, not when the cash is received or paid.

Financial Statement reporting at year-end is done on a different basis. The province requires municipalities to follow the accounting standards set by the Public Sector Accounting Board (PSAB) for governments in Canada. PSAB recommends that financial statements be prepared on a full accrual basis. Under full accrual, an organization recognizes revenues as they are earned, even if the cash has not been received, and expenses are reported when they are incurred, even if the invoice has not yet been paid. As well, the initial cost of an asset is not expensed in the year that it is acquired, but rather a fraction of the cost, called amortization, is recorded as an expense each year the asset is expected to be in service. Accrual based reporting also includes as an expenditure, any increase in future liabilities such as post-employment benefit expenses and landfill closure costs, whereas the modified accrual basis excludes these.

Investment income is also treated differently. The investment income recorded in the reserve fund is not included in the modified accrual budget. For the full accrual budget, the investment income in the reserve fund is recorded as income.

### Full Accrual Budget Presentation

The table below shows the budgeted operating results for the City for 2021, presented in the same way the actual results are reported in the financial statements, which is by function as opposed to by Service Area, as per the Budget Book approved by Council.

Table 1 – Full Accrual Budget Consolidated Statement of Operations and Accumulated Surplus (in \$000's)

	<b>2021 Budget \$</b>
<b>Revenues</b>	
<b>Taxes available for municipal purposes</b>	<b>2,042,047</b>
<b>Government transfers</b>	<b>1,507,260</b>
<b>Fees and user charges</b>	<b>852,175</b>
<b>Contributed tangible capital assets</b>	<b>419,035</b>
<b>Development charges</b>	<b>137,769</b>
<b>Investment income</b>	<b>49,846</b>
<b>Fines and penalties</b>	<b>45,800</b>
<b>Other revenue</b>	<b>49,140</b>
<b>Share of earnings of government business enterprise</b>	<b>33,300</b>
<b>Total Revenues</b>	<b>5,136,372</b>
<b>Expenses</b>	
<b>General government</b>	<b>111,450</b>
<b>Protection to persons and property</b>	<b>666,543</b>
<b>Roads, traffic and parking</b>	<b>485,354</b>
<b>Transit</b>	<b>802,234</b>
<b>Environmental services</b>	<b>515,365</b>
<b>Health services</b>	<b>236,665</b>
<b>Social and family services</b>	<b>583,314</b>
<b>Social housing</b>	<b>273,977</b>
<b>Recreation and cultural services</b>	<b>415,903</b>
<b>Planning and development</b>	<b>99,568</b>
<b>Total Expenses</b>	<b>4,190,373</b>
<b>Annual Surplus</b>	<b>945,999</b>

#### Reconciliation Between Modified Accrual and Full Accrual Budgets

The modified accrual budget is allowed by provincial legislation and that is what the City of Ottawa uses for preparation of its annual budget. Full accrual accounting is required by PSAB and is therefore used by the City for financial statement reporting purposes. There are several ways in which the modified accrual budget differs from the full accrual budget:

- **Consolidated Entities:** Financial reporting includes most financial transactions of related entities, such as corporations owned by the City. The exceptions are transactions between related entities and the City, which are eliminated from the consolidated financial statements.
  - Ottawa Community Housing Corporation (OCHC) and other related entities are not included in the City’s budget whereas these entities are included in the City’s annual consolidated financial statements. These entities have balanced budgets and therefore their budgeted revenues and their budgeted expenses are added to revenues and expenses accordingly for full accrual budgeting purposes.
  - Hydro Ottawa is 100% owned by the City of Ottawa. The modified accrual budget includes the dividends that the City receives from Hydro Ottawa. The full accrual budget includes the Hydro Ottawa equity pickup as an addition to revenues.
- **Amortization:** The modified accrual budget treats capital spending as an expense in the year it occurs. Under the full accrual method, assets such as vehicles or buildings, which are expected to last more than one year, are “capitalized”. The asset is amortized over its expected service life and therefore that annual amount of amortization is recorded as an expense each year.
- **Post-Employment Benefits:** The defined benefit plans relating to post-retirement and post-employment provide a variety of benefits to retirees and long-term disabled employees, including income, medical, dental, life insurance, workers’ compensation, and sick leave benefits. For modified accrual budget purposes, the City estimates the amount of cash that will be paid out for these benefits in the year. In the full accrual budget, post-employment benefits are employee benefits that have been earned in the current year but will be paid in the future as employees retire.
- **Future Liabilities:** These items have incurred obligations in the current year but are to be paid out in future years. Examples include landfill closure and post-closure liabilities, contaminated sites, brownfields, accrued interest, and contingent legal liabilities. These items are added as an expense in the full accrual budgeting presentation.
- **Contributed Assets:** These are tangible capital assets that are donated, contributed or transferred from another organization. Contributed assets are not part of the modified accrual budget because they do not require cash. Contributed assets are added as revenue to the full accrual budget.
- **Timing Differences Between Capital Budget and Spending:** Budgets established for tangible capital asset acquisitions are on a project-oriented basis, the costs of which may be carried over one or more fiscal years. Whereas amounts were budgeted for on a project-oriented basis, the full accrual budget uses amounts based on estimated spend during the year to reflect the same basis of accounting that was used to report the actual results.

- **Acquisition of Tangible Capital Assets:** The modified accrual budget treats capital spending as an expense in the year it occurs. Under the full accrual method, qualified spending on tangible capital assets can be capitalized and amortized over the life of the asset instead of recognizing the entire cost in the year it occurred. Some capital spending in the modified accrual budget is reclassified at year-end as an expense. The impact is estimated in the full accrual budget.
- **Transfers To/From Reserves:** Transfers from reserves and the proceeds of borrowing are not revenues, so they are removed from that category in moving from modified to full accrual. This has the effect of reducing budgeted revenues in full accrual and thus reducing the annual surplus, all other things being equal. Transfers and contributions into reserves and repayments of debt are not expenses under full accrual, so they are removed from expenses. This has the effect of reducing budgeted spending and thus increasing the surplus under full accrual.

The table that follows shows a reconciliation between the modified accrual budget and the full accrual budget.

Table 2 – Reconciling the 2021 budget with PSAB standards (in \$000's)

<b>Revenues</b>	
<b>Adopted budget operating and capital</b>	<b>\$4,725,159</b>
<b>PSAB related adjustments for full accrual budgeting:</b>	
<b>Contributed tangible capital assets</b>	<b>419,035</b>
<b>Timing differences between capital budget and spending</b>	<b>585,308</b>
<b>Consolidated entities</b>	<b>172,953</b>
<b>Reclassification of investment income</b>	<b>31,773</b>
<b>Hydro Ottawa Holding Inc. equity pickup</b>	<b>13,300</b>
<b>Transfers from reserves</b>	<b>(607,516)</b>
<b>Proceeds of debt issued</b>	<b>(162,236)</b>
<b>Reclassifications and eliminations</b>	<b>(41,404)</b>
<b>Total budgeted revenues for financial statement purposes</b>	<b>\$5,136,372</b>

**Expenses**

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<b>Adopted budget operating and capital</b>	<b>\$4,725,159</b>
<b>PSAB related adjustments for full accrual</b>	
<b>budgeting:</b>	
<b>Timing differences between capital budget</b>	
<b>and spending</b>	<b>843,220</b>
<b>Amortization</b>	<b>466,401</b>
<b>Consolidated entities</b>	<b>172,953</b>
<b>Obligations to be funded in future years</b>	<b>21,987</b>
<b>Employee future benefits and pension</b>	
<b>agreements</b>	<b>35,104</b>
<b>Acquisition of tangible capital assets</b>	<b>(1,232,650)</b>
<b>Transfers to reserves</b>	<b>(644,409)</b>
<b>Debt principal repayments</b>	<b>(152,390)</b>
<b>Reclassifications and eliminations</b>	<b>(45,002)</b>
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<b>Total budgeted expenses for financial</b>	
<b>statement purposes</b>	<b>\$4,190,373</b>
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<b>Budgeted Annual Surplus</b>	<b>\$945,999</b>
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