

Document 1

Consolidated Financial Statements

The City of Ottawa
December 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council

We have audited the accompanying consolidated financial statements of **The City of Ottawa**, which comprise the consolidated statement of financial position as at December 31, 2011 and the consolidated statements of operations, change in net debt, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **The City of Ottawa** as at December 31, 2011 and the results of its operations, its change in net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,
June 13, 2012

Chartered Accountants
Licensed Public Accountants

THE CITY OF OTTAWA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31
[dollars in thousands]

	2011	2010
	\$	\$
<hr/>		
Financial assets		
Cash and cash equivalents	212,004	207,950
Accounts receivable	282,472	326,885
Investments <i>[note 3]</i>	943,416	737,911
Investment in government business enterprises <i>[note 4]</i>	351,768	342,506
	1,789,660	1,615,252
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Financial liabilities		
Accounts payable and accrued liabilities	457,166	469,593
Deferred revenue <i>[note 5]</i>	570,543	613,314
Employee future benefits and pension agreements <i>[notes 6 and 13]</i>	408,056	375,772
Accrued interest	18,278	17,378
Landfill closure and post-closure liabilities <i>[notes 7 and 13]</i>	8,761	11,108
Net long-term debt <i>[note 8]</i>	1,091,273	835,160
Mortgages payable <i>[note 9]</i>	212,245	221,120
Capital lease obligations <i>[note 10]</i>	121,256	123,462
	2,887,578	2,666,907
Net debt	(1,097,918)	(1,051,655)
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Non-financial assets		
Tangible capital assets <i>[note 11]</i>	11,348,627	10,875,237
Inventories	27,750	34,780
Prepaid expenses <i>[note 12]</i>	15,294	14,292
Total non-financial assets	11,391,671	10,924,309
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Accumulated surplus <i>[note 13]</i>	10,293,753	9,872,654
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<i>See accompanying notes</i>		
<i>Contingencies and Commitments <i>[note 14]</i></i>		

THE CITY OF OTTAWA
CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31

[dollars in thousands]

	Budget	2011	2010
	\$	\$	\$
	<i>[unaudited]</i>		
	<i>[note 19]</i>		
Revenues			
Taxes available for municipal purposes <i>[note 15]</i>	1,405,168	1,407,982	1,358,107
Fees and user charges	712,287	718,799	691,768
Government grants	659,909	672,598	871,536
Contributed tangible capital assets	202,319	202,319	206,350
Development charges	124,224	124,224	136,031
Investment income	31,159	32,912	30,285
Fines and penalties	27,182	24,775	25,709
Other revenue	17,430	15,276	26,630
Equity in earnings of government business enterprises <i>[note 4]</i>	24,716	26,762	30,522
Total revenues	3,204,394	3,225,647	3,376,938
Expenses			
General government	100,342	103,396	107,933
Protection to persons and property	491,669	495,983	460,265
Roads, traffic and parking	302,509	280,309	273,014
Transit	446,396	456,229	501,207
Environmental services	301,356	287,044	271,240
Health services	146,876	146,810	132,804
Social and family services	404,226	408,821	411,803
Social housing	248,016	246,254	235,399
Recreation and cultural services	262,538	270,649	271,469
Planning and development	110,258	109,053	53,942
Total expenses	2,814,186	2,804,548	2,719,076
Annual surplus	390,208	421,099	657,862
Accumulated surplus, beginning of the year	9,872,654	9,872,654	9,214,792
Accumulated surplus, end of the year	10,262,862	10,293,753	9,872,654

See accompanying notes

THE CITY OF OTTAWA
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

For the year ended December 31

[dollars in thousands]

	Budget	2011	2010
	\$	\$	\$
	<i>[unaudited]</i>		
Annual surplus	390,208	421,099	657,862
Acquisition of tangible capital assets	(704,186)	(858,471)	(1,144,844)
Amortization of tangible capital assets	239,692	239,692	227,620
Writedown of tangible capital assets	-	-	32,200
Loss on sale of tangible capital assets	145,389	145,389	81,620
Change in supply of inventories	7,030	7,030	(4,304)
Change in prepaid expenses	(1,002)	(1,002)	(1,554)
Change in net debt	77,131	(46,263)	(151,400)
Net debt, beginning of the year	(1,051,655)	(1,051,655)	(900,255)
Net debt, end of the year	(974,524)	(1,097,918)	(1,051,655)

See accompanying notes

THE CITY OF OTTAWA
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31
[dollars in thousands]

	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Annual surplus	421,099	657,862
Items not affecting cash		
Equity in earnings of government business enterprises	(26,762)	(30,522)
Amortization of tangible capital assets	239,692	227,620
Writedown of tangible capital assets	-	32,200
Contributed assets	(202,319)	(206,350)
Loss on sale of tangible capital assets	110,897	73,073
Uses:		
Increase in accounts receivable	-	(123,668)
Increase in inventories	-	(4,304)
Increase in prepaid expenses	(1,002)	(1,554)
Decrease in accounts payable and accrued liabilities	(12,427)	-
Decrease in deferred revenue	(42,771)	(119,190)
Decrease in landfill closure and post-closure liabilities	(2,347)	-
	484,060	505,167
Sources:		
Decrease in accounts receivable	44,413	-
Decrease in inventories	7,030	-
Increase in accounts payable and accrued liabilities		85,696
Increase in employee future benefits and pension agreements	32,284	4,081
Increase in accrued interest	900	2,492
Increase in landfill closure and post-closure liabilities	-	1,417
	84,627	93,686
Cash provided by operating activities	568,687	598,853
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(656,152)	(938,494)
Proceeds on sale of tangible capital assets	34,492	8,547
Cash used in capital activities	(621,660)	(929,947)
INVESTING ACTIVITIES		
Net increase (decrease) in investments	(205,505)	154,443
Dividend from Hydro Ottawa Holding Inc.	17,500	17,600
Cash provided by (used in) investing activities	(188,005)	172,043
FINANCING ACTIVITIES		
New debt issued	332,942	316,028
Net interest earned on sinking funds	(2,409)	(4,655)
Debt principal repayments	(85,501)	(68,478)
Cash provided by financing activities	245,032	242,895
Net increase in cash and cash equivalents during the year	4,054	83,844
Cash and cash equivalents, beginning of the year	207,950	124,106
Cash and cash equivalents, end of the year	212,004	207,950

See accompanying notes

**THE CITY OF OTTAWA
SCHEDULE 1**

**CONSOLIDATED SCHEDULE
OF SEGMENT DISCLOSURE**

[dollars in thousands]

[note 17]

For the year ended December 31, 2011

	General Government \$	Protection \$	Roads, Traffic and Parking \$	Transit \$	Environmental Services \$	Health Services \$	Social and Family Services \$	Social Housing \$	Recreation and Culture \$	Planning and Development \$	Other \$	Total \$
REVENUES												
Taxes	-	-	-	-	-	-	-	-	-	326	1,407,656	1,407,982
Fees and surcharges	17,818	60,364	23,913	178,619	302,016	1,266	23,012	41,578	55,058	13,694	1,461	718,799
Government grants	385	8,509	44,865	128,977	15,017	87,489	251,858	86,753	15,261	14,232	19,252	672,598
Fines and penalties	948	11,627	-	-	-	-	-	-	1,268	-	10,932	24,775
Contributed tangible capital assets	-	-	42,037	-	149,166	-	-	1,700	4,620	4,796	-	202,319
Development charges	127	5,179	54,002	12,989	32,366	-	-	-	13,492	558	5,511	124,224
Other	13,880	189	2,587	7,007	3,876	-	75	-	1,847	2,264	43,225	74,950
Total revenues	33,158	85,868	167,404	327,592	502,441	88,755	274,945	130,031	91,546	35,870	1,488,037	3,225,647
EXPENSES												
Salaries and benefits	70,454	418,777	117,749	260,079	68,843	118,767	126,875	33,294	135,893	31,850	-	1,382,581
Contracts and general services	9,502	10,411	7,600	16,720	73,125	9,930	4,919	10,475	13,444	7,341	-	163,467
Materials, equipment and supplies	20,905	39,155	69,281	97,469	48,964	13,805	70,861	77,800	46,467	7,035	-	491,742
Interest charges	1,909	2,223	17,361	11,418	13,044	1,444	2,158	10,759	5,230	1,859	-	67,405
Rent and financial expenses	12,094	7,973	8,093	13,003	2,807	1,824	4,201	2,044	6,179	5,772	-	63,990
External transfers	(12,908)	1,497	(23,954)	(2,159)	(2,220)	(5,114)	196,474	94,908	36,840	1,410	-	284,774
Amortization	767	10,830	72,748	49,273	68,666	4,494	1,656	16,754	14,186	318	-	239,692
Loss on disposal	673	5,117	11,431	10,426	13,815	1,660	1,677	220	12,410	53,468	-	110,897
Total expenses	103,396	495,983	280,309	456,229	287,044	146,810	408,821	246,254	270,649	109,053	-	2,804,548
ANNUAL SURPLUS (DEFICIT)	(70,238)	(410,115)	(112,905)	(128,637)	215,397	(58,055)	(133,876)	(116,223)	(179,103)	(73,183)	1,488,037	421,099

**THE CITY OF OTTAWA
SCHEDULE 1**

**CONSOLIDATED SCHEDULE
OF SEGMENT DISCLOSURE**

[dollars in thousands]

[note 17]

For the year ended December 31, 2010

	General Government	Protection	Roads, Traffic and Parking	Transit	Environmental Services	Health Services	Social and Family Services	Social Housing	Recreation and Culture	Planning and Development	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES												
Taxes	-	-	-	-	-	-	-	-	-	263	1,357,844	1,358,107
Fees and surcharges	18,422	60,921	22,122	159,539	275,366	1,590	22,636	63,097	55,670	11,248	1,157	691,768
Government grants	1,277	7,236	125,065	225,677	14,281	76,145	247,191	119,130	39,708	1,785	14,041	871,536
Fines and penalties	1,085	12,326	-	-	-	-	-	-	1,145	-	11,153	25,709
Contributed tangible capital assets	-	-	62,482	829	133,031	-	-	-	2,252	7,756	-	206,350
Development charges	97	1,996	75,998	20,883	28,597	-	-	-	6,739	182	1,539	136,031
Other	466	354	6,325	492	2,507	-	-	5,540	11,915	10,374	49,464	87,437
Total revenues	21,347	82,833	291,992	407,420	453,782	77,735	269,827	187,767	117,429	31,608	1,435,198	3,376,938
EXPENSES												
Salaries and benefits	73,138	379,364	106,224	251,227	64,944	107,444	121,903	34,593	129,356	31,866	-	1,300,059
Contracts and general services	1,591	18,286	11,938	27,011	67,953	2,922	6,458	1,146	39,610	7,449	-	184,364
Materials, equipment and supplies	17,533	35,458	54,550	90,993	48,595	13,730	70,233	39,743	44,168	8,382	-	423,385
Interest charges	4,382	3,032	18,125	5,783	10,976	1,582	2,738	10,998	5,620	2,898	-	66,134
Rent and financial expenses	8,902	8,179	4,830	12,750	2,240	1,048	4,411	2,779	6,808	622	-	52,569
External transfers	(2,577)	4,930	(6,290)	(3,046)	1,938	2,091	204,801	130,502	29,734	(2,411)	-	359,672
Amortization	4,932	10,125	66,369	39,782	72,113	3,822	1,224	15,606	13,578	69	-	227,620
Write-downs	-	-	-	32,200	-	-	-	-	-	-	-	32,200
Loss on disposal	32	891	17,268	44,507	2,481	165	35	32	2,595	5,067	-	73,073
Total expenses	107,933	460,265	273,014	501,207	271,240	132,804	411,803	235,399	271,469	53,942	-	2,719,076
ANNUAL SURPLUS (DEFICIT)	(86,586)	(377,432)	18,978	(93,787)	182,542	(55,069)	(141,976)	(47,632)	(154,040)	(22,334)	1,435,198	657,862

**THE CITY OF OTTAWA
SCHEDULE 2**

**CONDENSED SUPPLEMENTARY INFORMATION
OTTAWA PUBLIC LIBRARY BOARD**
[dollars in thousands]

The Ottawa Public Library Board is consolidated with The City of Ottawa. The following table provides condensed supplementary information for the Ottawa Public Library Board.

Financial Position

	2011	2010
As at December 31	\$	\$
Financial assets	5,907	4,012
Financial liabilities	11,788	11,227
Net debt	(5,881)	(7,215)

Non-Financial Assets

Tangible capital assets	36,954	35,306
Prepaid expenses	-	157
Total non-financial assets	36,954	35,463
Accumulated surplus	31,073	28,248

Consolidated Statement of Operations

For the year ended December 31	2011	2010
	\$	\$

Revenues

City of Ottawa	39,808	37,986
Province of Ontario		-
Ministry of infrastructure	361	1,084
Ministry of tourism and culture	1,459	1,380
Other	3,274	3,968
Total revenues	44,902	44,418

Expenses

Operating expenditures	42,077	41,037
Total expenses	42,077	41,037

Annual surplus	2,825	3,381
Accumulated surplus, beginning of the year	28,248	24,867
Accumulated surplus, end of the year	31,073	28,248

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

1. NATURE OF BUSINESS

The City of Ottawa [“the City”] was created through Provincial legislation on December 20, 1999 and commenced operations on January 1, 2001.

The City is responsible for providing municipal services such as employment and financial assistance, long-term care, community services and libraries, emergency and protective services including police, fire and ambulance, and transportation, utilities and public works, including roads, sewers and wastewater, drinking water, waste collection and disposal.

As sole shareholder of Hydro Ottawa Holding Inc. and the Ottawa Community Housing Corporation, the City also provides hydro and housing services to the residents of Ottawa. In 2009, the Ottawa Community Lands Development and the Manotick Mill Quarter Community Development Corporations were created for the purpose of promoting and undertaking community improvements in the City of Ottawa by managing real property.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements are prepared by management in accordance with accounting policies prescribed by the Public Sector Accounting Board [“PSAB”] of the Canadian Institute of Chartered Accountants [“CICA”]. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic consolidated financial statements necessarily involves the use of estimates, which have been made using careful judgment.

Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity, and include the activities of all committees of Council and the following boards and Business improvement areas [BIA’s]:

The Police Services Board	The Carp Village BIA
The Ottawa Public Library Board	The Vanier BIA
The Ottawa Community Housing Corporation [OCHC]	The Manotick BIA
The Ottawa-Nepean Campsite BIA	The Sparks Street Mall BIA
The Bank Street BIA	The Somerset Village BIA
The Westboro BIA	The Preston Street BIA
The Sparks Street BIA	The Byward Market BIA
The Somerset Street Chinatown BIA	The Rideau BIA

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

The Glebe BIA
The Orleans BIA
The Carp Road Corridor BIA
The Ottawa Board of Health

The Barrhaven BIA
The Wellington West BIA
The Bells Corners BIA

All interfund assets and liabilities, revenues and expenses have been eliminated.

Condensed supplementary information for the Ottawa Public Library Board is provided in schedule 2.

Certain subsidiary corporations are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for such government business enterprises *[see note 4]*. Under the modified equity basis, the business enterprise's accounting policies are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated. The following subsidiary corporations are accounted for in this manner:

Pine View Municipal Golf Course
Hydro Ottawa Holding Inc. and its subsidiaries
Ottawa Community Lands Development Corporation
Manotick Mill Quarter Community Development Corporation

The City of Ottawa Sinking Fund is not consolidated, except for the City's share of the Sinking Fund's interest income used to finance the principal amount of debt.

School boards

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements.

Revenues and expenses

Revenues and expenses are reported on the accrual basis of accounting, which recognizes revenues as they are earned and measurable; expenses are recognized as they are incurred and measurable, as a result of receipt of goods or services and the creation of a legal obligation to pay.

Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions on such areas as employee benefits, assessment appeals and environmental provisions.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

These estimates and assumptions are based on the City's best information and judgment and may differ significantly based on actual results.

Tax revenues

Annually, the City bills and collects property tax revenues for municipal purposes, provincial education taxes on behalf of the Province of Ontario [the "Province"], payment in lieu of taxes, local improvements and other charges [see note 15]. The authority to levy and collect property taxes is established under the *Municipal Act, 2001*, the *Assessment Act*, the *Education Act*, and other legislation.

The amount of the total annual property tax levy is determined each year through Council's approval of the annual operating and capital budget. Municipal tax rates are set annually by Council for each property tax class, in accordance with legislation and Council approved policies, in order to raise the revenues required to meet operating budget requirements. Education tax rates are established each year by the Province in order to fund the costs of education on a Province-wide basis.

Property assessments, on which property taxes are based, are established by the Municipal Property Assessment Corporation ["MPAC"], a not-for-profit corporation funded by all municipalities in Ontario. The current value assessment ["CVA"] of a property represents the estimated market value of a property as of a fixed date. Assessed values for all properties within the municipality are provided to the City by way of returned assessment rolls in December of each year.

The amount of property tax levied on an individual property is the product of the CVA of the property and the rate for the class, together with any adjustments that reflect Council approved mitigation or other tax policy measures.

Property taxes are billed by the City twice annually. The interim billing, issued in February, is based on 50% of the property's previous-year total taxes, and provides for the cash requirements of the City for the initial part of the year. Final bills are issued in May, following Council's approval of the operating budget for the year, the tax levy requirement, and the property tax rates needed to fund the City's operations.

Taxation revenues are recorded at the time tax billings are issued. Additional property tax revenue can be added throughout the year, related to new properties that become occupied or that become subject to property tax, after the return of the annual assessment roll used for billing purposes. The City may receive up to four supplementary assessment rolls over the course of the year from MPAC that identify new or omitted assessments. Property taxes for these supplementary/omitted amounts are then billed according to the approved tax rates for the property class.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

Taxation revenues in any year may also be reduced as a result of reductions in assessment values resulting from assessment and/or tax appeals. Each year, an amount is identified within the annual operating budget to cover the estimated amount of revenue loss attributable to assessment appeals, tax appeals or other deficiencies in tax revenues [e.g., uncollectible amounts, write-offs].

In Ontario, annual property tax increases for the properties within the commercial, industrial, and multi-residential tax classes have been subject to limitations since 1998. Legislation and regulations have been in place to restrict the maximum allowable year-over-year increase, in order to mitigate dramatic tax increases due to changes in assessed values.

Every year, Council adopts a staff report entitled "Tax Ratios and Other Tax Policy Report" that sets a number of tax policies for the City. These include the adoption of optional classes, the establishment of tax ratios, tax levels for new construction, and tax mitigation programs that limit the allowable annual tax increase for properties.

Financial instruments

The City's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, deferred revenue, long-term debt, and mortgages payable. Unless otherwise noted, it is management's opinion that the City is not exposed to significant interest, currency, or credit risks arising from these financial instruments. The carrying values of the City's financial instruments approximate their fair values unless otherwise noted.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of 90 days or less as at the consolidated statement of financial position date.

Investments

Investments are recorded at amortized cost less amounts written off to reflect a permanent decline in value. Investments consist of authorized investments pursuant to provisions of the *Municipal Act* and comprise financial instruments issued by the Canadian government and Schedule I, II, and III banks, as well as asset-backed securities and eligible commercial paper. Investments for the Endowment Fund also include Canadian equities and corporate bonds as authorized by Provincial Regulation 655/05 and the Investment Policy approved by City Council. Investments for the Endowment fund and the Ottawa Community Housing Corporation are carried at cost and only written down when there has been a permanent impairment to the carrying value. Investments with original maturity dates of more than 90 days are classified as investments on the consolidated statement of financial position.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

Environmental provisions

The City provides for the cost of compliance with environmental legislation when conditions are identified which indicate non-compliance and costs can be reasonably determined.

The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation. Where the costs are deemed to be likely and reasonably determinable, claims are reported as accounts payable and accrued liabilities on the consolidated statement of financial position.

Deferred revenue

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in conduct of certain programs or in the completion of specific work. In addition, certain user's charges and fees are collected for which the related services have yet to be performed. These amounts are recorded as deferred revenue and are recognized as revenue in the year during which the related expenses are incurred or services are performed as this is the time the eligibility criteria have been met.

Government transfers

Government transfers are transfers from senior levels of government that are not the result of an exchange transaction and are not expected to be repaid in the future. Government transfers are recognized in the fiscal years during which events giving rise to the transfer occur, providing the transfers are authorized, eligibility criteria have been met and reasonable estimates of the amounts can be made.

Employee benefit plans

The City has adopted the following policies with respect to employee benefit plans:

[a] The costs of post-employment benefits are recognized as a liability when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs, and fees paid to independent administrators of these plans, calculated on a present value basis;

[b] The costs of post-retirement benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs, and plan investment performance.

[c] Past service costs for plan amendments related to prior-period employee services are accounted for in the period of the plan amendment. The effects of gain or loss from

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

settlements or curtailments are expensed in the period during which they occur. Net actuarial gains and losses related to employee benefits are amortized over the estimated average remaining service life of the related employee group. Employee future benefits are discounted using current interest rates on long-term bonds. The cost of workplace safety and insurance obligations is actuarially determined and is expensed.

[d] The costs of termination benefits and compensated absences are recognized when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs, and fees paid to independent administrators of these plans, calculated on a present value basis.

Pension agreements

[a] The contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due.

[b] The City sponsored pension plan assets are determined in accordance with Section PS 3250 of the *CICA Public Sector Accounting Handbook*. The actuarial valuation of these obligations is determined using the projected unit credit method prorated on credited service. It is also based on management's best estimate assumptions that include assumptions for employee retirement ages, salary escalation, and plan investment performance which is used for discounting benefits. The actuary believes that these assumptions are in accordance with accepted actuarial practice. Plan assets are valued using a market-related value, determined over a three-year period.

Landfill closure and post-closure liabilities

The estimated costs to close and maintain solid waste landfill sites are based on estimated future expenses in current dollars, adjusted for estimated inflation, and are reported as a liability on the consolidated statement of financial position.

Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They are not intended for sale in the ordinary course of operations.

[a] Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of an asset. The costs, less residual value, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives, as follows:

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

Asset	Useful life-Years	
	Minimum	Maximum
Buildings and Improvements	20	80
Computer hardware	5	10
Infrastructure Linear-Roads	50	75
Infrastructure Linear-Water/Wastewater	50	100
Land Improvements	50	200
Machinery and Equipment	10	50
Vehicles	5	15

Assets under construction are not amortized. Amortization of these assets will commence when the asset is put into service. For short-term tangible capital assets [useful lives less than or equal to five years], six months of amortization is recognized in the year during which the asset is put into service. For long-term tangible capital assets [useful lives of more than five years], a full year of amortization is recognized in the year following the year during which the asset is put into service.

[b] Contributions of tangible capital assets

Tangible capital assets received as contributions have been recorded at their fair market value at the date of receipt and are recorded as revenue. Contributed land assets of the City's predecessor municipalities were recorded as having been contributed on the date of amalgamation.

[c] Intangible assets

Intangible assets and natural resources that have not been purchased are not recognized as assets in the consolidated financial statements.

[d] Interest capitalization

The City's tangible capital asset policy does not allow for the capitalization of interest costs associated with the acquisition or construction of a tangible capital asset.

[e] Leases

Leases are classified as operating or capital leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

[f] Inventories

Inventories held for consumption are recorded at the lower of cost and replacement cost.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

Reserves and reserve funds

Reserves and reserve funds comprise funds set aside for specific purposes by Council [see note 13].

According to the investment policy for the Endowment Fund adopted by City Council, investment earnings are paid to the City at the lesser of 6.5% and the actual earnings of the Endowment Fund. Earnings, which exceed the target return of 6.5%, are retained by the Fund. In the event that the Fund's principal amount falls below the initial amount, distributions will be suspended until the Fund recovers to its inception amount. On June 22, 2011, City Council approved a one-time special distribution in the amount of \$21,253 from the Endowment Fund.

3. INVESTMENTS

Investments are comprised of the following:

	Cost		Market Value	
	2011	2010	2011	2010
	\$	\$	\$	\$
City of Ottawa debentures	28,570	35,478	30,276	36,839
Federal	208,980	125,225	215,582	128,675
Provincial	110,834	124,906	117,380	130,336
Municipal	114,885	117,740	123,206	123,585
Banks	262,427	86,028	265,289	88,443
Endowment	185,648	195,224	195,307	213,474
OCHC securities	-	10,864	-	9,191
Other	32,072	42,446	32,730	43,145
	943,416	737,911	979,770	773,688

The weighted average yield on investments held as at December 31, 2011 is 3.98% [2010 – 3.60%]. Investments mature from January 25, 2012 to April 19, 2030 [2010 – January 24, 2011 to March 8, 2029].

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

4. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES

Investments are comprised of the following:

	Net assets (liabilities)		Share of income (loss)	
	2011	2010	2011	2010
	\$	\$	\$	\$
Pineview Municipal Golf Course [a]	(372)	(202)	(170)	7
Ottawa Community Lands Development [b]	-	(716)	716	(716)
Manotick Mill Quarter Community Development Corporation [c]	-	-	-	-
Hydro Ottawa Holding Inc. [d]	352,140	343,424	26,216	31,231
	351,768	342,506	26,762	30,522

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

[a] Investment [100% owned] in Pine View Municipal Golf Course

The following table provides condensed supplementary financial information for Pine View Municipal Golf Course:

	2011	2010
	\$	\$
AS AT DECEMBER 31		
Financial position		
Current assets	132	174
Capital assets	1,229	1,340
Total assets	1,361	1,514
Current liabilities	170	141
Cash advanced by the City of Ottawa	1,563	1,575
Total liabilities	1,733	1,716
Net liabilities	(372)	(202)
	2011	2010
	\$	\$
FOR THE YEAR ENDED DECEMBER 31		
Results of operations		
Total revenues	1,579	1779
Total expenses	1,749	1772
Net income (loss)	(170)	7

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

[b] Investment [100% owned] in Ottawa Community Lands Development Corporation

The following table provides condensed supplementary financial information for Ottawa Community Lands Development Corporation:

	2011	2010
	\$	\$
AS AT DECEMBER 31		
Financial position		
Current assets	3,824	-
Other assets	1,520	-
Cash advanced from the City of Ottawa	-	2,154
Total assets	5,344	2,154
Current liabilities	364	2,870
Other liabilities	1,520	-
Cash advanced to the City of Ottawa	3,460	-
Total liabilities	5,344	2,870
Net assets (liabilities)	-	(716)
	2011	2010
	\$	\$
FOR THE YEAR ENDED DECEMBER 31		
Results of operations		
Total revenues	29,912	-
Total expenses	29,196	716
Net income (loss)	716	(716)

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

[c] Investment [100% owned] in Manotick Mill Quarter Community Development Corporation

The following table provides condensed supplementary financial information for Manotick Mill Quarter Community Development Corporation:

	2011	2010
	\$	\$
AS AT DECEMBER 31		
Financial position		
Current assets	1	-
Cash advanced from the City of Ottawa	70	-
Total assets	71	-
Current liabilities	71	-
Total liabilities	71	-
Net assets	-	-
	2011	2010
	\$	\$
FOR THE YEAR ENDED DECEMBER 31		
Results of operations		
Total revenues	34	-
Total expenses	34	-
Net income	-	-

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

[d] **Investment [100% owned] in Hydro Ottawa Holding Inc.**

The following table provides condensed supplementary financial information for Hydro Ottawa Holding Inc.:

	2011	2010
	\$	\$
AS AT DECEMBER 31		
Financial position		
Current assets	182,241	171,745
Capital assets	603,444	567,361
Other assets	29,838	33,936
Total assets	815,523	773,042
Current liabilities	130,756	117,955
Other liabilities	332,627	311,663
Total liabilities	463,383	429,618
Net assets	352,140	343,424
	2011	2010
	\$	\$
Net assets consist of:		
Investment in Hydro Ottawa Holding Inc.		
Common shares [100%]	228,453	228,453
Retained earnings	123,687	114,971
Net assets	352,140	343,424
	2011	2010
	\$	\$
FOR THE YEAR ENDED DECEMBER 31		
Results of operations		
Total revenues	839,961	799,678
Total expenses	813,745	768,447
Net income	26,216	31,231

The City, as holder of common shares in Hydro Ottawa Holding Inc., is entitled to receive dividends related to 2011 operations as declared by the Hydro Ottawa Holding Inc. Board.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

Dividends in the amount of \$17,500 [2010 - \$17,600] were received in 2011 related to 2010 operations.

For the year ended December 31, 2011, Hydro Ottawa Holding Inc. earned revenues related to sale of electricity, energy management consulting, and other services in the amount of \$ 37,269 [2010 - \$38,785] from the City. Certain services mainly related to water and sewer charges, fuel, and permits were purchased from the City in the amount of \$1,926 [2010 - \$614], property taxes in the amount of \$1,865 [2010 - \$1,796], and royalties in the amount of \$153 [2010 - \$134].

Hydro Ottawa Holding Inc. paid the City of Ottawa in the amount of \$247 [2010 - \$ 144] in support of its conservation and demand management initiatives.

As at December 31, 2011, Hydro Ottawa Holding Inc. had a balance of \$4,504 [2010 - \$4,694] due from the City of Ottawa and an amount of \$561 [2010 - \$307] due to the City of Ottawa in connection with the construction and operation of a generation plant and gas collection system at the Trail Road Landfill site in Ottawa.

5. DEFERRED REVENUE

Deferred revenue, set aside for specific purposes by legislation, regulation, or agreement, is comprised of the following:

	2011	2010
	\$	\$
Development charges	386,009	388,198
<i>Investment in Ontario Act</i>	32,503	44,284
Gas tax	39,195	53,906
Municipal Infrastructure Investment Initiative	1,472	5,089
Other government transfers	12,173	24,608
Other deferred revenue	34,170	37,259
Building code	41,188	38,063
Cash in lieu of parkland	19,576	17,750
Cash in lieu of parking	4,257	4,157
Total deferred revenue	570,543	613,314

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

6. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS

The City provides certain benefits, including retirement and other employment benefits, to most of its employees.

[a] Employee future benefits

Employee future benefit liabilities are reported net of amounts funded by the City. The funded portion of employee future benefit liabilities represents the cumulative operating expense that has been recorded in the consolidated statement of operations and recorded as accounts payable and accrued liabilities on the consolidated statement of financial position.

Employee future benefit liabilities of the City as at December 31 are as follows:

	2011			2010		
	Gross \$	Funded \$	Unfunded \$	Gross \$	Funded \$	Unfunded \$
Post-retirement benefits	171,248	(2,331)	168,917	166,960	(1,786)	165,174
Post-employment benefits	152,697	(40,841)	111,856	138,434	(38,243)	100,191
WSIB	87,044	-	87,044	75,435	-	75,435
Vacation leave	42,258	(29,596)	12,662	41,914	(28,541)	13,373
	453,247	(72,768)	380,479	422,743	(68,570)	354,173

The defined benefit plans relating to post-retirement and post-employment provide a variety of benefits to retirees and active and long-term disabled employees, including income, medical, dental, and life insurance, workers' compensation, and sick leave benefits.

The City is a Schedule 2 employer under the *Workplace Safety and Insurance Act* and, as such, assumes full responsibility for financing its workplace safety insurance costs. The accrued obligation represents the present value of future benefits on existing claims.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

The continuity for post-retirement and post-employment benefits for 2011 is as follows:

	Post-retirement \$	Post-employment \$	Total \$
Balance, at the beginning of the year	166,960	138,434	305,394
Current service costs/cost of new claim:	6,471	25,812	32,283
Interest cost	6,879	6,803	13,682
Amortization of actuarial (gain) loss	(388)	1,530	1,142
Benefits paid	(8,674)	(19,882)	(28,556)
Balance, at the end of the year	171,248	152,697	323,945

The expenses for post-retirement and post-employment benefits in the amount of \$47,107 are recorded on the consolidated statement of operations.

The liability for post-retirement and post-employment benefits is calculated based on an estimate of future outlays required under contractual agreements with various city employee bargaining units. These estimates are based on a number of assumptions regarding the expected costs of benefits, which are dependent on the demographic makeup of the various groups, future interest rates, and inflation rates. The City engages the services of an actuarial consulting firm to provide a determination of the City's obligation for post-retirement and post-employment benefits.

Due to the complexities in valuing the plans, actuarial valuations are conducted on a periodic basis. The liabilities reported in these consolidated financial statements are based on a valuation as of September 30, 2010 with an extrapolation to December 31, 2011.

Gains or losses are generated each year due to changes to certain assumptions and corrections or clarifications to the plan design previously provided by the City. These gains or losses are not expensed in the current year, but rather are amortized over the expected average remaining service life of the related employee groups. In 2011, amortization began for a 2010 loss in the amount of \$26,389. Amortization for a 2011 loss of \$46,694 will commence in 2012.

A number of estimates and assumptions are utilized in determining an actuarial valuation of benefit plans. The significant actuarial assumptions adopted in measuring the City's accrued benefit obligations and benefit cost for post-retirement and post-employment benefits are as follows:

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

	2011	2010
Discount rate	3.25%	4.25%
Inflation rate	2.50%	2.50%
Salary increase rate	2.0% to 2.75% in 2011 1.75% to 2.5% in 2012 and 2013 2.20% to 2.50% in 2014 2.50% per annum 2015 thereafter	2.0% to 2.75% in 2011 3% per annum 2012 thereafter
Health care inflation rate	7.02% grading down to 4.5% in 2029	7.16% grading down to 4.5% in 2029

[b] Pension agreements

[i] Ontario Municipal Employees' Retirement Fund

The City makes contributions to the Ontario Municipal Employees Retirement System ["OMERS"], which is a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. The City's contribution to the OMERS plan for 2011 totaled \$84,683 [2010 - \$70,824] for current services and is included as an expense on the consolidated statement of operations. These contributions were matched with identical employee contributions for both years.

The amount contributed for past service to OMERS for the year ended December 31, 2011 totaled \$541 [2010 - \$458] and is included as an expense on the consolidated statement of operations.

[ii] City of Ottawa Superannuation Fund

The City sponsors the City of Ottawa Superannuation Fund ["COSF"], a defined benefit plan that provides retirement benefits to employees based on length of service and rates of pay. With the introduction of OMERS, the COSF became a closed group in 1965. As at December 31, 2011, there were no active members and 757 pension recipients. As at December 31, 2010, there were no active members and 785 pension recipients. Pension payments during 2011 amounted to \$21,944 [2010 - \$22,633]. No employee or matching employer contributions to this pension plan for current service or for past service were required in 2011 or 2010.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

The reported accrued benefit liability is as follows:

	2011	2010
	\$	\$
Pension fund assets-end of the year	192,058	198,987
Accrued benefit obligation-end of the year	(221,786)	(229,405)
Plan deficiency	29,728	30,418
Unamortized actuarial (losses) gains	2,363	(6,996)
Liability at end of period	32,091	23,422
Accrued benefit liability	32,091	23,422
Expense		
Pension expense, including change in valuation allowance	6,995	-
Pension interest expense	1,673	1,168
Total pension-related expenses	8,668	1,168

There is no remaining service life in this plan.

The actuarial valuation performed for accounting purposes was based on a number of assumptions that are based on management's best estimates and are in accordance with accepted actuarial practice. Inflation rate was estimated at 2.0% [2010 - 2.0%] and the net rate of return for the plan was estimated at 5.25% [2010 - 5.50%].

The accrued benefit obligations and benefit cost levels will change in the future as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of true experience gains or losses, none of which have been anticipated at this time. Emerging experience, differing from the assumptions, will result in gains or losses that will be revealed in future accounting valuations.

The reported benefit liability of the above plan has been reflected on the consolidated statement of financial position.

The last filed actuarial valuation for funding purposes dated December 31, 2010 quantified a deficit of \$32,352 on a going concern basis. This going concern deficit will be amortized over 15 years starting in 2012 with annual contributions of \$3,258 to the plan by the City.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

The market value of the assets of the plan as at December 31, 2011 amounted to \$193,760 [2010 - \$213,039].

[iii] Ottawa-Carleton Regional Transit Commission Employees' Pension Plan

The City sponsors the Ottawa-Carleton Regional Transit Commission ["OC Transpo"] Employees' Pension Plan, a defined benefit plan that provides retirement benefits to employees based on length of service and rates of pay. Effective January 1, 1999, OC Transpo adopted the OMERS pension plan for all employees and new hires to accrue future benefits. Members retiring with both pre-1999 and post-1998 service will receive pension incomes under both plans. Pension payments during 2011 amounted to \$23,680 [2010 - \$20,403]. No employee or matching employer contributions to this pension plan for current service were required in 2011 or 2010. Employer contributions for past service during 2011 amounted to \$8,046 [2010 - \$12,957]

The reported pension asset is as follows:

	2011	2010
	\$	\$
Pension fund assets-end of the year	530,096	491,875
Accrued benefit obligation-end of the year	541,358	491,962
Accrued benefit liability	11,262	87
Unamortized actuarial losses	(24,492)	(1,910)
Asset at end of period	13,230	1,823
Valuation allowance	(8,716)	-
Reported pension asset	4,514	1,823
Expense		
Pension expense, including change in valuation allowance	8,927	-
Pension interest expense	(333)	165
Total pension-related expenses	8,594	165

The expected average remaining service life of this plan is eight years.

The market value of the assets of the plan as at December 31, 2011 amounted to \$523,407 [2010 - \$511,757].

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

The actuarial valuation performed for accounting purposes was based on a number of assumptions that are based on management's best estimates and are in accordance with accepted actuarial practice. Inflation rate was estimated at 2.00% [2010 - 2.00%], the net rate of return for the plan was estimated at 5.50% [2010 - 6.00%], and long-term salary forecasts for actuarial purposes were estimated at 3.25% [2010 - 3.25%].

The last filed actuarial valuation for funding purposes dated January 1, 2011 quantified a statutory solvency deficit of \$65,232 [2010 - \$64,787]. The solvency deficit is being amortized over five years starting in 2011. In 2011, the City contributed an amount of \$8,046 [2010 - \$12,957] to the plan and utilized a \$5,000 letter of credit in lieu of additional contributions. Many of the estimates and assumptions used in 2011 may change significantly with the next detailed actuarial valuation.

The reported pension asset of the above plan has been reflected on the consolidated statement of financial position.

7. LANDFILL CLOSURE AND POST-CLOSURE LIABILITIES

The *Ontario Environmental Protection Act* sets out the regulatory requirements for the closure and maintenance of landfill sites. Under this Act, the City is required to provide for closure and post-closure care of solid waste landfill sites. The costs related to these obligations are provided over the estimated remaining life of the landfill sites based on usage.

The City has two active landfill sites - Trail Road Landfill and Springhill - as well as one inactive site for which the City has responsibilities for all costs relating to closure and post-closure care. As at December 31, 2011, the remaining capacity of the Trail Road site is approximately 6,535,467 [2010 - 7,668,030] cubic metres, all of which is expected to be used by the year 2065. In 2011, a City Council decision to move toward bi-weekly garbage collection, combined with Council approval to enter into an agreement to convert waste to energy, will extend the life of the Trail Road site from 2025 until 2065. The remaining capacity at the Springhill site is approximately 552,597 [2010 - 663,270] cubic metres, which is expected to be used by the year 2018.

Closure for the Trail Road Landfill and Springhill will involve covering the sites, implementing drainage control, and installing ground water monitoring wells and gas recovery facilities. Post-closure care activities for these sites and other inactive sites are expected to occur for approximately 25 years.

The estimated liability for the care of landfill sites is the present value of future cash flows associated with closure and post-closure costs discounted using the City's cost of capital of 3.25% [2010 - 4.25%] as well as considering an annual CPI inflation rate of 2.05%

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

[2010 - 2.01%] [annual average of the last 10 years]. This estimate amounts to \$10,939 at December 31, 2011 [2010 - \$12,867] and is included as a liability on the consolidated statement of financial position. In order to help reduce the future impact of these obligations, the City has funded an amount of \$2,178 [2010 - \$1,759] of this liability. The funded amount is included in accounts payable and accrued liabilities on the consolidated statement of financial position.

Estimated total expenses over the 25-year post-closure period amount to approximately \$31,018.

8. NET LONG-TERM DEBT

[a] Net long-term debt reported on the consolidated statement of financial position comprises the following:

	2011	2010
	\$	\$
Instalment and sinking fund debenture issued at various rates of interest ranging from 1.10 % to 9.875 %, and maturing from April 15, 2012 to July 14, 2042	1,141,881	998,659
Bank loan agreements and interest rate exchange agreements	35,399	10,876
The total value of sinking fund deposits, which have accumulated to the end of the year to retire sinking fund debentures included in the above amount	(86,007)	(174,375)
	1,091,273	835,160

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

[b] Principal payments including contributions to the Sinking Fund in future years are as follows:

	\$
2012	80,863
2013	70,268
2014	65,013
2015	65,971
2016	68,071
2017 and thereafter	650,001
	1,000,187

These amounts will be paid from tax and rate-supported operations. It is estimated that interest to be earned by the Sinking Fund will amount to approximately \$91,086, which together with the amount of \$1,000,187 shown above, will be used to retire the outstanding total debt of \$1,091,273.

[c] The City has entered into a loan agreement and an interest rate derivative agreement for the construction of an ice rink facility. The interest rate derivative agreement converts the full amount of floating rate debt for fixed rate debt at a fixed rate of 5.92% and is in place until the debt matures in 2025. As at December 31, 2011, the fair value of the interest rate derivative agreement was (\$2,698). The net long-term debt outstanding as at December 31, 2011 related to this agreement amount to \$10,399 [2010 - \$10,876].

[d] The city has also entered into a loan agreement and an interest rate derivative agreement for various sewer and water works. The interest rate derivative agreement converts the full amount of \$25,000 of floating debt to fixed rate debt until the debt matures in December 2021. At December 31, 2011, the fair value of the interest rate derivative agreement was \$505.

[e] The City has entered into guarantees of loans amounting to \$76,690 arranged to provide financing for the development of another ice rink, the construction of a paramedic headquarters facility and the development of an arts centre under public private partnerships. The City's guarantees for the ice rink and the paramedic facility also cover the borrowers' obligations under interest rate derivative agreements to manage the volatility of interest rates. The City has converted floating rate debt in the amount of \$47,800 for fixed rate debt ranging from 5.79% to 6.49% on both of these guarantees. The related derivative agreements are in place until the maturity of the debts in 2035. The City's guarantee of the loan in connection with the arts centre facility does not involve interest rate derivative agreements since the loan is on a fixed interest rate basis.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

[f] The City uses derivative financial instruments consisting of bank swaps to reduce its exposure to interest rate risk related to its debt and commodity price fluctuations. The City does not use financial instruments for trading or speculative purposes.

The City uses bank swaps to manage commodity price fluctuations. These bank swaps are used to set a fixed price for a specific quantity over a defined term and settle on specific dates commensurate with the defined term. Swaps result in a payment or receipt of funds to or from the counterparty to the transaction. Gains (receipts) or losses (payments) are recognized in the same period as the delivery of the underlying commodity.

At December 31, 2011, the City had set bank swaps in place to hedge 24,000,000 litres of diesel fuel for the 2012 calendar year with expiry dates ranging from February 7, 2012 to January 8, 2013. The net present value of these swaps was \$27.

[g] On June 28, 2010, City Council authorized a payment covenant which may require the City to make annual payments of up to \$1,463 in respect of a loan in the amount of \$20,700 for the construction and operation of a trade and exhibition centre. The covenant agreement was signed by the City on April 15, 2011.

9. MORTGAGES PAYABLE

	2011	2010
	\$	\$
Mortgages payable on housing properties at various rates ranging from 3.15% to 8.0%, guaranteed by the Canada Mortgage and Housing Corporation with maturity dates ranging from March 1, 2012 to January 16, 2040 and a debenture payable to Infrastructure Ontario in the amount of \$18,700 over 30 years with interest at 4.96%	209,918	219,120
Forgivable loans related to Canada Ontario Affordable Housing Program and Residential Rehabilitation Assistance Program	2,327	2,000
	212,245	221,120

[a] Public housing debentures issued by Canada Mortgage and Housing Corporation in the amount of \$63,761 [2010 - \$69,519] included in the OCHC balances have not been included in these consolidated financial statements as they are the responsibility of the Province of Ontario.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

Mortgages and forgivable loans on housing properties are governed by operating agreements with the Province of Ontario and/or the Canada Mortgage and Housing Corporation and involve no direct or indirect obligation to the City.

With respect to the debenture payable to Infrastructure Ontario, the City has received a direction from OCHC to transfer an amount equivalent to the annual principal and interest payments to Infrastructure Ontario from the annual subsidy provided by the City.

[b] Principal repayments in future years are as follows:

	2011	2010
	\$	\$
2012	11,129	10,271
2013	11,770	10,751
2014	12,369	11,209
2015	12,928	11,644
2016	13,452	12,059
2017 and thereafter	150,597	165,186
	212,245	221,120

10. CAPITAL LEASE OBLIGATIONS

The City leases the following facilities and equipment as detailed below:

	Office Building	Paramedic Services Building	Shenkman Arts Centre
Lease term	24 years	30 years	30 years
Interest rate	6.00%	5.79%	4.99%
Purchase option	\$10,000	nil	nil

Future minimum payments for the above capital leases are as follows:

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

	Office Building		Paramedic Services Building		Shenkman Arts Centre		TOTAL	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	\$	\$	\$	\$	\$	\$	\$	\$
2012	1,708	3,447	447	1,150	225	1,849	2,380	6,446
2013	1,810	3,344	471	1,124	282	1,836	2,563	6,304
2014	1,919	3,236	498	1,097	383	1,820	2,800	6,153
2015	2,034	3,120	526	1,070	441	1,799	3,001	5,989
2016	3,167	2,941	555	1,038	523	1,776	4,245	5,755
Thereafter	51,960	15,787	18,945	10,997	35,362	23,588	106,267	50,372
	62,598	31,875	21,442	16,476	37,216	32,668	121,256	81,019

11. TANGIBLE CAPITAL ASSETS

	Buildings and improvements	Infrastructure linear roads	Infrastructure linear water /wastewater	Land	Land improvements	Machinery plant and equipment	Vehicles	Assets under construction	Total 2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost										
Balance, beginning of year	1,670,588	2,515,857	4,199,506	2,628,570	496,855	1,113,265	837,976	877,168	14,339,785	13,382,176
Additions	90,264	83,999	285,712	22,823	17,207	63,779	134,893	159,794	858,471	1,144,844
Writedowns	-	-	-	-	-	-	-	-	-	(32,200)
Disposals	(1,327)	-	(1,732)	(81,518)	(7,678)	(4,958)	(61,414)	(38,726)	(197,353)	(155,035)
Balance, end of year	1,759,525	2,599,856	4,483,486	2,569,875	506,384	1,172,086	911,455	998,236	15,000,903	14,339,785
Accumulated amortization										
Balance, beginning of year	595,315	1,069,774	1,025,592	-	151,589	363,131	259,147	-	3,464,548	3,310,343
Disposals	(541)	-	-	-	(1,361)	(3,243)	(46,819)	-	(51,964)	(73,415)
Amortization expense	38,403	55,511	46,058	-	13,531	27,208	58,981	-	239,692	227,620
Balance, end of year	633,177	1,125,285	1,071,650	-	163,759	387,096	271,309	-	3,652,276	3,464,548
Net book value, end of year	1,126,348	1,474,571	3,411,836	2,569,875	342,625	784,990	640,146	998,236	11,348,627	10,875,237

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

Works of art and historical treasures

Ottawa City Council approved a Public Art Program ["PAP"] in 1985 to maintain and circulate the City's corporate art collection. The City's PAP collection includes over 1,700 works of art. The City also owns the Firestone Art Collection, consisting of 1,605 historical Canadian works of art produced from 1900 to 1980, which is housed and managed by the Ottawa Art Gallery. Works of art are not recorded in the City's consolidated financial statements.

Contributed tangible capital assets

Contributed tangible capital assets have been recognized at fair value at the date of contribution. The value of contributed tangible capital assets received during 2011 amounts to \$202,319 [2010 - \$206,350]. Contributed land assets of the City's predecessor municipalities have been recorded as having been contributed on the date of amalgamation.

12. PREPAID EXPENSES

The balance of prepaid expenses reported on the consolidated statement of financial position is comprised of the following:

	2011	2010
	\$	\$
Prepaid welfare entitlements	7,593	7,212
Other prepaids	7,701	7,080
	15,294	14,292

The Province of Ontario funds 81.2% of welfare entitlements, which represent the advance payment of January benefit entitlements in the month of December.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

13. ACCUMULATED SURPLUS

Accumulated surplus consists of individual fund surplus, reserves and reserve funds, and equity in government business enterprises.

	2011 \$	2010 \$
Surplus		
Invested in tangible capital assets	10,051,129	9,598,520
Unfunded		
Employee benefits	(408,056)	(375,772)
Landfill closure costs	(8,761)	(11,108)
Other	(42,524)	(51,948)
Total surplus	9,591,788	9,159,692
Reserves set aside by council	3,992	609
Reserve funds set aside for specific purpose by Council		
Endowment	185,008	195,105
Transportation and environmental services	101,159	91,111
Social housing and child care	34,360	50,833
Debt retirement	2,854	7,631
Equipment replacement	6,082	5,902
Insurance	2,155	2,138
Employment benefits	6,119	5,997
Other	8,468	11,130
Total reserve funds	346,205	369,847
Equity in government enterprises [note 4]	351,768	342,506
Accumulated surplus	10,293,753	9,872,654

14. CONTINGENCIES AND COMMITMENTS

[a] In the course of its business, the City becomes involved in various claims and legal proceedings. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. A provision for these claims has been recorded in the consolidated financial statements based on management's best estimate of the likely outcome. Should claims be settled for amounts over and above established accruals, which could be material to the financial results in the year of settlement, the excess expense will be charged to operations as incurred.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

[b] The City has not recorded a provision for tax appeals as any potential eventual settlement is not determinable.

[c] On November 18, 1998, a class action claiming \$500,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario ('LDCs'), which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in electric utilities receiving interest at effective rates in excess of what is allowed under Section 347[1] [b] of the Criminal Code.

By order dated July 22, 2010, the Ontario Superior Court of Justice formalized a settlement which involves the payment of \$18,382 by all utilities imposing late payment charges. The amount paid by each utility is to be its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. Hydro Ottawa Holding Inc.'s share, relating to late payment charges collected between 1999 and 2001, amounts to \$1,026.

On February 22, 2011 the Ontario Energy Board ["OEB"] issued a decision that allows distributors to recover costs and damages arising from the LPC class action over a 12 month period starting May 1, 2011. Hydro Ottawa Holding Inc. has accrued a liability and a regulatory asset arising from the late payment charge settlement and has been collecting on the LPC through a rate rider since May 1, 2011.

[d] Purchasers of electricity in Ontario, through the Independent Electricity System Operator ["IESO"], are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if Hydro Ottawa Holding Inc. fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. At December 31, 2011, Hydro Ottawa Holding Inc. had drawn letters of credit in the amount of \$14,000 [2010 - \$14,000] against its credit facility to cover its prudential support obligation. In addition, Hydro Ottawa Holding Inc. provided bank letters of credit in the amount of \$93 [2010 - \$93] to the City as security for construction projects.

[e] Hydro Ottawa Holding Inc. participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. Hydro Ottawa Holding Inc. is liable for additional assessments to the extent premiums collected

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to operations in the period during which which they occur.

[f] The City has contractual obligations for capital works in the amount of \$143,026 at December 31, 2011 [2010 - \$179,434].

[g] The City is committed to the following payments over the next five years under operating lease agreements for building and equipment:

	\$
2012	16,625
2013	15,348
2014	13,593
2015	11,903
2016	12,095

[h] As at December 31, 2011, Hydro Ottawa Holding Inc. has total open commitments amounting to \$47,402, of which balances of \$36,369 are for 2012, \$4,990 for 2013, \$4,520 for 2014, and \$1,523 for 2015. This includes a customer information system services agreement, construction projects, inventory purchases and overhead and underground services.

[i] The City has commitments for the purchase of ice rental time in the amounts of \$3,000 and \$10,858 in accordance with two public private partnership agreements. These commitments are set to expire in 2027 and 2034, respectively.

15. TAXES AVAILABLE FOR MUNICIPAL PURPOSES

	2011	2010
	\$	\$
Property taxes	1,687,588	1,654,426
Payment in lieu of taxes	174,778	166,257
Local Improvements and other charges	5,268	4,674
Less: education taxes	(459,652)	(467,250)
Taxes available for municipal purposes	1,407,982	1,358,107

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 [dollars in thousands]

16. EXPENSES BY OBJECT

The consolidated statement of operations represents the expenses by function; the following classifies those same expenses by object:

	2011	2010
	\$	\$
Salaries, wages and employee benefits	1,382,581	1,300,059
Contracted and general services	163,467	184,364
Materials, equipment and supplies	491,742	423,385
Interest charges	67,405	66,134
Rent and financial expenses	63,990	52,569
External transfers	284,774	359,672
Amortization	239,692	227,620
Write-downs	-	32,200
Loss on disposal	110,897	73,073
	2,804,548	2,719,076

17. SEGMENTED INFORMATION

The City of Ottawa is responsible for providing a wide range of services to its citizens including police, fire, ambulance, public transit, and water.

The City reports on functional areas and programs in its consolidated financial statements similar to reporting reflected as part of the Ontario Financial Information Return.

These functional areas represent segments for the City of Ottawa, and expanded disclosure by object has been reflected in Schedule 1.

A brief description of each segment follows:

- General government is comprised of Council, administration, and Ontario Property Assessment.
- Protection is comprised of police, fire, and other protective services. These groups maintain the safety and security of all citizens by reducing or eliminating loss

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

of life and property, by maintaining law enforcement, and preserving peace and good order.

- Road, traffic and parking includes parking, signs and signals, streetlights and the maintenance of roads and parks of the City.
- Transit services provide local public transportation for citizens. They also include other transportation services such as planning and development.
- Environmental services include water supply and distribution, wastewater treatment, and waste and recycling services. These services provide clean drinking water to residents, collect and treat wastewater, and collect and properly process waste and recycling items.
- Health services include paramedic and health services. Mandated health services promote and maintain health programs that optimize the health of residents. Paramedic services deliver timely and effective care for pre-hospital emergency care, along with medically required inter-hospital transportation.
- Social and family services include social assistance, long-term care, and childcare services. Social assistance services determine, issue, and monitor clients' eligibility for financial, social, and employment assistance. Long-term care services provide secure and supervised health services for seniors who can no longer live at home. Childcare services provide subsidized childcare spaces and provide funding for wage subsidy, pay equity, and special needs.
- Social housing, with the partnership of 120 community-based agencies, provides a range of services including housing, emergency shelters, outreach, search, and stabilization to people in the community.
- Recreation and cultural services include parks and recreation, culture, and libraries. Parks and recreation services develop and deliver high-quality recreational programs, and develop and maintain recreation facilities, parks and sports-fields to ensure all residents have the opportunity to enjoy a healthy lifestyle. Culture services invest in local non-profit organizations that deliver services on behalf of the City. Library services provide public library services to the citizens via physical facilities, bookmobile, virtual, and telephone services.
- Planning and development services manage urban development for residential and business interests, as well as infrastructure and parks.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

- Other includes revenues from taxes, equity in earnings of government business enterprises, investment income, sale of land, shared lottery earnings, and miscellaneous sundry revenues.

Program support costs for expenses have been allocated to other functions using guidelines and methodologies reflected in the Ontario Financial Information Return.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 2.

18. PUBLIC LIABILITY INSURANCE

The City self-insures for public liability claims up to a specific amount and outside coverage is in place for claims in excess of these limits.

The City has a reserve fund for self-insurance, which at December 31, 2011 amounted to \$2,155 [2010 - \$2,138]. The City contributed an amount of \$222 [2010 - \$nil] to this reserve fund from operations.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

19. BUDGET AMOUNTS

Budget data presented in these consolidated financial statements are based upon the 2011 operating and capital budgets approved by Council. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budgeted amount
	\$
Revenue	<i>[unaudited]</i>
Operating budget approved by Council	2,659,869
Capital budget approved by Council	889,137
Add	
Timing difference between capital authority and capital spending plan	43,407
Reserve fund revenues	15,008
Hydro Ottawa Holding Inc. equity pickup	8,716
Interest earned on Sinking Fund	2,409
Contributed assets	202,319
Less	
Budgeted transfer from other funds	(399,095)
Budgeted proceeds on debt issue	(217,376)
Total revenues	3,204,394
Expenses	
Operating budget approved by Council	2,659,869
Capital budget approved by Council	889,137
Add	
Change in employee future benefits and pension agreements	32,284
Interest earned on Sinking Fund	2,409
Amortization	239,692
Loss on disposal and writedowns	110,897
Less	
Acquisition of tangible capital assets	(704,186)
Change in other obligations to be funded in future years	(470)
Budgeted transfer to other funds	(327,505)
Budgeted debt principal payments	(87,941)
Total expenses	2,814,186
Annual surplus	390,208

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 *[dollars in thousands]*

20. COMPARATIVE FIGURES

Certain comparative figures for 2010 have been reclassified to conform with the presentation adopted for the current year.