

Financial Statements

City of Ottawa Sinking Fund
31 December 2011

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of The Council of the City of Ottawa

We have audited the accompanying statement of financial position of the **City of Ottawa Sinking Fund** as at 31 December 2011 and the fund balance statement of continuity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of the **City of Ottawa Sinking Fund** as at 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matter

The financial statements are prepared for management, the **Mayor and Members of the Council of the City of Ottawa**. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the management, the **Mayor and the Council of the City of Ottawa**, and should not be used by parties other than management, the **Mayor and the Council of the City of Ottawa**.

Ottawa, Canada,
13 June 2012

Chartered Accountants
Licensed Public Accountants

City of Ottawa Sinking Fund

STATEMENT OF FINANCIAL POSITION

As at 31 December
[in thousands of dollars]

	2011	2010
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	6,104	51,278
Investments at amortized cost <i>[note 2]</i>	81,042	125,885
Accrued interest	531	1,649
	<u>87,677</u>	<u>178,812</u>
FINANCIAL LIABILITIES AND FUND BALANCE		
Financial liabilities		
Accounts payable – contributors <i>[note 4]</i>	1,671	4,438
Actuarial requirements <i>[note 3]</i>	82,459	167,205
Total financial liabilities	<u>84,130</u>	<u>171,643</u>
Fund balance	<u>3,547</u>	<u>7,169</u>
	<u>87,677</u>	<u>178,812</u>

See accompanying notes

City of Ottawa Sinking Fund

FUND BALANCE STATEMENT OF CONTINUITY

Year ended 31 December
[in thousands of dollars]

	2011	2010
	\$	\$
Fund balance at the beginning of the year	7,169	11,886
REVENUE		
Contribution – levies	9,222	9,222
Investment income	4,081	9,093
	13,303	18,315
EXPENDITURES		
Provision for actuarial requirements	15,254	18,594
Refund to contributors	1,671	4,438
	16,925	23,032
Excess of expenditures over revenue for the year	(3,622)	(4,717)
Fund balance at the end of the year	3,547	7,169

See accompanying notes

City of Ottawa Sinking Fund

STATEMENT OF CASH FLOWS

Year ended December 31
[in thousands of dollars]

	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Excess of expenditures over revenue for the year	(3,622)	(4,717)
Matured By-law paid	(100,000)	—
Item not affecting cash		
Amortization of discount on investments	(393)	(517)
	<u>(104,015)</u>	<u>(5,234)</u>
Changes in non-cash working capital balances related to operations		
Accrued interest	1,118	172
Accounts payable – contributors	(2,767)	3,379
Actuarial requirements	15,254	18,594
Cash provided by (used in) operating activities	<u>(90,410)</u>	<u>16,911</u>
INVESTING ACTIVITIES		
Purchases of investments	(108,546)	(68,116)
Proceeds from maturities of investments	136,128	62,390
Proceeds from sales of investments	17,654	26,410
Cash provided by investment activities	<u>45,236</u>	<u>20,684</u>
Net change in cash during the year	(45,174)	37,595
Cash and cash equivalents, beginning of year	<u>51,278</u>	<u>13,683</u>
Cash and cash equivalents, end of year	<u>6,104</u>	<u>51,278</u>

See accompanying notes

City of Ottawa Sinking Fund

NOTES TO FINANCIAL STATEMENTS

31 December 2011
[in thousands of dollars]

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Ottawa Sinking Fund [the “Sinking Fund”] have been prepared by management in accordance with accounting principles prescribed by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. The following is a summary of the significant accounting policies:

Revenue recognition

Contributions are recognized as revenue in the year receivable. Interest income is recorded when earned.

Investments

Investments are purchased with the intention of being held to maturity. Gains and losses are recognized when investments are sold. If there has been a decline in the value of investments, other than temporary, the investments are written down to market value. Under certain circumstances, investments may be sold prior to maturity in accordance with the approved Sinking Fund Investment Policy. All investments are initially recorded at cost and are adjusted annually for amortization of discount or premium on the basis of the effective yield as determined at the date of purchase with the amount of such amortization included in interest income in the fund balance statement of continuity.

City of Ottawa Sinking Fund

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Provision for actuarial requirements

The provision for actuarial requirements of the Sinking Fund for the year represents the amounts levied during the year as set out in the Sinking Fund debenture by-laws plus interest accrued thereon, capitalized at specific rates compounded annually in accordance with Paragraphs 1 and 2 of Section 409(2) of the *Ontario Municipal Act, 2001*. The actuarial requirement is to accumulate to an amount sufficient to pay the related debentures upon maturity. The excess of revenue over these requirements for the year is included in the fund balance.

Cash and cash equivalents

The Sinking Fund considers any highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts payable – contributors

When certain Sinking Fund balances are more than sufficient to meet the principal amount of the debentures represented by the Sinking Fund accounts at maturity date, City Council may distribute such excess in accordance with Sections 409(11) and (12) of the *Ontario Municipal Act, 2001*.

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[in thousands of dollars]

2. INVESTMENTS AT AMORTIZED COST

Investments consist of securities issued by the following:

	2011	2010
	\$	\$
Government of Canada	25,121	24,038
Provincial governments and agencies	20,954	26,224
Municipal governments		
City of Ottawa	17,213	34,711
Other municipalities	7,753	11,240
Other	10,001	29,672
Amortized cost	81,042	125,885
Par value	91,128	137,215
Market value	86,615	130,319

3. ACTUARIAL REQUIREMENTS AND INVESTMENTS FOR DEBENTURE RETIREMENT

[a] The following indicates the continuity of the actuarial requirements for the year:

	2011	2010
	\$	\$
Balance at the beginning of the year	167,205	148,611
Provision for actuarial requirements	15,254	18,594
Transfer of funds to meet debenture requirements	(100,000)	—
Balance at the end of the year	82,459	167,205

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31 December 2011
[in thousands of dollars]

[b] Investments and cash equivalents held by the Sinking Fund comply with Ontario Regulation 438 of 1997, as amended by Regulation 655 of 2005, which prescribes the types of investments eligible for investment. Investments and Sinking Fund debenture commitments mature as follows:

	Par value of investments and cash equivalents	Commitments at maturity	Actuarial requirements
	\$	\$	\$
2012	52,200	50,000	45,395
2013	1,628	—	—
2016	3,600	—	—
2018	22,007	20,000	9,479
2019	17,493	65,000	27,585
2030	—	97,838	—
2042	—	150,000	—
	<u>96,928</u>	<u>382,838</u>	<u>82,459</u>

The above includes commitments for debentures issued in 2010 and 2011 amounting to \$247,838 [By-law 2010-121 and 2010-267 and 2011-254] which do not require levy contributions for the year ended 31 December 2011.

The weighted average yield to maturity on par value of investments held by the Sinking Fund as at 31 December 2011 is 3.34% [2010 – 3.54%].

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[in thousands of dollars]

4. ACCOUNTS PAYABLE – CONTRIBUTORS

The value of the sinking fund account for by-law 33 of 1991 exceeded the amount required to meet the commitment when the by-law matured on February 28, 2011 by an amount of \$1.671 million. The excess amount will be distributed to the City of Ottawa during 2012 after approval by City Council.

5. ADMINISTRATIVE COSTS

All administrative costs for the Sinking Fund have been borne by the City of Ottawa.

6. COMPARATIVE FIGURES

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