

Consolidated Financial Statements

**The City of Ottawa**

December 31, 2008

## AUDITORS' REPORT

To the Mayor and Members of Council

We have audited the consolidated statement of financial position of the **City of Ottawa** as at December 31, 2008 and the consolidated statements of financial activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the City's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the **City of Ottawa** as at December 31, 2008 and the results of its financial activities and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,  
April 3, 2009.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants

The City of Ottawa

**CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION**

*[dollars in thousands]*

As at December 31

	2008	2007
	\$	\$
<b>FINANCIAL ASSETS</b>		
Cash and short-term investments	495,548	420,541
Accounts receivable	168,705	185,214
Investments <i>[Note 3]</i>	772,715	694,982
Investment in government business enterprises <i>[Note 4]</i>	317,370	296,989
<b>Total financial assets</b>	<b>1,754,338</b>	<b>1,597,726</b>
<b>FINANCIAL LIABILITIES</b>		
Accounts payable and accrued liabilities	350,156	360,863
Short-term loan <i>[Note 6]</i>	-	29,657
Deferred revenue <i>[Note 7]</i>	638,549	464,501
Employee benefits <i>[Notes 8 and 14]</i>	326,375	303,763
Accrued interest <i>[Note 14]</i>	14,321	12,554
Landfill closure and post-closure liabilities <i>[Notes 9 and 14]</i>	13,688	11,047
Net long-term debt <i>[Notes 10 and 14]</i>	553,231	469,028
Mortgages payable <i>[Notes 11 and 14]</i>	221,516	230,263
Capital lease obligations <i>[Notes 12 and 14]</i>	89,806	83,668
<b>Total financial liabilities</b>	<b>2,207,642</b>	<b>1,965,344</b>
<b>NET FINANCIAL LIABILITIES</b>	<b>(453,304)</b>	<b>(367,618)</b>
<b>NON-FINANCIAL ASSETS</b>		
Inventories	27,838	24,561
Prepaid expenses <i>[Note 5]</i>	12,049	10,317
<b>Net liabilities</b>	<b>(413,417)</b>	<b>(332,740)</b>
<b>MUNICIPAL POSITION</b>		
Operating fund <i>[Schedule 2]</i>	(10,008)	(10,099)
Capital fund <i>[Schedule 3]</i>	113,652	60,565
Reserves and reserve funds <i>[Schedule 4]</i>	414,766	457,647
Equity in government business enterprises <i>[Note 4]</i>	317,370	296,989
<b>Total Fund Balances</b>	<b>835,780</b>	<b>805,102</b>
Amounts to be recovered in future years <i>[Note 14]</i>	(1,249,197)	(1,137,842)
<b>Total municipal position</b>	<b>(413,417)</b>	<b>(332,740)</b>

See accompanying notes

The City of Ottawa

**CONSOLIDATED STATEMENT OF  
FINANCIAL ACTIVITIES**

*[dollars in thousands]*

For the year ended December 31

	2008	2007
	\$	\$
<b>REVENUES</b>		
Taxes available for municipal purposes <i>[Note 15]</i>	1,229,794	1,143,891
Fees and user charges	617,997	587,426
Government grants	470,948	505,763
Investment income	50,108	51,949
Fines and penalties	23,797	23,062
Development charges	71,840	76,461
Other revenue	14,078	10,883
<b>Total revenues</b>	<b>2,478,562</b>	<b>2,399,435</b>
<b>EXPENDITURES</b>		
General government	132,191	143,450
Protection to persons and property	427,651	403,279
Transportation	741,170	626,227
Environmental services	319,650	284,340
Health services	117,083	104,991
Social and family services	409,081	425,490
Social housing	184,521	172,803
Recreation and cultural services	237,283	222,497
Planning and development	44,374	52,374
<b>Total expenditures</b>	<b>2,613,004</b>	<b>2,435,451</b>
Net expenditures before the following:	(134,442)	(36,016)
Equity in earnings of government business enterprises <i>[Note 4]</i>	48,756	27,298
<b>Net expenditures</b>	<b>(85,686)</b>	<b>(8,718)</b>
<b>Financing</b>		
New debt issued	141,834	206
Debt principal repayments	(52,783)	(53,696)
Interest earned on sinking funds	(7,457)	(8,838)
Change in employee benefits	22,612	50,559
Change in accrued interest on debt	1,767	(1,386)
Change in landfill closure and post-closure liabilities	2,641	(1,341)
Change in liability claims	4,948	5,165
Other obligations to be recovered in future years	(2,207)	(3,364)
<b>Net increase (decrease) in amounts to be recovered in future years</b>	<b>111,355</b>	<b>(12,695)</b>
<b>Increase in non-financial assets</b>	<b>5,009</b>	<b>1,552</b>
<b>Change in fund balances for the year</b>	<b>30,678</b>	<b>(19,861)</b>
Fund balance at the beginning of the year	805,102	824,963
<b>Fund balance at the end of the year</b>	<b>835,780</b>	<b>805,102</b>

See accompanying notes

The City of Ottawa

**CONSOLIDATED STATEMENT OF  
CASH FLOWS**  
*[dollars in thousands]*

For the year ended December 31

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net expenditures for the year	<b>(85,686)</b>	(8,718)
Adjustment for non-cash items:		
Equity in earnings of government business enterprises	<b>(48,756)</b>	(27,298)
Uses:		
Decrease in accounts payable and accrued liabilities	<b>(10,707)</b>	-
Decrease in short-term loan	<b>(29,657)</b>	-
Decrease in accrued interest	-	(1,386)
Decrease in landfill closure and post-closure liabilities	-	(1,342)
	<b>(174,806)</b>	(38,744)
Sources:		
Decrease in accounts receivable	<b>16,509</b>	18,984
Increase in accounts payable and accrued liabilities	-	68,519
Increase in deferred revenue	<b>174,048</b>	54,726
Increase in employee benefits	<b>22,612</b>	50,559
Increase in accrued interest	<b>1,767</b>	-
Increase in landfill closure and post-closure liabilities	<b>2,641</b>	-
	<b>217,577</b>	192,788
<b>Cash provided by operating activities</b>	<b>42,771</b>	154,044
<b>INVESTING ACTIVITIES</b>		
Net increase in investments	<b>(77,733)</b>	(204,194)
Dividend from Hydro Ottawa Holding Inc.	<b>28,375</b>	12,000
<b>Cash provided by (used in) investing activities</b>	<b>(49,358)</b>	(192,194)
<b>FINANCING ACTIVITIES</b>		
New debt issued	<b>141,834</b>	206
Interest earned on sinking funds	<b>(7,457)</b>	(8,838)
Debt principal repayments	<b>(52,783)</b>	(53,696)
<b>Cash provided by (used in) financing activities</b>	<b>81,594</b>	(62,328)
Net increase (decrease) in cash and short-term investments during the year	<b>75,007</b>	(100,478)
Cash and short-term investments, beginning of the year	<b>420,541</b>	521,019
<b>Cash and short-term investments, end of the year</b>	<b>495,548</b>	420,541
<i>See accompanying notes</i>		

**CONSOLIDATED SCHEDULE  
OF SEGMENT DISCLOSURE**

*[dollars in thousands]*

for the year ended December 31, 2008

REVENUES

	General government	Protection	Transportation	Environmental services	Health services	Social services	Social housing	Recreation and culture	Planning and development	Other	Total
Taxes	-	-	-	-	-	-	-	-	-	1,229,794	1,229,794
Fees and surcharges	17,770	59,087	156,109	233,986	681	20,445	62,037	50,566	8,006	9,310	617,997
Government grants	1,305	5,187	83,611	9,114	65,997	226,475	56,326	2,896	267	19,769	470,947
Fines and penalties	1,233	10,222	-	-	-	-	-	1,468	-	10,874	23,797
Development charges	-	788	31,175	33,451	-	240	-	4,646	575	965	71,840
Other	(33)	290	699	451	-	2,359	4,900	354	369	54,798	64,187
<b>Total revenues</b>	<b>20,275</b>	<b>75,574</b>	<b>271,594</b>	<b>277,002</b>	<b>66,678</b>	<b>249,519</b>	<b>123,263</b>	<b>59,930</b>	<b>9,217</b>	<b>1,325,510</b>	<b>2,478,562</b>

EXPENDITURES

Salaries and benefits	63,242	347,278	305,762	59,589	90,126	115,501	31,031	136,974	26,846	-	1,176,349
Contracts and general services	26,655	19,329	148,728	191,120	3,825	6,461	2,728	25,807	2,338	-	426,991
Materials, equipment and supplies	23,855	51,936	241,143	52,668	23,931	63,104	64,059	54,817	10,492	-	586,005
Interest charges	6,782	3,173	20,897	10,873	1,688	3,297	11,640	3,487	2,796	-	64,633
Rent and financial expenses	12,547	3,563	23,013	4,894	700	4,099	2,791	4,110	(452)	-	55,265
External transfers	208	7,506	(2,212)	886	281	214,784	71,383	7,700	3,225	-	303,761
Internal transfers	(1,098)	(5,134)	3,839	(380)	(3,468)	1,835	889	4,388	(871)	-	0
<b>Total expenditures</b>	<b>132,191</b>	<b>427,651</b>	<b>741,170</b>	<b>319,650</b>	<b>117,083</b>	<b>409,081</b>	<b>184,521</b>	<b>237,283</b>	<b>44,374</b>	<b>0</b>	<b>2,613,004</b>

<b>NET EXPENDITURES</b>	<b>(111,916)</b>	<b>(352,077)</b>	<b>(469,576)</b>	<b>(42,648)</b>	<b>(50,405)</b>	<b>(159,562)</b>	<b>(61,258)</b>	<b>(177,353)</b>	<b>(35,157)</b>	<b>1,325,510</b>	<b>(134,442)</b>
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**CONSOLIDATED SCHEDULE  
OF SEGMENT DISCLOSURE**

*[dollars in thousands]*

For the year ended December 31, 2007

	General government	Protection	Transportation	Environmental services	Health services	Social services	Social housing	Recreation and culture	Planning and development	Other	Total
Taxes	-	-	-	-	-	-	-	-	-	1,143,891	1,143,891
Fees and surcharges	13,904	54,594	151,884	223,386	517	19,077	61,486	41,011	8,203	13,364	587,426
Government grants	23,083	9,988	85,780	11,527	59,361	233,507	59,214	5,290	581	17,432	505,763
Fines and penalties	1,115	10,729	-	-	-	-	-	1,423	-	9,795	23,062
Development charges	-	351	40,181	22,397	67	1,368	-	10,566	566	965	76,461
Other	(449)	317	1,527	286	-	-	2,333	1,599	388	56,831	62,832
<b>Total revenues</b>	<b>37,653</b>	<b>75,979</b>	<b>279,372</b>	<b>257,596</b>	<b>59,945</b>	<b>253,952</b>	<b>123,033</b>	<b>59,889</b>	<b>9,738</b>	<b>1,242,278</b>	<b>2,399,435</b>
<b>EXPENDITURES</b>											
Salaries and benefits	58,121	340,670	281,202	53,583	87,930	116,763	30,266	132,174	29,397	-	1,130,106
Contracts and general services	38,697	12,648	104,115	173,554	2,565	6,492	1,230	24,800	11,292	-	375,393
Materials, equipment and supplies	23,526	44,686	195,779	41,686	15,007	62,428	60,624	47,844	6,365	-	497,945
Interest charges	6,719	2,381	19,345	9,235	1,280	3,510	12,682	3,570	2,865	-	61,587
Rent and financial expenses	12,655	583	35,127	283	450	3,200	2,853	3,391	31	-	58,573
External transfers	523	6,573	(1,004)	416	50	230,641	64,227	7,333	3,088	-	311,847
Internal transfers	3,209	(4,262)	(8,337)	5,583	(2,291)	2,456	921	3,385	(664)	-	0
<b>Total expenditures</b>	<b>143,450</b>	<b>403,279</b>	<b>626,227</b>	<b>284,340</b>	<b>104,991</b>	<b>425,490</b>	<b>172,803</b>	<b>222,497</b>	<b>52,374</b>	<b>0</b>	<b>2,435,451</b>
<b>NET EXPENDITURES</b>	<b>(105,797)</b>	<b>(327,300)</b>	<b>(346,855)</b>	<b>(26,744)</b>	<b>(45,046)</b>	<b>(171,538)</b>	<b>(49,770)</b>	<b>(162,608)</b>	<b>(42,636)</b>	<b>1,242,278</b>	<b>(36,016)</b>

## ANALYSIS OF CONSOLIDATED OPERATING FUND

*[dollars in thousands]*

For the year ended December 31

	2008 Budget <i>[unaudited]</i> \$	2008 Actual \$	2007 Actual \$
<b>EXPENDITURES</b>			
General government			
Council	14,461	<b>13,561</b>	14,223
Administration	70,678	<b>74,968</b>	75,025
Ontario property assessment	10,810	<b>10,880</b>	10,443
	95,949	<b>99,409</b>	99,691
Protection to persons and property			
Fire	124,030	<b>129,508</b>	122,080
Police	214,927	<b>216,644</b>	211,029
Other protective services	57,438	<b>55,078</b>	51,746
	396,395	<b>401,230</b>	384,855
Transportation			
Roads, traffic and parking	187,641	<b>210,795</b>	178,877
Transit	317,215	<b>318,285</b>	286,059
	504,856	<b>529,080</b>	464,936
Environmental services			
Water supply and distribution	51,473	<b>48,565</b>	42,971
Wastewater treatment	54,242	<b>54,065</b>	49,089
Waste and recycling services	54,749	<b>53,453</b>	45,627
	160,464	<b>156,083</b>	137,687
Health services			
Paramedic services	58,711	<b>57,051</b>	55,153
Public health services	49,314	<b>49,503</b>	47,163
	108,025	<b>106,554</b>	102,316
Social and family services			
Social assistance	271,833	<b>256,789</b>	272,996
Long-term care	53,678	<b>55,074</b>	55,025
Child care assistance	93,301	<b>93,726</b>	93,285
	418,812	<b>405,589</b>	421,306
Social housing			
	149,138	<b>150,716</b>	139,733
Recreation and cultural services			
Parks, recreation and culture	154,080	<b>160,667</b>	150,042
Libraries	41,317	<b>42,148</b>	41,807
	195,397	<b>202,815</b>	191,849
Planning and development			
	40,565	<b>36,694</b>	44,066
<b>Total Expenditures [Note 16]</b>	<b>2,069,601</b>	<b>2,088,170</b>	1,986,439

*The accompanying notes are an integral part of these consolidated financial statements.*



## ANALYSIS OF CONSOLIDATED OPERATING FUND

*[dollars in thousands]*

For the year ended December 31

	2008 Budget <i>[unaudited]</i> \$	2008 Actual \$	2007 Actual \$
<b>REVENUES</b>			
Taxes available for municipal purposes <i>[Note 15]</i>	1,214,771	<b>1,229,794</b>	1,143,891
Fees and user charges	618,624	<b>617,997</b>	587,426
Government grants	406,875	<b>395,704</b>	418,273
Investment income	30,441	<b>34,582</b>	35,090
Fines and penalties	24,662	<b>23,797</b>	23,062
Development charges	964	<b>965</b>	965
Other revenue	9,053	<b>4,761</b>	6,610
<b>Total revenues</b>	<b>2,305,390</b>	<b>2,307,600</b>	2,215,317
<b>NET REVENUES FOR THE YEAR</b>	<b>235,789</b>	<b>219,430</b>	228,878
<b>FINANCING AND TRANSFERS</b>			
Debt principal repayments	(50,948)	<b>(52,783)</b>	(53,696)
Interest earned on sinking funds	(7,460)	<b>(7,457)</b>	(8,838)
Transfer from reserves and reserve funds	46,537	<b>76,417</b>	50,712
Transfer to reserves and reserve funds	(267,854)	<b>(293,638)</b>	(275,399)
Transfer to capital fund	(4,818)	<b>(5,023)</b>	(4,699)
Dividends from Hydro Ottawa Holding Inc.	14,000	<b>28,375</b>	12,000
Change in employee benefits	22,612	<b>22,612</b>	50,559
Change in accrued interest on debt	1,760	<b>1,767</b>	(1,386)
Change in landfill closure and post-closure liability	2,640	<b>2,641</b>	(1,341)
Change in liability claims	4,948	<b>4,948</b>	5,165
Other obligations to be recovered in future years	(2,206)	<b>(2,207)</b>	(3,364)
<b>Total financing and transfers</b>	<b>(240,789)</b>	<b>(224,348)</b>	(230,287)
<b>Increase in non-financial assets</b>	<b>5,000</b>	<b>5,009</b>	1,552
Change in operating fund balance	-	<b>91</b>	143
Fund balance at the beginning of the year	-	<b>(10,099)</b>	(10,242)
<b>Fund balance at the end of the year</b>	<b>-</b>	<b>(10,008)</b>	(10,099)

*The accompanying notes are an integral part of these consolidated financial statements.*

## ANALYSIS OF CONSOLIDATED CAPITAL FUND

*[dollars in thousands]*

For the year ended December 31

	2008 Actual	2007 Actual
	\$	\$
<b>EXPENDITURES</b>		
General government	32,782	43,759
Protection to persons and property		
Fire	9,685	6,755
Police	11,301	9,412
Other protective services	5,435	2,257
	<b>26,421</b>	<b>18,424</b>
Transportation		
Roads, traffic and parking	112,999	73,936
Transit	99,091	87,355
	<b>212,090</b>	<b>161,291</b>
Environmental services		
Water supply and distribution	70,791	62,075
Wastewater treatment	83,479	70,471
Waste and recycling services	9,297	14,107
	<b>163,567</b>	<b>146,653</b>
Health services		
Paramedic services	10,529	2,264
Public health services	-	411
	<b>10,529</b>	<b>2,675</b>
Social and family services		
Social assistance	102	31
Long-term care	355	687
Child care assistance	3,035	3,466
	<b>3,492</b>	<b>4,184</b>
Social housing	33,805	33,070
Recreation and cultural services		
Parks, recreation and culture	31,574	29,035
Libraries	2,894	1,613
	<b>34,468</b>	<b>30,648</b>
Planning and development	7,680	8,308
<b>Total Expenditures</b>	<b>524,834</b>	<b>449,012</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**ANALYSIS OF CONSOLIDATED  
CAPITAL FUND**

*[dollars in thousands]*

For the year ended December 31

	2008 Actual \$	2007 Actual \$
<b>REVENUES</b>		
Government grants	75,244	87,490
Development charges	70,875	75,496
Other revenue	6,959	3,603
<b>Total Revenues</b>	<b>153,078</b>	166,589
<b>NET EXPENDITURES FOR THE YEAR</b>	<b>(371,756)</b>	(282,423)
<b>FINANCING AND TRANSFERS</b>		
New debt issued	141,834	206
Transfer from reserves and reserve funds	277,986	208,905
Transfer from operating fund	5,023	4,699
<b>Total financing and transfers</b>	<b>424,843</b>	213,810
Change in capital fund balance	53,087	(68,613)
Fund balance at the beginning of the year	60,565	129,178
<b>Fund balance at the end of the year</b>	<b>113,652</b>	60,565

*The accompanying notes are an integral part of these consolidated financial statements.*

## ANALYSIS OF CONSOLIDATED RESERVES AND RESERVE FUNDS

*[dollars in thousands]*

For the year ended December 31

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUES</b>		
Investment income	15,526	16,859
Other revenue	2,358	670
<b>Total revenues</b>	<b>17,884</b>	<b>17,529</b>
<b>FINANCING AND TRANSFERS</b>		
Transfer from operating fund	293,638	275,399
Transfer to operating fund	(76,417)	(50,712)
Transfer to capital fund	(277,986)	(208,905)
<b>Total financing and transfers</b>	<b>(60,765)</b>	<b>15,782</b>
<b>Change in reserves and reserve fund balance</b>	<b>(42,881)</b>	<b>33,311</b>
Fund balance at the beginning of the year	457,647	424,336
<b>Fund balance at the end of the year</b>	<b>414,766</b>	<b>457,647</b>

As at December 31

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Reserves</b>	<b>14,721</b>	<b>25,934</b>
<b>Reserve funds</b>		
Endowment fund	211,337	203,827
Capital expenditures	159,521	196,503
Equipment replacement	14,405	18,862
Employee benefits	5,762	6,054
Other	9,020	6,467
<b>Total reserve funds</b>	<b>400,045</b>	<b>431,713</b>
<b>Total reserves and reserve funds</b>	<b>414,766</b>	<b>457,647</b>

**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.

As at December 31

	2008	2007
	\$	\$
<b>Financial position</b>		
Financial assets	5,138	3,978
Non-financial assets	111	-
Financial liabilities	(11,559)	(11,087)
<b>Net liabilities</b>	<b>(6,310)</b>	<b>(7,109)</b>
Operating fund		
Capital fund	2,509	1,584
Reserve fund	823	663
Fund balance	3,332	2,247
Amounts to be recovered in future years	(9,642)	(9,356)
<b>Municipal position</b>	<b>(6,310)</b>	<b>(7,109)</b>

For the year ended December 31

	2008	2007
	\$	\$
<b>Financial activities</b>		
Revenues		
City of Ottawa	35,041	32,381
Province of Ontario – Ministry of Culture	1,380	1,380
Other	3,581	4,523
	<b>40,002</b>	<b>38,284</b>
Operating expenditures	(37,610)	(36,583)
Capital expenditures	(1,593)	(1,563)
Obligations to be funded in future years	286	1,392
	<b>(38,917)</b>	<b>(36,754)</b>
Change in fund balance during the year	1,085	1,530
Fund balance beginning of the year	2,247	717
<b>Fund balance, end of the year</b>	<b>3,332</b>	<b>2,247</b>

# The City of Ottawa

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2008

### 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, garbage and recycling.

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.

### 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 precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates, which have been made using careful judgment.

#### Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures of the operating fund, capital fund, reserves and reserve funds, and include the activities of all committees of council, and the following boards:

The Police Services Board	The Carp Village Business Improvement Area
The Ottawa Public Library Board	The Vanier Business Improvement Area
The Ottawa Community Housing Corporation	The Manotick Business Improvement Area
The Ottawa-Nepean Campsite Authority	The Sparks Street Mall Authority
The Bank Street Business Improvement Area	The Somerset Village Business Improvement Area
The Westboro Business Improvement Area	The Preston Street Business Improvement Area
The Sparks Street Business Improvement Area	The Byward Market Business Improvement Area
The Somerset Street Chinatown Business Improvement Area	The Rideau Business Improvement Area
Glebe Business Improvement Area	The Barrhaven Business Improvement Area
	Wellington West Business Improvement Area

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

Condensed supplementary information for the Ottawa Public Library Board is provided in schedule 5.

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

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2008

those of the City, and inter-organizational transactions and balances are not eliminated. Subsidiary corporations accounted for in this manner are:

Pine View Municipal Golf Course  
Hydro Ottawa Holding Inc. and its subsidiaries

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. Trust funds administered by the City for the benefit of external parties are reported in note 21 and are included in the City's consolidated statement of financial position. The remaining assets, liabilities and results of operations of the Trusts are not consolidated.

#### **School boards**

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

#### **Basis of accounting**

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenditures 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 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. 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 \$1,050,000 in property tax revenues for municipal purposes. A further \$460,000 in provincial education taxes are billed and collected each year on behalf of the Province of Ontario (the "Province") for education purposes. 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

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2008

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.

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 short-term investments, 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 short-term investments**

Cash and short-term investments include cash on hand and all highly liquid investments with remaining maturities of 90 days or less as at the consolidated statement of financial position date.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[dollars in thousands]*

December 31, 2008

**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 Ottawa Community Housing Corporation are carried at cost and only written down when there has been a permanent impairment to the carrying value. Investments maturing less than or equal to 90 days are classified as short-term investments on the consolidated statement of financial position.

**Environmental provisions**

The City provides for the cost of compliance with environmental legislation when conditions are identified which indicate non-compliance with environmental legislation and costs can be reasonably determined. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation.

**Deferred revenue**

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the completion of specific work. In addition, certain user charges and fees are collected but for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenditures are incurred or services performed.

**Government transfers**

Government transfers relate to the social services and housing programs and are recognized in the consolidated financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

**Inventories**

Inventories are recorded at the lower of cost and replacement cost.

**Capital assets**

The historical cost and accumulated depreciation of capital assets are not recorded for municipal purposes. Capital assets are reported as an expenditure on the consolidated statement of financial activities in the year of acquisition.

**Employee benefit plans**

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

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2008

- [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 pensions and other 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; and
- [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 settlements or curtailments are expensed in the period 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 contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due.
- [e] 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.

#### **Landfill closure and post-closure liabilities**

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

#### **Reserves and reserve funds**

Reserves and reserve funds comprise funds set aside for specific purposes by Council [see schedule 4].

According to the investment policy for the Endowment Fund adopted by City Council, investment earnings are paid to the City at the lessor 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.

#### **Future accounting changes**

Tangible capital assets are significant economic resources managed by the City and a key component of cost in the delivery of many City programs and services. Tangible capital assets include diverse items such as roads, buildings, vehicles, equipment, land, water and other utility systems, computer hardware and software, dams, canals and bridges.

In 2008 tangible capital assets were reported as an expenditure on the consolidated statement of financial activities in the year of acquisition. Effective for the fiscal year beginning January 1, 2009 the Public Sector Accounting Board (PSAB) will require the City and all other municipalities in Canada to adopt new disclosure rules for tangible capital assets. Public Sector Guideline -7 (PSG-7) requires that

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2008

the City recognize tangible capital assets on the consolidated statement of financial position and any amortization, gains or losses on disposal and impairment on the consolidated statement of financial activities. The City has created and implemented a strategy to address the change in the accounting policy, which will address the requirements of retroactive application of new disclosure upon its adoption on January 1, 2009.

#### 3. INVESTMENTS

Investments are comprised of:

	Cost		Market Value	
	2008	2007	2008	2007
	\$	\$	\$	\$
City of Ottawa debentures	42,710	38,265	44,993	39,685
Federal government	169,409	119,172	175,797	120,681
Provincial government	86,862	81,756	92,392	84,300
Municipal government	117,786	116,698	123,463	117,798
Banks	72,983	54,738	73,955	54,259
Endowment	210,750	202,831	176,872	202,744
OCHC securities*	37,820	36,875	30,180	36,875
Other	34,395	44,647	34,536	43,957
	<b>772,715</b>	<b>694,982</b>	<b>752,188</b>	<b>700,299</b>

\* Corporate bonds, common and foreign stock held for the Ottawa Community Housing Corporation

The weighted average yield on investments held as at December 31, 2008 is 4.36% [2007 - 4.68%]. Investments mature from April 30, 2009 to March 8, 2029 [2007 - April 17, 2008 to March 8, 2029].

#### 4. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES

Investments are comprised of:

	Net Assets		Share of Income	
	2008	2007	2008	2007
	\$	\$	\$	\$
Pine View Municipal Golf Course	(362)	(525)	163	7
Hydro Ottawa Holding Inc.	317,732	297,514	48,593	27,291
	<b>317,370</b>	<b>296,989</b>	<b>48,756</b>	<b>27,298</b>

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

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

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2008

As at December 31

	2008	2007
	\$	\$
<b>Financial position</b>		
Current assets	135	103
Capital assets	1,400	1,525
<b>Total assets</b>	<b>1,535</b>	<b>1,628</b>
Current liabilities	95	70
Cash advanced by the City of Ottawa	1,802	2,083
<b>Total liabilities</b>	<b>1,897</b>	<b>2,153</b>
<b>Net assets</b>	<b>(362)</b>	<b>(525)</b>

For the year ended December 31

<b>Results of operations</b>		
Total revenues	1,881	1,686
Total expenses	1,718	1,679
<b>Net income (loss)</b>	<b>163</b>	<b>7</b>

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

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

As at December 31

	2008	2007
	\$	\$
<b>Financial position</b>		
Current assets	157,775	151,959
Capital assets	530,546	513,291
Other assets	15,014	45,542
<b>Total assets</b>	<b>703,335</b>	<b>710,792</b>
Current liabilities	116,197	140,463
Other	269,406	272,815
<b>Total liabilities</b>	<b>385,603</b>	<b>413,278</b>
<b>Net assets</b>	<b>317,732</b>	<b>297,514</b>

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2008

	2008	2007
	\$	\$
Net assets consist of:		
Investment in Hydro Ottawa Holding Inc.		
Common shares [100%]	228,453	228,453
Retained earnings	89,279	69,061
<b>Net assets</b>	<b>317,732</b>	<b>297,514</b>

For the year ended December 31

#### Results of operations

Total revenues	697,760	685,614
Total expenses	649,167	658,323
<b>Net income</b>	<b>48,593</b>	<b>27,291</b>

The City, as holder of common shares in Hydro Ottawa Holding Inc. is entitled to receive dividends related to 2008 operations as declared by Hydro Ottawa Holding Inc. Board.

Dividends in the amount of \$28,375 [2007 - \$12,000] were received in 2008 related to 2007 operations.

For the year ended December 31, 2008, Hydro Ottawa Holding Inc. earned revenues related to sale of electricity, telecommunications products and services, energy management consulting and other services in the amount of \$30,909 [2007 - \$29,210] to the City. Certain services mainly related to water and sewer charges, fuel and permits were purchased from the City in the amount of \$687 [2007 - \$1,037], property taxes in the amount of \$1,731 [2007 - \$1,693] and royalties in the amount of \$119 [2007 - \$120].

Hydro Ottawa Holding Inc. paid the City of Ottawa \$291 [2007 - nil] in support of its conservation and demand management initiatives.

As at December 31, 2008 Hydro Ottawa Holding Inc. had \$2,337 [2007 - \$2,939] due from the City of Ottawa and \$94 [2007 - \$764] 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. PREPAID EXPENSES

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

	2008	2007
	\$	\$
Prepaid welfare entitlements	6,155	5,700
Other prepaid expenses	5,894	4,617
	<b>12,049</b>	<b>10,317</b>

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2008

Prepaid welfare entitlements represent the advance payment of January benefit entitlements in the month of December. Of this amount, the Province of Ontario funds 80%.

#### 6. SHORT-TERM LOAN

The City has entered into an agreement with Infrastructure Ontario for up to \$45,700 in long-term loans to be issued in future years for bridge, water and wastewater projects. The City had short-term construction loans outstanding in the amount of \$29,657 under this loan facility as at December 31, 2007. During 2008 this short-term loan was converted to a long-term debenture [Note 10] and the balance outstanding under the short-term loan has been reduced to nil.

#### 7. DEFERRED REVENUE

Deferred revenue, set aside for specific purposes by legislation, regulation or agreement as at December 31 is comprised of:

	2008	2007
	\$	\$
Development charges	396,893	353,175
Investment in Ontario Act	77,243	-
Gas tax	54,206	47,476
Municipal Infrastructure Investment Initiative	19,815	-
Other deferred revenue	68,514	46,451
Cash in lieu of parkland	16,965	12,950
Cash in lieu of parking	4,913	4,449
<b>Total deferred revenue</b>	<b>638,549</b>	<b>464,501</b>

#### 8. EMPLOYEE BENEFITS AND PENSION AGREEMENTS

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

[a] Employee benefits

Employee benefit liabilities are reported net of amounts funded by the City. The funded portion of employee benefit liabilities represents the cumulative operating expense that has been recorded in the statement of operations and recorded as accounts payable and accrued liabilities on the consolidated statement of financial position. Employee benefit liabilities of the City as at December 31 are as follows:

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2008

	2008			2007		
	Gross	Funded	Unfunded	Gross	Funded	Unfunded
	\$	\$	\$	\$	\$	\$
Post-retirement benefits	158,611	(2,059)	156,552	153,154	(1,928)	151,226
Post-employment benefits	114,450	(22,086)	92,364	98,843	(14,941)	83,902
WSIB	66,091	-	66,091	56,980	-	56,980
Vacation leave	35,948	(24,580)	11,368	42,854	(31,199)	11,655
	<b>375,100</b>	<b>(48,725)</b>	<b>326,375</b>	<b>351,831</b>	<b>(48,068)</b>	<b>303,763</b>

The defined benefit plans relating to post-retirement and post-employment provide a variety of benefits to retirees, active and long-term disabled employees, including income, medical, dental, life insurance, workers' compensation and sick leave gratuity 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 continuity for post-retirement and post-employment benefits for 2008 is as follows:

	Post-retirement	Post-employment	Total
	\$	\$	\$
<b>Balance, at the beginning of the year</b>	153,154	98,843	251,997
Current service costs/cost of new claims	5,186	22,276	27,462
Interest cost	7,255	4,948	12,203
Benefits paid	(6,984)	(11,617)	(18,601)
<b>Balance, at the end of the year</b>	<b>158,611</b>	<b>114,450</b>	<b>273,061</b>

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, 2007 for post-retirement benefits and post-employment sick leave/severance; as at September 30, 2008 for post-employment continuation of benefits for employees on long-term disability and self-insured long-term disability benefits and as at December 31, 2008 for pension supplementation benefits. Valuations were extrapolated to December 31, 2008 where necessary in order to determine the costs of the plan for the fiscal year ended December 31, 2008.

In 2008, a gain of \$26,585 was generated due to changes to certain assumptions and to corrections and clarifications to plan design information previously provided by the City. This gain will be amortized over the expected average remaining service life of the related employee group in 2009.

Many of the estimates and assumptions used in 2008 may change significantly with the next detailed evaluation. 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 CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2008

	<b>2008</b>
Discount rate	5.25 %
Inflation rate	2.50 %
Salary increase rate	3.0 %
Health care inflation rate	8.5% grading down to 5% in 2017

  

	<b>2007</b>
Discount rate	4.75%
Inflation rate	2.5%
Salary increase rate	3.0 %
Health care inflation rate	9% initially, grading down to 5% in 2017

[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 2008 was \$62,175 [2007 - \$55,469] for current service and is included as an expenditure on the consolidated statement of financial activities. 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, 2008 was \$405 [2007 - \$353] and is included as an expenditure on the consolidated statement of financial activities.

[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, 2008, there were no active members and 851 pension recipients. As at December 31, 2007 there were no active members and 878 pension recipients. Pension payments during 2008 were \$23,712 [2007 - \$24,168]. No employee or matching employer contributions to this pension plan for current service or for past service were required in 2008 or 2007.

The latest going concern actuarial valuation was made as at December 31, 2007 with results extrapolated to December 31, 2008. The accrued benefit asset is as follows:

	<b>\$</b>
Pension fund assets - end of the year	259,650
Accrued benefit obligation - end of the year	251,879
<b>Accrued benefit asset</b>	<b>7,771</b>

The market value of the assets of the plan as at December 31, 2008 was \$213,917 [2007 - \$286,349].



## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2008

The actuarial valuation was based on a number of assumptions that reflect the City's best estimates. Inflation rate was estimated at 2.2% [2007 – 2.5%] and the gross rate of return for the plan was estimated at 5.5% [2007 – 6.0%].

The accrued benefit asset of the above plan has not been reflected on the consolidated statement of financial position, as the City will not realize any future benefit from this asset.

The City is committed to provide an increase in indexation from 90% of inflation in 2008, to 100% of inflation in 2010, an increase of 5% for each of the next two years to the extent that COSF fund assets are not sufficient to cover this indexation. The cost of this indexation is expected to be approximately \$10,373 with the assumption that indexation will stop after the January 1, 2011 cost of living adjustment.

#### [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 2008 were \$19,227 [2007 - \$17,497]. No employee or matching employer contributions to this pension plan for current service were required in 2008 or 2007.

The latest going concern actuarial valuation was made as of January 1, 2008. The accrued pension asset is as follows:

Pension fund assets - end of the year	489,598
Accrued benefit obligation - end of the year	470,525
<b>Accrued benefit asset</b>	<b>19,073</b>

The market value of the assets of the plan as at December 31, 2008 was \$421,218 [2007 - \$507,960].

The actuarial valuation was based on a number of assumptions that reflect the City's best estimates. Pension indexation rate was estimated at 3.00% [2007 – 2.25%], the gross rate of return for the plan was estimated at 5.50% [2007 – 3.40%] and total salary increases were estimated at 3.50% [2007 – 3.25%].

The accrued benefit asset of the above plan has not been reflected on the consolidated statement of financial position, as the City will not realize any future benefit from this asset.

## 9. 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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[dollars in thousands]*

December 31, 2008

December 31, 2008, the remaining capacity of the Trail Road site is approximately 8,150,000 [2007 - 8,893,324] cubic metres, all of which is expected to be used by the year 2025. A Site Optimization/Expansion Environmental Assessment for Trail Road was approved in 2005, which increased the capacity of the Trail Road landfill and will therefore extend the life [capacity] of the landfill from the year 2009 to the year 2025. The remaining capacity at the Springhill site is approximately 729,389 [2007 - 887,554] cubic metres, which is expected to be used by the year 2019.

Closure for the Trail Road Landfill and Springhill will involve covering the site, implementing drainage control, 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 5.25% [2007 - 4.75%] as well as considering an annual CPI inflation rate of 2.25% [2007 - 2.12%] [annual average of the last 10 years]. This estimate amounts to \$14,631 at December 31, 2008 [2007 - \$11,418] 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 \$943 [2007 - \$371] of this liability. The funded amount is included in accounts payable and accrued liabilities on the consolidated statement of financial position.

Estimated total expenditures over the 25-year post-closure period are approximately \$42,788.

**10. NET LONG-TERM DEBT**

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

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Debt		
Debt issued at various rates of interest ranging from 2.41% to 10.75% with maturity dates ranging from May 31, 2009 to November 3, 2028	<b>735,338</b>	634,023
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	<b>(193,826)</b>	(177,145)
	<b>541,512</b>	456,878
Public Private Partnership debt <i>[see 10 [c]]</i>	<b>11,719</b>	12,150
	<b>553,231</b>	469,028

On January 17, 2008 the City issued \$100,000 fully amortizing debentures (\$75,000 payable over twenty years and \$25,000 payable over eighteen years) at a combined effective yield of 4.935%. The proceeds were used to finance various capital works including transportation services, roads, bus purchases, police and fire facilities, bridge modifications, a recreation facility and improvements to the waterworks system. In addition the City issued a debenture to Infrastructure Ontario on November 3, 2008 in the amount of \$33,844 payable over twenty years with interest at 2.87%. The proceeds were used to repay a short-term loan (see Note 6) and to provide long-term financing for various bridge and road reconstruction projects,

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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expansion to the wastewater treatment facility and improvements to the Lemieux Island transmission facility.

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

	\$
2009	46,908
2010	48,207
2011	50,037
2012	39,904
2013	29,194
2014 and thereafter	312,389
	<b>526,639</b>

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 \$26,592, which together with the \$526,639 shown above, will be used to retire the outstanding total debt of \$553,231.

[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 5.92% and is in place until the debt matures in 2025. As at December 31, 2008, the fair value of the interest rate derivative agreement was (\$ 3,036). The net long-term debt outstanding as at December 31, 2008 related to this Public Private Partnership agreement is \$11,719 [2007 - \$12,150].

[d] In addition to the direct loan set out above, 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 the 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 2025 to 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.

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**11. MORTGAGES PAYABLE**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Mortgages payable on housing properties at various interest rates ranging from 3.16% to 8.0% guaranteed by the Canada Mortgage and Housing Corporation with maturity dates ranging from August 1, 2009 to February 1, 2029	<b>219,448</b>	228,149
Forgivable loans related to Canada Ontario Affordable Housing Program and the Residential Rehabilitation Assistance Program	<b>2,068</b>	2,114
	<b>221,516</b>	230,263

[a] Public housing debentures issued by Canada Mortgage and Housing Corporation in the amount of \$79,913 [2007 - \$84,618] included in the Ottawa Community Housing Corporation ["OCHC"] have not been included in these consolidated financial statements as they are the responsibility of the Province of Ontario.

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. Properties owned by OCHC with a net book value of approximately \$221,516 [2007 - \$230,263] pledged as collateral for the mortgages and forgivable loans, have not been reflected in the consolidated statement of financial position.

[b] Principal repayments in future years are:

	\$
2009	9,292
2010	9,858
2011	10,396
2012	10,906
2013	11,391
2014 and thereafter	169,673
	<b>221,516</b>

**12. CAPITAL LEASE OBLIGATIONS**

The City leases an administrative office building and Paramedic Services headquarters building as detailed below:

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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	<b>Office Building</b>	<b>Paramedic Services Building</b>
Lease term	24 years	30 years
Interest rate	6.0%	5.79%
Purchase option	\$10,000	nil

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

	<b>Office Building</b>		<b>Paramedic Services Building</b>		<b>Total</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
	\$	\$	\$	\$	\$	\$
2009	1,434	3,720	379	1,219	1,813	4,939
2010	1,520	3,634	400	1,197	1,920	4,831
2011	1,611	3,543	423	1,174	2,034	4,717
2012	1,708	3,447	447	1,150	2,155	4,597
2013	1,810	3,344	471	1,124	2,281	4,468
Thereafter	59,079	25,085	20,524	14,200	79,603	39,285
	<u>67,162</u>	<u>42,773</u>	<u>22,644</u>	<u>20,064</u>	<u>89,806</u>	<u>62,837</u>

**13. 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 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.

[b] On June 6, 2007, the City was served with a Statement of Claim in the Ontario Superior Court of Justice by Siemens Canada Limited, PCL Constructors Canada Inc. and the Ottawa LRT Corp. alleging breach of contract and other duties. The plaintiff seeks damages in excess of \$177,000. At this time, in management's opinion, the amount of any damages which the City might be required to pay is not reasonably estimable; as such, no amount has been accrued as at December 31, 2008.

On September 14, 2007, the City was served with a Statement of Claim in the Ontario Superior Court of Justice by St. Lawrence Cement Inc. alleging breach of obligations. The plaintiff seeks damages in excess of \$40,500. At this time, in management's opinion, the amount of any damages which the City might be required to pay is not reasonably estimable; as such, no amount has been accrued as at December 31, 2008.

[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

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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.

On April 22, 2004, the Supreme Court of Canada released a decision in the Enbridge Gas Distribution Inc. (“EGD”) case, a case in which the Company is not a party to however the issues are analogous. The Supreme Court rejected all of the defences, which had been raised by EGD, however it did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by EGD, which were approved by the Ontario Superior Court. In 2007, EGD filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved the recovery of the amounts from ratepayers over a five-year period.

It is anticipated that the plaintiffs in the LDC late payment penalties class action will proceed with their litigation against LDCs in light of the settlement in the EGD case. The Defendants may have defences available that were not raised in the EGD case. Also, given the preliminary status of these actions and that the amount of impermissible interest included in the penalty payments received is not determinable, it is not possible at this time to quantify the effect on the financial statements of the City.

[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, 2008, Hydro Ottawa Holding Inc. had drawn letters of credit of \$11,738 (2007 – \$11,738) against its credit facility to cover its prudential support obligation. In addition, Hydro Ottawa Holding Inc. provided bank letters of credit of \$93 [2007 - \$108] 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 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 in which they occur.

[f] Hydro Ottawa Holding Inc. is subject to environmental regulatory requirements related to the removal and destruction of polychlorinated biphenyls (“PCBs”) in distribution transformers and other clean up related to PCBs. Federal PCB Regulatory Framework under the Canadian Environmental Protection Act, 1999 requires that certain equipment containing PCBs be removed from service by December 31, 2009 and December 31, 2025 depending on equipment concentration and physical location. This legislation will result in approximately \$1,600 being spent in 2009. This cost does not necessarily represent an incremental cost to Hydro Ottawa Holding Inc. as certain assets would be replaced as part of Hydro Ottawa Holding Inc.’s regular asset management program. An asset retirement obligation has not been recorded in these consolidated statements because the obligation to meet the December 31, 2009 requirements is not considered material, and all future asset retirement obligations cannot be reasonably estimated at this time as some uncertainty exists around the identification, final removal dates and costs of removal of the related assets.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[g] Telecom Ottawa sold the shares of its subsidiaries during the year. Part of this transaction included Hydro Ottawa Holding Inc. posting a three-year guarantee for Telecom Ottawa's obligation for claims arising from breaches of representations or warranties. Claims are subject to exceeding a \$630 threshold to a maximum of \$10,000. Management assesses that there is minimal risk that a claim of this magnitude will transpire.

[h] The City has commitments on capital projects at December 31, 2008 in the amount of \$138,615 [2007 - \$110,186].

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

	\$
2009	14,572
2010	14,271
2011	13,462
2012	12,138
2013	11,576

[j] As at December 31, 2008, Hydro Ottawa Holding Inc. has \$47,112 in total open commitments for 2009 of which \$33,647 are for 2009, \$7,633 for 2010, \$2,034 for 2011, \$1,818 for 2012 and \$1,980 for 2013 [as at December 31, 2007, \$30,302 in total open commitments of which \$22,031 were for 2008, \$4,806 for 2009 and \$3,465 for 2010]. This includes a customer information system services agreement, an arrangement to provide call centre services, purchase and installation of smart meters, meter reading services and overhead and underground services.

[k] The City has commitments for the purchase of ice rental time in the amount of \$3,493 and \$11,981 in accordance with two Public Private Partnership Agreements. These commitments are set to expire in 2027 and 2034 respectively.

#### 14. AMOUNTS TO BE RECOVERED IN FUTURE YEARS

The amounts to be recovered in future years reported on the consolidated statement of financial position are comprised of:

	2008	2007
	\$	\$
Net long-term debt	553,231	469,028
Mortgages payable	221,516	230,263
Employee benefits	326,375	303,763
Capital lease obligations	89,806	83,668
Accrued interest on debt	14,321	12,554
Legal liability claims	22,619	17,671
Landfill closure and post-closure liabilities	13,688	11,047
Other	7,641	9,848
	<b>1,249,197</b>	<b>1,137,842</b>

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**15. TAXES AVAILABLE FOR MUNICIPAL PURPOSES:**

Property taxes	<b>1,509,075</b>	1,418,774
Payment in lieu of taxes	<b>174,884</b>	168,549
Local improvements and other charges	<b>5,513</b>	4,817
Less education taxes	<b>(459,678)</b>	(448,249)
<b>Taxes available for municipal purposes</b>	<b>1,229,794</b>	1,143,891

**16. OPERATING EXPENDITURES BY OBJECT:**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Salaries, wages and employee benefits	<b>1,176,349</b>	1,130,106
Contracted and general services	<b>108,281</b>	96,224
Materials, equipment and supplies	<b>410,713</b>	361,897
Interest charges	<b>64,633</b>	61,587
Rent and financial expenses	<b>56,411</b>	59,346
Third-party social, cultural and recreation programs	<b>297,421</b>	303,511
Expenditures recovered from capital	<b>(25,638)</b>	(26,232)
	<b>2,088,170</b>	1,986,439

**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 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 of life and property, maintaining law enforcements, and preserving peace and good order.



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- Transportation includes transit, roads, traffic and parking services. Transit services provide local public transportation for citizens. Other transportation services provide planning, development and maintenance of roads, parking, streetlights and parks of the City.
- 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 includes 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 child care 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 our community.
- Recreation and cultural services includes Parks, recreation, and culture and libraries. Parks and recreation services develop and deliver high quality recreational programs, develop and maintain recreation facilities, parks and sports-fields to ensure all residents have the opportunity to enjoy a healthy lifestyle. Cultural 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 manages urban development for residential and business interests as well as infrastructure and parks.
- Other includes revenues from net taxes, investment income, sale of land, shared lottery earnings, Ontario municipal partnership fund grants, fines and penalties from taxation and miscellaneous sundry revenues.

Program support costs for operating expenditures 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 of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The City has reserve funds for self-insurance, which at December 31, 2008 amounted to \$9,020. The City contributed \$2,786 [2007 - \$517] to these reserve funds from operations.

#### 19. BUDGET AMOUNTS

Budgets established for capital, reserves and reserve funds cover multiple fiscal years and, therefore, have not been shown on the consolidated financial statements.

#### 20. COMPARATIVE FIGURES

Certain comparative figures for 2007 have been reclassified to conform with the presentation adopted in 2008.

#### 21. TRUST FUNDS

Trust funds administered by the City amounting to \$8,049 (2007 - \$7,427) are included in the City's consolidated statement of financial position. The remaining assets, liabilities and results of operations of the Trusts are not consolidated. Trust fund balances as at December 31 are as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Ottawa Concert Music Hall	<b>6,564</b>	6,354
Library trust funds	<b>520</b>	428
Other trust funds	<b>965</b>	645
	<b>8,049</b>	7,427