

Financial Statements

City of Ottawa Sinking Fund
December 31, 2008

AUDITORS' REPORT

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

We have audited the statement of financial position of **The City of Ottawa Sinking Fund** as at December 31, 2008 and the fund balance statement of continuity and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Sinking Fund's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements present fairly, in all material respects, the financial position of **The City of Ottawa Sinking Fund** as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,
March 13, 2009.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

City of Ottawa Sinking Fund
Incorporated under the laws of Ontario

STATEMENT OF FINANCIAL POSITION

As at December 31

[in thousands]	2008	2007
	\$	\$
FINANCIAL ASSETS		
Cash	554	1,563
Cash equivalents	11,500	—
Investments [note 2]	182,209	173,760
Accrued interest	1,941	1,822
Total financial liabilities	196,204	177,145
FINANCIAL LIABILITIES AND FUND BALANCE		
Financial liabilities		
Accounts payable - contributors [note 4]	2,378	—
Actuarial requirements [note 3]	178,357	157,608
	180,735	157,608
Fund balance	15,469	19,537
Total financial liabilities and fund balance	196,204	177,145

See accompanying notes

City of Ottawa Sinking Fund

FUND BALANCE STATEMENT OF CONTINUITY

Year ended December 31

[in thousands]	2008 \$	2007 \$
Fund balance at the beginning of the year	<u>19,537</u>	<u>20,055</u>
Revenue		
Contribution - levies	9,222	10,472
Investment income	9,837	8,838
	<u>19,059</u>	<u>19,310</u>
Expenditures		
Provision for actuarial requirements	20,749	19,828
Refund to contributors	2,378	—
	<u>23,127</u>	<u>19,828</u>
Net change in fund balance	<u>(4,068)</u>	<u>(518)</u>
Fund balance at the end of the year	<u>15,469</u>	<u>19,537</u>

See accompanying notes

City of Ottawa Sinking Fund

STATEMENT OF CASH FLOWS

Year ended December 31

[in thousands]	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Excess of expenses over revenues for the year	(4,068)	(518)
Deduct non-cash items		
Amortization of discount on investments	(1,107)	(836)
	<u>(5,175)</u>	<u>(1,354)</u>
Changes in non-cash working capital balances related to operations		
Accrued interest	(119)	(88)
Accounts payable - contributors	2,378	(339)
Actuarial requirements	20,749	19,828
Cash provided by operating activities	<u>17,833</u>	<u>18,047</u>
INVESTING ACTIVITIES		
Purchases of investments	(39,974)	(37,315)
Proceeds from maturities of investments	25,179	15,441
Proceeds from sales of investments	7,453	—
Cash used in investment activities	<u>(7,342)</u>	<u>(21,874)</u>
Net increase in cash during the year	10,491	(3,827)
Cash and cash equivalents, beginning of year	1,563	5,390
Cash and cash equivalents, end of year	<u>12,054</u>	<u>1,563</u>
<i>See accompanying notes</i>		

City of Ottawa Sinking Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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 (PSAB) 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 revenue 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 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 revenue in the fund balance statement of continuity.

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 Paragraph 1 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.

City of Ottawa Sinking Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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 Section 409(12) of the Ontario Municipal Act, 2001.

2. INVESTMENTS AT AMORTIZED COST

Investments consist of securities issued or guaranteed by the following:

[in thousands]	2008 \$	2007 \$
Government of Canada	28,243	40,454
Provincial governments and agencies	55,676	48,455
Municipal governments		
City	37,394	38,480
Other municipalities	20,071	19,592
Other	40,825	26,779
Amortized cost	<u>182,209</u>	<u>173,760</u>
Par value	<u>196,807</u>	<u>187,382</u>
Market value	<u>192,576</u>	<u>179,124</u>

3. ACTUARIAL REQUIREMENTS AND INVESTMENTS FOR DEBENTURE RETIREMENT

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

[in thousands]	2008 \$	2007 \$
Balance at the beginning of the year	157,608	137,780
Provision for actuarial requirements	<u>20,749</u>	<u>19,828</u>
Balance at the end of the year	<u>178,357</u>	<u>157,608</u>

City of Ottawa Sinking Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

[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 prescribe the types of investments eligible for investment. Investments and Sinking Fund debenture commitments mature as follows:

	Par value investments and cash equivalents	Commitments at maturity	Actuarial requirements
[in thousands]	\$	\$	\$
2009	47,331	50,000	47,526
2010	18,841	—	—
2011	45,883	100,000	81,424
2012	25,240	50,000	28,002
2013	24,011	—	—
2014-2017	14,100	—	—
2018-2022	32,901	85,000	21,405
	208,307	285,000	178,357

The weighted average yield to maturity on par value of investments held by the Sinking Fund as at December 31, 2008 is 4.69%.

4. ACCOUNTS PAYABLE - CONTRIBUTORS

As of 31 December 2008, the value of the sinking fund account for by-law 126 of 1989 exceeded the amount required to meet the commitment when the by-law matures on May 31, 2009 by \$2,378. The excess amount will be distributed to the City during 2009 after approval by City council.

5. ADMINISTRATION COSTS

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