

Financial Statements

**City of Ottawa Sinking Fund**  
December 31, 2010

# 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 December 31, 2010 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 auditors 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 December 31, 2010 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,  
February 18, 2011.

*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]	<b>2010</b>	<b>2009</b>
	<u>\$</u>	<u>\$</u>
<b>FINANCIAL ASSETS</b>		
Cash	1,296	103
Cash equivalents	49,982	13,580
Investments <i>[note 2]</i>	125,885	146,052
Accrued interest	1,649	1,821
<b>Total financial assets</b>	<b><u>178,812</u></b>	<b><u>161,556</u></b>
<b>FINANCIAL LIABILITIES AND FUND BALANCE</b>		
<b>Financial liabilities</b>		
Accounts payable - contributors <i>[note 4]</i>	4,438	1,059
Actuarial requirements <i>[note 3]</i>	167,205	148,611
<b>Total financial liabilities</b>	<b><u>171,643</u></b>	<b><u>149,670</u></b>
<b>Fund balance</b>	<b><u>7,169</u></b>	<b><u>11,886</u></b>
<b>Total financial liabilities and fund balance</b>	<b><u>178,812</u></b>	<b><u>161,556</u></b>

*See accompanying notes*

## City of Ottawa Sinking Fund

### FUND BALANCE STATEMENT OF CONTINUITY

Year ended December 31

[in thousands]	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Fund balance at the beginning of the year</b>	<b>11,886</b>	15,469
<b>Revenue</b>		
Contribution - levies	9,222	9,222
Investment income	9,093	8,508
	<b>18,315</b>	17,730
<b>Expenditures</b>		
Provision for actuarial requirements	18,594	20,254
Refund to contributors	4,438	1,059
	<b>23,032</b>	21,313
<b>Net change in fund balance</b>	<b>(4,717)</b>	(3,583)
<b>Fund balance at the end of the year</b>	<b>7,169</b>	11,886

*See accompanying notes*

## City of Ottawa Sinking Fund

### STATEMENT OF CASH FLOWS

Year ended December 31

[in thousands]	<b>2010</b>	<b>2009</b>
	<u>\$</u>	<u>\$</u>
<b>OPERATING ACTIVITIES</b>		
Excess of expenditures over revenue for the year	(4,717)	(3,583)
Deduct non-cash item		
Amortization of discount on investments	(517)	(1,081)
	<u>(5,234)</u>	<u>(4,664)</u>
Changes in non-cash working capital balances related to operations		
Accrued interest	172	120
Accounts payable - contributors	3,379	(1,319)
Actuarial requirements	18,594	(29,746)
<b>Cash provided by (used in) operating activities</b>	<u>16,911</u>	<u>(35,609)</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	(68,116)	(72,164)
Proceeds from maturities of investments	62,390	103,808
Proceeds from sales of investments	26,410	5,594
<b>Cash provided by investment activities</b>	<u>20,684</u>	<u>37,238</u>
<b>Net increase in cash during the year</b>	<b>37,595</b>	<b>1,629</b>
Cash and cash equivalents, beginning of year	13,683	12,054
<b>Cash and cash equivalents, end of year</b>	<u>51,278</u>	<u>13,683</u>

*See accompanying notes*

## **City of Ottawa Sinking Fund**

# **NOTES TO FINANCIAL STATEMENTS**

December 31, 2010

### **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 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.

#### **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, 2010

#### 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 by the following:

[in thousands]	2010 \$	2009 \$
Government of Canada	24,038	26,283
Provincial governments and agencies	26,224	38,783
Municipal governments:		
City of Ottawa	34,711	35,664
Other municipalities	11,240	11,069
Other	29,672	34,253
<b>Amortized cost</b>	<b>125,885</b>	<b>146,052</b>
<b>Par value</b>	<b>137,215</b>	<b>159,082</b>
<b>Market value</b>	<b>130,319</b>	<b>153,574</b>

#### 3. ACTUARIAL REQUIREMENTS AND INVESTMENTS FOR DEBENTURE RETIREMENT

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

[in thousands]	2010 \$	2009 \$
<b>Balance at the beginning of the year</b>	<b>148,611</b>	178,357
Provision for actuarial requirements	18,594	20,254
Transfer of funds to meet debenture requirements	—	(50,000)
<b>Balance at the end of the year</b>	<b>167,205</b>	<b>148,611</b>

## City of Ottawa Sinking Fund

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010

[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:

[in thousands]	Par value of investments and cash equivalents \$	Commitments at maturity \$	Actuarial requirements \$
2011	114,238	100,000	96,229
2012	25,840	50,000	39,312
2013	4,311	—	—
2014	—	—	—
2015-2019	42,826	85,000	31,664
	<u>187,215</u>	<u>235,000</u>	<u>167,205</u>

The weighted average yield to maturity on par value of investments held by the Sinking Fund as at December 31, 2010 is 3.54% [2009 - 4.75%]. In addition to the above debenture commitments, two new sinking fund debentures were added in 2010 amounting to \$97,838 (By-law 2010-121 & By-law 2010-267) which do not require levy contributions until 2021.

#### 4. ACCOUNTS PAYABLE - CONTRIBUTORS

As at December 31, 2010, 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 matures on February 28, 2011 by \$4,438. The excess amount will be distributed to the City of Ottawa during 2011 after approval by City Council.

#### 5. ADMINISTRATIVE COSTS

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