

Financial Statements

City of Ottawa Sinking Fund

December 31, 2022

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of Council of the
City of Ottawa Sinking Fund

Opinion

We have audited the accompanying financial statements of the **City of Ottawa Sinking Fund** (the "Sinking Fund"), which comprise the statement of financial position as at December 31, 2022, and the statement of operations and changes in fund balance and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Sinking Fund as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Sinking Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, 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.

In preparing the financial statements, management is responsible for assessing the Sinking Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Sinking Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Sinking Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue

an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Sinking Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sinking Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Sinking Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ottawa, Canada
June 14, 2023

Chartered Professional Accountants
Licensed Public Accountants

CITY OF OTTAWA SINKING FUND

STATEMENT OF FINANCIAL POSITION

As at December 31, 2022, with comparative information for 2021 *[dollars in thousands]*

Financial assets	2022	2021
Cash	\$ 19,875	\$ 26,289
Investments at amortized cost <i>[note 2]</i>	244,983	160,117
Accrued interest	980	515
Total financial assets	265,838	186,921
Financial liabilities and fund balance		
Due to the City of Ottawa <i>[note 6]</i>	17,243	—
Actuarial requirements <i>[note 3]</i>	247,472	186,472
Total financial liabilities	264,715	186,472
Fund balance		
Fund balance	1,123	449
Total liabilities and fund balance	\$ 265,838	\$ 186,921

See accompanying notes

CITY OF OTTAWA SINKING FUND

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE

For the year ended December 31, 2022, with comparative information for 2021 [dollars in thousands]

Revenue	2022	2021
Contribution – levies [note 5]	\$54,673	\$ 49,548
Investment income	7,001	4,639
Total revenue	61,674	54,187
Expenditures		
Provision for actuarial requirements [note 3]	61,000	54,262
Total expenditures	61,000	54,262
Excess (deficiency) of revenue over expenditures for the year	674	(75)
Fund balance, beginning of year	449	524
Fund balance, end of year	\$1,123	\$ 449

See accompanying notes

CITY OF OTTAWA SINKING FUND

STATEMENT OF CASH FLOWS

For the year ended December 31, 2022, with comparative information for 2021 [dollars in thousands]

OPERATING ACTIVITIES	2022	2021
Excess (deficiency) of revenue over expenditures for the year	\$674	\$(75)
Add (deduct) items not affecting cash		
Actuarial requirements	61,000	54,262
Amortization of discount on investments	(1,952)	(1,209)
Changes in non-cash working capital balances related to operations		
Accrued interest	(465)	(112)
Due to the City of Ottawa	17,243	—
Cash provided by operating activities	76,500	52,866
INVESTING ACTIVITIES		
Purchases of investments	(82,914)	(28,626)
Proceeds from maturities of investments	—	992
Cash used in investing activities	(82,914)	(27,634)
CHANGE IN CASH		
Net increase (decrease) in cash during the year	(6,414)	25,232
Cash, beginning of year	26,289	1,057
Cash, end of year	\$19,875	\$26,289

See accompanying notes

CITY OF OTTAWA SINKING FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 [dollars in thousands]

1. 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 Chartered Professional Accountants of Canada. 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. There was no budget prepared for the Sinking Fund. The following is a summary of the significant accounting policies:

Revenue recognition

Contributions are recognized as revenue in the year receivable. Investment 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 investment income in the statement of operations and changes in fund balance.

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 an amount sufficient to pay the related debentures upon maturity. The excess (deficiency) of revenue over these requirements for the year is included in the fund balance.

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*.

CITY OF OTTAWA SINKING FUND
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DECEMBER 31, 2022 *[dollars in thousands]*

2. INVESTMENTS AT AMORTIZED COST

Investments consist of securities issued by the following:

	2022	2021
Federal governments and agencies	\$8,479	—
Provincial governments and agencies	86,718	110,994
Municipal governments		
Other municipalities	149,786	49,123
Amortized cost	244,983	160,117
Par value	307,894	183,320
Market value	\$210,484	\$173,289

3. ACTUARIAL REQUIREMENTS AND INVESTMENTS FOR DEBENTURE RETIREMENT

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

Actuarial requirements	2022	2021
Balance – beginning of year	\$186,472	\$132,210
Provision for actuarial requirements	61,000	54,262
Balance – end of year	\$247,472	\$186,472

CITY OF OTTAWA SINKING FUND
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[b] Investments and cash held by the Sinking Fund comply with Ontario Regulation 438 of 1997, as amended by Regulation 373 of 2011, which prescribes the types of investments eligible for the Sinking Fund. Investments and Sinking Fund debenture commitments mature as follows:

Year	Par value of investment and cash	Commitments at maturity	Current year actuarial requirements related to commitments maturing in future years
2026	1,700	—	—
2029	2,663	—	—
2030	—	97,838	17,272
2031	13,533	—	—
2032	4,846	43,000	—
2033	2,145	100,000	—
2034	2,323	—	—
2035	11,250	—	—
2036	5,855	—	—
2037	11,052	—	—
2038	14,672	—	—
2039	1,886	150,000	18,353
2040	16,143	—	—
2041	26,413	—	—
2042	10,343	325,000	77,233
2044	5,150	—	—
2045	1,600	—	—
2046	6,200	100,000	—
2047	48,800	302,000	27,742
2048	10,120	500,000	60,927
2049	1,000	—	—
2050	45,400	—	—
2051	26,500	525,000	19,690
2052	33,300	200,000	—
2053	5,000	360,000	26,255
Total	\$ 307,894	2,702,838	247,472

The commitments at maturity include debentures issued in 2012, 2013, 2015, and 2022 amounting to \$529,000 [By-law 2012-189, 2013-323, 2015-120, 2022-2, 2022-166], which did not require levy contributions for the year ended December 31, 2022.

The weighted average yield to maturity on par value of investments held by the Sinking Fund as at December 31, 2022 is 3.560% [2021 – 3.199%].

**CITY OF OTTAWA SINKING FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 [dollars in thousands]**

4. ADMINISTRATIVE COSTS

The City of Ottawa [the “City”] provides administrative support to the Sinking Fund. No amounts are charged to the Sinking Fund by the City for these services.

5. REVENUE – CONTRIBUTION – LEVIES

All the levies have been contributed to the Sinking Fund in 2022 and 2021 as set out in the Sinking Fund debenture by-laws.

6. DUE TO THE CITY OF OTTAWA

In 2022, to benefit from long-term investment rates and generate higher interest revenue, the unamortized premium amount of \$17,620 [2021 – nil] related to By-law 2019-272 was transferred from the City to the Sinking Fund. The full amount of the unamortized premium was invested by the Sinking Fund. At each fiscal year-end until maturity in 2047, the Sinking Fund will pay \$986 to the City, which is equal to the annual debt premium amortization plus interest.

7. IMPACT OF COVID-19

The Sinking Fund’s investments experienced increased volatility throughout the year due to the COVID-19 pandemic. Given the unprecedented nature of this event, it is difficult to predict the length or breadth of this disruption on the market value of investments.