

CITY OF OTTAWA SINKING FUND

Financial Statements

City of Ottawa Sinking Fund

December 31, 2023

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the City of Ottawa Sinking Fund (the Sinking Fund), which comprise:

- the statement of financial position as at December 31, 2023
- the statement of operations and changes in fund balance for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Sinking Fund as at December 31, 2023, and its results of operations, its changes in fund balances 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 auditor’s 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.

Emphasis of Matter – Prospective Change in Accounting Policy

We draw attention to Note 9 to the financial statements which indicates that the City has adopted certain public sector accounting standards on a prospective basis.

Our opinion is not modified in respect of this matter

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on June 14, 2023.

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 the 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.

- 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.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

(Date)

CITY OF OTTAWA SINKING FUND

STATEMENT OF FINANCIAL POSITION

As at December 31, 2023, with comparative information for 2022 (*dollars in thousands*)

Financial assets	2023	2022
Cash	\$12,606	\$19,875
Investments at amortized cost (<i>note 2</i>)	361,424	244,983
Accrued interest	1,499	980
Total financial assets	\$375,529	\$265,838
Financial liabilities and fund balance		
Due to the City of Ottawa (<i>note 6</i>)	\$50,917	\$17,243
Actuarial requirements (<i>note 3</i>)	320,115	247,472
Total financial liabilities	371,032	264,715
Fund balance		
Fund balance	4,497	1,123
Total liabilities and fund balance	\$375,529	\$265,838

See accompanying notes

CITY OF OTTAWA SINKING FUND

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE

For the year ended December 31, 2023, with comparative information for 2022

(dollars in thousands)

Revenue	2023	2022
Contribution – levies <i>(note 5)</i>	\$64,507	\$54,673
Investment income	11,510	7,001
Total revenue	76,017	61,674
Expenditures		
Provision for actuarial requirements <i>(note 3)</i>	72,643	61,000
Total expenditures	72,643	61,000
Excess of revenue over expenditures for the year	3,374	674
Fund balance, beginning of year	1,123	449
Fund balance, end of year	\$4,497	\$1,123

See accompanying notes

CITY OF OTTAWA SINKING FUND

STATEMENT OF CASH FLOWS

For the year ended December 31, 2023, with comparative information for 2022

(dollars in thousands)

OPERATING ACTIVITIES	2023	2022
Excess of revenue over expenditures for the year	\$3,374	\$674
Add (deduct) items not affecting cash		
Actuarial requirements	72,643	61,000
Amortization of discount on investments	(3,514)	(1,952)
Changes in non-cash working capital balances related to operations		
Accrued interest	(519)	(465)
Due to the City of Ottawa	33,674	17,243
Cash provided by operating activities	105,658	76,500
INVESTING ACTIVITIES		
Purchases of investments	(166,000)	(82,914)
Proceeds from maturities of investments	53,073	0
Cash used in investing activities	(112,927)	(82,914)
CHANGE IN CASH		
Net decrease in cash during the year	(7,269)	(6,414)
Cash, beginning of year	19,875	26,289
Cash, end of year	\$12,606	\$19,875

See accompanying notes

CITY OF OTTAWA SINKING FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 (*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, 2023 (*dollars in thousands*)

2. INVESTMENTS AT AMORTIZED COST

Investments consist of securities issued by the following:

	2023	2022
Federal governments and agencies	\$21,698	\$8,479
Provincial governments and agencies	226,063	86,718
Municipal governments		
Other municipalities	113,663	149,786
Amortized cost	361,424	244,983
Par value	516,584	307,894
Market value	\$346,343	\$210,484

3. ACTUARIAL REQUIREMENTS AND INVESTMENTS FOR DEBENTURE RETIREMENT

(a) The following indicates the continuity of the actuarial requirements for the year:

Actuarial requirements	2023	2022
Balance – beginning of year	\$247,472	\$186,472
Provision for actuarial requirements	72,643	61,000
Balance – end of year	\$320,115	\$247,472

CITY OF OTTAWA SINKING FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 (*dollars in thousands*)

3. ACTUARIAL REQUIREMENTS AND INVESTMENTS FOR DEBENTURE RETIREMENT (continued)

(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	\$0	\$0
2029	2,663	0	0
2030	4,529	97,838	26,363
2031	13,533	0	0
2032	5,346	43,000	3,894
2033	37,145	300,000	0
2034	3,323	0	0
2035	11,250	0	0
2036	5,855	0	0
2037	13,358	0	0
2038	14,672	0	0
2039	1,886	150,000	24,777
2040	16,144	0	0
2041	30,413	0	0
2042	75,743	325,000	86,179
2044	5,150	0	0
2045	1,600	0	0
2046	9,200	100,000	0
2047	48,800	302,000	35,802
2048	13,120	500,000	73,271
2049	1,000	0	0
2050	46,400	0	0
2051	30,500	525,000	32,486
2052	37,300	200,000	4,198
2053	85,954	360,000	33,145
Total	\$516,584	\$2,902,838	\$320,115

CITY OF OTTAWA SINKING FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 (*dollars in thousands*)

3. ACTUARIAL REQUIREMENTS AND INVESTMENTS FOR DEBENTURE RETIREMENT (continued)

The commitments at maturity include debentures issued in 2013, 2015, and 2023 amounting to \$400,000 (By-law 2013-323, 2015-120, 2023-512), which did not require levy contributions for the year ended December 31, 2023.

The weighted average yield to maturity on par value of investments held by the Sinking Fund as at December 31, 2023 is 3.903% (2022 – 3.560%).

4. ADMINISTRATIVE COSTS

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

5. REVENUE – CONTRIBUTION – LEVIES

All the levies have been contributed to the Sinking Fund in 2023 and 2022 as set out in the Sinking Fund debenture by-laws.

6. DUE TO THE CITY OF OTTAWA

The outstanding amount due to the City of Ottawa is \$50,917 (2022 – \$17,243). This represents the net amount of lending from the City of Ottawa to the Sinking Fund minus amounts paid back to the City of Ottawa from the Sinking Fund in the current year. There are four By-laws related to this lending which are By-law 2019-272, 2012-282, 2019-418 and 2022-002. The full amount of the unamortized premium was invested by the Sinking Fund to benefit from long-term investment rates and generate higher interest revenue. At each fiscal year-end until maturity in 2053, the Sinking Fund will pay \$3,266 to the City of Ottawa, which is equal to the annual debt premium amortization plus interest.

Outstanding principal payment as of December 31, 2023

By-law	2019-272	2012-282	2019-418	2022-002	Total
	16,257	11,525	9,738	13,397	50,917

CITY OF OTTAWA SINKING FUND
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7. INVESTMENT PREMIUM AND DISCOUNT AMORTIZATION

In 2023, the investment premiums and discounts are amortized by using the effective interest rate method, as per Public Sector Accounting Standard PS 3450 Financial Instruments.

8. FINANCIAL RISK MANAGEMENT

The Sinking Fund investment activities expose it to a range of financial risks from its financial instruments. These risks include credit risk, liquidity risk and market risk (including interest rate, currency and other price risks).

Credit risk

The investments are subject to indirect exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they are due.

The following are the investments in interest-bearing financial instruments, and the exposure to credit risk.

	AAA	AA	A	BBB	B and under	Total
Credit rating	\$	\$	\$	\$	\$	\$
As at December 31, 2023	76,951	244,769	24,623	0	0	346,343

**CITY OF OTTAWA SINKING FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023** *(dollars in thousands)*

8. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Sinking Fund investments may be unable to meet payment obligations in a timely manner and at a reasonable cost. Management of liquidity risk seeks to ensure that even under adverse conditions, the City of Ottawa has access to immediate cash that is necessary to cover payables, withdrawals and other liabilities. The following is a maturity analysis of the investments.

	<1 year	1-5 years	5-10 years	>10 years	Total
Maturity	\$	\$	\$	\$	\$
As at December 31, 2023	0	1,640	57,256	287,447	346,343

CITY OF OTTAWA SINKING FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 (*dollars in thousands*)

8. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that changes in interest rates and other price risks will affect the Sinking Fund's net result of operations or the fair value of its holdings of financial instruments.

Interest rate risk

The Sinking Fund holds interest-bearing financial instruments. Therefore, the investments are exposed to interest rate risk, as the fair value of interest-bearing financial instruments will fluctuate with changes in market interest rates.

The following sensitivity analysis summarizes a 1% increase/decrease in interest rate on the fair value of the Sinking Fund fixed income investment.

	Change in interest rate	Increase (decrease) in fair value
	%	2023 \$
Interest-bearing financial instruments	-1	55,034
Interest-bearing financial instruments	+1	(55,034)

Currency and other price risk

The Sinking Fund believes it is not subject to significant currency or other price risk from its financial instruments as it holds no amounts in foreign currencies nor any equity investments.

Changes in financial risk exposures

The Sinking Fund's financial risks arising from its financial instruments have not changed significantly in the year. Management believes that its financial risks are appropriately mitigated. There have been no significant changes in the policies, procedures and methods used to manage these risks in the year.

CITY OF OTTAWA SINKING FUND
NOTES TO THE FINANCIAL STATEMENTS
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9. ADOPTION OF NEW ACCOUNTING STANDARDS

On January 1, 2023, the Sinking Fund adopted the following Canadian public sector accounting standards: PS 3450–*Financial Instruments*, PS 2601–*Foreign Currency Translation*, PS 1201–*Financial Statement Presentation*, and PS 3041–*Portfolio Investments*.

These standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

Under PS 3450, all financial instruments, including derivatives, are included on the statement of financial position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the Sinking Fund's accounting policy choices. As the Sinking Fund decided to continue recording its financial instruments at amortized cost, the implementation of this standard did not have a significant impact on these financial statements.

The adoption of PS 1201, PS 2601 and PS 3041 did not have a material impact on these financial statements. A statement of remeasurement gains and losses is not included in these financial statements as it would not provide additional useful information.