

## **CITY OF OTTAWA SINKING FUND**

### **Financial Statements**

**City of Ottawa Sinking Fund**

**December 31, 2024**

## **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, 2024
- 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, 2024, 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.

### **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, 2024, with comparative information for 2023 (dollars in thousands)

<b>Financial assets</b>	<b>2024</b>	<b>2023</b>
Cash	<b>\$15,797</b>	\$12,606
Investments at amortized cost (note 2)	<b>444,168</b>	361,424
Accrued interest	<b>1,860</b>	1,499
<b>Total financial assets</b>	<b>\$461,825</b>	<b>\$375,529</b>
<b>Financial liabilities and fund balance</b>		
Due to the City of Ottawa (note 6)	<b>\$48,832</b>	\$50,917
Actuarial requirements (note 3)	<b>407,503</b>	320,115
<b>Total financial liabilities</b>	<b>456,335</b>	<b>371,032</b>
<b>Fund balance</b>		
Fund balance	<b>5,490</b>	4,497
<b>Total liabilities and fund balance</b>	<b>\$461,825</b>	<b>\$375,529</b>

See accompanying notes

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE

For the year ended December 31, 2024, with comparative information for 2023

(dollars in thousands)

<b>Revenue</b>	<b>2024</b>	<b>2023</b>
Contribution – levies (note 5)	<b>\$75,791</b>	\$64,507
Investment income	<b>12,590</b>	11,510
<b>Total revenue</b>	<b>88,381</b>	76,017
<b>Expenditures</b>		
Provision for actuarial requirements (note 3)	<b>87,388</b>	72,643
<b>Total expenditures</b>	<b>87,388</b>	72,643
<b>Excess of revenue over expenditures for the year</b>	<b>993</b>	3,374
Fund balance, beginning of year	<b>4,497</b>	1,123
<b>Fund balance, end of year</b>	<b>\$5,490</b>	\$4,497

See accompanying notes

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF CASH FLOWS

For the year ended December 31, 2024, with comparative information for 2023

(dollars in thousands)

<b>OPERATING ACTIVITIES</b>	<b>2024</b>	<b>2023</b>
Excess of revenue over expenditures for the year	<b>\$993</b>	\$3,374
Add (deduct) items not affecting cash		
Actuarial requirements	<b>87,388</b>	72,643
Amortization of discount on investments	<b>(2,993)</b>	(3,514)
Changes in non-cash working capital balances related to operations		
Accrued interest	<b>(361)</b>	(519)
Due to the City of Ottawa	<b>(2,085)</b>	33,674
<b>Cash provided by operating activities</b>	<b>82,942</b>	105,658
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	<b>(79,751)</b>	(166,000)
Proceeds from maturities of investments	<b>0</b>	53,073
<b>Cash used in investing activities</b>	<b>(79,751)</b>	(112,927)
<b>CHANGE IN CASH</b>		
Net decrease in cash during the year	<b>3,191</b>	(7,269)
Cash, beginning of year	<b>12,606</b>	19,875
<b>Cash, end of year</b>	<b>\$15,797</b>	\$12,606

See accompanying notes

**CITY OF OTTAWA SINKING FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2024** (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.



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**2. INVESTMENTS AT AMORTIZED COST**

Investments consist of securities issued by the following:

	<b>2024</b>	<b>2023</b>
Federal governments and agencies	<b>\$33,364</b>	\$21,698
Provincial governments and agencies	<b>288,382</b>	226,063
Municipal governments		
Other municipalities	<b>122,422</b>	113,663
Amortized cost	<b>444,168</b>	361,424
Par value	<b>610,281</b>	516,584
Market value	<b>\$421,758</b>	\$346,343

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

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

<b>Actuarial requirements</b>	<b>2024</b>	<b>2023</b>
Balance – beginning of year	<b>\$320,115</b>	\$247,472
Provision for actuarial requirements	<b>87,388</b>	72,643
<b>Balance – end of year</b>	<b>\$407,503</b>	\$320,115

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**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:

<b>Year</b>	<b>Par value of investment and cash</b>	<b>Commitments at maturity</b>	<b>Current year actuarial requirements related to commitments maturing in future years</b>
2026	\$1,700	\$0	\$0
2029	2,663	0	0
2030	5,529	97,838	35,775
2031	13,533	0	0
2032	5,346	43,000	7,887
2033	48,145	300,000	12,717
2034	11,323	225,000	0
2035	11,250	0	0
2036	5,855	0	0
2037	13,358	0	0
2038	14,672	0	0
2039	3,886	150,000	31,364
2040	16,144	0	0
2041	30,413	0	0
2042	80,743	325,000	95,445
2044	5,150	0	0
2045	6,941	0	0
2046	14,200	100,000	0
2047	48,800	302,000	44,065
2048	35,120	500,000	85,928
2049	1,000	0	0
2050	61,400	0	0
2051	40,500	525,000	45,566
2052	42,300	200,000	8,522
2053	90,310	360,000	40,234
<b>Total</b>	<b>\$610,281</b>	<b>\$3,127,838</b>	<b>\$407,503</b>

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

The commitments at maturity include debentures issued in 2015 and 2024 amounting to \$325,000 (By-law 2015-120, 2024-406), which did not require levy contributions for the year ended December 31, 2024.

The weighted average yield to maturity on par value of investments held by the Sinking Fund as at December 31, 2024 is 3.938% (2023 – 3.903%).

**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 2024 as set out in the Sinking Fund debenture by-laws.

In 2022 and 2023, the City of Ottawa is authorized under section 409 (9) of the Municipal Act, 2001, to amend a debenture by-law to reduce the amount of the annual levy to be raised with respect to a sinking fund to the extent that the balance of the fund, including any estimated revenue, is or will be sufficient to repay the principal of the debt for which the fund was established on the date the principal comes due. By-law 2019-272, 2019-418 and 2022-002 have been approved to reduce the levy contribution.

Annual levy reductions of \$500 were approved in 2022, and in 2023 an additional \$300 was approved. As no reduction was taken in 2023, the 2024 levy contribution was reduced by a total of \$1,300 to account for both the 2023 and 2024 levy reduction.

Sinking Fund levy reduction summary in 2024

<b>By-law</b>	<b>2023</b>	<b>2024</b>	<b>Total</b>
2019-272	\$200	\$300	\$500
2019-418	200	200	400
2022-002	100	300	400
<b>Total</b>	<b>\$500</b>	<b>\$800</b>	<b>\$1,300</b>

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**6. DUE TO THE CITY OF OTTAWA**

The outstanding amount due to the City of Ottawa is \$48,833 (2023 – \$50,917). 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, 2024

<b>By-law</b>	<b>2019-272</b>	<b>2012-282</b>	<b>2019-418</b>	<b>2022-002</b>	<b>Total</b>
	15,576	10,904	9,409	12,944	\$48,833

**7. INVESTMENT PREMIUM AND DISCOUNT AMORTIZATION**

In 2024, the investment premiums and discounts are amortized by using the effective interest rate method, as per Public Sector Accounting Standard PS 3450 Financial Instruments.

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**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.

	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>B and under</b>	<b>Total</b>
Credit rating	\$	\$	\$	\$	\$	\$
As at December 31, 2024	98,878	292,440	30,440	0	0	421,758

**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.

	<b>&lt;1 year</b>	<b>1-5 years</b>	<b>5-10 years</b>	<b>&gt;10 years</b>	<b>Total</b>
Maturity	\$	\$	\$	\$	\$
As at December 31, 2024	0	3,946	78,613	339,199	421,758

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**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.

	<b>Change in interest rate %</b>	<b>Increase (decrease) in fair value 2024 \$</b>
Interest-bearing financial instruments	-1	61,556
Interest-bearing financial instruments	+1	(61,556)

**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.