

Consolidated Financial Statements

The City of Ottawa

December 31, 2018

DRAFT

MANAGEMENT'S REPORT

The integrity, relevance and comparability of the data in the accompanying consolidated financial statements are the responsibility of management of the City of Ottawa [the "City"].

The consolidated financial statements are prepared by management, in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. The consolidated financial statements necessarily include some amounts that are based on the best estimates and judgments of management. Financial data elsewhere in the report is consistent with that in the consolidated financial statements.

To assist in its responsibility, management maintains accounting, budget and other controls to provide reasonable assurance that transactions are appropriately authorized, that assets are properly accounted for and safeguarded, and that financial records are reliable for the preparation of consolidated financial statements.

The Auditor General's office reports directly to City Council ["Council"] and, on an ongoing basis, carries out its audit program to ensure internal controls and their application are reviewed and financial information is tested and independently verified.

Council fulfils its responsibility for financial reporting through its Audit Committee and Finance and Economic Development Committee.

Ernst & Young LLP, Chartered Professional Accountants, have been appointed by Council to express an opinion on the City's consolidated financial statements. Their report follows.

Steve Kanellakos
City Manager
Ottawa, Canada

Marian Simulik
City Treasurer
Ottawa, Canada

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of Council

Opinion

We have audited the consolidated financial statements of the City of Ottawa [the "City"], which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of operations and accumulated surplus, the consolidated statement of changes in net debt and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2018, and its consolidated financial performance and its consolidated 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 City in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

Other information included in the City's 2018 Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement

of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City'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 City or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 City'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 City'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 consolidated 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 City to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

[Signature of the name of the audit firm, the personal name of the auditor, or both, as appropriate for the province]

[Auditor address]

[Date]

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018, with comparative information as at December 31, 2017 [dollars in thousands]

Table 1 - Consolidated statement of financial position - Financial assets

Financial assets	2018	2017
Cash and cash equivalents	\$347,875	\$383,259
Accounts receivable [note 3]	648,303	510,621
Investments [note 4]	1,229,247	1,237,136
Investment in government business enterprise [note 5]	462,975	438,190
Total financial assets	2,688,400	2,569,206

Table 2 - Consolidated statement of financial position - Liabilities

Liabilities	2018	2017
Accounts payable and accrued liabilities [note 6]	1,355,224	1,219,317
Deferred revenue [note 7]	588,707	482,619
Employee future benefits and pension agreements [note 8]	652,413	621,390
Accrued interest	27,529	29,054
Landfill closure and post-closure [note 9]	25,690	25,214
Contaminated sites [note 10]	8,633	9,217
Net long-term debt [note 11]	1,912,085	2,032,895
Mortgages payable [note 12]	266,490	267,315
Capital lease obligations [note 13]	96,415	101,493
Total liabilities	4,933,186	4,788,514
Net debt	(2,244,786)	(2,219,308)

Table 3 - Consolidated statement of financial position - Non-financial assets

Non-financial assets	2018	2017
Tangible capital assets [note 14]	15,980,167	15,340,462
Inventories	33,881	34,398
Prepaid expenses	26,205	26,275
Total non-financial assets	16,040,253	15,401,135
Accumulated surplus [note 15]	\$13,795,467	\$13,181,827

Contingencies, commitments and contractual rights [note 16]

The accompanying notes are an integral part of these consolidated financial statements.

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the year ended December 31, 2018, with comparative information for the year ended December 31, 2017 [dollars in thousands]

Table 4 - Consolidated statement of operations and accumulated surplus - Revenue

Revenue	2018 Budget [note 21]	2018 Actual	2017 Actual
Taxes available for municipal purposes [note 17]	\$1,774,124	\$1,776,722	\$1,703,630
Government transfers	937,532	957,513	683,114
Fees and user charges	857,077	857,795	819,865
Contributed tangible capital assets	318,684	318,684	205,693
Development charges	81,360	80,032	217,076
Investment income	42,959	48,550	37,778
Fines and penalties	28,692	35,439	34,168
Other revenue	45,816	43,513	51,214
Share of earnings of government business enterprise [note 5]	40,238	42,138	35,975
Total revenue	4,126,482	4,160,386	3,788,513

Table 5 - Consolidated statement of operations and accumulated surplus - Expenses

Expenses	2018 Budget [note 21]	2018 Actual	2017 Actual
General government	111,730	113,541	98,821
Protection to persons and property	600,443	601,818	563,103
Roads, traffic and parking	394,949	412,620	410,761
Transit	597,803	582,903	554,548
Environmental services	391,779	388,684	368,356
Health services	176,845	175,583	177,062
Social and family services	561,185	552,559	484,138
Social housing	266,129	290,699	270,532
Recreation and cultural services	335,932	331,752	329,542
Planning and development	97,838	101,134	70,367
Total expenses [note 18]	3,534,633	3,551,293	3,327,230
Annual surplus	591,849	609,093	461,283
Accumulated surplus, beginning of the year	13,196,499	13,181,827	12,724,524
Other comprehensive income (loss)	4,547	4,547	(3,980)
Accumulated surplus, end of the year	\$13,792,895	\$13,795,467	\$13,181,827

The accompanying notes are an integral part of these consolidated financial statements.

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

For the year ended December 31, 2018, with comparative information for the year ended December 31, 2017 *[dollars in thousands]*

Table 6 - Consolidated statement of change in net debt

Consolidated statement of change in net debt	2018 Budget [note 21]	2018 Actual	2017 Actual
Annual surplus	\$591,849	\$609,093	\$461,283
Acquisition of tangible capital assets including contributed assets	(988,441)	(988,441)	(1,179,983)
Amortization of tangible capital assets	336,087	336,087	322,511
(Gain) loss on disposal of tangible capital assets	(11,314)	(11,314)	9,638
Proceeds on disposal of tangible capital assets	23,963	23,963	2,263
Supply of inventories	517	517	(2,224)
Prepaid expenses	70	70	4,201
Change in net debt	(47,269)	(30,025)	(382,311)
Net debt, beginning of the year	(2,252,448)	(2,219,308)	(1,833,017)
Other comprehensive income (loss)	4,547	4,547	(3,980)
Net debt, end of the year	(\$2,295,170)	(\$2,244,786)	\$(2,219,308)

The accompanying notes are an integral part of these consolidated financial statements.

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018, with comparative information for the year ended December 31, 2017 [dollars in thousands]

Table 7 - Consolidated statement of cash flows - Operating activities

OPERATING ACTIVITIES	2018	2017
Annual surplus	\$609,093	\$461,283
Items not affecting cash		
Share of earnings of government business enterprise	(42,138)	(35,975)
Amortization of tangible capital assets	336,087	322,511
Contributed tangible capital assets	(318,684)	(205,693)
(Gain) Loss on disposal of tangible capital assets	(11,314)	9,638
Cash provided by operating activities, adjusted for non-cash items	573,044	551,764
Changes in non-cash assets and liabilities		
Decrease (increase) in accounts receivable	(137,682)	96,601
Decrease (increase) in inventories	517	(2,224)
Decrease in prepaid expenses	70	4,201
Increase in accounts payable and accrued liabilities	135,907	94,951
Increase (decrease) in deferred revenue	106,088	(81,654)
Increase in employee future benefits and pension agreements	31,023	26,238
(Decrease) increase in accrued interest	(1,525)	3,291
Increase in landfill closure and post-closure liabilities	476	538
Decrease in liabilities for contaminated sites	(584)	(157)
Cash provided by operating activities	707,334	693,549

Table 8 - Consolidated statement of cash flows - Capital activities

CAPITAL ACTIVITIES	2018	2017
Acquisition of tangible capital assets	(669,757)	(974,290)
Proceeds on disposal of tangible capital assets	23,963	2,263
Cash applied to capital activities	(645,794)	(972,027)

Table 9 - Consolidated statement of cash flows - Investing activities

INVESTING ACTIVITIES	2018	2017
Net sale of investments	7,889	36,240
Dividends from Hydro Ottawa Holding Inc.	21,900	20,600
Cash provided by investing activities	29,789	56,840

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF CASH FLOWS [CONTINUED]

For the year ended December 31, 2018, with comparative information for the year ended December 31, 2017 [dollars in thousands]

Table 10 - Consolidated statement of cash flows - Financing activities

FINANCING ACTIVITIES	2018	2017
Proceeds from new long-term debt issued	9,015	472,204
Interest earned on sinking funds	(4,401)	(3,961)
Debt principal repayments		
Net long-term debt	(116,487)	(105,622)
Mortgages payable	(9,762)	(10,072)
Capital lease obligations	(5,078)	(4,776)
Cash (applied to) provided by financing activities	(126,713)	347,773

Table 11 - Consolidated statement of cash flows - Change in cash and cash equivalents

Change in cash and cash equivalents	2018	2017
(Decrease) increase in cash and cash equivalents during the year	(35,384)	126,135
Cash and cash equivalents, beginning of the year	383,259	257,124
Cash and cash equivalents, end of the year	\$347,875	\$383,259

The accompanying notes are an integral part of these consolidated financial statements.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

1. NATURE OF BUSINESS

The City of Ottawa [the “City”] was created through provincial legislation on December 20, 1999 and commenced operations on January 1, 2001.

The City is responsible for providing municipal services such as employment and financial assistance; long-term care; community services and libraries; emergency and protective services including police, fire and ambulance; and transportation, utilities and public works, including roads, sewers and wastewater, drinking water, waste collection and disposal.

As sole shareholder of Hydro Ottawa Holding Inc. [“Hydro Ottawa”], and the Ottawa Community Housing Corporation [“OCHC”], the City also provides hydro and housing services to the residents of Ottawa. In 2009, the Ottawa Community Lands Development and the Manotick Mill Quarter Community Development Corporations were created for the purpose of promoting and undertaking community improvements in the City by managing real property.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements are prepared by management in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board [“PSAB”] of the Chartered Professional Accountants of Canada.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Basis of consolidation

The consolidated financial statements of the City reflect the assets, liabilities, revenue and expenses for the activities of all committees of Council and the following boards, Business Improvement Areas ["BIAs"] and entities:

The Police Services Board	The Heart of Orleans BIA
The Ottawa Public Library Board	The Carp Road Corridor BIA
The Ottawa Board of Health	The Carp Village BIA
The Ottawa Community Housing Corporation	The Vanier BIA
Manotick Mill Quarter Community Development Corporation	The Manotick BIA
Ottawa Community Lands Development Corporation	The Sparks Street Mall Authority
Marchés d'Ottawa Markets	The Somerset Village BIA
The Bank Street BIA	The Preston Street BIA
The Westboro Village BIA	The Byward Market BIA
The Sparks Street BIA	The Downtown Rideau BIA
The Somerset Street Chinatown BIA	The Barrhaven BIA
The Glebe BIA	The Wellington West BIA
	The Kanata North BIA
	The Bells Corners BIA
	The Kanata Central BIA

All interfund assets, liabilities, revenue and expenses have been eliminated.

Condensed supplementary information for the Ottawa Public Library Board is provided in Appendix 1.

Hydro Ottawa and its subsidiaries are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for such government business enterprise [see note 5]. These corporations follow International Financial Reporting Standards ["IFRS"]. Under the modified equity basis, the business enterprise's accounting policies are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated. Other comprehensive income or loss of the enterprise is recorded directly to the City's accumulated surplus and net debt.

School boards

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements as school boards are separate entities and the City does not control or have any involvement in the operations of school boards.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Use of estimates and measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions on such areas as employee benefits liabilities, property tax assessment appeals, legal claims provisions, landfill closure and post-closure liabilities, liabilities for contaminated sites, and contributed tangible capital assets. These estimates and assumptions are based on the City's best information and judgment and actual amounts may differ significantly from these estimates.

Revenue and expenses

Revenue and expenses are reported on the accrual basis of accounting, which recognizes revenue as it is earned and measurable; expenses are recognized as they are incurred and measurable, as a result of receipt of goods or services.

Tax revenue

Annually, the City bills and collects property tax revenue for municipal purposes, provincial education taxes on behalf of the Province of Ontario [the "Province"], payment in lieu of taxes, local improvements and other charges [see note 17]. The authority to levy and collect property taxes is established under the *Municipal Act, 2001*, the *Assessment Act*, the *Education Act*, and other legislation.

Taxation revenue consists of non-exchange transactions. It is recognized in the period to which the assessment relates where reasonable estimates of amounts can be made. Annual revenue also includes adjustments related to prior years, which were not estimable until the current year.

Government transfers

Government transfers are transfers from senior levels of government that are not the result of an exchange transaction. Government transfers are recognized in the fiscal years during which events giving rise to the transfer occur, provided the transfers are authorized, eligibility criteria and stipulations have been met and reasonable estimates of the amounts can be made.

In addition, the City provides transfers to individuals or organizations. These transfers are recognized as expenses once they are authorized and eligibility criteria, if any, are met.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Fees and user charges

Fees and user charges relate to transit fares; utility charges; water, wastewater, and solid waste; licensing fees; fees for use of various programming; and fees imposed based on specific activities. Revenue is recognized when the activity is performed or when the services are rendered.

Contributed tangible capital assets

Contributed tangible capital assets represent assets that are donated or contributed to the City by developers. Revenue is recognized in the year the assets are contributed and has been recognized at fair market value at the date of contribution.

Development charges

Development charges are one-time fees levied by the City on new residential and non-residential properties to help fund a portion of the growth-related capital infrastructure. The authority to introduce development charges is provided by provincial legislation, and the operational details and schedule of charges are outlined in the City's by-law. Development charges are determined and accounted for by type of service component. The amount of charges varies by dwelling type and by location within the City reflecting different actual costs of establishing and providing the service. The underlying intent of development charges is that growth pays for growth and that the financing of capital costs required to service new growth does not place a burden on existing taxpayers.

Actual funding transfers to capital projects are made in accordance with regulations that stipulate that development charges may only be applied to projects when costs are incurred. Growth-related spending authority is approved annually as part of the City's budgeting process, with only those capital projects included in the current Development Charges Background Study being eligible for funding. Development charge fund balances are monitored annually through the capital budget approval process to ensure they are in compliance with the overall policies adopted by Council. Development charges are recognized as revenue when the related expenses are incurred.

Investment income

Investment income is recorded as revenue in the period in which it is earned. Investment income also includes income for the City's Endowment Fund and is in accordance with the investment policy and procedures adopted by City Council.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Other revenue

Other revenue includes revenue from land sales, cash in lieu of parkland, and other miscellaneous revenue. Amounts received relating to revenue that will be earned in a subsequent year are deferred and reported as deferred revenue.

Financial instruments

The City's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, accrued interest, net long-term debt, and mortgages payable.

The City uses derivative financial instruments consisting of bank swaps to reduce its exposure to interest rate risk related to its debt. The City does not use financial instruments for trading or speculative purposes.

The City uses bank swaps to manage commodity price fluctuations. These bank swaps are used to set a fixed price for a specific quantity over a defined term and settle on specific dates commensurate with the defined term. Swaps result in a payment or receipt of funds to or from the counterparty to the transaction. Gains (receipts) or losses (payments) are recognized in the same period as the delivery of the underlying commodity.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of 90 days or less from the date when the securities are purchased.

Investments

Investments are recorded at amortized cost less amounts written off to reflect a permanent decline in value. Investments consist of authorized investments pursuant to provisions of the *Municipal Act* and comprise financial instruments issued by the Canadian government and Schedule I, II, and III banks, as well as asset-backed securities and eligible commercial paper. Investments for the Endowment Fund also include Canadian equities and corporate bonds as authorized by Provincial Regulation 438/97 and the Investment Policy approved by City Council. Investments with original maturity dates of more than 90 days are classified as investments on the consolidated statement of financial position.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Deferred revenue

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recorded as deferred revenue and are recognized as revenue in the year during which the related expenses are incurred provided eligibility criteria and stipulations have been met.

Employee benefit plans

The City has adopted the following policies with respect to employee benefit plans:

[a] The costs of post-employment benefits are recognized as a liability when the event that obligates the City occurs. The costs are actuarially determined using projected future income payments, health care continuation costs, and fees paid to independent administrators of these plans, calculated on a present value basis.

[b] The costs of post-retirement benefits are recognized as a liability when the event that obligates the City occurs. The costs are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs, and plan investment performance.

[c] Past service costs for plan amendments related to prior-period employee services are accounted for in the period of the plan amendment. The effects of gain or loss from settlements or curtailments are expensed in the period during which they occur. Net actuarial gains and losses related to employee benefits are amortized over the estimated average remaining service life of the related employee group. Employee future benefits are discounted using current interest rates on City-issued long-term bonds.

[d] The costs of workplace safety and insurance obligations are recognized as a liability when the event that obligates the City occurs. The costs are actuarially determined and expensed in the period they occur.

[e] The costs of termination benefits and compensated absences are recognized when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs, and fees paid to independent administrators of these plans, calculated on a present value basis.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Pension agreements

The City has adopted the following policies with respect to pension agreements:

[a] The contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due.

[b] The actuarial valuation is determined using the projected unit credit method prorated on credited service. It is also based on management's best estimates and assumptions that include assumptions for employee retirement ages, salary escalation, and plan investment performance, which are used for discounting benefits. Plan assets are valued using a market-related value, determined over a three-year period.

Legal claims and contingencies

Estimated costs to settle legal claims and possible legal claims are determined based on available information. Where the costs are deemed to be likely and reasonably determinable, claims are reported as an expense on the consolidated statement of operations and accumulated surplus and a liability on the consolidated statement of financial position. Where costs are deemed not to be determinable, no liability is reported on the consolidated statement of financial position.

Landfill closure and post-closure liabilities

The estimated costs to close and maintain solid waste landfill sites are based on future expenses for 25 years, adjusted for inflation and discounted to current dollars. These costs are reported as a liability on the consolidated statement of financial position.

Contaminated sites

When all the criteria for recognition are met, the City accrues a liability to estimate the cost to remediate contaminated sites to the level necessary to allow the property to meet the environmental standards appropriate to its current or prior use.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives beyond the current year and are not intended for sale in the ordinary course of operations.

[a] Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of an asset. The costs, less residual value, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives, as follows:

Table 12 - Useful life of tangible capital assets

Asset - Useful life - Years	Minimum	Maximum
Buildings and improvements	20	80
Infrastructure linear-roads	50	75
Infrastructure linear-water/wastewater	50	100
Land improvements	50	200
Machinery, plant and equipment	10	50
Vehicles	5	15

Assets under construction are not amortized. All assets start amortization in the month following the in-service date.

[b] Contributions of tangible capital assets

Tangible capital assets received as contributions have been recorded at their fair market value at the date of receipt and are included in revenue in the year of contribution.

[c] Intangible assets

Intangible assets and natural resources that have not been purchased are not recognized as assets in the consolidated financial statements.

[d] Interest capitalization

The City's tangible capital asset policy does not allow for the capitalization of interest costs incurred by the City associated with the acquisition or construction of a tangible capital asset.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

[e] Leases

Leases are classified as operating or capital leases. Leases that transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases and recorded as a liability. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

[f] Inventories

Inventories held for consumption are recorded at the lower of cost and replacement cost.

Reserves

Reserves comprise funds set aside for specific purposes by Council *[see note 15]*. Reserves set aside by legislation, regulation, or agreement are reported as deferred revenue on the consolidated statement of financial position.

New accounting standards

The PSAB issued five new standards effective for fiscal years beginning on or after April 1, 2017. Of these pronouncements, PS 2200 Related Party Disclosures, PS 3320 Contingent Assets and PS 3380 Contractual Rights provide guidance on disclosure requirements only. PS 3420 Inter-Entity Transactions establishes the accounting and reporting of inter-entity transactions and PS 3210 Assets provides additional guidance on the definition of assets as well as disclosure requirements. These standards have been applied on a prospective basis. The adoption of these standards did not result in any financial impact or significant changes to the financial statements.

Future accounting pronouncements

Standards effective beginning on or after April 1, 2018

- [i] **PS 3430 Restructuring Transactions** establishes how to record assets, liabilities, revenues, and expenses related to restructuring transactions as well as disclosure requirements for the recipient and transferor.

Standards effective beginning on or after April 1, 2021

- [ii] **Financial Statement Presentation** (PS 1201) was amended to conform to PS 3450 Financial Instruments, and requires a new statement of remeasurement gains and losses separate from the statement of operations. Included in this new statement are the unrealized gains and losses arising from the remeasurement of financial instruments and items denominated in foreign currencies, as well as the government's proportionate share of other comprehensive income that arises when

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

a government includes the results of government business enterprises and partnerships.

[iii] **Portfolio Investments** (“PS 3041”) has removed the distinction between temporary and portfolio investments. This section was amended to conform to PS 3450, and now includes pooled investments in its scope. Upon adoption of PS 3450 and PS 3041, Temporary Investments (“PS 3030”) will no longer apply.

[iv] **Foreign Currency Translation** (“PS 2601”) requires exchange rates to be adjusted to the rate in effect at the financial statement date for monetary assets and liabilities denominated in foreign currency and non-monetary items included in the fair value category. Unrealized gains and losses are to be presented in the statement of remeasurement gains and losses. Gains and losses on long-term monetary assets and liabilities are amortized over the remaining term of the item.

[v] **Financial Instruments** (“PS 3450”) establishes recognition, measurement, and disclosure requirements for derivative and non-derivative financial instruments. The standard requires fair value measurement of derivatives and equity instruments that are quoted in an active market; all other financial instruments can be measured at cost/amortized cost or fair value at the election of the government. Unrealized gains and losses are presented in a new statement of remeasurement gains and losses. There is the requirement to disclose the nature and extent of risks arising from financial instruments and clarification is given for the de-recognition of financial liabilities.

[vi] **Asset Retirement Obligations** (“PS 3280”) The new section will require entities to record asset retirement obligations. An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset. Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner. Asset retirement costs associated with an asset no longer in productive use are expensed. Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset, or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use. This new section will be effective for fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.

Standards effective beginning on or after April 1, 2022

[i] **Revenue** (“PS 3400”) PSAB recently issued a new Section on revenue proposing a framework that includes two categories of revenue – exchange transactions or unilateral transactions. Revenue from an exchange transaction is recognized when the public sector entity has satisfied the performance obligation(s). If no

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2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

performance obligation is present, it would be unilateral revenues. Unilateral revenues are recognized when a public sector entity has the authority to claim or retain an inflow of economic resources and a past event gives rise to a claim on economic resources. This new section will be effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

The City continues to assess the impacts of the above standards. While the timing of standards adoption may vary, certain standards must be adopted concurrently. The requirements in Financial Statement Presentation (“PS 1201”), Financial Instruments (“PS 3450”), Foreign Currency Translation (“PS 2601”) and Portfolio Investments (“PS 3041”) must be implemented at the same time.

3. ACCOUNTS RECEIVABLE

Accounts receivable comprise the following:

Table 13 - Accounts receivable

Accounts receivable	2018	2017
Taxes and user charges	\$155,506	\$182,608
Federal government	250,657	130,712
Provincial government	154,375	135,637
Trade	87,765	61,664
Total accounts receivable	\$648,303	\$510,621

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4. INVESTMENTS

Fair market values for City investments are based on pricing sources that gather data on a daily basis from secondary market trading activity. Investments comprise the following:

Table 14 - 2018 investments breakdown

Investments	2018		
	Cost	Fair market value	Carrying value
Federal government bonds	\$203,340	\$203,314	\$203,340
Provincial government bonds	249,391	248,767	249,391
Municipal government bonds	185,900	185,683	185,900
Corporate bonds (Schedule I banks)	389,027	388,491	389,027
Endowment [note 2]	171,413	185,377	171,413
Other	30,176	34,664	30,176
Total	\$1,229,247	\$1,246,296	\$1,229,247

Table 15 - 2017 investments breakdown

Investments	2017		
	Cost	Fair market value	Carrying value
Federal government bonds	\$131,344	\$130,879	\$131,344
Provincial government bonds	397,004	397,598	397,004
Municipal government bonds	133,918	133,998	133,918
Corporate bonds (Schedule I banks)	340,895	340,179	340,895
Endowment [note 2]	163,008	200,394	163,008
Other	70,967	76,281	70,967
Total	\$1,237,136	\$1,279,329	\$1,237,136

Included in the City's municipal government bonds portfolio are City of Ottawa debentures at coupon rates varying from 3.05% to 6.20% [2017 – 3.05% to 6.20%] with a carrying value of \$7,374 [2017 – \$9,651].

The holdings of the Endowment Fund are selected by professional portfolio managers engaged by the City and are in accordance with the investment policy and procedures adopted by City Council. The City determines the market value of the Fund to be maintained and on a market value basis, as at December 31, 2018, the Endowment Fund was distributed between; cash and near cash investments (2.6%), Canadian Bonds (39.5%) and Canadian Equities (57.9%).

Other includes guaranteed investment certificates, commercial paper, asset-backed securities and units of the One Investment Program equity portfolio operated by a subsidiary of the Municipal Finance Officers' Association of Ontario.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

4. INVESTMENTS [CONTINUED]

The weighted average yield on investments held as at December 31, 2018 is 2.18% [2017 – 1.73%]. Investments mature from January 10, 2019 to December 1, 2064 [2017 – January 2, 2018 to December 1, 2048].

According to the investment policy for the Endowment Fund adopted by City Council, investment earnings are paid to the City at the lesser of 6.5% and the actual earnings of the Endowment Fund, provided that the market value of the Fund is not reduced below the original \$200,000 investment. In 2018, \$6,162 [2017 – \$13,000] was distributed from the Endowment Fund to the City.

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THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISE

Investment [100% owned] in Hydro Ottawa

The following table provides condensed supplementary financial information for Hydro Ottawa under IFRS:

Table 16 - Hydro Ottawa condensed financial information - Assets

Financial position [As at December 31]	2018	2017
Current assets	\$208,337	\$271,368
Capital assets	1,573,661	1,391,356
Other assets	73,618	56,973
Total assets	1,855,616	1,719,697

Table 17 - Hydro Ottawa condensed financial information - Liabilities

Liabilities	2018	2017
Current liabilities	404,994	315,776
Other liabilities	987,647	965,731
Total liabilities	1,392,641	1,281,507
Net assets	\$462,975	\$438,190

Table 18 - Hydro Ottawa condensed financial information - Net assets

Net assets consisting of investment in Hydro Ottawa	2018	2017
Common shares [100%]	\$228,453	\$228,453
Retained earnings	229,318	209,080
Accumulated other comprehensive income	5,204	657
Net assets	\$462,975	\$438,190

Table 19 - Hydro Ottawa condensed financial information - Results of operations

Results of operations [For the year ended December 31]	2018	2017
Total revenue	\$1,138,562	\$1,172,028
Total expenses	1,096,424	1,136,053
Net income	\$42,138	\$35,975

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

5. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISE [CONTINUED]

The City, as holder of common shares in Hydro Ottawa, is entitled to receive dividends related to 2018 operations as declared by Hydro Ottawa's Board. Dividends in the amount of \$21,900 [2017 – \$20,600] were received in 2018 related to 2017 operations. During the year, the City purchased electricity from Hydro Ottawa at prices and terms approved by the Ontario Energy Board. In addition, the following transactions took place during the year:

Table 20 - Transactions with Hydro Ottawa

Services purchased from Hydro Ottawa by the City	2018	2017
Energy management consulting	\$3,890	\$2,180
Other services	16,384	17,058
Fees paid to the City by Hydro Ottawa	2018	2017
Property taxes, fuel, permits and other services	\$3,336	\$5,747

As at December 31, 2018, Hydro Ottawa's accounts receivable include \$14,980 [2017 – \$8,872] due in respect of the transactions above, while Hydro Ottawa's accounts payable and accrued liabilities include \$54 [2017 – \$53] due to the City and its subsidiaries.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise the following:

Table 21 - Accounts payable and accrued liabilities

Accounts payable and accrued liabilities	2018	2017
Trade payables and accruals	\$1,218,864	\$1,090,971
Payroll accruals and deductions	136,360	128,346
Total accounts payable and accrued liabilities	\$1,355,224	\$1,219,317

DRAFT

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

7. DEFERRED REVENUE

Deferred revenue, set aside for specific purposes by legislation, regulation or agreement, comprises the following.

Table 22 - Deferred revenue

Deferred revenue	2018	2017
Development charges	\$430,161	\$325,136
Other government transfers	36,898	47,444
Other deferred revenue	51,485	38,952
Building code	31,177	38,539
Cash in lieu of parkland	38,986	32,548
Total deferred revenue	\$588,707	\$482,619

8. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS

Employee future benefits and pension agreements liabilities comprise the following:

Table 23 - Employee future benefits and pension agreements

Employee future benefits and pension agreements	2018	2017
Employee future benefits	\$652,413	\$618,447
City of Ottawa Superannuation Fund	0	2,943
Total	\$652,413	\$621,390

[a] Employee future benefits

Employee future benefit liabilities of the City as at December 31, 2018, with comparative information for 2017, are as follows:

Table 24 - Employee future benefits

Employee future benefits	2018	2017
Post-retirement benefits	\$221,970	\$217,363
Post-employment benefits	304,708	270,383
Workplace Safety and Insurance Board ["WSIB"]	125,735	130,701
Total	\$652,413	\$618,447

The defined benefit plans relating to post-retirement and post-employment provide a variety of benefits to retirees and active and long-term disabled employees, including income, medical, dental, and life insurance; workers' compensation; and sick leave benefits.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

8. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS [CONTINUED]

The City is a Schedule 2 employer under the *Workplace Safety and Insurance Act* and, as such, assumes full responsibility for financing its workplace safety insurance costs. The accrued obligation represents the present value of future benefits on existing claims.

The continuity for post-retirement, post-employment, and WSIB benefits for 2018 is as follows:

Table 25 - Employee future benefits continuity

Employee future benefits continuity	Post-retirement	Post-employment	WSIB	Total
Balance, at the beginning of the year	\$217,363	\$270,383	\$130,701	\$618,447
Current service costs/cost of new claims	8,010	60,861	14,159	83,030
Interest cost	5,754	10,091	3,425	19,270
Amortization of actuarial loss (gain)	(1,725)	8,069	(2,311)	4,033
Benefits paid	(7,432)	(44,696)	(20,239)	(72,367)
Balance, at the end of the year	\$221,970	\$304,708	\$125,735	\$652,413

Expenses for post-retirement and post-employment benefits and WSIB in the amount of \$106,333 [2017 – \$95,401] are recorded on the consolidated statement of operations and accumulated surplus.

The liability for post-retirement and post-employment benefits is calculated based on an estimate of future outlays required under contractual agreements with various City employee bargaining units. These estimates are based on a number of assumptions regarding the expected costs of benefits, which are dependent on the demographic makeup of the various groups, future interest rates, and inflation rates. The liability for WSIB is calculated based on an estimate of future claims to be insured. This is based on a number of assumptions including future interest rates, inflation rates, and the history of claims with City employees. The City engages the services of an actuarial consulting firm to provide a determination of the City's obligation for post-retirement and post-employment benefits, as well as for WSIB benefits.

Due to the complexities in valuing the plans, actuarial valuations are conducted on a periodic basis. The liabilities for post-retirement and post-employment benefits reported in these consolidated financial statements are based on a valuation as of September 30, 2018 with an extrapolation to December 31, 2018. The liability for WSIB benefits reported in these consolidated financial statements is based on a valuation as of December 31, 2015 with an extrapolation to December 31, 2018.

Gains or losses are generated each year due to changes in assumptions and corrections or clarifications to the plan design previously provided by the City. These gains or losses are amortized over the expected average remaining service life of the related employee groups

THE CITY OF OTTAWA
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DECEMBER 31, 2018 [dollars in thousands]

8. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS [CONTINUED]

beginning in the year following the gain or loss. Amortization of the 2018 actuarial gain of \$29,095 [2017 – loss of \$16,216] for post-retirement and post-employment benefits will commence in fiscal 2019. Amortization of the 2018 actuarial gain of \$14,125 [2017 – gain of \$23,087] for WSIB will commence in fiscal 2019.

The significant actuarial assumptions adopted in measuring the City's accrued benefit obligations and benefit cost for post-retirement, post-employment benefits and WSIB are as follows:

Table 26 - Actuarial assumptions

Actuarial assumptions	2018	2017
Discount rate	3.20%	3.00%
Inflation rate	2.00%	2.00%
Salary increase rate	1.99% to 2.50% in 2019 2.00% to 2.50% in 2020 2.00 to 2.50% thereafter	1.79% to 2.50 in 2018 1.99% to 2.50 in 2019 2.00 to 2.50% thereafter
Health care inflation rate	5.90% grading down to 4.00% in 2040	5.11% grading down to 4.50% in 2029

An employee benefits reserve has been established to help reduce the future impact of employee future benefit obligations. As at December 31, 2018, the balance in the employee benefits reserve was \$57,568 [2017 – \$55,216] [see note 15].

[b] Pension agreements

[i] Ontario Municipal Employees' Retirement Fund

The City makes contributions to the Ontario Municipal Employees Retirement System ["OMERS"], which is a multi-employer pension plan, on behalf of most of its employees.

The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. The City's contribution to the OMERS plan for 2018 totalled \$123,028 [2017 – \$120,680] for current services and is included as an expense on the consolidated statement of operations and accumulated surplus. These contributions were matched with identical employee contributions for both years.

As OMERS is a multi-employer pension plan, the City does not recognize in its consolidated financial statements any share of the pension plan deficit of \$2,790,000 [2017 surplus – \$605,000] as this is a joint responsibility of all Ontario municipalities and their employees.

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8. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS [CONTINUED]

The amount contributed for past service to OMERS for the year ended December 31, 2018 totalled \$739 [2017 – \$741] and is included as an expense on the consolidated statement of operations and accumulated surplus.

[ii] City of Ottawa Superannuation Fund

The City sponsors the City of Ottawa Superannuation Fund ["COSF"], a defined benefit plan that provides retirement benefits to employees based on length of service and rates of pay. With the introduction of OMERS, the COSF became a closed group in 1965. As at December 31, 2018, there were no active members and 530 pension recipients. Pension payments during 2018 amounted to \$17,355 [2017 – \$19,700]. No employee or matching employer contributions to this pension plan for current service were required in 2018 or 2017. Employer contributions for past service were nil in 2018 [2017– \$1,358].

The reported accrued benefit liability is as follows:

Table 27 - City of Ottawa Superannuation Fund pension accrued benefit liability

City of Ottawa Superannuation Fund	2018	2017
Pension fund assets – end of the year	\$164,146	\$175,972
Accrued benefit obligation – end of the year	145,728	168,173
Plan surplus	18,418	7,799
Unamortized actuarial gains	10,248	10,742
Valuation allowance	8,170	0
Accrued benefit liability	\$0	\$2,943

Table 28 - Superannuation fund pension-related expenses

Expenses	2018	2017
Amortization of actuarial gains	\$(10,742)	\$(5,828)
Pension interest (income) expense	(371)	159
Change in valuation allowance	8,170	0
Total pension-related expenses	\$(2,943)	\$(5,669)

There is no remaining service life in this plan.

The actuarial valuation performed for accounting purposes was based on a number of assumptions that are based on management's best estimates and are in accordance with accepted actuarial practice. Inflation rate was estimated at 2.00% [2017 – 2.00%] and the discount rate for the plan was estimated at 4.95% [2017 – 4.75%].

The accrued benefit obligations and benefit cost levels will change in the future as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of true experience gains or losses.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS [CONTINUED]

Emerging experience, differing from the assumptions, will result in gains or losses that will be included in future accounting valuations.

The last filed actuarial valuation for funding purposes dated December 31, 2017 quantified a surplus of \$8,900 [December 31, 2016 deficit – \$2,500] on a going concern basis.

The market value of the assets of the plan as at December 31, 2018 amounted to \$158,814 [2017 – \$180,912].

[iii] Ottawa-Carleton Regional Transit Commission Employees' Pension Plan

The City sponsors the Ottawa-Carleton Regional Transit Commission ["OC Transpo"] Employees' Pension Plan, a defined benefit plan that provides retirement benefits to employees based on length of service and rates of pay. Effective January 1, 1999, OC Transpo adopted the OMERS pension plan for all employees and new hires to accrue future benefits. Members retiring with both pre-1999 and post-1998 service will receive pension incomes under both plans. Net pension payments during 2018 amounted to \$31,044 [2017 – \$30,076]. No employee or matching employer contributions to this pension plan for current service were required in 2018 or 2017. Employer contributions for past service during 2018 amounted to \$15 [2017 – \$27].

The pension fund assets disclosed are based on a valuation method whereby the capital gains and losses on the assets are partially recognized in the year in which they are incurred and the remainder are recognized in the following year. The reported pension asset is as follows:

Table 29 - OC Transpo Employees' pension asset

OC Transpo Employees' Pension Plan	2018	2017
Pension fund assets – end of the year	\$639,423	\$637,646
Accrued benefit obligation – end of the year	544,362	559,643
Plan surplus	95,061	78,003
Unamortized actuarial gains	(42,473)	(44,624)
Valuation allowance	(52,588)	(33,379)
Reported pension asset	\$0	\$0

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

8. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS [CONTINUED]

Table 30 - OC Transpo Employees' pension-related expenses

Expenses	2018	2017
Amortization of actuarial gain	\$(15,295)	\$(9,856)
Pension interest income	(3,901)	(2,601)
Change in valuation allowance	19,210	12,484
Total pension-related expenses	\$14	\$27

The expected average remaining service life of this plan is five years.

The market value of the assets of the plan as at December 31, 2018 amounted to \$620,348 [2017 – \$663,578].

The actuarial valuation performed for accounting purposes was based on a number of assumptions that are based on management's best estimates and are in accordance with accepted actuarial practice. The inflation rate was estimated at 2.00% [2017 – 2.00%], the discount rate for the plan was estimated at 5.10% [2017 – 5.00%], and long-term salary forecasts for actuarial purposes were estimated at 3.25% [2017 – 3.25%].

The accrued benefit obligations and benefits cost levels will change in the future as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of true experience gains or losses.

Emerging experience, differing from the assumptions, will result in gains or losses that will be included in future accounting valuations.

The last filed actuarial valuation for funding purposes dated January 1, 2018 quantified a solvency deficit of \$28,936 [2017 – \$53,250]. The solvency deficit is being amortized over five years starting in 2018. In 2018, the City contributed an amount of \$15 [2017 – \$27] to the plan and increased the amount secured by a letter of credit by \$5,787 [2017 – \$7,650] in lieu of additional contributions, bringing the total amount outstanding under the letter of credit to \$87,170 [2017 – \$81,383].

THE CITY OF OTTAWA
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DECEMBER 31, 2018 [dollars in thousands]

9. LANDFILL CLOSURE AND POST-CLOSURE LIABILITIES

The *Ontario Environmental Protection Act* sets out the regulatory requirements for the closure and maintenance of landfill sites. Under this Act, the City is required to provide for closure and post-closure care of solid waste landfill sites. The costs related to these obligations are included in operating expenses over the estimated remaining life of the landfill sites based on usage. The liability for closure and post-closure active and inactive sites is reported on the consolidated statement of financial position.

Table 31 - Landfill closure and post closure liabilities

Landfill closure and post-closure liabilities	2018	2017
Active sites	\$12,261	\$11,608
Inactive sites	13,429	13,606
Total	\$25,690	\$25,214

Active sites

The City has two active landfill sites, Trail Road Landfill and Springhill. The City has responsibilities for all costs relating to closure and post-closure care for these active landfill sites. As at December 31, 2018, the remaining capacity of the Trail Road site is approximately 6,074,527 [2017 – 5,626,833] cubic metres, all of which is expected to be used by the year 2043 [2017 – 2043]. The remaining capacity at the Springhill site is approximately nil [2017 – 286,346] cubic metres.

Closure of the Trail Road Landfill and Springhill sites will involve covering the sites, implementing drainage control, and installing groundwater monitoring wells and gas recovery facilities. Post-closure care activities for these sites are expected to occur for approximately 25 years. Although cost estimates have been provided in early 2017 by a third-party engineering consultant, a plan to cap Phases 1-4 of the Springhill site is currently with the Ministry of the Environment, Conservation and Parks.

The estimated liability for the landfill sites is based on future expenses, adjusted for inflation based on the Consumer Price Index 10-year average rate of 1.55% [2017 – 1.58%] and discounted to current dollars using the City's average long-term borrowing rate of 3.31% [2017 – 3.36%]. This estimate amounts to \$12,261 as at December 31, 2018 [2017 – \$11,608]. In order to help reduce the future impact of these obligations, the City has established reserves for the care of these sites. As at December 31, 2018, the balance in these reserves was \$5,249 [2017 – \$4,768] and is included with other discretionary reserves [see note 15].

Estimated total undiscounted expenses over the 25-year post-closure period amount to approximately \$30,087.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

9. LANDFILL CLOSURE AND POST-CLOSURE LIABILITIES [CONTINUED]

Inactive sites

The City has identified 44 inactive or closed landfill sites. Of the total, 15 sites require ongoing monitoring over the next 25 years. Post-closure care activities for landfill sites will involve surface and groundwater monitoring, maintenance of drainage structures, monitoring leachate and landfill gas, and maintenance of the landfill cover.

The estimated liability for the inactive or closed landfill sites is based on future expenses, adjusted for inflation based on the Consumer Price Index 10-year average rate of 1.55% [2017 – 1.58%] and discounted to current dollars using the City's average long-term borrowing rate of 3.31% [2017 – 3.36%]. The estimated present value of future expenditures for post-closure care for inactive sites as at December 31, 2018 is \$13,429 [2017 – \$13,606]. Estimated total undisclosed expenses over the 25-year post-closure period amount to approximately \$15,149.

10. CONTAMINATED SITES

Contaminated sites are a result of a contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environment standard. The liability relates to sites that are not in productive use and for which the City is responsible or has accepted responsibility for remediation, future economic benefit will be given up and costs can be reasonably estimated.

Liabilities are recorded for the estimated costs related to the management and remediation of contaminated sites where the City is likely to be obligated to incur costs. The liability estimate includes costs that are directly attributable to remediation activities and reflects the costs required to bring the site up to the current environmental standard for its use prior to contamination. The assumptions used in estimating the liability include a unique assessment of the depth of soil to be removed and disposed for each property as well as excavation, trucking and backfilling soft costs.

The City recognized an estimated liability of \$8,633 [2017 – \$9,217] for remediation of 41 [2017 – 43] contaminated land sites based on the estimated costs of removal and replacement of contaminated soil.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. NET LONG-TERM DEBT

[a] Net long-term debt reported on the consolidated statement of financial position comprises the following:

Table 32 - Net long-term debt

Net long-term debt	2018	2017
Installment and sinking fund debenture issued at various rates of interest ranging from 1.20% to 6.20%, and maturing from April 19, 2019 to July 30, 2053	\$1,989,564	\$2,092,078
Bank loan agreements and interest rate exchange agreements	54,727	64,934
Total value of sinking fund deposits, which have accumulated to the end of the year to retire sinking fund debentures included in the above amount	(132,206)	(124,117)
Total	\$1,912,085	\$2,032,895

[b] Principal payments including contributions to the sinking fund in future years are as follows:

Table 33 - Principal payments on net long-term debt

Principal payments	
2019	\$119,349
2020	107,553
2021	105,264
2022	92,707
2023	92,447
2024 and thereafter	926,674
Total	\$1,443,994

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11. NET LONG-TERM DEBT [CONTINUED]

Principal payments will be funded from tax and rate-supported operations. It is estimated that interest to be earned by the sinking fund will amount to approximately \$468,091, which together with the amount of \$1,443,994 shown above will be used to retire the outstanding total debt of \$1,912,085.

The City has entered into interest rate swap agreements to manage the volatility of interest rates. The City converted notional floating rate debt totalling \$54,727 [2017 – \$64,934] to fixed rate debt with interest rates ranging from 1.705% to 5.92%. The related derivative agreements are in place until the maturity of the debts in 2021, 2022, 2025 and 2031.

These interest rate swaps qualify, and have been designated by the City, as cash flow hedging items against the floating rate long-term debt. The City has assessed the hedging relationship as effective. If the interest rate swaps were cancelled as at December 31, 2018, the City would receive the market value of \$76 [2017 – (\$163)].

The City has entered into bank swap agreements to improve budget certainty for commodity costs. As at December 31, 2018, the City had set bank swaps in place to hedge 53,200,000 litres [2017 – 34,500,000 litres] of diesel fuel for the 2019 and 2020 calendar years with expiry dates ranging from January 2019 to December 2020 [2017 – January 2018 to June 2019]. The City has assessed the relationship as effective. If the commodity swaps were cancelled as at December 31, 2018, the City would pay the swap counterparty the market value of \$5,206 [2017 – (\$3,393)].

[c] In 2017, the City executed an Assignment and Assumption Agreement with the long-term lenders for Stage 1 of the Light Rail Project. With this agreement, the long-term lenders transferred all their rights and obligations under the existing credit agreement with Project Co (borrower) to the City (assignee), and in exchange, the City issued debentures in the equivalent principal amount with the equivalent repayment profile and interest rate to the long-term lenders. The City has netted the long-term receivable from Project Co with the long-term payable to the long-term lenders for the principal amount of \$225,000 on the consolidated statement of financial position. The key economic terms of the loan receivable are identical but not all the terms and conditions imposed on Project Co were transferred to the debenture agreement. The debentures issued by the City were issued at an interest rate of 4.89% and mature on June 30, 2047. Principal payments in future years are as follows:

THE CITY OF OTTAWA
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11. NET LONG-TERM DEBT [CONTINUED]

Table 34 - Principal repayments on Light Rail Debt

Principal payments	
2019	\$224
2020	533
2021	5,192
2022	7,038
2023	7,382
2024 and thereafter	204,631
Total	\$225,000

The City has also netted revenue received from Project Co with expenses paid to long-term lenders for debt servicing in the amount of \$11,012 on the consolidated statement of operations and accumulated surplus.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

12. MORTGAGES PAYABLE

Table 35 - Mortgages payable

Mortgages payable	2018	2017
Mortgages payable on housing properties at various rates ranging from 2.70% to 6.75% guaranteed by the Canada Mortgage and Housing Corporation with maturity dates ranging from August 2, 2019 to January 1, 2029 and debentures payable to Infrastructure Ontario maturing from 2036 to 2048 with interest rates ranging from 3.27% to 4.96%	\$263,230	\$264,030
Forgivable loans related to Canada Ontario Affordable Housing Program and Residential Rehabilitation Assistance Program	3,260	3,285
Total	\$266,490	\$267,315

[a] Public housing debentures issued by Canada Mortgage and Housing Corporation in the amount of \$15,185 [2017 – \$22,439] related to OCHC have not been included in these consolidated financial statements as they are the responsibility of the Province.

Mortgages and forgivable loans on housing properties are governed by operating agreements with the Province and/or Canada Mortgage and Housing Corporation and involve no direct or indirect obligation to the City.

With respect to the debenture payable to Infrastructure Ontario of \$206,982 [2017 – \$202,458], per OCHC's direction, the City has transferred directly to Infrastructure Ontario amounts equivalent to the annual principal and interest payments owing on the debentures of \$12,302 [2017 – \$10,452]. These payments form part of the annual subsidy provided by the City to OCHC, which is calculated based on OCHC's annual information return.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

12. MORTGAGES PAYABLE [CONTINUED]

Mortgages for three OCHC properties were refinanced in 2018 after detailed appraisals were conducted. The revised appraisals allowed OCHC to borrow additional funds while maintaining the same annual payments on the debt for the refinanced properties, providing \$7,091 of funding to be utilized for future capital repairs.

[b] Principal repayments in future years are as follows:

Table 36 - Principal repayments on mortgages payable

Principal repayments	
2019	\$9,927
2020	10,081
2021	10,204
2022	10,364
2023	10,556
2024 and thereafter	215,358
Total	\$266,490

The principal payments in 2018 totaled \$9,762 [2017 – \$10,072].

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

13. CAPITAL LEASE OBLIGATIONS

The City leases the following facilities and equipment as detailed below:

Table 37 - Capital lease obligations

Capital lease obligations	Office building	Paramedic services building	Shenkman Arts Centre
Lease term	24 years	30 years	30 years
Interest rate	6.00%	5.79%	4.99%
Purchase option	\$10,000	nil	nil

Future minimum payments for the above capital leases are as follows:

Table 38 - Future minimum payments on capital leases

Future payments	Office building		Paramedic services building		Shenkman Arts Centre		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$4,000	\$2,300	\$654	\$936	\$753	\$1,679	\$5,407	\$4,915
2020	4,240	2,060	690	898	846	1,640	5,776	4,598
2021	4,495	1,805	729	858	971	1,595	6,195	4,258
2022	4,764	1,535	769	815	1,097	1,544	6,630	3,894
2023	5,050	1,250	813	772	1,115	1,488	6,978	3,510
Thereafter	22,077	1,571	14,085	4,741	29,267	10,747	65,429	17,059
Total	\$44,626	\$10,521	\$17,740	\$9,020	\$34,049	\$18,693	\$96,415	\$38,234

THE CITY OF OTTAWA
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2018 [dollars in thousands]

14. TANGIBLE CAPITAL ASSETS FOR 2018 WITH COMPARATIVES FOR 2017

Table 39 - Tangible capital assets - cost

Cost	Buildings and improvements	Infrastructure		Land	Land improvements
		Linear roads	Linear water/wastewater		
Balance, beginning of year	\$2,201,645	\$3,807,216	\$5,786,978	\$2,803,634	\$677,455
Additions	76,058	221,642	293,678	40,848	22,814
Disposals	(4,805)	(1,710)	(6,147)	(3,487)	(194)
Balance, end of year	2,272,898	4,027,148	6,074,509	2,840,995	700,075

Table 40 - Tangible capital assets - accumulated amortization

Accumulated amortization	Buildings and improvements	Infrastructure		Land	Land improvements
		Linear roads	Linear water/wastewater		
Balance, beginning of year	900,487	1,506,312	1,439,662	0	248,481
Disposals	(3,071)	(905)	(1,969)	0	(99)
Amortization expense	47,456	86,899	70,545	0	15,117
Balance, end of year	944,872	1,592,306	1,508,238	0	263,499
Net book value, end of year	\$1,328,026	\$2,434,842	\$4,566,271	\$2,840,995	\$436,576

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

14. TANGIBLE CAPITAL ASSETS FOR 2018 WITH COMPARATIVES FOR 2017
[CONTINUED]

Table 41 - Tangible capital assets - cost (continued)

Cost	Machinery, plant and equipment	Vehicles	Assets under construction	Total 2018	Total 2017
Balance, beginning of year	\$1,480,098	\$1,040,379	\$2,735,572	\$20,532,977	\$19,382,952
Additions	92,827	21,314	219,260	988,441	1,179,983
Disposals	(4,297)	(15,522)	(222)	(36,384)	(29,958)
Balance, end of year	1,568,628	1,046,171	2,954,610	21,485,034	20,532,977

Table 42 - Tangible capital assets - accumulated amortization (continued)

Accumulated amortization	Machinery, plant and equipment	Vehicles	Assets under construction	Total 2018	Total 2017
Balance, beginning of year	582,419	515,154	0	5,192,515	4,888,061
Disposals	(3,631)	(14,060)	0	(23,735)	(18,057)
Amortization expense	43,286	72,784	0	336,087	322,511
Balance, end of year	622,074	573,878	0	5,504,867	5,192,515
Net book value, end of year	\$946,554	\$472,293	\$2,954,610	\$15,980,167	\$15,340,462

Assets under construction

During 2018, the City acquired \$988,441 [2017 – \$1,179,983] of assets under construction. As assets were placed into service, transfers in the amount of \$769,181 [2017 – \$622,489] were made from assets under construction to the respective asset classes to arrive at a net balance of \$219,260 [2017 – \$557,494] disclosed above.

Works of art and historical treasures

Ottawa City Council approved a Public Art Program ["PAP"] in 1985 to maintain and circulate the City's corporate art collection. The City's PAP collection includes over 1,700 works of art. The City also owns the Firestone Art Collection, consisting of 1,605 historical Canadian works of art produced from 1900 to 1980, which is housed and managed by the Ottawa Art Gallery. Works of art are not recorded in the City's consolidated financial statements.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

14. TANGIBLE CAPITAL ASSETS FOR 2018 WITH COMPARATIVES FOR 2017
[CONTINUED]

Contributed tangible capital assets

The value of contributed tangible capital assets received during 2018 amounts to \$318,684 [2017 – \$205,693] and is included in additions disclosed above.

The value of impaired tangible capital assets during 2018 amounts to nil [2017 – nil].

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THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

15. ACCUMULATED SURPLUS

Accumulated surplus consists of individual fund surplus, reserves, and equity in government business enterprise.

Table 43 - Accumulated surplus

Accumulated Surplus is comprised of the following:

	2018	2017
Invested in tangible capital assets	\$13,677,648	\$12,909,705
Capital fund – unfinanced capital financing	(233,944)	(40,620)
Endowment fund	168,170	160,217
Employee future benefits and pension agreements	(652,413)	(621,390)
Landfill closure and post-closure liabilities	(25,690)	(25,214)
Brownfields	(53,119)	(22,070)
Contaminated sites	(8,633)	(9,217)
Other	(65,700)	(68,987)
Total	12,806,319	12,282,424

Table 44 - Accumulated surplus (continued)

Reserves	2018	2017
Restricted reserves		
Gas tax	102,752	64,559
Total restricted reserves	102,752	64,559
Discretionary reserves		
Environmental services	132,674	69,781
Transit	59,946	65,609
Housing	76,765	75,244
Employee benefits	57,567	55,216
Tax stabilization	31,249	35,982
Parking	27,605	27,333
City wide	18,780	26,164
Corporate fleet	7,280	23,480
Other	11,555	17,845
Total discretionary reserves	423,421	396,654
Total reserves	526,173	461,213
Equity in government business enterprise		
[note 5]	462,975	438,190
Accumulated surplus	\$13,795,467	\$13,181,827

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

16. CONTINGENCIES, COMMITMENTS AND CONTRACTUAL RIGHTS

[a] In the course of its business, the City becomes involved in various claims and legal proceedings. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. A provision for these claims has been recorded in the consolidated financial statements based on management's best estimate of the likely outcome. Should claims be settled for amounts other than established accruals, which could be material to the financial results in the year of settlement, the outstanding amounts will be offset against operations as incurred.

[b] The City has the following contractual obligations for capital works over the next three years:

Table 45 - Contractual obligations for capital works

Contractual obligations for capital works	
2019	\$602,130
2020	106,941
2021	25,088
2022	2,666
2023	4,115

[c] The City is committed to the following payments over the next five years under operating lease agreements for building and equipment:

Table 46 - Building and equipment lease payments

Building and equipment lease payments	
2019	\$16,445
2020	13,124
2021	9,282
2022	5,166
2023	3,857

[d] In February 2013, the City entered into an agreement for the construction, service and maintenance of a light rail transit system, as well as for the widening of Highway 417. The contractor must design, construct, supply, test, commission, maintain and finance the Ottawa Light Rail Transit system and must widen certain portions of Highway 417.

The City is committed to making payments of \$261,667 including applicable taxes, through a final milestone payment and a revenue service availability payment for the light rail transit system and highway works during the projected 2019 construction period.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

16. CONTINGENCIES, COMMITMENTS AND CONTRACTUAL RIGHTS
[CONTINUED]

The City has committed to making a series of monthly service payments during the 30-year maintenance and service term. Payments include \$48,141 in the first full year of operation in base date [2013] dollars for capital construction costs deferred beyond the construction period, as well as for maintenance costs associated with the light rail system and vehicles. Annual payments will be adjusted as service levels change, and a portion will be adjusted for inflation, in accordance with the project agreement. The City has also committed to a series of payments for lifecycle costs, and for maintenance costs that will vary with service kilometres.

[e] As at December 31, 2018, Hydro Ottawa has total open commitments amounting to \$141,435 for 2019 to 2025. The commitments relate to a customer information system service agreement, construction projects, spare parts and standby equipment and overhead and underground services.

[f] The City has commitments for the purchase of ice rental time in the amounts of \$1,933, \$8,429 and \$18,019 in accordance with three public-private partnership agreements. These commitments are set to expire in 2027, 2034 and 2043, respectively.

[g] The City has entered into guarantees of loans amounting to \$127,720 arranged to provide financing for the development of ice rinks, the construction of a paramedic headquarters facility, the development of an arts centre and Lansdowne roof replacement under public-private partnerships. The City's guarantees for ice rinks, the paramedic facility and Lansdowne roof replacement also cover the borrowers' obligations under interest rate derivative agreements to manage the volatility of interest rates. The total amount outstanding under guarantees as of December 31, 2018 is \$113,226. The City has converted floating rate debt in the amount of \$98,830 for fixed rate debt ranging from 2.849% to 6.49% on four guarantees. The related derivative agreements are in place until the maturity of the debts in 2044. The City's guarantee of the loan in connection with the arts centre facility does not involve interest rate derivative agreements since the loans are on a fixed interest rate basis.

[h] On June 28, 2010, City Council authorized a payment covenant guarantee that may require the City to make annual payments of up to \$1,463 in respect of a loan in the amount of \$20,700 for the construction and operation of a trade and exhibition centre. The covenant agreement was signed by the City on April 15, 2011, and expires on April 15, 2041. No payments have been made on this guarantee in 2018 [2017 – nil].

[i] On October 12, 2012, the City entered into an agreement with Ottawa Sports and Entertainment Group ["OSEG"] to revitalize Lansdowne park. The Master Limited Partnership agreement was established to manage the construction and future net positive cash flows that will be distributed based on a waterfall of priorities as set out in the agreement. The net positive cash flows will be distributed with priority to life cycle reserves,

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

16. CONTINGENCIES, COMMITMENTS AND CONTRACTUAL RIGHTS
[CONTINUED]

and then OSEG Partners, and then to the City of Ottawa, with remaining cash balances to be evenly split between the City and OSEG. On December 31, 2044, the agreement will expire unless the agreement between the City and OSEG is terminated early.

[j] The Ottawa Art Gallery Expansion and Arts Court Redevelopment project was completed in 2018. The integrated, dynamic arts facility is part of a long-standing vision for the revitalization of Ottawa's downtown. The City sold development rights that will allow for the construction of a new tower with underground parking on the site. The City has contractual rights to the \$4,500 in revenue from development rights in accordance with project agreement.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

17. TAXES AVAILABLE FOR MUNICIPAL PURPOSES

Table 47 - Taxes available for municipal purposes

Taxes available for municipal purposes	2018	2017
Property taxes	\$2,087,245	\$1,966,393
Payment in lieu of taxes	169,748	194,798
Local improvements and other charges	7,540	7,067
Less education taxes	(487,811)	(464,628)
Total taxes available for municipal purposes	\$1,776,722	\$1,703,630

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THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

18. EXPENSES BY OBJECT

The consolidated statement of operations and accumulated surplus represents the expenses by function; the following classifies those same expenses by object:

Table 48 - Expenses by object

Expenses by object	2018	2017
Salaries, wages and employee benefits	\$1,646,307	\$1,582,093
Contracted and general services	371,539	341,013
Materials, equipment and supplies	473,976	462,012
Interest charges	99,358	94,220
Rent and financial expenses	83,724	66,809
External transfers	551,616	448,934
Amortization	336,087	322,511
(Gain) loss on disposal	(11,314)	9,638
Total expenses	3,551,293	\$3,327,230

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

19. SEGMENTED INFORMATION
CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE
For the year ended December 31, 2018

Table 49 - Consolidated schedule of segment disclosure

	General Government	Protection	Roads, Traffic and Parking	Transit	Environmental Services	Health Services
REVENUE						
Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Government transfers - provincial	51	9,867	9,250	37,754	29,162	102,333
Government transfers - federal	0	2,290	23,187	157,352	30,397	0
Fees and user charges	13,752	64,124	25,404	183,955	386,337	2,622
Contributed tangible capital assets	0	0	69,235	697	213,928	0
Development charges	0	2,757	13,681	33,555	22,197	0
Fines and penalties	294	16,289	0	0	0	0
Other	56	830	0	4,312	179	0
Total revenue	14,153	96,157	140,757	417,625	682,200	104,955
EXPENSES	General Government	Protection	Roads, Traffic and Parking	Transit	Environmental Services	Health Services
Salaries and benefits	70,213	476,112	122,636	319,326	99,886	138,345
Contracts and general services	10,001	51,693	78,067	70,885	93,003	11,374
Materials, equipment and supplies	17,257	43,283	69,249	107,446	58,317	16,318
Interest charges	1,300	1,628	21,494	15,604	29,616	1,221
Rent and financial expenses	13,778	5,561	10,930	1,940	4,454	3,328
External transfers	0	9,852	0	0	1,768	0
Amortization	983	13,581	109,434	67,409	97,292	4,820
Loss (gain) on disposal	9	108	810	293	4,348	177
Total expenses	113,541	601,818	412,620	582,903	388,684	175,583
ANNUAL SURPLUS (DEFICIT)	\$(99,388)	\$(505,661)	\$(271,863)	\$(165,278)	\$293,516	\$(70,628)

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

19. SEGMENTED INFORMATION [CONTINUED]
CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE

For the year ended December 31, 2018

Table 50 - Consolidated schedule of segment disclosure (continued)

REVENUE	Social and Family Services	Social Housing	Recreation and Cultural Services	Planning and Development	Non Departmental	Total
Taxes	\$0	\$0	\$0	\$0	\$1,776,722	\$1,776,722
Government transfers - provincial	417,645	80,679	4,397	5,070	8,156	704,364
Government transfers - federal	0	26,993	2,240	10,690	0	253,149
Fees and user charges	19,193	69,324	61,508	29,466	2,110	857,795
Contributed tangible capital assets	0	0	32,049	2,775	0	318,684
Development charges	3,502	2	3,924	11	403	80,032
Fines and penalties	0	0	768	0	18,088	35,439
Other	0	15,671	4,684	16,964	91,505	134,201
Total revenue	440,340	192,669	109,570	64,976	1,896,984	4,160,386
EXPENSES	Social and Family Services	Social Housing	Recreation and Cultural Services	Planning and Development	Non Departmental	Total
Salaries and benefits	139,504	45,136	201,697	33,452	0	1,646,307
Contracts and general services	9,973	3,891	38,299	4,353	0	371,539
Materials, equipment and supplies	14,129	79,972	63,005	5,000	0	473,976
Interest charges	1,342	11,884	12,478	2,791	0	99,358
Rent and financial expenses	5,188	5,682	1,258	31,605	0	83,724
External transfers	380,501	127,623	9,568	22,304	0	551,616
Amortization	1,914	16,469	23,738	447	0	336,087
Loss (gain) on disposal	8	42	(18,291)	1,182	0	(11,314)
Total expenses	552,559	290,699	331,752	101,134	0	3,551,293
ANNUAL SURPLUS (DEFICIT)	\$(112,219)	\$(98,030)	\$(222,182)	\$(36,158)	\$1,896,984	\$609,093

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]
19. SEGMENTED INFORMATION [CONTINUED]
CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE
For the year ended December 31, 2017

Table 51 - 2017 Consolidated schedule of segment disclosure [see note 22]

REVENUE	General Government	Protection	Roads, Traffic and Parking	Transit	Environmental Services	Health Services
Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Government transfers - provincial	29	7,870	0	36,895	12,569	97,485
Government transfers - federal	30	3,467	41	59,890	6,449	5
Fees and user charges	17,254	60,211	26,383	182,806	366,069	3,156
Contributed tangible capital assets	59	2,805	36,095	18	147,746	0
Development charges	0	6,109	49,040	108,326	26,414	0
Fines and penalties	2,521	13,146	0	0	0	0
Other	38	508	2,923	250	0	0
Total revenue	19,931	94,116	114,482	388,185	559,247	100,646
EXPENSES	General Government	Protection	Roads, Traffic and Parking	Transit	Environmental Services	Health Services
Salaries and benefits	59,909	454,526	123,476	305,447	97,271	144,103
Contracts and general services	8,137	39,948	90,843	46,806	91,262	10,767
Materials, equipment and supplies	13,112	39,184	64,004	105,676	52,807	13,342
Interest charges	1,392	1,920	21,584	12,940	25,807	1,336
Rent and financial expenses	15,039	3,659	3,242	19,326	2,918	2,947
External transfers	39	9,795	0	0	1,475	0
Amortization	1,192	13,649	103,645	64,409	93,435	4,569
Loss (gain) on disposal	1	422	3,967	(56)	3,381	(2)
Total expenses	98,821	563,103	410,761	554,548	368,356	177,062
ANNUAL SURPLUS (DEFICIT)	\$(78,890)	\$(468,987)	\$(296,279)	\$(166,363)	\$190,891	\$(76,416)

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 [dollars in thousands]

19. SEGMENTED INFORMATION [CONTINUED]
CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE
For the year ended December 31, 2017

Table 52 - 2017 Consolidated schedule of segment disclosure (continued)

	Social and Family Services	Social Housing	Recreation and Cultural Services	Planning and Development	Non Departmental	Total
REVENUE						
Taxes	\$0	\$0	\$0	\$0	\$1,703,630	\$1,703,630
Government transfers - provincial	349,272	61,618	6,317	17	7,334	579,406
Government transfers - federal	0	28,320	5,506	0	0	103,708
Fees and user charges	18,759	66,676	60,800	14,801	2,950	819,865
Contributed tangible capital assets	0	0	4,581	14,389	0	205,693
Development charges	0	2,886	7,876	10,800	5,625	217,076
Fines and penalties	0	0	964	0	17,537	34,168
Other	0	16,958	3,266	28,600	72,424	124,967
Total revenue	368,031	176,458	89,310	68,607	1,809,500	3,788,513
EXPENSES						
Salaries and benefits	131,385	42,786	190,032	33,158	0	1,582,093
Contracts and general services	10,339	2,020	34,781	6,110	0	341,013
Materials, equipment and supplies	12,467	98,166	57,619	5,635	0	462,012
Interest charges	1,467	12,242	12,676	2,856	0	94,220
Rent and financial expenses	0	5,925	3,332	10,421	0	66,809
External transfers	326,549	92,818	8,427	9,831	0	448,934
Amortization	1,928	16,575	22,624	485	0	322,511
Loss (gain) on disposal	3	0	51	1,871	0	9,638
Total expenses	484,138	270,532	329,542	70,367	0	3,327,230
ANNUAL SURPLUS (DEFICIT)	\$(116,107)	\$(94,074)	\$(240,232)	\$(1,760)	\$1,809,500	\$461,283

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

19. SEGMENTED INFORMATION [CONTINUED]

The City is responsible for providing a wide range of services to its citizens, including police, fire, ambulance, public transit, and water.

The City reports on functional areas and programs in its consolidated financial statements similar to reporting reflected as part of the Ontario Financial Information Return.

These functional areas represent segments for the City of Ottawa, and expanded disclosure by object has been reflected in the above consolidated schedules of segmented disclosure.

A brief description of each segment follows:

- General government consists of Council, administration, and Ontario Property Assessment.
- Protection consists of police, fire, and other protective services. These groups maintain the safety and security of all citizens by reducing or eliminating loss of life and property, by maintaining law enforcement, and preserving peace and good order.
- Roads, traffic and parking include parking, signs and signals, streetlights and the maintenance of roads and parks of the City.
- Transit services provide local public transportation for citizens. They also include other transportation services such as planning and development.
- Environmental services include water supply and distribution, wastewater treatment, storm sewer systems and waste and recycling services. These services provide clean drinking water to residents, collect and treat wastewater, and collect and properly process waste and recycling items.
- Health services include paramedic and health services. Mandated health services promote and maintain health programs that optimize the health of residents. Paramedic services deliver timely and effective care for pre-hospital emergency care, along with medically required inter-hospital transportation.
- Social and family services include social assistance, long-term care, and childcare services. Social assistance services determine, issue, and monitor clients' eligibility for financial, social, and employment assistance. Long-term care services provide secure and supervised health services for seniors who can no longer live at home. Childcare services provide subsidized childcare spaces and provide funding for wage subsidy, pay equity, and special needs.
- Social housing, with the partnership of 120 community-based agencies, provides a range of services, including housing, emergency shelters, outreach, search, and stabilization to people in the community.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 *[dollars in thousands]*

19. SEGMENTED INFORMATION [CONTINUED]

- Recreation and cultural services include parks and recreation, culture, and libraries. Parks and recreation services develop and deliver high-quality recreational programs, and develop and maintain recreation facilities, parks and sports fields to ensure all residents have the opportunity to enjoy a healthy lifestyle. Culture services invest in local non-profit organizations that deliver services on behalf of the City. Library services provide public library services to the citizens via physical facilities, bookmobile, virtual, and telephone services.
- Planning and development services manage urban development for residential and business interests, as well as infrastructure and parks.
- Non departmental includes equity in earnings of government business enterprise, investment income, shared lottery earnings, and miscellaneous sundry revenue.

Program support costs for expenses have been allocated to other functions using guidelines and methodologies reflected in the Ontario Financial Information Return.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 2.

20. PUBLIC LIABILITY INSURANCE

The City self-insures for public liability claims up to a specific amount, and outside coverage is in place for claims in excess of these limits.

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21. BUDGET AMOUNTS

Budget data presented in these consolidated financial statements is based upon the 2018 operating and capital budgets approved by Council. Council-approved budgets are prepared on a modified cash basis, which differs from budget amounts reported on the consolidated statement of operations and accumulated surplus, which are prepared in accordance with Canadian public sector accounting standards. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements. Actuals have been used to approximate budget amounts for certain reconciling items that were not included in the Council budget. Budgeted transfers from/to other funds and budgeted proceeds on debt issues/debt principal payments are the only two items that were included in the Council budget; actuals have been used to estimate budget amounts for all other items in the table below.

Table 53 - Budget reconciliation

Budget reconciliation	Revenue	Expenses
Budget as approved by Council		
Operating	\$3,446,933	\$3,446,933
Capital	729,393	729,393
Add		
Consolidated entities	166,063	166,063
Contributed assets	318,684	0
Reserve fund revenue	50,088	0
Hydro Ottawa Holding Inc. equity pickup	20,238	0
Interest earned on sinking fund	4,401	4,401
Timing difference between capital authority and capital spending plan	0	455,832
Change in employee future benefits and pension agreements	0	30,187
Change in other obligations to be funded	0	27,370
Amortization	0	336,087
	<u>4,735,800</u>	<u>5,196,266</u>
Less		
Reclassifications and eliminations	(14,266)	(14,246)
Timing difference between capital authority and capital spending plan	(76,918)	0
Acquisition of tangible capital assets	0	(988,441)
Gain on disposal	0	(23,735)
Budgeted transfer from/to other funds	(518,056)	(550,812)
Budgeted proceeds on debt issue/debt principal payments	(78)	(84,399)
	<u>(609,318)</u>	<u>(1,661,633)</u>
Budget for financial statement purposes	\$4,126,482	\$3,534,633

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22. COMPARATIVE FIGURES

Certain comparative figures for 2017 have been reclassified to conform with the presentation adopted for the current year.

23. RELATED PARTY TRANSACTIONS

The City enters into transactions with its subsidiary corporations in the normal course of business, under terms and conditions similar to those that apply to unrelated parties. All material related party transactions are either disclosed below or in the relevant notes. These transactions are measured at their exchange amounts.

Streetlighting LED Conversion

In 2014, the City entered into an agreement with a subsidiary of Hydro Ottawa to convert 58,000 streetlights to LED at a guaranteed fixed price with a payback period of six years. The installation began in 2016 and will be complete in 2020. Future commitments are as follows:

Table 54 - Streetlight conversion schedule

Streetlight conversion schedule	
2019 (15,000 units)	\$7,200
2020 (9,000 units)	4,300
Total	\$11,500

24. SUBSEQUENT EVENTS

In March 2017, the City entered into a Memorandum of Understanding (MOU) with RTG for vehicles and the Belfast MSF Expansion. On March 6, 2019, Council approved the Stage 2 Light Rail Transit (LRT) Project, which includes the Trillium Line Extension Project and the Confederation Line Extension Project. The total approved budget for these contracts including City works for Stage 2 LRT is \$4,657,445, a portion of which is already recognized in the assets under construction and in the commitments (note 16) for the MOU with RTG.

The Trillium Line Extension Project is a design, build, finance and maintain (DBFM) agreement for rehabilitation of the existing and extension of Trillium Line system. The project agreement was finalized and executed on March 28, 2019. The City is committed to construction period payments and revenue service availability payment totalling \$660,000 up to 2022. The City has also committed to monthly service payments covering maintenance, insurance, administration and lifecycle costs during the 27 year maintenance term to 2048 that will total \$362,000 in 2018 dollars. The monthly service payments also include the repayment of \$136,200 for capital costs deferred beyond the construction period and financed by private debt and equity.

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24. SUBSEQUENT EVENTS [CONTINUED]

The Confederation Line Extension Project is a design, build, and finance (DBF) agreement with no maintenance component since the MOU with RTG includes maintenance of the Stage 1 and Stage 2 Confederation Line as the extensions become operational. The project agreement was finalized and executed on April 24, 2019. The City is committed to construction period payments of \$2,571,000 to 2024 for the eastern extension and 2025 for the western extension.

Payments for the maintenance costs for the first full year of operation (2026) is expected to be \$92,100 (in 2019\$) for Confederation Line (stage 1 and stage 2) and Trillium Line.

The Province of Ontario and the Government of Canada made formal commitments (\$1,208,000 and \$1,091,000 respectively) in capital funding and the City entered into contribution agreements with both the Federal and Provincial governments on March 28, 2019. The City's net capital requirement will be funded by Federal and Provincial gas tax, as well as development charges, debt financing and other revenue sources including Federal Public Transit Infrastructure Funding (a portion of which has already been funded).

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APPENDIX 1 - CONDENSED SUPPLEMENTARY INFORMATION

OTTAWA PUBLIC LIBRARY BOARD

As at December 31, 2018, with comparative information for 2017 [dollars in thousands]

The Ottawa Public Library Board is consolidated with the City of Ottawa. The following table provides condensed supplementary information for the Ottawa Public Library Board.

Table 55 - Ottawa Public Library Board - Financial position

Financial position	2018	2017
Financial assets	\$54,579	\$29,677
Liabilities	34,561	32,023
Net assets (debt)	20,018	(2,346)

Table 56 - Ottawa Public Library Board - Non-financial assets

Non-financial assets	2018	2017
Tangible capital assets	43,375	45,051
Prepaid expenses	250	715
Total non-financial assets	43,625	45,766
Accumulated surplus	\$63,643	\$43,420

Consolidated statement of operations and accumulated surplus

For the year ended December 31, 2018, with comparative information for 2017 [dollars in thousands]

Table 57 - Ottawa Public Library Board - Consolidated statement of operations and accumulated surplus - Revenue

Revenue	2018	2017
City of Ottawa	\$51,072	\$47,180
Province of Ontario - Ministry of Tourism, Culture and Sport		
Operating funding (PLOG)	1,210	1,210
Pay equity funding (PLOG)	170	170
IT and service capacity (OLCF)	118	218
Innovation and research grant (OLCF)	0	29
Development charges	272	1,289
Proceeds from sale of Main library building	18,365	0
Other	162	2,716
Total revenue	\$71,369	\$52,812

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Table 58 - Ottawa Public Library Board - Consolidated statement of operations and accumulated surplus - Expenses

Expenses	2018	2017
Operating expenditures	51,146	50,833
Total expenses	51,146	50,833
Annual surplus	20,223	1,979
Accumulated surplus, beginning of the year	43,420	41,441
Accumulated surplus, end of the year	\$63,643	\$43,420

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