

Financial Statements

City of Ottawa Sinking Fund

December 31, 2018

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the **City of Ottawa Sinking Fund** (the "Sinking Fund"), which comprise the statement of financial position as at December 31, 2018, and the statement of operations and changes in fund balances and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Sinking Fund as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Ottawa, Canada
Date to be added

Chartered Professional Accountants
Licensed Public Accountants

CITY OF OTTAWA SINKING FUND

STATEMENT OF FINANCIAL POSITION

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

Financial assets	2018	2017
Cash	\$ 695	\$ 2,157
Investments at amortized cost <i>[note 2]</i>	131,064	121,668
Receivable <i>[note 6]</i>	160	—
Accrued interest	286	292
Total financial assets	132,205	124,117
Financial liabilities and fund balance		
Actuarial requirements <i>[note 3]</i>	131,419	121,857
Total financial liabilities	131,419	121,857
Fund balance		
Fund balance	786	2,260
Total liabilities and fund balance	\$ 132,205	\$ 124,117

See accompanying notes

CITY OF OTTAWA SINKING FUND

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

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

Revenue	2018	2017
Contribution – levies <i>[note 5]</i>	\$23,687	\$ 15,395
Investment income	4,401	3,961
Total revenue	28,088	19,356
Expenditures		
Provision for actuarial requirements	29,562	19,536
Total expenditure	29,562	19,536
Deficiency of revenue over expenditures for the year	(1,474)	(180)
Fund balance, beginning of year	2,260	2,440
Fund balance, end of year	\$786	\$ 2,260

See accompanying notes

CITY OF OTTAWA SINKING FUND

STATEMENT OF CASH FLOWS

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

OPERATING ACTIVITIES	2018	2017
Deficiency of revenue over expenditures for the year	\$(1,474)	\$(180)
Add (deduct) items not affecting cash		
Actuarial requirements	29,562	19,536
Amortization of discount on investments	(2,308)	(2,254)
Change in non-cash working capital balances related to operations		
Receivable	(160)	—
Accrued interest	6	(43)
Cash provided by operating activities	25,626	17,059
INVESTING ACTIVITIES		
Purchases of investments	(29,090)	(26,120)
Proceeds from maturities of investments	22,002	11,043
Cash used in investing activities	(7,088)	(15,077)
FINANCING ACTIVITIES		
Maturity of debenture	(20,000)	—
Cash used in financing activities	(20,000)	—
Change in cash		
Net increase (decrease) in cash during the year	(1,462)	1,982
Cash, beginning of year	2,157	175
Cash, end of year	\$695	\$2,157

See accompanying notes

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

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Ottawa Sinking Fund [the “Sinking Fund”] have been prepared by management in accordance with accounting principles prescribed by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations, which have been made using careful judgment. There was no budget prepared for the Sinking Fund. The following is a summary of the significant accounting policies:

Revenue recognition

Contributions are recognized as revenue in the year receivable. Investment income is recorded when earned.

Investments

Investments are purchased with the intention of being held to maturity. Gains and losses are recognized when investments are sold. If there has been a decline in the value of investments, other than temporary, the investments are written down to market value. Under certain circumstances, investments may be sold prior to maturity in accordance with the approved Sinking Fund Investment Policy. All investments are initially recorded at cost and are adjusted annually for amortization of discount or premium on the basis of the effective yield as determined at the date of purchase, with the amount of such amortization included in investment income in the statement of operations and changes in fund balances.

Provision for actuarial requirements

The provision for actuarial requirements of the Sinking Fund for the year represents the amounts levied during the year as set out in the Sinking Fund debenture by-laws plus interest accrued thereon, capitalized at specific rates compounded annually in accordance with Paragraphs 1 and 2 of Section 409(2) of the *Ontario Municipal Act*, 2001. The actuarial requirement is to accumulate an amount sufficient to pay the related debentures upon maturity. The excess of revenue over these requirements for the year is included in the fund balance.

Accounts payable – contributors

When certain Sinking Fund balances are more than sufficient to meet the principal amount of the debentures represented by the Sinking Fund accounts at maturity date, City Council may distribute such excess in accordance with Sections 409(11) and (12) of the *Ontario Municipal Act*, 2001.

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New Accounting Standards

The Public Sector Accounting Board issued new accounting 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. The adoption of PS 3320 and PS 3380 did not result in additional note disclosures. The disclosure on PS 2200 is included in Note 6.

In addition to these disclosure standards, the Sinking Fund adopted PS 3420 Inter-entity Transactions which establishes the accounting and reporting for transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. The adoption of this new standard did not result in any financial impact on the Fund's financial statements.

2. INVESTMENTS AT AMORTIZED COST

Investments consist of securities issued by the following:

	2018	2017
Government of Canada	\$1,436	\$11,078
Provincial governments and agencies	60,301	61,807
Municipal governments		
City of Ottawa	1,122	3,167
Other municipalities	42,684	25,072
Other	25,521	20,544
Amortized cost	131,064	121,668
Par value	162,022	149,922
Market value	\$133,547	\$127,428

3. ACTUARIAL REQUIREMENTS AND INVESTMENTS FOR DEBENTURE RETIREMENT

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

Actuarial requirement	2018	2017
Balance – beginning of year	\$121,857	\$102,320
By-law maturity	(20,000)	—
Provision for actuarial requirements	29,562	19,537
Balance – end of year	\$131,419	\$121,857

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

Year	Par value of investment and cash	Commitments at maturity	Current year actuarial requirements related to commitments maturing in future years
2019	47,403	65,000	60,341
2026	1,700	—	—
2029	2,663	—	—
2031	3,533	97,838	—
2032	4,846	43,000	—
2033	2,144	100,000	—
2034	2,323	—	—
2035	11,250	—	—
2036	5,855	—	—
2037	11,052	—	—
2038	14,672	—	—
2039	1,886	—	—
2040	10,678	—	—
2041	21,413	—	—
2042	6,534	325,000	44,355
2044	5,150	—	—
2045	1,000	—	—
2046	3,500	100,000	—
2047	—	102,000	2,331
2048	3,120	500,000	14,481
2052	1,300	—	—
2053	—	154,000	9,911
Total	\$ 162,022	1,486,838	131,419

The commitments at maturity include debentures issued in 2010, 2012, 2013, and 2015 amounting to \$340,838 [By-law 2010-121, 2010-267, 2012-189, 2013-323, 2015-120], which do not require levy contributions for the year ended December 31, 2018.

CITY OF OTTAWA SINKING FUND
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The weighted average yield to maturity on par value of investments held by the Sinking Fund as at December 31, 2018 is 3.477% [2017 – 3.627%].

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

4. ADMINISTRATIVE COSTS

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

5. REVENUE – CONTRIBUTION – LEVIES

In accordance with By-law 72 of 1999, a levy of \$3,211 is to be contributed each year to the Sinking Fund which combined with the budgeted 3.5% actuarial investment rate of return would accumulate sufficient funds to meet the \$65,000 principal amount that matures on September 10, 2019. The actual investment rate of return has exceeded the actuarial investment rate of return resulting in a surplus in excess of the actuarial requirement. In accordance with the Municipal Act, Council has the authority to reduce levies when a forecast surplus has accumulated in excess of the forecast maturity value. That being said, Council approved the reduction to this levy from \$3,211 to \$2,507 which is calculated to be sufficient to accumulate the required principal maturity values of \$65,000.

6. RELATED PARTY TRANSACTION

The Sinking Fund entered into a receivable transaction with City of Ottawa in the normal course of business, under terms and conditions similar to those that apply to unrelated parties. The Sinking Fund levy contribution receivable from the City of Ottawa as at December 31, 2018 was \$160.