

Consolidated Financial Statements

The City of Ottawa

December 31, 2016

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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 (PSAB) of the Chartered Professional Accountants of Canada. The 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 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 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 AUDITORS' REPORT

To the Mayor and Members of Council

We have audited the accompanying consolidated financial statements of **The City of Ottawa**, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of operations and accumulated surplus, change in net debt, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **The City of Ottawa** as at December 31, 2016 and the results of its operations, its change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ottawa, Canada

Chartered Professional Accountants

June, 2017

Licensed Public Accountants

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THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2016, with comparative information as at December 31, 2015 [dollars in thousands]

Table 1 - Consolidated statement of financial position - Financial assets

| Financial assets | 2016 | 2015 |
|---|------------------|------------------|
| Cash and cash equivalents | \$257,124 | \$95,017 |
| Accounts receivable [note 3] | 630,299 | 626,590 |
| Investments [note 4] | 1,273,376 | 1,387,644 |
| Investment in government business enterprise [note 5] | 426,795 | 413,397 |
| Total financial assets | 2,587,594 | 2,522,648 |

Table 2 - Consolidated statement of financial position - Liabilities

| Liabilities | 2016 | 2015 |
|--|--------------------|--------------------|
| Accounts payable and accrued liabilities [note 6] | 1,148,444 | 1,001,255 |
| Deferred revenue [note 7] | 563,272 | 497,903 |
| Employee future benefits and pension agreements [note 8] | 595,152 | 588,553 |
| Accrued interest | 25,763 | 23,809 |
| Landfill closure and post-closure [note 9] | 24,676 | 20,828 |
| Contaminated sites [note 10] | 9,374 | 6,801 |
| Net long-term debt [note 11] | 1,710,431 | 1,621,896 |
| Mortgages payable [note 12] | 237,230 | 215,563 |
| Capital lease obligations [note 13] | 106,269 | 110,514 |
| Total liabilities | 4,420,611 | 4,087,122 |
| Net debt | (1,833,017) | (1,564,474) |

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

| Non-financial assets | 2016 | 2015 |
|--------------------------------------|---------------------|---------------------|
| Tangible capital assets [note 14] | 14,494,891 | 13,741,490 |
| Inventories | 32,174 | 25,189 |
| Prepaid expenses | 30,476 | 20,871 |
| Total non-financial assets | 14,557,541 | 13,787,550 |
| Accumulated surplus [note 15] | \$12,724,524 | \$12,223,076 |

Contingencies and commitments [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, 2016, with comparative information for the year ended December 31, 2015 [dollars in thousands]

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

| Revenue | 2016 Budget [note 21] | 2016 Actual | 2015 Actual |
|---|--------------------------------------|------------------------|------------------------|
| Taxes available for municipal purposes [note 17] | \$1,671,093 | \$1,653,541 | \$1,626,544 |
| Government transfers | 881,439 | 907,057 | 858,647 |
| Fees and user charges | 809,566 | 815,294 | 783,282 |
| Contributed tangible capital assets | 182,296 | 182,296 | 184,121 |
| Development charges | 123,579 | 121,851 | 137,743 |
| Investment income | 36,241 | 40,570 | 29,575 |
| Fines and penalties | 27,387 | 31,618 | 27,416 |
| Other revenue | 34,191 | 30,730 | 22,010 |
| Share of earnings of government business enterprise [note 5] | 32,436 | 34,836 | 32,370 |
| Total revenue | 3,798,228 | 3,817,793 | 3,701,708 |

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

| Expenses | 2016 Budget [note 21] | 2016 Actual | 2015 Actual |
|---|--------------------------------------|------------------------|------------------------|
| General government | 95,903 | 92,017 | 95,681 |
| Protection to persons and property | 573,864 | 578,309 | 557,516 |
| Roads, traffic and parking | 400,538 | 413,504 | 426,978 |
| Transit | 578,035 | 563,769 | 556,332 |
| Environmental services | 389,704 | 381,763 | 378,303 |
| Health services | 161,832 | 162,164 | 163,260 |
| Social and family services | 441,283 | 463,604 | 441,631 |
| Social housing | 271,256 | 273,291 | 259,246 |
| Recreation and cultural services | 318,062 | 316,348 | 333,828 |
| Planning and development | 65,690 | 69,538 | 61,739 |
| Total expenses [note 18] | 3,296,167 | 3,314,307 | 3,274,514 |
| Annual surplus | 502,061 | 503,486 | 427,194 |
| Accumulated surplus, beginning of the year | 12,270,888 | 12,223,076 | 11,789,207 |
| Other comprehensive income (loss) | (2,038) | (2,038) | 6,675 |
| Accumulated surplus, end of the year | \$12,770,911 | \$12,724,524 | \$12,223,076 |

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, 2016, with comparative information for the year ended December 31, 2015 [dollars in thousands]

Table 6 - Consolidated statement of change in net debt

| Consolidated statement of change in net debt | 2016 Budget | 2016 Actual | 2015 Actual |
|---|------------------------|------------------------|------------------------|
| Annual surplus | 502,061 | 503,486 | \$427,194 |
| Acquisition of tangible capital assets including contributed assets | (1,093,107) | (1,093,107) | (929,418) |
| Amortization of tangible capital assets | 318,951 | 318,951 | 332,300 |
| Loss on disposal of tangible capital assets | 18,431 | 18,431 | 40,313 |
| Proceeds on disposal of tangible capital assets | 2,324 | 2,324 | 1,814 |
| Supply of inventories | (6,985) | (6,985) | (603) |
| Prepaid expenses | (9,605) | (9,605) | 3,117 |
| Change in net debt | (267,930) | (266,505) | (125,283) |
| Net debt, beginning of the year | (1,564,474) | (1,564,474) | (1,445,866) |
| Other comprehensive income (loss) | (2,038) | (2,038) | 6,675 |
| Net debt, end of the year | \$(1,834,442) | \$(1,833,017) | \$(1,564,474) |

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, 2016, with comparative information for the year ended December 31, 2015 [dollars in thousands]

Table 7 - Consolidated statement of cash flows - Operating activities

| OPERATING ACTIVITIES | 2016 | 2015 |
|---|----------------|----------------|
| Annual surplus | \$503,486 | \$427,194 |
| Items not affecting cash | | |
| Share of earnings of government business enterprise | (34,836) | (32,370) |
| Amortization of tangible capital assets | 318,951 | 332,300 |
| Contributed tangible capital assets | (182,296) | (184,121) |
| Loss on disposal of tangible capital assets | 18,431 | 40,313 |
| Cash provided by operating activities, adjusted for non-cash items | 623,736 | 583,316 |
| Changes in non-cash assets and liabilities | | |
| Increase in accounts receivable | (3,709) | (190,997) |
| Increase in inventories | (6,985) | (603) |
| Decrease (increase) in prepaid expenses | (9,605) | 3,117 |
| Increase in accounts payable and accrued liabilities | 147,189 | 216,272 |
| Increase (decrease) in deferred revenue | 65,369 | (32,482) |
| Increase in employee future benefits and pension agreements | 6,599 | 26,358 |
| Increase (decrease) in accrued interest | 1,954 | (154) |
| Increase in landfill closure and post-closure liabilities | 3,848 | 10,559 |
| Increase (decrease) in liabilities for contaminated sites | 2,573 | (194) |
| Cash provided by operating activities | 830,969 | 615,192 |

Table 8 - Consolidated statement of cash flows - Capital activities

| CAPITAL ACTIVITIES | 2016 | 2015 |
|---|------------------|------------------|
| Acquisition of tangible capital assets | (910,811) | (745,297) |
| Proceeds on disposal of tangible capital assets | 2,324 | 1,814 |
| Cash applied to capital activities | (908,487) | (743,483) |

Table 9 - Consolidated statement of cash flows - Investing activities

| INVESTING ACTIVITIES | 2016 | 2015 |
|---|----------------|------------------|
| Decrease (increase) in investments | 114,268 | (290,439) |
| Dividends from Hydro Ottawa Holding Inc. | 19,400 | 18,200 |
| Cash provided by (applied to) investing activities | 133,668 | (272,239) |

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF CASH FLOWS [CONTINUED]

For the year ended December 31, 2016, with comparative information for the year ended December 31, 2015 [dollars in thousands]

Table 10 - Consolidated statement of cash flows - Financing activities

| FINANCING ACTIVITIES | 2016 | 2015 |
|--|-----------------|-------------|
| New debt issued | 222,676 | 167,419 |
| Interest earned on sinking funds | (3,448) | (2,988) |
| Debt principal repayments | | |
| Net long-term debt | (98,225) | (90,400) |
| Mortgages | (10,801) | (10,952) |
| Capital lease obligations | (4,245) | (3,001) |
| Cash provided by financing activities | 105,957 | 60,078 |

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

| Change in cash and cash equivalents | 2016 | 2015 |
|--|------------------|-------------|
| Increase (decrease) in cash and cash equivalents during the year | 162,107 | (340,452) |
| Cash and cash equivalents, beginning of the year | 95,017 | 435,469 |
| Cash and cash equivalents, end of the year | \$257,124 | \$95,017 |

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

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 *[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, 2016 [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 |
| The Bank Street BIA | The Somerset Village BIA |
| The Westboro Village BIA | The Preston Street BIA |
| The Sparks Street BIA | The Byward Market BIA |
| The Somerset Street Chinatown BIA | The Downtown Rideau BIA |
| The Glebe BIA | The Barrhaven BIA |
| | The Wellington West BIA |
| | The Kanata North BIA |
| | The Bells Corners 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, 2016 [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, property tax assessment appeals, legal claims, landfill closure and post-closure liabilities and liabilities for contaminated sites. 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, 2016 *[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 have 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 from the City's Endowment Fund.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Other revenue

Other revenue includes revenue from cash in lieu of parkland, cash in lieu of parking 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, 2016 *[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, 2016 *[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, 2016 *[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, 2016 *[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 and reserve funds

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

3. ACCOUNTS RECEIVABLE

Accounts receivable comprise the following:

Table 13 - Accounts receivable

| Accounts receivable | 2016 | 2015 |
|----------------------------------|------------------|-------------|
| Taxes and user charges | \$155,990 | \$155,561 |
| Federal government | 211,263 | 201,362 |
| Provincial government | 190,232 | 204,059 |
| Trade | 72,814 | 65,608 |
| Total accounts receivable | \$630,299 | \$626,590 |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

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 - 2016 investments breakdown

| Investments | 2016 | | |
|------------------------------------|--------------------|--------------------------|-----------------------|
| | Cost | Fair market value | Carrying value |
| Federal government bonds | \$179,780 | \$182,403 | \$179,780 |
| Provincial government bonds | 243,183 | 245,975 | 243,183 |
| Municipal government bonds | 214,850 | 219,112 | 214,850 |
| Corporate bonds (Schedule I banks) | 402,893 | 403,506 | 402,893 |
| Endowment [note 2] | 162,632 | 197,664 | 162,632 |
| Other | 70,038 | 69,675 | 70,038 |
| Total | \$1,273,376 | \$1,318,335 | \$1,273,376 |

Table 15 - 2015 investments breakdown

| Investments | 2015 | | |
|------------------------------------|--------------------|--------------------------|-----------------------|
| | Cost | Fair market value | Carrying Value |
| Federal government bonds | \$257,272 | \$263,764 | \$257,272 |
| Provincial government bonds | 211,089 | 216,301 | 211,089 |
| Municipal government bonds | 198,055 | 204,927 | 198,055 |
| Corporate bonds (Schedule I banks) | 503,728 | 504,599 | 503,728 |
| Endowment [note 2] | 170,576 | 186,080 | 170,576 |
| Other | 46,924 | 47,708 | 46,924 |
| Total | \$1,387,644 | \$1,423,379 | \$1,387,644 |

Included in the City's municipal government bonds portfolio are City of Ottawa debentures at coupon rates varying from 3.05% to 7.25% [2015 – 3.05% to 8.25%] with a carrying value of \$10,137 [2015 – \$10,790].

The holdings of the Endowment Fund are selected by professional portfolio managers engaged by the City and are subject to the investment policy adopted by City Council as detailed in note 2. The City determines the market value of the Fund to be maintained.

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, 2016 *[dollars in thousands]*

4. INVESTMENTS [CONTINUED]

The weighted average yield on investments held as at December 31, 2016 is 1.79% [2015 – 1.87%]. Investments mature from January 25, 2017 to December 1, 2048, [2015 – January 5, 2016 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 2016, \$18,000 [2015 – \$0] was distributed from the Endowment Fund to the City.

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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] | 2016 | 2015 |
|---|--------------------|--------------------|
| Current assets | \$283,446 | \$181,376 |
| Capital assets | 1,267,838 | 1,072,731 |
| Other assets | 79,294 | 30,256 |
| Total assets | \$1,630,578 | \$1,284,363 |

Table 17 - Hydro Ottawa condensed financial information - Liabilities

| Liabilities | 2016 | 2015 |
|--------------------------|------------------|------------------|
| Current liabilities | 267,504 | 159,976 |
| Other liabilities | 936,279 | 710,990 |
| Total liabilities | 1,203,783 | 870,966 |
| Net assets | \$426,795 | \$413,397 |

Table 18 - Hydro Ottawa condensed financial information – Net assets

| Net assets consisting of investment in Hydro Ottawa | 2016 | 2015 |
|--|------------------|------------------|
| Common shares [100%] | \$228,453 | \$228,453 |
| Retained earnings | 193,705 | 178,269 |
| Accumulated other comprehensive income | 4,637 | 6,675 |
| Net assets | \$426,795 | \$413,397 |

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

| Results of operations [For the year ended December 31] | 2016 | 2015 |
|---|-----------------|-----------------|
| Total revenue | \$1,205,735 | \$1,099,267 |
| Total expenses | 1,170,899 | 1,066,897 |
| Net income | \$34,836 | \$32,370 |

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5. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISE [CONTINUED]

The City, as holder of common shares in Hydro Ottawa, is entitled to receive dividends related to 2016 operations as declared by Hydro Ottawa's Board. Dividends in the amount of \$19,400 [2015 – \$18,200] were received in 2016 related to 2015 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 | 2016 | 2015 |
|---|----------------|-------------|
| Energy management consulting | \$8,882 | \$3,657 |
| Other services | 5,806 | 2,513 |
| Fees paid to the City by Hydro Ottawa | 2016 | 2015 |
| Property taxes, fuel, permits and other services | \$2,744 | \$2,165 |

As at December 31, 2016, Hydro Ottawa's accounts receivable include \$9,203 [2015 – \$5,595] due in respect of the transactions above, while Hydro Ottawa's accounts payable and accrued liabilities include \$136 [2015 – \$131] due to the City and its subsidiaries.

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 | 2016 | 2015 |
|---|--------------------|-------------|
| Trade payables and accruals | \$1,010,880 | \$891,659 |
| Payroll accruals and deductions | 137,564 | 109,596 |
| Total accounts payable and accrued liabilities | \$1,148,444 | \$1,001,255 |

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7. DEFERRED REVENUE

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

Table 22 - Deferred revenue

| Deferred revenue | 2016 | 2015 |
|-------------------------------|------------------|------------------|
| Development charges | \$413,204 | \$361,308 |
| Other government transfers | 33,973 | 25,553 |
| Other deferred revenue | 37,986 | 28,970 |
| Building code revenue | 46,524 | 51,006 |
| Cash in lieu of parkland | 27,485 | 27,007 |
| Cash in lieu of parking | 4,100 | 4,059 |
| Total deferred revenue | \$563,272 | \$497,903 |

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 | 2016 | 2015 |
|--|------------------|------------------|
| Employee future benefits | \$585,183 | \$565,420 |
| City of Ottawa Superannuation Fund | 9,969 | 23,133 |
| OC Transpo Employee's pension plan | 0 | 0 |
| Total | \$595,152 | \$588,553 |

[a] Employee future benefits

Employee future benefit liabilities of the City as at December 31, 2016, with comparative information for 2015, are as follows:

Table 24 - Employee future benefits

| Employee future benefits | 2016 | 2015 |
|---------------------------------|------------------|------------------|
| Post-retirement benefits | \$211,215 | \$203,351 |
| Post-employment benefits | 242,210 | 221,510 |
| WSIB | 131,758 | 140,559 |
| Total | \$585,183 | \$565,420 |

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.

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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 Workplace Safety and Insurance Board [“WSIB”] benefits for 2016 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 | \$203,351 | \$221,510 | \$140,559 | \$565,420 |
| Current service costs/cost of new claims | 9,348 | 42,319 | 5,070 | 56,737 |
| Interest cost | 5,649 | 6,831 | 3,870 | 16,350 |
| Amortization of actuarial loss | (84) | 2,136 | 0 | 2,052 |
| Benefits paid | (7,049) | (30,586) | (17,741) | (55,376) |
| Balance, at the end of the year | \$211,215 | \$242,210 | \$131,758 | \$585,183 |

Expenses for post-retirement and post-employment benefits in the amount of \$66,199 [2015 – \$62,216] 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, 2016 with an extrapolation to December 31, 2016. 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, 2016.

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

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8. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS [CONTINUED]

beginning in the year following the gain or loss. Amortization of the 2016 actuarial loss of \$7,171 [2015 – gain \$8,807] for post-retirement and post-employment benefits will

commence in fiscal 2017. Amortization of the 2016 actuarial loss of \$323 [2015 – nil] for WSIB will commence in fiscal 2017.

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 | 2016 | 2015 |
|------------------------------|---|--|
| Discount rate | 3.00% | 2.8% |
| Inflation rate | 2.00% | 2.00% |
| Salary increase rate | 1.75% to 2.50 in 2017 1.95% to 2.50 in 2018 2.00 to 2.50% there after | 2.00% to 2.50% in 2016 and thereafter |
| Health care inflation rate | 5.18% grading down to 4.50% in 2029 | 5.40% grading down to 4.50% in 2029 |

An employee benefits reserve fund has been established to help reduce the future impact of employee future benefit obligations. As at December 31, 2016, the balance in the employee benefits reserve fund was \$64,599 [2015 – \$69,307] [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 2016 totalled \$116,766 [2015 – \$117,732] 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 \$2,341,000 [2015 – \$5,259,000] as this is a joint responsibility of all Ontario municipalities and their employees.

THE CITY OF OTTAWA
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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, 2016 totalled \$535 [2015 – \$673] 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, 2016, there were no active members and 599 pension recipients. As at December 31, 2015, there were no active members and 634 pension recipients. Pension payments during 2016 amounted to \$17,329 [2015 – \$21,290]. No employee or matching employer contributions to this pension plan for current service were required in 2016 or 2015. Employer contributions for past service amounted to \$3,258 in 2016 [2015 – \$3,258].

The reported accrued benefit liability is as follows:

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

| City of Ottawa Superannuation Fund | 2016 | 2015 |
|--|------------------|-------------|
| Pension fund assets - end of the year | \$182,624 | \$181,812 |
| Accrued benefit obligation - end of the year | 186,765 | 194,513 |
| Plan deficiency | 4,141 | 12,701 |
| Unamortized actuarial gains | 5,828 | 10,432 |
| Liability at end of year | 9,969 | 23,133 |
| Accrued benefit liability | \$9,969 | \$23,133 |

Table 28 - Superannuation fund pension- related expenses

| Expenses | 2016 | 2015 |
|---|-------------------|-------------|
| Pension gain, including change in valuation allowance | \$(10,431) | \$(14,151) |
| Pension interest expense | 526 | 1,123 |
| Total pension-related expenses | \$(9,905) | \$(13,028) |

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% [2015 – 2.00%] and the discount rate for the plan was estimated at 4.60% [2015 – 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.

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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 reported pension liability of the above plan has been reflected on the consolidated statement of financial position.

The last filed actuarial valuation for funding purposes dated December 31, 2013 quantified a solvency deficit of \$19,000 [December 31, 2010 - \$32,352] on a going concern basis. The going concern deficit is being amortized over 4 years with annual contribution of \$3,258 to the plan by the City.

The market value of the assets of the plan as at December 31, 2016 amounted to \$186,817 [2015 – \$182,906].

[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 2016 amounted to \$31,486 [2015 – \$28,549]. No employee or matching employer contributions to this pension plan for current service were required in 2016 or 2015. Employer contributions for past service during 2016 amounted to \$3,048 [2015 – \$1,560].

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 | 2016 | 2015 |
|--|------------------|-------------|
| Pension fund assets – end of the year | \$631,258 | \$612,315 |
| Accrued benefit obligation – end of the year | 577,638 | 576,257 |
| Plan surplus | 53,620 | 36,058 |
| Unamortized actuarial gains | (32,727) | (26,789) |
| Accrued benefit asset | 20,893 | 9,269 |
| Valuation allowance | (20,893) | (9,269) |
| Reported pension asset | \$0 | \$0 |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

8. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS [CONTINUED]

Table 30 - OC Transpo Employees' pension - related expenses

| Expenses | 2016 | 2015 |
|--|------------------|-------------|
| Pension expense, including change in valuation allowance | \$(6,697) | \$(1,005) |
| Pension interest expense | (1,879) | (596) |
| Change in valuation allowance | 11,625 | 3,160 |
| Total pension-related expenses | \$3,049 | \$1,559 |

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

The market value of the assets of the plan as at December 31, 2016 amounted to \$634,997 [2015 – \$623,332].

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% [2015 – 2.00%], the discount rate for the plan was estimated at 4.80% [2015 – 5.00%], and long-term salary forecasts for actuarial purposes were estimated at 3.25% [2015 – 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, 2016 quantified a solvency deficit of \$45,735 [2015 – \$70,217]. The solvency deficit is being amortized over five years starting in 2016. In 2016, the City contributed an amount of \$3,048 [2015 – \$1,560] to the plan and increased the amount secured by a letter of credit by \$9,100 [2015 – \$12,924] in lieu of additional contributions, bringing the total amount outstanding under the letter of credit to \$73,733 [2015 – \$64,633]. On December 28, 2016, the City contributed an additional \$3,000 to the OC Transpo pension, which will further reduce the letter of credit in 2017. Many of the estimates and assumptions used in 2016 may change significantly with the next detailed actuarial valuation.

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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 | 2016 | 2015 |
|--|-----------------|-------------|
| Active sites | \$11,598 | \$10,379 |
| Inactive sites | 13,078 | 10,449 |
| Total | \$24,676 | \$20,828 |

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, 2016, the remaining capacity of the Trail Road site is approximately 5,826,365 [2015 – 5,885,250] cubic metres, all of which is expected to be used by the year 2043 [2015 – 2043]. The remaining capacity at the Springhill site is approximately 315,821 [2015 – 347,634] cubic metres, which is expected to be used by the year 2019 [2015 – 2019].

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.

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 1.64% [2015 – 1.70%] and discounted to current dollars using the City's average long-term borrowing rate of 3.30% [2015 – 3.58%]. This estimate amounts to \$11,598 as at December 31, 2016 [2015 – \$10,379]. In order to help reduce the future impact of these obligations, the City has established reserve funds for the care of these sites. As at December 31, 2016, the balance in these reserve funds was \$4,319 [2015 – \$3,878] and is included within transportation and environmental services reserve funds [see note 15].

Estimated total undiscounted expenses over the 25-year post-closure period amount to approximately \$30,214.

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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 1.64% [2015 – 1.70%] and discounted to current dollars using the City's average long-term borrowing rate of 3.30% [2015 – 3.58%]. The estimated present value of future expenditures for post-closure care for inactive sites as at December 31, 2016 is \$13,078 [2015 – \$10,449].

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 \$9,374 [2015 – \$6,801] for remediation of 44 [2015 – 44] contaminated land sites based on the estimated costs of removal and replacement of contaminated soil.

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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 | 2016 | 2015 |
|---|--------------------|--------------------|
| Installment and sinking fund debenture issued at various rates of interest ranging from 0.95% to 6.20%, and maturing from April 19, 2017 to July 30, 2053 | \$1,740,319 | \$1,647,945 |
| Bank loan agreements and interest rate exchange agreements | 74,873 | 63,399 |
| 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 | (104,761) | (89,448) |
| Total | \$1,710,431 | \$1,621,896 |

[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 | |
|---------------------------|--------------------|
| 2017 | \$105,548 |
| 2018 | 108,175 |
| 2019 | 110,214 |
| 2020 | 98,062 |
| 2021 | 95,774 |
| 2022 and thereafter | 857,673 |
| Total | \$1,375,446 |

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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 \$334,985, which together with the amount of \$1,375,446 shown above will be used to retire the outstanding total debt of \$1,710,431.

The City has entered into interest rate swap agreements to manage the volatility of interest rates. The City converted notional floating rate debt totalling \$74,873 [2015 – \$63,399] 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, 2016, the City would be required to pay the market value of \$1,984 [2015 – \$2,865]. The City has entered into bank swap agreements to improve budget certainty for commodity costs. As at December 31, 2016, the City had set bank swaps in place to hedge 50,250,000 litres [2015 – 44,250,000 litres] of diesel fuel for the 2017 and 2018 calendar years with expiry dates ranging from January 2017 to December 2018 [2015 – January 2016 to December 2017]. The City has assessed the relationship as effective. If the commodity swaps were cancelled as at December 31, 2016, the City would receive from the swap counterparty market value of \$2,627 [2015 – \$8,672].

12. MORTGAGES PAYABLE

Table 34 - Mortgages payable

| Mortgages payable | 2016 | 2015 |
|--|------------------|-------------|
| Mortgages payable on housing properties at various rates ranging from 2.70% to 8.0% guaranteed by the Canada Mortgage and Housing Corporation with maturity dates ranging from January 1, 2017 to February 1, 2029 and debentures payable to Infrastructure Ontario maturing from 2036 to 2046 with interest rates ranging from 3.27% to 4.71% | \$233,911 | \$212,165 |
| Forgivable loans related to Canada Ontario Affordable Housing Program and Residential Rehabilitation Assistance Program | 3,319 | 3,398 |
| Total | \$237,230 | \$215,563 |

THE CITY OF OTTAWA
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12. MORTGAGES PAYABLE [CONTINUED]

[a] Public housing debentures issued by Canada Mortgage and Housing Corporation in the amount of \$29,683 [2015 – \$36,747] 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 \$153,967 [2015 – \$107,945], 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 \$7,084 [2015 – \$5,530]. These payments form part of the annual subsidy provided by the City to OCHC, which is calculated based on OCHC’s annual information return.

Mortgages for eight OCHC properties were refinanced in 2016 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 \$31,500 of funding to be utilized for future capital repairs.

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

Table 35 - Principal repayments on mortgages payable

| Principal repayments | |
|-----------------------------|------------------|
| 2017 | \$10,710 |
| 2018 | 10,793 |
| 2019 | 10,810 |
| 2020 | 11,018 |
| 2021 | 10,562 |
| 2022 and thereafter | 183,337 |
| Total | \$237,230 |

The principal payments in 2016 totaled \$10,801 [2015 – \$10,952].

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13. CAPITAL LEASE OBLIGATIONS

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

Table 36 - 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 37 - 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 |
| 2017 | \$3,560 | \$2,739 | \$586 | \$1,005 | \$629 | \$1,747 | \$4,775 | \$5,491 |
| 2018 | 3,773 | 2,526 | 619 | 971 | 686 | 1,715 | 5,078 | 5,212 |
| 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 |
| Thereafter | 31,892 | 4,357 | 15,667 | 6,328 | 31,479 | 15,211 | 79,038 | 25,896 |
| Total | \$51,960 | \$15,787 | \$18,945 | \$10,996 | \$35,364 | \$23,587 | \$106,269 | \$50,370 |

THE CITY OF OTTAWA
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14. TANGIBLE CAPITAL ASSETS FOR 2016 WITH COMPARATIVES FOR 2015

Table 38 - Tangible capital assets - cost

| Cost | Buildings and improvements | Infrastructure | | Land | Land improvements |
|-----------------------------|----------------------------|------------------|-------------------------|------------------|-------------------|
| | | Linear roads | Linear water/wastewater | | |
| Balance, beginning of year | \$2,151,138 | \$3,488,636 | \$5,369,112 | \$2,712,099 | \$618,707 |
| Additions | 6,684 | 153,999 | 189,161 | 53,745 | 36,744 |
| Disposals | - | (17,968) | (6,505) | (582) | (193) |
| Balance, end of year | 2,157,822 | 3,624,667 | 5,551,768 | 2,765,262 | 655,258 |

Table 39 - Tangible capital assets - accumulated amortization

| Accumulated amortization | Buildings and improvements | Infrastructure | | Land | Land improvements |
|------------------------------------|----------------------------|--------------------|-------------------------|--------------------|-------------------|
| | | Linear roads | Linear water/wastewater | | |
| Balance, beginning of year | 805,886 | 1,363,421 | 1,312,488 | 0 | 217,320 |
| Disposals | - | (13,407) | (3,331) | 0 | (121) |
| Amortization expense | 48,073 | 77,675 | 65,699 | 0 | 16,991 |
| Balance, end of year | 853,959 | 1,427,689 | 1,374,856 | 0 | 234,190 |
| Net book value, end of year | \$1,303,863 | \$2,196,978 | \$4,176,912 | \$2,765,262 | \$421,068 |

THE CITY OF OTTAWA
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2016 [dollars in thousands]

14. TANGIBLE CAPITAL ASSETS FOR 2016 WITH COMPARATIVES FOR 2015
 [CONTINUED]

| Cost | Machinery, plant and equipment | Vehicles | Assets under construction | Total 2016 | Total 2015 |
|-----------------------------|---|------------------|--------------------------------------|---------------------|-------------------|
| Balance, beginning of year | \$1,409,470 | \$966,083 | \$1,638,162 | \$18,353,407 | \$17,497,952 |
| Additions | 31,077 | 71,518 | 550,179 | 1,093,107 | 929,418 |
| Disposals | (4,750) | (23,729) | (9,835) | (63,562) | (73,963) |
| Balance, end of year | 1,435,797 | 1,013,872 | 2,178,506 | 19,382,952 | 18,353,407 |

Table 40 - Tangible capital assets - Cost (continued)

| Accumulated amortization | Machinery, plant and equipment | Vehicles | Assets under construction | Total 2016 | Total 2015 |
|-------------------------------------|---|------------------|--------------------------------------|---------------------|-------------------|
| Balance, beginning of year | 507,990 | 404,812 | 0 | 4,611,917 | 4,311,453 |
| Disposals | (3,751) | (22,197) | 0 | (42,807) | (31,836) |
| Amortization expense | 39,696 | 70,817 | 0 | 318,951 | 332,300 |
| Balance, end of year | 543,935 | 453,432 | 0 | 4,888,061 | 4,611,917 |
| Net book value, end of year | \$891,862 | \$560,440 | \$2,178,506 | \$14,494,891 | \$13,741,490 |

Table 41 - Tangible capital assets - accumulated amortization (continued)

Assets under construction

During 2016, the City acquired \$1,093,107 [2015 – \$929,418] of assets under construction. As assets were placed into service, transfers in the amount of \$542,928 [2015 – \$676,689] were made from assets under construction to the respective asset classes to arrive at a net balance of \$550,179 [2015 – \$252,729] 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, 2016 [dollars in thousands]

14. TANGIBLE CAPITAL ASSETS FOR 2016 WITH COMPARATIVES FOR 2015
[CONTINUED]

Contributed tangible capital assets

The value of contributed tangible capital assets received during 2016 amounts to \$182,296 [2015 – \$184,121] and is included in additions disclosed above.

15. ACCUMULATED SURPLUS

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

Table 42 - Accumulated surplus

| Surplus | 2016 | 2015 |
|---|---------------------|--------------|
| Invested in tangible capital assets | \$12,415,787 | \$11,769,708 |
| Capital Fund – Unexpended Capital Financing | 87,185 | 166,641 |
| Employee future benefits and pension agreements | (595,152) | (588,553) |
| Landfill closure and post-closure liabilities | (24,676) | (20,828) |
| Contaminated sites | (9,374) | (6,801) |
| Other | (88,174) | (67,138) |
| Total surplus | 11,785,596 | 11,253,029 |
| Reserves set aside by Council | 6,523 | 7,371 |

Table 43 - Accumulated surplus (continued)

| Reserve funds set aside for specific purposes by Council | 2016 | 2015 |
|---|---------------------|--------------|
| Endowment | 165,309 | 168,228 |
| Transportation and environmental services | 160,574 | 227,672 |
| Social housing and child care | 66,955 | 51,983 |
| Equipment replacement | 35,366 | 21,723 |
| Insurance | 1,530 | 1,841 |
| Employment benefits | 64,599 | 69,307 |
| Other | 11,277 | 8,525 |
| Total reserve funds | 505,610 | 549,279 |
| Equity in government business enterprise [note 5] | 426,795 | 413,397 |
| Accumulated surplus | \$12,724,524 | \$12,223,076 |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 *[dollars in thousands]*

16. CONTINGENCIES AND COMMITMENTS

[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 five years:

| Contractual obligations for capital works | |
|--|-----------|
| 2017 | \$370,149 |
| 2018 | 606,051 |
| 2019 | 4,348 |
| 2020 | 3,936 |
| 2021 | 30 |

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

Table 44 - Building and equipment lease payments

| Building and equipment lease payments | |
|--|----------|
| 2017 | \$18,337 |
| 2018 | 12,399 |
| 2019 | 8,124 |
| 2020 | 6,612 |
| 2021 | 5,288 |

[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 \$554,010 including applicable taxes, through a series of milestone payments and a revenue service availability payment for the light rail transit system and highway works during the projected 2017 to 2018 construction period.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 *[dollars in thousands]*

16. CONTINGENCIES AND COMMITMENTS [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, 2016, Hydro Ottawa has total open commitments amounting to \$158,398 for 2017 to 2023. 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 \$2,301, \$9,267 and \$19,058 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 natural gas forward contracts to reduce price fluctuations of natural gas prices used in heating costs of the City. The City is committed to the following natural gas forward contracts over the next year:

Table 45 - Natural gas forward contracts

| Natural gas forward contracts | |
|--------------------------------------|--------------|
| 2017 | \$752 |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

16. CONTINGENCIES AND COMMITMENTS [CONTINUED]

[h] 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, 2016 is \$120,567. 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.

[i] 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 2016 [2015 – nil].

17. TAXES AVAILABLE FOR MUNICIPAL PURPOSES

Table 46 - Taxes available for municipal purposes

| Taxes available for municipal purposes | 2016 | 2015 |
|---|--------------------|-------------|
| Property taxes | \$1,945,145 | \$1,916,255 |
| Payment in lieu of taxes | 193,805 | 192,258 |
| Local improvements and other charges | 6,959 | 6,731 |
| Less education taxes | (492,368) | (488,700) |
| Total taxes available for municipal purposes | \$1,653,541 | \$1,626,544 |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 *[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 47 - Expenses by object

| Expenses by object | 2016 | 2015 |
|---------------------------------------|--------------------|-------------|
| Salaries, wages and employee benefits | \$1,604,026 | \$1,556,283 |
| Contracted and general services | 247,723 | 264,684 |
| Materials, equipment and supplies | 564,977 | 551,598 |
| Interest charges | 89,459 | 86,384 |
| Rent and financial expenses | 69,497 | 54,597 |
| External transfers | 401,243 | 388,355 |
| Amortization | 318,951 | 332,300 |
| Loss on disposal | 18,431 | 40,313 |
| Total expenses | \$3,314,307 | \$3,274,514 |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

19. SEGMENTED INFORMATION
CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE

For the year ended December 31, 2016

Table 48 - Consolidated schedule of segment disclosure

| REVENUE | General Government | Protection | Roads, Traffic and Parking | Transit | Environmental Services | Health Services |
|-------------------------------------|-----------------------|--------------------|----------------------------------|-----------------|---------------------------|--------------------|
| Taxes | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Government transfers - provincial | 58 | 8,856 | 4,744 | 148,044 | 15,386 | 94,516 |
| Government transfers - federal | 0 | 6,784 | (9) | 205,522 | 7,356 | 266 |
| Fees and user charges | 14,107 | 64,885 | 25,789 | 178,966 | 360,266 | 2,555 |
| Contributed tangible capital assets | 0 | 0 | 33,327 | 3,681 | 121,213 | 0 |
| Development charges | 0 | 2,224 | 46,614 | 38,266 | 20,115 | 0 |
| Fines and penalties | 2,066 | 12,586 | 0 | 0 | 0 | 0 |
| Other | 0 | 613 | 2,525 | 1,892 | 1,164 | 0 |
| Total revenue | 16,231 | 95,948 | 112,990 | 576,371 | 525,500 | 97,337 |
| EXPENSES | General Government | Protection | Roads, Traffic and Parking | Transit | Environmental Services | Health Services |
| Salaries and benefits | 68,822 | 488,283 | 134,339 | 304,040 | 79,723 | 136,224 |
| Contracts and general services | 5,702 | 18,017 | 68,669 | 25,575 | 85,110 | 6,353 |
| Materials, equipment and supplies | 20,192 | 48,615 | 97,312 | 134,231 | 59,312 | 17,982 |
| Interest charges | 1,470 | 2,144 | 21,828 | 12,249 | 20,750 | 1,380 |
| Rent and financial expenses | 14,287 | 4,618 | 5,748 | 15,836 | 6,380 | 3,016 |
| External transfers | (19,462) | 1,950 | (20,073) | 7,787 | 26,641 | (7,519) |
| Amortization | 1,003 | 13,810 | 98,604 | 64,137 | 93,961 | 4,600 |
| Loss on disposal | 3 | 872 | 7,077 | (86) | 9,886 | 128 |
| Total expenses | 92,017 | 578,309 | 413,504 | 563,769 | 381,763 | 162,164 |
| ANNUAL SURPLUS (DEFICIT) | \$(75,786) | \$(482,361) | \$(300,514) | \$12,602 | \$143,737 | \$(64,827) |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

Table 49 - 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 | \$1,653,541 | \$1,653,541 |
| Government transfers - provincial | 323,988 | 52,948 | 6,264 | (2,097) | 6,956 | 659,663 |
| Government transfers - federal | 0 | 27,583 | 352 | (460) | 0 | 247,394 |
| Fees and user charges | 24,455 | 65,587 | 61,077 | 14,788 | 2,819 | 815,294 |
| Contributed tangible capital assets | 0 | 0 | 20,962 | 3,113 | 0 | 182,296 |
| Development charges | 0 | 79 | 10,914 | 1,410 | 2,229 | 121,851 |
| Fines and penalties | 0 | 0 | 970 | 0 | 15,996 | 31,618 |
| Other | 0 | 13,504 | 10,590 | 3,793 | 72,055 | 106,136 |
| Total revenue | 348,443 | 159,701 | 111,129 | 20,547 | 1,753,596 | 3,817,793 |
| EXPENSES | Social and Family Services | Social Housing | Recreation and Cultural Services | Planning and Development | Non Departmental | Total |
| Salaries and benefits | 127,998 | 41,820 | 184,867 | 37,910 | 0 | 1,604,026 |
| Contracts and general services | 5,319 | 1,464 | 23,799 | 7,715 | 0 | 247,723 |
| Materials, equipment and supplies | 16,822 | 95,248 | 66,806 | 8,457 | 0 | 564,977 |
| Interest charges | 1,538 | 12,380 | 12,849 | 2,871 | 0 | 89,459 |
| Rent and financial expenses | (722) | 5,937 | 1,323 | 13,074 | 0 | 69,497 |
| External transfers | 310,701 | 98,249 | 4,038 | (1,069) | 0 | 401,243 |
| Amortization | 1,927 | 18,192 | 22,329 | 388 | 0 | 318,951 |
| Loss on disposal | 21 | 1 | 337 | 192 | 0 | 18,431 |
| Total expenses | 463,604 | 273,291 | 316,348 | 69,538 | 0 | 3,314,307 |
| ANNUAL SURPLUS (DEFICIT) | \$(115,161) | \$(113,590) | \$(205,219) | \$(48,991) | \$1,753,596 | \$503,486 |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

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

For the year ended December 31, 2015

Table 50 - 2015 Consolidated schedule of segment disclosure

| REVENUE | General Government | Protection | Roads, Traffic and Parking | Transit | Environmental Services | Health Services |
|---|-----------------------|--------------------|----------------------------------|-----------------|---------------------------|--------------------|
| Taxes | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Government transfers - provincial | 40 | 8,348 | 271 | 178,708 | 6,154 | 92,246 |
| Government transfers - federal | 0 | 2,616 | 781 | 187,151 | 26 | 8 |
| Fees and user charges | 15,172 | 64,390 | 28,071 | 180,791 | 329,109 | 2,441 |
| Contributed tangible capital assets | 0 | 0 | 21,891 | 3,712 | 148,178 | 0 |
| Development charges | 0 | 1,526 | 67,670 | 30,998 | 17,955 | 0 |
| Fines and penalties | 0 | 11,194 | 0 | 0 | 0 | 0 |
| Other | 0 | 236 | 793 | 280 | (4) | 0 |
| Total revenue | 15,212 | 88,310 | 119,477 | 581,640 | 501,418 | 94,695 |
| EXPENSES | General Government | Protection | Roads, Traffic and Parking | Transit | Environmental Services | Health Services |
| Salaries and benefits | 72,244 | 454,285 | 136,510 | 286,098 | 84,030 | 136,770 |
| Contracts and general services | 7,286 | 18,271 | 64,905 | 33,295 | 87,376 | 7,796 |
| Materials, equipment and supplies | 20,458 | 56,541 | 89,691 | 122,337 | 53,940 | 16,430 |
| Interest charges | 1,621 | 2,254 | 22,581 | 12,912 | 18,384 | 1,417 |
| Rent and financial expenses | 14,980 | 4,318 | 4,457 | 16,171 | 4,759 | 2,742 |
| External transfers | (22,132) | 3,428 | (17,227) | 12,322 | 26,864 | (6,790) |
| Amortization | 1,106 | 13,520 | 118,007 | 59,542 | 92,719 | 4,627 |
| Loss on disposal | 118 | 4,899 | 8,054 | 13,655 | 10,231 | 268 |
| Total expenses | 95,681 | 557,516 | 426,978 | 556,332 | 378,303 | 163,260 |
| ANNUAL SURPLUS (DEFICIT) | \$(80,469) | \$(469,206) | \$(307,501) | \$25,308 | \$123,115 | \$(68,565) |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

Table 51 - 2015 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 | \$1,626,544 | \$1,626,544 |
| Government transfers - provincial | 300,257 | 43,101 | 3,371 | 5,104 | 1,478 | 639,078 |
| Government transfers - federal | 0 | 26,143 | 182 | 2,662 | 0 | 219,569 |
| Fees and user charges | 23,198 | 65,197 | 59,278 | 13,330 | 2,305 | 783,282 |
| Contributed tangible capital assets | 0 | 0 | 6,167 | 4,173 | 0 | 184,121 |
| Development charges | 1 | 127 | 10,105 | 2,069 | 7,292 | 137,743 |
| Fines and penalties | 0 | 0 | 984 | 0 | 15,238 | 27,416 |
| Other | 0 | 8,138 | 7,237 | 7,800 | 59,475 | 83,955 |
| Total revenue | 323,456 | 142,706 | 87,324 | 35,138 | 1,712,332 | 3,701,708 |
| | | | | | | |
| | | | | | | |
| EXPENSES | | | | | | |
| Salaries and benefits | 133,207 | 41,306 | 173,181 | 38,652 | 0 | 1,556,283 |
| Contracts and general services | 5,048 | 1,117 | 35,035 | 4,555 | 0 | 264,684 |
| Materials, equipment and supplies | 16,718 | 104,063 | 62,816 | 8,604 | 0 | 551,598 |
| Interest charges | 1,591 | 9,904 | 12,807 | 2,913 | 0 | 86,384 |
| Rent and financial expenses | 3,643 | (5,303) | 1,665 | 7,165 | 0 | 54,597 |
| External transfers | 279,418 | 89,408 | 24,729 | (1,665) | 0 | 388,355 |
| Amortization | 1,824 | 17,715 | 22,819 | 421 | 0 | 332,300 |
| Loss on disposal | 182 | 1,036 | 776 | 1,094 | 0 | 40,313 |
| Total expenses | 441,631 | 259,246 | 333,828 | 61,739 | 0 | 3,274,514 |
| ANNUAL SURPLUS (DEFICIT) | \$(118,175) | \$(116,540) | \$(246,504) | \$(26,601) | \$1,712,332 | \$427,194 |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 *[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, 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, 2016 *[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.

The City has a reserve fund for self-insurance, which as at December 31, 2016 amounted to \$1,530 [2015 – \$1,841]. In 2016, the City contributed an amount of nil [2015 – nil] to this reserve fund from operations.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

21. BUDGET AMOUNTS

Budget data presented in these consolidated financial statements is based upon the 2016 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.

Table 52 - Budget reconciliation

| Budget reconciliation | Revenue | Expenses |
|---|--------------------|--------------------|
| Budget as approved by Council | | |
| Operating | \$3,169,180 | \$3,169,180 |
| Capital | 532,789 | 532,789 |
| Add | | |
| Consolidated entities | 201,420 | 186,818 |
| Contributed assets | 182,296 | 0 |
| Reserve fund revenue | 20,838 | 0 |
| Hydro Ottawa Holding Inc. equity pickup | 15,436 | 0 |
| Interest earned on sinking fund | 3,448 | 3,448 |
| Timing difference between capital authority and capital spending plan | 323,206 | 808,441 |
| Change in employee future benefits and pension agreements | 0 | 9,970 |
| Change in other obligations to be funded | 0 | 24,327 |
| Amortization | 0 | 318,951 |
| Loss on disposal | 0 | 20,755 |
| | <u>4,448,613</u> | <u>5,074,679</u> |
| Less | | |
| Reclassifications and eliminations | (68,027) | (66,027) |
| Acquisition of tangible capital assets | 0 | (1,093,107) |
| Budgeted transfer from/to other funds | (378,173) | (502,657) |
| Budgeted proceeds on debt issue/debt principal payments | (204,185) | (116,721) |
| | <u>(650,385)</u> | <u>(1,778,512)</u> |
| Budget for financial statement purposes | \$3,798,228 | \$3,296,167 |

22. COMPARATIVE FIGURES

Certain comparative figures for 2015 have been reclassified to conform with the presentation adopted for the current year.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 [dollars in thousands]

APPENDIX 1 - CONDENSED SUPPLEMENTARY INFORMATION

OTTAWA PUBLIC LIBRARY BOARD

As at December 31, 2016, with comparative information for 2015 [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 53 - Ottawa Public Library Board - Financial position

| Financial position | 2016 | 2015 |
|---------------------------|----------------|----------------|
| Financial assets | \$27,382 | \$22,059 |
| Liabilities | 30,318 | 28,798 |
| Net debt | (2,936) | (6,739) |

Table 54 - Ottawa Public Library Board - Non-financial assets

| Non-financial assets | 2016 | 2015 |
|-----------------------------------|-----------------|-----------------|
| Tangible capital assets | 44,355 | 43,181 |
| Prepaid expenses | 22 | 8 |
| Total non-financial assets | 44,377 | 43,189 |
| Accumulated surplus | \$41,441 | \$36,450 |

Consolidated statement of operations and accumulated surplus

For the year ended December 31, 2016, with comparative information for 2015 [dollars in thousands]

Table 55 - Ottawa Public Library Board - Consolidated statement of operations and accumulated surplus - Revenue

| Revenue | 2016 | 2015 |
|--|---------------|---------------|
| City of Ottawa | \$49,643 | \$45,069 |
| Province of Ontario - Ministry of Tourism, Sport and Culture | | |
| Operating funding | 1,210 | 1,210 |
| Pay equity funding | 170 | 170 |
| Capacity grant funding (Craig's) | 0 | 105 |
| Innovation grant funding (Elizabeth's) | 67 | 126 |
| Development charges | 2,243 | 934 |
| Other | 2,803 | 2,234 |
| Total revenue | 56,136 | 49,848 |

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 *[dollars in thousands]*

Table 56 - Ottawa Public Library Board - Consolidated statement of operations and accumulated surplus - Expenses

| Expenses | 2016 | 2015 |
|---|-----------------|-------------|
| Operating expenditures | 51,145 | 51,579 |
| Total expenses | 51,145 | 51,579 |
| Annual surplus (deficit) | 4,991 | (1,731) |
| Accumulated surplus, beginning of the year | 36,450 | 38,181 |
| Accumulated surplus, end of the year | \$41,441 | \$36,450 |

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