

Statement of Operations

City of Ottawa

In-House Waste Collection – Zone 3

Year ended October 31, 2018

INDEPENDENT AUDITORS' REPORT

To the management of the City of Ottawa In-House Waste Collection division for Zone 3,

We have audited the accompanying statement of operations [the "Statement"] of the **City of Ottawa In-House Waste Collection** for Zone 3 [the "Division"] for the Year ended October 31, 2018.

In our opinion, the accompanying Statement is prepared, in all material respects, in accordance with the basis of accounting described in note 2.

Basis for opinion

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

Emphasis of matter – basis of accounting and restriction on distribution and use

We draw attention to note 2 of the Statement, which describes the basis of accounting. The Statement is prepared to assist the Division in complying with the financial reporting provisions of note 2 referred to above. As a result, the Statement may not be suitable for another purpose. Our report is intended solely for management of the Division and the Members of the Standing Committee on Environmental Protection, Water and Waste Management and Council of the City of Ottawa [the "Members"] and should not be distributed to or used by parties other than the Division, and the Members. Our opinion is not modified in respect of this matter.

Responsibilities of management for the Statement

Management is responsible for the preparation of the Statement in accordance with the financial reporting requirements detailed in note 2 of the Statement: this includes determining that the basis of accounting is an acceptable basis for the preparation of the Statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the Statement

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

they could reasonably be expected to influence the economic decisions of users taken on the basis of this Statement.

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

- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Ernst & Young, LLP

Ottawa, Canada,
May 29, 2019

Chartered Professional Accountants
Licensed Public Accountants

STATEMENT OF OPERATIONS

Year ended October 31, 2018

Statement of Operations	Year ended October 31, 2018	Year Ended October 31, 2017
Revenue	\$ 5,718,666	\$ 5,639,759
Expenditures [Schedule 1]		
Labour costs		
Salaries	2,152,478	2,138,690
Overtime	356,475	282,024
WSIB costs	96,391	143,104
Employer benefit contributions	550,991	538,485
	3,156,335	3,102,303
Subcontracted labour	161,371	85,441
Total Labour costs	3,317,706	3,187,744
Vehicle costs		
Maintenance and repairs/tires	1,711,639	1,448,437
Fuel and fuel hedging	580,318	505,836
Insurance/licensing	43,739	43,089
Depreciation	670,987	670,988
Total Vehicle costs	3,006,683	2,668,350
Materials and supplies		
Personnel/safety supplies	56,684	55,990
Tools and parts	24,918	29,920
Office/administrative supplies	8,134	8,682
Miscellaneous repairs/services	42,184	79,122
Communications	27,898	28,607
Total Materials and supplies	159,818	202,321
Professional services	9,882	9,413
Property lease	35,800	35,800
Total expenditures	6,529,889	6,103,628
Surplus (Deficiency) of revenue over expenditures	(\$ 811,223)	(\$ 463,869)

See accompanying notes

**SCHEDULE OF CITY OF OTTAWA IN-HOUSE WASTE COLLECTION COSTS FOR
ZONE 3 BY WASTE STREAM *[unaudited]***

Year ended October 31, 2018

Collection Costs	Garbage	Recycling	Organics	Total
Labour costs				
Salaries	\$ 837,075	\$ 657,701	\$ 657,702	\$ 2,152,478
Overtime	138,629	108,923	108,923	356,475
WSIB costs	37,485	29,453	29,453	96,391
Employer benefit contributions	214,274	168,359	168,358	550,991
	1,227,463	964,436	964,436	3,156,335
Subcontracted labour	62,755	49,308	49,308	161,371
Total Labour costs	1,290,218	1,013,744	1,013,744	3,317,706
Vehicle costs				
Maintenance and repairs/tires	870,383	420,628	420,628	1,711,639
Fuel and fuel hedging	292,126	144,096	144,096	530,318
Insurance/licensing	20,325	11,707	11,707	43,739
Depreciation	222,681	224,153	224,153	670,987
Total Vehicle costs	1,405,515	800,584	800,584	3,006,683
Materials and supplies				
Personnel/safety supplies	22,044	17,320	17,320	56,684
Tools and parts	9,690	7,614	7,614	24,918
Office/administrative supplies	3,162	2,486	2,486	8,134
Miscellaneous repairs/services	8,144	6,398	27,642	42,184
Communications	10,850	8,524	8,524	27,898
Total Materials and supplies	53,890	42,342	63,586	159,818
Professional services	3,844	3,019	3,019	9,882
Property lease	13,922	10,939	10,939	35,800
Total expenditures	\$ 2,767,389	\$ 1,870,628	\$ 1,891,872	\$ 6,529,889
Statistical information				
Actual tonnage in metric tonnes	20,975	8,291	12,798	42,064
Actual cost per tonne	\$131.94	\$225.62	\$147.83	\$155.24

**CITY OF OTTAWA IN-HOUSE WASTE COLLECTION – ZONE 3
NOTES TO STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 2018**

1. DESCRIPTION OF ORGANIZATION

The City of Ottawa (the “City”) was sub-divided into a number of service zones for purposes of waste collection to foster more competition during the 1999 collection tender call. This continued to be in effect for the new collection tender/contract which commenced in 2006. On October 29, 2012, the five curb-side collection zones were slightly modified from the previous contract to account for population growth. Under the new contract, the City of Ottawa In-House Waste Collection division (the “Division”) was awarded the services for Zone 3.

The statement of operations was prepared to report the operating results of the collection activities of Zone 3 for the Year ended October 31, 2018. The Division was created through provincial legislation and is not liable for income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The statement of operations of the Division for Zone 3 has been prepared by management in accordance with the significant accounting policies described below.

Revenue and expenditures

Revenue is recorded on an accrual basis as services are provided and in accordance with the terms of the contract with the City. The amounts are reported to demonstrate the Division’s operations as if the Division was a going concern and operating independent from the City. Revenue for the current period is calculated using the prior period revenue figure adjusted by 50% of the Consumer Price Index and changes in the number of houses for the current period, in accordance with the escalation factors included in the waste services contract.

Expenditures are recorded on an accrual basis when services are rendered or goods are received.

Management Fees

The annual management fee is determined by multiplying the purchase cost of the fleet by 2.5%, prorated for any acquisitions or disposals in the year. The fee is reduced by the estimated annual cost savings realized as a result of the implementation of in-house management of parts inventory by the City’s Fleet Services Branch in 2017. The fee is recognized ratably at 1/12 per month.

**CITY OF OTTAWA IN-HOUSE WASTE COLLECTION – ZONE 3
NOTES TO STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Vehicle Costs

Vehicle costs are charged to the Divisions by the City's Fleet Services Branch, which follows a Full-Cost Recovery allocation method, whereby all costs incurred by the Fleet Services Branch must be recovered from the Departments/Branches based on a per vehicle charge to those that are actually using the vehicles.

Insurance

The Risk Management Division of the City is responsible for insuring the City's vehicles and the Division pays a premium for the insurance policy. The policy covers "Liability" insurance but does not cover "Collisions", resulting in a lower overall premium. The cost of the premium relating to municipal fleet vehicles is paid for by the Fleet Services Branch. A charge back is applied to each vehicle in the Division fleet to recover this cost. Each vehicle is assigned an equal share of the overall premium.

Subsequent to year end, a claim from 2014 was settled, resulting in a payment of \$0.3 million. Based on the Division's accounting policies, costs associated with the actual claims are not included as part of the total expenses associated with the Division unless they pertain to the current period and are estimable. In this case, the claim was for a prior period and therefore not included.

Licenses

Vehicles with license plates owned by the City are required to pay an annual fee to maintain the license. The annual license fee paid to the Ministry of Transportation of Ontario is charged to each vehicle and allocated to the Division on a monthly basis.

Repairs and maintenance/tires

These costs include parts, labour and commercial charges.

Parts and labour charges are incurred when a vehicle is repaired by internal City staff at one of the City-owned maintenance garages. Parts are charged back to the City at cost. Labour is charged to the Division at a rate of \$95 per hour (2017 - \$90 per hour) which is calculated as budgeted expenditures (salaries, shop supplies, etc.) for the Municipal Fleet Maintenance cost centres divided by the estimated billable hours of the mechanics for the period.

Commercial charges (parts and labour) are incurred when the vehicle is repaired at an external garage. The Fleet Services Branch pays the supplier invoice and then charges the actual cost to the vehicle. Open work orders and commercial invoices are accrued each month and recorded as an expenditure in the period the service is rendered or the goods are received.

**CITY OF OTTAWA IN-HOUSE WASTE COLLECTION – ZONE 3
NOTES TO STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Fuel and fuel hedging costs

Fuel is obtained at City sites and charged back at cost with no mark-up. During the year, fuel hedging costs are allocated based on the fuel prices during the period when fuel is consumed.

Interest on vehicles

Interest on vehicles is based on actual costs related to purchasing the vehicles and applying a rate of 3.01% which is provided by the City's Treasury Division and is based on the cost of funds for a seven-year bond issue.

Rent expenditure

Rent expenditure is recorded as an allocation of estimated occupancy cost for the City.

Depreciation

Capital assets are recorded by the City at cost, except for used vehicles, which are recorded at estimated market value at the time of commencement of the contract. These capital assets are not included in this statement of operations. The depreciation related to these capital assets is recorded as an expenditure in the Statement of Operations of the Division using the straight-line method over the term of the contract as follows:

Asset	Term of Contract
Vehicles	79-120 months

3. Comparative figures

Certain comparative figures have been reclassified to be consistent with the presentation adopted in fiscal 2018.