

# **Financial Statements**

**City of Ottawa Sinking Fund**

**December 31, 2020**

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

We have audited the accompanying financial statements of the **City of Ottawa Sinking Fund** (the "Sinking Fund"), which comprise the statement of financial position as at December 31, 2020, the statement of operations and changes in fund balances, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Sinking Fund as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### **Basis for Opinion**

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

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

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

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue

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

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

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

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

Ottawa, Canada  
Date, 2021

Chartered Professional Accountants  
Licensed Public Accountants

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF FINANCIAL POSITION

As at December 31, 2020, with comparative information for 2019 *[dollars in thousands]*

<b>Financial assets</b>	<b>2020</b>	<b>2019</b>
Cash	\$ 1,057	\$ 9,315
Investments at amortized cost <i>[note 2]</i>	131,273	85,312
Receivable <i>[note 6]</i>	—	240
Accrued interest	404	225
<b>Total financial assets</b>	<b>132,734</b>	<b>95,092</b>
<b>Financial liabilities and fund balance</b>		
Actuarial requirements <i>[note 3]</i>	132,210	94,646
<b>Total financial liabilities</b>	<b>132,210</b>	<b>94,646</b>
<b>Fund balance</b>		
Fund balance	524	446
<b>Total liabilities and fund balance</b>	<b>\$ 132,734</b>	<b>\$ 95,092</b>

*See accompanying notes*

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

For the year ended December 31, 2020, with comparative information for 2019 [dollars in thousands]

<b>Revenue</b>	<b>2020</b>	<b>2019</b>
Contribution – levies [note 5]	\$34,129	\$ 23,742
Investment income	3,513	4,145
<b>Total revenue</b>	<b>37,642</b>	<b>27,887</b>
<b>Expenditures</b>		
Provision for actuarial requirements [note 3]	37,564	28,227
<b>Total expenditures</b>	<b>37,564</b>	<b>28,227</b>
<b>Excess (deficiency) of revenue over expenditures for the year</b>	<b>78</b>	<b>(340)</b>
Fund balance, beginning of year	446	786
<b>Fund balance, end of year</b>	<b>\$524</b>	<b>\$ 446</b>

See accompanying notes

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF CASH FLOWS

For the year ended December 31, 2020, with comparative information for 2019 [dollars in thousands]

<b>OPERATING ACTIVITIES</b>	<b>2020</b>	<b>2019</b>
Excess (deficiency) of revenue over expenditures for the year	<b>\$78</b>	\$(340)
Add (deduct) items not affecting cash		
Actuarial requirements	<b>37,564</b>	28,227
Amortization of discount on investments	<b>(1,233)</b>	(1,651)
Change in non-cash working capital balances related to operations:		
Receivable	<b>240</b>	(80)
Accrued interest	<b>(179)</b>	61
<b>Cash provided by operating activities</b>	<b>36,470</b>	26,217
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	<b>(44,728)</b>	(10,448)
Proceeds from maturities of investments	<b>—</b>	57,851
<b>Cash provided by (used in) investing activities</b>	<b>(44,728)</b>	47,403
<b>FINANCING ACTIVITIES</b>		
Maturity of debenture	<b>—</b>	(65,000)
<b>Cash used in financing activities</b>	<b>—</b>	(65,000)
<b>Change in cash</b>		
Net increase (decrease) in cash during the year	<b>(8,258)</b>	8,620
Cash, beginning of year	<b>9,315</b>	695
<b>Cash, end of year</b>	<b>\$1,057</b>	\$9,315

See accompanying notes

**CITY OF OTTAWA SINKING FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020** [dollars in thousands]

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**Revenue recognition**

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

**Investments**

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

**Provision for actuarial requirements**

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

**Accounts payable – contributors**

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

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**2. INVESTMENTS AT AMORTIZED COST**

Investments consist of securities issued by the following:

	<b>2020</b>	<b>2019</b>
Provincial governments and agencies	<b>75,827</b>	42,714
Municipal governments		
Other municipalities	<b>55,446</b>	42,598
Amortized cost	<b>131,273</b>	85,312
Par value	<b>155,320</b>	114,619
Market value	<b>\$153,247</b>	\$97,108

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

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

<b>Actuarial requirement</b>	<b>2020</b>	<b>2019</b>
Balance – beginning of year	<b>\$94,646</b>	\$131,419
By-law maturity	—	(65,000)
Provision for actuarial requirements	<b>37,564</b>	28,227
<b>Balance – end of year</b>	<b>\$132,210</b>	\$94,646

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

<b>Year</b>	<b>Par value of investment and cash</b>	<b>Commitments at maturity</b>	<b>Current year actuarial requirements related to commitments maturing in future years</b>
2026	1,700	—	—
2029	2,663	—	—
2031	3,533	97,838	—
2032	4,846	43,000	—
2033	2,145	100,000	—
2034	2,323	—	—
2035	11,250	—	—
2036	5,855	—	—
2037	11,052	—	—
2038	14,672	—	—
2039	1,886	150,000	5,967
2040	13,678	—	—
2041	21,413	—	—
2042	6,534	325,000	60,225
2044	5,150	—	—
2045	1,600	—	—
2046	6,200	100,000	—
2047	—	302,000	12,206
2048	9,120	500,000	37,129
2049	1,000	—	—
2050	16,400	—	—
2051	11,000	300,000	—
2052	1,300	—	—
2053	—	274,000	16,683
<b>Total</b>	<b>\$ 155,320</b>	<b>2,191,838</b>	<b>132,210</b>

The commitments at maturity include debentures issued in 2010, 2012, 2013, 2015, and 2020 amounting to \$640,838 [By-law 2010-121, 2010-267, 2012-189, 2013-323, 2015-120, 2020-110], which did not require levy contributions for the year ended December 31, 2020.

The weighted average yield to maturity on par value of investments held by the Sinking Fund as at December 31, 2020 is 3.259% [2019 – 3.564%].

**CITY OF OTTAWA SINKING FUND**  
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**DECEMBER 31, 2020** *[dollars in thousands]*

**4. ADMINISTRATIVE COSTS**

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

**5. REVENUE – CONTRIBUTION – LEVIES**

All the levies have been contributed to the Sinking Fund in 2020 and 2019 as set out in the Sinking Fund debenture by-laws.

**6. RELATED PARTY TRANSACTION**

The Sinking Fund levy contribution receivable is related to an amount due from the City as at December 31, 2020 of \$nil [2019 – \$240].

**7. COVID-19**

The Fund’s investments experienced increased volatility throughout the year due to the COVID-19 pandemic. Given the unprecedented nature of this event, it is difficult to predict the length or breadth of this disruption on the market value of investments.