

**Financial Statements**

**City of Ottawa Sinking Fund**

**December 31, 2013**

## **INDEPENDENT AUDITORS' REPORT**

To the Mayor and Members of Council

We have audited the accompanying statement of financial position of the **City of Ottawa Sinking Fund** as at December 31, 2013 and the statements of operations and changes in fund balances and the 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 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.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **City of Ottawa Sinking Fund** as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ottawa, Canada,

-----, 2014

Chartered Accountants

Licensed Public Accountants

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF FINANCIAL POSITION

As at December 31, 2013, with comparative information for 2012 *[dollars in thousands]*

<b>Financial assets</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 325	\$ 1,841
Investments at amortized cost <i>[note 2]</i>	59,820	47,165
Accrued interest	87	99
<b>Total financial assets</b>	<b>60,232</b>	<b>49,105</b>
<b>Financial liabilities and fund balance</b>	<b>2013</b>	<b>2012</b>
Accounts payable - contributors <i>[note 3]</i>	0	1,310
Actuarial requirements <i>[note 4]</i>	57,584	45,455
<b>Total financial liabilities</b>	<b>57,584</b>	<b>46,765</b>
<b>Fund balance</b>	<b>2013</b>	<b>2012</b>
Fund Balance	2,648	2,340
<b>Total liabilities and fund balance</b>	<b>\$ 60,232</b>	<b>\$ 49,105</b>

*See accompanying notes*

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

For the year ended December 31, 2013, with comparative information for 2012 [dollars in thousands]

<b>Revenue</b>	<b>2013</b>	<b>2012</b>
Contribution – levies	\$ 10,392	\$ 10,978
Investment Income	2,045	2,121
<b>Total revenue</b>	<b>12,437</b>	<b>13,099</b>
<b>Expenditures</b>	<b>2013</b>	<b>2012</b>
Provision for actuarial requirements	12,129	12,996
Refund to contributors	0	1,310
<b>Total expenditures</b>	<b>12,129</b>	<b>14,306</b>
<b>Excess (deficiency) of revenue over expenditures for the year</b>	<b>308</b>	<b>(1,207)</b>
Fund balance, beginning of year	2,340	3,547
<b>Fund balance, end of year</b>	<b>\$ 2,648</b>	<b>2,340</b>

See accompanying notes

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF CASH FLOWS

For the year ended December 31, 2013, with comparative information for 2012 [dollars in thousands]

<b>OPERATING ACTIVITIES</b>	<b>2013</b>	<b>2012</b>
Excess (deficiency) of revenue over expenditures for the year	<b>\$ 308</b>	\$ (1,207)
Add (deduct) Items not affecting cash		
Actuarial requirements	<b>12,129</b>	12,996
Amortization of discount on investments	<b>(1,484)</b>	(929)
Matured by-law paid	<b>0</b>	(50,000)
Changes in non-cash working capital balances related to operations		
Accrued interest	<b>12</b>	432
Accounts payable - contributors	<b>(1,310)</b>	(361)
<b>Cash provided by (used in) operating activities</b>	<b>9,655</b>	(39,069)
<b>INVESTING ACTIVITIES</b>	<b>2013</b>	<b>2012</b>
Purchases of investments	<b>(16,799)</b>	(44,712)
Proceeds from maturities of investments	<b>5,628</b>	78,777
Proceeds from sales of investments	<b>0</b>	741
<b>Cash provided by (used in) investing activities</b>	<b>(11,171)</b>	34,806
<b>Change in cash and cash equivalents</b>	<b>2013</b>	<b>2012</b>
Net decrease in cash and cash equivalents during the year	<b>(1,516)</b>	(4,263)
Cash and cash equivalents, beginning of the year	<b>1,841</b>	6,104
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 325</b>	\$ 1,841

See accompanying notes

**CITY OF OTTAWA SINKING FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 [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. The following is a summary of the significant accounting policies:

**Revenue recognition**

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

**Investments**

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

**Provision for actuarial requirements**

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

**Cash and cash equivalents**

The Sinking Fund considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

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**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.

**2. INVESTMENTS AT AMORTIZED COST**

Investments consist of securities issued by the following:

<b>Accounts receivable</b>	<b>2013</b>	<b>2012</b>
Government of Canada	<b>\$ 18,927</b>	\$ 13,017
Provincial governments and agencies	<b>26,068</b>	21,625
Municipal governments		
City of Ottawa	<b>3,379</b>	3,426
Other municipalities	<b>5,395</b>	7,054
Other	<b>6,051</b>	2,043
Amortized cost	<b>59,820</b>	47,165
Par value	<b>73,900</b>	55,628
Market value	<b>\$ 62,807</b>	\$ 52,220

**3. ACCOUNTS PAYABLE CONTRIBUTORS**

At December 31, 2013, there were no amounts payable to the City related to matured debentures. At December 31, 2012, the value of the Sinking Fund account for by-law 81 of 1992 exceeded the amount required to meet the commitment when the by-law matured on April 18, 2012 by an amount of \$1,310. This excess amount was distributed to the City of Ottawa during 2013 after approval by City Council.



**CITY OF OTTAWA SINKING FUND**  
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**4. ACTUARIAL REQUIREMENTS AND INVESTMENTS FOR DEBENTURE RETIREMENT**

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

<b>Actuarial requirements</b>	<b>2013</b>	<b>2012</b>
Balances – beginning of the year	<b>\$45,455</b>	\$ 82,459
Provision for actuarial requirements	<b>12,129</b>	12,996
Transfer of funds to meet debenture requirements	<b>0</b>	(50,000)
<b>Balances – end of year</b>	<b>57,584</b>	45,455

[b] Investments and cash equivalents 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 equivalents</b>	<b>Commitments at maturity</b>	<b>Actuarial requirements</b>
2014	\$ 9,500	\$ 0	\$ 0
2016	3,600	0	0
2018	22,007	20,000	12,285
2019	23,893	65,000	36,154
2030	0	97,838	0
2033	0	100,000	0
2040	2,200	0	0
2041	10,700	0	0
2042	2,000	325,000	9,145
2053	0	154,000	0
<b>Total</b>	<b>\$ 73,900</b>	<b>\$761,838</b>	<b>\$ 57,584</b>

The above includes commitments for debentures issued in 2010 and 2013 amounting to \$351,838 [By-law 2010-121, 2010-267, 2013-250, and 2013-323] which do not require levy contributions for the year ended December 31, 2013.

The weighted average yield to maturity on par value of investments held by the Sinking Fund as at December 31, 2013 is 3.87% [2012 – 4.15%].

**CITY OF OTTAWA SINKING FUND**  
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**5. 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.