

**Financial Statements**

**City of Ottawa Sinking Fund**

**December 31, 2016**

## **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, 2016, 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 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, 2016, 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

-----, 2017

Chartered Professional Accountants

Licensed Public Accountants

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF FINANCIAL POSITION

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

<b>Financial assets</b>	<b>2016</b>	<b>2015</b>
Cash	\$ 175	\$ 554
Investments at amortized cost <i>[note 2]</i>	104,336	88,680
Accrued interest	249	214
<b>Total financial assets</b>	<b>104,760</b>	<b>89,448</b>
<b>Financial liabilities and fund balance</b>	<b>2016</b>	<b>2015</b>
Actuarial requirements <i>[note 3]</i>	102,320	86,893
<b>Total financial liabilities</b>	<b>102,320</b>	<b>86,893</b>
<b>Fund balance</b>	<b>2016</b>	<b>2015</b>
Fund balance	2,440	2,555
<b>Total liabilities and fund balance</b>	<b>\$ 104,760</b>	<b>\$ 89,448</b>

*See accompanying notes*

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

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

<b>Revenue</b>	<b>2016</b>	<b>2015</b>
Contribution – levies [ <i>note 5</i> ]	\$ 11,864	\$ 11,864
Investment income	3,448	2,989
<b>Total revenue</b>	<b>15,312</b>	<b>14,853</b>
<b>Expenditures</b>	<b>2016</b>	<b>2015</b>
Provision for actuarial requirements	15,427	14,907
Total expenditures	15,427	14,907
<b>Deficiency of revenue over expenditures for the year</b>	<b>(115)</b>	<b>(54)</b>
Fund balance, beginning of year	2,555	2,609
<b>Fund balance, end of year</b>	<b>\$ 2,440</b>	<b>2,555</b>

*See accompanying notes*

## CITY OF OTTAWA SINKING FUND

### STATEMENT OF CASH FLOWS

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

<b>OPERATING ACTIVITIES</b>	<b>2016</b>	<b>2015</b>
Deficiency of revenue over expenditures for the year	<b>\$(115)</b>	\$ (54)
Add (deduct) items not affecting cash		
Actuarial requirements	<b>15,427</b>	14,907
Amortization of discount on investments	<b>(1,890)</b>	(1,775)
Changes in non-cash working capital balances related to operations		
Accrued interest	<b>(35)</b>	(53)
<b>Cash provided by operating activities</b>	<b>13,387</b>	13,025
<b>INVESTING ACTIVITIES</b>	<b>2016</b>	<b>2015</b>
Purchases of investments	<b>(17,336)</b>	(15,701)
Proceeds from maturities of investments	<b>3,570</b>	3,195
<b>Cash used in investing activities</b>	<b>(13,766)</b>	(12,506)
<b>Change in cash</b>	<b>2016</b>	<b>2015</b>
Net increase (decrease) in cash during the year	<b>(379)</b>	519
Cash, beginning of the year	<b>554</b>	35
<b>Cash, end of the year</b>	<b>\$175</b>	\$ 554

*See accompanying notes*

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

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**Revenue recognition**

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

**Investments**

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

**Provision for actuarial requirements**

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

**Accounts payable – contributors**

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

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**2. INVESTMENTS AT AMORTIZED COST**

Investments consist of securities issued by the following:

	<b>2016</b>	<b>2015</b>
Government of Canada	<b>\$ 10,646</b>	\$ 10,218
Provincial governments and agencies	<b>43,741</b>	39,266
Municipal governments		
City of Ottawa	<b>3,221</b>	3,278
Other municipalities	<b>21,413</b>	17,618
Other	<b>25,315</b>	18,300
Amortized cost	<b>104,336</b>	88,680
Par value	<b>119,699</b>	101,430
Market value	<b>\$107,984</b>	\$ 94,397

**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>2016</b>	<b>2015</b>
Balance – beginning of the year	<b>\$86,893</b>	\$ 71,986
Provision for actuarial requirements	<b>15,427</b>	14,907
<b>Balance – end of year</b>	<b>\$102,320</b>	\$86,893

[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>
2017	7,043	0	0
2018	22,007	20,000	16,874
2019	40,103	65,000	50,164
2026	1,700	0	0
2029	2,663	0	0



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2030	0	97,838	0
2032	3,746	0	0
2033	145	100,000	0
2034	323	0	0
2036	1,855	0	0
2037	442	0	0
2038	2,798	0	0
2039	966	0	0
2040	4,970	0	0
2041	20,604	0	0
2042	6,534	325,000	29,541
2044	1,800	0	0
2045	1,000	0	0
2046	1,000	100,000	0
2048	0	170,000	0
2053	0	154,000	5,741
<b>Total</b>	<b>\$ 119,699</b>	<b>\$1,031,838</b>	<b>\$ 102,320</b>

The commitments at maturity include debentures issued in 2010, 2013, 2015 and 2016 amounting to \$467,838 [By-law 2010-121, 2010-267, 2013-323, 2015-120, 2016-256, and 2016-359], which do not require levy contributions for the year ended December 31, 2016.

The weighted average yield to maturity on par value of investments held by the Sinking Fund as at December 31, 2016 is 3.538% [2015 – 3.89%].

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**4. ADMINISTRATIVE COSTS**

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

**5. REVENUE – CONTRIBUTION – LEVIES**

In accordance with By-law 72 of 1999, the amount of \$3,211 is contributed each year to the Sinking Fund in order to accumulate sufficient funds to meet the \$65,000 principal amount that matures on September 10, 2019. If the present levy of \$3,211 was not reduced and with a projected earnings rate of 3.5%, the fund would have a closing balance of approximately \$68,000 on September 10, 2019, which is in excess of the \$65,000 required to pay the debt on maturity. Based on this evaluation, Council approved a reduction to this levy by \$350 to \$2,861 commencing in 2014 and is expected to remain at this level until the maturity date in 2019.