

Statement of Operations

City of Ottawa
In-House Waste Collection – Zone 3
Year ended October 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Members of the Environment and Climate Protection Committee and Council of the City of Ottawa.

We have audited the accompanying statement of operations of the **City of Ottawa In-House Waste Collection** for Zone C3 [a component of the City of Ottawa] for the Year ended October 31, 2017. The statement of operations has been prepared by management based on the accounting policies described in Note 2.

Management's responsibility for the statement of operations

Management is responsible for the preparation of this statement of operations in accordance with the accounting policies described in Note 2. This includes determining that the basis of accounting is an acceptable basis for the preparation of the statement of operations in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the statement of operations that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the statement of operations 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 statement of operations is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of operations. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement of operations, 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 statement of operations 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statement of operations of the **City of Ottawa In-House Waste Collection** for Zone C3 for the Year ended October 31, 2017 is prepared, in all material respects, in accordance with the accounting policies described in Note 2.

Basis of accounting and restriction on distribution

Without modifying our opinion, we draw attention to Note 2 to the statement of operations, which describes the basis of accounting. The statement of operations is prepared to assist the **City of Ottawa In-House Waste Collection** for Zone C3 in meeting the requirements of the Members of the Environment and Climate Protection Committee and Council of the City of Ottawa. As a result, the statement of operations may not be suitable for another purpose. Our report is intended solely for the **City of Ottawa In-House Waste Collection** for Zone C3 and the Members of the Environment and Climate Protection Committee and Council of the City of Ottawa and should not be distributed to parties other than the **City of Ottawa In-House Waste Collection** for Zone 3 and the Members of the Environment and Climate Protection Committee and Council of the City of Ottawa.

Ernst & Young, LLP

Ottawa, Canada,
June 07, 2018

Chartered Professional Accountants
Licensed Public Accountants

STATEMENT OF OPERATIONS

Year ended October 31, 2017

| Statement of Operations | Year ended October 31, 2017 | Year ended October 31, 2016 |
|--|--------------------------------|--------------------------------|
| Revenue | \$ 5,639,759 | \$ 5,580,036 |
| Expenditures [Schedule 1] | | |
| Labour costs | | |
| Salaries | 2,138,690 | 2,287,024 |
| Overtime | 282,024 | 300,737 |
| WSIB costs | 143,104 | 71,964 |
| Employer benefit contributions | 538,485 | 577,525 |
| | 3,102,303 | 3,237,250 |
| Subcontracted labour | 85,441 | 76,432 |
| Total Labour costs | 3,187,744 | 3,313,682 |
| Vehicle costs | | |
| Maintenance and repairs/tires | 1,428,437 | 1,245,896 |
| Fuel and fuel hedging | 505,836 | 674,515 |
| Insurance/licensing | 43,089 | 41,244 |
| Depreciation | 670,988 | 670,988 |
| Total Vehicle costs | 2,648,350 | 2,632,643 |
| Materials and supplies | | |
| Personnel/safety supplies | 56,297 | 47,707 |
| Tools and parts | 29,920 | 14,485 |
| Office/administrative supplies | 6,967 | 7,200 |
| Training | 20,000 | 20,000 |
| Miscellaneous repairs/services | 79,122 | 66,232 |
| Communications | 28,607 | 24,058 |
| Conferences and receptions | 1,408 | 33 |
| Total Materials and supplies | 222,321 | 179,715 |
| Professional services | 9,413 | 8,100 |
| Property lease | 35,800 | 35,800 |
| Total expenditures | 6,103,628 | 6,169,940 |
| Deficiency of revenue over expenditures | (\$463,869) | (\$589,904) |

See accompanying note

**SCHEDULE OF CITY OF OTTAWA IN-HOUSE WASTE COLLECTION COSTS FOR
ZONE C3 BY WASTE STREAM [unaudited]**

Year ended October 31, 2017

| Collection Costs | Garbage | Recycling | Organics | Total |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Labour costs | | | | |
| Salaries | \$ 831,712 | \$ 653,489 | \$ 653,489 | \$ 2,138,690 |
| Overtime | 109,676 | 86,174 | 86,174 | 282,024 |
| WSIB costs | 55,652 | 43,726 | 43,726 | 143,104 |
| Employer benefit contributions | 209,411 | 164,537 | 164,537 | 538,485 |
| | 1,206,451 | 947,926 | 947,926 | 3,102,303 |
| Subcontracted labour | 33,227 | 26,107 | 26,107 | 85,441 |
| Total Labour costs | 1,239,678 | 974,033 | 974,033 | 3,187,744 |
| Vehicle costs | | | | |
| Maintenance and repairs/tires | 742,235 | 343,101 | 343,101 | 1,428,437 |
| Fuel | 251,486 | 127,175 | 127,175 | 505,836 |
| Insurance/licensing | 19,877 | 11,606 | 11,606 | 43,089 |
| Depreciation | 222,682 | 224,153 | 224,153 | 670,988 |
| Total Vehicle costs | 1,236,280 | 706,035 | 706,035 | 2,648,350 |
| Materials and supplies | | | | |
| Personnel/safety supplies | 21,893 | 17,202 | 17,202 | 56,297 |
| Tools and parts | 11,636 | 9,142 | 9,142 | 29,920 |
| Office/administrative supplies | 2,709 | 2,129 | 2,129 | 6,967 |
| Training | 7,778 | 6,111 | 6,111 | 20,000 |
| Miscellaneous repairs/services | 12,489 | 9,813 | 56,820 | 79,122 |
| Communications | 11,125 | 8,741 | 8,741 | 28,607 |
| Conferences and receptions | 548 | 430 | 430 | 1,408 |
| Total Materials and supplies | 68,178 | 53,568 | 100,575 | 222,321 |
| Professional services | 3,661 | 2,876 | 2,876 | 9,413 |
| Property lease | 13,922 | 10,939 | 10,939 | 35,800 |
| Total expenditures | \$ 2,561,719 | \$ 1,747,451 | \$ 1,794,458 | \$ 6,103,628 |
| Statistical information | | | | |
| Actual tonnage in metric tonnes | 21,452 | 8,934 | 13,028 | 43,414 |
| Actual cost per tonne | \$119.42 | \$195.60 | \$137.74 | \$140.59 |

**CITY OF OTTAWA IN-HOUSE WASTE COLLECTION – ZONE C3
NOTES TO STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 2017**

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 C3.

The statement of operations was prepared to report the operating results of the collection activities of Zone C3 for the year ended October 31, 2017. 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 C3 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 the prior period revenue figure adjusted by 50% of the prior period’s Consumer Price Index and changes in the number of houses for the current period, in accordance with the escalation factors that are identified 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 recognized ratably at 1/12 per month.

**CITY OF OTTAWA IN-HOUSE WASTE COLLECTION – ZONE C3
NOTES TO STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Vehicle Costs

Vehicle costs are charged to the Division 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. Costs associated with the actual claims are not included as part of the total expenses associated with this division.

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 were charged back at the cost of the part to the City plus 11.1% from the beginning of the year to July 15, 2016. Parts required after this date were charged back at cost to the City. Labour is charged to the Division at a rate of \$90 per hour (2016 - \$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 goods are received.

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.

**CITY OF OTTAWA IN-HOUSE WASTE COLLECTION – ZONE C3
NOTES TO STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

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 months |
| Leasehold improvements | 79 months |