

Consolidated Financial Statements

**The City of Ottawa**  
December 31, 2010

# INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council

We have audited the accompanying consolidated financial statements of The City of Ottawa, which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statements of operations, change in net debt, and statement of 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 consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of **The City of Ottawa** as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,  
June 8, 2011.

*Ernst + Young LLP*

Chartered Accountants  
Licensed Public Accountants

# The City of Ottawa

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

[dollars in thousands]

	2010	2009
	\$	\$
<b>Financial assets:</b>		
Cash and cash equivalents	207,950	124,106
Accounts receivable	326,885	203,217
Investments [Note 3]	737,911	892,354
Investment in government business enterprises [Note 4]	342,506	329,584
	<b>1,615,252</b>	<b>1,549,261</b>
<b>Financial liabilities:</b>		
Accounts payable and accrued liabilities	469,593	383,897
Deferred revenue [Note 5]	613,314	732,504
Employee future benefits and pension agreements [Notes 6 and 13]	375,772	371,691
Accrued interest	17,378	14,886
Landfill closure and post-closure liabilities [Notes 7 and 13]	11,108	9,691
Net long-term debt [Note 8]	835,160	599,042
Mortgages payable [Note 9]	221,120	212,277
Capital lease obligations [Note 10]	123,462	125,528
	<b>2,666,907</b>	<b>2,449,516</b>
<b>Net debt</b>	<b>(1,051,655)</b>	<b>(900,255)</b>
Contingencies and Commitments [Note 14]		
<b>Non-financial assets:</b>		
Tangible capital assets [Note 11]	10,875,237	10,071,833
Inventories	34,780	30,476
Prepaid expenses [Note 12]	14,292	12,738
<b>Total non-financial assets</b>	<b>10,924,309</b>	<b>10,115,047</b>
<b>Accumulated surplus</b> [Note 13]	<b>9,872,654</b>	<b>9,214,792</b>

See accompanying notes

**The City of Ottawa**

**CONSOLIDATED STATEMENT OF OPERATIONS**

For the year ended December 31

*[dollars in thousands]*

	<b>Budget</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
	<i>[unaudited]</i>		
<b>Revenues:</b>	<i>[Note 19]</i>		
Taxes available for municipal purposes <i>[Note 15]</i>	1,353,183	<b>1,358,107</b>	1,286,044
Fees and user charges	680,612	<b>691,768</b>	623,350
Government grants	857,090	<b>871,536</b>	471,419
Contributed tangible capital assets	206,350	<b>206,350</b>	145,296
Development charges	136,031	<b>136,031</b>	81,392
Investment income	36,415	<b>30,285</b>	26,071
Fines and penalties	26,937	<b>25,709</b>	23,567
Other revenue	26,374	<b>26,630</b>	14,810
Equity in earnings of government business enterprises <i>[Note 4]</i>	30,522	<b>30,522</b>	29,414
<b>Total revenues</b>	<b>3,353,514</b>	<b>3,376,938</b>	<b>2,701,363</b>
<b>Expenses:</b>			
General government	108,442	<b>107,933</b>	104,799
Protection to persons and property	455,142	<b>460,265</b>	440,858
Transportation	787,099	<b>774,221</b>	681,511
Environmental services	280,824	<b>271,240</b>	254,787
Health services	126,099	<b>132,804</b>	130,898
Social and family services	408,095	<b>411,803</b>	417,554
Social housing	233,523	<b>235,399</b>	239,302
Recreation and cultural services	265,910	<b>271,469</b>	278,456
Planning and development	56,970	<b>53,942</b>	51,063
<b>Total expenses</b>	<b>2,722,104</b>	<b>2,719,076</b>	<b>2,599,228</b>
<b>Annual surplus</b>	<b>631,410</b>	<b>657,862</b>	<b>102,135</b>
<b>Accumulated surplus, beginning of the year</b>	<b>9,214,792</b>	<b>9,214,792</b>	<b>9,112,657</b>
<b>Accumulated surplus, end of the year</b>	<b>9,846,202</b>	<b>9,872,654</b>	<b>9,214,792</b>

*See accompanying notes*

## The City of Ottawa

### CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

For the year ended December 31

*[dollars in thousands]*

	<b>Budget</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
	<i>[unaudited]</i>		
Annual surplus	631,410	<b>657,862</b>	102,135
Acquisition of tangible capital assets	(1,083,322)	<b>(1,144,844)</b>	(724,688)
Amortization of tangible capital assets	227,620	<b>227,620</b>	208,205
Writedown of tangible capital assets	32,200	<b>32,200</b>	-
Loss on sale of tangible capital assets	81,620	<b>81,620</b>	4,441
Change in supply of inventories	(4,304)	<b>(4,304)</b>	(2,638)
Change in prepaid expenses	(1,554)	<b>(1,554)</b>	(689)
Change in net debt	(116,330)	<b>(151,400)</b>	(413,234)
<b>Net debt, beginning of the year</b>	(900,255)	<b>(900,255)</b>	(487,021)
<b>Net debt, end of the year</b>	(1,016,585)	<b>(1,051,655)</b>	(900,255)

**The City of Ottawa**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended December 31

[dollars in thousands]

	2010	2009
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Annual surplus	657,862	102,135
Adjustment for non-cash items:		
Equity in earnings of government business enterprises	(30,522)	(29,414)
Amortization of tangible capital assets	227,620	208,205
Writedown of tangible capital assets	32,200	-
Contributed assets	(206,350)	(145,296)
Loss on sale of tangible capital assets	73,073	4,441
Uses:		
Increase in accounts receivable	(123,668)	(34,512)
Increase in inventories	(4,304)	(2,638)
Increase in prepaid expenses	(1,554)	(689)
Decrease in deferred revenue	(119,190)	-
Decrease in landfill closure and post-closure liabilities		(3,997)
	<b>505,167</b>	<b>98,235</b>
Sources:		
Increase in accounts payable and accrued liabilities	85,696	33,741
Increase in deferred revenue		60,238
Increase in employee future benefits and pension agreements	4,081	45,316
Increase in accrued interest	2,492	565
Increase in landfill closure and post-closure liabilities	1,417	-
	<b>93,686</b>	<b>139,860</b>
<b>Cash provided by operating activities</b>	<b>598,853</b>	<b>238,095</b>
<b>CAPITAL ACTIVITIES</b>		
Acquisition of tangible capital assets	(938,494)	(579,392)
Proceeds on sale of tangible capital assets	8,547	-
<b>Cash used in capital activities</b>	<b>(929,947)</b>	<b>(579,392)</b>
<b>INVESTING ACTIVITIES</b>		
Net decrease in investments	154,443	47,643
Dividend from Hydro Ottawa Holding Inc.	17,600	17,200
<b>Cash provided by investing activities</b>	<b>172,043</b>	<b>64,843</b>
<b>FINANCING ACTIVITIES</b>		
New debt issued	316,028	138,041
Net interest earned on sinking funds	(4,655)	(7,449)
Debt principal repayments	(68,478)	(58,298)
<b>Cash provided by financing activities</b>	<b>242,895</b>	<b>72,294</b>
Net increase (decrease) in cash and cash equivalents during the year	83,844	(204,160)
Cash and cash equivalents, beginning of the year	124,106	328,266
<b>Cash and cash equivalents, end of the year</b>	<b>207,950</b>	<b>124,106</b>

See accompanying notes

## CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE

*[dollars in thousands]  
[note 17]*

For the year ended December 31, 2010

	General Government \$	Protection \$	Transportation \$	Environmental Services \$	Health Services \$	Social and Family Services \$	Social Housing \$	Recreation and Culture \$	Planning and Development \$	Other \$	Total \$
<b>REVENUES</b>											
Taxes	-	-	-	-	-	-	-	-	263	1,357,844	1,358,107
Fees and surcharges	18,422	60,921	181,661	266,953	1,590	22,636	63,097	55,670	11,248	9,570	691,768
Government grants	1,277	7,236	350,742	14,281	76,145	247,191	119,130	39,708	1,785	14,041	871,536
Fines and penalties	1,085	12,326	-	-	-	-	-	1,145	-	11,153	25,709
Contributed tangible capital assets	-	-	63,311	133,031	-	-	-	2,252	7,756	-	206,350
Development charges	97	1,996	96,881	28,597	-	-	-	6,739	182	1,539	136,031
Other	466	354	6,817	2,507	-	-	5,540	11,915	10,374	49,464	87,437
<b>Total revenues</b>	<b>21,347</b>	<b>82,833</b>	<b>699,412</b>	<b>445,369</b>	<b>77,735</b>	<b>269,827</b>	<b>187,767</b>	<b>117,429</b>	<b>31,608</b>	<b>1,443,611</b>	<b>3,376,938</b>
<b>EXPENSES</b>											
Salaries and benefits	73,140	379,364	357,451	64,944	107,443	121,903	34,593	129,356	31,865	-	1,300,059
Contracts and general services	1,590	18,286	38,949	67,953	2,922	6,458	1,146	39,611	7,449	-	184,364
Materials, equipment and supplies	17,531	35,458	145,544	48,595	13,731	70,233	39,743	44,168	8,382	-	423,385
Interest charges	4,382	3,032	23,908	10,976	1,582	2,738	10,998	5,620	2,898	-	66,134
Rent and financial expenses	8,906	8,177	17,579	2,240	1,048	4,410	2,779	6,808	622	-	52,569
External transfers	(2,580)	4,932	(9,336)	1,938	2,091	204,802	130,502	29,733	(2,410)	-	359,672
Amortization	4,932	10,125	106,151	72,113	3,822	1,224	15,606	13,578	69	-	227,620
Write-downs	-	-	32,200	-	-	-	-	-	-	-	32,200
Loss on disposal	32	891	61,775	2,481	165	35	32	2,595	5,067	-	73,073
<b>Total expenses</b>	<b>107,933</b>	<b>460,265</b>	<b>774,221</b>	<b>271,240</b>	<b>132,804</b>	<b>411,803</b>	<b>235,399</b>	<b>271,469</b>	<b>53,942</b>	<b>-</b>	<b>2,719,076</b>
<b>ANNUAL SURPLUS (DEFICIT)</b>	<b>(86,586)</b>	<b>(377,432)</b>	<b>(74,809)</b>	<b>174,129</b>	<b>(55,069)</b>	<b>(141,976)</b>	<b>(47,632)</b>	<b>(154,040)</b>	<b>(22,334)</b>	<b>1,443,611</b>	<b>657,862</b>

## CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE

*[dollars in thousands]  
[note 17]*

For the year ended December 31, 2009

	General Government \$	Protection \$	Transportation \$	Environmental Services \$	Health Services \$	Social and Family Services \$	Social Housing \$	Recreation and Culture \$	Planning and Development \$	Other \$	Total \$
<b>REVENUES</b>											
Taxes	-	-	-	-	-	-	-	-	-	1,286,044	1,286,044
Fees and surcharges	18,181	59,970	144,166	244,599	1,651	21,685	62,401	52,803	8,567	9,327	623,350
Government grants	1,778	9,758	54,057	7,613	77,162	232,099	71,191	4,849	775	12,137	471,419
Fines and penalties	1,124	10,274	-	-	-	-	-	1,436	-	10,733	23,567
Contributed tangible capital assets	-	27	31,972	100,026	-	-	-	12,984	287	-	145,296
Development charges	-	3,694	53,455	17,702	-	3	-	5,001	574	963	81,392
Other	(62)	288	1,624	1,669	-	-	2,498	1,442	8,318	54,518	70,295
<b>Total revenues</b>	<b>21,021</b>	<b>84,011</b>	<b>285,274</b>	<b>371,609</b>	<b>78,813</b>	<b>253,787</b>	<b>136,090</b>	<b>78,515</b>	<b>18,521</b>	<b>1,373,722</b>	<b>2,701,363</b>
<b>EXPENSES</b>											
Salaries and benefits	63,912	373,341	331,215	58,886	101,045	118,488	32,292	147,159	31,818	-	1,258,156
Contracts and general services	13,832	11,608	32,351	67,412	5,141	7,531	1,211	29,579	7,650	-	176,315
Materials, equipment and supplies	19,197	32,694	182,113	40,821	14,070	67,729	92,228	43,674	8,172	-	500,698
Interest charges	5,822	2,696	21,283	10,525	1,610	2,973	11,283	5,962	2,440	-	64,594
Rent and financial expenses	12,492	2,476	17,683	6,803	59	4,140	2,463	5,296	222	-	51,634
External transfers	(12,200)	6,543	(3,593)	5,369	4,081	215,237	85,139	34,361	248	-	335,185
Amortization	1,417	10,468	99,166	64,707	3,643	1,456	14,686	12,149	513	-	208,205
Loss on disposal	327	1,032	1,293	264	1,249	-	-	276	-	-	4,441
<b>Total expenses</b>	<b>104,799</b>	<b>440,858</b>	<b>681,511</b>	<b>254,787</b>	<b>130,898</b>	<b>417,554</b>	<b>239,302</b>	<b>278,456</b>	<b>51,063</b>	<b>-</b>	<b>2,599,228</b>
<b>ANNUAL SURPLUS (DEFICIT)</b>	<b>(83,778)</b>	<b>(356,847)</b>	<b>(396,237)</b>	<b>116,822</b>	<b>(52,085)</b>	<b>(163,767)</b>	<b>(103,212)</b>	<b>(199,941)</b>	<b>(32,542)</b>	<b>1,373,722</b>	<b>102,135</b>



**CONDENSED SUPPLEMENTARY INFORMATION**  
**OTTAWA PUBLIC LIBRARY BOARD**

*[dollars in thousands]*

The Ottawa Public Library Board is consolidated with The City of Ottawa. The following table provides condensed supplementary information for the Ottawa Public Library Board.

**Financial Position**

	2010	2009
<b>AS AT DECEMBER 31</b>	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>	4,012	4,621
<b>Financial liabilities</b>	11,227	10,759
<b>Net debt</b>	<b>(7,215)</b>	<b>(6,138)</b>
<b>Non-Financial Assets</b>		
Tangible capital assets	35,306	30,826
Prepaid expenses	157	179
<b>Total non-financial assets</b>	<b>35,463</b>	<b>31,005</b>
<b>Accumulated surplus</b>	<b>28,248</b>	<b>24,867</b>

**Consolidated Statement of Operations**

	2010	2009
<b>FOR THE YEAR ENDED DECEMBER 31</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>		
City of Ottawa	37,986	35,677
Province Of Ontario	2,464	1,682
Other	3,968	4,746
<b>Total revenues</b>	<b>44,418</b>	<b>42,105</b>
<b>Expenses</b>		
Operating expenditures	41,037	40,300
<b>Total expenses</b>	<b>41,037</b>	<b>40,300</b>
Annual surplus	3,381	1,805
<b>Accumulated surplus, beginning of the year</b>	<b>24,867</b>	<b>23,062</b>
<b>Accumulated surplus, end of the year</b>	<b>28,248</b>	<b>24,867</b>

# The City of Ottawa

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

### 1. NATURE OF BUSINESS

The City of Ottawa [“the City”] was created through Provincial legislation on December 20, 1999 and commenced operations on January 1, 2001.

The City is responsible for providing municipal services such as employment and financial assistance, long-term care, community services and libraries, emergency and protective services including police, fire and ambulance, and transportation, utilities and public works, including roads, sewers and wastewater, drinking water, garbage and recycling.

As sole shareholder of Hydro Ottawa Holding Inc. and the Ottawa Community Housing Corporation, the City also provides hydro and housing services to the residents of Ottawa. In 2009, the Ottawa Community Lands Development and the Manotick Mill Quarter Community Development Corporations were created. The corporations are responsible for the development and sale of land transferred from the City and implementation of public infrastructure improvements.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of presentation

The consolidated financial statements are prepared by management in accordance with accounting policies prescribed by the Public Sector Accounting Board [“PSAB”] of the Canadian Institute of Chartered Accountants. 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, which have been made using careful judgment.

#### Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity, and include the activities of all committees of Council and the following boards:

The Police Services Board	The Carp Village Business Improvement Area
The Ottawa Public Library Board	The Vanier Business Improvement Area
The Ottawa Community Housing Corporation	The Manotick Business Improvement Area
The Ottawa-Nepean Campsite Authority	The Sparks Street Mall Authority
The Bank Street Business Improvement Area	The Somerset Village Business Improvement Area
The Westboro Business Improvement Area	The Preston Street Business Improvement Area
The Sparks Street Business Improvement Area	The Byward Market Business Improvement Area
The Somerset Street Chinatown Business Improvement Area	The Rideau Business Improvement Area
The Glebe Business Improvement Area	The Barrhaven Business Improvement Area
The Orleans Business Improvement Area	The Wellington West Business Improvement Area
	The Bells Corners Business Improvement Area

All interfund assets and liabilities, revenues and expenses have been eliminated.

Condensed supplementary information for the Ottawa Public Library Board is provided in schedule 2.

## **The City of Ottawa**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[dollars in thousands]*

December 31, 2010

Certain subsidiary corporations are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for such government business enterprises [see note 4]. Under the modified equity basis, the business enterprise's accounting policies are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated. Subsidiary corporations accounted for in this manner are:

Pine View Municipal Golf Course  
Hydro Ottawa Holding Inc. and its subsidiaries  
Ottawa Community Lands Development Corporation  
Manotick Mill Quarter Community Development Corporation

No activity has taken place to date for Manotick Mill Quarter Community Development Corporation. The City of Ottawa Sinking Fund is not consolidated, except for the City's share of the Sinking Fund's interest income used to finance the principal amount of debt.

#### **School boards**

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements.

#### **Basis of accounting**

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues, as they are earned and measurable; expenses are recognized, as they are incurred and measurable, as a result of receipt of goods or services and the creation of a legal obligation to pay.

#### **Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions on such areas as employee benefits, assessment appeals and environmental provisions. These estimates and assumptions are based on the City's best information and judgment and may differ significantly based on actual results.

#### **Tax revenues**

Annually, the City bills and collects property tax revenues for municipal purposes, provincial education taxes on behalf of the Province of Ontario [the "Province"], payment in lieu of taxes, local improvements and other charges (see note 15). The authority to levy and collect property taxes is established under the Municipal Act, 2001, the Assessment Act, the Education Act, and other legislation.

The amount of the total annual property tax levy is determined each year through Council's approval of the annual operating and capital budget. Municipal tax rates are set annually by Council for each property tax class, in accordance with legislation and Council approved policies, in order to raise the revenues required to meet operating budget requirements. Education tax rates are established each year by the Province in order to fund the costs of education on a Province-wide basis.

Property assessments, on which property taxes are based, are established by the Municipal Property Assessment Corporation ["MPAC"], a not-for-profit corporation funded by all municipalities in Ontario. The current value assessment ["CVA"] of a property represents the estimated market value of a property as of a fixed date. Assessed

## **The City of Ottawa**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[dollars in thousands]*

December 31, 2010

values for all properties within the municipality are provided to the City by way of returned assessment rolls in December of each year.

The amount of property tax levied on an individual property is the product of the CVA of the property and the rate for the class, together with any adjustments that reflect Council approved mitigation or other tax policy measures.

Property taxes are billed by the City twice annually. The interim billing, issued in February, is based on 50% of the property's previous year total taxes, and provides for the cash requirements of the City for the initial part of the year. Final bills are issued in May, following Council's approval of the operating budget for the year, the tax levy requirement, and the property tax rates needed to fund the City's operations.

Taxation revenues are recorded at the time tax billings are issued. Additional property tax revenue can be added throughout the year, related to new properties that become occupied or that become subject to property tax, after the return of the annual assessment roll used for billing purposes. The City may receive up to four supplementary assessment rolls over the course of the year from MPAC that identify new or omitted assessments. Property taxes for these supplementary/omitted amounts are then billed according to the approved tax rates for the property class.

Taxation revenues in any year may also be reduced as a result of reductions in assessment values resulting from assessment and/or tax appeals. Each year, an amount is identified within the annual operating budget to cover the estimated amount of revenue loss attributable to assessment appeals, tax appeals or other deficiencies in tax revenues [e.g., uncollectible amounts, write-offs].

In Ontario, annual property tax increases for the properties within the commercial, industrial, and multi-residential tax classes have been subject to limitations since 1998. Legislation and regulations have been in place to restrict the maximum allowable year-over-year increase, in order to mitigate dramatic tax increases due to changes in assessed values.

Every year, Council adopts a staff report entitled "Tax Ratios and Other Tax Policy Report" that sets a number of tax policies for the City. These include the adoption of optional classes, the establishment of tax ratios, tax levels for new construction, and tax mitigation programs that limit the allowable annual tax increase for properties.

#### **Financial instruments**

The City's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, deferred revenue, long-term debt, and mortgages payable. Unless otherwise noted, it is management's opinion that the City is not exposed to significant interest, currency, or credit risks arising from these financial instruments. The carrying values of the City's financial instruments approximate their fair values unless otherwise noted.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of 90 days or less as at the consolidated statement of financial position date.

#### **Investments**

Investments are recorded at amortized cost less amounts written off to reflect a permanent decline in value. Investments consist of authorized investments pursuant to provisions of the Municipal Act and comprise financial instruments issued

## **The City of Ottawa**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[dollars in thousands]*

December 31, 2010

by the Canadian government and Schedule I, II, and III banks, as well as asset-backed securities and eligible commercial paper. Investments for the Endowment Fund also include Canadian equities and corporate bonds as authorized by Provincial Regulation 655/05 and the Investment Policy approved by City Council. Investments for the Ottawa Community Housing Corporation are carried at cost and only written down when there has been a permanent impairment to the carrying value. Investments with original maturity dates greater than 90 days are classified as investments on the consolidated statement of financial position.

#### **Environmental provisions**

The City provides for the cost of compliance with environmental legislation when conditions are identified which indicate non-compliance with environmental legislation and costs can be reasonably determined. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation.

#### **Deferred revenue**

Certain amounts are received pursuant to legislation, regulation, or agreement and may only be used in the conduct of certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed.

#### **Government transfers**

Government transfers relate to the social services and housing programs and are recognized in the consolidated financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

#### **Employee benefit plans**

The City has adopted the following policies with respect to employee benefit plans:

[a] The costs of post-employment benefits are recognized as a liability when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs, and fees paid to independent administrators of these plans, calculated on a present value basis;

[b] The costs of post-retirement benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs, and plan investment performance.

[c] Past service costs for plan amendments related to prior period employee services are accounted for in the period of the plan amendment. The effects of gain or loss from settlements or curtailments are expensed in the period they occur. Net actuarial gains and losses related to employee benefits are amortized over the estimated average remaining service life of the related employee group. Employee future benefits are discounted using current interest rates on long-term bonds. The cost of workplace safety and insurance obligations is actuarially determined and is expensed.

[d] The costs of termination benefits and compensated absences are recognized when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs, and fees paid to independent administrators of these plans, calculated on a present value basis.

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

#### Pension agreements

[a] The contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due.

[b] Plan assets were determined in accordance with Section PS 3250 of the CICA Public Sector Accounting Handbook. The actuarial valuation of these obligations is determined using the projected unit credit method prorated on credited service. It is also based on management's best estimate assumptions that include assumptions for employee retirement ages, salary escalation, and plan investment performance which is used for discounting benefits. The actuary believes that these assumptions are in accordance with accepted actuarial practice. Plan assets are valued using a market-related value, determined over a three-year period.

#### Landfill closure and post-closure liabilities

The estimated costs to close and maintain solid waste landfill sites are based on estimated future expenses in current dollars, adjusted for estimated inflation, and are reported as a liability on the consolidated statement of financial position.

#### Inventories

Inventories are recorded at the lower of cost and replacement cost.

#### Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They are not intended for sale in the ordinary course of operations

[a] Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of an asset. The costs, less residual value, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful life - Years	
	Minimum	Maximum
Buildings and Improvements	20	80
Computer hardware	5	10
Infrastructure Linear - Roads	50	75
Infrastructure Linear - Water/Wastewater	50	100
Land Improvements	50	200
Machinery and Equipment	10	50

Assets under construction are not amortized. Amortization of these assets will commence when the asset is put in service. For short-term tangible capital assets [useful lives less than or equal to 5 years], six months of amortization is recognized in the year the asset is put in service. For long-term tangible capital assets [useful lives of more than 5 years], a full year of amortization is recognized in the year following the year in which the asset is put into service.

[b] Contributions of tangible capital assets

Tangible capital assets received as contributions have been recorded at their fair market value at the date of receipt and are recorded as revenue. Contributed land assets of the City's predecessor municipalities were recorded as having been contributed on the date of amalgamation.

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

**[c] Intangible assets**

Intangible assets and natural resources that have not been purchased are not recognized as assets in the consolidated financial statements.

**[d] Interest capitalization**

The City's tangible capital asset policy does not allow for the capitalization of interest costs associated with the acquisition or construction of a tangible capital asset.

**[e] Leases**

Leases are classified as operating or capital leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

**[f] Inventories**

Inventories held for consumption are recorded at the lower of cost and replacement cost.

### Reserves and reserve funds

Reserves and reserve funds comprise funds set aside for specific purposes by Council [see note 13].

According to the investment policy for the Endowment Fund adopted by City Council, investment earnings are paid to the City at the lesser of 6.5% and the actual earnings of the Endowment Fund. Earnings, which exceed the target return of 6.5%, are retained by the Fund. In the event that the Fund's principal amount falls below the initial amount, distributions will be suspended until the Fund recovers to its inception amount.

### 3. INVESTMENTS

Investments are comprised of:

	<b>Cost</b>		<b>Market Value</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$ (000's)</b>	<b>\$ (000's)</b>	<b>\$ (000's)</b>	<b>\$ (000's)</b>
City of Ottawa debentures	<b>35,478</b>	42,741	<b>36,839</b>	44,671
Federal	<b>125,225</b>	177,848	<b>128,675</b>	181,771
Provincial	<b>124,906</b>	193,316	<b>130,336</b>	199,395
Municipal	<b>117,740</b>	135,217	<b>123,585</b>	141,459
Banks	<b>86,028</b>	78,580	<b>88,443</b>	82,192
Endowment	<b>195,224</b>	202,299	<b>213,474</b>	204,139
OCHC securities	<b>10,864</b>	19,459	<b>9,191</b>	16,378
Other	<b>42,446</b>	42,894	<b>43,145</b>	43,697
	<b>737,911</b>	892,354	<b>773,688</b>	913,702

The weighted average yield on investments held as at December 31, 2010 is 3.60% [2009 – 3.95%]. Investments mature from to January 24, 2011 to March 8, 2029. [2009 – April 15, 2010 to March 8, 2029].

# The City of Ottawa

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2010

### 4. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES

Investments are comprised of:

	Net assets		Share of income	
	2010	2009	2010	2009
	\$	\$	\$	\$
Pineview Municipal Golf Course	(202)	(209)	7	153
Ottawa Community Lands Development	(716)	-	(716)	-
Hydro Ottawa Holding Inc.	343,424	329,793	31,231	29,261
	<b>342,506</b>	<b>329,584</b>	<b>30,522</b>	<b>29,414</b>

#### [a] Investment [100% owned] in Pine View Municipal Golf Course

The following table provides condensed supplementary financial information for Pine View Municipal Golf Course:

	2010	2009
	\$	\$
<b>AS AT DECEMBER 31</b>		
Financial position		
Current assets	174	155
Capital assets	1,340	1,297
<b>Total assets</b>	<b>1,514</b>	<b>1,452</b>
Current liabilities	141	110
Cash advanced by the City of Ottawa	1,575	1,551
<b>Total liabilities</b>	<b>1,716</b>	<b>1,661</b>
<b>Net liabilities</b>	<b>(202)</b>	<b>(209)</b>
<b>FOR THE YEAR ENDED DECEMBER 31</b>	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Results of operations</b>		
Total revenues	1779	1957
Total expenses	1772	1804
<b>Net income</b>	<b>7</b>	<b>153</b>



# The City of Ottawa

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

### [b] Investment [100% owned] in Ottawa Community Lands Development

	2010	2009
	\$	\$
<b>AS AT DECEMBER 31</b>		
<b>Financial position</b>		
Cash advanced to the City of Ottawa	2,154	-
<b>Total assets</b>	<b>2,154</b>	<b>-</b>
Current liabilities	2,870	-
<b>Total liabilities</b>	<b>2,870</b>	<b>-</b>
<b>Net liabilities</b>	<b>(716)</b>	<b>-</b>
	2010	2009
	\$	\$
<b>FOR THE YEAR ENDED DECEMBER 31</b>		
<b>Results of operations</b>		
Total revenues	-	-
Total expenses	716	-
<b>Net loss</b>	<b>(716)</b>	<b>-</b>

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

#### [c] Investment [100% owned] in Hydro Ottawa Holding Inc.

The following table provides condensed supplementary financial information of Hydro Ottawa Holding Inc.:

<b>AS AT DECEMBER 31</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Financial Position</b>		
Current assets	171,530	163,468
Capital assets	567,361	547,500
Other assets	34,151	42,209
<b>Total assets</b>	<b>773,042</b>	<b>753,177</b>
Current liabilities	117,955	121,153
Other liabilities	311,663	302,231
<b>Total liabilities</b>	<b>429,618</b>	<b>423,384</b>
<b>Net assets</b>	<b>343,424</b>	<b>329,793</b>
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Net assets consist of:		
Investment in Hydro Ottawa Holding Inc		
Common shares (100%)	228,453	228,453
Retained earnings	114,971	101,340
<b>Net assets</b>	<b>343,424</b>	<b>329,793</b>
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>FOR THE YEAR ENDED DECEMBER 31</b>		
<b>Results of operations</b>		
Total revenues	797,043	754,732
Total expenses	(765,812)	(725,471)
<b>Net income</b>	<b>31,231</b>	<b>29,261</b>

The City, as holder of common shares in Hydro Ottawa Holding Inc., is entitled to receive dividends related to 2010 operations as declared by Hydro Ottawa Holding Inc. Board.

Dividends in the amount of \$17,600 [2009 - \$17,200] were received in 2010 related to 2009 operations.

For the year ended December 31, 2010, Hydro Ottawa Holding Inc. earned revenues related to sale of electricity, energy management consulting, and other services in the amount of \$ 38,785 [2009 - \$39,022] from the City. Certain services mainly related to water and sewer charges, fuel, and permits were purchased from the City in the amount of \$614 [2009 - \$374], property taxes in the amount of \$1,796 [2009 - \$1,757], and royalties in the amount of \$134 [2009 - \$114].

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

Hydro Ottawa Holding Inc. paid the City of Ottawa \$144 [2009 - \$ 1] in support of its conservation and demand management initiatives.

As at December 31, 2010, Hydro Ottawa Holding Inc. had \$4,694 [2009 - \$4,304] due from the City of Ottawa and \$307 [2009 - \$212] due to the City of Ottawa in connection with the construction and operation of a generation plant and gas collection system at the Trail Road Landfill site in Ottawa.

#### 5. DEFERRED REVENUE

Building code revenue received in accordance with the Provincial Building Code Act and previously reported as an obligatory reserve fund in accumulated surplus has been reclassified as deferred revenue. Deferred revenue, set aside for specific purposes by legislation, regulation, or agreement is comprised of:

	2010	2009
	\$	\$
Development charges	388,198	420,552
Investment in Ontario Act	44,284	64,685
Gas tax	53,906	118,381
Municipal Infrastructure Investment Initiative	5,089	18,625
Other deferred revenue	61,867	51,476
Building code	38,063	33,717
Cash in lieu of parkland	17,750	20,509
Cash in lieu of parking	4,157	4,559
<b>Total Deferred revenue</b>	<b>613,314</b>	<b>732,504</b>

#### 6. EMPLOYEE FUTURE BENEFITS AND PENSION AGREEMENTS

The City provides certain benefits, including retirement and other employment benefits, to most of its employees.

[a] Employee future benefits

Employee future benefit liabilities are reported net of amounts funded by the City. The funded portion of employee future benefit liabilities represents the cumulative operating expense that has been recorded in the consolidated statement of operations and recorded as accounts payable and accrued liabilities on the consolidated statement of financial position. The Long Term Disability Self-Insurance Actuarial Reserve established by BY-LAW 2006-78 and included in the funded amount was augmented by \$3,106 on December 13, 2010 by the transfer of all surplus relating to the closure of Confederation Life Policy Numbers GH36274 and GH35345. These policies were first established by Confederation Life effective April 1, 1988 and maintained by Manulife Financial until November 2001 to provide long term disability income protection for certain employees of the former City of Ottawa. The surplus funds transferred to the Long Term Disability Self-Insurance Actuarial Reserve in 2010 had been maintained under long term disability financial arrangements with Manulife Financial since 2001 and will be utilized in accordance with BY-LAW 2006-78.

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2010

Employee future benefit liabilities of the City as at December 31 are as follows:

	2010			2009		
	Gross \$	Funded \$	Unfunded \$	Gross \$	Funded \$	Unfunded \$
Post-retirement benefits	166,960	(1,786)	165,174	162,976	(2,101)	160,875
Post-employment benefits	138,434	(38,243)	100,191	124,587	(30,760)	93,827
WSIB	75,435	-	75,435	73,160	-	73,160
Vacation leave	41,914	(28,541)	13,373	42,969	(29,124)	13,845
	<b>422,743</b>	<b>(68,570)</b>	<b>354,173</b>	<b>403,692</b>	<b>(61,985)</b>	<b>341,707</b>

The defined benefit plans relating to post-retirement and post-employment provide a variety of benefits to retirees and active and long-term disabled employees, including income, medical, dental, and life insurance, workers' compensation, and sick leave gratuity benefits.

The City is a schedule 2 employer under the Workplace Safety and Insurance Act and, as such, assumes full responsibility for financing its workplace safety insurance costs. The accrued obligation represents the present value of future benefits on existing claims.

The continuity for post-retirement and post-employment benefits for 2010 is as follows:

	Post-retirement \$	Post-employment \$	Total \$
<b>Balance, at the beginning of the year</b>	162,976	124,587	287,563
Current service costs/cost of new claims	5,416	24,192	29,608
Interest cost	7,199	6,678	13,877
Amortization of actuarial (gain)/loss	(1,195)	408	(787)
Benefits paid	(7,436)	(17,431)	(24,867)
<b>Balance, at the end of the year</b>	<b>166,960</b>	<b>138,434</b>	<b>305,394</b>

The liability for post-retirement and post employment benefits is calculated based on estimate of future outlays requires under contractual agreements with various city employee bargaining units. These estimates are based on a number of assumptions regarding the expected costs of benefits, which are dependent on the demographic makeup of the various groups, future interest rates, and inflation rates. The City engages the services of an actuarial consulting firm to provide a determination of the City's obligation for post retirement and post employment benefits.

Due to the complexities in valuing the plans, actuarial valuations are conducted on a periodic basis. The liabilities reported in these consolidated financial statements are based on a valuation as of September 30, 2010 with an extrapolation to December 31, 2010.

Gains or losses are generated each year due to changes to certain assumptions and corrections or clarifications to the plan design previously provided by the City. These gains or losses are not expenses in the current year, but rather amortized over the expected average remaining service life of the related employee groups. In 2010, amortization began for a 2009 loss of \$12,341. Amortization for a 2010 loss of \$26,389 will commence in 2011.

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

A number of estimates and assumptions are utilized in determining an actuarial valuation of benefit plans. The significant actuarial assumptions adopted in measuring the City's accrued benefit obligations and benefit cost for post-retirement and post-employment benefits are as follows:

	<b>2010</b>
Discount rate	4.25%
Inflation rate	2.50%
Salary increase rate	2.0% for MPE, 2.75% for all others in 2011, 3.0% thereafter
Health care inflation rate	7.16% grading down to 4.50% in 2029

  

	<b>2009</b>
Discount rate	5.00%
Inflation rate	2.50%
Salary increase rate	3.0 %
Health care inflation rate	7.16% grading down to 4.5% in 2029

[b] Pension agreements

[i] Ontario Municipal Employees' Retirement Fund

The City makes contributions to the Ontario Municipal Employees Retirement System ["OMERS"], which is a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. The City's contribution to the OMERS plan for 2010 was \$69,512 [2009 - \$65,497] for current services and is included as an expense on the consolidated statement of operations. These contributions were matched with identical employee contributions for both years.

The amount contributed for past service to OMERS for the year ended December 31, 2010 was \$458 [2009 - \$384] and is included as an expenditure on the consolidated statement of operations.

[ii] City of Ottawa Superannuation Fund

The City sponsors the City of Ottawa Superannuation Fund ["COSF"], a defined benefit plan that provides retirement benefits to employees based on length of service and rates of pay. With the introduction of OMERS, the COSF became a closed group in 1965. As at December 31, 2010, there were no active members and 785 pension recipients. As at December 31, 2009, there were no active members and 823 pension recipients. Pension payments during 2010 were \$22,633 [2009 - \$23,647]. No employee or matching employer contributions to this pension plan for current service or for past service were required in 2010 or 2009.

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

The reported pension liability is as follows:

	\$
Pension fund assets- end of the year	198,987
Accrued benefit obligation - end of the year	(229,405)
<b>Accrued benefit liability</b>	<b>30,418</b>
Unamortized actuarial losses	(6,996)
Liability at end of period	23,422
Valuation allowance	-
<b>Reported pension liability</b>	<b>23,422</b>

There is no remaining service life in this plan.

The market value of the assets of the plan as at December 31, 2010 was \$213,039 [2009 - \$215,151].

The actuarial valuation was based on a number of assumptions that are based on management's best estimates and are in accordance with accepted actuarial practice. Inflation rate was estimated at 2.0% [2009 - 2.1%] and the net rate of return for the plan was estimated at 5.50% [2009 - 5.25%].

The reported pension liability of the above plan has been reflected on the consolidated statement of financial position.

#### [iii] Ottawa-Carleton Regional Transit Commission Employees' Pension Plan

The City sponsors the Ottawa-Carleton Regional Transit Commission "OC Transpo" Employees' Pension Plan, a defined benefit plan that provides retirement benefits to employees based on length of service and rates of pay. Effective January 1, 1999, OC Transpo adopted the OMERS pension plan for all employees and new hires to accrue future benefits. Members retiring with both pre-1999 and post-1998 service will receive pension incomes under both plans. Pension payments during 2010 were \$20,403 [2009 - \$21,186]. No employee or matching employer contributions to this pension plan for current service were required in 2010 or 2009. Employer contributions for past service during 2010 was \$12,957 [2009 - NIL]

The reported pension benefit asset is as follows:

	\$
Pension fund assets- end of the year	491,875
Accrued benefit obligation - end of the year	(491,962)
<b>Accrued benefit liability</b>	<b>87</b>
Unamortized actuarial losses	(1,910)
Asset at end of period	1,823
Valuation allowance	-
<b>Reported pension asset</b>	<b>1,823</b>

The expected average remaining service life of this plan is 9 years.

The market value of the assets of the plan as at December 31, 2010 was \$511,757 [2009 - \$464,016].

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

The actuarial valuation was based on a number of assumptions that are based on management's best estimates and are in accordance with accepted actuarial practice. Pension indexation rate was estimated at 3.00% [2009 - 3.00%], the net rate of return for the plan was estimated at 6.00% [2009 - 5.75%], and total salary increases were estimated at 3.25% [2009 - 3.50%].

The last filed actuarial valuation dated January 1, 2010 quantified a solvency deficit of \$65 million. The solvency deficit will be amortized over 5 years starting in 2010 with \$13 million of additional contributions to the plan by the City. Many of the estimates and assumptions used in 2010 may change significantly with the next detailed actuarial valuation.

The reported pension asset of the above plan has been reflected on the consolidated statement of financial position.

#### 7. LANDFILL CLOSURE AND POST-CLOSURE LIABILITIES

The Ontario Environmental Protection Act sets out the regulatory requirements for the closure and maintenance of landfill sites. Under this Act, the City is required to provide for closure and post-closure care of solid waste landfill sites. The costs related to these obligations are provided over the estimated remaining life of the landfill sites based on usage.

The City has two active landfill sites - Trail Road Landfill and Springhill - as well as one inactive site for which the City has responsibilities for all costs relating to closure and post-closure care. As at December 31, 2010, the remaining capacity of the Trail Road site is approximately 7,668,030 [2009 - 7,850,206] cubic metres, all of which is expected to be used by the year 2025. A Site Optimization/Expansion Environmental Assessment for Trail Road was approved in 2005, which increased the capacity of the Trail Road landfill and will therefore extend the life [capacity] of the landfill from the year 2009 to the year 2025. The remaining capacity at the Springhill site is approximately 391,931 [2009 - 438,073] cubic metres, which is expected to be used by the year 2019.

Closure for the Trail Road Landfill and Springhill will involve covering the site, implementing drainage control, and installing ground water monitoring wells and gas recovery facilities. Post-closure care activities for these sites and other inactive sites are expected to occur for approximately 25 years.

The estimated liability for the care of landfill sites is the present value of future cash flows associated with closure and post-closure costs discounted using the City's cost of capital of 4.25% [2009 - 5.00%] as well as considering an annual

CPI inflation rate of 2.01% [2009 - 2.10%] [annual average of the last 10 years]. This estimate amounts to \$12,867 at December 31, 2010 [2009 - \$11,039] and is included as a liability on the consolidated statement of financial position. In order to help reduce the future impact of these obligations, the City has funded \$1,759 [2009 - \$1,348] of this liability. The funded amount is included in accounts payable and accrued liabilities on the consolidated statement of financial position.

Estimated total expenses over the 25-year post-closure period are approximately \$37,019.

**The City of Ottawa**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[dollars in thousands]*

December 31, 2010

**8. NET LONG-TERM DEBT**

[a] Net long-term debt reported on the consolidated statement of financial position comprises the following:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Instalment and sinking fund debenture issued at various rates of interest ranging from 2.41% to 10.75% with maturity dates ranging from February 28, 2011 to November 3, 2028.	<b>998,659</b>	748,212
The total value of sinking fund deposits, which have accumulated to the end of the year to retire sinking fund debentures included in the above amount	<b>(174,375)</b>	(160,497)
Public Private Partnership Debt <i>[see note 8 - c]</i>	<b>10,876</b>	11,327
	<b>835,160</b>	<b>599,042</b>

[b] Principal payments including contributions to the Sinking Fund in future years are:

	<b>\$</b>
2011	72,542
2012	65,249
2013	54,262
2014	48,605
2015	49,147
2016 and thereafter	516,427
	<b>806,232</b>

These amounts will be paid from tax and rate-supported operations. It is estimated that interest to be earned by the Sinking Fund will amount to approximately \$28,928, which together with the \$806,232 shown above will be used to retire the outstanding total debt of \$835,160.

[c] The City has entered into a loan agreement and an interest rate derivative agreement for the construction of an ice rink facility. The interest rate derivative agreement converts the full amount of floating rate debt for fixed rate debt at a fixed rate of 5.92% and is in place until the debt matures in 2025. As at December 31, 2010, the fair value of the interest rate derivative agreement was [\$1,876]. The net long-term debt outstanding as at December 31, 2010 related to this Public Private Partnership agreement is \$10,876 [2009 - \$11,327].



## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

[d] In addition to the direct loan set out above, the City has entered into guarantees of loans amounting to \$76,690 arranged to provide financing for the development of another ice rink, the construction of a Paramedic headquarters facility and the development of an arts centre under the Public Private Partnerships. The City's guarantees for the ice rink and the Paramedic facility also cover the borrowers' obligations under interest rate derivative agreements to manage the volatility of interest rates. The City has converted floating rate debt in the amount of \$47,800 for fixed rate debt ranging from 5.79% to 6.49% on both of these guarantees. The related derivative agreements are in place until the maturity of the debts in 2035. The City's guarantee of the loan in connection with the arts centre facility does not involve interest rate derivative agreements since the loan is on a fixed interest rate basis.

[e] The City uses derivative financial instruments to reduce its risk exposure to interest rate and commodity price fluctuations. The City does not use financial instruments for trading or speculative purposes.

The City uses bank swaps to manage interest rate risk related to its debt. These contracts result in interest exchanges that are settled on a netting basis by the banks resulting in a fixed debt expense to the City.

The City uses bank swaps to manage commodity price fluctuations. These Bank swaps are used to set a fixed price for a specific quantity over a defined term and settle on specific dates commensurate with the defined term. Swaps result in a payment or receipt of funds to or from the counterparty to the transaction. Gains [receipts] or losses [payments] are recognized in the same period as the delivery of the underlying commodity.

At December 31, 2010 the City had set bank swaps in place to hedge 36,000,000 litres of diesel fuel for calendar year 2011 with expiry dates ranging from January 1 2011 and December 31, 2011. The net present value of these swaps was \$2,214.

[f] On June 28, 2010 City Council authorized a payment covenant which may require the City to make annual payments up to \$1,463 in respect of a loan in the amount of \$20,700 for the construction and operation of a trade and exhibition centre. The covenant agreement was officially signed by the City on April 15, 2011.

#### 9. MORTGAGES PAYABLE

	2010	2009
	\$	\$
Mortgages payable on housing properties at various rates ranging from 3.16% to 8.0% guaranteed by the Canada Mortgage and Housing Corporation with maturity dates ranging from April 1, 2011 to April 1, 2040	219,120	210,243
Forgivable Loans related to Canada Ontario Affordable Housing Program and Residential Rehabilitation Assisatnce Program	2,000	2,000
	<b>221,120</b>	<b>212,243</b>

[a] Public housing debentures issued by Canada Mortgage and Housing Corporation in the amount of \$69,519 [2009 - \$74,894] included in the Ottawa Community Housing Corporation ["OCHC"] have not been included in these consolidated financial statements as they are the responsibility of the Province of Ontario.

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2010

Mortgages and forgivable loans on housing properties are governed by operating agreements with the Province of Ontario and/or the Canada Mortgage and Housing Corporation and involve no direct or indirect obligation to the City.

[b] Principal repayments in future years are:

	2010 \$	2009 \$
2011	10,271	9,715
2012	10,751	10,271
2013	11,209	10,798
2014	11,644	11,162
2015	12,059	11,124
2016 and thereafter	165,186	159,207
	<b>221,120</b>	<b>212,277</b>

#### 10. CAPITAL LEASE OBLIGATIONS

The City leases the following facilities as detailed below:

	Office Building	Paramedic Services Building	Shenkman Arts Centre
Lease term	24 years	30 years	30 years
Interest rate	6.0%	5.79%	4.99%
Purchase option	\$10,000	nil	nil

Future minimum payments for the above capital leases are as follows:

	Office Building		Paramedic Services Building		Shenkman Arts Centre		Total	
	Principal \$	Interest \$	Principal \$	Interest \$	Principal \$	Interest \$	Principal \$	Interest \$
2011	1,611	3,543	423	1,174	170	1,858	2,204	6,575
2012	1,708	3,447	447	1,150	225	1,849	2,380	6,446
2013	1,810	3,344	471	1,124	282	1,836	2,563	6,304
2014	1,919	3,236	498	1,096	383	1,820	2,800	6,152
2015	2,034	3,120	526	1,067	441	1,799	3,001	5,986
Thereafter	55,126	18,729	19,499	12,035	35,889	25,334	110,514	56,098
	<b>64,208</b>	<b>35,419</b>	<b>21,864</b>	<b>17,646</b>	<b>37,390</b>	<b>34,496</b>	<b>123,462</b>	<b>87,561</b>

# The City of Ottawa

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2010

### 11. TANGIBLE CAPITAL ASSETS

	2010								
	Buildings and Improvements	Infrastructure Linear Roads	Infrastructure Linear Water/ Wastewater	Land	Land Improvements	Machinery Plant and Equipment	Vehicles	Assets Under Construction	Total
<b>Cost</b>									
Balance, beginning of year	1,555,856	2,368,748	3,960,071	2,584,993	497,685	1,028,531	772,128	614,164	13,382,176
Additions	119,626	149,693	241,929	56,666	11,058	85,280	217,588	263,004	1,144,844
Writedowns	-	-	-	-	-	-	(32,200)	-	(32,200)
Disposals	(4,894)	(2,584)	(2,494)	(13,089)	(11,888)	(546)	(119,540)	-	(155,035)
<b>Balance, end of year</b>	<b>1,670,588</b>	<b>2,515,857</b>	<b>4,199,506</b>	<b>2,628,570</b>	<b>496,855</b>	<b>1,113,265</b>	<b>837,976</b>	<b>877,168</b>	<b>14,339,785</b>
<b>Accumulated amortization</b>									
Balance, beginning of year	560,480	1,019,874	976,404	-	138,956	340,017	274,612	-	3,310,343
Disposals	(672)	(861)	(548)	-	(2,028)	(428)	(68,878)	-	(73,415)
Amortization expense	35,507	50,761	49,736	-	14,661	23,542	53,413	-	227,620
<b>Balance, end of year</b>	<b>595,315</b>	<b>1,069,774</b>	<b>1,025,592</b>	<b>-</b>	<b>151,589</b>	<b>363,131</b>	<b>259,147</b>	<b>-</b>	<b>3,464,548</b>
<b>Net book value, end of year</b>	<b>1,075,273</b>	<b>1,446,083</b>	<b>3,173,914</b>	<b>2,628,570</b>	<b>345,266</b>	<b>750,134</b>	<b>578,829</b>	<b>877,168</b>	<b>10,875,237</b>

### Works of art and historical treasures

Ottawa City Council approved a Public Art Program ["PAP"] in 1985 to maintain and circulate the City's corporate art collection. The City's PAP collection includes over 1,700 art works. The City also owns the Firestone Art Collection, consisting of 1,605 historical Canadian art works produced from 1900 to 1980, which is housed and managed by the Ottawa Art Gallery. Works of art are not recorded in the City's consolidated financial statements.

### Contributed tangible capital assets

Contributed tangible capital assets have been recognized at fair value at the date of contribution. The value of contributed tangible capital assets received during 2010 - \$206,350 [2009 - \$145,296]. Contributed land assets of the City's predecessor municipalities have been recorded as having been contributed on the date of amalgamation.

### Useful Life Change

Due to a reassessment of transit fleet buses, the useful life was lowered from the 18 years to 15 years commencing in 2010 for all buses that are currently in service and for all purchases going forward. This change is more in line with the expected economic benefit and planned bus renewal investments.

### Write-down

In September 2010, the City exercised its option to replace a fleet of buses. As a result, the City recorded a write-down of \$32,200 that is reflected as an expense on the consolidated statement of operations.

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 12. PREPAID EXPENSES

The balance of prepaid expenses reported on the consolidated statement of financial position is comprised of:

	2010	2009
	\$	\$
Prepaid welfare entitlements	7,212	6,958
Other prepaids	7,080	5,780
	<b>14,292</b>	<b>12,738</b>

Prepaid welfare entitlements represent the advance payment of January benefit entitlements in the month of December. Of this amount, the Province of Ontario funds 80%.

#### 13. ACCUMULATED SURPLUS

Accumulated surplus consists of individual fund surplus, reserves and reserve funds, and equity in government business enterprises.

	2010	2009
	\$	\$
<b>Surplus</b>		
Invested in tangible capital assets	9,598,520	9,050,512
Unfunded		
Employee benefits	(375,772)	(371,691)
Landfill closure costs	(11,108)	(9,691)
Other	(51,948)	(56,606)
<b>Total surplus</b>	<b>9,159,692</b>	<b>8,612,524</b>
<b>Reserves set aside by council</b>	<b>8,903</b>	<b>2,422</b>
<b>Reserve funds set aside for specific purpose by Council</b>		
Endowment	195,105	202,380
Transportation and environmental services	82,817	10,670
Social housing and child care	50,833	24,604
Debt retirement	7,631	11,879
Equipment replacement	5,902	1,717
Insurance	2,138	4,236
Employment benefits	5,997	5,878
Other	11,130	8,898
<b>Total reserve funds</b>	<b>361,553</b>	<b>270,262</b>
<b>Equity in government enterprises</b>	<b>342,506</b>	<b>329,584</b>
<b>Accumulated surplus</b>	<b>9,872,654</b>	<b>9,214,792</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*[dollars in thousands]*

December 31, 2010

**14. CONTINGENCIES AND COMMITMENTS**

[a] In the course of its business, the City becomes involved in various claims and legal proceedings. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. A provision for these claims has been recorded in the consolidated financial statements based on management's best estimate of the likely outcome. Should claims be settled for amounts over and above established accruals, which could be material to the financial results in the year of settlement, the excess expense will be charged to operations as incurred.

[b] On November 18, 1998, a class action claiming \$500,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in electric utilities receiving interest at effective rates in excess of what is allowed under Section 347[1] [b] of the Criminal Code.

By order dated July 22, 2010, the Ontario Superior Court of Justice formalized a settlement which involves the payment of \$18,382 by all utilities imposing late payment charges. The amount paid by each utility is to be its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. Hydro Ottawa Holding Inc's share, relating to late payment charged collected between 1999 and 2001, is \$1,026. The payment of settlement of funds is required June 30, 2011.

On February 22, 2011 the Ontario Energy Board ["OED"] issued a decision that allows distributors to recover costs and damages arising from the class action over a 12 month period starting May 1, 2011. Hydro Ottawa Holding Inc has accrued a liability and a regulatory asset arising from the late payment charge settlement.

[c] Purchasers of electricity in Ontario, through the Independent Electricity System Operator ["IESO"], are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if Hydro Ottawa Holding Inc. fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. At December 31, 2010, Hydro Ottawa Holding Inc. had drawn letters of credit of \$14,000 [2009 - \$11,738] against its credit facility to cover its prudential support obligation. In addition, Hydro Ottawa Holding Inc. provided bank letters of credit of \$93 [2009 - \$93] to the City as security for construction projects.

[d] Hydro Ottawa Holding Inc. participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. Hydro Ottawa Holding Inc. is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to operations in the period in which they occur.

[e] In 2008, Telecom Ottawa sold the shares of its subsidiaries. Part of this transaction included Hydro Ottawa Holding Inc. posting a three-year guarantee for Telecom Ottawa's obligation for claims arising from breaches of representations or warranties. Claims are subject to exceeding a \$630 threshold to a maximum of \$10,000. Management assesses that there is minimal risk that a claim of this magnitude will transpire.

[f] The City has contractual obligations for capital works in the amount of \$179,434 at December 31, 2010 [2009 - \$59,466].

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

[g] The City is committed to the following payments over the next five years under operating lease agreements for building and equipment:

	\$
2011	14,407
2012	13,141
2013	12,058
2014	10,879
2015	10,162

[h] As at December 31, 2010, Hydro Ottawa Holding Inc. has \$36,056 in total open commitments, of which \$30,857 are for 2011, \$3,073 for 2012, \$1,991 for 2013, \$36 for 2014 and \$99 for 2015. This includes a customer information system services agreement, an arrangement to provide call centre services, purchase and installation of smart meters, and overhead and underground services.

[i] The City has commitments for the purchase of ice rental time in the amount of \$3,167 and \$11,239 in accordance with two Public Private Partnership Agreements. These commitments are set to expire in 2027 and 2034, respectively.

#### 15. TAXES AVAILABLE FOR MUNICIPAL PURPOSES

	2010	2009
	\$	\$
Property taxes	<b>1,654,426</b>	1,576,361
Payment in lieu of taxes	<b>166,257</b>	163,688
Local Improvements and other charges	<b>4,674</b>	4,775
Less education taxes	<b>(467,250)</b>	(458,780)
<b>Taxes available for municipal purposes</b>	<b>1,358,107</b>	1,286,044

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

December 31, 2010

#### 16. EXPENSES BY OBJECT

The consolidated statement of operations represents the expenses by function; the following classifies those same expenses by object:

	2010	2009
	\$	\$
Salaries, wages and employee benefits	<b>1,300,059</b>	1,258,156
Contracted and general services	<b>184,364</b>	176,315
Materials, equipment and supplies	<b>423,385</b>	500,698
Interest charges	<b>66,134</b>	64,594
Rent and financial expenses	<b>52,569</b>	51,634
External transfers	<b>359,672</b>	335,185
Amortization	<b>227,620</b>	208,205
Write-downs	<b>32,200</b>	-
Loss on Disposal	<b>73,073</b>	4,441
	<b>2,719,076</b>	2,599,228

#### 17. SEGMENTED INFORMATION

The City of Ottawa is responsible for providing a wide range of services to its citizens including police, fire, ambulance, public transit, and water.

The City reports on functional areas and programs in its consolidated financial statements similar to reporting reflected as part of the Ontario Financial Information Return.

These functional areas represent segments for the City of Ottawa and expanded disclosure by object has been reflected in Schedule 1.

A brief description of each segment follows:

- General government is comprised of Council, administration, and Ontario Property Assessment.
- Protection is comprised of police, fire, and other protective services. These groups maintain the safety and security of all citizens by reducing or eliminating loss of life and property, maintaining law enforcements, and preserving peace and good order.
- Transportation includes transit, roads, traffic, and parking services. Transit services provide local public transportation for citizens. Other transportation services provide planning, development, and maintenance of roads, parking, streetlights, and parks of the City.
- Environmental services include water supply and distribution, wastewater treatment, and waste and recycling services. These services provide clean drinking water to residents, collect and treat wastewater, and collect and properly process waste and recycling items.

## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*[dollars in thousands]*

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- Health services include paramedic and health services. Mandated health services promote and maintain health programs that optimize the health of residents. Paramedic services deliver timely and effective care for pre-hospital emergency care, along with medically required inter-hospital transportation.
- Social and family services include social assistance, long-term care, and child care services. Social assistance services determine, issue, and monitor clients' eligibility for financial, social, and employment assistance. Long-term care services provide secure and supervised health services for seniors who can no longer live at home. Childcare services provide subsidized childcare spaces and provide funding for wage subsidy, pay equity, and special needs.
- Social housing, with the partnership of 120 community-based agencies, provides a range of services including housing, emergency shelters, outreach, search, and stabilization to people in the community.
- Recreation and cultural services include parks and recreation, culture, and libraries. Parks and recreation services develop and deliver high-quality recreational programs, and develop and maintain recreation facilities, parks and sports-fields to ensure all residents have the opportunity to enjoy a healthy lifestyle. Culture services invest in local non-profit organizations that deliver services on behalf of the City. Library services provide public library services to the citizens via physical facilities, bookmobile, virtual, and telephone services.
- Planning and development manages urban development for residential and business interests as well as infrastructure and parks.
- Other includes revenues from taxes, equity in earnings of government business enterprises, investment income, sale of land, shared lottery earnings, and miscellaneous sundry revenues.

Program support costs for expenses have been allocated to other functions using guidelines and methodologies reflected in the Ontario Financial Information Return.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 2.

#### **18. PUBLIC LIABILITY INSURANCE**

The City self-insures for public liability claims up to a specific amount and outside coverage is in place for claims in excess of these limits.

The City has a reserve fund for self-insurance, which at December 31, 2010 amounted to \$2,138. The City contributed NIL [2009 - \$252] to this reserve fund from operations.



## The City of Ottawa

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[dollars in thousands]

December 31, 2010

#### 19. BUDGET AMOUNTS

Budget data presented in these consolidated financial statements are based upon the 2010 operating and capital budgets approved by Council. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	<b>Budgeted Amount</b>
	<b>\$</b>
Revenue	<i>(unaudited)</i>
Operating	2,538,979
Capital	1,288,807
Add	
Financing adjustments	49,008
Contributed assets	206,350
Less	
Unearned capital revenues	(137,685)
Transfer from other funds	(258,235)
Proceeds on debt issue	(333,710)
<b>Total Revenues</b>	<b>3,353,514</b>
Expenses	
Operating	2,538,979
Capital	1,288,807
Add	
Financing adjustments	12,241
Amortization	227,620
Loss on disposal and writedowns	105,274
Less	
Aquisition of tangible capital assets	(1,083,322)
Transfers to other funds	(299,013)
Debt principal payments	(68,482)
<b>Total Expenses</b>	<b>2,722,104</b>
<b>Annual Surplus</b>	<b>631,410</b>

#### 20. COMPARATIVE FIGURES

Certain comparative figures for 2009 have been reclassified to conform with the presentation adopted in 2010.