



**City of Ottawa
Annual Report
2012**

Mayor's Message

August 2013

The City of Ottawa's 2012 Annual Report confirms that we continue to be on a solid fiscal footing and well-positioned for the future, to the credit of everyone in Ottawa.

The tireless efforts of Councillors and staff working with residents every day, in every community, allow the City to continue to deliver the services that residents expect and need in a prudent and responsible manner. As a result of sound financial management practices and smart management of the City's resources, our excellent credit ratings have been reconfirmed.



On December 19, 2012, City Council approved the Confederation Line. The 12.5 kilometre light rail project, which includes 13 stations from Tunney's Pasture to Blair Station, will form the backbone of Ottawa's rail and rapid bus public transit system. The \$2.13 billion that this project will see invested by all three levels of government is expected to generate \$3.2 billion in economic activity during construction alone; and once completed, the resulting growth and development around stations will change the face of our city.

Complementing the light rail project, Ottawa on the Move put shovels in the ground all over the city. Ottawa on the Move comprises hundreds of projects that will see a total investment of \$340 million into our transportation network and infrastructure all across the city. It is also creating thousands of jobs for our residents at a time when Ottawa's largest employer, the federal government, and several industries in the private sector are trimming their programs and staffing.

Also in 2012, with our private-sector partner, the Ottawa Sports and Entertainment Group, the City broke ground on one of the most exciting community revitalization projects that Ottawa has seen in generations — the building the new Lansdowne Park. This effort will see this treasured, historical City property on the Rideau Canal come alive again, offering more green space, a modernized Frank Clair Stadium and Civic Centre, commercial and entertainment opportunities, and new housing opportunities for residents.

With so much building in the works all over the city, it was fitting that we held a Mayor's Planning Summit on April 26, 2012 to talk about the planning challenges of today and tomorrow. The Summit was the first step in the review of the City's major planning policies, including the Official Plan, Transportation Master Plan and the Infrastructure Master Plan. It kicked off the Building a Liveable Ottawa 2031 initiative that is engaging the community and industry every step of the way until late 2013, when Council will review the plans for the Ottawa of tomorrow.

In 2012, we focused much effort on making City Hall a people place in the heart of downtown, both indoors and out. We invited the public to come see the Ottawa Sports Hall of Fame and the Barbara Ann Scott exhibit. At the same time, we opened the brand new Rink of Dreams and welcomed thousands of skaters to City Hall, making Marion Dewar Plaza a year-round meeting place. The new programming at City Hall has energized the downtown core with exciting options for residents and visitors of all ages.

We can all be very proud of our City and our accomplishments together. As a beautiful G8 capital, Ottawa is a safe, clean and vibrant community with an excellent quality of life. We are

rich in culture and heritage and surrounded by a picturesque natural setting offering many recreational opportunities.

It is a great privilege to serve as Mayor of Ottawa – the best place in the world in which to live, work, invest, play and raise a family – and I encourage everyone to take a moment to read this Annual Report and learn a little bit more about the place we all call home.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Watson". The signature is fluid and cursive, with a prominent initial "J" and a long, sweeping underline.

Jim Watson
Mayor

2012 Annual Report Message from the City Manager

August 2013

I am pleased to present the City of Ottawa's 2012 Annual Report, which shows our city is in a sound financial position, despite continued global economic challenges in 2012.

The audited year-end financial statements reflect a healthy City that includes higher cash balances, preservation of reserve funds and manageable debt servicing costs. The City's top-ranked credit ratings have also been reconfirmed as Aaa with a stable outlook by Moody's Investors Service and AA+ stable by Standard and Poor's.

While the amount of debt is increasing, it remains proportional to our assets. It is also well within the prudent parameters established by City Council and is used entirely for capital infrastructure.

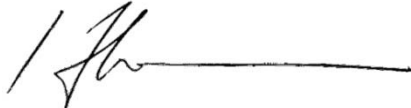
With a population of more than 935,000 people and approximately 125 lines of business, delivering services to residents requires both prudence and innovation. City Council and staff always strive to find the balance between meeting the needs and expectations of today while exercising stewardship over our valuable resources for future generations.

Our strong financial position, which is reflected in the 2012 Annual Report and supported by the reconfirmation of our credit ratings, demonstrates the commitment of Council and staff to continued responsible financial management and respect for taxpayer dollars.

Earlier this year, the City of Ottawa had the privilege of being named, for the second year in a row, one of the top 100 employers in Canada in a rigorous annual survey conducted for The Globe and Mail newspaper. This objective outside assessment highlights a culture where employees can take pride in what they do best – serving the residents of Ottawa and focusing on achieving Council priorities.

We are proud to deliver high-quality services to our community and we continually strive for greater excellence. It is an honour to serve the residents of Ottawa.

Sincerely,



Kent Kirkpatrick
City Manager



2012 Financial statement discussion and analysis

INTRODUCTION

The City of Ottawa 2012 Annual Financial Report contains the audited consolidated financial statements prepared in accordance with principles and standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, as required by the Ontario Municipal Act.

The City of Ottawa Administration is responsible for preparing the following financial statement discussion and analysis (FSD&A). It should be read in conjunction with the audited consolidated financial statements and the financial and statistical schedules.

The FSD&A reports to stakeholders on how the financial resources entrusted to the City are being managed to provide municipal infrastructure and services, and presents significant issues that affected 2012 results or that may have an impact on future results.

ECONOMIC ENVIRONMENT

As indicated in the statistics provided below, the City of Ottawa has experienced a slight increase in housing starts and building permits activity during 2012, following a strong response to the 2009 global economic downturn.

At December 31, 2012, with comparative information for 2011.

Economic Environment	2012	2011	% Change
Population	935,073	927,118	0.86%
Residential housing starts ^[2]	5,730	5,521	3.79%
Value of building permits issued (in millions)	2,041	1,819	12.20%
Inflation, CPI annual increases (%) ^[1]	1.3	3.0	(56.67%)
Unemployment rate (%) ^[1]	6.2	5.6	10.71%

[1] Statistics Canada

[2] Canada Mortgage and Housing Corporation (CMHC)

The City of Ottawa had an estimated population of 935,073 at the end of 2012, which represents an increase of 14.9% since 2001. This growth rate is faster than Ontario's (13.53%) but not as fast as Canada's rate (16.1%). Ottawa accounts for approximately three-quarters of the population of the Greater Ottawa-Gatineau Area, which has a combined total population of close to 1.4 million.

Population growth is expected to continue. The City's most recent growth projection adopted by Council in November 2007 predicts growth of 11.2% between 2012 and 2021 to 1,031,300. Immigration is a major reason Ottawa's population will continue to grow.

THE OUTLOOK

Relative to the province and the country as a whole, global economic uncertainty has had less of an impact on demographic and economic indicators for the City. Ottawa's economy continues to strengthen in a low interest environment. The City achieved positive increases in residential housing starts and the total value of building permits issued in comparison to the previous year. The City's unemployment rate remained well below the provincial 2012 rate of 7.8%.

The City has developed constructive relationships with other levels of government and the private sector in order to obtain sustainable funding to provide the municipal infrastructure necessary to support healthy local, provincial and national economies. Continued gas tax funding, combined with federal and provincial commitments to assist with funding the City's planned light rail transit program, will ensure the required infrastructure is in place to support the transit needs of our residents. Similarly, partnership agreements with local partners will allow for the redevelopment of Lansdowne Park raising the City's national profile by providing a venue for large sports and entertainment events.

FINANCIAL HIGHLIGHTS

CONSOLIDATED FINANCIAL POSITION

As at December 31, 2012, with comparative information for 2011 *[dollars in thousands]*

Consolidated financial position	2012	2011
A. Financial assets	\$ 2,200,063	\$ 1,789,660
B. Financial liabilities	3,380,238	2,887,578
C. Net debt	(1,180,175)	(1,097,918)
D. Non-financial assets	11,859,531	11,391,671
E. Accumulated surplus (C + D)	\$ 10,679,356	\$ 10,293,753

Financial assets increased by approximately \$410 million or approximately 23%, primarily due to higher cash and investment balances. Cash received through debt issues is included in the year-end balances and will be used in the future to fund projects under the Ottawa On The Move ("OOTM") program to advance construction works as approved by council.

Financial liabilities increased by approximately \$493 million primarily due to increases in net long term debt of approximately \$345 million. Debt issues during 2012 included \$200 million for OOTM.

Net debt shows the amount of past spending that will be funded from future generations. It is primarily comprised of the difference between outstanding liabilities, such as net long term debt and employee liabilities, and the City's cash and investment balances. Net debt deteriorated slightly by \$82 million; to \$1.180 billion from \$1.098 billion. Part of this change, \$25 million, is due to increasing employee future benefits and pension agreement liabilities which will be funded in the future as payments are required.

Accumulated surplus is the combination of the sum of net debt of the City and its non-financial assets. It shows the net assets of the City. These assets will be available to service future generations.

FINANCIAL ANALYSIS REVIEW

Revenues - Budget to Actual Comparison

For the year ended December 31, 2012 [dollars in thousands]

Revenues – Budget to Actual Comparison	Budget 2012	Actual 2012	Favourable/ (Unfavourable)
Taxes available for municipal purposes	\$ 1,464,003	\$ 1,462,797	\$ (1,206)
Fees and user charges	742,721	737,042	(5,679)
Government grants	606,001	611,463	5,462
Contributed tangible capital assets	239,583	239,583	0
Development charges	114,930	114,931	1
Investment income	26,715	32,432	5,717
Fines and penalties	27,187	24,724	(2,463)
Other revenue	34,630	25,930	(8,700)
Equity in earnings of government business enterprises	31,150	31,150	0
Total Revenues	\$ 3,286,920	\$ 3,280,052	\$ (6,868)

Fees and user charges were lower than budget for water and sewer rate revenues due to lower consumption of water than forecasted.

Government grants exceeded budget due to increased funding to match higher expenses for paramedic services, long term care programs as well as increased demand for emergency shelters.

Investment income revenues were higher than budget due to improved short term returns associated with higher cash and investment balances.

Sources of Revenue	\$	%
Taxes available for municipal purposes	\$ 1,462,797	45%
Fees and user charges	737,042	22%
Government grants	611,463	19%
Development charges and contributed tangible capital assets	354,514	11%
Other	114,236	3%
Total Revenue	\$ 3,280,052	100%

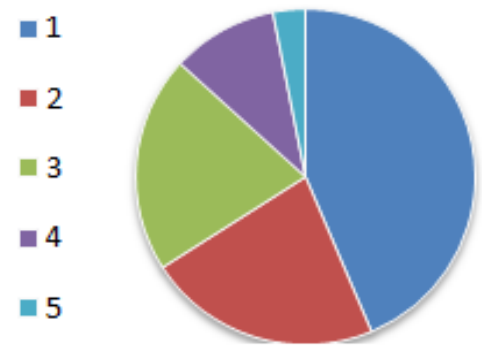


Figure 1 – Sources of Revenue

Expenses - Budget to Actual Comparison

For the year ended December 31, 2012 [dollars in thousands]

Expenses – Budget to Actual Comparison	Budget 2012	Actual 2012	Favourable/ (Unfavourable)
General government	\$ 107,172	\$ 105,969	\$ 1,203
Protection to persons and property	509,524	514,779	(5,255)
Roads, traffic and parking	331,943	319,291	12,652
Transit	479,502	478,924	578
Environmental services	330,478	323,588	6,890
Health services	151,634	155,282	(3,648)
Social and family services	415,392	419,538	(4,146)
Social housing	215,044	221,520	(6,476)
Recreation and cultural services	287,102	294,873	(7,771)
Planning and development	73,420	60,685	12,735
Total expenses	\$ 2,901,211	\$ 2,894,449	\$ 6,762

Roads, traffic and parking costs were lower than budget due to lower winter maintenance costs associated with a mild winter.

Environmental Services expenses were lower than budget mainly due to reduced solid waste collection, processing and disposal contract costs, reduced chemicals and gas usage at the water and wastewater treatment plants and staff vacancies.

Planning and Development experienced budget savings mainly in professional services resulting from delayed initiatives due to a departmental realignment.

Expenses	\$	%
General government	\$ 105,969	4%
Protection to persons and property	514,779	18%
Roads, traffic, and parking	319,291	11%
Transit	478,924	17%
Environmental services	323,588	11%
Health services	155,282	5%
Social and family services	419,538	14%
Social housing	221,520	8%
Recreation and cultural services	294,873	10%
Planning and development	60,685	2%
Total Expenses	\$ 2,894,449	100%

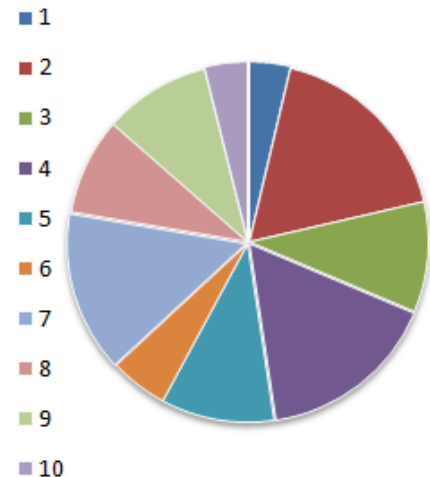


Figure 2 – Expense distribution

Revenues – Comparison to prior year

For the year ended December 31, 2012, with comparative information for 2011 [*dollars in thousands*]

Revenues – Comparison to prior year	Actual 2012	Actual 2011	Increase/ (Decrease)
Taxes available for municipal purposes	\$ 1,462,797	\$ 1,407,982	\$ 54,815
Fees and user charges	737,042	718,799	18,243
Government grants	611,463	672,598	(61,135)
Contributed tangible capital assets	239,583	202,319	37,264
Development charges	114,931	124,224	(9,293)
Investment income	32,432	32,912	(480)
Fines and penalties	24,724	24,775	(51)
Other revenue	25,930	15,276	10,654
Equity in earnings of government business enterprises	31,150	26,762	4,388
Total Revenues	\$ 3,280,052	\$ 3,225,647	\$ 54,405

Taxes available for municipal purposes increased due to a combination of a 2.39% property tax increase for all City properties, and the effect of growth in the property tax base.

Fees and user charges were higher due in part to increased building permit revenues of \$3.1 million from higher value construction projects and higher transit revenue of \$4 million associated with a 2.5% fare increase. The bulk of the remaining increase is due to a 6% water and sewer surcharge rate increase.

Government grants decreased primarily due to the completion of the Federal/Provincial stimulus program in 2011. Lower associated revenue recognized under the Federal/Provincial gas tax program also contributed to the overall decrease.

Contributed tangible capital assets represent assets that are donated or contributed to the city by developers. The amount of recognized revenue fluctuates from year to year due to the timing of completion.

Development charges recorded as revenue during 2012 is reflective of the decrease in growth related project spending during the year. Decreases are mainly in the areas of transit, water and roads. Development charge receipts are recorded as deferred revenue until the fiscal year when the related expenses are incurred, at which point they are recorded as revenue.

Other revenue achieved improved results due to increased reimbursements from developers combined with increased revenue for local improvements.

Equity in earnings of government business enterprises increased due to improved performance of the city's wholly owned subsidiary Hydro Ottawa Holding Inc. Hydro Ottawa holding Inc. experienced a 7.2% increase in total revenue which translated into a \$4 million increase in net income.

Expenses – Comparison to prior year

For the year ended December 31, 2012, with comparative information for 2011 [dollars in thousands]

Expenses – Comparison to prior year	Actual 2012	Actual 2011	Increase/ (Decrease)
General government	\$ 105,969	\$ 103,396	\$ 2,573
Protection to persons and property	514,779	495,983	18,796
Roads, traffic, and parking	319,291	280,309	38,982
Transit	478,924	456,229	22,695
Environmental services	323,588	287,044	36,544
Health services	155,282	146,810	8,472
Social and family services	419,538	408,821	10,717
Social housing	221,520	246,254	(24,734)
Recreation and cultural services	294,873	270,649	24,224
Planning and development	60,685	109,053	(48,368)
Total expenses	\$ 2,894,449	\$ 2,804,548	\$ 89,901

Protection to persons and property expenses increased due to increased staffing to address new Code Standards and compensation relating to contract settlements.

Roads, traffic and parking expenses increased due to greater repairs associated with pavement degradation and aging infrastructure.

Transit expenses increased in 2012 compared to 2011 as a result of the annualized effect on amortization for buses purchased in 2011. Increased expenses associated with infrastructure rehabilitation and studies contributed to the balance of the increase.

Environmental services expenses increased partly due to higher amortization associated with increased assets and higher repairs and maintenance costs associated with aging infrastructure.

Social housing expenses primarily for repairs and maintenance decreased in 2012 as a result of reduced associated funding received under the Social Housing Repair and Retrofit program which completed in 2012.

Recreation and cultural services expenses increased primarily due to new or expanded facilities.

Planning and development decreased as 2011 expenses included a onetime loss associated with the change in use of a land parcel sold during the year

NET LONG TERM DEBT

The City of Ottawa is rated by two international agencies: Moody's Investors Service and Standard & Poor's. Moody's has given the City an Aaa rating - the highest possible ranking and one the City has maintained since 1975. Standard & Poor's (S&P) has assigned an AA+ stable rating to the City.

The capital financing policy approved by Council allows the City to provide additional capital assets such as roads, water and sewer systems, buildings, and transit infrastructure that will be funded over the long term by taxpayers benefiting from the use of these capital assets. This policy follows Provincial regulations which require that capital assets financed by debt have a useful life at least as long as the term of the debt.

During 2012, the City arranged long-term financing totaling \$429 million on various terms up to thirty years at interest rates ranging from 1.66% to 4.02%. The proceeds were used to finance various City capital works including the construction and major rehabilitation of road works and bridges under the Ottawa On The Move program, and various water and waste water capital works. In addition to issuing debentures in the financial markets, the City entered into a loan agreement for \$50 million with a Canadian bank, arranged financing with the Federation of Canadian Municipalities under its green Municipal Fund program in the amount of \$3.6 million and received financing in the amount of \$125 million from Ontario Infrastructure and Lands Corporation. Full details of these debenture issues were reported to Council in accordance with Council's policy on Debt and Financing.

Debt levels are carefully monitored to ensure the ongoing financial well being of the City in accordance with its fiscal framework principles. Two of the key targets established by Council which are to be reported on annually by the Treasurer are as follows:

- 1) Principal and interest payments for tax supported debt are not to exceed 7.5% of the City's own source revenue, and principal and interest on water and sewer rate supported debt will be limited to no more than 15% of rate revenues; for a combined target of 8.5% of total own source revenues:
- 2) The increase in debt servicing for non-legacy projects in any year will not be greater than one-quarter of 1 per cent of taxes from property taxes:

With respect to the first key target, the total debt interest and principal payments in 2012 for tax and rate supported long-term debt was \$120.7 million, which represents 5.45% of the City's own source revenues. These revenues include all revenues shown on the Consolidated Statement of Operations, except for government grants and contributed tangible capital assets.

Regarding the second key target, non-legacy projects are defined as capital works associated with the rehabilitation and renewal of existing City infrastructure along with the construction of new infrastructure to address growth pressures. Debt servicing for these projects is within the target mentioned above

TANGIBLE CAPITAL ASSETS

Tangible capital assets represent a significant investment for the City and the related information is vital for stewardship, accountability, costing, and the development of asset management plans. Assets are valued at their historical cost on the date of purchase or construction and are amortized over their useful lives. The residual net book value of these assets represents the value of assets available to serve future generations.

The City's tangible capital assets consist primarily of water and wastewater infrastructure, land, roads, buildings, and machinery, plant and equipment.

Tangible Capital Assets	\$ NBV	%
Buildings and improvements	\$ 1,092,128	9%
Roads	1,576,332	13%
Water/wastewater	3,598,778	31%
Land	2,583,758	22%
Land improvements	334,854	3%
Machinery, plant and equipment	777,758	7%
Vehicles	627,496	5%
Assets under construction	1,225,014	10%
Total Tangible Capital Assets	\$ 11,816,118	100%

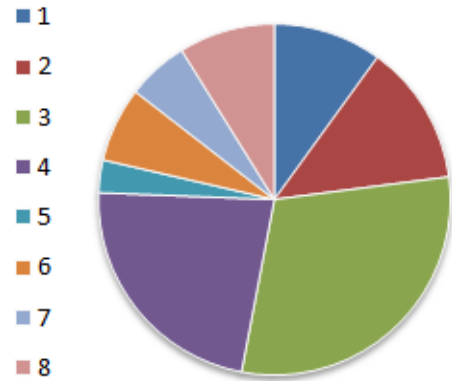


Figure 3 - Tangible Capital Asset breakdown

MANAGEMENT'S REPORT

The integrity, relevance and comparability of the data in the accompanying consolidated financial statements are the responsibility of management.

The consolidated financial statements are prepared by management, in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. They necessarily include some amounts that are based on the best estimates and judgments' of management. Financial data elsewhere in the report is consistent with that in the financial statements.

To assist in its responsibility, management maintains accounting, budget and other controls to provide reasonable assurance that transactions are appropriately authorized, that assets are properly accounted for and safeguarded, and that financial records are reliable for preparation of financial statements.

The Auditor General's office reports directly to Council, and on an ongoing basis, carries out its audit program to ensure internal controls and their application are reviewed and financial information is tested and independently verified.

City Council fulfils its responsibility for financial reporting through its Audit Sub-Committee and Finance and Economic Development Committee.

Ernst & Young LLP, Chartered Accountants, have been appointed by City Council to express an opinion on the City's consolidated financial statements. Their report follows.



Kent Kirkpatrick
City Manager



Marian Simulik
City Treasurer

Ottawa, Canada
June 12, 2013

Consolidated Financial Statements

The City of Ottawa

December 31, 2012

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, 2012 and the consolidated statements of operations, change in net debt, and 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 public sector accounting standards, 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, 2012 and the results of its operations, its change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ernst & Young LLP

Ottawa, Canada,

Chartered Accountants

June 12, 2013

Licensed Public Accountants

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012, with comparative information for 2011 *[dollars in thousands]*

Financial assets	2012	2011
Cash and cash equivalents	\$ 300,001	\$ 212,004
Accounts receivable	288,198	282,472
Investments <i>[note 3]</i>	1,245,546	943,416
Investment in government business enterprises <i>[note 4]</i>	366,318	351,768
Total	2,200,063	1,789,660
Liabilities	2012	2011
Accounts payable and accrued liabilities	544,553	457,166
Deferred revenue <i>[note 5]</i>	597,192	570,543
Employee future benefits and pension agreements <i>[note 6]</i>	433,155	408,056
Accrued interest	21,876	18,278
Landfill closure and post-closure liabilities <i>[note 7]</i>	7,996	8,761
Net long-term debt <i>[note 8]</i>	1,435,911	1,091,273
Mortgages payable <i>[note 9]</i>	220,677	212,245
Capital lease obligations <i>[note 10]</i>	118,878	121,256
Total	3,380,238	2,887,578
Net debt	(1,180,175)	(1,097,918)
Non-financial assets	2012	2011
Tangible capital assets <i>[note 11]</i>	11,816,118	11,348,627
Inventories	25,922	27,750
Prepaid expenses	17,491	15,294
Total non-financial assets	11,859,531	11,391,671
Accumulated surplus <i>[note 12]</i>	\$ 10,679,356	\$ 10,293,753

See accompanying notes

Contingencies and Commitments *[note 13]*

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31, 2012, with comparative information for 2011 [dollars in thousands]

Revenue	2012 Budget [unaudited] [note 18]	2012 Actual	2011 Actual
Taxes available for municipal purposes [note 14]	\$ 1,464,003	\$ 1,462,797	\$ 1,407,982
Fees and user charges	742,721	737,042	718,799
Government grants	606,001	611,463	672,598
Contributed tangible capital assets	239,583	239,583	202,319
Development charges	114,930	114,931	124,224
Investment income	26,715	32,432	32,912
Fines and penalties	27,187	24,724	24,775
Other revenue	34,630	25,930	15,276
Equity in earnings of government business enterprises [note 4]	31,150	31,150	26,762
Total revenue	3,286,920	3,280,052	3,225,647
Expenses	2012 Budget [unaudited] [note 18]	2012 Actual	2011 Actual
General government	107,172	105,969	103,396
Protection to persons and property	509,524	514,779	495,983
Roads, traffic and parking	331,943	319,291	280,309
Transit	479,502	478,924	456,229
Environmental services	330,478	323,588	287,044
Health services	151,634	155,282	146,810
Social and family services	415,392	419,538	408,821
Social housing	215,044	221,520	246,254
Recreation and cultural services	287,102	294,873	270,649
Planning and development	73,420	60,685	109,053
Total expenses [note 15]	2,901,211	2,894,449	2,804,548
Annual surplus	385,709	385,603	421,099
Accumulated surplus, beginning of the year	10,293,753	10,293,753	9,872,654
Accumulated surplus, end of the year	\$ 10,679,462	\$ 10,679,356	\$ 10,293,753

See accompanying notes

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

For the year ended December 31, 2012, with comparative information for 2011 *[dollars in thousands]*

Consolidated statement of change in net debt	2012 Budget <i>[unaudited]</i>	2012 Actual	2011 Actual
Annual surplus	\$ 385,709	\$ 385,603	\$ 421,099
Acquisition of tangible capital assets	(806,822)	(821,053)	(858,471)
Amortization of tangible capital assets	263,443	263,443	239,692
Loss on sale of tangible capital assets	90,119	90,119	145,389
Supply of inventories	1,828	1,828	7,030
Prepaid expenses	(2,197)	(2,197)	(1,002)
Change in net debt	(67,920)	(82,257)	(46,263)
Net debt, beginning of the year	(1,097,918)	(1,097,918)	(1,051,655)
Net debt, end of the year	\$ (1,165,838)	\$ (1,180,175)	\$ (1,097,918)

See accompanying notes

THE CITY OF OTTAWA

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012, with comparative information for 2011 [dollars in thousands]

OPERATING ACTIVITIES	2012	2011
Annual surplus	\$ 385,603	\$ 421,099
Items not affecting cash		
Share of earnings of government business enterprises	(31,150)	(26,762)
Amortization of tangible capital assets	263,443	239,692
Contributed assets	(239,583)	(202,319)
Loss on sale of tangible capital assets	76,309	110,897
Cash provided by operating activities, adjusted for non-cash items	454,622	542,607
Change in non-cash assets and liabilities		
Decrease (increase) in accounts receivable	(5,726)	44,413
Decrease in inventories	1,828	7,030
Increase in prepaid expenses	(2,197)	(1,002)
Increase (decrease) in accounts payable and accrued liabilities	87,387	(12,427)
Increase (decrease) in deferred revenue	26,649	(42,771)
Increase in employee future benefits and pension agreements	25,099	32,284
Increase in accrued interest	3,598	900
Decrease in landfill closure and post-closure liabilities	(765)	(2,347)
Total cash provided by operating activities	590,495	568,687
CAPITAL ACTIVITIES	2012	2011
Acquisition of tangible capital assets	(581,470)	(656,152)
Proceeds on sale of tangible capital assets	13,810	34,492
Cash applied to capital activities	(567,660)	(621,660)
INVESTING ACTIVITIES	2012	2011
Net increase in investments	(302,130)	(205,505)
Dividend from Hydro Ottawa Holding Inc.	16,600	17,500
Cash applied to investing activities	(285,530)	(188,005)
FINANCING ACTIVITIES	2012	2011
New debt issued	466,686	332,942
Net interest earned on sinking funds	(810)	(2,409)
Debt principal repayments	(115,184)	(85,501)
Cash provided by financing activities	350,692	245,032
Change in cash and cash equivalents	2012	2011
Net increase in cash and cash equivalents during the year	87,997	4,054
Cash and cash equivalents, beginning of the year	212,004	207,950
Cash and cash equivalents, end of the year	\$ 300,001	\$ 212,004

See accompanying notes

THE CITY OF OTTAWA

SCHEDULE 1 - CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE

For the year ended December 31, 2012 [dollars in thousands] [note 16]

REVENUE	General Government	Protection	Roads, Traffic and Parking	Transit	Environmental Services	Health Services
Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Fees and surcharges	14,707	64,642	25,971	176,396	309,885	1,994
Government grants	378	7,551	24,766	129,344	7,056	83,948
Fines and penalties	1,147	11,389	0	0	0	0
Contributed tangible capital assets	0	0	59,612	0	171,495	0
Development charges	5	331	32,006	16,229	15,185	0
Other	20,266	7,701	10,559	4,047	801	0
Total revenue	36,503	91,614	152,914	326,016	504,422	85,942

EXPENSES	General Government	Protection	Roads, Traffic and Parking	Transit	Environmental Services	Health Services
Salaries and benefits	66,823	419,058	121,256	262,655	72,618	123,445
Contracts and general services	9,208	9,912	23,226	21,649	82,783	6,285
Materials, equipment and supplies	20,335	41,361	77,772	102,052	58,892	14,749
Interest charges	1,787	2,167	19,390	11,413	14,653	1,407
Rent and financial expenses	13,216	10,974	6,469	12,359	2,837	2,379
External transfers	(8,369)	7,675	(16,478)	(1,771)	2,250	(1,831)
Amortization	822	11,602	73,361	55,175	78,559	4,344
Loss on disposal	2,147	12,030	14,295	15,392	10,996	4,504
Total expenses	105,969	514,779	319,291	478,924	323,588	155,282

**ANNUAL
SURPLUS
(DEFICIT)**

\$ (69,466) \$(423,165) \$ (166,377) \$(152,908) \$ 180,834 \$(69,340)

THE CITY OF OTTAWA

SCHEDULE 1 - CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE
[CONTINUED]

For the year ended December 31, 2012 [dollars in thousands] [note 16]

REVENUE	Social and Family Services	Social Housing	Recreation and Culture	Planning and Development	Other	Total
Taxes	\$ 0	\$ 0	\$ 0	\$ 363	\$ 1,462,434	\$ 1,462,797
Fees and surcharges	23,301	48,222	57,070	13,475	1,379	737,042
Government grants	256,286	73,680	3,371	5,429	19,654	611,463
Fines and penalties	0	0	1,178	0	11,010	24,724
Contributed tangible capital assets	0	1,026	6,757	693	0	239,583
Development charges	0	0	33,021	6,726	11,428	114,931
Other	0	24,280	3,024	6,818	12,016	89,512
Total revenue	279,587	147,208	104,421	33,504	1,517,921	3,280,052

EXPENSES	Social and Family Services	Social Housing	Recreation and Culture	Planning and Development	Other	Total
Salaries and benefits	129,179	33,163	165,060	31,869	0	1,425,126
Contracts and general services	4,904	8,743	18,574	12,487	0	197,771
Materials, equipment and supplies	69,725	65,451	51,146	6,586	0	508,069
Interest charges	1,817	10,301	6,243	2,705	0	71,883
Rent and financial expenses	4,350	2,398	6,282	3,296	0	64,560
External transfers	205,153	83,687	13,842	3,130	0	287,288
Amortization	1,570	17,602	20,073	335	0	263,443
Loss on disposal	2,840	175	13,653	277	0	76,309
Total expenses	419,538	221,520	294,873	60,685	0	2,894,449
ANNUAL SURPLUS (DEFICIT)	\$(139,951)	\$(74,312)	\$(190,452)	\$(27,181)	\$1,517,921	\$385,603

THE CITY OF OTTAWA

SCHEDULE 1 - CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE

For the year ended December 31, 2011 [dollars in thousands] [note 16]

REVENUE	General Government	Protection	Roads, Traffic and Parking	Transit	Environmental Services	Health Services
Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Fees and surcharges	17,818	60,364	23,913	178,619	302,016	1,266
Government grants	385	8,509	44,865	128,977	15,017	87,489
Fines and penalties	948	11,627	0	0	0	0
Contributed tangible capital assets	0	0	42,037	0	149,166	0
Development charges	127	5,179	54,002	12,989	32,366	0
Other	13,880	189	2,587	7,007	3,876	0
Total revenue	33,158	85,868	167,404	327,592	502,441	88,755
EXPENSES	General Government	Protection	Roads, Traffic and Parking	Transit	Environmental Services	Health Services
Salaries and benefits	70,454	418,777	117,749	260,079	68,843	118,767
Contracts and general services	9,502	10,411	7,600	16,720	73,125	9,930
Materials, equipment and supplies	20,905	39,155	69,281	97,469	48,964	13,805
Interest charges	1,909	2,223	17,361	11,418	13,044	1,444
Rent and financial expenses	12,094	7,973	8,093	13,003	2,807	1,824
External transfers	(12,908)	1,497	(23,954)	(2,159)	(2,220)	(5,114)
Amortization	767	10,830	72,748	49,273	68,666	4,494
Loss on disposal	673	5,117	11,431	10,426	13,815	1,660
Total expenses	103,396	495,983	280,309	456,229	287,044	146,810
ANNUAL SURPLUS (DEFICIT)	\$ (70,238)	\$(410,115)	\$(112,905)	\$(128,637)	\$ 215,397	\$(58,055)

THE CITY OF OTTAWA

**SCHEDULE 1 - CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE
CONTINUED**

For the year ended December 31, 2011 *[dollars in thousands] [note 16]*

REVENUE	Social and Family Services	Social Housing	Recreation and Culture	Planning and Development	Other	Total
Taxes	\$ 0	\$ 0	\$ 0	\$ 326	\$1,407,656	\$ 1,407,982
Fees and surcharges	23,012	41,578	55,058	13,694	1,461	718,799
Government grants	251,858	86,753	15,261	14,232	19,252	672,598
Fines and penalties	0	0	1,268	0	10,932	24,775
Contributed tangible capital assets	0	1,700	4,620	4,796	0	202,319
Development charges	0	0	13,492	558	5,511	124,224
Other	75	0	1,847	2,264	43,225	74,950
Total revenue	274,945	130,031	91,546	35,870	1,488,037	3,225,647
EXPENSES	Social and Family Services	Social Housing	Recreation and Culture	Planning and Development	Other	Total
Salaries and benefits	126,875	33,294	135,893	31,850	0	1,382,581
Contracts and general services	4,919	10,475	13,444	7,341	0	163,467
Materials, equipment and supplies	70,861	77,800	46,467	7,035	0	491,742
Interest charges	2,158	10,759	5,230	1,859	0	67,405
Rent and financial expenses	4,201	2,044	6,179	5,772	0	63,990
External transfers	196,474	94,908	36,840	1,410	0	284,774
Amortization	1,656	16,754	14,186	318	0	239,692
Loss on disposal	1,677	220	12,410	53,468	0	110,897
Total expenses	408,821	246,254	270,649	109,053	0	2,804,548
ANNUAL SURPLUS (DEFICIT)	\$(133,876)	\$(116,223)	\$(179,103)	\$(73,183)	\$ 1,488,037	\$ 421,099

THE CITY OF OTTAWA

SCHEDULE 2 - CONDENSED SUPPLEMENTARY INFORMATION

OTTAWA PUBLIC LIBRARY BOARD

As at December 31, 2012, with comparative information for 2011 *[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	2012	2011
Financial assets	\$ 6,069	\$ 5,907
Financial liabilities	11,116	11,788
Net debt	(5,047)	(5,881)

Non-financial Assets	2012	2011
Tangible capital assets	35,842	36,954
Prepaid expenses	14	0
Total non-financial assets	35,856	36,954
Accumulated surplus	\$ 30,809	\$ 31,073

Consolidated Statement of Operations

For the year ended December 31, 2012, with comparative information for 2011 *[dollars in thousands]*

Revenue	2012	2011
City of Ottawa	\$ 41,719	\$ 39,808
Province of Ontario - Ministry of infrastructure	33	361
Province of Ontario - Ministry of tourism and culture	1,430	1,459
Other	3,558	3,274
Total revenue	46,740	44,902

Expenses	2012	2011
Operating expenditures	47,004	42,077
Total expenses	47,004	42,077
Annual surplus (deficit)	(264)	2,825
Accumulated surplus, beginning of the year	31,073	28,248
Accumulated surplus, end of the year	\$ 30,809	\$ 31,073

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 *[dollars in thousands]*

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, waste collection and disposal.

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 for the purpose of promoting and undertaking community improvements in the City by managing real property.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements are prepared by management in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board [“PSAB”] of the Canadian Institute of Chartered Accountants [“CICA”]. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic consolidated financial statements necessarily involves the use of estimates, which have been made using careful judgment.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 [*dollars in thousands*]

Reporting entity

The consolidated financial statements of the City reflect the assets, liabilities, revenue and expenses for the activities of all committees of Council and the following boards, Business improvement areas ["BIAs"] and entities:

The Police Services Board	The Glebe BIA
The Ottawa Public Library Board	The Orleans BIA
The Ottawa Board of Health	The Carp Road Corridor BIA
The Ottawa Community Housing Corporation ["OCHC"]	The Carp Village BIA
The Ottawa-Nepean Campsite Authority	The Vanier BIA
Manotick Mill Quarter Community Development Corporation	The Manotick BIA
Ottawa Community Lands Development Corporation	The Sparks Street Mall BIA
PineView Municipal Golf Course	The Somerset Village BIA
The Bank Street BIA	The Preston Street BIA
The Westboro BIA	The Byward Market BIA
The Sparks Street BIA	The Rideau BIA
The Somerset Street Chinatown BIA	The Barrhaven BIA
	The Wellington West BIA
	The Bells Corners BIA

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

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

Hydro Ottawa Holding Inc. and its subsidiaries 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.

Change in status

Certain subsidiary corporations previously accounted for on a modified equity basis had a change in status in 2012 and are now included in the consolidated reporting entity and are reported on a line by line basis. The change in status in 2012 relates to the following subsidiary corporations.

Manotick Mill Quarter Community Development Corporation
Ottawa Community Lands Development Corporation
PineView Municipal Golf Course

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 [*dollars in thousands*]

School boards

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

Revenue and expenses

Revenue and expenses are reported on the accrual basis of accounting, which recognizes revenue 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 an obligation to pay.

Use of estimates and measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards 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 revenue

Annually, the City bills and collects property tax revenue 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 14*]. The authority to levy and collect property taxes is established under the *Municipal Act, 2001*, the *Assessment Act*, the *Education Act*, and other legislation.

Taxation revenue consists of non-exchange transactions. It is recognized in the period to which the assessment relates and reasonable estimates of amounts can be made. Annual revenue also includes adjustments related to reassessments or appeals related to prior years.

Financial instruments

The City's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, accrued interest, long-term debt, and mortgages payable.

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 by the Canadian government

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 *[dollars in thousands]*

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 438/97 and the Investment Policy approved by City Council. Investments for the Endowment Fund are carried at cost and only written down when there has been a permanent impairment to the carrying value. Investments with original maturity dates of more 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 and costs can be reasonably determined.

The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation. Where the costs are deemed to be likely and reasonably determinable, claims are reported as operating expenses and included in accounts payable and accrued liabilities on the consolidated statement of financial position.

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 recorded as deferred revenue and are recognized as revenue in the year during which the related expenses are incurred or provided eligibility criteria have been met.

Government transfers

Government transfers are transfers from senior levels of government that are not the result of an exchange transaction and are not expected to be repaid in the future. Government transfers are recognized in the fiscal years during which events giving rise to the transfer occur, provided the transfers are authorized, 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:

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 [dollars in thousands]

[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 during which 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.

Pension agreements

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

[b] The City sponsored pension plan assets are 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 is based on future expenses, adjusted for inflation and discounted to current dollars. These costs are reported as a liability on the consolidated statement of financial position.

Non-financial assets

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

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 *[dollars in thousands]*

[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
Vehicles	5	15

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

[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.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 [dollars in thousands]

Reserves and reserve funds

Reserves and reserve funds comprise funds set aside for specific purposes by Council [see note 12].

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. Council provided that a minimum balance of \$200,000 is retained in the fund. Earnings, which exceed the target return of 6.5%, are retained by the Fund. In 2012 \$9,698 [2011 - \$21,253] was distributed from the Endowment Fund.

3. INVESTMENTS

Investments are comprised of the following:

Investments	Cost 2012	Cost 2011	Market value 2012	Market value 2011
City of Ottawa debentures	\$ 13,087	\$ 28,570	\$ 14,348	\$ 30,276
Federal	310,250	208,980	315,583	215,582
Provincial	122,464	110,834	127,073	117,380
Municipal	102,131	114,885	108,527	123,206
Banks	438,614	262,427	440,922	265,289
Endowment	184,592	185,648	204,825	195,307
Other	74,408	32,072	74,773	32,730
Total	\$ 1,245,546	\$ 943,416	\$ 1,286,051	\$ 979,770

The weighted average yield on investments held as at December 31, 2012, is 3.49% [2011 – 3.98%]. Investments mature from January 2, 2013 to April 19, 2030. [2011 – January 25, 2012 to April 19, 2030].

4. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES

Investments are comprised of the following:

Investment in Government Business Enterprises	Net assets 2012	Net assets 2011	Share of income 2012	Share of income (loss) 2011
Pineview Municipal Golf Course [a]	\$ 0	\$ (372)	\$ 372	\$ (170)
Ottawa Community Lands Development [b]	0	0	0	716
Manotick Mill Quarter Community Development Corporation [c]	0	0	0	0
Hydro Ottawa Holding Inc. [d]	366,318	352,140	30,778	26,216
Total	\$ 366,318	\$ 351,768	\$ 31,150	\$ 26,762

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 [dollars in thousands]

[a] Investment [100% owned] in Pineview Municipal Golf Course

During the year, Pineview Municipal Golf Course was reclassified from a government business enterprise to a consolidated other government organization as it no longer met the definition of a government business enterprise. As a result of this reclassification, Pineview Municipal Golf Course is reported on a line-by-line basis prospectively as of January 1, 2012 and supplementary financial information is no longer reported in the financial statements for the 2012 fiscal year. Equity earnings in government business enterprises reported on the statement of operations includes an adjustment in the amount of \$372 to account for the prospective change in status for Pineview Municipal Golf Course.

Financial position [As at December 31]	2011
Current assets	\$ 132
Capital assets	1,229
Total assets	1,361
Liabilities	2011
Current liabilities	170
Cash advanced by the City	1,563
Total liabilities	1,733
Net liabilities	(372)
Results of operations [For the year ended December 31]	2011
Total revenue	1,579
Total expenses	1,749
Net loss	\$ (170)

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 [dollars in thousands]

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

During the year, Ottawa Community Lands Development Corporation was reclassified from a government business enterprise to a consolidated other government organization as it no longer met the definition of a government business enterprise. As a result of this reclassification, Ottawa Community Lands Development is reported on a line-by-line basis prospectively as of January 1, 2012 and supplementary financial information is no longer reported in the financial statements for the 2012 fiscal year.

Financial position [As at December 31]	2011
Current assets	\$ 3,824
Other assets	1,520
Total assets	5,344
Liabilities	2011
Current liabilities	364
Other liabilities	1,520
Cash advanced to the City	3,460
Total liabilities	5,344
Net assets	0
Results of operations [For the year ended December 31]	2011
Total revenue	29,912
Total expenses	29,196
Net income	\$ 716

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 *[dollars in thousands]*

[c] Investment [100% owned] in Manotick Mill Quarter Community Development Corporation

During the year, Manotick Mill Quarter Community Development Corporation was reclassified from a government business enterprise to a consolidated other government organization as it no longer met the definition of a government business enterprise. As a result of this reclassification, Manotick Mill Quarter Community Development Corporation is reported on a line-by-line basis prospectively as of January 1, 2012 and supplementary financial information is no longer reported in the financial statements for the 2012 fiscal year.

Financial position [As at December 31]	2011
Current assets	\$ 1
Cash advanced from the City	70
Total assets	71
Liabilities	2011
Current liabilities	71
Total liabilities	71
Net assets	0
Results of operations [For the year ended December 31]	2011
Total revenue	34
Total expenses	34
Net income	\$ 0

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 [dollars in thousands]

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

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

Financial position [As at December 31]	2012	2011
Current assets	\$ 171,671	\$ 167,228
Capital assets	721,847	613,426
Other assets	32,292	33,732
Total assets	925,810	814,386
Liabilities	2012	2011
Current liabilities	234,103	134,142
Other liabilities	325,389	328,104
Total liabilities	559,492	462,246
Net assets	366,318	352,140
Net assets consisting of Investment in Hydro Ottawa Holding Inc.	2012	2011
Common shares [100%]	228,453	228,453
Retained earnings	137,865	123,687
Net assets	366,318	\$ 352,140
Results of operations [For the year ended December 31]	2012	2011
Total revenue	900,495	839,961
Total expenses	869,717	813,745
Net income	\$ 30,778	\$ 26,216

The City, as holder of common shares in Hydro Ottawa Holding Inc., is entitled to receive dividends related to 2012 operations as declared by the Hydro Ottawa Holding Inc. Board. Dividends in the amount of \$16,600 [2011 – \$17,500] were received in 2012 related to 2011 operations.

For the year ended December 31, 2012, Hydro Ottawa Holding Inc. earned revenue related to sale of electricity, energy management consulting, and other services in the amount of \$33,995 [2011 – \$37,269] from the City. Certain services mainly related to water and sewer charges, fuel, and permits were purchased from the City in the amount of \$730 [2011 – \$1,926], property taxes in the amount of \$1,849 [2011 – \$1,865], and royalties in the amount of \$165 [2011 – \$153] were recorded as expenses.

Hydro Ottawa Holding Inc. paid the City of Ottawa \$254 [2011 – \$ 247] in support of its conservation and demand management initiatives, included in expenses.

As at December 31, 2012, Hydro Ottawa Holding Inc. had a balance of \$5,800 [2011 – \$4,504] due from the City of Ottawa and an amount of \$89 [2011 – \$561] 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. These amounts are included in the City's consolidated statement of financial position.

THE CITY OF OTTAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 [dollars in thousands]

5. DEFERRED REVENUE

Deferred revenue, set aside for specific purposes by legislation, regulation, or agreement, is comprised of the following:

Deferred revenue	2012	2011
Development charges	\$ 402,309	\$ 386,009
<i>Investment in Ontario Act</i>	27,578	32,503
Gas tax	53,600	39,195
Municipal Infrastructure Investment Initiative	945	1,472
Other government transfers	7,434	12,173
Other deferred revenue	38,928	34,170
Building code	48,489	41,188
Cash in lieu of parkland	13,659	19,576
Cash in lieu of parking	4,250	4,257
Total deferred revenue	\$ 597,192	\$ 570,543

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.

Employee future benefit liabilities of the City as at December 31, 2012, with comparative information for 2011, are as follows:

Employee Future Benefits	Gross 2012	Funded 2012	Unfunded 2012	Gross 2011	Funded 2011	Unfunded 2011
Post-retirement benefits	\$ 181,312	\$ (3,089)	\$ 178,223	\$ 171,248	\$ (2,331)	\$ 168,917
Post-employment benefits	166,449	(41,884)	124,565	152,697	(40,841)	111,856
WSIB	102,793	0	102,793	87,044	0	87,044
Vacation leave	43,213	(31,298)	11,915	42,258	(29,596)	12,662
Total	\$ 493,767	\$ (76,271)	\$ 417,496	\$ 453,247	\$ (72,768)	\$ 380,479

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 benefits.

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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 2012 is as follows:

Post-retirement and Post-employment Benefits	Post-retirement	Post-employment	Total
Balance, at the beginning of the year	\$ 171,248	\$ 152,697	\$ 323,945
Current service costs/cost of new claims	9,283	27,934	37,217
Interest cost	6,850	5,748	12,598
Amortization of actuarial loss	2,665	1,859	4,524
Benefits paid	(8,734)	(21,789)	(30,523)
Balance, at the end of the year	\$ 181,312	\$ 166,449	\$ 347,761

Expenses for post-retirement and post-employment benefits in the amount of \$54,339 [2011 – \$47,107] are recorded on the consolidated statement of operations.

The liability for post-retirement and post-employment benefits is calculated based on an estimate of future outlays required 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, 2012.

Gains or losses are generated each year due to changes in assumptions and corrections or clarifications to the plan design previously provided by the City. These gains or losses are amortized over the expected average remaining service life of the related employee groups beginning in the year following the loss. Amortization for a 2012 actuarial gain of \$18,054 will commence in 2013.

A number of estimates and assumptions are utilized in determining the 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:

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Actuarial Assumptions	2012	2011
Discount rate	3.25%	3.25%
Inflation rate	2.25%	2.50%
Salary increase rate	1.50% to 2.0% in 2012 1.75% to 2.0% in 2013 1.97% to 2.0% in 2014 1.97% to 2.25% in 2015	2.0% to 2.75% in 2011 1.75% to 2.5% in 2012 and 2013 2.20% to 2.50% in 2014 2.50% per annum 2015 thereafter
Health care inflation rate	2.0% per annum 2016 and thereafter 6.87% grading down to 4.5% in 2029	7.02% 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 2012 totalled \$93,142 [2011 – \$84,683] 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, 2012 totalled \$572 [2011 – \$541] and is included as an expense 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, 2012, there were no active members and 736 pension recipients. As at December 31, 2011, there were no active members and 757 pension recipients. Pension payments during 2012 amounted to \$21,611 [2011 – \$21,944]. No employee or matching employer contributions to this pension plan for current service were required in 2012 or 2011. Employer contributions for past service amounted to \$3,258 in 2012 [nil in 2011].

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The reported accrued benefit liability is as follows:

City of Ottawa Superannuation Fund	2012	2011
Pension fund assets - end of the year	\$ 186,005	\$ 192,058
Accrued benefit obligation - end of the year	212,981	221,786
Plan deficiency	26,976	29,728
Unamortized actuarial gains	969	2,363
Liability at end of period	27,945	32,091
Accrued benefit liability	27,945	32,091
Expenses	2012	2011
Pension expense, including change in valuation allowance	(2,363)	6,995
Pension interest expense	1,475	1,673
Total pension-related expenses	\$ (888)	\$ 8,668

There is no remaining service life in this plan.

The actuarial valuation performed for accounting purposes 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% [2011 – 2.0%] and the discount rate for the plan was estimated at 5.00% [2011 – 5.25%].

The accrued benefit obligations and benefit cost levels will change in the future as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of true experience gains or losses. Emerging experience, differing from the assumptions, will result in gains or losses that will be included in future accounting valuations.

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

The last filed actuarial valuation for funding purposes dated December 31, 2010 quantified a deficit of \$32,352 on a going concern basis. This going concern deficit is being amortized over 15 years starting in 2012 with annual contribution of \$3,258 to the plan by the City.

The market value of the assets of the plan as at December 31, 2012 amounted to \$191,374 [2011 – \$193,760].

[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 2012 amounted to \$25,590 [2011 – \$23,680]. No employee or matching employer contributions to this pension plan for

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current service were required in 2012 or 2011. Employer contributions for past service during 2012 amounted to \$2,664 [2011 – \$8,046].

The reported pension asset is as follows:

OC Transpo Employees' Pension Plan	2012	2011
Pension fund assets - end of the year	\$ 550,857	\$ 530,096
Accrued benefit obligation - end of the year	576,321	541,358
Accrued benefit liability	25,464	11,262
Unamortized actuarial losses	(37,750)	(24,492)
Asset at end of period	12,286	13,230
Valuation allowance	0	(8,716)
Reported pension asset	12,286	4,514
Expenses	2012	2011
Pension expense, including change in valuation allowance	(5,654)	8,927
Pension interest expense	546	(333)
Total pension-related expenses	\$ (5,108)	\$ 8,594

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

The market value of the assets of the plan as at December 31, 2012 amounted to \$540,288 [2011 – \$523,407].

The actuarial valuation performed for accounting purposes 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 2.00% [2011 – 2.00%], the discount rate for the plan was estimated at 5.00% [2011 – 5.50%], and long-term salary forecasts for actuarial purposes were estimated at 3.25% [2011 – 3.25%].

The last filed actuarial valuation for funding purposes dated January 1, 2012 quantified a statutory solvency deficit of \$98,168 [2011 – \$65,232]. The solvency deficit is being amortized over five years starting in 2012. In 2012, the City contributed an amount of \$2,664 [2011 – \$8,046] to the plan and increased the amount secured by a letter of credit by \$15,394 in lieu of additional contributions, bringing the total amount outstanding under the letter of credit to \$20,394. Many of the estimates and assumptions used in 2012 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 as an offset to employee future benefits and pension agreements.

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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 included in operating expenses 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, 2012, the remaining capacity of the Trail Road site is approximately 6,399,588 [2011 – 6,535,467] cubic metres, all of which is expected to be used by the year 2065. The remaining capacity at the Springhill site is approximately 511,048 [2011 – 552,597] cubic metres, which is expected to be used by the year 2018.

Closure of the Trail Road Landfill and Springhill will involve covering the sites, 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 landfill sites is based on future expenses, adjusted for inflation based on the CPI 10 year average rate of 1.98% [2011 – 2.05%] and discounted to current dollars using the City's average long-term borrowing rate of 3.25% [2011 – 3.25%]. This estimate amounts to \$10,599 at December 31, 2012 [2011 – \$10,939] 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 an amount of \$2,603 [2011 – \$2,178] 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 amount to approximately \$30,707.

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8. NET LONG-TERM DEBT

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

Net Long Term Debt	2012	2011
Installment and sinking fund debenture issued at various rates of interest ranging from 1.10% to 6.20%, and maturing from March 28, 2013 to July 14, 2042	\$ 1,403,617	\$ 1,141,881
Bank loan agreements and interest rate exchange agreements	80,089	35,399
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	(47,795)	(86,007)
Total	\$ 1,435,911	\$ 1,091,273

[b] Principal payments including contributions to the sinking fund in future years are as follows:

Principal payments	\$
2013	87,775
2014	82,935
2015	84,315
2016	86,852
2017	89,278
2018 and thereafter	836,561
Total	\$ 1,267,716

Principal payments will be funded from tax and rate-supported operations. It is estimated that interest to be earned by the sinking fund will amount to approximately \$168,195, which together, with the amount of \$1,267,716 shown above, will be used to retire the outstanding total debt of \$1,435,911.

[c] The City uses derivative financial instruments consisting of bank swaps to reduce its exposure to interest rate risk related to its debt and commodity price fluctuations. The City does not use financial instruments for trading or speculative purposes.

The City has entered into interest rate swap agreements to manage the volatility of interest rates. The City converted notional floating rate debt totalling \$80,089 [2011 – \$35,399] to fixed rate debt with interest rates ranging from 2.33% to 5.92%. The related derivative agreements are in place until the maturity of the debts in 2021, 2022 and 2025.

These interest rate swaps qualify, and have been designated by the City, as cash flow hedging items against the floating rate long-term debt. The City has assessed the hedging relationship as effective. The fair value of the interest rate swaps is (\$3,079) [2011 - \$505].

THE CITY OF OTTAWA
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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.

As at December 31, 2012, the City had set bank swaps in place to hedge 39,000,000 litres [2011 – 24,000,000 litres] of diesel fuel for the 2013 and 2014 calendar years with the expiry dates ranging from January 2013 to December 2014 [2011 – February 2012 to January 2013]. The net present value of these swaps was \$955 [2011 - \$27].

[d] The City has entered into guarantees of loans amounting to \$76,690 arranged to provide financing for the development of an ice rink, the construction of a paramedic headquarters facility and the development of an arts centre under 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] On June 28, 2010, City Council authorized a payment covenant guarantee which may require the City to make annual payments of 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 signed by the City on April 15, 2011.

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9. MORTGAGES PAYABLE

Mortgages payable	2012	2011
Mortgages payable on housing properties at various rates ranging from 2.63% to 8.0% guaranteed by the Canada Mortgage and Housing Corporation with maturity dates ranging from February 1, 2013 to February 1, 2029 and debentures payable to Infrastructure Ontario maturing from 2036 to 2042 with interest rates ranging from 3.87% to 4.96%	\$ 215,962	\$ 209,918
Forgivable Loans related to Canada Ontario Affordable Housing Program and Residential Rehabilitation Assistance Program	4,715	2,327
Total	\$ 220,677	\$ 212,245

[a] Public housing debentures issued by Canada Mortgage and Housing Corporation in the amount of \$57,593 [2011 – \$63,761] related to OCHC have not been included in these consolidated financial statements as they are the responsibility of the Province of Ontario.

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.

With respect to the debenture payable to Infrastructure Ontario, the City has received a direction from OCHC to transfer an amount equivalent to the annual principal and interest payments to Infrastructure Ontario from the annual subsidy provided by the City.

Mortgages for several OCHC properties were refinanced in 2012 after detailed appraisals were conducted. The revised appraisals allowed OCHC to borrow additional funds while maintaining the same annual payments on the debt for the refinanced properties, providing \$17,005 of funding to be utilized for future capital repairs.

[b] Principal repayments in future years are as follows:

Principal Repayments	2012	2011
2013	\$ 11,073	\$ 11,129
2014	12,133	11,770
2015	13,062	12,369
2016	13,877	12,928
2017	14,596	13,452
2018 and thereafter	155,936	150,597
Total	\$ 220,677	\$ 212,245

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10. CAPITAL LEASE OBLIGATIONS

The City leases the following facilities and equipment as detailed below:

Capital Lease Obligations	Office Building	Paramedic Services Building	Shenkman Arts Center
Lease term	24 years	30 years	30 years
Interest rate	6.00%	5.79%	4.99%
Purchase option	\$10,000	nil	nil

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

Future Payments	Office Building		Paramedic Services Building		Shenkman Arts Center		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,810	\$ 3,344	\$ 471	\$ 1,124	\$ 282	\$ 1,836	\$ 2,563	\$ 6,304
2014	1,919	3,236	498	1,097	383	1,820	2,800	6,153
2015	2,034	3,120	526	1,068	441	1,799	3,001	5,987
2016	3,167	2,941	555	1,038	523	1,776	4,245	5,755
2017	3,560	2,740	586	1,005	629	1,747	4,775	5,492
Thereafter	48,400	13,047	18,359	9,992	34,735	21,841	101,494	44,880
Total	\$ 60,890	\$ 28,428	\$ 20,995	\$ 15,324	\$ 36,993	\$ 30,819	\$ 118,878	\$ 74,571

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11. TANGIBLE CAPITAL ASSETS

Cost	Buildings and improvements	Infrastructure		Land	Land improvements
		Linear roads	Linear water/wastewater		
Balance, beginning of year	\$1,759,525	\$ 2,599,856	\$ 4,483,486	\$ 2,569,875	\$ 506,384
Additions	19,080	156,381	242,153	17,928	6,959
Disposals	(11,464)	0	(541)	(4,045)	(360)
Balance, end of year	1,767,141	2,756,237	4,725,098	2,583,758	512,983

Accumulated Amortization	Buildings and improvements	Infrastructure		Land	Land improvements
		Linear roads	Linear water/wastewater		
Balance, beginning of year	633,177	1,125,285	1,071,650	0	163,759
Disposals	(1,602)	0	(276)	0	(135)
Amortization expense	43,438	54,620	54,946	0	14,505
Balance, end of year	675,013	1,179,905	1,126,320	0	178,129
Net book value, end of year	\$ 1,092,128	\$ 1,576,332	\$ 3,598,778	\$ 2,583,758	\$ 334,854

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TANGIBLE CAPITAL ASSETS [CONTINUED]

Cost	Machinery plant and equipment	Vehicles	Assets under construction	Total 2012	Total 2011
Balance, beginning of year	\$ 1,172,086	\$ 911,455	\$ 998,236	\$ 15,000,903	\$ 14,339,785
Additions	25,345	66,247	286,960	821,053	858,471
Disposals	(5,025)	(63,899)	(60,182)	(145,516)	(197,353)
Balance, end of year	1,192,406	913,803	1,225,014	15,676,440	15,000,903

Accumulated Amortization	Machinery plant and equipment	Vehicles	Assets under construction	Total 2012	Total 2011
Balance, beginning of year	387,096	271,309	0	3,652,276	3,464,548
Disposals	(2,959)	(50,425)	0	(55,397)	(51,964)
Amortization expense	30,511	65,423	0	263,443	239,692
Balance, end of year	414,648	286,307	0	3,860,322	3,652,276
Net book value, end of year	\$ 777,758	\$ 627,496	\$ 1,225,014	\$ 11,816,118	\$ 11,348,627

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 works of art. The City also owns the Firestone Art Collection, consisting of 1,605 historical Canadian works of art 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 2012 amounts to \$239,583 [2011 – \$202,319].

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12. ACCUMULATED SURPLUS

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

Surplus	2012	2011
Invested in tangible capital assets	\$ 10,461,280	\$ 10,051,129
Unfunded - Employee benefits	(433,155)	(408,056)
Unfunded - Landfill closure costs	(7,996)	(8,761)
Unfunded - Other	(39,792)	(42,524)
Total surplus	9,980,337	9,591,788
Reserves set aside by Council	9,711	3,992
Reserve funds set aside for specific purposes by Council	2012	2011
Endowment	183,361	185,008
Transportation and environmental services	53,949	101,159
Social housing and child care	57,584	34,360
Equipment replacement	15,814	6,082
Insurance	2,321	2,155
Employment benefits	2,749	6,119
Other	7,212	11,322
Total reserve funds	322,990	346,205
Equity in government business enterprises [note 4]	366,318	351,768
Accumulated Surplus	\$ 10,679,356	\$ 10,293,753

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13. 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] The City has not recorded a provision for tax appeals as any potential eventual settlement is not determinable.

[c] The City has the following contractual obligations for capital works over the next five years:

Contractual obligations for capital works	\$
2013	517,490
2014	11,017
2015	3,404
2016	25
2017	422

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

Building and equipment lease payments	\$
2013	16,613
2014	13,203
2015	11,131
2016	10,981
2017	10,838

[e] In February 2013, the City entered into an agreement for the construction, service and maintenance of a light rail transit system, as well as for the widening of Highway 417. The contractor must design, construct, supply, test, commission, maintain and finance the Ottawa Light Rail Transit system and must widen certain portions of Highway 417.

The City is committed to making payments of \$1,731,648 through a series of milestone payments and a revenue service availability payment for the light rail transit system and highway works during the projected 2013 to 2018 construction period.

The City has committed to making a series of monthly service payments during the 30 year maintenance and service term. Payments include \$48,141 in the first full year of operation in base date (2013) dollars for capital construction costs deferred beyond the construction period, as well as for maintenance costs associated with the light rail system and vehicles. Annual payments will be adjusted as service levels change, and a portion will be adjusted for inflation; in accordance with the project agreement. The City has also committed to a

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series of payments for lifecycle costs, and for maintenance costs that will vary with service kilometers.

[f] As at December 31, 2012, Hydro Ottawa Holding Inc. has total open commitments amounting to \$63,781, of which balances of \$49,998 are for 2013, \$10,399 for 2014, \$3,333 for 2015, \$51 for 2016 and nil for 2017. The commitments relate to a customer information system service agreement, construction projects, inventory purchases and overhead and underground services.

[g] The City has commitments for the purchase of ice rental time in the amounts of \$2,830 and \$10,471 in accordance with two public private partnership agreements. These commitments are set to expire in 2027 and 2034, respectively.

[h] The City has entered into natural gas forward contracts to reduce price fluctuations of natural gas prices used in heating costs of the City. The City is committed to the following natural gas forward contracts over the next five years:

Natural gas forward contracts	\$
2013	3,857
2014	3,216
2015	1,806
2016	1,438
2017	402

[i] In 2010, the City entered into a twenty year agreement with respect to organics waste diversion. The City is committed to diverting 80,000 tons of organic waste to a processing facility each contract year from April 1 to March 31. The value of the annual commitment is \$8,300 per year. Rates charged are indexed to inflation. Any shortfall in the amounts of organic waste diverted is paid by the City as a result of a “put or pay” clause in the agreement.

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14. TAXES AVAILABLE FOR MUNICIPAL PURPOSES

Taxes available for municipal purposes	2012	2011
Property taxes	\$ 1,736,976	\$ 1,687,588
Payment in lieu of taxes	176,914	174,778
Local improvements and other charges	4,294	5,268
Less education taxes	(455,387)	(459,652)
Total taxes available for municipal purposes	\$ 1,462,797	\$ 1,407,982

15. EXPENSES BY OBJECT

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

Expenses by object	2012	2011
Salaries, wages and employee benefits	\$ 1,425,126	\$ 1,382,581
Contracted and general services	197,771	163,467
Materials, equipment and supplies	508,069	491,742
Interest charges	71,883	67,405
Rent and financial expenses	64,560	63,990
External transfers	287,288	284,774
Amortization	263,443	239,692
Loss on disposal	76,309	110,897
Total expenses	\$ 2,894,449	\$ 2,804,548

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16. 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, by maintaining law enforcement, and preserving peace and good order.
- Road, traffic and parking include parking, signs and signals, streetlights and the maintenance of roads and parks of the City.
- Transit services provide local public transportation for citizens. They also include other transportation services such as planning and development.
- 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.
- 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 childcare 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.

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- 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 services manage urban development for residential and business interests, as well as infrastructure and parks.
- Other includes revenue from taxes, equity in earnings of government business enterprises, investment income, sale of land, shared lottery earnings, and miscellaneous sundry revenue.

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.

17. 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 as at December 31, 2012 amounted to \$2,321 [2011 – \$2,155]. The City contributed an amount of \$nil [2011 – \$222] to this reserve fund from operations.

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18. BUDGET AMOUNTS

Budget data presented in these consolidated financial statements are based upon the 2012 operating and capital budgets approved by Council. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

Revenue	Budgeted amount [unaudited]
Operating budget approved by Council	\$ 2,774,229
Capital budget approved by Council	1,015,596
Add	
Reserve fund revenue	19,291
Hydro Ottawa Holding Inc. equity pickup	14,178
Interest earned on sinking fund	810
Contributed assets	239,583
Less	
Budgeted transfer from other funds	(416,009)
Budgeted proceeds on debt issue	(242,311)
Timing difference between capital authority and capital spending plan	(118,447)
Total revenue	3,286,920
Expenses	Budgeted amount [unaudited]
Operating budget approved by Council	2,774,229
Capital budget approved by Council	1,015,596
Add	
Change in employee future benefits and pension agreements	25,099
Change in other obligations to be funded in future years	(1,259)
Interest earned on sinking fund	810
Amortization	263,443
Loss on disposal and write-downs	76,308
Less	
Acquisition of tangible capital assets	(806,822)
Budgeted transfer to other funds	(330,199)
Budgeted debt principal payments	(115,994)
Total expenses	2,901,211
Annual surplus	\$ 385,709

19. COMPARATIVE FIGURES

Certain comparative figures for 2011 have been reclassified to conform with the presentation adopted for the current year.

2012 Financial and statistical schedules – unaudited

Revenues by Source – 5 year review [unaudited] [dollars in thousands]

Revenue by Source	2008	2009	2010	2011	2012
Taxes available for municipal purposes	\$ 1,229,794	\$ 1,286,044	\$ 1,358,107	\$ 1,407,982	\$ 1,462,797
Fees and user charges	2008	2009	2010	2011	2012
General administration	17,770	18,181	18,422	17,818	14,707
Paramedic services	681	901	1,007	789	943
Other protective services	58,897	59,732	60,759	59,871	64,409
Roads, traffic and parking	24,836	22,456	22,122	23,913	25,971
Public transit	131,273	121,710	159,539	171,567	176,396
Water and sewer	198,824	215,205	234,790	242,794	251,622
Waste and recycling services	43,226	37,630	40,576	44,329	42,222
Social housing	62,037	62,401	63,097	63,523	64,262
Parks and recreation	50,566	52,803	55,670	55,058	57,070
Planning and development	8,006	8,567	11,248	13,694	16,038
Long term care	15,229	15,605	15,738	15,858	16,048
Other	6,652	8,159	8,800	9,585	7,354
Total fees and user charges	617,997	623,350	691,768	718,799	737,042
Revenue by Source	2008	2009	2010	2011	2012
Government grants	470,948	471,419	871,536	672,598	611,463
Contributed tangible capital assets ^[1]	0	145,296	206,350	202,319	239,583
Development charges	71,840	81,392	136,031	124,224	114,931
Investment income	50,108	26,071	30,285	32,912	32,432
Fines and penalties	23,797	23,567	25,709	24,775	24,724
Other revenue	14,078	14,810	26,630	15,276	25,930
Equity in earnings of government business enterprises	48,756	29,414	30,522	26,762	31,150
Revenues	679,527	791,969	1,327,063	1,098,866	1,080,213
Total Revenues	\$2,527,318	\$ 2,701,363	\$ 3,376,938	\$ 3,225,647	\$ 3,280,052

^[1] Beginning in 2009, the statement of operations includes revenues from contributed tangible capital assets to comply with Public Sector Accounting Board (PSAB) regulations.

Expenses by Function – 5 year review [unaudited] [dollars in thousands]

Expenses by Function	2008 ^[2]	2009 ^[3]	2010	2011	2012
General government ^[1]	\$ 132,191	\$ 104,799	\$ 107,933	\$ 103,396	\$105,969
Protection to persons and property	427,651	440,858	460,265	495,983	514,779
Roads, traffic, and parking	323,794	261,529	273,014	280,309	319,291
Transit	417,376	419,982	501,207	456,229	478,924
Environmental services	319,650	254,787	271,240	287,044	323,588
Health services	117,083	130,898	132,804	146,810	155,282
Social and family services	409,081	417,554	411,803	408,821	419,538
Social housing	184,521	239,302	235,399	246,254	221,520
Recreation and cultural services	237,283	278,456	271,469	270,649	294,873
Planning and development	44,374	51,063	53,942	109,053	60,685
Total expenses	\$ 2,613,004	\$ 2,599,228	\$ 2,719,076	\$ 2,804,548	\$ 2,894,449

^[1]Program support costs for operating expenses have been allocated to other functions using guidelines and methodologies reflected in the Ontario Financial Information Return

^[2]The year 2008 includes the total amount of capital expenditures previously expensed on the Consolidated Statement of Financial Activities

^[3]Beginning in 2009, certain capital expenditures are reflected as tangible capital assets on the Consolidated Statement of Financial Position, and are not included on this statement.

Consolidated Reserves & Reserve Funds – 5 year review [unaudited] [dollars in thousands]

Consolidated Reserves & Reserve Funds	2008	2009	2010	2011	2012
Reserves	\$ 14,721	\$ 2,422	\$ 609	\$ 3,992	\$ 9,711
Endowment ^[1]	211,337	202,380	195,105	185,008	183,361
Transportation and environmental services	56,685	10,670	91,111	101,159	53,949
Social housing and child care	58,091	24,604	50,833	34,360	57,584
Debt retirement	16,043	11,879	7,631	2,854	28
Equipment replacement	14,405	1,717	5,902	6,082	15,814
Insurance	3,632	4,236	2,138	2,155	2,321
Employment benefits	5,762	5,878	5,997	6,119	2,749
Other	6,483	8,898	11,130	8,468	7,184
Reserve Funds	372,438	270,262	369,847	346,205	322,990
Total reserves and reserve funds	\$ 387,159	\$ 272,684	\$ 370,456	\$ 350,197	\$ 332,701

^[1] A distribution of \$9,698 in 2012 and \$21,253 in 2011 was made from the Endowment Fund to the City's Capital Program

Taxation and Assessments – 5 year review [unaudited]

Residential (Urban)	2008	2009	2010	2011	2012
Municipal city-wide	0.523131%	0.558213%	0.569744%	0.562050%	0.554056%
Municipal capital tax levy	0.018359%	0.010285%	0.000000%	0.000000%	0.000000%
Municipal fire	0.088906%	0.093602%	0.091666%	0.092515%	0.096114%
Municipal police	0.162492%	0.162402%	0.165692%	0.166392%	0.165282%
Municipal transit	0.182093%	0.172878%	0.178898%	0.178706%	0.177495%
Municipal conservation area	0.006850%	0.007092%	0.007326%	0.006848%	0.007028%
Municipal hydrant	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%
Education	0.264000%	0.252000%	0.241000%	0.231000%	0.221000%
Total residential tax rates	1.245831%	1.256472%	1.254326%	1.237511%	1.220975%

Non-residential (Commercial Urban)	2008	2009	2010	2011	2012
Municipal city-wide	1.102941%	1.110431%	1.085344%	1.047372%	1.012238%
Municipal capital tax levy	0.038706%	0.020459%	0.000000%	0.000000%	0.000000%
Municipal fire	0.190803%	0.192516%	0.178021%	0.172400%	0.175596%
Municipal police	0.342589%	0.323060%	0.315637%	0.310068%	0.301964%
Municipal transit	0.390793%	0.355566%	0.347431%	0.333016%	0.324276%
Municipal conservation area	0.014441%	0.014108%	0.013956%	0.012761%	0.012839%
Municipal hydrant	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%
Education	1.744678%	1.650981%	1.557604%	1.472223%	1.396652%
Total non-residential tax rates	3.824951%	3.667121%	3.497993%	3.347840%	3.223565%

Assessed Values [Dollars in Millions]	2008	2009	2010	2011	2012
Residential	\$ 67,757	\$ 79,191	\$ 80,867	\$ 83,076	\$ 85,545
Percentage of total	76.6%	75.3%	75.4%	75.9%	76.7%
Non-residential	\$ 20,702	\$ 25,995	\$ 26,337	\$ 26,390	\$ 26,017
Percentage of total	23.4%	24.7%	24.6%	24.1%	23.3%
Total assessment	\$ 88,459	\$ 105,186	\$ 107,204	\$ 109,466	\$ 111,562

Taxation and Assessments – 5 year review [unaudited] [dollars in thousands]

Taxes Receivable	2008	2009	2010	2011	2012
Taxes receivable at the beginning of the year	\$ 56,188	\$ 57,514	\$ 70,024	\$ 61,677	\$ 68,221
Property taxes	1,561,391	1,633,214	1,728,256	1,768,132	1,795,926
Non-tax items for collection	32,621	35,294	39,326	48,604	58,227
Penalties	10,874	10,734	11,146	10,932	11,010
Cancellation of tax arrears	(32,721)	(38,212)	(52,684)	(61,261)	(38,536)
Write-off of taxes	2,519	2,774	1,353	3,528	4,717
Subtotal	\$ 1,630,872	\$ 1,701,318	\$ 1,797,421	\$ 1,831,612	\$ 1,899,565

Collections	2008	2009	2010	2011	2012
Current	\$ (1,495,099)	\$ (1,549,293)	\$ (1,658,207)	\$ (1,672,571)	\$ (1,709,787)
Arrears	(78,259)	(82,001)	(77,537)	(90,820)	(128,697)
Tax collections	\$ (1,573,358)	\$ (1,631,294)	\$ (1,735,744)	\$ (1,763,391)	\$ (1,838,484)

Net Taxes Receivable	2008	2009	2010	2011	2012
Taxes receivable at the end of the year	\$ 57,514	\$ 70,024	\$ 61,677	\$ 68,221	\$ 61,081
Allowance for doubtful accounts	(2,200)	(2,250)	(2,650)	(2,200)	(2,435)
Net taxes receivable at the end of the year	\$ 55,314	\$ 67,774	\$ 59,027	\$ 66,021	\$ 58,646
Percentage of current taxes collected	95.8%	94.9%	95.9%	94.5%	95.2%
Taxes outstanding as a percentage of the current year levy	3.5%	4.2%	3.4%	3.7%	3.3%

Investments – at amortized cost – 5 year review [unaudited] [dollars in thousands]

Investments	2008	2009	2010	2011	2012
City of Ottawa debentures	\$ 42,710	\$ 42,741	\$ 35,478	\$ 28,570	\$ 13,087
Federal government	255,325	177,848	125,225	208,980	310,250
Provincial government	111,729	193,316	124,906	110,834	122,464
Municipal government	117,786	135,217	117,740	114,885	102,131
Bank	129,482	78,580	86,028	262,427	438,614
Endowment	210,750	202,299	195,224	185,648	184,592
OCHC securities ^[1]	37,820	19,459	10,864	0	0
Other	34,395	42,894	42,446	32,072	74,408
Totals	\$ 939,997	\$ 892,354	\$ 737,911	\$ 943,416	\$ 1,245,546

^[1] Corporate bonds, common and foreign stock held for Ottawa Community Housing Corporation (OCHC)

Net Long-Term Debt – 5 year review [unaudited] [dollars in thousands]

Net Long-Term Debt	2008	2009	2010	2011	2012
Instalment and sinking fund debenture issued	\$ 735,338	\$ 748,212	\$ 998,659	\$ 1,141,881	\$ 1,403,617
Bank loan agreements and interest rate exchange agreements	11,719	11,327	10,876	35,399	80,089
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	(193,826)	(160,497)	(174,375)	(86,007)	(47,795)
Total net long-term debt	\$ 553,231	\$ 599,042	\$ 835,160	\$ 1,091,273	\$ 1,435,911

Net Long-Term Debt by Function – 5 year review [unaudited] [dollars in thousands]

Net Long-Term Debt by Function	2008	2009	2010	2011	2012
General Government	\$ 24,794	\$ 21,720	\$ 19,025	\$ 16,078	\$ 12,638
Fire	3,078	3,416	3,312	3,163	7,169
Police	16,601	19,450	30,756	27,430	34,386
Protective inspection	0	1,800	7,345	6,884	6,404
Roads	248,590	252,408	287,085	341,491	562,754
Public transit	80,298	121,154	225,400	258,142	264,793
Parking	1,395	638	245	83	0
Wastewater treatment	20,246	22,142	47,205	150,766	190,370
Water supply and distribution	73,065	77,606	102,633	135,361	178,682
Waste and recycling services	1,873	1,442	992	7,613	6,803
Environmental Remediation	0	0	0	0	1,813
Social housing	0	0	143	127	109
Parks and recreation	27,748	27,279	42,988	64,207	83,389
Libraries	6,118	5,902	5,751	5,503	5,243
Planning and development	8,025	7,156	30,060	47,158	55,588
Social and family services	41,400	36,929	32,220	27,267	25,073
Health	0	0	0	0	697
Total net long-term debt	\$ 553,231	\$ 599,042	\$ 835,160	\$ 1,091,273	\$ 1,435,911

Demographics and Other Information – 5 year review [unaudited]

Demographics	2008	2009	2010	2011	2012
Population	898,000	908,389	917,570	927,118	935,073
Households	365,800	371,973	377,098	382,873	387,732
Municipal full time equivalents	2008	2009	2010	2011	2012
FTE	14,320	14,559	14,774	14,947	14,737
FTE per 1,000 population	15.9	16.0	16.1	16.1	15.8
Inflation, CPI annual increases (%) ^[1]	2008	2009	2010	2011	2012
Ottawa	2.2	0.5	2.6	3.0	1.3
Ontario	2.3	0.4	2.5	3.1	1.4
Canada	2.3	0.3	1.8	2.9	1.5
Unemployment rate (%) ^[1]	2008	2009	2010	2011	2012
Ottawa	4.9	6.1	6.5	5.6	6.2
Ontario	6.5	9.0	8.7	7.8	7.8
Canada	6.1	8.3	8.0	7.4	7.2
Housing information	2008	2009	2010	2011	2012
Housing starts ^[2]	6,679	5,522	6,046	5,521	5,730
Change (%)	7.4	(17.3)	9.5	(8.7)	3.8
Single family	2,715	2,228	2,035	1,957	1,424
Change (%)	(0.3)	(17.9)	8.7	(3.9)	7.28
Housing prices (000)	290	305	329	345	353
Change (%)	6.2	5.2	7.9	4.9	2.3
New housing price inflation (%) ^[3]	3.8	1.4	4.0	1.7	2.6
Value of building permits issues (in millions)	\$1,733	\$1,796	\$1,922	\$1,819	\$2,041
Change (%)	(8.4)	3.7	7.0	(5.4)	12.2

^[1] Statistics Canada

^[2] Central Mortgage and Housing Corporation (CMHC)

^[3] Ottawa Multiple Listing Service (MLS)