

Consolidated Financial Statements

The City of Ottawa

December 31, 2007

AUDITORS' REPORT

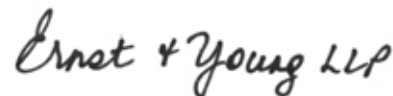
To the Mayor and Members of Council

We have audited the consolidated statement of financial position of the **City of Ottawa** as at December 31, 2007 and the consolidated statements of financial activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the City's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the **City of Ottawa** as at December 31, 2007 and the results of its financial activities and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,
April 4, 2008



Chartered Accountants
Licensed Public Accountants

The City of Ottawa

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31
[in thousands of dollars]

	2007	2006
	\$	\$
FINANCIAL ASSETS		
Cash and short-term investments	420,541	521,019
Accounts receivable	185,214	204,198
Investments <i>[note 3]</i>	694,982	490,788
Investment in government business enterprises <i>[note 4]</i>	296,989	281,691
Total financial assets	1,597,726	1,497,696
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	360,863	292,344
Short-term loan <i>[note 6]</i>	29,657	29,657
Deferred revenue <i>[note 7]</i>	464,501	409,775
Employee benefits <i>[notes 8 and 14]</i>	303,763	253,204
Accrued interest <i>[note 14]</i>	12,554	13,940
Landfill closure and post-closure liabilities [notes 9 and 14]	11,047	12,389
Net long-term debt <i>[notes 10 and 14]</i>	469,028	521,258
Mortgages payable <i>[notes 11 and 14]</i>	230,263	238,556
Capital lease obligations <i>[notes 12 and 14]</i>	83,668	85,473
Total financial liabilities	1,965,344	1,856,596
Net financial liabilities	(367,618)	(358,900)
NON-FINANCIAL ASSETS		
Inventories	24,561	23,702
Prepaid expenses <i>[note 5]</i>	10,317	9,624
Net liabilities	(332,740)	(325,574)
MUNICIPAL POSITION		
Operating fund [Schedule 1]	(10,099)	(10,242)
Capital fund [Schedule 2]	60,565	129,178
Reserves and reserve funds [Schedule 3]	457,647	424,336
Equity in government business enterprises <i>[note 4]</i>	296,989	281,691
Total Fund Balances	805,102	824,963
Amounts to be recovered in future years <i>[note 14]</i>	(1,137,842)	(1,150,537)
Total municipal position	(332,740)	(325,574)

See accompanying notes

Director

Director

The City of Ottawa

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

Year ended December 31
[in thousands of dollars]

	2007	2006
	\$	\$
REVENUES		
Net taxes available for municipal purposes <i>[note 15]</i>	1,143,891	1,131,536
Fees and user charges	587,426	544,096
Government grants	505,763	516,438
Investment income	51,949	54,777
Fines and penalties	23,062	21,621
Development charges	76,461	50,889
Other revenue	10,883	15,080
Total revenues	2,399,435	2,334,437
EXPENDITURES		
General government	127,606	123,430
Protection to persons and property	405,367	342,778
Transportation	608,210	588,247
Environmental services	274,928	308,888
Health services	103,654	93,416
Social and family services	422,834	421,713
Social housing	159,948	155,141
Recreation and cultural services	218,752	199,907
Planning and development	49,714	42,460
Interest and financing fees	62,886	66,929
Total expenditures	2,433,899	2,342,909
Net expenditures before the following:	(34,464)	(8,472)
Equity in earnings of government business enterprises <i>[note 4]</i>	27,298	40,122
Net revenues (expenditures)	(7,166)	31,650
Financing		
New debt issued	206	101,944
Debt principal repayments	(62,534)	(66,172)
Change in employee benefits	50,559	(295)
Change in accrued interest on debt	(1,386)	1,290
Change in landfill closure and post-closure liabilities	(1,341)	1,542
Change in liability claims	5,165	(4,764)
Other obligations to be recovered in future years	(3,364)	(2,275)
Net (decrease) increase in amounts to be recovered in future years	(12,695)	31,270
Change in fund balances for the year	(19,861)	62,920
Fund balance at the beginning of the year	824,963	762,043
Fund balance at the end of the year	805,102	824,963

See accompanying notes

The City of Ottawa

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31

[in thousands of dollars]

	2007	2006
	\$	\$
OPERATING ACTIVITIES		
Net revenues (expenditures) for the year	(7,166)	31,650
Adjustment for non-cash items:		
Equity in earnings of government business enterprises	(27,298)	(40,122)
Uses:		
Increase in accounts receivable	—	(38,394)
Increase in inventories	(859)	(219)
Increase in prepaid expenses	(693)	—
Decrease in accounts payable and accrued liabilities	(1,386)	—
Decrease in employee benefit obligation	—	(294)
Decrease in landfill closure and post-closure liabilities	(1,342)	
	(38,744)	(47,379)
Sources:		
Decrease in accounts receivable	18,984	—
Decrease in prepaid expenses	—	1,748
Increase in accounts payable and accrued liabilities	68,519	16,211
Increase in short-term loan	—	12,750
Increase in deferred revenue	54,726	85,432
Increase in employee benefits	50,559	—
Increase in accrued interest	—	1,290
Increase in landfill closure and post-closure liabilities	—	1,542
	192,788	118,973
Cash provided by operating activities	154,044	71,594
INVESTING ACTIVITIES		
Net decrease (increase) in investments	(204,194)	229,037
Dividend from Hydro Ottawa Holding Inc.	12,000	12,000
Cash provided by (used in) investing activities	(192,194)	241,037
FINANCING ACTIVITIES		
New debt issued	206	101,944
Debt principal repayments	(62,534)	(66,172)
Cash provided by (used in) financing activities	(62,328)	35,772
Net increase (decrease) in cash and short-term investments during the year	(100,478)	348,403
Cash and short-term investments, beginning of the year	521,019	172,616
Cash and short-term investments, end of the year	420,541	521,019

See accompanying notes

The City of Ottawa

Schedule 1

ANALYSIS OF CONSOLIDATED OPERATING FUND

Year ended December 31
[in thousands of dollars]

	2007 Budget	2007 Actual	2006 Actual
	\$	\$	\$
	<i>[unaudited]</i>		
EXPENDITURES			
General government			
Council	14,872	14,123	14,834
Administration	58,803	59,281	54,471
Ontario property assessment	10,295	10,443	9,903
	<u>83,970</u>	<u>83,847</u>	<u>79,208</u>
Protection to persons and property			
Fire	122,076	123,724	96,633
Police	204,302	213,201	185,554
Other protective services	53,524	50,018	42,962
	<u>379,902</u>	<u>386,943</u>	<u>325,149</u>
Transportation			
Roads, traffic and parking	161,185	164,508	149,092
Transit	281,573	282,411	269,351
	<u>442,758</u>	<u>446,919</u>	<u>418,443</u>
Environmental services			
Water supply and distribution	45,373	41,676	38,063
Wastewater treatment	44,572	41,145	37,528
Waste and recycling services	48,229	45,454	48,119
	<u>138,174</u>	<u>128,275</u>	<u>123,710</u>
Health services			
Paramedic services	54,149	54,324	44,824
Public health services	48,387	46,655	44,173
	<u>102,536</u>	<u>100,979</u>	<u>88,997</u>
Social and family services			
Social assistance	288,552	273,428	276,758
Long-term care	52,520	52,493	48,789
Child care assistance	92,213	92,729	88,456
	<u>433,285</u>	<u>418,650</u>	<u>414,003</u>
Social housing	<u>133,164</u>	<u>126,878</u>	<u>125,216</u>
Recreation and cultural services			
Parks, recreation and culture	147,361	146,816	136,882
Libraries	40,931	41,288	38,766
	<u>188,292</u>	<u>188,104</u>	<u>175,648</u>
Planning and development	<u>44,155</u>	<u>41,406</u>	<u>35,743</u>
Interest and financing fees	<u>66,162</u>	<u>62,886</u>	<u>66,929</u>
Total Expenditures	<u>2,012,398</u>	<u>1,984,887</u>	<u>1,853,046</u>

The accompanying notes are an integral part of these consolidated financial statements.

The City of Ottawa

Schedule 1

ANALYSIS OF CONSOLIDATED OPERATING FUND

Year ended December 31
[in thousands of dollars]

	2007 Budget	2007 Actual	2006 Actual
	\$	\$	\$
	<i>[unaudited]</i>		
REVENUES			
Net taxes available for municipal purposes <i>[note 15]</i>	1,150,055	1,143,891	1,131,536
Fees and user charges	566,682	587,426	544,096
Government grants	429,920	418,273	373,697
Investment income	32,665	35,090	34,999
Fines and penalties	24,466	23,062	21,621
Development charges	774	965	774
Other revenue	9,517	6,610	6,152
Total revenues	2,214,079	2,215,317	2,112,875
Net revenues for the year	201,681	230,430	259,829
FINANCING AND TRANSFERS			
Debt principal repayments	(62,493)	(62,534)	(66,172)
Transfer from reserves and reserve funds	45,611	50,712	38,044
Transfer to reserves and reserve funds	(256,809)	(275,399)	(234,154)
Transfer to capital fund	8,293	(4,699)	(4,522)
Dividends from Hydro Ottawa Holding Inc.	14,000	12,000	12,000
Change in employee benefits	50,559	50,559	(295)
Change in accrued interest on debt	(1,300)	(1,386)	1,290
Change in landfill closure and post-closure liability	(1,342)	(1,341)	1,542
Change in liability claims	5,164	5,165	(4,764)
Other obligations to be recovered in future years	(3,364)	(3,364)	(2,275)
Total financing and transfers	(201,681)	(230,287)	(259,306)
Change in operating fund balance	—	143	523
Fund balance at the beginning of the year	—	(10,242)	(10,765)
Fund balance at the end of the year	—	(10,099)	(10,242)

The accompanying notes are an integral part of these consolidated financial statements.

The City of Ottawa

Schedule 2

ANALYSIS OF CONSOLIDATED CAPITAL FUND

Year ended December 31
[in thousands of dollars]

	2007 Actual \$	2006 Actual \$
EXPENDITURES		
General government	<u>43,759</u>	44,222
Protection to persons and property		
Fire	6,755	6,666
Police	9,412	8,679
Other protective services	2,257	2,284
	<u>18,424</u>	17,629
Transportation		
Roads, traffic and parking	73,936	75,966
Transit	87,355	93,838
	<u>161,291</u>	169,804
Environmental services		
Water supply and distribution	62,075	50,411
Wastewater treatment	70,471	112,217
Waste and recycling services	14,107	22,550
	<u>146,653</u>	185,178
Health services		
Paramedic services	2,264	4,419
Public health services	411	—
	<u>2,675</u>	4,419
Social and family services		
Social assistance	31	—
Long-term care	687	803
Child care assistance	3,466	6,907
	<u>4,184</u>	7,710
Social housing	<u>33,070</u>	29,925
Recreation and cultural services		
Parks, recreation and culture	29,035	18,802
Libraries	1,613	5,457
	<u>30,648</u>	24,259
Planning and development	8,308	6,717
Total Expenditures	<u>449,012</u>	489,863

The accompanying notes are an integral part of these consolidated financial statements.

The City of Ottawa

Schedule 2

ANALYSIS OF CONSOLIDATED CAPITAL FUND

Year ended December 31
[in thousands of dollars]

	2007	2006
	Actual	Actual
	\$	\$
REVENUES		
Government grants	87,490	142,741
Development charges	75,496	50,115
Other revenue	3,603	5,157
Total Revenues	166,589	198,013
Net expenditures for the year	(282,423)	(291,850)
FINANCING AND TRANSFERS		
New debt issued	206	101,944
Transfer from reserves and reserve funds	208,905	246,751
Transfer from operating fund	4,699	4,522
Total financing and transfers	213,810	353,217
Change in capital fund balance	(68,613)	61,367
Fund balance at the beginning of the year	129,178	67,811
Fund balance at the end of the year	60,565	129,178

The accompanying notes are an integral part of these consolidated financial statements.

The City of Ottawa

Schedule 3

ANALYSIS OF CONSOLIDATED RESERVES AND RESERVE FUNDS

Year ended December 31
[in thousands of dollars]

	2007	2006
	\$	\$
REVENUES		
Investment income	16,859	19,778
Other revenue	670	3,771
Total revenues	<u>17,529</u>	<u>23,549</u>
FINANCING AND TRANSFERS		
Transfer from operating fund	275,399	234,154
Transfer to operating fund	(50,712)	(38,044)
Transfer to capital fund	(208,905)	(246,751)
Total financing and transfers	<u>15,782</u>	<u>(50,641)</u>
Change in reserves and reserve fund balance	33,311	(27,092)
Fund balance at the beginning of the year	424,336	451,428
Fund balance at the end of the year	<u>457,647</u>	<u>424,336</u>

As at December 31

	2007	2006
	\$	\$
Reserves	<u>25,934</u>	<u>35,193</u>
Reserve funds		
Endowment fund	203,827	200,000
Capital expenditures	196,503	156,697
Equipment replacement	18,862	21,061
Employee benefits	6,054	5,673
Other	6,467	5,712
Total reserve funds	<u>431,713</u>	<u>389,143</u>
Total reserves and reserve funds	<u>457,647</u>	<u>424,336</u>

The City of Ottawa

Schedule 4

CONDENSED SUPPLEMENTARY INFORMATION
OTTAWA PUBLIC LIBRARY BOARD

[in thousands of dollars]

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.

As at December 31

	2007	2006
	\$	\$
Financial position		
Financial assets	3,978	1,823
Financial liabilities	(11,087)	(9,590)
Net liabilities	<u>(7,109)</u>	<u>(7,767)</u>
Operating fund		
Capital fund	1,584	507
Reserve fund	663	210
Fund balance	<u>2,247</u>	<u>717</u>
Amounts to be recovered in future years	(9,356)	(8,484)
Municipal position	<u>(7,109)</u>	<u>(7,767)</u>

Year ended December 31

	2007	2006
	\$	\$
Financial activities		
Revenues		
City of Ottawa	32,381	28,218
Province of Ontario – Ministry of Culture	1,380	1,508
Other	4,523	2,459
	<u>38,284</u>	<u>32,185</u>
Operating expenditures	(36,583)	(31,115)
Capital expenditures	(1,563)	(5,214)
New debt issued	—	6,520
Obligations to be funded in future years	1,392	459
	<u>(36,754)</u>	<u>(29,350)</u>
Change in fund balance during the year	1,530	2,835
Fund balance beginning of the year	717	(2,118)
Fund balance, end of the year	<u>2,247</u>	<u>717</u>

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

1. NATURE OF BUSINESS

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

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

As sole shareholder of Hydro Ottawa Holding Inc. and the Ottawa Community Housing Corporation, the City also provides hydro and housing services to the residents of Ottawa.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Basis of consolidation

These consolidated financial statements reflect the assets, liabilities, revenues and expenditures of the operating fund, capital fund, reserves and reserve funds, and include the activities of all committees of council, and the following boards:

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

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

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

Condensed supplementary information for the Ottawa Public Library Board is provided in schedule 4.

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

Pine View Municipal Golf Course
Hydro Ottawa Holding Inc. and its subsidiaries

The City of Ottawa Sinking Fund is not consolidated, except for the City's share of the Sinking Fund's interest income used to finance the principal amount of debt. Trust funds administered by the City for the benefit of external parties are reported in note 20 and are included in the City's consolidated statement of financial position. The remaining assets, liabilities and results of operations of the Trusts are not consolidated.

School boards

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

Basis of accounting

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

Measurement uncertainty

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

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

Tax revenues

Annually, the City bills and collects \$1,000,000 in property tax revenues for municipal purposes. A further \$500,000 in provincial education taxes are billed and collected each year on behalf of the Province of Ontario [the "Province"] for education purposes. The authority to levy and collect property taxes is established under the Municipal Act, 2001, the Assessment Act, the Education Act, and other legislation.

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

Property assessment on which property taxes are based, are established by the Municipal Property Assessment Corporation ["MPAC"], a not-for-profit corporation funded by all municipalities in Ontario. The current value assessment ["CVA"] of a property represents the estimated market value of a property as of a fixed date. Assessed values for all properties within the municipality are provided to the City by way of returned assessment rolls in December of each year.

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

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

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

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

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

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

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

Financial instruments

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

Cash and short-term investments

Cash and short-term investments include cash on hand and all highly liquid investments with remaining 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 and Schedule I, II, and III banks, as well as asset-backed securities and eligible commercial paper. Investments for the Endowment Fund also include Canadian equities and corporate bonds as authorized by Provincial Regulation 655/05 and the Investment Policy approved by City council. Investments for the Ottawa Community Housing Corporation are carried at cost and only written down when there has been a permanent impairment to the carrying value. Investments maturing less than or equal to 90 days are classified as short-term investments on the consolidated statement of financial position.

The City of Ottawa**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007
[in thousands of dollars]

Environmental provisions

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

Deferred revenue

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

Government transfers

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

Inventories

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

Capital assets

The historical cost and accumulated depreciation of capital assets are not recorded for municipal purposes. Capital assets are reported as an expenditure on the consolidated statement of financial activities in the year of acquisition.

The City of Ottawa**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007
[in thousands of dollars]

Employee benefit plans

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

- [a] The costs of post-employment benefits are recognized as a liability when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;
- [b] The costs of pensions and other 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; and
- [c] Past service cost for plan amendments related to prior period employee services are accounted for in the period of the plan amendment. The effects of gain or loss from settlements or curtailments are expensed in the period they occur. Employee future benefit liabilities are discounted using current rates on long-term bonds. The cost of workplace safety and insurance obligations are actuarially determined and are expensed.
- [d] The contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due.
- [e] 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.

Landfill closure and post-closure liabilities

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

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

Reserves and reserve funds

Reserves and reserve funds comprise funds set aside for specific purposes by Council [see schedule 3].

According to the investment policy for the Endowment Fund adopted by City Council, investment earnings are paid to the City at the lesser of 6.5% and the actual earnings of the Endowment Fund. Earnings which exceed the target return of 6.5% are retained by the Fund.

Future accounting changes

Tangible capital assets are significant economic resources managed by the City and a key component of cost in the delivery of many City programs and services. Tangible capital assets include diverse items such as roads, buildings, vehicles, equipment, land, water and other utility systems, computer hardware and software, dams, canals and bridges.

In 2007 tangible capital assets were reported as an expenditure on the consolidated statement of financial activities in the year of acquisition. Effective for the fiscal year beginning January 1, 2009 the Public Sector Accounting Board ["PSAB"] will require the City and all other municipalities in Canada to adopt new disclosure rules for tangible capital assets. The PSAB regulations requires that the City recognize tangible capital assets on the consolidated statement of financial position and any amortization, gains or losses on disposal and impairments on the consolidated statement of financial activities.

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

3. INVESTMENTS

Investments are comprised of:

	Cost		Market value	
	2007	2006	2007	2006
	\$	\$	\$	\$
City of Ottawa debentures	38,265	37,873	39,685	39,786
Federal government	119,172	116,123	120,681	117,115
Provincial government	81,756	88,280	84,300	91,826
Municipal government	116,698	129,660	117,798	131,835
Banks	54,738	39,131	54,259	39,976
Endowment	202,831	—	202,744	—
OCHC securities*	36,875	32,735	36,875	35,923
Other	44,647	46,986	43,957	46,903
	694,982	490,788	700,299	503,364

Corporate bonds, common and foreign stock held for the Ottawa Community Housing Corporation

The weighted average yield on investments held as at December 31, 2007 is 4.68% [2006 - 4.82%]. Investments mature from April 17, 2008 to March 8, 2029 [2006 - April 24, 2007 to March 8, 2029].

4. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES

Investments are comprised of:

	Net assets		Share of income	
	2007	2006	2007	2006
	\$	\$	\$	\$
Pine View Municipal Golf Course	(525)	(532)	7	(279)
Hydro Ottawa Holding Inc.	297,514	282,223	27,291	40,401
	296,989	281,691	27,298	40,122

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

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

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

As at December 31

	2007 \$	2006 \$
Financial position		
Current assets	103	148
Capital assets	1,525	1,589
Total assets	<u>1,628</u>	<u>1,737</u>
Current liabilities	70	54
Cash advanced by the City of Ottawa	2,083	2,215
Total liabilities	<u>2,153</u>	<u>2,269</u>
Net assets	<u>(525)</u>	<u>(532)</u>

Year ended December 31

Results of operations

Total revenues	1,686	1,742
Total expenses	1,679	2,021
Net income (loss)	<u>7</u>	<u>(279)</u>

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

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

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

As at December 31

	2007 \$	2006 \$
Financial position		
Current assets	151,959	154,158
Capital assets	513,291	510,128
Other assets	45,542	20,151
Total assets	710,792	684,437
Current liabilities	140,463	126,480
Other	272,815	275,734
Total liabilities	413,278	402,214
Net assets	297,514	282,223
	2007	2006
	\$	\$
Net assets consist of:		
Investment in Hydro Ottawa Holding Inc		
Common shares [100%]	228,453	228,453
Retained earnings	69,061	53,770
Net assets	297,514	282,223
Year ended December 31		
Results of operations		
Total revenues	685,614	680,625
Total expenses	658,323	640,224
Net income	27,291	40,401

The City, as holder of common shares in Hydro Ottawa Holding Inc, is entitled to receive dividends related to 2007 operations as declared by Hydro Ottawa Holding Inc Board.

Dividends in the amount of \$12,000 [2006 - \$12,000] were received in 2007 related to 2006 operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

For the year ended December 31, 2007, Hydro Ottawa Holding Inc. earned revenues related to sale of electricity and telecommunications products and services, the provision of street lighting services, and energy management consulting in the amount of \$29,210 [2006 - \$30,209] to the City. Certain services mainly related to water and sewer charges, fuel and permits were purchased from the City in the amount of \$1,031 [2006 - \$735], property taxes in the amount of \$1,693 [2006 - \$1,743] and royalties in the amount of \$118 [2006 - \$1,740].

Hydro Ottawa Holding Inc. also owns 28.33% of Chaudière Water Power Inc. ["CWPI"], a corporate entity formed and owned by Domtar Inc., Energy Ottawa Inc. and Hydro-Quebec that operates and maintains the Chaudière dam. By agreement, all expenditures incurred by CWPI, including those of a capital nature, are recovered from shareholders based on their pro-rata interest in CWPI.

In November 2007, the Board of Directors of Hydro Ottawa Holding Inc approved a plan to sell the Telecom Ottawa group of companies and to exit this business segment, subject to final approval of the terms and conditions of sale. A definitive sale agreement dated February 25, 2008 was signed for gross proceeds of \$63,000 subject to post-closing adjustments.

5. PREPAID EXPENSES

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

	2007	2006
	\$	\$
Prepaid welfare entitlements	5,700	6,700
Other prepaid expenses	4,617	2,924
	10,317	9,624

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

6. SHORT-TERM LOAN

The City has entered into an agreement with Infrastructure Ontario for up to \$45,700 in long-term loans to be issued in future years for bridge, water and wastewater projects. The City had short-term construction loans outstanding in the amount of \$29,657 [2006 - \$29,657] under this loan facility as at December 31, 2007 with varying rates of interest averaging 2.67% during 2007 [2.45% during 2006].

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

7. DEFERRED REVENUE

Deferred revenue, set aside for specific purposes by legislation, regulation or agreement as at December 31 is comprised of:

	2007	2006
	\$	\$
Development charges	353,175	305,411
Other deferred revenue	46,264	46,591
Gas tax	47,476	43,623
Cash in lieu of parkland	12,950	10,579
Cash in lieu of parking	4,449	3,370
Local improvements	187	201
Total deferred revenue	464,501	409,775

8. EMPLOYEE BENEFITS AND PENSION AGREEMENTS

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

[a] Employee benefits

Employee benefit liabilities are reported net of amounts funded by the City included in accounts payable and accrued liabilities on the consolidated statement of financial position. Employee benefit liabilities of the City as at December 31 are as follows:

	2007			2006		
	Gross	Funded	Unfunded	Gross	Funded	Unfunded
	\$	\$	\$	\$	\$	\$
Post-retirement benefits	153,154	(1,928)	151,226	106,302	(932)	105,370
Post-employment benefits	98,843	(14,941)	83,902	80,536	(5,412)	75,124
WSIB	56,980	—	56,980	53,225	—	53,225
Vacation leave	42,854	(31,199)	11,655	42,021	(29,371)	12,650
OC Transpo pension amendment	—	—	—	6,835	—	6,835
	351,831	(48,068)	303,763	288,919	(35,715)	253,204

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

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

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

The continuity for post-retirement and post-employment benefits for 2007 is as follows:

	Post-retirement	Post-employment	Total
	\$	\$	\$
Balance, at the beginning of the year	106,302	80,536	186,838
Plan amendment	26,930	—	26,930
Experience trend and interest adjustments	14,622	(7,772)	6,850
Current service costs/cost of new claims	5,608	31,292	36,900
Interest cost	4,737	4,118	8,855
Benefits paid	(5,045)	(9,331)	(14,376)
Balance, at the end of the year	153,154	98,843	251,997

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, 2007, which was extrapolated to December 31, 2007 in order to determine the costs of the plan for the fiscal year ended December 31, 2007.

The plan amendment relates to arbitrated changes that reinstates retiree benefit cost sharing previously removed under former plan designs. Current assumptions under the existing collective agreement provide for cost sharing for post retirement benefits to remain at 50% retiree-paid indefinitely. Assumptions made under the previous collective agreement provided for a claw-back of post retirement benefits with 75% retiree-paid in 2008 to 100% retiree-paid in 2010. The amount associated with this plan amendment of \$26,930 is included as an expenditure on the consolidated statement of financial activities.

The experience trend and interest adjustments relates to updated employee data, changes to certain valuation assumptions and to corrections to plan design information previously provided. The amount associated with these adjustments of \$6,850 is included as an expenditure on the consolidated statement of financial activities.

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[in thousands of dollars]

Many of the estimates and assumptions used in 2007 may change significantly with the next detailed evaluation. 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:

	2007
	<u>\$</u>
Discount rate	4.75%
Inflation rate	2.5%
Health care inflation rat	10% initially grading down to 5% in 2017
	2006
	<u>\$</u>
Discount rate	4.75%
Inflation rate	3.0%
Health care inflation rat	10% initially grading down to 5% in 2016

[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 2007 was \$55,469 [2006 - \$54,182] for current service and is included as an expenditure on the consolidated statement of financial activities.

The amount contributed for past service to OMERS for the year ended December 31, 2007 was \$353 [2006 - \$258] and is included as an expenditure on the consolidated statement of financial activities.

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

[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, 2007, there were no active members and 878 pension recipients. As at December 31, 2006 there were no active members and 908 pension recipients. Pension payments during 2007 were \$24,168 [2006 - \$20,081]. No employee or matching employer contributions to this pension plan for current service or for past service was required in 2007 or 2006.

The latest going concern actuarial valuation was made as at December 31, 2006. The net pension asset is as follows:

	\$
	<hr/>
Pension fund assets - end of the year	292,079
Accrued benefit obligation - end of the year	257,569
Accrued benefit asset	<hr/> 34,510 <hr/>
Market value of assets of the plan	<hr/> 306,593 <hr/>

The actuarial valuation was based on a number of assumptions that reflect the City's best estimates. Inflation rate was estimated at 2.5% [2006 - 2.60%] and the gross rate of return for the plan was estimated at 6.0% [2006 - 6.0%].

The City is committed to provide an increase in indexation from 85% of inflation in 2007, to 100% of inflation in 2010, an increase of 5% for each of the next three years to the extent that COSF fund assets are not sufficient to cover this indexation. The cost of this indexation is expected to be approximately \$23,174. The net asset of \$11,336 has not been reflected on the consolidated statement of financial position, as the City will not realize any future benefit from this asset.

[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 2007 were \$17,497 [2006 - \$14,782]. No employee or

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
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matching employer contributions to this pension plan for current service was required in 2007 or 2006.

The latest going concern actuarial valuation was made as of January 1, 2007. The net pension asset is as follows:

	\$
	<hr/>
Pension fund assets - end of the year	475,863
Accrued benefit obligation - end of the year	424,477
Accrued benefit asset	<hr/> 51,386 <hr/>
Market value of assets of the plan	<hr/> 507,960 <hr/>

The actuarial valuation was based on a number of assumptions that reflect the City's best estimates. Inflation rate was estimated at 2.25% [2006 – 2.60%], the real rate of return for the plan was estimated at 3.75% [2006 – 3.40%] and total salary increases were estimated at 3.25% [2006 – 3.50%].

The accrued benefit asset of the above plan has not been reflected on the consolidated statement of financial position as the City will not realize any future benefit from this asset.

9. LANDFILL CLOSURE AND POST-CLOSURE LIABILITIES

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

The City has two active landfill sites - Trail Road Landfill and Springhill as well as one inactive site for which the City has responsibilities for all costs relating to closure and post-closure care. As at December 31, 2007, the remaining capacity of the Trail Road site is approximately 8,893,324 [2006 - 8,000,000] cubic meters, all of which is expected to be used by the year 2038. A Site Optimization/Expansion Environmental Assessment for Trail Road was approved in 2005, which increased the capacity of the Trail Road landfill and will therefore extend the life [capacity] of the landfill from the year 2009 to the year 2038. The remaining capacity at the Springhill site is approximately 887,554 [2006 - 930,000] cubic meters, which is expected to be used by the year 2021.

The City of Ottawa

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

The estimated liability for the care of landfill sites is the present value of future cash flows associated with closure and post-closure costs discounted using the City's cost of capital of 4.75% [2006 – 4.5%] as well as considering an annual CPI inflation rate of 2.12% [2006 - 2.06%] [annual average of the last 10 years]. This estimate amounts to \$11,418 at December 31, 2007 [2006 - \$12,389] 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 \$371 [2006 – nil] of this liability. The funded amount is included in accounts payable and accrued liabilities on the consolidated statement of financial position.

Estimated total expenditures over the 25-year post-closure period are approximately \$42,569.

10. NET LONG-TERM DEBT

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

	2007 \$	2006 \$
Debenture debt issued at various rates of interest ranging from 2.41 % to 10.75% with maturity dates ranging from May 31, 2009 to January 28, 2028	634,023	666,566
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	(177,145)	(157,835)
	456,878	508,731
Public Private Partnership debt [see 10 [c]]	12,150	12,527
	469,028	521,258

On January 17, 2008 the City issued \$100,000 fully amortizing debentures [\$75,000 payable over twenty years and \$25,000 payable over eighteen years] at a combined effective yield of 4.935%. The proceeds were used to finance various capital works including transportation services, roads, bus purchases, bridge modifications, a recreation facility and improvements to the waterworks system.

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

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

	2006
	\$
2008	40,715
2009	41,945
2010	43,081
2011	44,740
2012	34,432
2013 and thereafter	230,064
	<u>434,977</u>

These amounts will be paid from tax and rate-supported operations. It is estimated that interest to be earned by the Sinking Fund will amount to approximately \$34,051, which together with the \$434,977 shown above, will be used to retire the outstanding total debt of \$469,028.

- [c] The City has entered into a loan agreement and an interest rate derivative agreement for the construction of an ice rink facility. The interest rate derivative agreement converts the full amount of floating rate debt for fixed rate debt at 5.92% and is in place until the debt matures in 2025. As at December 31, 2007, the fair value of the interest rate derivative agreement was \$955. The net long-term debt outstanding as at December 31, 2007 related to this Public Private Partnership agreement is \$12,150.
- [d] In addition to the direct loan set out above, the City has entered into guarantees of loans amounting to \$76,690 arranged to provide financing for the development of another ice rink, the construction of a Paramedic headquarters facility and the development of an arts centre under the Public Private Partnerships. The City's guarantees for the ice rink and the Paramedic facility also cover the borrowers' obligations under interest rate derivative agreements to manage the volatility of interest rates. The City has converted floating rate debt in the amount of \$47,800 for fixed rate debt ranging from 5.79% to 6.49% on both of these guarantees. The related derivative agreements are in place until the maturity of the debts in 2025 to 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.

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

11. MORTGAGES PAYABLE

	2007	2006
	\$	\$
Mortgages payable on housing properties at various interest rates ranging from 4.17% to 11.25% guaranteed by the Canada Mortgage and Housing Corporation with maturity dates ranging from April 1, 2008 to February 1, 2029	228,149	236,381
Forgivable loans related to Canada Ontario Affordable Housing Program and the Residential Rehabilitation Assistance Program	2,114	2,175
	<u>230,263</u>	<u>238,556</u>

Public housing debentures issued by Canada Mortgage and Housing Corporation in the amount of \$84,618 [2006 - \$88,976] included in the Ottawa Community Housing Corporation ["OCHC"] have not been included in these consolidated financial statements as they are the responsibility of the Province of Ontario.

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. Properties owned by OCHC with a net book value of approximately \$230,263 [2006 - \$238,556] pledged as collateral for the mortgages and forgivable loans, have not been reflected in the consolidated statement of financial position.

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[in thousands of dollars]

Principal repayments in future years are:

	\$
2008	8,706
2009	9,303
2010	9,864
2011	10,403
2012	10,915
2013 and thereafter	181,072
	<u>230,263</u>

12. CAPITAL LEASE OBLIGATIONS

The City leases an administrative office building and Paramedic Services headquarters building as detailed below:

	<u>Office building</u>	<u>Paramedic services building</u>
Lease term	24 years	30 years
Interest rate	6.0%	5.79%
Purchase option	\$10,000	\$Nil

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

	<u>Office Building</u>		<u>Paramedic Services Building</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	\$	\$	\$	\$	\$	\$
2008	1,353	3,802	542	800	1,895	4,602
2009	1,434	3,720	554	770	1,988	4,490
2010	1,520	3,634	566	739	2,086	4,373
2011	1,611	3,543	577	707	2,188	4,250
2012	1,708	3,447	588	675	2,296	4,122
Thereafter	60,889	28,429	12,326	6,549	73,215	34,978
	<u>68,515</u>	<u>46,575</u>	<u>15,153</u>	<u>10,240</u>	<u>83,668</u>	<u>56,815</u>

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

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 financial statements based on management's best estimate of the likely outcome. Should claims be settled for amounts over and above established accruals, which could be material to the financial results in the year of settlement, the excess expense will be charged to operations as incurred.
- [b] On June 6, 2007, the City was served with a Statement of Claim in the Ontario Superior Court of Justice by Siemens Canada Limited, PCL Constructors Canada Inc. and the Ottawa LRT Corp. alleging breach of contract and other duties. The plaintiff seeks damages in excess of \$177,000. At this time, in management's opinion, the amount of any damages which the City might be required to pay is not reasonably estimable; as such, no amount has been accrued as at December 31, 2007.

On September 14, 2007, the City was served with a Statement of Claim in the Ontario Superior Court of Justice by St. Lawrence Cement Inc. alleging breach of obligations. The plaintiff seeks damages in excess of \$40,500. At this time, in management's opinion, the amount of any damages which the City might be required to pay is not reasonably estimable; as such, no amount has been accrued as at December 31, 2007.

- [c] On November 18, 1998, a class action claiming \$500,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities ["MEUs"] in Ontario, who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to Section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc ["Enbridge"] [formerly Consumers Gas].

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of damages payable by Enbridge as approved by the Ontario Superior Court.

The City of Ottawa**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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In 2007, Enbridge filed an application to the OEB to recover the Court-approved and related amounts from ratepayers. On February 4, 2008 the OEB approved recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the MEUs late payment penalties class action indicated their intention to proceed with their litigation against the MEUs. To date, no formal steps have been taken to move the action forward. The MEUs intend to respond to the action if and when it proceeds on the basis that the MEU's situation may have defences available that were not raised in the Consumers Gas case. Also, given the preliminary status of these actions and the amount of impermissible interest included in the penalty payments received is not determinable, it is not possible at this time to quantify the effect on the consolidated financial statements of the City.

- [d] Purchasers of electricity in Ontario, through the Independent Electricity System Operator ["IESO"], are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if Hydro Ottawa Holding Inc. fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. At December 31, 2007, Hydro Ottawa Holding Inc. had drawn letters of credit of \$11,738 [2006 – \$22,000] against its credit facility to cover its prudential support obligation. In addition, Hydro Ottawa Holding Inc. provided bank letters of credit of \$108 [2006 - \$15] to the City as security for construction projects.
- [e] Hydro Ottawa Holding Inc. participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. Hydro Ottawa Holding Inc. is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to operations in the period in which they occur.
- [f] Hydro Ottawa Holding Inc. may be subject to environmental regulatory requirements related to the removal and destruction of polychlorinated biphenyls ["PCBs"] in distribution transformers and other clean up related to PCBs if draft federal legislation in its current form is ultimately passed. Proposed revisions to the Federal PCB Regulatory Framework under the Canadian Environmental Protection Act, 1999 requires that certain equipment containing PCBs be removed from service by December 31, 2009, December 31, 2014 and December 31, 2025 depending on equipment concentration and physical location. This legislation could result in approximately \$4,300 being spent in 2008 and 2009. This cost does not necessarily represent an incremental cost to Hydro Ottawa Holding Inc., as certain assets would be

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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replaced as part of Hydro Ottawa Holding Inc.'s regular asset management program. No asset retirement obligation has been recorded in these consolidated financial statements.

[g] Hydro Ottawa Holding Inc. has posted a performance guarantee to the Ottawa-Carleton District School Board ["OCDSB"] related to a wide area network service agreement between Telecom Ottawa Limited and the OCDSB. The guarantee is limited to an amount not to exceed \$1,500 and expires on or about August 17, 2008.

[h] The City has commitments on capital projects at December 31, 2007 in the amount of \$110,186 [2006 - \$278,790].

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

	\$
2008	15,354
2009	14,120
2010	13,548
2011	13,262
2012	13,319

[j] As at December 31, 2007, Hydro Ottawa Holding Inc. has \$22,031 in open commitments for 2008 [as at December 31, 2006, open commitments for 2007 were \$28,448]. This includes a customer information system service agreement, an arrangement to provide call centre services, purchase and installation of smart meters, meter reading services and overhead and underground services.

[k] The City has commitments for the purchase of ice rental time in the amount of \$3,652 and \$12,343 in accordance with two Public Private Partnership Agreements. These commitments are set to expire in 2027 and 2034 respectively.

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

14. AMOUNTS TO BE RECOVERED IN FUTURE YEARS

The amounts to be recovered in future years reported on the consolidated statement of financial position are comprised of:

	2007	2006
	\$	\$
Net long-term debt	469,028	521,258
Mortgages payable	230,263	238,556
Employee benefits	303,763	253,204
Capital lease obligations	83,668	85,473
Accrued interest on debt	12,554	13,940
Legal liability claims	17,671	12,506
Landfill closure and post-closure liabilities	11,047	12,389
Other	9,848	13,211
	1,137,842	1,150,537

15. NET TAXES AVAILABLE FOR MUNICIPAL PURPOSES

	2007	2006
	\$	\$
Property taxes	1,418,774	1,385,891
Payment in lieu of taxes	168,549	171,954
Local improvements and other charges	4,817	5,069
Less education taxes	(448,249)	(431,378)
Net taxes available for municipal purposes	1,143,891	1,131,536

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

16. OPERATING EXPENDITURES BY OBJECT

	2007	2006
	\$	\$
Salaries, wages and employee benefits	1,130,106	1,007,586
Contracted and general services	96,224	80,841
Materials, equipment and supplies	360,345	346,760
Interest charges	61,587	63,508
Rent and financial expenses	59,346	55,048
Third-party social, cultural and recreation programs	303,511	315,676
Expenditures recovered from capital	(26,232)	(16,373)
	<u>1,984,887</u>	<u>1,853,046</u>

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 reserve funds for self-insurance, which at December 31, 2007 amounted to \$6,467. The City contributed \$517 [2006 - \$2,188] to these reserve funds from operations.

18. BUDGET AMOUNTS

Budgets established for capital, reserves and reserve funds cover multiple fiscal years and, therefore, have not been shown on the consolidated financial statements.

19. COMPARATIVE FIGURES

Certain comparative figures for 2006 have been reclassified to conform with the presentation adopted in 2007.

The City of Ottawa

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007
[in thousands of dollars]

20. TRUST FUNDS

Trust funds administered by the City amount to \$7,427 [2006 - \$9,515] are included in the City's consolidated statement of financial position. The remaining assets, liabilities and results of operations of the Trusts are not consolidated. Trust fund balances as at December 31 are as follows:

	2007	2006
	\$	\$
Ottawa Concert Music Hall	6,354	6,106
Library trust funds	428	510
Other trust funds	645	2,899
	<u>7,427</u>	<u>9,515</u>