

CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Treasury Services Division (Financial Services)

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: June 11, 2012	
SUBJECT/REPORT NO: 2011 City of Hamilton Financial Report and Audited Financial Statements (FCS12042) (City Wide)	
SUBMITTED BY: Antonio D. Tollis Treasurer Corporate Services Department	PREPARED BY: Brian McMullen ext. 4467
SIGNATURE:	

RECOMMENDATION

That the 2011 City of Hamilton Financial Report and Audited Financial Statements attached as Appendix "B" to report FCS12042 be approved.

EXECUTIVE SUMMARY

Each year, the Treasurer of the municipality must prepare and present the audited financial statements to Council for approval as prescribed by the *Municipal Act*. The financial statements, attached as Appendix "B" to report FCS12042, present the consolidated statement of the financial position of the municipality as at December 31, 2011, the consolidated statement of operations for the year ended December 31, 2011, the consolidated statement of changes in net financial assets and consolidated statement of cash flow.

Grant Thornton, LLP, Chartered Accountants, the City's external auditors, performed the statutory audit function and expressed an opinion, free of any qualifications, that these financial statements present fairly, in all material respects, the financial position of the City of Hamilton as at December 31, 2011. In addition, the external auditors, Grant Thornton Chartered Accountants LLP, will be presenting their report titled "Communication of Audit Results for the year ended December 31, 2011" to the Audit, Finance and Administration Committee. Grant Thornton's report provides the status of the audit, a summary of adjustments for non-trivial differences in financial statement categories, sensitive accounting estimates and updates to technical accounting and auditing standards. Appendix "C" of the report from Grant Thornton (attached as Appendix "C" to Report FCS11048) indicates that there were no findings of significant internal control deficiencies during the 2011 audit.

The financial statements have been prepared by staff in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants ("CICA"). Full accrual accounting was implemented with the changes to the CICA Public Sector Accounting Handbook sections PS1200 Financial Statement Presentation and PS3150 Tangible Capital Assets effective January 1, 2009. The changes were illustrated with the presentation of the 2009 Consolidated Financial Statements (FCS10042) to this Committee in June 2010. The most significant change is the reporting of tangible capital assets in the consolidated financial statements.

Appendix "A" to report FCS12042 provides an overview of management's analysis of the 2011 Consolidated Financial Statements for the City of Hamilton.

The 2011 Financial Report (Appendix "B" to report FCS12042) contains the following financial information:

- City of Hamilton 5 Year Financial and Statistical Review (unaudited)
- City of Hamilton Consolidated Financial Statements
- City of Hamilton Trust Fund Financial Statements (Cemetery, Library and General Trust Funds)
- City of Hamilton Homes for the Aged Trust Fund Financial Statements

Financial statements for the Hamilton Public Library Board, Hamilton Entertainment and Convention Facilities Inc. ("HECFI"), the City's Housing Corporation and Business Improvement Areas are presented to their respective boards or oversight bodies.

Alternatives for Consideration –Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: Appendix “A” to report FCS12042 provides an overview of management’s analysis of the 2011 Consolidated Financial Statements for the City of Hamilton.

Staffing: There are no associated staffing implications.

Legal: There are no associated legal implications

HISTORICAL BACKGROUND (Chronology of events)

The Consolidated Financial Statements of the City of Hamilton (“City”) are prepared by management in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (“PSAB”) of the Canadian Institute of Chartered Accountants.

Effective January 1, 2007, the City of Hamilton adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants (“CICA”) with respect to the disclosure of tangible capital assets of local governments. During 2008, the City of Hamilton continued to work towards compliance with the recommendations for accounting for tangible capital assets.

Effective January 1, 2009, the City adopted CICA Public Sector Accounting Handbook section PS1200 Financial Statement Presentation and section PS3150 Tangible Capital Assets. As a result of the changes to full accrual accounting the City began to record tangible capital assets in the 2009 consolidated financial statements. Other changes include standardization of the presentation of financial assets, liabilities, non-financial assets and accumulated surplus in the financial statements of governments. Expenses replace expenditures in the statement of operations in the full accrual accounting approach. Expenditures were outlays of assets to purchase goods and services. Expenses represent the consumption of assets to provide goods, services and intangibles. Expenses include the amortization of tangible capital assets over the useful life of the assets, the change in liabilities for post employment, retirement and pension benefits and the change in liabilities for solid waste landfill closure and post closure care costs. The operating and capital budgets continue to be reported on modified accrual basis of accounting. In addition to the accrual of the usual operating revenues and expenses, the operating and capital budgets include expenditures for principal payments on debt, payments of retiree benefits and payments of landfill costs and revenues from the proceeds from the issuance of debentures or loans.

POLICY IMPLICATIONS

N/A.

RELEVANT CONSULTATION

Grant Thornton, Chartered Accountants, our external auditors.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Each year, the Treasurer of the municipality must prepare and present the audited financial statements to Council for approval as prescribed by the *Municipal Act*. The 2011 City of Hamilton Financial Report and Audited Financial Statements are included as Appendix "B" to report FCS12042.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

N/A.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- ◆ Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner

APPENDICES / SCHEDULES

Appendix "A" to report FCS12042: Management's Analysis - 2011 City of Hamilton Consolidated Financial Statements

Appendix "B" to report FCS12042: 2011 City of Hamilton Financial Report

Appendix "C" to Report FCS12042: Grant Thornton's Report to the Audit, Finance & Administration Committee – Communication of Audit Results

**City of Hamilton
2011 Consolidated Financial Statements
Analysis – May 2012**

General

The City of Hamilton's 2011 consolidated financial statements have been prepared by management and staff of the City of Hamilton in accordance with Canadian generally accepted accounting principles ("GAAP") for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

These financial statements, Appendix "B" to Report FCS12042, incorporate the changes to municipal financial reporting to the full accrual basis of accounting under the CICA Public Sector Accounting Handbook sections PS1200 Financial Statement Presentation and PS3150 Tangible Capital Assets made effective on January 1, 2009. These changes were first incorporated in the City's 2009 Consolidated Financial Statements.

As a result of the changes the City has recorded tangible capital assets with prior year comparative information along with expenses and revenues related to tangible capital assets. Other changes include standardization of the presentation of financial assets, liabilities, non-financial assets and accumulated surplus in the financial statements of governments. Expenses replace expenditures in the statement of operations in the full accrual accounting approach. Expenditures were outlays of assets to purchase good and services. Expenses represent the consumption of assets to provide goods, services and intangibles. Expenses include the amortization of tangible capital assets over the useful life of the assets, the change in liabilities for post employment, retirement and pension benefits and the change in liabilities for solid waste landfill closure and post closure care costs. The operating and capital budgets continue to be prepared on the modified accrual basis of accounting with expenditures for principal payments on debt, payments of retiree benefits and payments of landfill costs and revenues from the proceeds from the issuance of debt.

The consolidated financial statements report the financial transactions and estimates made by management during 2011.

The consolidated financial statements report the City's municipal operations including all departments, Hamilton Police Services, HECFI, Library, Housing, Tourism Hamilton, Business Improvement Areas and government business enterprises (Hamilton Utilities Corporation and Hamilton Renewable Power Inc.).

The restatement of comparative figures has been made in these 2011 statements, as required by Canadian GAAP.

The Consolidated Financial Statements consist of

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations
- Consolidated Statement of Changes in Financial Position
- Consolidated Statement of Net Financial Assets
- Notes to the Consolidated Financial Statements

**2011 City of Hamilton Consolidated Financial Statements
Analysis**

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position consists of financial assets, liabilities, non-financial assets and accumulated surplus.

Financial Assets

The City's total financial asset position decreased in 2011 by \$6.8 million to \$1.249 billion and is reported in the consolidated financial statements as:

	<u>2011</u> \$000's	<u>2010</u> \$000's
Financial Assets		
Cash and cash equivalents	\$ 72,932	\$ 147,837
Taxes receivable	75,943	71,937
Accounts receivable	129,495	110,638
Other assets	665	715
Long term receivables	29,991	24,922
Portfolio investments	738,711	710,181
Investment in Government Business Enterprises	<u>200,866</u>	<u>189,205</u>
Total financial assets	<u>\$ 1,248,603</u>	<u>\$ 1,255,435</u>

Cash and cash equivalents \$ 72.9M (2011) \$147.8M (2010)

The total represents the balance in City's bank accounts, deposits held and housing short term investments. The bank accounts include the City's operating bank, accounts payable bank, payroll bank, Ontario Works bank, HECFI bank and CityHousing Hamilton bank. The balance decreased in 2011 from 2010 as less money was held in the bank at year end.

Taxes Receivable \$75.9M (2011) \$71.9M (2010)

Taxes receivable represent unpaid property tax bills net of estimates for allowances for uncollectible accounts. Taxes Receivable represent 8.7% of current years tax levies (2010 – 8.4%). The increase results from an increase in amounts billed, delayed payments, write-off of many accounts along with an increase in the allowance for doubtful accounts.

Accounts Receivable \$129.5M (2011) \$110.6M (2010)

Accounts receivable represents revenues earned by the City but not paid at year end net of estimates of allowances for uncollectible accounts. The 2011 balance primarily consists of water and wastewater receivables (\$36M), general receivables & accruals (\$28M), provincial and federal grants receivable (\$43M), HST receivables (\$17M) and interest receivable (\$4.5M).

**2011 City of Hamilton Consolidated Financial Statements
Analysis**

Long Term Receivables \$30.0M (2011) \$24.9M (2010)

Long Term Receivables represent the balance of loans and deferral agreements with agencies and organizations net of the provision for loans with concessionary terms. The long term receivables include:

	<u>2011</u> \$000's	<u>2010</u> \$000's
Development charge deferral agreements	\$ 11,375	\$ 8,364
Mortgages receivable:		
Downtown loan program	6,306	3,927
Hamilton Renewable Power Inc.	4,677	5,120
Sheraton Hotel loan	1,451	1,521
Other City loan programs	1,131	1,025
 Loans to other agencies and organizations	 9,094	 8,082
 Less: Provision for loans with concessionary terms	 <u>(4,043)</u>	 <u>(3,117)</u>
	\$ 29,991	\$ 24,922

Portfolio investments \$738.7M (2011) \$710.2M (2010)

Portfolio investments represent the City's holdings, as prescribed by the Municipal Act, in short and long term fixed income securities. The investments earn various interest rates with different premiums, discounts and maturities. Portfolio investments have a market value of \$752.8 million. The increase in investments is primarily the result of increases in funds invested for obligatory reserve funds (i.e. Pan Am Games, Gas Taxes), a decrease in fund held in the bank and acquisitions and construction of tangible capital assets during 2011.

Investment in Government Business Enterprises \$200.9M (2011) \$189.2M (2010)

Investment in Government Business Enterprises represents net equity of the consolidation of the City's subsidiary corporations, Hamilton Utilities Corp. ("H.U.C.") and Hamilton Renewable Power Inc. ("H.R.P.I."). The consolidation of subsidiary corporations under the modified equity basis of accounting is required by the generally accepted accounting principles of the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. This PSAB recommendation was instituted in 2000 and also affects the reporting of the Accumulated surplus and Net municipal position in the consolidated financial statements. The increase in the investment in the government business enterprises is reported as net income of \$11.7 million (2010 - \$3,350,000) in the Consolidated Statement of Operations. The net income excludes the dividend income received during 2011 of \$7.3 million from H.U.C. and \$736,000 from H.R.P.I.

**2011 City of Hamilton Consolidated Financial Statements
Analysis**

Development Charge and Special Area Reserve Funds decreased in 2011 with \$41.8 million in collections with transfers to finance capital projects of \$72.5 million and transfers to operating of \$8.3 million. During 2011 the City received federal gas tax revenue of \$31 million and provincial gas tax revenue of \$10.9 million. Federal Gas Tax was allocated to capital upgrades to roads and bridges for \$17.2 million. The provincial gas tax was allocated to transit buses (\$.1M), transit related projects (\$1.7M) and transit operating budget (\$5.6 M). During 2011 the City received parkland dedication fees of \$4.1million and \$4.4million was allocated to capital projects for future development of city parks. Approximately \$2.3 million of the surplus building permit revenue in 2011 was transferred to the building permit revenue reserve fund. A new reserve fund was established when the City received \$20M from the Province in 2011 for the reconstruction of Ivor Wynne Stadium for the 2015 Pan Am Games. This reserve fund grew with investment income to \$20.3 M at year end.

Long Term Liabilities – Municipal Operations \$269.4M (2011) \$307.8M (2010)

Long Term Liabilities – Municipal Operations represents the outstanding principal for long term debt issued to finance capital expenditures and obligations for leased tangible capital assets. In 2011 the City made principal repayments on long term debt of \$44.0 million (2010 - \$26.6M) and principal repayments on leased tangible capital assets of \$950,000 (2010 - \$680,000). No new debt was issued in 2011 for capital projects (2010 - \$27.6M).

Long Term Liabilities – Housing Operations \$84.9M (2011) \$89.2M (2010)

Long Term Liabilities – Housing Operations represents the outstanding principal for mortgages obtained to finance certain housing capital expenditures and asset purchases. In 2011 CityHousing Hamilton made principal repayments on long term debt of \$4.3 million (2010 - \$4.1M). No additional mortgages were issued in 2011 or 2010 to finance the acquisition of new property and buildings.

Housing debenture debt issued by the Ontario Housing Corporation remains the obligation of the Province of Ontario as a result debenture debt of \$34.7 million (2010 - \$37.7M) is not reported in the consolidated financial statements.

Employee Future Benefits and Other Obligations \$289.0M (2011) \$273.0M (2010)

These estimates represent the liabilities associated with employee post employment, retirement and pension benefits. The generally accepted accounting principles recognize the liabilities in the year in which the employees provide the services associated with the benefits.

The 2011 estimates are provided by independent actuaries from actuarial valuations performed for 2011 or performed for earlier years and extrapolated for 2011. The estimates use assumptions for inflationary increases of 2% to 2.5% annually, a discount rate of 4% to 4.5%, payroll increases of 3% to 4% and increases in pension plan assets of 5.5%. Projections for retirement benefits assume that medical costs will increase by 6.0% in 2012 with future annual increases grading down linearly by 0.5% to an ultimate rate of 3.5% and dental costs will increase by 3.5% annually. These liabilities are not reported net of any reserves already setup on the balance sheet in the Statement of Financial Position.

**2011 City of Hamilton Consolidated Financial Statements
Analysis**

Expenses for the post-closure care of the open landfill site are estimated for 25 years after the site is closed in 2036 to 2061. The City spent \$2.3 million on the capital projects and support related to this liability in 2011. The City's expenses related to spending on capital projects and the change in the estimated liability are reflected in the Statement of Operations.

Waste diversion rates, waste initiatives such as the green cart program and composting, new waste technologies and ongoing assessments of the closed sites impact the landfill liabilities. The City's waste diversion rate for 2011 and 2010 was 43%.

Provisions have been made in a reserve of \$660,000 to fund a portion of this liability. There is no PSAB requirement to fund the liability at this time.

Non-Financial Assets

The City's total non-financial assets position increased in 2011 by \$261.3 million to \$4.468 billion and is reported in the consolidated financial statements as:

	<u>2011</u> \$000's	<u>2010</u> \$000's
Non-Financial Assets		
Tangible capital assets	\$ 4,445,630	\$ 4,184,993
Inventories	9,141	9,539
Prepaid expenses	<u>13,257</u>	<u>12,241</u>
	\$ 4,468,028	\$ 4,206,773

Tangible Capital Assets ("TCAs") \$4.4B (2011) \$4.2B (2010)

The City's general and infrastructure tangible capital assets include land, land improvements, buildings (general), vehicles, computer, other machinery and equipment, roads, bridges and structures, water and wastewater plants and facilities and underground infrastructure networks. The net book value represents the cost of the tangible capital assets less accumulated amortization over the life of the asset. The TCA total includes amounts spent to the end of the year on tangible capital assets under construction.

The City implemented a change in the capitalization policies in 2011 whereby components of buildings are recorded as tangible capital assets rather than recorded as operating expenses. Amounts for prior years have been restated to comply with PSAB's generally accepted accounting principles.

**2011 City of Hamilton Consolidated Financial Statements
Analysis**

A summary of the **tangible capital assets** valued as at December 31, 2011 include:

	<u>2011</u> \$000's	<u>2010</u> \$000's
General		
Land	\$ 235,428	\$ 218,869
Land improvements	113,353	110,475
Buildings	473,450	399,349
Vehicles	118,843	129,356
Computer hardware and software	4,335	5,008
Other	66,925	63,075
Infrastructure		
Roads	1,196,811	1,212,293
Bridges and structures	171,716	159,286
Water and wastewater facilities	215,272	160,327
Underground and other networks	<u>1,508,056</u>	<u>1,443,408</u>
Net Book Value	\$ 4,104,189	\$ 3,901,446
Assets under construction	<u>341,441</u>	<u>283,547</u>
Total	\$ 4,445,630	\$ 4,184,993

The Schedule of Tangible Capital Assets in the Consolidated Financial Statements contains additional information on these non-financial assets. The replacement cost of assets valued as at December 31, 2011 is estimated at \$16.0 billion.

Inventories	\$ 9.1M (2011)	\$9.5M (2010)
Prepaid expenses	\$13.3M (2011)	\$12.2M (2010)

Two other categories of non-financial assets are inventories of goods for use in the delivery of services in 2012 and prepaid expenses for purchases made in 2011 for expenses to be accrued in 2012.

**2011 City of Hamilton Consolidated Financial Statements
Analysis**

Accumulated Surplus \$4.660B (2011) \$4.401B (2010)
Net Municipal Financial Position

The City's accumulated surplus represents the net municipal financial position in PSAB's financial statement presentation requirements for 2011. The balance is comprised of the following:

	<u>2011</u> \$000's	<u>2010</u> \$000's
Accumulated surplus (Net municipal financial position)		
Operating surplus of BIA and Flamborough Recreation sub-committees	\$ 596	\$ 473
Operating surplus – housing	527	478
Capital surplus – municipal	(249)	85,294
Capital surplus – housing	20,107	22,542
Reserves and Reserve Funds	656,569	603,203
Unfunded liabilities – Employee benefits	(269,461)	(253,988)
Unfunded liabilities – Landfill sites	(33,357)	(26,611)
Investment in Government Business Enterprises	200,866	189,205
Investment in tangible capital assets	<u>4,084,246</u>	<u>3,780,753</u>
Total accumulated surplus	\$ 4,659,844	\$ 4,401,452

Consolidated Statement of Operations

The Consolidated Statement of Operations represents the revenue and expenses under the new PSAB format introduced in 2009. The budget and actual revenues and expenses reported in the Consolidated Statement of Operations will not match amounts reported to Council for a number of reasons. The consolidated financial statements include revenues from donated capital assets, expenses from the amortization of tangible capital assets and change in unfunded liabilities which are not included in the budget. Proceeds from the issuance of long term debt that are included as a source of funding in the capital budget and debt principal repayments that are included as expenditures in the operating budget are not reported in the consolidated statement of operations.

These financial statements reflect the transfers to reserves of the City's municipal tax and rate operating budget surplus of \$15.0 million as reported in report FCS12031.

The annual surplus in the Consolidated Statement of Operations of \$258.4 million represents the excess of revenue over expenses for 2011 under PSAB's full accrual basis of accounting and, therefore, is a different surplus than the operating budget surplus reported to Council.

**2011 City of Hamilton Consolidated Financial Statements
Analysis**

Revenue increased by \$22.5 million to \$1.710 billion in 2011 from \$1.688 billion in 2010 and is reported in the Consolidated Statement of Operations as:

	Budget <u>2011</u> (\$000's unaudited)	Actual <u>2011</u> \$000's	Actual <u>2010</u> \$000's
Revenue			
Taxation	\$ 717,095	\$ 720,324	\$ 700,257
Government grants and contributions	400,191	427,098	520,896
User charges	261,725	278,551	265,116
Development charges and subdivider contributions	57,846	71,270	16,378
Donated tangible capital assets	41,000	57,332	41,193
Investment and dividend income	26,291	46,933	48,627
Net income from Government Business Enterprises	-	11,661	3,350
Other	<u>93,120</u>	<u>96,843</u>	<u>91,722</u>
Total revenue	<u>1,597,268</u>	<u>1,710,012</u>	<u>1,687,539</u>

The increase in taxation revenue includes the 2011 Operating Budget property tax increase of 0.8%.

Government grants and contributions decreased by \$93.8 million in 2011 from 2010. Significant government grants and contributions for operating budget programs and capital projects include:

	<u>2011</u> \$ millions	<u>2010</u> \$ millions
Ontario Works	126.4	125.0
Child Care	38.1	37.7
Social Housing	37.1	48.4
Public Health Services	30.3	28.9
Federal Gas Tax	17.0	24.0
Homes for the Aged	18.4	18.0
Emergency Medical Services - Ambulance	16.9	15.8
Homelessness	8.3	8.6
Ontario Municipal Partnership Fund (OMPF)	8.2	14.7
Provincial Gas Tax	6.9	10.7
General Support Grant	-	14.2
Infrastructure Stimulus Fund (ISF) & RINC	77.3	48.2
Wastewater Treatment Infrastructure	-	100.0
Canada Ontario Infrastructure Program (COIP)	1.8	0.3
Other capital grants	22.3	10.8
Other operating program grants	18.2	15.6

User charges of \$278.6 million are primarily earned in water and wastewater programs and transit fares and fees in Environmental Services of \$169.0 million (\$160.3 million in 2010) and Transportation Services of \$53.0 million (\$53.0 million in 2010) respectively. Other user fees are recorded in Recreation & Cultural Services of \$16.6 million (\$15.5 million in 2010), Social

**2011 City of Hamilton Consolidated Financial Statements
Analysis**

and Family Services of \$12.4 million (\$12.1 million in 2010), Planning and Development of \$9.5 million (\$9.2 million in 2010) and Protection Services of \$7.1 million (\$7.0 million in 2010).

Development charges and subdividers contributions of \$71.3 million was recognized as revenue in 2011 while unearned revenue is recorded as deferred revenue of the Statement of Financial Position.

Donated tangible capital assets of \$57.3 million represent assets that were donated or contributed to the City by developers as required by the PSAB accounting standards.

Investment and dividend income consists of dividend income received in 2011 from Hamilton Utilities Corp. of \$8.0 million (\$8.5 million in 2010) and investment income of \$38.9 million from City municipal and housing operations from fixed income securities, bank balances and deposits.

Net income from Government Business Enterprises represents net income of \$11,661,000 from HUC and HRPI for 2011 (\$3,350,000 in 2010). Other Revenue of \$96.8 million represents revenue from licenses and permits of \$13.5 million (\$13.1 million in 2010), rents of \$46.5 million (\$45.3 million in 2010), fines and penalties of \$24.3 million (\$24.5 million in 2010) and miscellaneous revenue of \$12.5 million (\$8.8 million in 2010).

Expenses increased by \$34.8 million to \$1.452 billion in 2011 from \$1.417 billion in 2010 and are reported in the Consolidated Statement of Operations as:

	Budget <u>2011</u> (\$000's unaudited)	Actual <u>2011</u> \$000's	Actual <u>2010</u> \$000's
Expenses			
General government	65,467	69,535	69,028
Protection services	244,821	259,867	243,421
Transportation services	272,872	282,336	267,921
Environmental services	177,342	194,973	171,122
Health services	80,765	79,593	77,118
Social and family services	272,230	276,048	294,794
Social housing	128,388	117,027	116,178
Recreation and cultural services	131,118	134,542	138,777
Planning and development	<u>38,282</u>	<u>37,699</u>	<u>38,416</u>
Total expenses	<u>1,411,285</u>	<u>1,451,620</u>	<u>1,416,775</u>

Expenses are summarized by the functional categories above in the Statement of Operations and by object of expenses in the Schedule of Operations for Business Segments in the Notes to the Consolidated Financial Statements. Expenses include salaries and benefits, interest on long term debt, material and supplies, contracted services, rents and financial expenses, external transfers, amortization of tangible capital assets and interfunctional transfers. Expenses include expenses in the operating budget programs and expenses from specific projects in the capital budget that are not tangible capital assets. Expenses exclude principal repayments on long term debt recorded as reductions of long term debt and capital expenditures recorded as acquisitions and construction of tangible capital assets.

**2011 City of Hamilton Consolidated Financial Statements
Analysis**

The primary drivers for the increase in expenses of \$34.8 million are:

Salaries and benefits for Protection services:	\$ 13.2M	increase
Materials and supplies for Transportation services	16.5M	increase
Materials and supplies for Environmental services	18.0M	increase
Materials and supplies for Social housing	11.5M	increase
Contracted services for Social housing	(6.3M)	decrease
Contracted services for Recreation and cultural services	(6.0M)	decrease
External transfers for Social and family services	(20.3M)	decrease
External transfers for Social housing	(8.8M)	decrease

Expenses are summarized in the following categories as:

	<u>2011</u> \$ millions	<u>2010</u> \$ millions
Salaries and benefits	\$ 625.4	\$ 606.8
Interest on long term debt	16.8	17.9
Materials and supplies	234.1	182.6
Contracted services	180.9	197.2
Rents and financial expenses	25.9	19.3
External transfers	199.2	227.3
Amortization of tangible capital assets	169.3	165.7
Interfunctional transfers	<u>\$ -</u>	<u>\$ -</u>
Total	\$1,451.6	\$1,416.8



Hamilton

FINANCIAL REPORT

2011

**City of Hamilton
71 Main Street West
Hamilton, Ontario
L8P 4Y5**

City of Hamilton Financial Report 2011

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Section 1

City of Hamilton Five Year Financial and Statistical Review 2011

City of Hamilton

Five Year Financial and Statistical Review (unaudited)

(All amounts are reported in thousands of dollars except statistical information, ratios and per capita figures)

	2011	2010	2009	2008	2007
Operating Revenue					
Taxation	\$ 720,324	\$ 700,257	\$ 675,606	\$ 652,690	\$ 621,372
Government grants and contributions	427,098	520,896	376,283	439,005	286,356
User charges	278,551	265,116	254,358	249,152	239,888
Development charges and subdivider contributions	46,933	16,378	23,286	27,987	382
Donated tangible capital assets	57,332	41,193	43,645	46,687	-
Investment and dividend income	71,270	48,627	51,600	50,990	11,243
Net income (loss) from Government Business Enterprises	11,661	3,350	241	(2,834)	7,684
Other	96,843	91,722	87,446	93,413	101,032
	<u>1,710,012</u>	<u>1,687,539</u>	<u>1,512,465</u>	<u>1,557,090</u>	<u>1,267,957</u>
Operating Expenses by Function					
General government	\$ 69,535	\$ 69,028	\$ 71,132	\$ 75,869	\$ 67,217
Protection services	259,867	243,421	235,325	225,608	205,703
Transportation services	282,336	267,921	330,170	290,701	165,260
Environmental services	194,973	171,122	165,823	167,454	112,337
Health services	79,593	77,118	74,437	68,970	60,085
Social and family services	276,048	294,794	301,016	260,919	264,622
Social housing	117,027	116,178	106,786	104,678	82,619
Recreation and cultural services	134,542	138,777	133,403	129,822	102,783
Planning and development	37,699	38,416	40,605	36,836	29,865
	<u>1,451,620</u>	<u>1,416,775</u>	<u>1,458,697</u>	<u>1,360,857</u>	<u>1,090,491</u>
Net Operating Revenue or Annual Surplus from Operations	<u>258,392</u>	<u>270,764</u>	<u>53,768</u>	<u>196,233</u>	<u>177,466</u>

Note: Amounts reported may have been restated from previous amounts presented to conform to 2011 Public Sector Accounting Board (PSAB) standards and generally accepted accounting principles for local governments in Canada.

City of Hamilton Five Year Financial and Statistical Review (unaudited)

(All amounts are reported in thousands of dollars except statistical information, ratios and per capita figures)

	2011	2010	2009	2008	2007
Taxation					
Taxation from real property	\$ 893,209	\$ 871,170	\$ 843,029	\$ 819,725	\$ 786,784
Taxation from other governments/payments in lieu of taxes	15,267	14,835	14,553	12,173	11,492
Taxation collected on behalf of school boards	(188,152)	(185,748)	(181,976)	(179,208)	(176,904)
Net taxes available for municipal purposes	<u>720,324</u>	<u>700,257</u>	<u>675,606</u>	<u>652,690</u>	<u>621,372</u>
Tax Levies					
City portion	\$ 692,391	\$ 673,013	\$ 649,061	\$ 630,065	\$ 601,620
School Board portion	<u>185,066</u>	<u>181,510</u>	<u>177,969</u>	<u>175,978</u>	<u>174,048</u>
	877,457	854,523	827,030	806,043	775,668
Tax arrears					
Taxes receivable	\$ 75,943	\$ 71,937	\$ 69,028	\$ 58,818	\$ 56,518
Taxes receivable per capita	143	136	131	113	109
Taxes receivable as a percentage of current years' levies	8.7%	8.4%	8.3%	7.3%	7.3%
Unweighted Taxable Assessment					
Residential	\$ 41,781,277	\$ 39,268,260	\$ 36,842,873	\$ 34,259,519	\$ 33,808,610
Non-Residential	<u>6,277,837</u>	<u>5,760,437</u>	<u>5,263,578</u>	<u>4,930,035</u>	<u>4,880,139</u>
	48,059,114	45,028,697	42,106,451	39,189,554	38,688,749
Weighted Taxable Assessment					
Residential	\$ 45,123,128	\$ 42,509,064	\$ 39,960,408	\$ 37,243,442	\$ 36,799,388
Non-Residential	<u>13,912,554</u>	<u>12,828,948</u>	<u>11,841,894</u>	<u>11,248,116</u>	<u>11,485,684</u>
	59,035,682	55,338,012	51,802,302	48,491,558	48,285,072
Residential vs Non-Residential Percentage of Total Weighted Taxable Assessment					
Residential	76%	77%	77%	77%	76%
Non-Residential	24%	23%	23%	23%	24%
Taxable Assessment Growth (weighted)					
	1.1%	1.3%	1.3%	1.0%	0.8%

Note: Amounts reported may have been restated from previous amounts presented to conform to 2011 Public Sector Accounting Board (PSAB) standards and generally accepted accounting principles for local governments in Canada.

City of Hamilton

Five Year Financial and Statistical Review (unaudited)

(All amounts are reported in thousands of dollars except statistical information, ratios and per capita figures)

	2011	2010	2009	2008	2007
Operating Expenses by Object					
Salaries, wages and employee benefits	\$ 625,386	\$ 606,815	\$ 643,407	\$ 574,360	\$ 532,177
Interest on long term liabilities	16,815	17,871	18,395	18,157	17,226
Materials	234,099	182,656	209,388	213,686	200,105
Contracted services	180,943	197,194	191,500	199,467	137,544
Rents and financial expenses	25,869	19,289	15,467	17,287	15,280
External transfers	199,187	227,269	223,363	188,557	188,159
Amortization of tangible capital assets	169,321	165,681	157,177	149,343	-
	<u>1,451,620</u>	<u>1,416,775</u>	<u>1,458,697</u>	<u>1,360,857</u>	<u>1,090,491</u>
Operating Expenses as Percentage of Total					
Salaries, wages and employee benefits	43.0%	42.8%	44.1%	42.1%	48.8%
Interest on long term liabilities	1.2%	1.3%	1.3%	1.3%	1.6%
Materials	16.1%	12.9%	14.4%	15.7%	18.3%
Contracted services	12.5%	13.9%	13.1%	14.7%	12.6%
Rents and financial expenses	1.8%	1.4%	1.1%	1.3%	1.4%
External transfers	13.7%	16.0%	15.2%	13.9%	17.3%
Amortization of tangible capital assets	11.7%	11.7%	10.8%	11.0%	0.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Long Term Liabilities					
Long Term Liabilities incurred by the City	\$ 368,683	\$ 420,352	\$ 427,358	\$ 408,358	\$ 416,006
Long Term Debt incurred by the City for which other entities have assumed responsibility	(14,336)	(23,371)	(26,494)	(29,433)	(32,200)
	<u>354,347</u>	<u>396,981</u>	<u>400,864</u>	<u>378,925</u>	<u>383,806</u>
Long Term Liabilities					
Housing operations	\$ 84,908	\$ 89,195	\$ 93,279	\$ 74,168	\$ 76,695
City operations	269,439	307,786	307,585	304,757	307,111
	<u>354,347</u>	<u>396,981</u>	<u>400,864</u>	<u>378,925</u>	<u>383,806</u>
Long term liabilities as a % of Reserves and Capital Surplus	52.40%	55.80%	58.10%	48.80%	62.60%

Note: Amounts reported may have been restated from previous amounts presented to conform to 2011 Public Sector Accounting Board (PSAB) standards and generally accepted accounting principles for local governments in Canada.

City of Hamilton

Five Year Financial and Statistical Review (unaudited)

(All amounts are reported in thousands of dollars except statistical information, ratios and per capita figures)

	2011	2010	2009	2008	2007
Tangible Capital Assets					
General					
Land	\$ 235,428	\$ 218,869	\$ 193,416	\$ 170,956	\$ 162,900
Land improvements	113,353	110,475	107,154	107,351	108,655
Buildings	473,450	399,349	307,949	269,534	240,855
Vehicles	118,843	129,356	127,272	107,787	98,167
Computer hardware and software	4,335	5,008	4,517	4,724	4,577
Other	66,925	63,075	59,891	51,752	42,342
Infrastructure					
Roads	1,196,811	1,212,293	1,244,287	1,268,814	1,279,560
Bridges and structures	171,716	159,286	160,890	162,798	161,029
Water and wastewater facilities	215,272	160,327	152,553	150,533	153,586
Underground and other networks	1,508,056	1,443,408	1,384,228	1,331,191	1,307,562
Net Book Value	4,104,189	3,901,446	3,742,157	3,625,440	3,559,233
Assets under construction	\$ 341,441	\$ 283,547	\$ 191,478	\$ 96,137	\$ 1,731
	4,445,630	4,184,993	3,933,635	3,721,577	3,560,964
Accumulated Surplus or Municipal Financial Position					
Reserves and reserve funds					
Reserves	\$ 583,063	\$ 530,213	\$ 410,630	\$ 437,672	\$ 318,017
Hamilton Future Fund	73,506	72,990	73,426	74,928	75,013
	656,569	603,203	484,056	512,600	393,030
Capital surplus	\$ 19,858	\$ 107,836	\$ 205,492	\$ 264,110	\$ 220,382
Operating surplus	1,123	1,054	806	1,038	2,877
Investment in Government Business Enterprises	200,866	189,205	185,810	185,569	188,403
Investment in tangible capital assets	4,084,246	3,780,753	3,492,082	3,296,172	3,256,855
Unfunded liabilities - Employee future benefits	(269,461)	(253,988)	(246,298)	(187,677)	(181,397)
Unfunded liabilities - Solid waste landfill sites	(33,357)	(26,611)	(26,952)	(30,584)	(35,155)
	4,659,844	4,401,452	4,094,996	4,041,228	3,844,995

Note: Amounts reported may have been restated from previous amounts presented to conform to 2011 Public Sector Accounting Board (PSAB) standards and generally accepted accounting principles for local governments in Canada.

City of Hamilton

Five Year Financial and Statistical Review (unaudited)

	2011	2010	2009	2008	2007
Statistical Information					
Population	531,057	528,502	525,697	519,109	518,181
Households	212,262	209,965	207,667	203,643	202,209
Area in hectares	112,775	112,775	112,775	112,775	111,700
Building Permit Values	\$ 731,019,287	\$ 1,096,299,091	\$ 637,968,543	\$ 818,462,450	\$ 801,719,348
Housing Starts	956	1,513	742	1,126	1,241
New Residential Units - Building Permits	3,373	5,137	3,008	2,809	2,737
Average Monthly Social Assistance Case Load	13,807	13,330	12,224	10,035	9,753
Continuous Full Time Employees	6,296	6,259	6,183	6,146	6,043

Note: Amounts reported may have been restated from previous amounts presented to conform to 2011 Public Sector Accounting Board (PSAB) standards and generally accepted accounting principles for local governments in Canada.

Section 2

City of Hamilton Consolidated Financial Statements 2011

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Independent Auditor's Report

<<NOTE: The Independent Auditor's Report will be inserted after the Financial Report is approved by the Audit, Finance and Administration Committee. >>

Independent Auditor's Report

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City of Hamilton

Consolidated Statement of Financial Position

As at December 31, 2011 (all numbers are in thousands of dollars)

	<u>2011</u>	<u>2010</u> (Note 1)
Financial Assets		
Cash and cash equivalents (Note 2)	\$ 72,932	\$ 147,837
Taxes receivable	75,943	71,937
Accounts receivable	129,495	110,638
Other assets	665	715
Long term receivables (Note 3)	29,991	24,922
Portfolio investments (Note 2)	738,711	710,181
Investment in Government Business Enterprises (Note 4)	<u>200,866</u>	<u>189,205</u>
Total financial assets	<u>\$ 1,248,603</u>	<u>\$ 1,255,435</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 226,916	\$ 224,935
Deferred revenue - general	27,705	25,330
Deferred revenue - obligatory reserve funds (Note 5)	125,469	113,913
Long term liabilities – Municipal Operations (Note 7)	269,439	307,786
Long term liabilities – Housing Corporations (Note 8)	84,908	89,195
Employee future benefits and other obligations (Note 9)	288,993	272,986
Solid waste landfill liabilities (Note 11)	<u>33,357</u>	<u>26,611</u>
Total liabilities	<u>1,056,787</u>	<u>1,060,756</u>
Net financial assets	<u>\$ 191,816</u>	<u>\$ 194,679</u>
Non-financial assets		
Tangible capital assets (Note 19)	\$ 4,445,630	4,184,993
Inventories	9,141	9,539
Prepaid expenses	<u>13,257</u>	<u>12,241</u>
Total non-financial assets	<u>4,468,028</u>	<u>4,206,773</u>
Accumulated surplus (Note 12)	<u>\$ 4,659,844</u>	<u>\$ 4,401,452</u>

Contractual obligations (Note 16)

Contingent liabilities (Note 18)

See accompanying notes to the consolidated financial statements

City of Hamilton

Consolidated Statement of Operations

For the year ended December 31, 2011 (all numbers are in thousands of dollars)

	Budget 2011 (unaudited) (Note 21)	Actual 2011	Actual 2010 (Note 1)
Revenue			
Taxation (Note 14)	\$ 717,095	\$ 720,324	\$ 700,257
Government grants and contributions	400,191	427,098	520,896
User charges	261,725	278,551	265,116
Development charges and subdivider contributions	57,846	71,270	16,378
Donated tangible capital assets	41,000	57,332	41,193
Investment and dividend income	26,291	46,933	48,627
Net income from Government Business Enterprises (Note 4)	-	11,661	3,350
Other	<u>93,120</u>	<u>96,843</u>	<u>91,722</u>
Total revenue	<u>1,597,268</u>	<u>1,710,012</u>	<u>1,687,539</u>
Expenses			
General government	65,467	69,535	69,028
Protection services	244,821	259,867	243,421
Transportation services	272,872	282,336	267,921
Environmental services	177,342	194,973	171,122
Health services	80,765	79,593	77,118
Social and family services	272,230	276,048	294,794
Social housing	128,388	117,027	116,178
Recreation and cultural services	131,118	134,542	138,777
Planning and development	<u>38,282</u>	<u>37,699</u>	<u>38,416</u>
Total expenses	<u>1,411,285</u>	<u>1,451,620</u>	<u>1,416,775</u>
Annual surplus	\$ 185,983	\$ 258,392	\$ 270,764
Accumulated surplus			
Beginning of year,			
As previously reported	-	-	\$ 4,094,996
Prior period adjustment	-	-	<u>35,692</u>
Accumulated surplus			
Beginning of year, as restated	<u>\$ 4,401,452</u>	<u>\$ 4,401,452</u>	<u>\$ 4,130,688</u>
End of year	<u>\$ 4,587,435</u>	<u>\$ 4,659,844</u>	<u>\$ 4,401,452</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Consolidated Statement of Changes in Net Financial Assets

For the year ended December 31, 2011 (all numbers are in thousands of dollars)

	Budget <u>2011</u> (unaudited) (Note 21)	Actual <u>2011</u>	Actual <u>2010</u> (Note 1)
Operating activities			
Annual surplus	\$ 185,983	\$ 258,392	\$ 270,764
Purchase of tangible capital assets	(438,624)	(385,394)	(380,317)
Proceeds from sale of tangible capital assets net of gains and losses	-	12,768	4,471
Amortization of tangible capital assets	166,000	169,321	165,681
Donated tangible capital assets	(41,000)	(57,332)	(41,193)
Decrease (increase) in inventories	-	398	(521)
(Increase) decrease in prepaid expenses	-	(1,016)	1,304
Net (decrease) increase in net financial assets	(127,641)	(2,863)	20,189
Net financial assets			
Beginning of year	<u>194,679</u>	<u>194,679</u>	<u>174,490</u>
End of year	<u>\$ 67,038</u>	<u>\$ 191,816</u>	<u>\$ 194,679</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Consolidated Statement of Cash Flow

For the year ended December 31, 2011 (all numbers are in thousands of dollars)

	<u>2011</u>	<u>2010</u> (Note 1)
Operating activities		
Annual surplus	\$ 258,392	\$ 270,764
Increase in taxes receivable	(4,006)	(2,909)
Increase in accounts receivable	(18,857)	(24,867)
Decrease (increase) in other assets	50	(11)
Increase in accounts payable and accrued liabilities	1,981	14,335
Increase (decrease) in deferred revenue - general	2,375	(1,907)
Increase in deferred revenue – obligatory reserve fund	11,556	47,338
Increase in employee future benefit obligations and other liabilities	16,007	10,815
Increase (decrease) in solid waste landfill liabilities	6,746	(341)
Decrease (increase) in inventories	398	(521)
(Increase) decrease in prepaid expenses	(1,016)	1,304
Non-cash activities		
Amortization of tangible capital assets	169,321	165,681
Donated tangible capital assets	<u>(57,332)</u>	<u>(41,193)</u>
	<u>385,615</u>	<u>438,488</u>
Investing activities		
(Increase) decrease in investments	(28,530)	39,982
Increase in investment in Government Business Enterprises	(11,661)	(3,350)
Increase in long term receivables	<u>(5,069)</u>	<u>(1,292)</u>
	<u>(45,260)</u>	<u>35,340</u>
Financing activities		
Long term debt issued – Municipal Operations	-	27,494
Long term liability – leased capital assets	6,635	-
Debt principal repayment – Municipal Operations	(44,031)	(26,612)
Lease obligation payment – Municipal Operations	(951)	(680)
Debt principal repayment – Housing Corporation	<u>(4,287)</u>	<u>(4,084)</u>
	<u>(42,634)</u>	<u>(3,882)</u>
Tangible capital assets		
Purchase of tangible capital assets	(385,394)	(380,317)
Proceeds from sale of tangible capital assets net of gains and losses	<u>12,768</u>	<u>4,471</u>
	<u>(372,626)</u>	<u>(375,846)</u>
Net increase in cash and cash equivalents	(74,905)	94,100
Cash and cash equivalents		
Beginning of year	<u>147,837</u>	<u>53,737</u>
End of year	<u>\$ 72,932</u>	<u>\$ 147,837</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

1. Significant accounting policies

The Consolidated Financial Statements of the City of Hamilton ("City") are prepared by management in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

The City has restated certain financial assets, liabilities, non-financial assets and accumulated surplus for 2010 as a result of changes to International Financial Reporting Standards for Government Business Enterprises, changes to accounting policies for tangible capital assets and various corrections. The City implemented a change in the capitalization policies whereby components of buildings are recorded as tangible capital assets rather than recorded as operating expenses. The effect of the changes is as follows:

	<u>2010</u>
Financial assets	
Accounts Receivable	
Previously reported	\$ 110,536
Prior period adjustment	<u>102</u>
Restated	<u>\$ 110,638</u>
Investment in Government Business Enterprises	
Previously reported	\$ 189,231
Prior period adjustment	<u>(26)</u>
Restated	<u>\$ 189,205</u>
Liabilities	
Accounts payable and accrued liabilities	
Previously reported	\$ 227,419
Prior period adjustment	<u>(2,484)</u>
Restated	<u>\$ 224,935</u>
Non-financial assets	
Tangible capital assets	
Previously reported	\$ 4,127,014
Prior period adjustment	<u>57,979</u>
Restated	<u>\$ 4,184,993</u>
Accumulated surplus	
Previously reported	\$ 4,340,913
Prior period adjustment	<u>60,539</u>
Restated	<u>\$ 4,401,452</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

1. Significant accounting policies (continued)

Significant accounting policies adopted by the City are as follows:

(a) Reporting entity

- (i) The consolidated financial statements reflect the assets, liabilities, revenues, expenses, changes in accumulated surplus, changes in net financial assets of the reporting entity. The consolidated financial statements include the activities of all committees of Council and the following boards and enterprises which are under the control of and accountable to Council:

- Hamilton Police Services Board
- Hamilton Tourism Inc.
- The Hamilton Entertainment and Convention Facilities Inc.
- The Hamilton Public Library Board
- The Hamilton Street Railway Company
- City Housing Hamilton Corporation
- Hamilton Business Improvement Areas including Ancaster BIA, Barton Street Village BIA, Concession Street BIA, Downtown Hamilton BIA, Dundas BIA, International Village BIA, King Street West BIA, Locke Street BIA, Main Street West Esplanade BIA, Downtown Stoney Creek BIA, Ottawa Street BIA, Waterdown BIA, and Westdale BIA
- Flamborough Recreation Sub-Committees

Interdepartmental and organizational transactions and balances are eliminated.

- (i) City Housing Hamilton Corporation was incorporated as Hamilton Housing Corporation on January 1, 2001 as a result of the provincial legislation, Social Housing Reform Act 2000, which transferred the operation of various local housing authorities to municipalities. The City of Hamilton assumed social housing responsibilities on December 1, 2001. The share capital of City Housing Hamilton Corporation is 100% owned by the City of Hamilton and a separate Board of Directors has been established to provide oversight responsibilities for the Corporation.

City Housing Hamilton Corporation has been consolidated on a line-by-line basis to conform with the City's accounting principles after eliminating inter-organizational transactions and balances.

Hamilton Utilities Corporation ("H.U.C.") and Hamilton Renewable Power Inc. ("H.R.P.I.") are subsidiary corporations of the City and are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises (Note 4). Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform to those of the City and inter-organizational transactions and balances are not eliminated.

City of Hamilton trust fund assets that are administered for the benefit of external parties are excluded from the consolidated financial statements. Separate financial statements have been prepared.

Cemetery trust, library trust and general trust funds administered by the City amounting to \$16,814,000 (2010 - \$16,395,000) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Operations. Homes for the Aged trust funds administered by the City amounting to \$635,000 (2010 - \$697,000) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Operations.

City of Hamilton**Notes to Consolidated Financial Statements**

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

1. (a) Reporting entity (continued)

- (ii) The financial activities of certain entities associated with the City of Hamilton are not consolidated. The City's contributions to these entities are recorded in the Consolidated Statement of Operations. The entities that are not consolidated are as follows:

- Hamilton Region Conservation Authority
- Disabled and Aged Regional Transit System
- The Hamilton Municipal Retirement Fund
- The Hamilton-Wentworth Retirement Fund
- The Pension Fund of the Employees of the Hamilton Street Railway
- The Hamilton and Scourge Foundation Inc.
- Township of Glanbrook Non-Profit Housing Corporation
- Child and Adolescent Services
- Drug and Alcohol Assessment
- Anonymous Testing
- Alcohol, Drug and Gaming Services-Problem Gambling
- Mental Health Promotion
- Remedial Measures
- Heart Health Program
- Prenatal Nutrition & Support
- Mental Health –Good Shepherd
- Injection Drug Use Outreach Program
- Young Offenders Assessment

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

(b) Basis of accounting

Revenues are recorded on the accrual basis of accounting, whereby revenues are recognized as they are earned and measurable. Expenditures are recognized in the period goods and services are acquired and a liability is incurred or transfers are due.

(c) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles for municipal governments and generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Where estimation uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

(d) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, cash held in financial institutions and temporary investments with maturities of 365 days or less.

City of Hamilton
Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

1. Significant accounting policies (continued)**(e) Portfolio investments**

Portfolio investments are comprised of fixed income securities primarily federal, provincial and municipal government bonds and federal government treasury bills. Portfolio investments are valued at the lower of cost and fair value.

(f) Deferred revenue – obligatory reserve funds

Receipts which are restricted by legislation of senior governments or by agreement with external parties are in nature restricted revenues and are reported as deferred revenues. When qualifying expenditures are incurred, deferred revenues are brought into revenue in the fiscal period they are expended.

(g) Employee future benefits and other obligations

Employee future benefits and other obligations for retirement, post employment and pension benefits are reported in the Consolidated Statement of Financial Position. The accrued benefit obligations are determined using management's best estimates of expected investment yields, wage and salary escalation, mortality rates, termination and retirement ages. The actuarial gain or loss is amortized over the expected average remaining life expectancy of the members of the employee groups.

(h) Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts directly attributable to acquisition, construction, development or betterment of the asset. Donated or contributed assets are capitalized and recorded at their estimated fair value upon acquisition. Leased tangible capital assets are valued at the present value of the future minimum lease payments. Certain tangible capital assets for which historical cost information is not available have been recorded at current replacement cost deflated by a relevant inflation factor.

Amortization for road linear assets is calculated on a consumption basis using road deterioration curves. All other tangible capital assets are amortized on a straight-line basis over their estimated useful lives. One half of the annual amortization is recorded as amortization expense in the year of acquisition or construction and in the year of disposal.

(i) Inventories

Inventories of goods held for resale and inventories of property held for resale are valued at the lower of cost and net realizable value. Inventories of property intended for resale are recorded as an expense if it is not reasonably expected that the sale will be completed within one year of the financial statement date.

(j) Government transfers

Government transfers are recognized in the financial statements as revenues in the period in which the 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.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

2. Cash and portfolio investments

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents are comprised of:		
Cash on hand	\$ 198	\$ 200
Cash held in banks	66,795	142,188
Temporary investments	<u>5,939</u>	<u>5,449</u>
	<u>\$ 72,932</u>	<u>\$ 147,837</u>
Portfolio investments are comprised of:		
Unrestricted investments	\$ 539,736	\$ 523,278
Restricted investments (obligatory reserve funds)	125,469	113,913
Designated investments (Hamilton Future Fund)	<u>73,506</u>	<u>72,990</u>
	<u>\$ 738,711</u>	<u>\$ 710,181</u>

Portfolio investments have a market value of \$752,789,000 (2010 - \$712,471,000) and include City debentures - unrestricted investments of \$16,795,000 (2010 - \$16,840,000).

Portfolio investments includes restructured third-party sponsored and bank sponsored asset backed commercial paper ("ABCP") of \$67,877,000 (2010 - \$67,879,000) with a carrying value of \$86,283,000 (2010 - \$86,276,000).

3. Long term receivables

The City has long-term receivables in the amount of \$29,991,000 (2010 - \$24,922,000). The long term receivables are comprised of:

	<u>2011</u>	<u>2010</u>
Development charge deferral agreements	\$ 11,375	\$ 8,364
Mortgages receivable:		
Downtown convert to rent program	6,306	3,927
Hamilton Renewable Power Inc.	4,677	5,120
Sheraton Hotel loan	1,451	1,521
Other City loan programs	1,131	1,025
Loans to other agencies and organizations	9,094	8,082
Less: Provision for loans with concessionary terms	(4,043)	(3,117)
	<u>\$ 29,991</u>	<u>\$ 24,922</u>

Development charge deferral agreements and mortgage receivables are loans which are secured by property, with interest rates varying from 0% to 6.75% and terms of one year to thirty years.

Loans to other agencies and organizations consist of loans to the Hamilton Conservation Authority, Canadian Football Hall of Fame, Wentworth Minor Football Association, Catholic Children's Aid Society, Winona Peach Festival, Redeemer University College and the Bob Kemp Hospice, with interest rates varying from 0% to 5.18% for terms of one year to thirty years.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

4. Investment in Government Business Enterprises

Hamilton Utilities Corporation and Hamilton Renewable Power Inc. are subsidiary corporations of the City and are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises.

In compliance with provincial legislation enacted to restructure the electrical industry in Ontario, the Hamilton Utilities Corporation ("H.U.C.") was incorporated on June 1, 2000. All of the assets and liabilities of the predecessor hydro-electric systems were transferred to H.U.C. During 2004 Hamilton Hydro Energy Inc. was established with the City's acceptance of a dividend in kind in the form of one common share from H.U.C. Effective June 1, 2005, the articles of incorporation reflected the amendment of a name change to Hamilton Renewable Power Inc. ("H.R.P.I.").

The amounts related to government business enterprises as reported in the Consolidated Statement of Operations for 2011 and 2010 is as reported by the Hamilton Utilities Corporation and Hamilton Renewable Power Inc.

	<u>2011</u>	<u>2010</u>
Net income (loss) from H.U.C.	\$ 11,887	\$ 3,790
Net (loss) income from H.R.P.I.	<u>(226)</u>	<u>(440)</u>
Net income from Government Business Enterprises	<u>\$ 11.661</u>	<u>\$ 3.350</u>

The City's investment in Government Business Enterprises is reported in the Consolidated Statement of Financial Position as:

	<u>2011</u>	<u>2010</u>
Investment in H.U.C.	\$ 200,991	\$ 189,104
Investment in H.R.P.I.	<u>(125)</u>	<u>101</u>
	<u>\$ 200.866</u>	<u>\$ 189.205</u>

City of Hamilton**Notes to Consolidated Financial Statements**

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

4. Investment in Government Business Enterprises (continued)

The following table provides condensed supplementary financial information for Hamilton Utilities Corporation reported by H.U.C. at December 31, 2011 and December 31, 2010 respectively.

	<u>2011</u>	<u>2010</u>
Financial position		
Current assets	\$ 142,216	\$ 133,176
Capital assets	350,543	340,887
Intangible assets	3,711	4,448
Goodwill	18,923	18,923
Future payments in lieu of taxes	<u>12,552</u>	<u>11,168</u>
Total assets	<u>527,945</u>	<u>508,602</u>
Current liabilities (including current portion of long term debt)	202,717	91,543
Long term liabilities	<u>83,362</u>	<u>189,228</u>
Total liabilities	286,079	280,771
Minority Interest	<u>40,875</u>	<u>38,727</u>
Net assets	<u>\$ 200,991</u>	<u>\$ 189,104</u>
Results of operations		
Revenues	\$ 114,267	\$ 104,503
Operating expenses	(80,152)	(77,032)
Financing expenses	(9,782)	(8,552)
Other income	<u>503</u>	<u>645</u>
Equity earnings from operations	24,836	19,564
Payment in lieu of taxes	(6,346)	(6,155)
Income from discontinued operations	4,937	362
Minority Interest	<u>(3,757)</u>	<u>(2,681)</u>
Net Income	19,670	11,090
Dividends paid	(7,300)	(7,300)
Refundable dividend tax on hand	<u>(483)</u>	<u>-</u>
	<u>\$ 11,887</u>	<u>\$ 3,790</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

4. Investment in Government Business Enterprises (continued)

The following table provides condensed supplementary financial information for Hamilton Renewable Power Inc. reported at December 31, 2011 and December 31, 2010 respectively.

	<u>2011</u>	<u>2010</u>
Financial position		
Current assets	\$ 1,429	\$ 1,706
Capital assets	10,227	10,832
Other assets	<u>32</u>	<u>32</u>
Total assets	<u>11,688</u>	<u>12,570</u>
Current liabilities (including current portion of long term debt)	1,274	1,464
Future payment in lieu of taxes	573	443
Long term debt	<u>3,966</u>	<u>4,562</u>
Total liabilities	5,813	6,469
Shareholder's equity	<u>6,000</u>	<u>6,000</u>
Net assets	<u>\$ (125)</u>	<u>\$ 101</u>
Results of operations		
Revenues	\$ 4,058	\$ 4,328
Expenses	(3,548)	(3,511)
Dividends paid	<u>(736)</u>	<u>(1,257)</u>
Net (loss) income	<u>\$ (226)</u>	<u>\$ (440)</u>

Hamilton Utilities Corporation's current portion of long term debt is comprised of senior unsecured debentures of \$104,761,000 bearing interest at 6.25%, due July 31, 2012.

Hamilton Utilities Corporation's long term liabilities includes long term debt of senior unsecured debentures of \$39,592,000 bearing interest at 4.77%, due July 21, 2020.

The notes to Hamilton Utilities Corporation's consolidated financial statements and Hamilton Renewable Power Inc.'s consolidated financial statements include commitments and contingencies that are disclosed in the City's notes to the consolidated financial statements as contractual obligations (Note 16) and contingent liabilities (Note 18).

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

4. Investment in Government Business Enterprises (continued)

The following summarizes the City's related party transactions with Hamilton Utilities Corporation and Hamilton Renewable Power Inc. for the year.

All transactions are in the normal course of operations, other than dividend revenue, and are recorded at the exchange value based on normal commercial rates, or as agreed to by the parties.

	<u>2011</u>	<u>2010</u>
Revenue		
Dividend revenue from H.U.C.	\$ 7,300	\$ 7,300
Property and other taxes received by the City from H.U.C.	516	504
Sale of Methane to H.R.P.I.	901	872
Expenditures		
Hydro purchased by the City from H.U.C.	31,085	22,231
Water and sewer billing contracted service with H.U.C.	3,798	3,628
Thermal and Electrical Energy purchased from H.U.C.	2,044	1,996
Thermal Energy purchased from H.R.P.I.	426	406
Assets		
Accounts receivable from H.U.C.	70	-
Water user charges receivable from H.U.C.	11,194	10,205
Accounts receivable from H.R.P.I.	336	536
Long term receivable from H.R.P.I.	4,677	5,120
Liabilities		
Accounts Payable – H.U.C.	441	272

5. Deferred revenue - obligatory reserve funds

	<u>2011</u>	<u>2010</u>
Development charge reserve funds (Note 6)	\$ 37,954	\$ 67,425
Subdivider contributions	50	49
Recreational land dedicated under the Planning Act	10,392	10,054
Gasoline tax revenue: Provincial	24,505	20,503
Federal	22,417	8,506
Building Permit Revenue	9,842	7,376
Pan Am Games	20,309	-
	<u>\$ 125,469</u>	<u>\$ 113,913</u>

6. Continuity of development charge reserve funds

	<u>2011</u>	<u>2010</u>
Balance at the beginning of the year	\$ 67,425	\$ 35,111
Development charge collections	41,800	48,694
Investment Income	1,328	1,031
Tangible capital assets acquisitions and construction	(72,533)	(15,431)
Operating expenses	(66)	(1,980)
Balance at the end of the year	<u>\$ 37,954</u>	<u>\$ 67,425</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

7. Long term liabilities – municipal operations

- (a) The long term liabilities – municipal operations consists of long term debt for serial debentures and loans that mature in the years 2012 to 2026 with interest rates varying between 2.15% and 6.75% and obligations for leased tangible capital assets with payments from 2012 to 2051 at a discount rate of 5%. Long term debt in the form of a loan of \$25,000,000 is callable if construction on eligible tangible capital assets is not 25% complete by March 31, 2012. The balance of long term liabilities consists of the following:

	<u>2011</u>	<u>2010</u>
Long term debt incurred by the City	\$ 274,704	\$ 327,770
Long term debt incurred by the City for which other entities have assumed responsibility	<u>(14,336)</u>	<u>(23,371)</u>
Net long term debt	\$ 260,368	\$ 304,399
Long term liabilities for leased tangible capital assets incurred by the City	<u>\$ 9,071</u>	<u>\$ 3,387</u>
Net long term liabilities	<u>\$ 269,439</u>	<u>\$ 307,786</u>

- (b) In addition to long term liabilities incurred for City purposes, the City assumed the responsibility for the charges on long term debt originally incurred by local municipalities with respect to functions which are now a City responsibility.

The City also incurs long term debt on behalf of school boards and other non-consolidated boards. The responsibility for raising the amounts required to service this debt lies with these respective bodies. The City is contingently liable for the long term debt with respect to the tile drainage and shoreline property assistance loans for debentures for which the responsibility for repayment of principal and interest has been assumed by school boards and non-consolidated boards. The total amount of this contingent liability outstanding at December 31, 2011 is \$14,336,000 (2010 - \$23,371,000).

The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

- (c) Of the \$260,368,000 long term debt (2010 - \$304,399,000) certain principal payments do not represent a burden on general City revenue, as they are to be recovered in future years from other sources.

The total long term debt is to be recovered from the following:

	<u>2011</u>	<u>2010</u>
General revenues	\$ 257,444	\$ 298,910
Reserves and reserve funds	1,891	3,678
Wastewater user charges	1,026	1,800
Non-consolidated entities	<u>7</u>	<u>11</u>
	<u>\$ 260,368</u>	<u>\$ 304,399</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

7. Long term liabilities – municipal operations (continued)

- (d) The total City principal repayments of long term debt in each of the next five years and thereafter are due as follows:

	General Revenues	Reserves and Reserve Funds	Wastewater User Charges	Non-consolidated Entities	2011 Total
2012	\$ 25,025	\$ 1,891	\$ 69	\$ 2	\$ 26,987
2013	24,410	-	72	1	24,483
2014	25,411	-	76	1	25,488
2015	26,462	-	79	1	26,542
2016	27,576	-	83	1	27,660
2017 and thereafter	\$ 128,560	\$ -	\$ 647	\$ 1	\$ 129,208
Total	\$ 257,444	\$ 1,891	\$ 1,026	\$ 7	\$ 260,368

- (e) The total City principal repayments of leased tangible capital assets in each of the next five years and thereafter are due as follows:

	2011
2012	\$ 1,153
2013	1,153
2014	1,153
2015	1,153
2016	547
2017 and thereafter	\$ 3,912
Total	\$ 9,071

- (f) Total charges for the year for long term debt are as follows:

	2011	2010
Principal repayments	\$ 44,031	\$ 26,612
Interest expense	12,623	13,688
	\$ 56,654	\$ 40,300

- (g) Total charges for the year for leased tangible capital assets are as follows:

	2011	2010
Principal repayments	\$ 951	\$ 680
Interest expense	497	220
	\$ 1,448	\$ 900

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

8. Long term liabilities – housing corporation

(a) The balance of long term liabilities – housing corporation reported on the Consolidated Statement of Financial Position represents capital assets of the City's Housing Corporation that are financed by mortgages. The mortgages mature in the years 2012 to 2027 with interest rates varying between 2.61% and 8.00%. The mortgage obligations for CityHousing Hamilton are \$84,908,000 (2010 - \$89,195,000).

(b) The principal repayments of these mortgages in each of the next five years and thereafter are as follows:

2012	\$ 21,410
2013	5,896
2014	29,021
2015	6,463
2016	8,382
2017 and thereafter	<u>13,736</u>
	<u>\$ 84,908</u>

(c) Total charges for the year for long term liabilities - housing corporations are as follows:

	<u>2011</u>	<u>2010</u>
Principal repayments	\$ 4,287	\$ 4,084
Interest expense	<u>3,694</u>	<u>3,963</u>
	<u>\$ 7,981</u>	<u>\$ 8,047</u>

(d) Other long term liabilities incurred by the City's housing corporation, representing capital assets financed by debentures issued by the Ontario Housing Corporation of \$34,628,000 (2010 - \$37,743,000), is not included in the Consolidated Statement of Financial Position. The Social Housing Reform Act, 2000 transferred the ownership and responsibility for the administration of Province of Ontario public housing to the City of Hamilton as a local housing corporation. The transfer, effective January 1, 2001, included land and buildings at no cost. The servicing of these long term liabilities remains the obligation of the Province of Ontario.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

9. Employee future benefits and other obligations

The City provides certain employee benefits that require funding in future periods. An estimate of these liabilities has been recorded in the Consolidated Statement of Financial Position. These amounts are summarized as follows:

	<u>2011</u>	<u>2010</u>
Accrued Benefit Obligation		
Sick leave benefit plan	\$ 47,722	\$ 46,204
Long term disability	15,148	13,677
Workplace safety and insurance board liabilities (WSIB)	62,904	57,153
Retirement benefits	124,834	123,283
Vacation benefits	24,161	23,865
Pension benefit plans (Note 10)	<u>110,049</u>	<u>98,177</u>
	384,818	362,359
Pension valuation allowance	-	68
Net unamortized actuarial loss	<u>(95,825)</u>	<u>(89,441)</u>
Accrued Liability	<u>\$ 288,993</u>	<u>\$ 272,986</u>

The City has established reserves for some of these liabilities totaling \$62,550,000 (2010 - \$58,110,000) as described in the following notes.

The continuity of employee future benefits and other obligations are summarized as follows:

	<u>2011</u>	<u>2010</u>
Liability for Employee Future Benefits and Other Obligations		
balance at beginning of the year	\$ 272,986	\$ 262,171
Cost of plan amendment	-	-
Change in pension valuation allowance	280	(436)
Benefit expense	20,937	17,681
Interest expense	12,042	12,090
Amortization of actuarial loss on accrued benefit obligations	8,509	5,462
Amortization of actuarial loss (gain) on earnings on pension assets	(452)	472
Benefit payments	<u>(25,309)</u>	<u>(24,454)</u>
Liability for Employee Future Benefits and Other Obligations		
balance at end of the year	<u>\$ 288,993</u>	<u>\$ 272,986</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

9. Employee future benefits and other obligations (continued)

The expenses related to these employee benefits and other obligations are reported in the Consolidated Statement of Operations. These expenses are summarized as follows:

	<u>2011</u>	<u>2010</u>
Cost of plan amendment	\$ -	\$ -
Change in pension valuation allowance	280	(436)
Benefit expense	20,937	17,681
Interest expense	12,042	12,090
Amortization of net actuarial loss	<u>8,057</u>	<u>5,934</u>
	<u>\$ 41,316</u>	<u>\$ 35,269</u>

Actuarial valuations are performed on post employment, retirement benefits and pension benefits to provide estimates of the accrued benefit obligations. These estimates are based on a number of assumptions about future events including interest rates, inflation rates, salary and wage increases, medical and dental cost increases and mortality. The assumptions are determined at the time of the actuarial valuations and are reviewed annually. Consequently, different assumptions may be used as follows:

	Discount Rate	Return on Assets	Inflation Rate	Payroll Increases	Dental Increases	Life Expectancy (Years)
Vested sick leave	4.5%	NA	2%	4%	NA	9.4
Long term disability	4.0%	NA	2%	3%	NA	8
Workplace safety and insurance	4.5%	NA	2%	4%	NA	8
Retirement Benefits – Health and Dental	4.5%	NA	2%	4%	3.5% (1)	13.3 to 14.1
Pensions Benefits (non-OMERS)	4.5%	5.5%	2%	NA (2)	NA	8.5 to 11.15

Note (1): Medical costs are assumed to increase at a rate of 6% in 2012, with future annual increases grading down linearly by 0.5% to an ultimate rate of 3.5%.

Note (2): There is no estimate for future salary and wage increases as there are no active employees in the pension plans.

(a) Liability for sick leave benefit plans

The City provides a sick leave benefit plan for certain employee groups. Under the sick leave benefit plan of the City, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the City's employment. An actuarial valuation as at December 31, 2011 has estimated the accrued benefit obligation at \$47,722,000 (2010 - \$46,204,000). Changes in valuation assumptions have resulted in an increase in the liability to \$47,722,000 from the expected liability of \$36,488,000. The actuarial loss as at December 31, 2011 of \$11,234,000 is being amortized over the expected average remaining life expectancy of the members of the employee groups. Reserves established to provide for this liability are included on the Consolidated Statement of Financial Position in the amount of \$9,179,000 (2010 - \$8,965,000).

City of Hamilton**Notes to Consolidated Financial Statements**

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

9. Employee future benefits and other obligations (continued)**(b) Liability for long term disability**

The City provides benefits in the event of total disability for certain employee groups. An actuarial valuation of the City's self insured long term disability program as at December 31, 2011 has estimated the accrued benefit obligation at \$15,148,000 (2010 - \$13,677,000). Changes in valuation assumptions have resulted in a decrease in the liability to \$15,148,000 from the expected liability of \$17,150,000. The actuarial gain as at December 31, 2011 of \$2,002,000 is being amortized over the expected average remaining life expectancy of the members of the employee groups. Reserves established to provide for this liability are included on the Consolidated Statement of Financial Position in the amount of \$14,575,000 (2010 - \$13,122,000).

(c) Liability for workplace safety and insurance

The City is liable for compensation related to workplace injuries as stipulated by the Workplace Safety & Insurance Act. An actuarial valuation as at December 31, 2011 estimated the accrued benefit obligation for workplace safety & insurance existing claims and future pension awards at \$62,904,000 (2010 - \$57,153,000). Changes in valuation assumptions have resulted in an increase in the liability to \$62,904,000 from the expected liability of \$55,620,000. The actuarial loss of \$7,284,000 is being amortized over the expected average remaining life expectancy of the plan members in various groups. Reserves established to provide for this liability are included on the Consolidated Statement of Financial Position in the amount of \$37,488,000 (2010 - \$34,746,000).

(d) Liability for retirement benefits

The City provides certain health, dental and life insurance benefits between the time an employee retires under the Ontario Municipal Employees Retirement System (OMERS) or the normal retirement age and up to the age of 65 years. An actuarial valuation at December 31, 2011 estimated the accrued benefit obligation at \$124,834,000 (2010 - \$123,283,000). The cost of a plan amendment and changes in valuation assumptions have resulted in an increase in the liability to \$124,834,000 from the expected liability of \$83,969,000. The actuarial loss of \$40,865,000 is being amortized over the expected average remaining life expectancy of the plan members in various groups.

(e) Liability for vacation benefits

The City is liable for vacation days earned by its employees as at December 31 but not taken until a later date. The liability as at December 31, 2011 has been estimated at \$24,161,000 (2010 - \$23,865,000). Reserves established to provide for this liability are included on the Consolidated Statement of Financial Position in the amount of \$1,308,000 (2010 - \$1,277,000).

City of Hamilton**Notes to Consolidated Financial Statements**

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

9. Employee future benefits and other obligations (continued)**(f) Liability for pensions plans**

The City provides pension plans other than the Ontario Municipal Employees Retirement System (OMERS) as described in Note 10. The actuarial valuations at December 31, 2011 estimated the combined accrued benefit obligation of the pension plans at \$110,049,000 (2010 – \$98,177,000). Changes in valuation assumptions including a pension valuation allowance of \$68,000 resulted in an increase in the liability to \$110,049,000 from an expected liability of \$71,605,000. The actuarial loss of \$38,444,000 is being amortized over the expected average remaining life expectancy of the plan members.

10. Pension agreements**(a) Ontario Municipal Employees Retirement System**

The City makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of approximately 6,643 members of City staff and councillors. The plan is a defined benefit, which specifies the amount of the retirement benefit to be received by the employees, based on the length of credited service and average earnings.

The latest actuarial valuation as at December 31, 2010 indicates a "going concern" Actuarial Deficit based on the plan's current member and employer contribution rates. Contributions were made in the 2011 calendar year at rates ranging from 7.4% to 14.1% depending on the member's designated retirement age and level of earnings. As a result \$39,362,000 (2010 - \$36,000,000) was contributed to OMERS for current service.

(b) Other pension plans

Approximately 492 employees of the City are members of three defined benefit pension plans and will be future beneficiaries under their terms and conditions. Actuarial valuations of the pension plans for funding purposes are required under the Pension Benefits Act every three years. The actuarial valuations of the pension plans for accounting purposes provide different results than the valuations for funding purposes resulting in a net asset position in one of the pension plans and a net liability in two of the pension plans.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

10. Pension agreements (continued)

(b) Other pension plans

The actuarial valuation of the Hamilton Wentworth Retirement Fund ("HWRF") pension plan as at December 31, 2011 is based on a number of assumptions about future events including mortality, inflation rates, salary and wage increases and interest rates. The net unamortized actuarial gain on plan assets and loss on the accrued benefit obligation is being amortized over eight and a half years representing the expected average remaining life expectancy of the plan members. The accrued pension liability reported in the Consolidated Statement of Financial Position is comprised as follows:

	<u>2011</u>	<u>2010</u>
Accrued pension benefit obligation - HWRF	\$ 83,872	\$ 87,285
Pension plan assets:		
Marketable securities	<u>(59,371)</u>	<u>(64,743)</u>
	24,501	22,542
Unamortized actuarial loss	<u>(7,407)</u>	<u>(3,300)</u>
Accrued pension liability - HWRF	<u>\$ 17,094</u>	<u>\$ 19,242</u>

The actuarial gain on pension fund assets and the actuarial loss on accrued pension benefit obligation are comprised as follows:

	<u>2011</u>	<u>2010</u>
Expected pension fund assets at end of year	\$ 62,698	\$ 62,543
Actual pension fund assets at end of year	<u>59,371</u>	<u>64,743</u>
Actuarial gain (loss) on pension fund assets	<u>(3,327)</u>	<u>\$ 2,200</u>
Expected accrued pension benefit obligation at end of year	\$ 83,538	\$ 87,792
Actual accrued pension benefit obligation at end of year	<u>83,538</u>	<u>87,285</u>
Actuarial gain on accrued pension benefit obligation	<u>\$ -</u>	<u>\$ 507</u>

The expenses related to the HWRF pension plan are comprised as follows:

	<u>2011</u>	<u>2010</u>
Amortization of net actuarial loss on accrued pension benefit obligation	\$ (32)	\$ 21
Amortization of net actuarial gain on pension plan assets	<u>3</u>	<u>235</u>
Net Amortization	<u>(29)</u>	<u>256</u>
Interest on average accrued pension benefit obligation	3,750	4,373
Expected return on average pension plan assets	<u>(3,411)</u>	<u>(3,671)</u>
Net Interest	<u>339</u>	<u>702</u>
Total expenses	<u>\$ 310</u>	<u>\$ 957</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

10. Pension agreements (continued)

(b) Other pension plans

Payments of \$2,457,000 (2010 - \$3,440,000) have been applied to reduce the HWRF pension plan deficit as actuarially determined for funding purposes. The pension deficit for the HWRF pension plan as at December 31, 2011 will be funded by the City with payments as follows:

2012	\$ 1,790
2013	1,343
2014	1,343
2015	1,343
2016	172
2017 and thereafter	<u>862</u>
Total	<u>\$ 6,853</u>

The actuarial valuation of the Hamilton Municipal Retirement Fund ("HMRF") pension plan as at December 31, 2011 is based on a number of assumptions about future events including mortality, inflation rates, salary and wage increases and interest rates. The net unamortized actuarial gain on plan assets and gain on the accrued benefit obligation is being amortized over eleven years representing the expected average remaining life expectancy of the plan members. The accrued pension liability reported in the Consolidated Statement of Financial Position is comprised as follows:

	<u>2011</u>	<u>2010</u>
Accrued pension benefit obligation HMRF	\$ 88,701	\$ 92,418
Pension plan assets:		
Marketable securities	<u>(78,088)</u>	<u>(85,667)</u>
	10,613	6,751
Unamortized actuarial loss	<u>(10,525)</u>	<u>(6,819)</u>
Accrued pension liability (asset)	88	(68)
Pension valuation allowance	<u>-</u>	<u>\$ 68</u>
Accrued pension liability - HMRF	<u>\$ 88</u>	<u>\$ -</u>

The actuarial gain on pension fund assets and the actuarial gain on accrued pension benefit obligation are comprised as follows:

	<u>2011</u>	<u>2010</u>
Expected pension fund assets at end of year	\$ 82,465	\$ 82,702
Actual pension fund assets at end of year	<u>78,088</u>	<u>85,667</u>
Actuarial gain (loss) on pension fund assets – HMRF	<u>(4,377)</u>	<u>2,965</u>
Expected accrued pension benefit obligation at end of year	\$ 88,701	\$ 91,150
Actual accrued pension benefit obligation at end of year	<u>88,701</u>	<u>92,418</u>
Actuarial gain (loss) on accrued pension benefit obligation – HMRF	<u>-</u>	<u>(1,267)</u>

The expenses related to the HMRF pension plan are comprised as follows:

	<u>2011</u>	<u>2010</u>
Change in pension valuation allowance	\$ (68)	\$ (436)
Amortization of net actuarial loss on accrued pension benefit obligation	481	375
Amortization of net actuarial gain on pension plan assets	<u>190</u>	<u>437</u>
Net Amortization	<u>671</u>	<u>812</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

10. Pension agreements (continued)

(b) Other pension plans

	<u>2011</u>	<u>2010</u>
Interest on average accrued pension benefit obligation	\$ 3,986	\$ 4,526
Expected return on average pension plan assets	<u>(4,500)</u>	<u>(4,902)</u>
Net Interest	<u>(514)</u>	<u>(376)</u>
Total expenses	<u>\$ 88</u>	<u>\$ -</u>

The actuarial valuation of the HSR pension plan as at December 31, 2011 is based on a number of assumptions about future events including mortality, inflation rates, salary and wage increases and interest rates. The net unamortized actuarial gain on plan assets and loss on the accrued benefit obligation is being amortized over eleven years representing the expected average remaining life expectancy of the plan members. The accrued pension liability reported in the Consolidated Statement of Financial Position is comprised as follows:

	<u>2011</u>	<u>2010</u>
Accrued pension benefit obligation	\$ 230,619	\$ 231,590
Pension plan assets:		
Marketable securities	<u>(155,685)</u>	<u>(162,706)</u>
	74,934	68,884
Unamortized actuarial loss	<u>(20,511)</u>	<u>(15,541)</u>
Accrued pension liability – HSR	<u>\$ 54,423</u>	<u>\$ 53,343</u>

The actuarial gain on pension fund assets and the actuarial loss on accrued pension benefit obligation are comprised as follows:

	<u>2011</u>	<u>2010</u>
Expected pension fund assets at end of year	\$ 164,256	\$ 157,001
Actual pension fund assets at end of year	<u>155,685</u>	<u>162,706</u>
Actuarial gain (loss) on pension fund assets	<u>(8,571)</u>	<u>\$ 5,705</u>
Expected accrued pension benefit obligation at end of year	\$ 233,203	\$ 222,328
Actual accrued pension benefit obligation at end of year	<u>230,619</u>	<u>231,590</u>
Actuarial gain (loss) on accrued pension benefit obligation	<u>\$ 2,584</u>	<u>\$ (9,262)</u>

The expenses related to the HSR pension plan are comprised as follows:

	<u>2011</u>	<u>2010</u>
Amortization of net actuarial loss on accrued pension benefit obligation	\$ 1,661	\$ 937
Amortization of net actuarial (loss) gain on pension plan assets	<u>(644)</u>	<u>(198)</u>
Net Amortization	1,017	739
Interest on average accrued pension benefit obligation	10,227	10,783
Expected return on average pension plan assets	<u>(8,751)</u>	<u>(9,108)</u>
Net Interest	<u>1,476</u>	<u>1,675</u>
Total expenses	<u>\$ 2,493</u>	<u>\$ 2,414</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

10. Pension agreements (continued)

(b) Other pension plans

Payments of \$1,413,000 (2010 – 419,000) have been applied to reduce the HSR pension plan deficit as actuarially determined for funding purposes. The pension deficit for the HSR pension plan as at December 31, 2011 will be funded by the City with payments as follows:

2012	\$ 1,454
2013	1,454
2014	1,388
2015	1,388
2016	1,217
2017 and thereafter	<u>10,262</u>
Total	<u>\$ 17,173</u>

11. Solid waste landfill liabilities

The City owns and operates one open landfill site and it owns and maintains twelve (12) closed landfill sites. The active landfill site in the Glanbrook community was opened in 1980 covering 220 hectares with a capacity of 13,258,000 cubic metres of waste. As at December 31, 2011 the remaining capacity of the site is estimated at 7,173,000 cubic metres, representing 54% of the total capacity. In 2011 approximately 43% of waste generated was diverted from landfills (2010 – 43%). The open landfill site is estimated to reach its capacity and close in 2036.

The closure costs for the open Glanbrook landfill site and post closure care costs for the closed sites were based upon 2012 capital budget estimates, adjusted by 3% inflation, unexpended capital projects that were in progress in 2011 and estimates of operational support costs. These costs were then discounted back to December 31, 2011 using a discount factor of 5%. Post closure care for the Glanbrook site is estimated to be required for 25 years from the date of site closure. Studies continue to be undertaken to assess the liability associated with the City's closed landfill sites and the estimates will be updated as new information arises.

The liability of \$33,357,000 (2010 - \$26,611,000) for closure of the operational site and post closure care of the closed sites has been reported on the Consolidated Statement of Financial Position. A reserve of \$666,000 (2010 - \$500,000) was established to finance the future cost for closed landfill sites.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

12. Accumulated Surplus

The accumulated surplus balance is comprised of balances in reserves and discretionary reserve funds, operating surplus, capital surplus, unfunded liabilities to be recovered in the future investment in government business enterprises and investment in tangible capital assets.

	<u>2011</u>	<u>2010</u>
Reserves and discretionary reserve funds set aside for specific purposes by Council are comprised of the following:		
Working funds	\$ 54,915	\$ 48,628
Contingencies	1,297	1,265
Replacement of equipment	54,271	40,061
Sick leave (Note 9)	9,179	8,965
Workplace Safety and Insurance Board (WSIB)(Note 9)	37,488	34,746
Pension Plans	4,955	4,942
Self insurance (Note 17)	-	202
Operating programs	81,056	62,905
Tangible capital assets	<u>339,902</u>	<u>328,499</u>
Total reserves	583,063	530,213
Hamilton Future Fund (Note 13)	<u>73,506</u>	<u>72,990</u>
Total reserves and discretionary reserve funds	\$ <u>656,569</u>	\$ <u>603,203</u>
Operating surplus –		
Flamborough recreation sub-committees	\$ 235	\$ 215
Business improvement areas	361	258
Housing Operations	<u>527</u>	<u>478</u>
Total operating surplus	\$ <u>1,123</u>	\$ <u>1,054</u>
Capital surplus -		
Municipal Operations	\$ (249)	\$ 85,294
Housing Operations	<u>20,107</u>	<u>22,542</u>
Total capital surplus	\$ <u>19,858</u>	\$ <u>107,836</u>
Unfunded liabilities -		
Employee benefit obligations (Note 9)	\$ (269,461)	(253,988)
Solid Waste Landfill Liabilities	<u>(33,357)</u>	<u>(26,611)</u>
Total unfunded liabilities	\$ <u>(302,818)</u>	\$ <u>(280,599)</u>
Investment in Government		
Business Enterprises (Note 4)	<u>200,866</u>	<u>189,205</u>
Investment in tangible capital assets	<u>4,084,246</u>	<u>3,780,753</u>
Accumulated surplus	\$ <u>4,659,844</u>	\$ <u>4,401,452</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

13. Hamilton Future Fund

The Hamilton Future Fund was established by the Council of the City of Hamilton in 2002 from the proceeds from Hamilton Utilities Corporation of the net assets owed to the City upon restructuring of the electrical industry. The Hamilton Future Fund is used to create and protect a permanent legacy for current and future generations of Hamiltonians to enjoy economic prosperity and improved quality of life.

The continuity of the Hamilton Future Fund is as follows:

	<u>2011</u>	<u>2010</u>
Balance at the beginning of the year	\$ 72,990	\$ 73,426
Revenues		
Investment Income	<u>3,196</u>	<u>3,712</u>
Operating expenses		
Career Development & Placement	(8)	(7)
Repayment of Waste Management Projects	<u>6,605</u>	<u>6,268</u>
	<u>6,597</u>	<u>6,261</u>
Tangible capital assets		
Waste Management Projects	(1,276)	(3,299)
Roads and Bridges	(1,906)	(807)
2015 Pan Am Games	(1,004)	(5,573)
Career Development Resource Centre	(159)	(161)
Housing Partnership Fund	(132)	(341)
Urban Development Bank	(165)	(109)
West Harbour Initiatives	(4,427)	-
Other	<u>(208)</u>	<u>(119)</u>
	<u>(9,277)</u>	<u>(10,409)</u>
Balance at the end of the year	<u>\$ 73,506</u>	<u>\$ 72,990</u>

14. Taxation	Budget <u>2011</u> (unaudited)	Actual <u>2011</u>	Actual <u>2010</u>
Taxation from real property	\$ 887,961	\$ 893,209	\$ 871,170
Taxation from other governments payments in lieu of taxes	<u>14,200</u>	<u>15,267</u>	<u>14,835</u>
	902,161	<u>908,476</u>	886,005
Less: Taxation collected on behalf of school boards	<u>(185,066)</u>	<u>(188,152)</u>	<u>(185,748)</u>
Net taxes available for municipal purposes	<u>\$ 717,095</u>	<u>\$ 720,324</u>	<u>\$ 700,257</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

14. Taxation (continued)

The City is required to levy and collect taxes on behalf of the school boards. These taxes are recorded as revenue at the amounts levied. The taxes levied over (under) the amounts requisitioned are recorded as accounts payable (receivable).

15. Government transfers

(a) Government transfers - grants, subsidies and contributions

The City receives grants, subsidies and contributions from provincial and federal governments for general purposes, to finance specific program expenditures and to finance capital expenditures. Under the accrual basis of accounting these cash payments are recorded as grant revenues on the Consolidated Statement of Operations to the extent that the cash received is required to meet expenditures under the program. Any amount that is paid in excess of the program requirements is recorded as Deferred Revenue - General on the Consolidated Statement of Financial Position. Any amounts owed by the other governments are recorded as Accounts Receivable on the Consolidated Statement of Financial Position. Amounts received for payments-in-lieu of taxes are not reported as government transfers.

During 2011, the City received payments from the provincial and federal governments in the amount of \$458,737,000 (2010 - \$514,927,000) as follows:

	<u>2011</u>	<u>2010</u>
Government of the Province of Ontario	\$ 351,294	\$ 440,338
Government of Canada	<u>107,443</u>	<u>74,589</u>
Total	<u>\$ 458,737</u>	<u>\$ 514,927</u>

(b) Government transfers - payments for social assistance entitlements, housing subsidies and grants

The City makes discretionary and non-discretionary disbursements to individuals, institutions and agencies. These payments are recorded as expenditures in the Consolidated Statement of Operations to the extent that the payments meet the accrual basis of accounting. Amounts paid for Canada Pension Plan and investments in government debentures are not reported as government transfers. During 2011, the City issued payments as government transfers in the amount of \$231,697,000 (2010 - \$252,541,000) as follows:

	<u>2011</u>	<u>2010</u>
Payments for social assistance entitlements	\$ 142,611	\$ 162,678
Payments for housing subsidies	57,950	53,677
Grants to agencies and institutions	<u>31,136</u>	<u>36,186</u>
Total	<u>\$ 231,697</u>	<u>\$ 252,541</u>

City of Hamilton**Notes to Consolidated Financial Statements**

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

16. Contractual obligations

- (a) The City has outstanding contractual obligations of approximately \$247,167,000 at December 31, 2011 for capital works (2010 - \$769,105,000) City Council has authorized the financing of these obligations.
- (b) The City has agreements with the Ontario Realty Corporation, an agency of the Provincial Government of Ontario, for various capital projects. The outstanding future obligations at December 31, 2011 amounting to \$4,525,000 (2010 - \$4,648,000) are not reflected in the Consolidated Financial Statements. Payments made to the Ontario Realty Corporation amounting to \$124,000 in 2011 (2010 - \$148,000) are reported in the Consolidated Statement of Operations.
- (c) The City is legislated under the Development Charges Act to fund Government of Ontario ("GO") Transit's Growth and Capital Expansion Plan for 2005 to 2014. The obligation at December 31, 2011 of \$3,460,000 (2010 - \$3,460,000) is reported in the Consolidated Statement of Financial Position. Payments are collected through development charges and remitted to Metrolinx, an agency of the Government of the Province of Ontario. Payments made to Metrolinx in the amount of \$308,000 in 2011 (2010 - \$467,000) are reported in the Consolidated Statement of Operations.
- (d) The City has an agreement with a developer to design and install services in the Dundas and Waterdown community of the City of Hamilton. The City is committed to repaying the developer \$8,688,000 plus interest on the outstanding balance. Payments under the terms of the agreement are due by 2017 with an option to extend the term until 2022. The outstanding future obligation at December 31, 2011 amounting to \$8,688,000 (2010 - \$8,421,000) is not reflected in the Consolidated Financial Statements. Payments are collected by a special area charge and remitted to the developer. Payments made to the developer amounting to \$160,000 in 2011 (2010 - \$571,000) are reported in the Consolidated Statement of Operations.
- (e) The City has agreements with BFI for the transfer, hauling and disposal of the City's solid waste. The term of the agreement is ten years and two months for the period of January 1, 2010 to February 29, 2020. The contract fees amounting to \$6,540,000 for 2011 (2010 - \$6,275,000) are reported in the Consolidated Statement of Operations.
- (f) The City has an agreement with GFL Environmental East Corp for the provision of curbside/roadside and automated recycling cart collection. The term of the agreement is five years for the period of March 31, 2008 to March 31, 2013. The contract fees amounting to \$7,739,000 for 2011 (2010 - \$6,321,000) are reported in the Consolidated Statement of Operations.
- (g) The City has lease agreements with Disabled and Aged Regional Transit System (D.A.R.T.S.) for the delivery of specialized transportation services. The term of the existing agreement is three years for the period of July 1, 2009 to June 30, 2012 with an option to renew for a further term up to five years. The annual contract fees amounting to \$10,919,000 (2010 - \$9,948,000) are reported in the Consolidated Statement of Operations.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

16. Contractual obligations (continued)

(h) The City has lease agreements with Tradeport International Corporation for the management and operation of the City's airport. The term of the agreement is forty years for the period July 1, 1996 to June 30, 2036. Under the terms of the agreement, Tradeport is responsible for capital management and all operating costs. Revenue in the amount of \$175,000 (2010 - \$217,000) is reported on the Consolidated Statement of Operations.

(i) The City has executed lease agreements for administrative office space, computer equipment and radio communication equipment and infrastructure requiring annual payments in future years as they become due and payable in the amount of \$53,395,000 (2010 - \$58,803,000). The minimum lease payments for these leases over the next five years and thereafter are:

2012	\$ 9,202
2013	8,200
2014	6,750
2015	6,501
2016	4,483
2017 and thereafter	<u>18,259</u>
	<u>\$ 53,395</u>

(j) The City has a credit agreement dated February 11, 2003 with a Canadian chartered bank to borrow up to \$65,000,000 in the form of unsecured lines of credit. At year-end, no amounts were drawn on the letters of credit.

(k) Hamilton Utilities Corporation (H.U.C.) has a credit agreement dated June 30, 2010 with a Canadian chartered bank to borrow up to \$100,000,000 to finance general corporate requirements, working capital requirements, and prudential obligations. Borrowings may be in the form of Bankers' Acceptances ("BAs"), prime rate loans, letters of credit, and/or current account overdrafts. The Amended Credit Facility matures on June 30, 2013. Interest rates payable on the Amended Credit Facility are based on a margin above prime or the BA rate, as the case may be, determined by reference to the Corporation's debt rating. A standby fee is paid on any unutilized portion of the Amended Credit Facility. At year end, no amounts were drawn on these letters of credit (2010 - Nil). The Corporation has issued a \$9,101,000 letter of credit in favour of the Independent Electricity System Operator ("IESO") as security for Horizon Utilities purchase of electricity through the IESO. At year-end, no amounts were drawn on the letters of credit.

17. Public liability insurance

The City has undertaken a portion of the risk for public liability, as a means of achieving cost effective risk management. As a result, the City is self-insured for public liability claims up to \$250,000 for any individual claim or for any number of claims arising out of a single occurrence. Outside insurance coverage is in place for claims in excess of \$250,000 to a maximum of \$50,000,000 per claim or occurrence.

The City has reported liabilities for insurance claims on the Consolidated Statement of Financial position in the amount of \$20,666,000 (2010 - \$22,112,000). Claim expenses for the year in the amount of \$7,993,000 (2010 - \$6,135,000) are reported as expenses in the Consolidated Statement of Operations.

City of Hamilton**Notes to Consolidated Financial Statements**

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

18. Contingent liabilities

- (a) The City is contingently liable for the repayment of principal and interest on long term debt issued on behalf of school boards and other unconsolidated boards (Note 7(b)). The responsibility for raising the amounts required to service this debt lies with these respective bodies. The total amount of this contingent liability outstanding at December 31, 2011 is \$14,336,000 (2010 - \$23,371,000).
- (b) Certain property owners in the City of Hamilton have been successful in appealing their tax assessments with the result that previous years' taxes will eventually be refunded. Based on the results of these appeals it is likely that additional taxes for years up to 2011 will also be subject to appeal and it is further likely that these taxes will be refunded. An estimate cannot be made of this contingent liability and the City has recorded no provision for refund of property taxes for 2011 (2010 - \$0). The amount of any additional loss will be recorded in the year in which the settlement occurs.
- (c) The City has outstanding contractual obligations with its unionized employee groups as of December 31, 2011. An estimated liability has been recorded on the Consolidated Statement of Financial Position to fund these settlements. Subsequent to December 31, 2011, there were settlements with two of the unionized employee groups.
- (d) Pursuant to its order dated July 22, 2010 (the "Order"), the Ontario Superior Court of Justice approved the settlement of a class-action lawsuit which was served on the Toronto Hydro-Electric Commission on November 18, 1998. The original class action lawsuit of \$500 million against Toronto Hydro as the representative for all municipal electric utilities ("MEU") in Ontario that levied late payment charges on overdue utility bills at any time after April 1, 1981. The Order formalized the settlement against the defendant MEUs in the amount of \$17,000,000 plus costs and taxes to be paid for all claims. Hamilton Utilities Corporation's share of \$1,100,000 was paid on June 30, 2011. On February 22, 2011, the Ontario Energy Board issued a decision and approved the recovery of all costs and damages arising from the settlement of this class action over a twelve month period commencing on May 1, 2011. H.U.C. has recorded the settlement as an operating expense and the regulatory recovery as electricity distribution revenue.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

19. Tangible Capital Assets

The City has tangible capital assets valued at cost in the amount of \$6,747,187,000 (2010 - \$6,356,023,000) and a net book value of \$4,445,630,000 (2010 - \$4,184,993,000).

Amortization is calculated on a consumption basis using a decelerated deterioration curve for roads and a straight-line basis for all other assets. Estimated useful lives range from 3 years to 100 years as follows:

General - Land improvements	20 to 30 years
General - Buildings	40 years
General - Vehicles	4 to 17 years
General – Computer hardware and software	3 to 5 years
General – Other – Machinery and equipment	6 to 100 years
Infrastructure – Roads	18 to 50 years
Infrastructure – Bridges and other structures	40 to 75 years
Infrastructure – Water and wastewater facilities	40 years
Infrastructure – Underground and other networks	18 to 100 years

The cost, accumulated amortization, net book value and amortization expense have been reported in these consolidated financial statements.

Details of the tangible capital assets are included in the Schedule of Tangible Capital Assets (page 2-35 and 2-36). The net book value of the tangible capital assets valued as at December 31, 2011 is as follows:

	<u>2011</u>	<u>2010</u>
General		
Land	\$ 235,428	\$ 218,869
Land improvements	113,353	110,475
Buildings	473,450	399,349
Vehicles	118,843	129,356
Computer hardware and software	4,335	5,008
Other	66,925	63,075
Infrastructure		
Roads	1,196,811	1,212,293
Bridges and structures	171,716	159,286
Water and wastewater facilities	215,272	160,327
Underground and other networks	<u>1,508,056</u>	<u>1,443,408</u>
Net Book Value	\$ 4,104,189	\$ 3,901,446
Assets under construction	<u>341,441</u>	<u>283,547</u>
	\$ 4,445,630	\$ 4,184,993

In addition, the City has works of arts and historical treasures including sculptures, fine art, murals, cemetery crosses, cenotaphs, cannons and artillery that are preserved by the City but are not recorded as tangible capital assets.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

20. Reporting by Business Segment

The Consolidated Financial Statements provide a summary of the revenues and expenses for all of the services provided to the residents and businesses in the City of Hamilton as defined in the reporting entity (Note 1).

Revenues and expenses are reported by the following functions and services:

- General government: Office of the Mayor and council, corporate administration including fleet and facilities
- Protection services: police, fire, conservation authorities
- Transportation services: roads, winter maintenance, traffic, parking, transit
- Environmental services: water, wastewater, storm water, waste management collection, diversion & disposal
- Health services: public health, cemeteries and emergency medical services/ambulance
- Social and family services: general assistance, hostels, homes for the aged, services to aged persons, child care services
- Social housing: public housing, non-profit housing, rent supplement programs
- Recreation and cultural services: parks, recreation programs, recreation facilities, golf courses, marinas, museums, libraries, tourism and HECFI.
- Planning and development: planning, zoning, commercial and industrial development and residential development

Financial information about the City's business segments is included in the Schedule of Operations for Business Segments (pages 2-37 and 2-38).

21. Budget figures

The 2011 operating budget and capital financing for the housing corporation was approved by the CityHousing Hamilton Board at a meeting on May 5, 2011. The 2011 operating budget and capital financing for municipal operations was approved by City Council at a meeting on April 27, 2011.

The budget figures conform to the accounting standards adopted in CICA Public Sector Accounting Handbook section *PS1200 Financial Statement Presentation*. As such, the budget figures presented in the consolidated financial statements differ from the presentation approved by City Council.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

2011 Schedule of Tangible Capital Assets

	General						Infrastructure					Assets Under Construction	TOTAL
	Land		Buildings	Vehicles	Computer	Other	Roads	Bridges & Other Structures	W/WW Facilities	W/WW/SW Linear Network			
	Land	Improvements											
Cost													
Balance, Dec 31, 2010	\$ 218,869	\$ 208,264	\$ 836,370	\$ 243,719	\$ 9,365	\$ 92,250	\$ 1,969,904	\$ 198,807	\$ 438,428	\$ 1,856,500	\$ 283,547	\$ 6,356,023	
Additions & Betterments in 2011	14,154	11,129	101,547	11,923	1,842	11,412	43,710	14,109	66,133	49,723	259,887	585,569	
Disposals & Writedowns in 2011	(409)	(2,431)	(14,779)	(9,286)	(2,844)	(8,169)	(6,714)	(12)	(2,166)	(2,935)	(1,818)	(51,563)	
Donations & Transfers in 2011	2,814	-	-	-	-	-	14,374	1,071	-	39,073	-	57,332	
WIP Transfers to Service in 2011	-	-	-	-	-	-	-	-	-	-	(200,175)	(200,175)	
Balance, Dec 31, 2011	\$ 235,428	\$ 216,962	\$ 923,138	\$ 246,356	\$ 8,363	\$ 95,493	\$ 2,021,274	\$ 213,975	\$ 502,395	\$ 1,942,361	\$ 341,441	\$ 6,747,186	
Accumulated Amortization													
Balance, Dec 31, 2010	\$ -	\$ 97,789	\$ 437,021	\$ 114,363	\$ 4,357	\$ 29,175	\$ 757,611	\$ 39,521	\$ 278,101	\$ 413,092	\$ -	\$ 2,171,030	
Amortization in 2011	-	7,198	19,718	21,758	2,515	7,562	72,512	2,749	11,161	24,148	-	169,321	
Amortization on Disposals in 2011	-	(1,378)	(7,051)	(8,608)	(2,844)	(8,169)	(5,660)	(11)	(2,139)	(2,935)	-	(38,795)	
Balance, Dec 31, 2011	\$ -	\$ 103,609	\$ 449,688	\$ 127,513	\$ 4,028	\$ 28,568	\$ 824,463	\$ 42,259	\$ 287,123	\$ 434,305	\$ -	\$ 2,301,556	
Net Book Value Dec 31, 2011	\$ 235,428	\$ 113,353	\$ 473,450	\$ 118,843	\$ 4,335	\$ 66,925	\$ 1,196,811	\$ 171,716	\$ 215,272	\$ 1,508,056	\$ 341,441	\$ 4,445,630	
Assets Under Construction	\$ -	\$ 16,614	\$ 67,856	\$ -	\$ 2,299	\$ 22,142	\$ 15,898	\$ 2,425	\$ 192,694	\$ 21,513	\$ 341,441		
Total	\$ 235,428	\$ 129,967	\$ 541,306	\$ 118,843	\$ 6,634	\$ 89,067	\$ 1,212,709	\$ 174,141	\$ 407,966	\$ 1,529,569	\$ 341,441	\$ 4,445,630	

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

2010 Schedule of Tangible Capital Assets

	General						Infrastructure				Assets Under Construction	TOTAL
	Land		Buildings	Vehicles	Computer	Other	Roads	Bridges & Other Structures	W/WW Facilities	W/WW/SW Linear Network		
	Land	Improvements										
Cost												
Balance, Dec 31, 2009	\$ 193,416	\$ 198,095	\$ 732,353	\$ 246,734	\$ 10,547	\$ 87,137	\$ 1,932,172	\$ 197,775	\$ 421,325	\$ 1,775,603	\$ 191,478	\$ 5,986,635
Additions & Betterments in 2010	23,269	9,776	110,098	23,938	3,339	10,024	35,588	1,039	17,388	52,938	230,711	518,108
Disposals & Writedowns in 2010	(70)	(64)	(6,081)	(26,975)	(4,521)	(4,911)	(7,242)	(7)	(285)	(1,115)	(851)	(52,122)
Donations & Transfers in 2010	2,254	457	-	22	-	-	9,386	-	-	29,074	-	41,193
WIP Transfers to Service in 2010	-	-	-	-	-	-	-	-	-	-	(137,791)	(137,791)
Balance, Dec 31, 2010	\$ 218,869	\$ 208,264	\$ 836,370	\$ 243,719	\$ 9,365	\$ 92,250	\$ 1,969,904	\$ 198,807	\$ 438,428	\$ 1,856,500	\$ 283,547	\$ 6,356,023
Accumulated Amortization												
Balance, Dec 31, 2009	\$ -	\$ 90,941	\$ 424,404	\$ 119,462	\$ 6,030	\$ 27,246	\$ 687,885	\$ 36,885	\$ 268,772	\$ 391,375	\$ -	\$ 2,053,000
Amortization in 2010	-	6,882	17,673	20,322	2,848	6,840	76,209	2,642	9,434	22,831	-	165,681
Amortization on Disposals in 2010	-	(34)	(5,056)	(25,421)	(4,521)	(4,911)	(6,483)	(6)	(105)	(1,114)	-	(47,651)
Balance, Dec 31, 2010	\$ -	\$ 97,789	\$ 437,021	\$ 114,363	\$ 4,357	\$ 29,175	\$ 757,611	\$ 39,521	\$ 278,101	\$ 413,092	\$ -	\$ 2,171,030
Net Book Value Dec 31, 2010	\$ 218,869	\$ 110,475	\$ 399,349	\$ 129,356	\$ 5,008	\$ 63,075	\$ 1,212,293	\$ 159,286	\$ 160,327	\$ 1,443,408	\$ 283,547	\$ 4,184,993
Assets Under Construction	\$ -	\$ 16,708	\$ 90,607	\$ 1,158	\$ 1,734	\$ 12,303	\$ 15,086	\$ 13,536	\$ 118,208	\$ 14,207	\$ 283,547	
Total	\$ 218,869	\$ 127,183	\$ 489,956	\$ 130,514	\$ 6,742	\$ 75,378	\$ 1,227,379	\$ 172,822	\$ 278,535	\$ 1,457,615	\$ -	\$ 4,184,993

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

2011 Schedule of Operations for Business Segments

	General Government	Protection Services	Transportation services	Environmental services	Health services	Social and family services	Social housing	Recreation and cultural services	Planning and development	TOTAL 2011
Revenue										
Taxation	\$ 720,324	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 720,324
Government grants and contributions	8,970	7,953	26,223	82,918	47,728	196,839	36,874	18,808	785	427,098
User charges	7,867	7,134	52,962	169,008	3,176	12,003	348	16,585	9,468	278,551
Investment income	32,403	650	4,270	5,575	(80)	423	953	1,473	1,266	46,933
Development charges and subdivider contributions	-	365	21,630	44,268	8	(2)	(26)	4,234	793	71,270
Donations of tangible capital assets	-	-	15,445	39,311	-	-	-	2,576	-	57,332
Income from Government Business Enterprises	11,661	-	-	-	-	-	-	-	-	11,661
Other	18,601	17,847	8,939	1,109	146	25	34,737	13,457	1,982	96,843
Total	\$ 799,826	\$ 33,949	\$ 129,469	\$ 342,189	\$ 50,978	\$ 209,288	\$ 72,886	\$ 57,133	\$ 14,294	\$ 1,710,012
Expenses										
Salaries and benefits	\$ 43,306	\$ 225,845	\$ 86,684	\$ 37,209	\$ 61,333	\$ 69,547	\$ 10,306	\$ 67,099	\$ 24,057	\$ 625,386
Interest on long term debt	504	735	8,395	1,456	1	993	3,731	787	213	16,815
Materials supplies services	38,813	15,551	47,141	43,938	7,541	8,802	41,303	25,181	5,829	234,099
Contracted services	10,949	2,063	31,239	62,581	3,165	54,090	4,606	9,154	3,096	180,943
Rents and financial expenses	3,988	1,880	3,377	3,112	1,545	342	4,726	6,806	93	25,869
External transfers	20	5,786	-	-	51	139,307	48,268	5,121	634	199,187
Amortization	5,996	5,587	91,941	40,617	1,724	1,731	4,059	14,844	2,822	169,321
Interfunctional transfers	(34,041)	2,420	13,559	6,060	4,233	1,236	28	5,550	955	-
Total	\$ 69,535	\$ 259,867	\$ 282,336	\$ 194,973	\$ 79,593	\$ 276,048	\$ 117,027	\$ 134,542	\$ 37,699	\$ 1,451,620
Annual Surplus	\$ 730,291	\$ (225,918)	\$ (152,867)	\$ 147,216	\$ (28,615)	\$ (66,760)	\$ (44,141)	\$ (77,409)	\$ (23,405)	\$ 258,392

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2011 (all numbers in columns are in thousands of dollars)

2010 Schedule of Operations for Business Segments

	General Government	Protection Services	Transportation services	Environmental services	Health services	Social and family services	Social housing	Recreation and cultural services	Planning and development	TOTAL 2010
Revenue										
Taxation	\$ 700,257	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 700,257
Government grants and contributions	30,219	17,212	40,432	126,370	44,879	194,728	48,883	17,586	587	520,896
User charges	3,934	7,004	53,065	160,278	3,753	12,091	328	15,519	9,144	265,116
Investment income	32,100	613	3,107	6,560	208	381	1,253	1,591	2,814	48,627
Development charges and subdivider contributions	-	673	18,245	(6,854)	11	40	(13)	2,299	1,977	16,378
Donations of tangible capital assets	-	22	10,817	29,074	-	-	-	1,280	-	41,193
Income from Government Business Enterprises	3,350	-	-	-	-	-	-	-	-	3,350
Other	17,667	17,668	9,663	1,382	324	13	32,786	10,389	1,830	91,722
Total	\$ 787,527	\$ 43,192	\$ 135,329	\$ 316,810	\$ 49,175	\$ 207,253	\$ 83,237	\$ 48,664	\$ 16,352	\$ 1,687,539
Expenses										
Salaries and benefits	\$ 43,259	\$ 212,617	\$ 86,670	\$ 38,177	\$ 58,960	\$ 67,814	\$ 9,347	\$ 67,388	\$ 22,583	\$ 606,815
Interest on long term debt	128	821	8,848	1,692	2	1,088	4,013	1,031	248	17,871
Materials supplies services	33,893	14,881	30,687	25,980	7,369	6,958	29,837	27,224	5,827	182,656
Contracted services	14,426	2,264	30,225	62,254	3,185	54,024	10,945	15,182	4,689	197,194
Rents and financial expenses	3,345	1,657	3,153	2,076	1,837	2,471	283	3,506	961	19,289
External transfers	-	4,482	-	-	31	159,586	57,107	5,228	835	227,269
Amortization	5,065	5,022	95,449	35,901	1,576	1,659	4,633	13,592	2,784	165,681
Interfunctional transfers	(31,088)	1,677	12,889	5,042	4,158	1,194	13	5,626	489	-
Total	\$ 69,028	\$ 243,421	\$ 267,921	\$ 171,122	\$ 77,118	\$ 294,794	\$ 116,178	\$ 138,777	\$ 38,416	\$ 1,416,775
Annual Surplus	\$ 718,499	\$ (200,229)	\$ (132,592)	\$ 145,688	\$ (27,943)	\$ (87,541)	\$ (32,941)	\$ (90,113)	\$ (22,064)	\$ 270,764

Section 3

City of Hamilton Financial Statements for the Trust Funds Cemetery, Library and General Trusts December 31, 2011

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Independent Auditor's Report

<<NOTE: The Independent Auditor's Report will be inserted after the Financial Report is approved by the Audit, Finance and Administration Committee. >>

Independent Auditor's Report

<<NOTE: The Independent Auditor's Report will be inserted after the Financial Report is approved by the Audit, Finance and Administration Committee. >>

City of Hamilton Trust Funds - Consolidated

Statement of Financial Position

As at December 31, 2011

	<u>2011</u>	<u>2010</u>
Financial Assets		
Cash	\$ 2,863,600	\$ 1,601,627
Accrued interest receivable	714,772	768,476
Investments (Note 2)	10,890,984	11,932,022
Deposits Hamilton Community Foundation (Note 3)	1,312,470	1,253,959
Due from City of Hamilton – Cemetery	614,108	373,232
Due from City of Hamilton – Library Trust Funds	365,643	363,586
Due from City of Hamilton – Other Trust Funds	<u>52,604</u>	<u>102,388</u>
Total financial assets	\$ 16,814,181	\$ 16,395,290
Liabilities		
Deposits	<u>\$ 181,698</u>	<u>\$ 198,945</u>
Accumulated surplus	\$ 16,632,483	\$ 16,196,345

Statement of Operations

Year ended December 31, 2011

Revenue		
Cemetery lots and interments	\$ 602,087	\$ 1,134,144
Investment income	572,213	845,259
Other revenue	<u>24,159</u>	<u>21,000</u>
Total revenue	\$ 1,198,459	\$ 2,000,403
Expenses		
Investment loss	\$ -	\$ 112
Other	105,741	190,743
Transfer to other trust funds	<u>656,580</u>	<u>832,817</u>
Total expenses	\$ 762,321	\$ 1,023,672
Annual surplus	\$ 436,138	\$ 976,731
Accumulated surplus at the beginning of the year	<u>16,196,345</u>	<u>15,219,614</u>
Accumulated surplus at the end of the year	\$ 16,632,483	\$ 16,196,345

See accompanying notes to the financial statements

City of Hamilton

Trust Funds

Notes To The Financial Statements

As at December 31, 2011

1. Significant accounting policies

The financial statements of the City of Hamilton Trust Funds are the representation of management prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs. 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 and approximations. These have been made using careful judgements.

(a) Basis of Consolidation

These statements reflect the revenues, expenditures, assets and liabilities of the following trust funds:

- Fieldcote Farmer (Ancaster)
- Dundas Knowles Bequest
- Hamilton F. Waldon Dundurn Castle
- Dundas Ellen Grafton
- Ancaster Parks Fund
- Ancaster Fieldcote Livingstone-Clarke
- Ancaster Fieldcote Shaver
- Hamilton Balfour Estate Chedoke
- Cemetery Trust Funds
- Municipal Election Surplus
- Ontario Home Renewal Program ("OHRP")
- Library - M. Waldon Thompson Bequest
- Library - Central Library Special Gift Fund
- Library - Permanent Endowment Fund
- Library - Keetha McLaren Memorial Fund
- Library - F. Waldon Library Bequest
- Library - Dundas Fundraising
- Library - Waterdown Fundraising

(b) Basis of Accounting

- (i) Sources of financing and expenditures are reported on the accrual basis of accounting.
- (ii) The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable.
- (iii) Revenues on the cemetery lots are recognized upon transfer of title of the deed.

City of Hamilton

Trust Funds

Notes To The Financial Statements

As at December 31, 2011

2. Investments

The total investments recorded at the lower of cost or market value in the balance sheet are \$10,890,894 (2010 - \$11,932,022). These investments have a market value of \$12,129,027 (2010- \$12,220,284) at the end of the year.

3. Deposits – Hamilton Community Foundation

The library trust funds have funds invested with the Hamilton Community Foundation. These investments are recorded on the balance sheet at market value.

4. Accumulated Surplus	<u>2011</u>	<u>2010</u>
The accumulated surplus consists of:		
Cemeteries	<u>\$ 13,242,919</u>	<u>\$ 12,774,273</u>
Library		
M. Waldon Thompson Estate	19,673	18,891
Special Gift Fund Central	1,955,114	1,950,196
Permanent Endowment Fund	587,449	594,190
Keetha McLaren Memorial Fund	28,064	27,808
F. Waldon Library Bequest	62,317	61,582
Waterdown Library Fundraising	<u>41,431</u>	<u>40,423</u>
	<u>2,694,048</u>	<u>2,693,090</u>
Other		
Fieldcote Farmer (Ancaster)	344,086	343,144
Knowles Bequest (Dundas)	262,413	260,082
F. Waldon Dundurn Castle (Hamilton)	5,470	5,337
Ellen Grafton (Dundas)	7,153	7,064
Fieldcote Livingstone-Clarke (Ancaster)	5,155	5,155
Fieldcote Shaver (Ancaster)	5,155	5,155
Municipal Election (Hamilton)	5,366	2,091
Balfour Estate Chedoke (Hamilton)	<u>60,718</u>	<u>100,954</u>
	<u>695,516</u>	<u>728,982</u>
	<u>\$ 16,632,483</u>	<u>\$ 16,196,345</u>

City of Hamilton

Trust Funds - Cemetery

Statement of Financial Position

As at December 31, 2011

	<u>2011</u>	<u>2010</u>
Financial Assets		
Cash	\$ 2,272,894	\$ 1,032,167
Due from City of Hamilton	614,108	363,586
Investments	<u>10,537,615</u>	<u>11,577,465</u>
Total financial assets	<u>\$ 13,424,617</u>	<u>\$ 12,973,218</u>
Liabilities		
Deposits	<u>\$ 181,698</u>	<u>\$ 198,945</u>
Accumulated surplus	<u>\$ 13,242,919</u>	<u>\$ 12,774,273</u>

Statement of Operations

Year ended December 31, 2011

	<u>2011</u>	<u>2010</u>
Revenue		
Cemetery lots and interments	\$ 602,087	\$ 1,134,144
Investment income	<u>518,931</u>	<u>672,613</u>
Total revenue	<u>\$ 1,121,018</u>	<u>\$ 1,806,757</u>
Expenses		
Other	\$ 9,185	\$ 11,654
Transfer to other trust funds	<u>643,187</u>	<u>805,212</u>
Total expenses	<u>\$ 652,372</u>	<u>\$ 816,866</u>
Annual surplus	<u>\$ 468,646</u>	<u>\$ 989,891</u>
Accumulated surplus at the beginning of the year	<u>12,774,273</u>	<u>11,784,382</u>
Accumulated surplus at the end of the year	<u>\$ 13,242,919</u>	<u>\$ 12,774,273</u>

See accompanying notes to the financial statements

City of Hamilton Trust Funds - Library

Statement of Financial Position

As at December 31, 2011

	<u>2011</u>	<u>2010</u>
Financial Assets		
Cash	\$ 301,163	\$ 297,423
Accrued interest receivable	714,772	768,476
Deposits Hamilton Community Foundation	1,312,470	1,253,959
Due from City of Hamilton	<u>365,642</u>	<u>373,232</u>
Total financial assets	<u>\$ 2,694,048</u>	<u>\$ 2,693,090</u>
Accumulated surplus	<u>\$ 2,694,048</u>	<u>\$ 2,693,090</u>

Statement of Operations

Year ended December 31, 2011

	<u>2011</u>	<u>2010</u>
Revenue		
Investment income	\$ (3,850)	\$ 146,900
Other revenue	<u>35,926</u>	<u>-</u>
Total revenue	<u>\$ 35,926</u>	<u>\$ 146,900</u>
Expenses		
Investment loss	\$ -	\$ 112
Other	<u>31,118</u>	<u>69,025</u>
Total expenses	<u>\$ 31,118</u>	<u>\$ 69,137</u>
Annual surplus	<u>\$ 958</u>	<u>\$ 77,763</u>
Accumulated surplus at the beginning of the year	<u>2,693,090</u>	<u>2,615,327</u>
Accumulated surplus at the end of the year	<u>\$ 2,694,048</u>	<u>\$ 2,693,090</u>

See accompanying notes to the financial statements

City of Hamilton Trust Funds - Other

Statement of Financial Position

As at December 31, 2011

	<u>2011</u>	<u>2010</u>
Financial Assets		
Cash	\$ 289,543	\$ 272,037
Investments	353,369	354,557
Due from City of Hamilton	<u>52,604</u>	<u>102,388</u>
Total financial assets	<u>\$ 695,516</u>	<u>\$ 728,982</u>
Accumulated surplus	<u>\$ 695,516</u>	<u>\$ 728,982</u>

Statement of Operations

Year ended December 31, 2011

	<u>2011</u>	<u>2010</u>
Revenue		
Investment income	\$ 21,206	\$ 25,746
Other revenue	<u>24,159</u>	<u>21,000</u>
Total revenue	<u>\$ 45,365</u>	<u>\$ 46,746</u>
Expenses		
Transfer to other trust funds	\$ 13,393	\$ 27,605
Other	<u>65,438</u>	<u>110,064</u>
Total expenses	<u>\$ 78,831</u>	<u>\$ 137,669</u>
Annual (deficit) surplus	<u>\$ (33,466)</u>	<u>\$ (90,923)</u>
Accumulated surplus at the beginning of the year	<u>728,982</u>	<u>819,905</u>
Accumulated surplus at the end of the year	<u>\$ 695,516</u>	<u>\$ 728,982</u>

See accompanying notes to the financial statements

Section 4

City of Hamilton Financial Statements for the Trust Funds – Homes for the Aged December 31, 2011

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Independent Auditor's Report

<<NOTE: The Independent Auditor's Report will be inserted after the Financial Report is approved by the Audit, Finance and Administration Committee. >>

Independent Auditor's Report

<<NOTE: The Independent Auditor's Report will be inserted after the Financial Report is approved by the Audit, Finance and Administration Committee. >>

City of Hamilton

Trust Funds – Homes for the Aged

Statement of Financial Position

As at December 31, 2011

	Macassa Lodge Resident Trusts	Wentworth Lodge Resident Trusts	Macassa Lodge Other Trusts	Wentworth Lodge Other Trusts	Total 2011	Total 2010
Financial assets						
Cash	\$ 40,242	\$ 25,324	\$ 64,818	\$ 506,975	\$ 637,359	\$ 700,084
Liabilities						
Due to City	\$ -	\$ -	\$ -	\$ 2,016	\$ 2,016	\$ 3,274
Accumulated surplus	\$ <u>40,242</u>	\$ <u>25,324</u>	\$ <u>64,818</u>	\$ <u>504,959</u>	\$ <u>635,343</u>	\$ <u>696,810</u>

Statement of Operations

Year ended December 31, 2011

	Macassa Lodge Resident Trusts	Wentworth Lodge Resident Trusts	Macassa Lodge Other Trusts	Wentworth Lodge Other Trusts	Total 2011	Total 2010
Revenue						
Residents' deposits	\$ 130,187	\$ 144,482	\$ 5,271	\$ 23,873	\$ 303,813	\$ 283,553
Investment income	51	62	792	6,574	7,479	5,451
Donations	-	-	100	1,225	1,325	2,852
	<u>130,238</u>	<u>144,544</u>	<u>6,163</u>	<u>31,672</u>	<u>312,617</u>	<u>291,856</u>
Expenses						
Maintenance payments	18,495	34,947	-	-	53,442	61,820
Residents' charges	113,140	102,943	4,749	25,880	246,712	512,912
Payments to estates	8,125	38,848	-	-	46,973	15,887
Payments on discharge	415	-	-	-	415	-
Program purchases	-	-	-	26,542	26,542	57,034
	<u>140,175</u>	<u>176,738</u>	<u>4,749</u>	<u>52,422</u>	<u>374,084</u>	<u>350,653</u>
Annual surplus	(9,937)	(32,194)	1,414	(20,750)	(61,467)	(58,797)
Accumulated surplus at the beginning of the year	<u>50,179</u>	<u>57,518</u>	<u>63,404</u>	<u>525,709</u>	<u>696,810</u>	<u>755,607</u>
Accumulated surplus at the end of the year	\$ <u>40,242</u>	\$ <u>25,324</u>	\$ <u>64,818</u>	\$ <u>504,959</u>	\$ <u>635,343</u>	\$ <u>696,810</u>

See accompanying notes to the financial statements.

City of Hamilton

Trust Funds – Homes for the Aged

Notes to the Financial Statements

As at December 31, 2011

1. Purpose of Trust Funds

The various Trust Funds administered by the City of Hamilton are established for the following purposes:

Macassa and Wentworth Lodge Resident Trusts

These Trust Funds are established for residents to receive their funds and to pay for their various charges including monthly maintenance payments.

Macassa and Wentworth Lodge Other Trusts

These Trust Funds are established for the receipts of funds from donations and fund raising activities. The funds are to be used for the benefit of lodge residents over and above normal capital and operating expenses of the lodges.

2. Significant accounting policies

The financial statements of the Trust Funds of The City of Hamilton are the representation of management prepared in accordance with accounting principles prescribed for Ontario municipalities by the Ministry of Municipal Affairs and Housing.

Basis of accounting

Sources of financing and expenses are reported on the accrual basis of accounting.

The accrual basis of accounting recognizes revenues as they become available and measurable. Expenses are recognized as they are incurred and measurable.



Report to the Audit, Finance and Administration Committee - Communication of audit results

The Corporation of the City of Hamilton

Trust Funds of the City of Hamilton

Trust Funds – Homes for the Aged, City of Hamilton

Pension Fund for The Hamilton Municipal Retirement Fund Pension Plan

Pension Fund for The Hamilton-Wentworth Retirement Fund Pension Plan

Pension Fund for the Employees of The Hamilton Street Railway Company
Pension Plan

For the year ended December 31, 2011



June 11, 2012

To the members of the Audit, Finance and Administration Committee of
The Corporation of the City of Hamilton

Grant Thornton LLP
33 Main Street E.
Hamilton, ON
L8N 4K5
T (289) 313-0300
F (289) 313-0355
www.GrantThornton.ca

We are pleased to report that we have now substantially completed our audits of the financial statements of:

The Corporation of the City of Hamilton,
Trust Funds of the City of Hamilton,
Trust Funds – Homes for the Aged, City of Hamilton,
Pension Funds for The Hamilton Municipal Retirement Fund Pension Plan (HMRF),
The Hamilton Wentworth Retirement Fund Pension Plan (HWRF), and
Employees of The Hamilton Street Railway Company Pension Plan (HSR)

("the City of Hamilton") for the year ended December 31, 2011. We enclose our *Report to the Audit, Finance and Administration Committee-Communication of audit results* to continue our dialogue with the committee on the audit of the City of Hamilton. This report provides an overview of the results of our audit including comments on misstatements, significant accounting policies, sensitive accounting estimates, and other matters that may be of interest to the committee.

This communication has been prepared to comply with the requirements outlined in CAS 260 *Communication with those Charged with Governance*. The information in this document is intended solely for the information and use of the Audit and Administration Committee, City Council and management. It is not intended to be distributed or used by anyone other than these specified parties.

We express our appreciation for the cooperation and assistance received from the management and staff of the City of Hamilton during the course of our audit.

If you have any particular comments or concerns, please do not hesitate to raise them at our scheduled meeting.

Yours sincerely,
Grant Thornton LLP

A handwritten signature in cursive script that reads "Melanie Dugard" followed by "LLP" in a smaller, less legible script.

Melanie Dugard, CA
Principal

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Report to the Audit, Finance and Administration Committee – Communication of audit results

The Corporation of the City of Hamilton
For the year ended December 31, 2011

Status of the audit

Outstanding items

We have substantially completed our audits of the Corporation of the City of Hamilton, the Trust Funds of the City of Hamilton, the Trust Funds – Homes for the Aged, City of Hamilton, HMRF, HWRF and HSR for the year ended December 31, 2011 and the results of these audits are included in this report.

We have attached our draft auditor's report for the City of Hamilton as Appendix A. We will finalize the report once Council has approved the financial statements. The following items were outstanding as at the date of this report:

- Receipt of signed management representation letter (draft has been attached as Appendix B);
- Approval of the financial statements by Council; and
- Receipt of the responses to our legal enquires.

Planned audit approach

We have successfully executed our audit strategy in accordance with the plan presented to the committee on February 13, 2012.

Report to the Audit, Finance and Administration Committee – Communication of audit results

The Corporation of the City of Hamilton
For the year ended December 31, 2011

Audit results

Our audit identified the adjusted and/or unadjusted non-trivial differences noted below.

Summary of adjustments

Differences identified and adjusted in the consolidated financial statements by the City of Hamilton as a result of our audit procedures were as follows:

Adjusted differences	Over/(Under) statement of:			
	Assets	Liabilities	Accumulated surplus	Annual surplus
To correct the estimate for tangible capital assets for roads contributed by developers	\$ (5,819,076)	\$ -	\$ -	\$ (5,819,076)
Total adjusted differences	\$ (5,819,076)	\$ -	\$ -	\$ (5,819,076)

Non-trivial differences noted during the course of our audit but not adjusted in the consolidated financial statements were as follows:

Unadjusted differences	Over/(Under) statement of:			
	Assets	Liabilities	Accumulated surplus	Annual surplus
To record the estimate for additions to tangible capital assets as a result of sampling differences in water wastewater capital project expenditures and accrued liabilities.	\$ (2,739,152)	\$ (2,739,152)	\$ -	\$ -
Total unadjusted differences	\$ (2,739,152)	\$ (2,739,152)	\$ -	\$ -

We have reviewed the unadjusted differences with management and determined that since the net impact on annual surplus is nil, no adjustment is required.

Summary of disclosure matters

Our audit did not identify any misstatements.

Report to the Audit, Finance and Administration Committee – Communication of audit results
The Corporation of the City of Hamilton
For the year ended December 31, 2011

Reportable matters

Internal control

Management is responsible for the design and operation of an effective system of internal control that provides reasonable assurance that the accounting system provides timely, accurate and reliable financial information, and safeguards the assets of the City.

The audit is designed to express an opinion on the consolidated financial statements. Our understanding of internal control is sufficient to enable us to plan the audit and to determine the nature, timing and extent of tests to be performed. However, if we become aware of a deficiency in your internal controls systems, auditing standards requires us to communicate to the Audit and Administration Committee those deficiencies we consider significant or material. However, a financial statement audit is not designed to provide assurance on internal control.

During the course of performing our audit, we did not identify any significant deficiencies or material weaknesses in internal controls. We have provided management with advisory comments relating to IT controls, in a separate letter.

Significant new accounting policies

There were no significant new accounting policies noted in the year.

In 2009, the City implemented PS3150 *Tangible Capital Assets*. As part of the on-going review of the maintenance of these records, management and staff determined that a change in the accounting policy for the capitalization of buildings would provide better information in the financial statements. As a result, a prior period adjustment is reflected in the financial statements for this change in policy. As part of the audit, we tested the data relating to the change in policy, as well as the supporting note disclosures.

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Sensitive accounting estimates and disclosures

Management has the responsibility for applying judgement in preparing the accounting estimates and disclosures contained within the financial statements. The fact that estimates are used in the preparation of the financial statements is outlined in Note 1 to the financial statements. The following are particularly sensitive estimates and disclosures included within the financial statements:

1. Liabilities for employee benefits and other obligations
2. Liabilities for solid waste management facilities
3. Allowance for doubtful accounts
4. Contingent liabilities and public liability claims
5. Portfolio investments

Liability for employee benefits and other obligations:

The City has recognized liabilities in the financial statements for future employee benefits and pension obligations. Employee benefits include vested sick leave, workers safety and insurance, long term disability, vacation pay and retiree benefits.

The objective is to recognize a liability in the reporting period in which employees have provided the services that gives rise to the benefits. The amounts recorded by the City are determined based on actual entitlements less usage and an actuarial valuation for post employment benefits. The calculation of the liability for employee benefits requires management to make certain estimates, including rate of annual compensation increase, inflation rate and discount rate.

The liability is determined through actuarial valuation. As part of our audit, we review the reasonability of the assumptions used by the actuary and communicate with the actuary with respect to their independence and ability to provide information in accordance with the CICA's Public Sector Handbook.

Liabilities for solid waste management facilities:

Accounting recommendations require that the costs for closure and post-closure costs relating to the City's landfill sites (both closed and open) be recognized as a liability. This liability is an estimate of how long the open landfill site will remain open, future diversion rates, and future costs associated with maintaining closed sites. We test support for significant costs, and reports provided by third party specialists relating to significant assumptions included in the estimated liability.

Allowance for doubtful accounts:

For tax revenue and other revenues, amounts are billed but may not be collected as of December 31, 2011. For uncollected accounts, management estimates the collectability of these receivables based on their age and considering the success of efforts to-date in communicating with the taxpayer or customer. As part of our audit, we review the age of the receivables and search for any subsequent receipts or relevant communications to assess management's estimate for reasonability.

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Contingent liabilities and public liability claims:

Estimates are included in the financial statements when management does not have final information to make an adjustment. This occurs when union contract negotiations will likely result in a liability impacting the current fiscal year, but the details have not been finalized. Management will accrue for an estimated liability based on the best information available at the time the financial statements are prepared. Where it is not possible to properly estimate a future liability, management has stated this in the notes. Our audit work includes determining the nature of the contingency, reviewing the potential outcome with the legal department, and assessing the reasonability of the information provided.

Portfolio investments

Portfolio investments include restructured third-party sponsored and bank sponsored asset backed commercial paper (ABCP) of \$67,877,000. The original cost of these investments, on restructuring, was \$86,283,000. The financial statements reflect an estimated write-down on the future recoverability of these investments based on current and projected market conditions. As part of the audit, we engage a third-party valuator to assist in the assessment of the value of these investments.

Cooperation during the audit

We report that we received full cooperation from management and the employees of the City of Hamilton. To our knowledge, we were provided access to all necessary records and other documentation and any issues that arose as a result of our audit were discussed with management and have been resolved to our satisfaction.

Consultations with other accountants

To our knowledge, management did not seek the advice or opinion of other external accountants on financial reporting or accounting matters.

Fraud and illegal acts

Our inquiries of management did not reveal any fraud or illegal acts.

Independence

As external auditors of the City of Hamilton, we are required to be independent in accordance with Canadian professional standards. These standards require that we disclose to the Audit and Administration Committee all relationships that, in our professional judgement, may reasonably be thought to bear on our independence. We have provided a letter to the Audit, Finance and Administration Committee, dated January 12, 2012, which confirms our independence with respect to the City of Hamilton. As of the date of this report, we re-confirm our independence.

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Technical updates

Canadian standards in transition

Accounting and Auditing standards

Recent changes in accounting and auditing standards were presented in the Report to the Audit, Finance & Administration Committee dated January 12, 2012.

Appendix A – Draft Independent auditor's report

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Hamilton

We have audited the accompanying consolidated financial statements of the Corporation of the City of Hamilton, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Hamilton as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Hamilton, Canada
June 13, 2012

Chartered Accountants
Licensed Public Accountants

Appendix B – Draft Management representation letter

June 13, 2012

Grant Thornton LLP
Chartered Accountants
33 Main Street East
Hamilton, ON
L8N 2K5

Dear Ms. Dugard:

We are providing this letter in connection with your audit of the consolidated financial statements of the Corporation of the City of Hamilton as of December 31, 2011, and for the year then ended, for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Corporation of the City of Hamilton in accordance with Canadian public sector accounting standards.

We acknowledge that we have fulfilled our responsibilities for the preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards and for the design and implementation of internal controls to prevent and detect fraud and error. We have assessed the risk that the consolidated financial statements may be materially misstated as a result of fraud, and have determined such risk to be low. Further, we acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards (GAAS) so as to enable you to express an opinion on the consolidated financial statements. We understand that while your work includes an examination of the accounting system, internal controls and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose, fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the consolidated financial statements would influence the decision of a reasonable person relying on the consolidated financial statements.

We confirm, to the best of our knowledge and belief, as of June 13, 2012, the following representations made to you during your audit.

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Financial statements

- 1 The consolidated financial statements referred to above present fairly, in all material respects, the financial position of the City as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards, as agreed to in the terms of the audit engagement.

Completeness of information

- 2 We have made available to you all financial records and related data and all minutes of the meetings of council, and committees of council, as agreed in the terms of the audit engagement
- 3 There are no material transactions that have not been properly recorded in the accounting records underlying the consolidated financial statements. The adjusting journal entries which have been proposed by you are approved by us and will be recorded on the books of the City.
- 4 There were no restatements made to correct a material misstatement in the prior period consolidated financial statements that affect the comparative information. A change in accounting policy has resulted in a material change to the prior period tangible capital asset balances which has been disclosed in note 1 to the financial statements.
- 5 We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.
- 6 We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated financial statements or as the basis of recording a contingent loss.
- 7 We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting of which we are aware.
- 8 We have identified to you all known related parties and related party transactions, including revenues, expenditures, debt, transfers of assets, liabilities and services, leasing arrangements guarantees, non-monetary transactions and transactions for no consideration.

Fraud and error

- 9 We have no knowledge of fraud or suspected fraud affecting the City involving management; employees who have significant roles in internal control; or others, where the fraud could have a non-trivial effect on the consolidated financial statements.
- 10 We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, analysts, regulators or others.
- 11 We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- 12 We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

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Recognition, measurement and disclosure

- 13 We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, both financial and non-financial, reflected in the consolidated financial statements.
- 14 All related party transactions have been appropriately measured and disclosed in the consolidated financial statements.
- 15 The nature of all material measurement uncertainties has been appropriately disclosed in the consolidated financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the consolidated financial statements.
- 16 All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the consolidated financial statements.
- 17 All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated financial statements.
- 18 With respect to environmental matters:
 - (a) at year end, there were no liabilities or contingencies that have not already been disclosed to you;
 - (b) liabilities or contingencies have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements; and
 - (c) commitments have been measured and disclosed, as appropriate, in the consolidated financial statements.
- 19 The City has satisfactory title to (or lease interest in) all assets, and there are no liens or encumbrances on the City's assets nor has any been pledged as collateral.
- 20 We have disclosed to you, and the City has complied with, all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
- 21 The Harmonized Sales Tax (HST) transactions recorded by the City are in accordance with the federal and provincial regulations. The HST liability/receivable amounts recorded by the City are considered complete.
- 22 Employee future benefit costs, assets, and obligations have been determined, accounted for and disclosed in accordance with the requirements of Section PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits* of the Canadian Institute of Chartered Accountants Public Sector Handbook.
- 23 There have been no events subsequent to the date of the statement of financial position up to the date hereof that would require recognition or disclosure in the consolidated financial statements. Further, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those financial statements and related notes.

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Other

24 We have considered whether or not events have occurred or conditions exist which may cast significant doubt on the City of Hamilton's ability to continue as a going concern and have concluded that no such events or conditions are evident.

Yours very truly,

(City Manager)

(Treasurer)