

City of Hamilton
2014 Consolidated Financial Statements
Analysis – May 2015

General

The City of Hamilton’s 2014 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 Chartered Professional Accountants of Canada (CPA).

These financial statements, Appendix “B” to Report FCS15045, are based on the full accrual basis of accounting under the CPA Public Sector Accounting Handbook sections PS1201 Financial Statement Presentation. The consolidated statement of financial position provides a summary of the City’s financial position as of the end of the year while the consolidated statement of operations provides a summary of the financial activity during the year.

Under the full accrual basis, expenditures related to the purchase and acquisition of tangible capital assets are reported as non-financial assets on the statement of financial position rather than as expenses in the statement of operations. Amounts received that relate to expenditures of future periods are recorded as deferred revenue and reported as liabilities on the statement of financial position. Expenses are reported on the statement of operations by functional area. Expenses are also broken out by salaries and benefits, interest on long-term debt, materials and supplies, contracted services, rents and financial expenses, external transfers, and amortization of tangible capital assets over the useful life of the assets in the Schedule of Operations for Business Segments. Expenses include 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. In addition to taxation and investment income, reported revenues include government grants and development charges recognized in the period as well as tangible capital assets donated to the City.

The operating and capital budgets are prepared on the modified accrual basis of accounting. 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.

The consolidated financial statements report the financial transactions and estimates made by management during 2014. The consolidated financial statements report the City’s municipal operations including all departments, Hamilton Police Services, Library, Housing, Business Improvement Areas and government business enterprises (Hamilton Utilities Corporation and Hamilton Renewable Power Inc.).

2014 City of Hamilton Consolidated Financial Statements Analysis

The Consolidated Financial Statements consist of:

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

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 increased in 2014 by \$104.4 million to \$1.488 billion and is reported in the consolidated financial statements as:

	<u>2014</u> \$000's	<u>2013</u> \$000's
Financial Assets		
Cash and cash equivalents	\$ 183,476	\$ 100,255
Taxes receivable	82,976	80,067
Accounts receivable	117,395	101,465
Other assets	617	475
Long term receivables	48,995	49,383
Portfolio investments	830,513	816,219
Investment in Government Business Enterprises	<u>223,724</u>	<u>235,392</u>
Total financial assets	<u>\$ 1,487,696</u>	<u>\$ 1,383,256</u>

Cash and cash equivalents \$ 183.5M (2014) \$100.3M (2013)

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, and CityHousing Hamilton bank. The balance increased in 2014 from 2013 as more money was held in the bank at year end.

Taxes Receivable \$83.0M (2014) \$80.1M (2013)

Taxes receivable represent unpaid property tax bills net of estimates for allowances for uncollectible accounts. Taxes Receivable represent 8.4% of current year's tax levies (2013 – 8.4%). The 2014 balance includes an allowance for doubtful accounts of \$3.7M (2013 - \$1.6M).

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Accounts Receivable \$117.4M (2014) \$101.5M (2013)

Accounts receivable represents revenues earned by the City but not received at year end net of estimates of allowances for uncollectible accounts. The 2014 balance consists of water and wastewater receivables (\$38M), general receivables & accruals (\$35.9M), HST receivables (\$25.2M), provincial and federal grants receivable (\$14M), and interest receivable (\$4.3M).

Long Term Receivables \$49.0M (2014) \$49.4M (2013)

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>2014</u> \$000's	<u>2013</u> \$000's
Development charge deferral agreements	\$ 18,990	\$ 21,482
Mortgages receivable:		
Downtown convert to rent program	19,250	15,026
Hamilton Renewable Power Inc.	2,649	3,460
Sheraton Hotel loan	1,296	1,308
Other City loan programs	5,656	6,398
Loans to other agencies and organizations	5,469	5,759
Less: Provision for loans with concessionary terms	<u>(4,315)</u>	<u>(4,050)</u>
	\$ 48,995	\$ 49,383

Portfolio investments \$830.5M (2014) \$816.2M (2013)

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 \$864.7 million.

Investment in Government Business Enterprises \$223.7M (2014) \$235.4M (2013)

Investment in Government Business Enterprises represents net equity of the consolidation of the City's subsidiary corporations, Hamilton Utilities Corp. (HUC) and Hamilton Renewable Power Inc. (HRPI). 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 Chartered Professional Accountants of Canada (CPA). 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. Dividends received in 2014 consisted of \$11.4 million from HUC and \$296,000 from HRPI.

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Liabilities

The City's total liabilities position increased in 2014 by \$132.2 million to \$1.347 billion and is reported in the consolidated financial statements as:

	<u>2014</u> \$000's	<u>2013</u> \$000's
Liabilities		
Accounts payable and accrued liabilities	\$ 315,925	\$ 247,375
Deferred revenue - general	37,203	44,155
Deferred revenue - obligatory reserve funds	194,868	196,705
Long term liabilities – Municipal Operations	363,811	299,877
Long term liabilities – Housing Corporations	74,675	79,650
Employee future benefits and other obligations	334,709	318,645
Solid waste landfill liabilities	<u>26,084</u>	<u>28,655</u>
Total liabilities	<u>\$ 1,347,275</u>	<u>\$ 1,215,062</u>

Accounts Payable and Accrued Liabilities \$315.9M (2014) \$247.9M (2013)

Accounts Payable and Accrued Liabilities represent obligations owing by the City to third parties and employees at year end. The balance primarily consists of amounts payable to vendors and contractors (\$155.7M), payroll accruals (\$41.7M), amounts for insurance claims (\$21.8M), security deposits (\$16.0M), and the present value of the City's commitment to the Randle Reef remediation project (\$12.5M).

Deferred Revenue -General \$37.2M (2014) \$44.1M (2013)

Deferred Revenue represents amounts received that will be recorded as revenue in future years to match expenditures incurred for goods received and services performed. The balance includes federal and provincial government grants and subsidies (\$3.5M), future urban roads (\$8.7M), housing (\$13.6M), General Deferred (\$3.9M), and forestry (\$2.8M).

Deferred Revenue – Obligatory Reserve Funds \$194.9M (2014) \$196.7M (2013)

Deferred Revenue – Obligatory Reserve Funds represents amounts received that will be recorded as revenues in future years to match expenditures incurred for goods received and services performed. The balance includes:

	<u>2014</u> \$000's	<u>2013</u> \$000's
Development charge reserve funds	\$ 98,267	\$ 81,990
Subdivider contributions	54	52
Recreational land dedicated under the Planning Act	24,115	21,293
Gasoline tax revenue: Provincial	26,522	27,618
Federal	29,743	29,563
Building Permit Revenue	16,140	14,918
Other (Ivor Wynne)	<u>27</u>	<u>21,271</u>
	<u>\$ 194,868</u>	<u>\$ 196,705</u>

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Development Charge and Special Area Reserve Fund balances increased in 2014 with \$48.1 million in collections and \$8 million in exemption funding. Transfers to finance capital projects of \$32.2 million and transfers to operating of \$8.3 million. During 2014 the City received and accrued federal gas tax transfers of \$30.1 million and provincial gas tax transfers of \$10.4 million. Federal Gas Tax was allocated to capital upgrades to roads and bridges for \$31.7 million. The provincial gas tax was allocated to transit related projects (\$1.1M) and transit operating budget (\$11M). During 2014 the City received parkland dedication fees of \$8.4 million and \$6.6 million was allocated to capital projects for future development of city parks. Approximately \$0.9 million of the surplus building permit revenue in 2014 was transferred to the building permit revenue reserve fund. A reserve fund established in 2011 with funds received from the Province for the reconstruction of Ivor Wynne Stadium (Tim Horton's Field) for the 2015 Pan Am Games has grown with investment income to \$21.6M and was recognized as revenue in 2014.

Long Term Liabilities – Municipal Operations \$363.8M (2014) \$299.9M (2013)
 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 2014 the City made principal repayments on long term debt of \$33.9 million (2013 - \$32.8M) and principal repayments on leased tangible capital assets of \$1.1 million (2013 - \$2.0M). New debt was issued in 2014 for \$99.0 million for capital projects (2013 – \$0).

Long Term Liabilities – Housing Operations \$74.7M (2014) \$79.7M (2013)
 Long Term Liabilities – Housing Operations represents the outstanding principal for loans and mortgages obtained to finance certain housing capital expenditures and asset purchases. In 2014 CityHousing Hamilton made principal repayments on long term debt of \$5.0 million (2013 - \$4.8M). No new debt was issued in 2014 to finance the acquisition of new property and buildings (2013 - \$0).

Housing debenture debt issued by the Ontario Housing Corporation remains the obligation of the Province of Ontario as a result debenture debt of \$24.4 million (2013 - \$28.0M) is not reported in the consolidated financial statements.

Employee Future Benefits and Other Obligations \$334.7M (2014) \$318.6M (2013)
 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 2014 estimates are provided by independent actuaries from actuarial valuations performed for 2014 or performed for earlier years and extrapolated for 2014. The estimates use assumptions for inflationary increases of 2% to 2.25% annually, a discount rate of 3.75% to 4%, payroll increases of 3% to 3.5% and

2014 City of Hamilton Consolidated Financial Statements Analysis

increases in pension plan assets of 5.75%. Projections for retirement benefits assume that drug costs will increase by 8.0% in 2014 with future annual increases grading down linearly by 0.25% to an ultimate rate of 4.0% 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.

The employee future benefits and other obligations are summarized in the consolidated financial statements as:

	<u>2014</u> \$000's	<u>2013</u> \$000's
Accrued Benefit Obligation		
Sick leave benefit plan	\$ 54,263	\$ 51,144
Long term disability plan	20,970	19,362
Workplace safety and insurance board liabilities (WSIB)	71,022	70,086
Retirement benefits	132,528	127,236
Vacation benefits	25,012	24,572
Pension benefit plans	<u>103,051</u>	<u>107,393</u>
	406,846	399,793
Net unamortized actuarial loss	<u>(72,137)</u>	<u>(81,148)</u>
Accrued Liability	\$ 334,709	\$ 318,645
Less: Provisions in Reserves	<u>(68,370)</u>	<u>(66,360)</u>
Unfunded Liability	\$ 266,339	\$ 252,285

PSAB's disclosure requirements for employee benefits and other obligations are quite extensive. Notes 9 and 10 to the Consolidated Financial Statements provide the details of the actuarial valuations, the actuarial gains and losses, payments and expenses related to these liabilities.

Actuarial gains and losses, permitted in the PSAB accounting standards, result from changes in valuation assumptions used for the current valuations versus previous valuations. The net unamortized actuarial loss of \$72.1 million represents a loss in long term disability of \$2,000, a loss in retirement benefits of \$29.6 million, a loss in WSIB liabilities of \$3.3 million, a loss in sick leave obligations of \$10.7 million and a loss in the pension plans of \$28.5 million. These actuarial gains and losses will be spread over future periods and recognized as expenses under the category of salaries and benefits in the Statement of Operations.

Provisions have been made in the reserves for \$68.4 million (2013 - \$66.4 million) to fund a portion of these liabilities. These liabilities are only 20.4% funded (2013 - 20.8%) and there is no PSAB requirement to fund the net unfunded liability portion of these employee benefits of \$266.3 million from reserves or taxation at this time. These unfunded liabilities can be funded in future years as amounts are expensed in the operating budget for actual payments.

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Solid Waste Landfill Liabilities \$26.1M (2014) \$28.7M (2013)

This amount represents the estimate of the liability for closure and post closure costs of the City's twelve closed and one open landfill sites. The liability is calculated by discounting the future years' expected cash outflows for the spending on eligible activities on the landfill sites. For liability calculation purposes the open landfill site has been divided into two phases. Phase 1 is expected to close in 2018 and Phase 2, which has yet to begin accepting fill, is expected to close in 2043. Expenses for the post-closure care of the open landfill site are estimated for 50 years after each phase is expected to close. 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 2014 was 50% (2013 – 50%).

Provisions have been made in a reserve of \$925,000 (2013 - \$903,000) 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 2014 by \$214.0 million to \$4.976 billion and is reported in the consolidated financial statements as:

	<u>2014</u> \$000's	<u>2013</u> \$000's
Non-Financial Assets		
Tangible capital assets	\$ 4,958,172	\$ 4,740,675
Inventories	10,711	9,928
Prepaid expenses	<u>6,948</u>	<u>11,256</u>
	\$ 4,975,831	\$ 4,761,859

Tangible Capital Assets (TCAs) \$5.0B (2014) \$4.7B (2013)

The City's general and infrastructure tangible capital assets include land, land improvements, buildings, vehicles, computer, other machinery and equipment, roads, bridges and structures, water and wastewater plants and facilities and underground infrastructure networks. The net book value of \$5.0 billion represents the cost of the tangible capital assets less accumulated amortization over the life of the assets. The TCA total includes amounts spent to the end of the year on tangible capital assets under construction.

A summary of the tangible capital assets valued as at December 31, 2014 include:

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	<u>2014</u> \$000's	<u>2013</u> \$000's
General		
Land	\$ 287,316	\$ 265,406
Land improvements	137,563	142,054
Buildings	583,083	570,509
Vehicles	100,547	109,191
Computer hardware and software	6,701	4,928
Other	88,164	90,596
Infrastructure		
Roads	1,188,995	1,183,951
Bridges and structures	183,252	176,442
Water and wastewater facilities	391,440	388,850
Underground and other networks	<u>1,631,570</u>	<u>1,585,462</u>
Net Book Value	\$ 4,598,631	\$ 4,517,389
Assets under construction	<u>359,541</u>	<u>223,286</u>
Total	\$ 4,958,172	\$ 4,740,675

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, 2014 is estimated at \$18.5 billion.

Inventories	\$10.7M (2014)	\$9.9M (2013)
Prepaid expenses	\$ 6.9M (2014)	\$11.3M (2013)

Two other categories of non-financial assets are inventories of goods for use in the delivery of services and prepaid expenses for purchases made in 2014 for expenses to be incurred in 2015.

Accumulated Surplus**Net Municipal Financial Position****\$5.116B (2014) \$4.930B (2013)**

The City's accumulated surplus represents the net municipal financial position in PSAB's financial statement presentation requirements for 2014. The balance is comprised of the following:

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	<u>2014</u> \$000's	<u>2013</u> \$000's
Accumulated surplus (Net municipal financial position)		
Operating surplus of BIA, Flamborough Recreation sub-committee, Confederation Park and Westfield Heritage Village	\$ (668)	\$ (701)
Operating surplus – housing	(1,194)	630
Capital surplus – municipal	39,802	(7,709)
Capital surplus – housing	3,516	9,451
Reserves and Reserve Funds	683,061	667,780
 Unfunded liabilities – Employee benefits	(313,254)	(297,989)
Unfunded liabilities – Landfill sites	(26,084)	(28,655)
 Investment in Government Business Enterprises	223,724	235,392
 Investment in tangible capital assets	<u>4,507,349</u>	<u>4,351,854</u>
 Total accumulated surplus	\$ 5,116,252	\$ 4,930,053

Consolidated Statement of Operations

The Consolidated Statement of Operations represents the revenue and expenses under the PSAB format for financial statements 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 \$10.8 million as reported in report FCS14047.

The annual surplus in the Consolidated Statement of Operations of \$189.8 million represents the excess of revenue over expenses for 2014 under PSAB's full accrual basis of accounting and, therefore, is a different surplus than the operating budget surplus reported to Council.

Revenue increased by \$147.8 million to \$1.731 billion in 2014 from \$1.584 billion in 2013 and is reported in the Consolidated Statement of Operations as:

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	Budget <u>2014</u> \$000's	Actual <u>2014</u> \$000's	Actual <u>2013</u> \$000's
Revenue			
Taxation	\$ 788,754	\$ 792,317	\$ 764,684
Government grants and contributions	371,680	418,772	341,258
User charges	293,583	298,888	280,712
Development charges and subdivider contributions	45,252	47,102	22,031
Donated tangible capital assets	29,800	36,584	29,821
Investment and dividend income	31,613	35,452	32,268
Net income from Government Business Enterprises	-	3,622	15,449
Other	<u>128,606</u>	<u>98,716</u>	<u>97,371</u>
Total revenue	\$ <u>1,689,288</u>	\$ <u>1,731,453</u>	\$ <u>1,583,594</u>

The increase in taxation revenue includes the 2014 Operating Budget property tax increase of 1.5%.

Government grants and contributions increased by \$77.5 million in 2014 from 2013. Significant government grants and contributions for operating budget programs and capital projects include:

	<u>2014</u> \$ millions	<u>2013</u> \$ millions
Ontario Works	117.0	113.0
Child Care	44.7	42.0
Public Health Services	32.7	31.8
Social Housing	25.6	26.0
Federal Gas Tax	31.6	22.2
Homes for the Aged	20.3	19.5
Emergency Medical Services - Ambulance	19.4	18.7
Homelessness	19.0	17.5
Pan American and Parapan American Games	63.3	14.9
Provincial Gas Tax	12.1	8.9
Ontario Municipal Partnership Fund (OMPF)	-	5.7
Other capital grants	5.3	3.0
Canada Strategic Infrastructure Fund	-	1.4
TradePort Infrastructure Funding	7.0	-
Other operating program grants	20.4	16.6

User charges of \$299.0 million primarily consist of water and wastewater revenues of \$173.0 million (\$160.5 million in 2013) and transit fares and fees of \$55.9 million (\$51.5 million in 2013). Other user fees are recorded in Recreation & Cultural Services of \$20.7 million (\$20.3 million in 2013), Social and Family Services of \$12.5 million (\$12.1 million in 2013), Waste Diversion & Disposal of \$9.8 million (\$9.4 million in 2013),

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Planning and Development of \$8.5 million (\$7.6 million in 2013) and Protection Services of \$5.9 million (\$5.5 million in 2013).

Development charges and subdividers' contributions of \$47.1 million was recognized as revenue in 2014 while unearned revenue is recorded as deferred revenue on the Statement of Financial Position.

Donated tangible capital assets of \$36.6 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 investment income of \$35.4 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 \$3.6 million from HUC and HRPI for 2014 (\$15.4 million in 2013). This includes dividends paid to the City in 2014 of \$11.4 million from HUC (\$11.4 million in 2013) and \$296,000 from HRPI (\$306,000 in 2013). The "other comprehensive income (loss) from Government Business Enterprises" was a \$3.6 million loss in 2014 (2013 - \$1.0 million income) and represents the remeasurement gains and losses arising from HUC's post-employment liabilities.

Other Revenue of \$98.7 million represents revenue from licenses and permits of \$16.2 million (\$16.0 million in 2013), rents of \$40.5 million (\$40.1 million in 2013), fines and penalties of \$28.1 million (\$27.3 million in 2013) and other miscellaneous revenue of \$12.1 million (\$13.1 million in 2013).

Expenses increased by \$68.1 million to \$1.542 billion in 2014 from \$1.474 billion in 2013 and are reported in the Consolidated Statement of Operations as:

	Budget <u>2014</u> \$000's	Actual <u>2014</u> \$000's	Actual <u>2013</u> \$000's
Expenses			
General government	\$ 51,065	\$ 50,906	\$ 57,987
Protection services	281,588	283,934	278,774
Transportation services	300,608	323,253	282,486
Environmental services	206,537	206,052	198,720
Health services	99,874	91,846	91,564
Social and family services	281,372	284,733	276,984
Social housing	96,567	111,650	100,098
Recreation and cultural services	150,111	142,383	145,064
Planning and development	<u>44,731</u>	<u>46,863</u>	<u>41,825</u>
Total expenses	<u>\$1,512,453</u>	<u>\$ 1,541,620</u>	<u>\$ 1,473,502</u>

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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.

Expenses are summarized in the following categories as:

	<u>2014</u> \$ millions	<u>2013</u> \$ millions
Salaries and benefits	\$ 693.1	\$ 667.7
Interest on long term debt	13.2	14.7
Materials and supplies	212.1	199.6
Contracted services	237.9	213.5
Rents and financial expenses	32.8	28.9
External transfers	177.4	176.4
Amortization	<u>175.1</u>	<u>172.7</u>
Total	\$1,541.6	\$1,473.5

Primary drivers for the increase in expenses relate to \$13 million in non-tangible capital asset expenses from capital projects (materials and supplies; contracted services), \$11 million in retroactive payments (salaries and benefits), and \$5 million related to expenses recognized as a result of the change in estimated liability related to post-employment benefits (salaries and benefits).