

**City of Hamilton
2015 Consolidated Financial Statements
Analysis – May 2016**

General

The City of Hamilton's 2015 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 FCS16051, 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, contaminated sites, and 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.

2015 City of Hamilton Consolidated Financial Statements Analysis

The consolidated financial statements report the financial transactions and estimates made by management during 2015. 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.).

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; and,
- 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 decreased in 2015 by \$113.7M to \$1.374B and is reported in the consolidated financial statements as:

	<u>2015</u> \$000’s	<u>2014</u> \$000’s
Financial Assets		
Cash and cash equivalents	\$ 93,009	\$ 183,476
Taxes receivable	85,429	82,976
Accounts receivable	117,683	117,395
Other assets	674	617
Long term receivables	53,737	48,995
Portfolio investments	790,720	830,513
Investment in Government Business Enterprises	<u>232,811</u>	<u>223,724</u>
Total financial assets	<u>\$ 1,374,063</u>	<u>\$ 1,487,696</u>

Cash and cash equivalents \$93.0M (2015) \$183.5M (2014)
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 decreased in 2015 from 2014 as less money was held in the bank at year end. Of note, no debenture proceeds were received in 2015 (2014 - \$99.0M).

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Taxes Receivable \$85.4M (2015) \$83.0M (2014)
 Taxes receivable represent unpaid property tax bills net of estimates for allowances for uncollectible accounts. Taxes Receivable represent 8.7% of current year's tax levies (2014 – 8.7%). The 2015 balance includes an allowance for doubtful accounts of \$5.2M (2014 - \$3.7M).

Accounts Receivable \$117.7M (2015) \$117.4M (2014)
 Accounts receivable represents revenues earned by the City but not received at year end net of estimates of allowances for uncollectible accounts. The 2015 balance consists of water and wastewater receivables (\$38.0M), general receivables & accruals (\$30.6M), HST receivables (\$16.8M), provincial and federal grants receivable (\$16.2M), and interest receivable (\$4.1M).

Long Term Receivables \$53.7M (2015) \$49.0M (2014)
 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>2015</u> \$000's		<u>2014</u> \$000's
Development charge deferral agreements	\$	17,847	\$	18,990
Mortgages receivable:				
Downtown convert to rent program		18,428		19,250
Hamilton Utilities Corporation		7,776		-
Hamilton Renewable Power Inc.		2,649		2,649
Sheraton Hotel loan		1,192		1,296
Other City loan programs		4,836		5,656
Loans to other agencies and organizations		4,931		5,469
Less: Provision for loans with concessionary terms		<u>(3,922)</u>		<u>(4,315)</u>
	\$	53,737	\$	48,995

Portfolio investments \$790.7M (2015) \$830.5M (2014)
 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 \$828M.

Investment in Government Business Enterprises \$232.8M (2015) \$223.7M (2014)
 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

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	<u>2015</u> \$000's	<u>2014</u> \$000's
Development charge reserve funds	\$ 131,527	\$ 98,267
Subdivider contributions	55	54
Recreational land dedicated under the Planning Act	31,357	24,115
Gasoline tax revenue: Provincial	22,389	26,522
Federal	24,066	29,743
Building Permit Revenue	17,323	16,140
Other (Ivor Wynne)	<u>28</u>	<u>27</u>
	<u>\$ 226,745</u>	<u>\$ 194,868</u>

Development Charge and Special Area Reserve Fund balances increased in 2015. The increase is made up of \$58.7M in collections less transfers to finance capital projects of \$9.4M and transfers to operating of \$16.2M. During 2015 the City received and accrued federal gas tax transfers of \$30.1M and provincial gas tax transfers of \$10.6M. Federal Gas Tax was allocated to capital upgrades to roads and bridges for \$30.6M and to transit for \$6.0M. The provincial gas tax was allocated to transit related projects (\$4.4M) and transit operating budget (\$11.0M). During 2015 the City received parkland dedication fees of \$6.7M and \$0.6M was allocated to capital projects for future development of city parks. Approximately \$0.9M of the surplus building permit revenue in 2015 was transferred to the building permit revenue reserve fund. “Other (Ivor Wynne)” refers to a reserve fund that was 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.

Long Term Liabilities – Municipal Operations \$321.6M (2015) \$363.8M (2014)
 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 2015, the City made principal repayments on long term debt of \$41.0M (2014 - \$33.9M) and principal repayments on leased tangible capital assets of \$1.1M (2014 - \$1.1M). No debt was issued in 2015 for capital projects (2014 – \$99.0M).

Long Term Liabilities – Housing Operations \$69.5M (2015) \$74.7M (2014)
 Long Term Liabilities – Housing Operations represents the outstanding principal for loans and mortgages obtained to finance certain housing capital expenditures and asset purchases. In 2015 CityHousing Hamilton made principal repayments on long term debt of \$5.2M (2014 - \$5.0M). No new debt was issued in 2015 (2014 - \$99.0).

Housing debenture debt issued by the Ontario Housing Corporation remains the obligation of the Province of Ontario as a result debenture debt of \$20.7M (2014 - \$24.4M) is not reported in the consolidated financial statements.

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Employee Future Benefits and Other Obligations \$349.0M (2015) \$334.7M (2014)

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 (not the year in which expenses are paid out).

The 2015 estimates are provided by independent actuaries from actuarial valuations performed for 2015 or performed for earlier years and extrapolated for 2015. The estimates use assumptions for inflationary increases of 2% to 2.25% annually, a discount rate of 3.75% to 5.75%, payroll increases of 3% to 3.5% and increases in pension plan assets of 5.75%. Projections for retirement benefits assumed that drug costs would 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>2015</u> \$000's	<u>2014</u> \$000's
Accrued Benefit Obligation		
Sick leave benefit plan	\$ 55,029	\$ 54,263
Long term disability plan	22,729	20,970
Workplace safety and insurance board liabilities (WSIB)	75,572	71,022
Retirement benefits	138,789	132,528
Vacation benefits	26,077	25,012
Pension benefit plans	<u>26,268</u>	<u>103,051</u>
	344,464	406,846
Net unamortized actuarial gain (loss)	<u>4,543</u>	<u>(72,137)</u>
Accrued Liability	\$ 349,007	\$ 334,709
Less: Provisions in Reserves	<u>(69,093)</u>	<u>(68,370)</u>
Unfunded Liability	\$ 279,714	\$ 266,339

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 gain of \$4.5M represents a loss in long term disability of \$243,000, a loss in retirement benefits of \$25.1M, a loss in WSIB liabilities of \$1.9M, a loss in sick leave obligations of \$9.4M and a

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gain in the pension plans of \$41.1M. 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 \$69.1M (2014 - \$68.4M) to fund a portion of these liabilities. These liabilities are only 19.8% funded (2014 – 20.8%) and there is no PSAB requirement to fund the net unfunded liability portion of these employee benefits of \$279.9M 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.

Solid Waste Landfill Liabilities \$25.7M (2015) \$26.1M (2014)

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 2015 was 45% (2014 – 48%).

Provisions have been made in a reserve of \$1.0M (2014 - \$0.9M) 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 2015 by \$191.3M to \$5.467B and is reported in the consolidated financial statements as:

	<u>2015</u> \$000’s	<u>2014</u> \$000’s
Non-Financial Assets		
Tangible capital assets	\$ 5,150,288	\$ 4,958,172
Inventories	10,301	10,711
Prepaid expenses	6,533	6,948
	\$ 5,167,122	\$ 4,975,831

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Tangible Capital Assets (TCAs) \$5.2B (2015) \$5.0B (2014)

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 \$5.2B represents the cost of the tangible capital assets less accumulated amortization over the life of the assets. The TCA total includes the value of assets under construction.

A summary of the tangible capital assets valued as at December 31, 2015 include:

	<u>2015</u> \$000's	<u>2014</u> \$000's
General		
Land	\$ 304,977	\$ 287,316
Land improvements	135,252	137,563
Buildings	735,926	583,083
Vehicles	107,241	100,547
Computer hardware and software	7,876	6,701
Other	92,098	88,164
Infrastructure		
Roads	1,248,288	1,188,995
Bridges and structures	184,794	183,252
Water and wastewater facilities	385,404	391,440
Underground and other networks	<u>1,713,019</u>	<u>1,631,570</u>
Net Book Value	\$ 4,914,875	\$ 4,598,631
Assets under construction	<u>235,413</u>	<u>359,541</u>
Total	\$ 5,150,288	\$ 4,958,172

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, 2015 is estimated at \$18.8B.

Inventories	\$10.3M (2015)	\$10.7M (2014)
Prepaid expenses	\$ 6.5M (2015)	\$ 6.9M (2014)

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 2015 for expenses to be incurred in 2016.

Accumulated Surplus

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Revenue increased by \$32.1M to \$1.764B in 2015 from \$1.731B in 2014 and is reported in the Consolidated Statement of Operations as:

	Budget <u>2015</u> \$000's	Actual <u>2015</u> \$000's	Actual <u>2014</u> \$000's
Revenue			
Taxation	\$ 825,038	\$ 831,645	\$ 792,317
Government grants and contributions	356,347	384,363	418,772
User charges	300,911	315,340	298,888
Development charges and subdivider contributions	48,544	25,611	47,102
Donated tangible capital assets	43,571	43,571	36,584
Investment and dividend income	30,937	30,284	35,452
Net income from Government Business Enterprises	-	18,758	3,622
Other	<u>101,224</u>	<u>114,019</u>	<u>98,716</u>
Total revenue	<u>\$ 1,706,572</u>	<u>\$ 1,763,591</u>	<u>\$ 1,731,453</u>

The increase in taxation revenue includes the 2015 Operating Budget property tax increase of 2.7%.

Government grants and contribution revenue decreased by \$34.4M in 2015 from 2014. The drop in revenue is mainly attributable to the difference in the revenue recognized for the Pan Am Games (stadium construction). Significant government grants and contributions for operating budget programs and capital projects include:

	<u>2015</u> \$ M	<u>2014</u> \$ M
Ontario Works	124.3	117.0
Child Care	49.2	44.7
Public Health Services	33.0	32.7
Social Housing	31.0	25.6
Federal Gas Tax	36.6	31.6
Homes for the Aged	20.7	20.3
Emergency Medical Services - Ambulance	20.9	19.4
Homelessness	19.0	19.0
Pan American and Parapan American Games	7.7	63.3
Provincial Gas Tax	15.3	12.1
Other capital grants	0.3	5.3
TradePort Infrastructure Funding	1.0	7.0
Other operating program grants	25.4	20.4

User charges of \$315.3M primarily consist of water and wastewater revenues of \$181.8M (\$173.0M in 2014) and transit fares and fees of \$59.4M (\$55.9M in 2014).

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Other user fees are recorded in Recreation & Cultural Services of \$20.2M (\$20.7M in 2014), Social and Family Services of \$13.1M (\$12.5M in 2014), Waste Diversion & Disposal of \$9.3M (\$9.8M in 2014), Planning and Development of \$11.2M (\$8.5M in 2014) and Protection Services of \$5.9M (\$5.9M in 2014).

Development charges and sub-dividers’ contributions of \$25.6M was recognized as revenue in 2015 while unearned revenue is recorded as deferred revenue on the Statement of Financial Position.

Donated tangible capital assets of \$43.6M represent assets that were donated or contributed to the City by developers and recorded as revenue as per PSAB accounting standards.

Investment and dividend income consists of investment income of \$30.4M from City municipal and housing operations from fixed income securities, bank balances and deposits.

Net income from Government Business Enterprises represents net income of \$18.8M from HUC and HRPI for 2015 (\$3.6M in 2014). This includes dividends to the City in 2015 of \$9.6M from HUC (\$11.4M in 2014) and \$0.25M from HRPI (\$0.3M in 2014). The “other comprehensive income (loss) from Government Business Enterprises” was an income of \$0.2M in 2015 (2014 - \$3.6M loss) and represents the re-measurement gains and losses arising from HUC’s post-employment liabilities.

Other Revenue of \$114.0M represents revenue from licenses and permits of \$17.5M (\$16.2M in 2014), rents of \$39.9M (\$40.5M in 2014), fines and penalties of \$28.8M (\$28.1M in 2014) and other miscellaneous revenue of \$27.8M (\$12.1M in 2014).

Expenses increased by \$85.5M to \$1.627B in 2015 from \$1.542B in 2014 and are reported in the Consolidated Statement of Operations as:

	Budget <u>2015</u> \$000's	Actual <u>2015</u> \$000's	Actual <u>2014</u> \$000's
Expenses			
General government	\$ 54,251	\$ 57,664	\$ 55,906
Protection services	294,095	300,362	283,934
Transportation services	321,954	318,605	323,253
Environmental services	230,934	219,339	206,052
Health services	96,086	105,377	91,846
Social and family services	292,420	294,343	284,733
Social housing	103,981	120,898	111,650
Recreation and cultural services	163,254	155,720	142,383
Planning and development	<u>48,454</u>	<u>54,882</u>	<u>46,933</u>
Total expenses	<u>\$1,605,430</u>	<u>\$ 1,627,190</u>	<u>\$ 1,541,690</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 inter-functional 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>2015</u>	<u>2014</u>
	\$ M	\$ M
Salaries and benefits	\$ 723.3	\$ 693.1
Interest on long term debt	14.3	13.2
Materials and supplies	223.4	212.1
Contracted services	248.8	237.9
Rents and financial expenses	36.4	32.8
External transfers	202.9	177.4
Amortization	<u>178.1</u>	<u>175.2</u>
Total	\$1,627.2	\$1,541.7

Primary drivers for the increase in expenses relate to \$30M in salaries, benefits, pensions, \$28M in non-tangible capital asset expenses from capital projects (materials and supplies, contracted services, external transfers), and \$6.8M related to the loss on the disposition of tangible capital assets.