City of Hamilton
2017 Consolidated Financial Statements
Analysis – May 2018

General

The City of Hamilton's 2017 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 FCS18059, 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.

2017 City of Hamilton Consolidated Financial Statements Analysis

The consolidated financial statements report the financial transactions and estimates made by management during 2017. 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
- 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 2017 by $158.8M to $1.695B and is reported in the consolidated financial statements as:

	2017 $000's	2016 $000's
Financial Assets		
Cash and cash equivalents	$ 139,287	$ 148,185
Taxes receivable	77,918	83,730
Accounts receivable	120,405	107,965
Other assets	1,327	651
Long term receivables	52,124	48,312
Portfolio investments	947,928	900,035
Investment in Government Business Enterprises	356,098	247,386
Total financial assets	$ 1,695,087	$ 1,536,264

Cash and cash equivalents $139.0M (2017) $148.0M (2016)

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 City Housing Hamilton bank. The balance decreased in 2017 from 2016 as less money was held in the bank at year end.

2017 City of Hamilton Consolidated Financial Statements Analysis

Taxes Receivable $77.9M (2017) $83.7M (2016)

Taxes receivable represent unpaid property tax bills net of estimates for allowances for uncollectible accounts. Taxes Receivable represent 7.0% of current year's tax levies (2016 – 8.0%). The 2017 balance includes an allowance for doubtful accounts of $1.9M (2016 - $5.4M).

Accounts Receivable $120.4M (2017) $108.0M (2016)

Accounts receivable represents revenues earned by the City but not received at year end net of estimates of allowances for uncollectible accounts. The 2017 balance consists of water and wastewater receivables ($42.1M), general receivables & accruals ($22.9M), HST receivables ($11.4M), provincial and federal grants receivable ($22.5), and interest receivable ($4.9M).

Long Term Receivables $52.1M (2017) $48.3M (2016)

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:

	2017 $000's	2016 $000's
Development charge deferral agreements	$26,987	$22,117
Mortgages receivable:		
Downtown convert to rent program	11,422	10,470
Hamilton Utilities Corporation	7,128	8,100
Hamilton Renewable Power Inc.	808	1,304
Sheraton Hotel loan	977	1,086
Other City loan programs	3,802	3,719
Loans to other agencies and organizations	3,997	4,357
Less: Provision for loans with concessionary terms	(2,997)	(2,841)
	$52,124	$ 48,312

Portfolio Investments $947.9M (2017) $900.0M (2016)

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 $955.9M.

Investment in Government Business Enterprises $356.1M (2017) $247.4M (2016)

Investment in Government Business Enterprises represents net equity of the consolidation of the City's subsidiary corporations, Hamilton Utilities Corp. (HUC)

2017 City of Hamilton Consolidated Financial Statements Analysis

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 2017 consisted of $14.7M from HUC and $0.06M from HRPI (2016 - $8.5M from HUC and $0.06M from HRPI).

Liabilities

The City's total liabilities position increased in 2017 by $53.8M to $1.449B and is reported in the consolidated financial statements as:

	2017 $000's	2016 $000's
Liabilities		
Accounts payable and accrued liabilities	$ 319,187	$ 268,174
Deferred revenue - general	67,667	59,618
Deferred revenue - obligatory reserve funds	252,156	213,247
Long term liabilities – Municipal Operations	359,637	408,735
Long term liabilities – Housing Corporations	58,508	64,070
Employee future benefits and other obligations	367,587	356,762
Solid waste landfill liabilities	24,174	24,466
Total liabilities	$ 1,448,916	$ 1,395,072

Accounts Payable and Accrued Liabilities $319.2M (2017) $268.2M (2016)

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 ($142.8M), payroll accruals ($37.4M), amounts for insurance claims ($20.5M), security deposits ($22.7M), and the present value of the City's commitment to the Randle Reef remediation project ($3.6M).

Deferred Revenue -General $67.7M (2017) $59.6M (2016)

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 ($11.9M), future urban roads ($12.4M), housing ($18.2M), General Deferred ($3.8M), and forestry ($2.0M).

Deferred Revenue – Obligatory Reserve Funds $252.2M (2017) $213.2M (2016)

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:

2017 City of Hamilton Consolidated Financial Statements Analysis

	2017 $000’s	2016 $000’s
Development charge reserve funds	$158,996	$127,959
Subdivider contributions	-	56
Recreational land dedicated under the Planning Act	35,235	32,493
Gasoline tax revenue: Provincial	16,692	18,774
Federal	21,919	16,265
Building Permit Revenue	19,285	17,671
Other (Ivor Wynne)	29	29
	$252,156	$213,247

Development Charge and Special Area Reserve Fund balances increased in 2017. The increase is made up of $78.7 million in collections less transfers to finance capital projects of $39.3 million and transfers to operating of $11.0 million. During 2017 the City received and accrued federal gas tax transfers of $32.2 million and provincial gas tax transfers of $11.1 million. Federal Gas Tax was allocated to capital upgrades to roads and bridges for $27.1 million. The provincial gas tax was allocated to transit related projects ($2.6M) and transit operating budget ($11.0M). During 2017 the City received parkland dedication fees of $9.4 million and $7.9 million was allocated to capital projects for future development of city parks. Approximately $1.5 million of the surplus building permit revenue in 2017 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 $359.6M (2017) $408.7M (2016)

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 2017, the City made principal repayments on long term debt of $48.5M (2016 - $42.0M) and principal repayments on leased tangible capital assets of $0.6M (2016 - $0.5M). No new debt was issued in 2017 for capital projects (2016 – $128.4M).

Long Term Liabilities – Housing Operations $58.5M (2017) $64.1M (2016)

Long Term Liabilities – Housing Operations represents the outstanding principal for loans and mortgages obtained to finance certain housing capital expenditures and asset purchases. In 2017, CityHousing Hamilton made principal repayments on long term debt of $5.6M (2016 - $5.4M).

Housing debenture debt issued by the Ontario Housing Corporation remains the obligation of the Province of Ontario as a result debenture debt of $14.0M (2016 - $17.0M) is <u>not</u> reported in the consolidated financial statements.

2017 City of Hamilton Consolidated Financial Statements Analysis

Employee Future Benefits and Other Obligations $367.6M (2017) $356.8M (2016)

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 2017 estimates are provided by independent actuaries from actuarial valuations performed for 2017 or performed for earlier years and extrapolated for 2017. The estimates use assumptions for inflationary increases of 2% to 2.25% annually, a discount rate of 3.5% to 4.9%, payroll increases of 3%, and increases in pension plan assets of 4.9%. Projections for retirement benefits assumed that drug costs would increase by 8.2% in 2017 with future annual increases grading down linearly by 0.20% to an ultimate rate of 4.0% and dental costs will increase by 4.0% 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:

Accrued Benefit Obligation	2017 $000’s	2016 $000’s
Sick leave benefit plan	$ 55,982	$ 55,108
Long term disability plan	26,687	23,819
Workplace safety and insurance board liabilities (WSIB)	88,537	78,297
Retirement benefits	146,547	142,509
Vacation benefits	27,478	26,291
Pension benefit plans	9,132	32,634
	354,363	358,658
Net unamortized actuarial gain (loss)	13,224	(1,896)
Accrued Liability	$ 367,587	$ 356,762
Less: Provisions in Reserves	(66,021)	(66,142)
Unfunded Liability	$ 301,566	$ 290,405

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 $13.2M represents a loss in long term disability of $1.7M, a loss in retirement benefits of $19.1M, a loss in WSIB liabilities of $6.3M, a loss in sick leave obligations of $6.1M and a

2017 City of Hamilton Consolidated Financial Statements Analysis

gain in the pension plans of $46.6M. 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 $66.0M (2016 - $66.1M) to fund a portion of these liabilities. These liabilities are only 18.0% funded (2016 – 18.6%) and there is no PSAB requirement to fund the net unfunded liability portion of these employee benefits of $302.0M 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 $24.2M (2017) $24.5M (2016)

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 2017 was 43% (2016 – 45%).

Provisions have been made in a reserve of $1.1M (2016 - $1.0M) 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 2017 by $162.1M to $5.5B and is reported in the consolidated financial statements as:

	2017 $000's	2016 $000's
Non-Financial Assets		
Tangible capital assets	$ 5,429,864	$ 5,271,414
Inventories	12,556	11,733
Prepaid expenses	10,709	7,915
	$ 5,453,129	$ 5,291,062

2017 City of Hamilton Consolidated Financial Statements Analysis

Tangible Capital Assets (TCAs) $5.4B (2017) $5.3 B (2016)

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, facilities and underground infrastructure networks. The net book value of $5.4B 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 Dec. 31, 2017 include:

	2017 $000's	2016 $000's
General		
Land	$ 333,818	$ 315,467
Land improvements	152,325	150,337
Buildings	756,160	761,396
Vehicles	128,600	133,786
Computer hardware and software	11,821	11,058
Other	99,540	103,490
Infrastructure		
Roads	1,261,223	1,253,561
Bridges and structures	183,422	184,213
Water and wastewater facilities	403,647	396,884
Underground and other networks	1,789,334	1,761,542
Net Book Value	$ 5,119,890	$ 5,071,734
Assets under construction	309,974	199,680
Total	$ 5,429,864	$ 5,271,414

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 Dec. 31, 2017 is estimated at $20.5B.

Inventories $12.6M (2017) $11.7M (2016)
Prepaid expenses $10.7M (2017) $ 7.9M (2016)

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 2017 for expenses to be incurred in 2018.

2017 City of Hamilton Consolidated Financial Statements Analysis

Accumulated Surplus

Net Municipal Financial Position **$5.699B (2017) $5.432B (2016)**

The City's accumulated surplus represents the net municipal financial position in PSAB's financial statement presentation requirements for 2017. The balance is comprised of the following:

	2017 $000's	2016 $000's
Accumulated surplus (Net municipal financial position)		
Operating surplus of BIA, Flamborough Recreation sub-committee, Confederation Park and Westfield Heritage Village	$ 1,652	$ 2,414
Operating surplus – housing	(154)	(394)
Capital surplus – municipal	(37,423)	(65,205)
Capital surplus – housing	9,286	4,816
Reserves and Reserve Funds	742,253	690,357
Unfunded liabilities – Employee benefits	(343,679)	(333,787)
Unfunded liabilities – Landfill sites	(24,174)	(24,466)
Investment in Government Business Enterprises	356,098	247,386
Investment in tangible capital assets	4,995,441	4,780,723
Total accumulated surplus	$ 5,699,300	$ 5,432,254

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 $43.1M as reported in report FCS17060.

The annual surplus in the Consolidated Statement of Operations of $278.5M represents the excess of revenue over expenses for 2017 under PSAB's full accrual basis of

2017 City of Hamilton Consolidated Financial Statements Analysis

accounting and, therefore, is a different surplus than the operating budget surplus reported to Council.

Revenue increased by $131.6M to $1.970B in 2017 from $1.838B in 2016 and is reported in the Consolidated Statement of Operations as:

	Budget 2017 $000's	Actual 2017 $000's	Actual 2016 $000's
Revenue			
Taxation	$ 874,187	$ 876,880	$ 854,709
Government grants and contributions	458,101	394,785	385,447
User charges	323,788	334,974	332,601
Development charges and subdivider contributions	53,200	50,313	82,025
Donated tangible capital assets	18,217	18,217	16,646
Investment and dividend income	33,897	28,070	27,067
Net income from Government Business Enterprises	-	134,914	22,857
Other	101,811	131,383	116,549
Total revenue	$ 1,863,201	$ 1,969,536	$ 1,837,901

The increase in taxation revenue includes the 2017 Operating Budget property tax increase of 2.1%.

Government grants and contributions revenue's increased by $9.4M in 2017 from 2016. Significant government grants and contributions for operating budget programs and capital projects include:

	2017 $ millions	2016 $ millions
Ontario Works	$ 138.6	$ 128.2
Child Care	56.3	53.4
Public Health Services	29.2	28.8
Social Housing	37.4	21.7
Federal Gas Tax	27.1	40.1
Homes for the Aged	21.3	21.1
Emergency Medical Services - Ambulance	23.7	21.8
Homelessness	19.6	19.0
Provincial Gas Tax	13.5	14.7
Other capital grants	2.2	11.2
Other operating program grants	25.9	25.4
	$ 394.8	$ 385.4

User charges of $335.0M primarily consist of water and wastewater revenues of $199.6M ($200.3M in 2016) and transit fares and fees of $58.3M ($54.8M in 2016). Other user fees are recorded in Recreation & Cultural Services of $22.2M ($24.9M in 2016), Social and Family Services of $16.1M ($13.1M in 2015), Waste Diversion &

2017 City of Hamilton Consolidated Financial Statements Analysis

Disposal of $12.5M ($10.9M in 2016), Planning and Development of $11.1M ($10.0M in 2016) and Protection Services of $5.5M ($5.7M in 2016).
Development charges and sub-dividers’ contributions of $50.3M was recognized as revenue in 2017 while unearned revenue is recorded as deferred revenue on the Statement of Financial Position.

Donated tangible capital assets of $18.2M 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 $28.1M from City municipal and housing operations from fixed income securities, bank balances and deposits.

Net income from Government Business Enterprises represents net income of $134.9M from HUC and HRPI for 2017 ($22.8M in 2016). This includes dividends to the City in 2017 of $14.7M from HUC ($8.5M in 2016) and $0.06M from HRPI ($0.06M in 2016). The “other comprehensive income (loss) from Government Business Enterprises” was a loss of $11.4M in 2016 (2016 - $0.3M income) and represents the re-measurement gains and losses arising from HUC’s post-employment liabilities.

Other Revenue of $131.4M represents revenue from licenses and permits of $20.5M ($19.5M in 2016), rents of $43.4M ($41.7M in 2016), fines and penalties of $28.6M ($28.5M in 2016) and other miscellaneous revenue of $38.9M ($35.4M in 2016).

Expenses increased by $34.0M to $1.691B in 2017 from $1.657B in 2016 and are reported in the Consolidated Statement of Operations as:

	Budget 2017 $000’s	Actual 2016 $000’s	Actual 2016 $000’s
Expenses			
General government	$ 69,600	$ 70,733	$ 72,550
Protection services	305,708	312,564	306,629
Transportation services	333,690	326,274	310,190
Environmental services	249,241	239,488	238,553
Health services	99,932	99,125	98,443
Social and family services	326,323	315,218	302,830
Social housing	99,017	105,141	111,113
Recreation and cultural services	171,480	169,029	165,214
Planning and development	64,067	53,455	51,514
Total expenses	$1,719,059	$ 1,691,027	$ 1,657,036

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

2017 City of Hamilton Consolidated Financial Statements Analysis

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:

	2017 $ millions	2016 $ millions
Salaries and benefits	$ 755.4	$ 741.9
Interest on long term debt	13.4	12.9
Materials and supplies	218.1	221.5
Contracted services	275.4	276.2
Rents and financial expenses	42.4	34.3
External transfers	194.2	184.5
Amortization	192.1	185.7
Total	$1,691.0	$1,657.0

Primary drivers for the increase in expenses relate to $12.1M in non-tangible capital asset expenses from capital projects (materials and supplies; contracted services, external transfers), $13.5M in salaries, benefits, pensions, increase of $6.4M related to amortization for the Tangible Capital Assets.