



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	April 21, 2022
SUBJECT/REPORT NO:	Analysis for Hamilton Waterfront Trust – December 31, 2020 – Audited Financial Statements (FCS22019) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Kayla Petrovsky Fleming (905) 546-2424 Ext. 1310
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

COUNCIL DIRECTION

Audit, Finance and Administration Committee, at its meeting on November 4, 2021, directed staff to meet with Hamilton Waterfront Trust Staff and gather information surrounding their 2020 audited financial statements in an effort to provide a summary of the relevant changes and report back to the Audit, Finance and Administration Committee.

INFORMATION

Background

Each year, the financial statements of the Hamilton Waterfront Trust (HWT) are audited by external auditors as prescribed by the Revised Deed of Trust (dated October 1, 2018) between the City of Hamilton and HWT.

According to the Revised Deed of Trust, within 90 days of the end of each fiscal year of the Trust, the Trust shall appear before Council, or an appropriate Committee of the City to present and report on its annual audited Financial Statements.

The 2020 audited financial statements of the HWT were provided to Council through the Audit, Finance and Administration Committee on November 4, 2021.

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During the November 4th meeting, a motion was put forth that staff be directed to meet with HWT staff and gather information surrounding their 2020 audited financial statements in an effort to provide a summary of the relevant changes and report back to the Audit, Finance and Administration Committee.

The 2019 and 2020 Consolidated Financial Statements for the HWT are prepared in accordance with Canadian generally accepted auditing standards.

Report FCS22019 provides both a balance sheet and income statement analysis for HWT providing commentary, as appropriate, on any material trending between 2019 and 2020.

The consolidated financial statements, for reference, are provided in Appendix “C”.

Discussion and Analysis

The financial position of HWT for 2019 and 2020 is presented in Table 1.

**Table 1
Hamilton Waterfront Trust Consolidated Statement of Financial Position**

December 31	2020	2019	Increase or Decrease during 2020	
			\$	%
Assets				
Current				
Cash	\$ 278,786	\$ 472,697	\$ (193,911)	(41.0%)
Accounts receivable	185,270	59,775	125,495	209.9%
Inventories and prepaid expenses	28,221	28,221	0	0.0%
Current portion of note receivable	166,000	233,000	(67,000)	(28.8%)
	658,277	793,693	(135,416)	(17.1%)
Capital assets	1,312,804	1,384,156	(71,352)	(5.2%)
Note receivable	988,669	1,109,249	(120,580)	(10.9%)
	\$ 2,959,750	\$ 3,287,098	\$ (327,348)	(10.0%)
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 486,529	\$ 687,047	\$ (200,518)	(29.2%)
Current portion of deferred capital contributions	40,273	40,273	0	0.0%
	526,802	727,320	(200,518)	(27.6%)
Deferred revenue - City of Hamilton	380,049	436,049	(56,000)	(12.8%)
Deferred capital contributions	1,131,242	1,171,515	(40,273)	(3.4%)
	2,038,093	2,334,884	(296,791)	(12.7%)
Net assets	921,657	952,214	(30,557)	(3.2%)
	\$ 2,959,750	\$ 3,287,098	\$ (327,348)	(10.0%)

Balance Sheet Analysis

Net Worth

HWT's 2020 net worth represented by the net assets position of \$921.7 K has decreased by \$31 K as a result of a deficit in earnings in 2020. Explanations on revenue and expenses contributing to this decrease are explained in the income statement analysis section.

Assets

HWT's total assets in 2020 were \$3.0 M. This represents a decrease of \$327 K over 2019 mainly as a result of decreased cash from paying off current liabilities (Accounts Payable) and as a result of decreased revenues. The note receivable current portion is decreasing as expected.

Liabilities

HWT's total liabilities in 2020 were \$2.0 M. This has decreased from 2019 as deferred capital contributions, deferred revenue and current liabilities all have decreased by a combined \$300 K over 2019.

The comparative financial results of HWT for 2019 and 2020 is presented in Table 2.

**Table 2
Hamilton Waterfront Trust Consolidated Statement of Operations
and Changes in Net Assets**

For the year ended December 31			Increase or Decrease during 2020	
	2020	2019	\$	%
Revenue				
Investment income	\$ 2,674	\$ 3,397	\$ (723)	(21.3%)
City of Hamilton contract and management income	46,602	59,445	(12,843)	(21.6%)
Other income	4,669	13,300	(8,631)	(64.9%)
Hamiltonian Tour Boat	15,826	36,929	(21,103)	(57.1%)
Williams Fresh Cafe	637,677	1,428,213	(790,536)	(55.4%)
Hamilton Scoops	74,191	163,488	(89,297)	(54.6%)
Kids Fest	-	19,192	-	-
Hamilton Trolley	24,407	27,783	(3,376)	(12.2%)
Waterfront Grill	24,513	47,167	(22,654)	(48.0%)
HW T Centre	5,512	94,007	(88,495)	(94.1%)
Outdoor Ice Rink	330,862	319,059	11,803	3.7%
Skate Rental	59,092	136,856	(77,764)	(56.8%)
Waterfront Development, City of Hamilton management contract	683,151	374,992	308,159	82.2%
Tall Ships	-	-	-	-
Fishing Derby	-	-	-	-
Waterfront Wheels	5,765	12,541	(6,776)	(54.0%)
	<u>1,914,941</u>	<u>2,736,369</u>	<u>(821,428)</u>	<u>(30.0%)</u>
Expenses				
Advertising and promotion	1,023	664	359	54.1%
Bad debts	45,167	67,461	(22,294)	(33.0%)
Bank charges	2,427	4,088	(1,661)	(40.6%)
Building expenses	765	10,458	(9,693)	(92.7%)
Dues and memberships	585	2,570	(1,985)	(77.2%)
Equipment expenses	1,631	1,853	(222)	(12.0%)
Insurance	6,054	5,400	654	12.1%
Office expenses	17,533	35,785	(18,252)	(51.0%)
Professional fees	50,696	25,812	24,884	96.4%
Salaries and benefits	326,788	274,510	52,278	19.0%
Telephone	8,159	9,348	(1,189)	(12.7%)
Travel	990	147	843	573.5%
Other expenses	7,891	11,789	(3,898)	(33.1%)
Hamiltonian Tour Boat	14,791	34,484	(19,693)	(57.1%)
Williams Fresh Cafe	744,636	1,372,964	(628,328)	(45.8%)
Hamilton Scoops	58,894	121,669	(62,775)	(51.6%)
Kids Fest	-	12,219	-	-
Hamilton Trolley	28,959	31,023	(2,064)	(6.7%)
Fishing Derby	-	13,026	-	-
Waterfront Grill	34,732	51,651	(16,919)	(32.8%)
HW T Centre	24,156	50,464	(26,308)	(52.1%)
Outdoor Ice Rink	330,766	315,147	15,619	5.0%
Skate Rental	19,337	72,544	(53,207)	(73.3%)
Waterfront Development, City of Hamilton management contract	516,942	388,239	128,703	33.2%
Tall Ships	-	-	-	-
Waterfront Wheels	12,151	12,828	(677)	(5.3%)
	<u>2,255,073</u>	<u>2,926,143</u>	<u>(671,070)</u>	<u>(22.9%)</u>
Deficiency of revenue over expenses				
before amortization and other revenue (expenses)	<u>(340,132)</u>	<u>(189,774)</u>	<u>(150,358)</u>	<u>79.2%</u>
Other revenue (expenses)	<u>(71,352)</u>	<u>(72,761)</u>	<u>1,409</u>	<u>(1.9%)</u>
Amortization of capital assets				
Amortization of deferred capital contributions	40,273	40,273	0	0.0%
Government assistance	340,654	-	-	-
Gain on Disposal of HWT Centre	-	-	-	-
Property Taxes	-	-	-	-
Expenses associated w with tenant dispute	-	(759,008)	-	-
	<u>309,575</u>	<u>(791,496)</u>	<u>1,101,071</u>	<u>(139.1%)</u>
Excess (Deficiency) of revenue over expenses for the year	<u>(30,557)</u>	<u>(981,270)</u>	<u>950,713</u>	<u>(96.9%)</u>
Net assets, beginning of year	<u>952,214</u>	<u>1,933,484</u>	<u>(981,270)</u>	<u>(50.8%)</u>
Net assets, end of year	<u>\$ 921,657</u>	<u>\$ 952,214</u>	<u>(30,557)</u>	<u>(3.2%)</u>

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

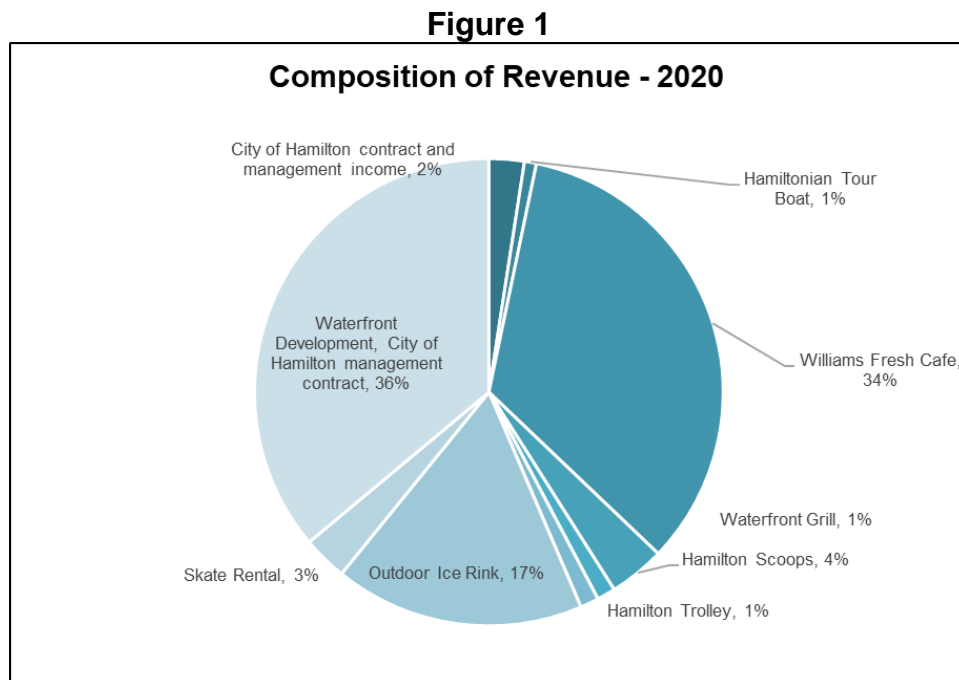
Income Statement Analysis

Net Deficit

HWT's net deficit shown as Deficiency of revenue over expenses in the HWT's financial statement was \$30 K for 2020 which was an improvement of \$950 K against the 2019 result. This change is mainly due to expenses associated with tenant dispute in 2019 and government assistance of \$341 K in 2020.

Revenue

HWT's total revenue for the 2020 year was \$1.9 M. The main composition of revenue is shown in Figure 1.



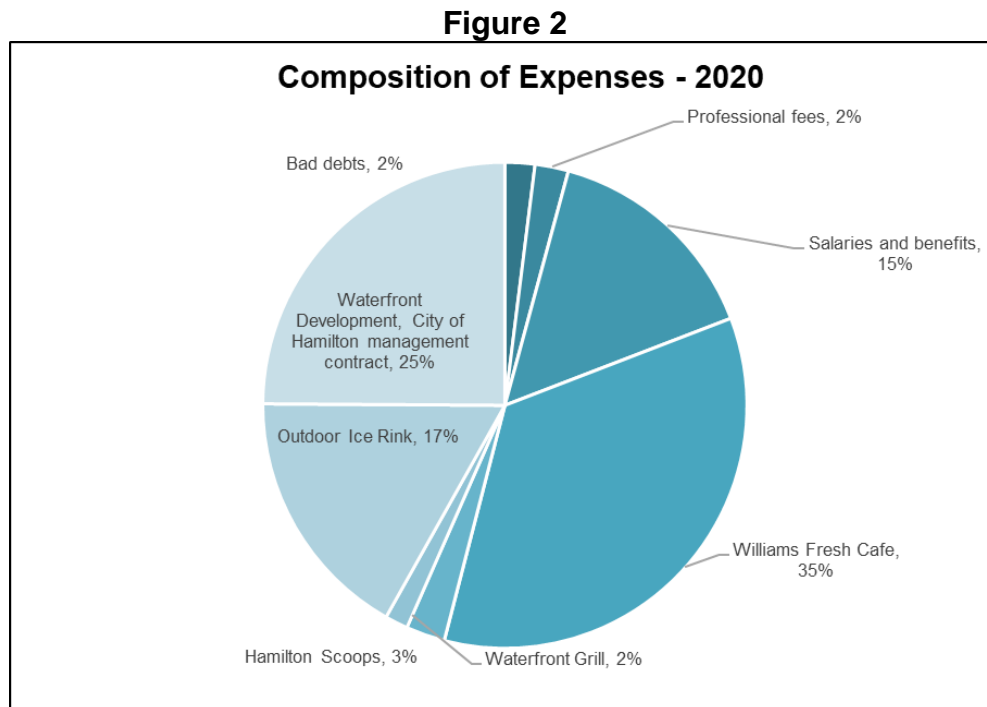
HWT's revenue saw a decrease of 30% (\$821 K) in 2020, predominately attributable to the Williams Fresh Café revenue decrease of \$790 K.

As a direct result of the COVID-19 pandemic, HWT experienced a reduction in revenue that qualified it for financial assistance from the Canada Emergency Wage Subsidy (CEWS) government incentive program in the amount of \$320 K. Furthermore, the HWT recognized \$20 K in financial assistance received as part of the forgivable portion of the Canada Emergency Business Account ("CEBA") loan. As a result of COVID-19, HWT's revenue sources have experienced significant decreases as compared to previous years.

Expenses

The HWT's total expenses for the 2020 year were \$2.3 M. This represents a decrease of 23% over 2019.

The main composition of HWT's expenses for 2020 is shown in Figure 2.



In the same way that revenues have decreased as a result of COVID-19, operating expenses have also decreased as a result of closures and slowed operations. The main decrease was \$628 K relating to Williams Fresh Café.

The organization experienced a reduction in revenue as a result of COVID-19 that qualified for financial assistance. Even with this assistance, HWT experienced a deficit for 2020, although an increase in net income over 2019. This decreased net income led to an overall decrease in net assets for 2020. Despite this decrease in net assets, the organization managed to reduce short-term liabilities, which helped to improve its current ratio and liquidity.

Financial Indicators

Table 3 provides some of the HWT's financial indicators.

**Table 3
Financial Statement Financial Indicator Trending (2020 versus 2019)**

Financial Indicator	HWT	
	\$	Trend
Assets	2,959,750	↓
Current Assets (CA)	658,277	↓
Equity	921,657	↓
Net Income (Loss)	(30,557)	↑
Cash	278,786	↓
Liabilities		
Current Liabilities (CL)	526,802	↓
Non-Current Liabilities	1,511,291	↓
Debt (Borrowings)	0	
Ratios:		
<u>Liquidity Measurement Ratio</u>		
Current Ratio (CA/CL)		
	2020	1.25 ✓
	2019	1.09
<u>Debt Ratio</u>		
Debt to Equity Ratio		
	2020	2.21 X
	2019	2.45
<u>Income</u>		
Gross Margin		
	2020	(17.8%) ↓
	2019	(6.9%)

The definitions for terms used in Table 3 are detailed below.

- Current Assets = Assets that are expected to be sold, consumed, utilized or exhausted through the standard business operations over the next one year.
- Current Liabilities = Debts or obligations that are due within one year or within a normal operating cycle.
- Non-Current = Debts or obligations that are not due within one year or within normal operations.
- Current Ratio is an industry standard liquidity ratio calculated as Current Assets dividing by its Current Liabilities. It measures an entity's ability to pay its short and long-term obligations. A higher current ratio is ideal as this would signify that the assets are higher than the liabilities, indicating an easier ability to pay off obligations.

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- The Debt Ratio is calculated as total liabilities divided by equity. It is used to evaluate an entity's financial leverage. Total liabilities is used in the ratio calculation. In the case of the Hamilton Waterfront Trust (HWT), though they have no bank borrowings / long-term debt, they have non-current liabilities relating to pension plan obligations that are included. Generally a ratio of over one signifies that the entity is heavily funded by debt.
- Equity is the value of all assets less any liabilities. It is the value left over if an entity would utilize its assets to meet its liability obligations.
- Gross Margin is one of the primary metrics used to evaluate an entity's health and competitiveness. Measured as a percentage, gross margin will tell you how much revenue is being generated per dollar after subtracting expenses.

With respect to assets, the HWT's balance sheet contains both cash and a healthy accounts receivable balance that once collected, will add to its overall liquidity. The current liabilities decreased this year, attributing to the decline in current asset balance. The decreased revenues (mainly COVID-19 related) resulted in decreased net assets. With respect to liabilities, the HWT's Liquidity Current Ratio (Current Assets versus Current Liabilities) is positive at 1.25 (1.25 times the assets versus liabilities) and has improved from 2019 at 1.09. A ratio over 1.0 is considered positive.

Debt to Equity Ratio is also a common measure of financial health. In general, a measure less than 1.0 is considered positive (indicating equity surpasses debt), while a measure over 1.0 is considered poor (more debt than equity). HWT's ratio is 2.21 for 2020, compared to 2.45 for 2019.

The HWT's gross margin is trending negatively as the deficit as a portion of net sales has increased from -6.9% in 2019 to -17.8% in 2020.

With the submission of Report FCS22019 to the standing committee, Item 21-O can be removed from the Outstanding Business List

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS22019 – Hamilton Waterfront Trust Consolidated Statement of Financial Position (2017 to 2020)

Appendix "B" to Report FCS22019 – Hamilton Waterfront Trust Consolidated Statement of Operations and Changes in Net Assets (2017 to 2020)

Appendix "C" to Report FCS22019 – Hamilton Waterfront Trust Consolidated Financial Statements for the Year Ended December 31, 2020

KP/dt