



**CITY OF HAMILTON**

**CORPORATE SERVICES DEPARTMENT**  
*Financial Services Division*

<b>TO:</b> Chair and Members Audit, Finance and Administration Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> June 10, 2013	
<b>SUBJECT/REPORT NO:</b> 2012 City of Hamilton Financial Report and Audited Financial Statements (FCS13040) (City Wide)	
<b>SUBMITTED BY:</b> Mike Zegarac Acting General Manager Finance & Corporate Services	<b>PREPARED BY:</b> Brian McMullen ext. 4549 Tony Del Monaco ext. 3020
<b>SIGNATURE:</b>	

**RECOMMENDATION**

That the 2012 City of Hamilton Financial Report and Audited Financial Statements attached as Appendix “B” to Report FCS13040 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 FCS13040, present the consolidated statement of the financial position of the municipality as at December 31, 2012, the consolidated statement of operations for the year ended December 31, 2012,

**SUBJECT: 2012 City of Hamilton Financial Report and Audited Financial Statements (FCS13040) (City Wide) - Page 2 of 5**

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the consolidated statement of changes in net financial assets and consolidated statement of cash flow.

KPMG LLP, Licensed Public 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, 2012. In addition, the external auditors, KPMG LLP, Licensed Public Accountants will be presenting their report titled "Audit Findings Report for the year ended December 31, 2012" to the Audit, Finance and Administration Committee. KPMG'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. The report from KPMG (attached as Appendix "C" to Report FCS13040) indicates that there were no findings of significant internal control deficiencies during the 2012 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 FCS13040 provides an overview of management's analysis of the 2012 Consolidated Financial Statements for the City of Hamilton.

The 2012 Financial Report (Appendix "B" to Report FCS13040) 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 FCS13040 provides an overview of management's analysis of the 2012 Consolidated Financial Statements for the City of Hamilton.

**Staffing:** There are no associated staffing implications.

**Legal:** There are no associated staffing 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 ("CICA").

Effective January 1, 2007, the City of Hamilton adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the 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/LEGISLATED REQUIREMENTS**

N/A

**RELEVANT CONSULTATION**

KPMG, 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 2012 City of Hamilton Financial Report and Audited Financial Statements are included as Appendix "B" to Report FCS13040.

**ALTERNATIVES FOR CONSIDERATION**

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

N/A

**ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:**

**Strategic Priority #1**

A Prosperous & Healthy Community

*WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.*

**Strategic Objective**

1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

**APPENDICES / SCHEDULES**

Appendix “A” to Report FCS13040: Management’s Analysis - 2012 City of Hamilton Consolidated Financial Statements

Appendix “B” to Report FCS13040: 2012 City of Hamilton Financial Report

Appendix “C” to Report FCS13040: KPMG’s Report to the Audit, Finance & Administration Committee – Audit Findings Report

**City of Hamilton  
2012 Consolidated Financial Statements  
Analysis – May 2013**

**General**

The City of Hamilton’s 2012 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 FCS13040, 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 2012.

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 2012 statements, as required by Canadian GAAP.

**2012 City of Hamilton Consolidated Financial Statements Analysis**

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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

**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 2012 by \$73.6 million to \$1.346 billion and is reported in the consolidated financial statements as:

	<u>2012</u> \$000's	<u>2011</u> \$000's
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 66,192	\$ 72,932
Taxes receivable	78,078	78,728
Accounts receivable	104,065	129,495
Other assets	816	665
Long term receivables	49,216	29,991
Portfolio investments	817,134	738,711
Investment in Government Business Enterprises	<u>230,610</u>	<u>222,001</u>
 Total financial assets	 <u>\$ 1,346,111</u>	 <u>\$ 1,272,523</u>

Cash and cash equivalents \$ 66.2M (2012) \$72.9M (2011)

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 2012 from 2011 as less money was held in the bank at year end.

Taxes Receivable \$78.1M (2012) \$78.7M (2011)

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 (2011 – 8.7%). The 2012 balance includes the allowance for doubtful accounts of \$3.4M (2011 - \$4.5M). The slight overall decrease results from a higher than usual write-offs in 2012, as a number of large and multi-year appeals were processed.

## 2012 City of Hamilton Consolidated Financial Statements Analysis

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Accounts Receivable \$104.1M (2012) \$129.5M (2011)

Accounts receivable represents revenues earned by the City but not received at year end net of estimates of allowances for uncollectible accounts. The 2012 balance primarily consists of water and wastewater receivables (\$34M), general receivables & accruals (\$28.5M), provincial and federal grants receivable (\$21M), HST receivables (\$14M) and interest receivable (\$3.8M).

Long Term Receivables \$49.2M (2012) \$30.0M (2011)

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>2012</u> \$000's	<u>2011</u> \$000's
<b>Development charge deferral agreements</b>	\$ 20,104	\$ 11,375
<b>Mortgages receivable:</b>		
Downtown convert to rent program	12,568	6,306
Hamilton Renewable Power Inc.	3,966	4,677
Sheraton Hotel loan	1,380	1,451
Other City loan programs	6,781	1,131
<b>Loans to other agencies and organizations</b>	8,459	9,094
<b>Less: Provision for loans with concessionary terms</b>	<u>(4,042)</u>	<u>(4,043)</u>
	\$ 49,216	\$ 29,991

Portfolio investments \$817.1M (2012) \$738.7M (2011)

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 \$838.6 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 funds held in the bank and acquisitions and construction of tangible capital assets during 2012.

Investment in Government Business Enterprises \$230.6M (2012) \$222.0M (2011)

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 \$8.6 million (2011 - \$9.6 million) in the Consolidated Statement of Operations. The net income excludes the dividend



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**2012 City of Hamilton Consolidated Financial Statements  
Analysis**

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income received during 2012 of \$11.8 million from H.U.C. and \$627,000 from H.R.P.I.

**Liabilities**

The City's total liabilities position increased in 2012 by \$107.0 million to \$1.167 billion and is reported in the consolidated financial statements as:

	<u>2012</u> \$000's	<u>2011</u> \$000's
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 222,256	\$ 229,701
Deferred revenue - general	37,189	27,705
Deferred revenue - obligatory reserve funds	148,567	125,469
Long term liabilities – Municipal Operations	334,638	269,439
Long term liabilities – Housing Corporations	84,449	84,908
Employee future benefits and other obligations	307,514	288,993
Solid waste landfill liabilities	<u>31,967</u>	<u>33,357</u>
 Total liabilities	 <u>\$ 1,166,580</u>	 <u>\$ 1,059,572</u>

**Accounts Payable and Accrued Liabilities**                      \$222.3M (2012)      \$229.7M (2011)

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 (\$106.8M), payroll accruals (\$29.4M) and amounts for insurance claims (\$21.6M), interest on debt (\$3.4M) and security deposits (\$16.5M).

**Deferred Revenue -General**    \$37.2M (2012)      \$27.7M (2011)

Deferred Revenue represents amounts received that will be recorded in future years to match expenditures incurred for goods received and services performed. The balance includes federal and provincial government grants and subsidies of \$3.1 million that are not recorded as deferred revenue – obligatory reserve funds.

**Deferred Revenue – Obligatory Reserve Funds**      \$148.6M (2012)      \$125.5M (2011)

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>2012</u> \$000's	<u>2011</u> \$000's
Development charge reserve funds	\$ 52,748	\$ 37,954
Subdivider contributions	51	50
Recreational land dedicated under the Planning Act	15,916	10,392
Gasoline tax revenue: Provincial	25,707	24,505
Federal	20,113	22,417
Building Permit Revenue	13,254	9,842
Pan Am Games Stadium	<u>20,778</u>	<u>20,309</u>
	<u>\$ 148,567</u>	<u>\$ 125,469</u>

The increase in the balance in the Deferred Revenue – Obligatory Reserve Funds was primarily due to increases in Development Charge Reserve Funds, Recreational Land reserve, and Building Permit Revenue Reserve Fund.

Development Charge and Special Area Reserve Funds increased in 2012 with \$59.6 million in collections with transfers to finance capital projects of \$46 million and transfers to operating of \$8.8 million. During 2012 the City received federal gas tax revenue of \$31 million and provincial gas tax revenue of \$10.7 million. Federal Gas Tax was allocated to capital upgrades to roads and bridges for \$28 million and to HSR bus replacement for \$6 million. The provincial gas tax was allocated to transit related projects (\$0.9M) and transit operating budget (\$7.6M). During 2012 the City received parkland dedication fees of \$5.2 million and \$0.5 million was allocated to capital projects for future development of city parks. Approximately \$3.1 million of the surplus building permit revenue in 2012 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 for the 2015 Pan Am Games has grown with investment income to \$20.8M at 2012 year end.

Long Term Liabilities – Municipal Operations      \$334.6M (2012)      \$269.4M (2011)

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 2012 the City made principal repayments on long term debt of \$28.4 million (2011 - \$44.0M) and principal repayments on leased tangible capital assets of \$1,153,000 (2011 - \$951,000). New debt of \$94.7 million was issued in 2012 for capital projects (2011 – Nil).

Long Term Liabilities – Housing Operations      \$84.4M (2012)      \$84.9M (2011)

Long Term Liabilities – Housing Operations represents the outstanding principal for loans and mortgages obtained to finance certain housing capital expenditures and asset purchases. In 2012 CityHousing Hamilton made principal repayments on long term debt of \$4.2 million (2011 - \$4.3M). New debt of \$3.8 million was issued in 2012 to finance the acquisition of new property and buildings (2011 - Nil).

Housing debenture debt issued by the Ontario Housing Corporation remains the obligation of the Province of Ontario as a result debenture debt of \$31.4 million (2011 - \$34.6M) is not reported in the consolidated financial statements.

Employee Future Benefits and Other Obligations \$307.5M (2012)      \$289.0M (2011)

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.

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**2012 City of Hamilton Consolidated Financial Statements  
Analysis**

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The 2012 estimates are provided by independent actuaries from actuarial valuations performed for 2012 or performed for earlier years and extrapolated for 2012. 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.

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

	<u>2012</u> \$000's	<u>2011</u> \$000's
<b>Accrued Benefit Obligation</b>		
Sick leave benefit plan	\$ 49,486	\$ 47,722
Long term disability plan	16,755	15,148
Workplace safety and insurance board liabilities (WSIB)	69,009	62,904
Retirement benefits	126,049	124,834
Vacation benefits	24,366	24,161
Pension benefit plans	<u>91,252</u>	<u>110,049</u>
	376,917	384,818
Net unamortized actuarial loss	<u>(69,403)</u>	<u>(95,825)</u>
<b>Accrued Liability</b>	\$ 307,514	\$ 288,993
Less: Provisions in Reserves	<u>(64,995)</u>	<u>(62,550)</u>
<b>Unfunded Liability</b>	\$ 242,519	\$ 226,443

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 \$69.4 million represents a gain in long term disability of \$1.6 million, a loss in retirement benefits of \$36.4 million, a loss in WSIB liabilities of \$5.9 million, a loss in sick leave obligations of \$10.3 million and a loss in the pension plans of \$18.4 million. These actuarial gains and losses are spread over future periods through expenses under the category of salaries and benefits in the Statement of Operations.

Provisions have been made in the reserves for \$65.0 million (2011 - \$62.6 million) to fund a portion of these liabilities. These liabilities are only 21.0%

**2012 City of Hamilton Consolidated Financial Statements  
Analysis**

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funded (2011 – 21.6%) and there is no PSAB requirement to fund the net unfunded liability portion of these employee benefits of \$242.5 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.

Solid Waste Landfill Liabilities \$32.0M (2012)      \$33.4M (2011)

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 as forecast in the 2013 Capital Budget and Operating Budget until the expected closing of the active landfill site for 25 years in 2036. 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 \$4.6 million on the capital projects and support related to this liability in 2012. 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 2012 and 2011 was 43%.

Provisions have been made in a reserve of \$853,000 (2011 - \$666,000) 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 2012 by \$164.3 million to \$4.632 billion and is reported in the consolidated financial statements as:

	<u>2012</u> \$000's	<u>2011</u> \$000's
<b>Non-Financial Assets</b>		
Tangible capital assets	\$ 4,613,151	\$ 4,445,630
Inventories	8,682	9,141
Prepaid expenses	<u>10,455</u>	<u>13,257</u>
	\$ 4,632,288	\$ 4,468,028

Tangible Capital Assets ("TCAs") \$4.6B (2012)      \$4.4B (2011)

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

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**2012 City of Hamilton Consolidated Financial Statements  
Analysis**

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over the life of the asset. 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, 2012 include:

	<u>2012</u> \$000's	<u>2011</u> \$000's
<b>General</b>		
Land	\$ 252,555	\$ 235,428
Land improvements	131,206	113,353
Buildings	564,255	473,450
Vehicles	118,460	118,843
Computer hardware and software	5,503	4,335
Other	65,122	66,925
<b>Infrastructure</b>		
Roads	1,201,843	1,196,811
Bridges and structures	169,941	171,716
Water and wastewater facilities	323,503	215,272
Underground and other networks	<u>1,544,543</u>	<u>1,508,056</u>
<b>Net Book Value</b>	\$ 4,376,931	\$ 4,104,189
<b>Assets under construction</b>	<u>236,220</u>	<u>341,441</u>
<b>Total</b>	<u>\$ 4,613,151</u>	<u>\$ 4,445,630</u>

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, 2012 is estimated at \$17.0 billion.

Inventories	\$ 8.7M (2012)	\$9.1M (2011)
Prepaid expenses	\$10.5M (2012)	\$13.3M (2011)

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 2012 for expenses to be incurred in 2013.

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**2012 City of Hamilton Consolidated Financial Statements  
Analysis**

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**Accumulated Surplus**

**Net Municipal Financial Position**

**\$4.812B (2012)**

**\$4.681B (2011)**

The City's accumulated surplus represents the net municipal financial position in PSAB's financial statement presentation requirements for 2012. The balance is comprised of the following:

	<u>2012</u> \$000's	<u>2011</u> \$000's
<b>Accumulated surplus (Net municipal financial position)</b>		
Operating surplus of BIA and Flamborough Recreation sub-committees	\$ 614	\$ 596
Operating surplus – housing	442	527
Capital surplus – municipal	24,191	(249)
Capital surplus – housing	14,105	20,107
Reserves and Reserve Funds	676,705	656,569
Unfunded liabilities – Employee benefits	(287,476)	(269,461)
Unfunded liabilities – Landfill sites	(31,967)	(33,357)
Investment in Government Business Enterprises	230,610	222,001
Investment in tangible capital assets	<u>4,184,595</u>	<u>4,084,246</u>
Total accumulated surplus	\$ 4,811,819	\$ 4,680,979

**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 \$15.7 million as reported in report FCS13036.

The annual surplus in the Consolidated Statement of Operations of \$130.8 million represents the excess of revenue over expenses for 2012 under PSAB's full accrual

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**2012 City of Hamilton Consolidated Financial Statements**  
**Analysis**

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

**Revenue** decreased by \$118.8 million to \$1.589 billion in 2012 from \$1.708 billion in 2011 and is reported in the Consolidated Statement of Operations as:

	Budget <u>2012</u> (\$000's unaudited)	Actual <u>2012</u> \$000's	Actual <u>2011</u> \$000's
<b>Revenue</b>			
Taxation	\$ 738,605	\$ 739,264	\$ 720,324
Government grants and contributions	326,845	349,192	427,098
User charges	281,190	280,475	278,551
Development charges and subdivider contributions	88,424	44,850	71,270
Donated tangible capital assets	57,000	30,460	57,332
Investment and dividend income	26,582	45,062	46,933
Net income from Government Business Enterprises	-	8,609	9,613
Other	<u>102,246</u>	<u>91,277</u>	<u>96,843</u>
Total revenue	<u>\$ 1,620,892</u>	<u>\$ 1,589,189</u>	<u>\$1,707,964</u>

The increase in taxation revenue includes the 2012 Operating Budget property tax increase of 0.9%.

Government grants and contributions decreased by \$77.9 million in 2012 from 2011. Significant government grants and contributions for operating budget programs and capital projects include:

	<u>2012</u> \$ millions	<u>2011</u> \$ millions
Ontario Works	125.1	126.4
Child Care	39.4	38.1
Social Housing	27.4	37.1
Public Health Services	31.3	30.3
Federal Gas Tax	34.0	17.0
Homes for the Aged	19.1	18.4
Emergency Medical Services - Ambulance	17.9	16.9
Homelessness	7.6	8.3
Ontario Municipal Partnership Fund (OMPF)	-	8.2
Provincial Gas Tax	9.2	6.9
Infrastructure Stimulus Fund (ISF) & RINC	1.0	77.3
Canada Ontario Infrastructure Program (COIP)	-	1.8
Canada Strategic Infrastructure Fund	12.2	19.3
Other capital grants	7.8	2.9
Other operating program grants	17.1	18.2

**2012 City of Hamilton Consolidated Financial Statements  
Analysis**

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User charges of \$280.5 million primarily consist of water and wastewater revenues of \$168.0 million (\$169.0 million in 2011) and transit fares and fees of \$50.2 million (\$53.0 million in 2011). Other user fees are recorded in Recreation & Cultural Services of \$23.3 million (\$25.1 million in 2011), Social and Family Services of \$12.1 million (\$12.4 million in 2011), Planning and Development of \$9.7 million (\$9.5 million in 2011) and Protection Services of \$6.5 million (\$7.1 million in 2011).

Development charges and subdividers' contributions of \$44.9 million was recognized as revenue in 2012 while unearned revenue is recorded as deferred revenue of the Statement of Financial Position.

Donated tangible capital assets of \$30.5 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 2012 from Hamilton Utilities Corp. of \$11.8 million (\$7.3 million in 2011) and investment income of \$33.3 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 \$8.6 million from HUC and HRPI for 2012 (\$9.6 million in 2011). Other Revenue of \$89.4 million represents revenue from licenses and permits of \$14.4 million (\$13.5 million in 2011), rents of \$39.8 million (\$38.0 million in 2011), fines and penalties of \$25.8 million (\$24.3 million in 2011) and miscellaneous revenue of \$9.4 million (\$12.5 million in 2011).

**Expenses** increased by \$6.7 million to \$1.458 billion in 2012 from \$1.452 billion in 2011 and are reported in the Consolidated Statement of Operations as:

	Budget <u>2012</u> (\$000's unaudited)	Actual <u>2012</u> \$000's	Actual <u>2011</u> \$000's
<b>Expenses</b>			
General government	\$ 67,318	\$ 83,711	\$ 69,535
Protection services	263,513	270,154	259,867
Transportation services	283,682	275,758	282,336
Environmental services	187,982	183,864	194,973
Health services	84,965	84,346	79,593
Social and family services	277,571	276,630	276,048
Social housing	107,416	112,293	117,027
Recreation and cultural services	138,969	132,124	134,542
Planning and development	<u>41,405</u>	<u>39,469</u>	<u>37,699</u>
<b>Total expenses</b>	<u>\$1,452,821</u>	<u>\$ 1,458,349</u>	<u>\$ 1,451,620</u>



**2012 City of Hamilton Consolidated Financial Statements  
Analysis**

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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.

The primary drivers for the increase in expenses of \$6.7 million are:

Salaries and benefits for General government:	\$ 5.4M	increase
Salaries and benefits for Protection services	7.9M	increase
Materials and supplies for General government	8.4M	increase
Materials and supplies for Transportation services	(6.8M)	decrease
Materials and supplies for Environmental services	(18.7M)	decrease
Materials and supplies for Social housing	(10.7M)	decrease
Contracted services for Social housing	18.2M	increase
External transfers for Social and family services	(6.3M)	decrease
External transfers for Social housing	(8.7M)	decrease

Expenses are summarized in the following categories as:

	<u>2012</u>	<u>2011</u>
	\$ millions	\$ millions
Salaries and benefits	\$ 648.8	\$ 625.4
Interest on long term debt	16.4	16.8
Materials and supplies	205.7	234.1
Contracted services	207.0	180.9
Rents and financial expenses	26.3	25.9
External transfers	186.0	199.2
Amortization of tangible capital assets	<u>168.1</u>	<u>169.3</u>
Total	\$1,458.3	\$1,451.6



Hamilton

# **FINANCIAL REPORT**

## **2012**

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

**City of Hamilton**  
**Financial Report**  
2012

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2012 Financial Statements for the Trust Funds for the Homes for the Aged	<a href="#">Section 4</a>

## Section 1

# City of Hamilton Five Year Financial and Statistical Review 2012

## 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)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Operating Revenue</b>					
Taxation	\$ 739,264	\$ 720,324	\$ 700,257	\$ 675,606	\$ 652,690
Government grants and contributions	349,192	427,098	520,896	376,283	439,005
User charges	280,475	287,057	265,116	254,358	249,152
Development charges and subdivider contributions	44,850	71,270	16,378	23,286	27,987
Donated tangible capital assets	30,460	57,332	41,193	43,645	46,687
Investment and dividend income	45,062	46,933	48,627	51,600	50,990
Net income (loss) from Government Business Enterprises	8,609	9,613	26,533	286	(2,834)
Other	91,277	88,337	91,722	87,446	93,413
	<u>1,589,189</u>	<u>1,707,964</u>	<u>1,710,722</u>	<u>1,512,510</u>	<u>1,557,090</u>
<b>Operating Expenses by Function</b>					
General government	\$ 83,711	\$ 69,535	\$ 69,028	\$ 71,132	\$ 75,869
Protection services	270,154	259,867	243,421	235,325	225,608
Transportation services	275,758	282,336	267,921	330,170	290,701
Environmental services	183,864	194,973	171,122	165,823	167,454
Health services	84,346	79,593	77,118	74,437	68,970
Social and family services	276,630	276,048	294,794	301,016	260,919
Social housing	112,293	117,027	116,178	106,786	104,678
Recreation and cultural services	132,124	134,542	138,777	133,403	129,822
Planning and development	39,469	37,699	38,416	40,605	36,836
	<u>1,458,349</u>	<u>1,451,620</u>	<u>1,416,775</u>	<u>1,458,697</u>	<u>1,360,857</u>
<b>Net Operating Revenue or Annual Surplus from Operations</b>	<u>130,840</u>	<u>256,344</u>	<u>293,947</u>	<u>53,813</u>	<u>196,233</u>

Note: Amounts reported may have been restated from previous amounts presented to conform to 2012 Public Sector Accounting Board (PSAB) standards.

## 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)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Taxation</b>					
Taxation from real property	\$ 914,365	\$ 893,209	\$ 871,170	\$ 843,029	\$ 819,725
Taxation from other governments/payments in lieu of taxes	15,060	15,267	14,835	14,553	12,173
Taxation collected on behalf of school boards	(190,161)	(188,152)	(185,748)	(181,976)	(179,208)
Net taxes available for municipal purposes	<u>739,264</u>	<u>720,324</u>	<u>675,606</u>	<u>675,606</u>	<u>652,690</u>
<b>Tax Levies</b>					
City portion	\$ 711,785	\$ 692,391	\$ 673,013	\$ 649,061	\$ 630,065
School Board portion	186,936	185,066	181,510	177,969	175,978
	<u>898,721</u>	<u>877,457</u>	<u>854,523</u>	<u>827,030</u>	<u>806,043</u>
<b>Tax arrears</b>					
Taxes receivable	\$ 78,078	\$ 78,728	\$ 71,937	\$ 69,028	\$ 58,818
Taxes receivable per capita	146	148	136	131	113
Taxes receivable as a percentage of current years' levies	8.7%	9.0%	8.4%	8.3%	7.3%
<b>Unweighted Taxable Assessment</b>					
Residential	\$ 44,555,379	\$ 41,781,277	\$ 39,268,260	\$ 36,842,873	\$ 34,259,519
Non-Residential	6,668,514	6,277,837	5,760,437	5,263,578	4,930,035
	<u>51,223,893</u>	<u>48,059,114</u>	<u>45,028,697</u>	<u>42,106,451</u>	<u>39,189,554</u>
<b>Weighted Taxable Assessment</b>					
Residential	\$ 47,986,529	\$ 45,123,128	\$ 42,509,064	\$ 39,960,408	\$ 37,243,442
Non-Residential	14,705,148	13,912,554	12,828,948	11,841,894	11,248,116
	<u>62,691,677</u>	<u>59,035,682</u>	<u>55,338,012</u>	<u>51,802,302</u>	<u>48,491,558</u>
<b>Residential vs Non-Residential Percentage of Total Weighted Taxable Assessment</b>					
Residential	77%	76%	77%	77%	77%
Non-Residential	23%	24%	23%	23%	23%
<b>Taxable Assessment Growth (weighted)</b>					
	0.8%	1.1%	1.3%	1.3%	1.0%

Note: Amounts reported may have been restated from previous amounts presented to conform to 2012 Public Sector Accounting Board (PSAB) standards.

## 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)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Operating Expenses by Object</b>					
Salaries, wages and employee benefits	\$ 648,794	\$ 625,386	\$ 606,815	\$ 643,407	\$ 574,360
Interest on long term liabilities	16,405	16,815	17,871	18,395	18,157
Materials	205,736	234,099	182,656	209,388	213,686
Contracted services	207,003	180,943	197,194	191,500	199,467
Rents and financial expenses	26,345	25,869	19,289	15,467	17,287
External transfers	185,931	199,187	227,269	223,363	188,557
Amortization of tangible capital assets	168,135	169,321	165,681	157,177	149,343
	<u>1,458,349</u>	<u>1,451,620</u>	<u>1,416,775</u>	<u>1,458,697</u>	<u>1,360,857</u>
<b>Operating Expenses as Percentage of Total</b>					
Salaries, wages and employee benefits	44.5%	43.0%	42.8%	44.1%	42.1%
Interest on long term liabilities	1.1%	1.2%	1.3%	1.3%	1.3%
Materials	14.1%	16.1%	12.9%	14.4%	15.7%
Contracted services	14.2%	12.5%	13.9%	13.1%	14.7%
Rents and financial expenses	1.8%	1.8%	1.4%	1.1%	1.3%
External transfers	12.7%	13.7%	16.0%	15.2%	13.9%
Amortization of tangible capital assets	11.6%	11.7%	11.7%	10.8%	11.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>89.0%</u>
<b>Long Term Liabilities</b>					
Long Term Liabilities incurred by the City	\$ 430,905	\$ 368,683	\$ 420,352	\$ 427,358	\$ 408,358
Long Term Debt incurred by the City for which other entities have assumed responsibility	(11,818)	(14,336)	(23,371)	(26,494)	(29,433)
	<u>419,087</u>	<u>354,347</u>	<u>396,981</u>	<u>400,864</u>	<u>378,925</u>
<b>Long Term Liabilities</b>					
Housing operations	\$ 84,449	\$ 84,908	\$ 89,195	\$ 93,279	\$ 74,168
City operations	334,638	269,439	307,786	307,585	304,757
	<u>419,087</u>	<u>354,347</u>	<u>396,981</u>	<u>400,864</u>	<u>378,925</u>
Long term liabilities as a % of Reserves and Capital Surplus	58.60%	52.40%	55.80%	58.10%	48.80%

Note: Amounts reported may have been restated from previous amounts presented to conform to 2012 Public Sector Accounting Board (PSAB) standards.



## 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)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Tangible Capital Assets</b>					
General					
Land	\$ 252,555	\$ 235,428	\$ 218,869	\$ 193,416	\$ 170,956
Land improvements	131,206	113,353	110,475	107,154	107,351
Buildings	564,255	473,450	399,349	307,949	269,534
Vehicles	118,460	118,843	129,356	127,272	107,787
Computer hardware and software	5,503	4,335	5,008	4,517	4,724
Other	65,122	66,925	63,075	59,891	51,752
Infrastructure					
Roads	1,201,843	1,196,811	1,212,293	1,244,287	1,268,814
Bridges and structures	169,941	171,716	159,286	160,890	162,798
Water and wastewater facilities	323,503	215,272	160,327	152,553	150,533
Underground and other networks	1,544,543	1,508,056	1,443,408	1,384,228	1,331,191
Net Book Value	<u>4,376,931</u>	<u>4,104,189</u>	<u>3,901,446</u>	<u>3,742,157</u>	<u>3,625,440</u>
Assets under construction	236,220	341,441	283,547	191,478	96,137
	<u>4,613,151</u>	<u>4,445,630</u>	<u>4,184,993</u>	<u>3,933,635</u>	<u>3,721,577</u>
<b>Accumulated Surplus or Municipal Financial Position</b>					
Reserves and reserve funds					
Reserves	\$ 599,756	\$ 583,063	\$ 530,213	\$ 410,630	\$ 437,672
Hamilton Future Fund	76,949	73,506	72,990	73,426	74,928
	<u>676,705</u>	<u>656,569</u>	<u>603,203</u>	<u>484,056</u>	<u>512,600</u>
Capital surplus	\$ 38,296	\$ 19,858	\$ 107,836	\$ 205,492	\$ 264,110
Operating surplus	1,056	1,123	1,054	806	1,038
Investment in Government Business Enterprises	230,610	222,001	212,388	185,810	185,569
Investment in tangible capital assets	4,184,595	4,084,246	3,780,753	3,492,082	3,296,172
Unfunded liabilities - Employee future benefits	(287,476)	(269,461)	(253,988)	(246,298)	(187,677)
Unfunded liabilities - Solid waste landfill sites	(31,967)	(33,357)	(26,611)	(26,952)	(30,584)
	<u>4,811,819</u>	<u>4,680,979</u>	<u>4,424,635</u>	<u>4,094,996</u>	<u>4,041,228</u>

Note: Amounts reported may have been restated from previous amounts presented to conform to 2012 Public Sector Accounting Board (PSAB) standards.

## 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)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Statistical Information</b>					
Population	535,234	531,057	528,502	525,697	519,109
Households	215,733	212,262	209,965	207,667	203,643
Area in hectares	112,775	112,775	112,775	112,775	112,775
Building Permit Values	\$1,499,627,394	\$ 731,019,287	\$1,096,299,091	\$ 637,968,543	\$ 818,462,450
Housing Starts	1,364	956	1,513	742	1,126
New Residential Units - Building Permits	3,302	3,373	5,137	3,008	2,809
Average Monthly Social Assistance Case Load	13,288	13,807	13,330	12,224	10,035
Continuous Full Time Employees	6,392	6,296	6,259	6,183	6,146

Note: Amounts reported may have been restated from previous amounts presented to conform to 2012 Public Sector Accounting Board (PSAB) standards.

## Section 2

# City of Hamilton Consolidated Financial Statements 2012

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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 Consolidated Statement of Financial Position

As at December 31, 2012 (all numbers are in thousands of dollars)

	<u>2012</u>	<u>2011</u> (Note 1)
<b>Financial assets</b>		
Cash and cash equivalents (Note 2)	\$ 66,192	\$ 72,932
Taxes receivable	78,078	78,728
Accounts receivable	104,065	129,495
Other assets	816	665
Long term receivables (Note 3)	49,216	29,991
Portfolio investments (Note 2)	817,134	738,711
Investment in Government Business Enterprises (Note 4)	<u>230,610</u>	<u>222,001</u>
<b>Total financial assets</b>	<u>\$1,346,111</u>	<u>\$1,272,523</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 222,256	\$ 229,701
Deferred revenue - general	37,189	27,705
Deferred revenue - obligatory reserve funds (Note 5)	148,567	125,469
Long term liabilities – Municipal Operations (Note 7)	334,638	269,439
Long term liabilities – Housing Corporation (Note 8)	84,449	84,908
Employee future benefits and other obligations (Note 9)	307,514	288,993
Solid waste landfill liabilities (Note 11)	<u>31,967</u>	<u>33,357</u>
<b>Total liabilities</b>	<u>1,166,580</u>	<u>1,059,572</u>
<b>Net financial assets</b>	<u>\$ 179,531</u>	<u>\$ 212,951</u>
<b>Non-financial assets</b>		
Tangible capital assets (Note 19)	\$4,613,151	\$4,445,630
Inventories	8,682	9,141
Prepaid expenses	<u>10,455</u>	<u>13,257</u>
<b>Total non-financial assets</b>	<u>4,632,288</u>	<u>4,468,028</u>
<b>Accumulated surplus (Note 12)</b>	<u>\$4,811,819</u>	<u>\$4,680,979</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, 2012 (all numbers are in thousands of dollars)

	Budget <u>2012</u> (unaudited) (Note 21)	<b>Actual <u>2012</u></b>	Actual <u>2011</u> (Note 1)
<b>Revenue</b>			
Taxation (Note 14)	\$ 738,605	\$ <b>739,264</b>	\$ 720,324
Government grants and contributions	326,845	<b>349,192</b>	427,098
User charges	281,190	<b>280,475</b>	287,057
Development charges and subdivider contributions	88,424	<b>44,850</b>	71,270
Donated tangible capital assets	57,000	<b>30,460</b>	57,332
Investment and dividend income	26,582	<b>45,062</b>	46,933
Net income from Government Business Enterprises (Note 4)	-	<b>8,609</b>	9,613
Other	102,246	<b>91,277</b>	88,337
<b>Total revenue</b>	<u>1,620,892</u>	<u><b>1,589,189</b></u>	<u>1,707,964</u>
<b>Expenses</b>			
General government	\$ 67,318	\$ <b>83,711</b>	\$ 69,535
Protection services	263,513	<b>270,154</b>	259,867
Transportation services	283,682	<b>275,758</b>	282,336
Environmental services	187,982	<b>183,864</b>	194,973
Health services	84,965	<b>84,346</b>	79,593
Social and family services	277,571	<b>276,630</b>	276,048
Social housing	107,416	<b>112,293</b>	117,027
Recreation and cultural services	138,969	<b>132,124</b>	134,542
Planning and development	41,405	<b>39,469</b>	37,699
<b>Total expenses</b>	<u>1,452,821</u>	<u><b>1,458,349</b></u>	<u>1,451,620</u>
<b>Annual Surplus</b>	\$ 168,071	\$ <b>130,840</b>	\$ 256,344
<b>Accumulated surplus</b>			
<b>Beginning of year,</b>			
As previously reported	\$ 4,680,979	\$ <b>4,680,979</b>	\$ 4,401,452
Prior period adjustment	-	-	23,183
<b>Accumulated surplus</b>			
<b>Beginning of year, as restated</b>	<u>\$ 4,680,979</u>	<u><b>\$ 4,680,979</b></u>	<u>\$ 4,424,635</u>
<b>End of year</b>	<u>\$ 4,849,050</u>	<u><b>\$ 4,811,819</b></u>	<u>\$ 4,680,979</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, 2012 (all numbers are in thousands of dollars)

	Budget <u>2012</u> (unaudited) (Note 21)	<b>Actual <u>2012</u></b>	Actual <u>2011</u> (Note 1)
<b>Operating activities</b>			
Annual surplus	\$ 168,071	<b>\$ 130,840</b>	\$ 256,344
Purchase of tangible capital assets	(414,859)	<b>(318,031)</b>	(385,394)
Loss on disposition of tangible capital assets	-	<b>12,836</b>	12,768
Amortization of tangible capital assets	170,000	<b>168,134</b>	169,321
Donated tangible capital assets	(57,000)	<b>(30,460)</b>	(57,332)
Decrease in inventories	-	<b>459</b>	398
Decrease (increase) in prepaid expenses	-	<b>2,802</b>	(1,016)
<b>Net decrease in net financial assets</b>	<u>(133,788)</u>	<u><b>(33,420)</b></u>	<u>(4,911)</u>
<b>Net financial assets</b>			
<b>Beginning of year,</b>	<u>212,951</u>	<u><b>212,951</b></u>	<u>217,862</u>
<b>End of year</b>	<u>\$ 79,163</u>	<u><b>\$ 179,531</b></u>	<u>\$ 212,951</u>

See accompanying notes to the consolidated financial statements.

## City of Hamilton Consolidated Statement of Cash Flow

For the year ended December 31, 2012 (all numbers are in thousands of dollars)

	<u>2012</u>	<u>2011</u> (Note 1)
<b>Operating activities</b>		
Annual surplus	\$ 130,840	\$ 256,344
Decrease (increase) in taxes receivable	650	(6,791)
Decrease (increase) in accounts receivable	25,430	(18,857)
Decrease (increase) in other assets	(151)	50
Increase (decrease) in accounts payable and accrued liabilities	(7,445)	4,767
Increase in deferred revenue - general	9,484	2,375
Increase in deferred revenue – obligatory reserve fund	23,098	11,556
Decrease in inventories	459	398
Decrease (increase) in prepaid expenses	2,802	(1,016)
<b>Non-cash activities</b>		
Amortization of tangible capital assets	168,134	169,321
Donated tangible capital assets	(30,460)	(57,332)
Loss on disposition of tangible capital assets	12,836	12,768
Change in investment in Government Business Enterprises	(8,609)	(9,613)
Change in employee future benefit and other obligations	18,521	16,007
Change in solid waste landfill liabilities	(1,390)	6,746
	<u>344,199</u>	<u>386,723</u>
<b>Investing activities</b>		
(Increase) in portfolio investments	(78,423)	(28,530)
(Increase) in long term receivables	(19,225)	(5,069)
	<u>(97,648)</u>	<u>(33,599)</u>
<b>Financing activities</b>		
Long term debt issued – Municipal Operations	94,739	-
Long term liability – leased capital assets	-	6,635
Debt principal repayment – Municipal Operations	(28,387)	(44,031)
Lease obligation payment – Municipal Operations	(1,153)	(951)
Long term debt issued - Housing Corporations	3,752	-
Debt principal repayment – Housing Corporation	(4,211)	(4,287)
	<u>64,740</u>	<u>(42,634)</u>
<b>Capital activities</b>		
Purchase of tangible capital assets	(318,031)	(385,394)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(6,740)</b>	<b>(74,904)</b>
<b>Cash and cash equivalents</b>		
Beginning of year	<u>72,932</u>	<u>147,836</u>
End of year	<u>\$ 66,192</u>	<u>\$ 72,932</u>

See accompanying notes to the consolidated financial statements.

# City of Hamilton

## Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (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 public sector accounting standards, as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

The City restated certain financial assets, liabilities, non-financial assets and accumulated surplus as a result of its conversion 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>2011</u>
Financial assets	
Taxes Receivable	
Previously reported	\$ 75,943
Prior period adjustment	2,785
Restated	<u>\$ 78,728</u>
Investment in Government Business Enterprises	
Previously reported	\$ 200,866
Prior period adjustment	21,135
Restated	<u>\$ 222,001</u>
Net Financial Assets	
Previously reported	\$ 191,816
Prior period adjustment	21,135
Restated	<u>\$ 212,951</u>
Liabilities	
Accounts payable and accrued liabilities	
Previously reported	\$ 226,916
Prior period adjustment	2,785
Restated	<u>\$ 229,701</u>
Accumulated Surplus	
Previously reported	\$4,659,844
Prior period adjustment	21,135
Restated	<u>\$4,680,979</u>

# City of Hamilton

## Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (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. (activities included up to dissolution on July 19, 2012)  
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.

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 after conforming 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 \$17,501,000 (2011 - \$16,814,000) 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 \$646,000 (2011 - \$637,000) 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

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 1. Significant accounting policies (continued)

#### (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

- (iii) The financial activities of programs administered by the City which are fully funded by the Province of Ontario or the Government of Canada on the basis of a March 31st year-end are excluded from these financial statements. The programs, which are not consolidated, are as follows:

Aids Bureau  
Asthma Project  
Child and Adolescent Services  
Community Capacity Building - Choices and Changes Program  
Community Mental Health and Addictions  
Prenatal Nutrition & Support  
Remedial Measures  
Young Offenders Assessment

- (iv) 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. Expenses are recognized in the period goods and services are acquired and a liability is incurred.

#### (c) Use of estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards 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. Significant estimates include assumptions used in estimating provisions for allowance for doubtful accounts, donated tangible capital assets, solid waste landfill liabilities, and in performing actuarial valuations of employee future benefits.

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

For the year ended December 31, 2012 (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 expenses are incurred, deferred revenues are recognized 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 and recognized in revenue. 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. The City's open landfill site is amortized based on units of production (capacity used during the year). 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. Estimated useful lives range from 3 years to 100 years as follows:

General - Land improvements	20 to 75 years
General - Buildings	20 to 50 years
General - Vehicles	4 to 20 years
General – Computer hardware and software	3 to 5 years
General – Other – Machinery and equipment	3 to 100 years
Infrastructure – Roads	10 to 50 years
Infrastructure – Bridges and other structures	40 to 75 years
Infrastructure – Water and wastewater facilities	20 to 40 years
Infrastructure – Water, wastewater, stormwater linear network	18 to 100 years

The City has leased tangible capital assets which are amortized over the term of the lease, ranging from 5 to 50 years. The cost, accumulated amortization, net book value and amortization expense have been reported in these consolidated financial statements.

#### (i) Inventories

Inventories held for consumption or use are valued at the lower of cost and net realizable value.

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 1. Significant accounting policies (continued)

#### (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.

#### (k) Long term receivables

Long term receivables are valued at cost. Recoverability is assessed annually and a valuation allowance is recorded when recoverability has been impaired. Long term receivables are written off when they are no longer recoverable. Recoveries of long term receivables previously written off are recognized in the year received. Interest revenue is recognized as it is earned. Long term receivables with significant concessionary terms are reported as an expense on the Consolidated Statement of Operations. Long term receivables are reported in Note 3.

### 2. Cash and portfolio investments

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents are comprised of:		
Cash on hand	\$ 183	\$ 198
Cash held in banks	60,027	66,795
Temporary investments	5,982	5,939
	<u>\$ 66,192</u>	<u>\$ 72,932</u>
Portfolio investments are comprised of:		
Unrestricted investments	\$ 591,618	\$ 539,736
Designated investments (obligatory reserve funds)	148,567	125,469
Designated investments (Hamilton Future Fund)	76,949	73,506
	<u>\$ 817,134</u>	<u>\$ 738,711</u>

Portfolio investments have a market value of \$838,555,000 (2011 - \$752,789,000) and include City debentures - unrestricted investments of \$14,988,000 (2011 - \$16,795,000).

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 3. Long term receivables

The City has long-term receivables in the amount of \$49,216,000 (2011 - \$29,991,000). The long term receivables are comprised of:

	<u>2012</u>	<u>2011</u>
<b>Development charge deferral agreements</b>	<b>\$ 20,104</b>	<b>\$ 11,375</b>
<b>Mortgages receivable:</b>		
Downtown convert to rent program	12,568	6,306
Hamilton Renewable Power Inc.	3,966	4,677
Sheraton Hotel loan	1,380	1,451
Other City loan programs	6,781	1,131
<b>Loans to other agencies and organizations</b>	<b>8,459</b>	<b>9,094</b>
<b>Less: Provision for loans with concessionary terms</b>	<b>(4,042)</b>	<b>(4,043)</b>
	<b><u>\$ 49,216</u></b>	<b><u>\$ 29,991</u></b>

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, the Bob Kemp Hospice, Hamilton CarShare and the Good Sheppard, 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

For the year ended December 31, 2012 (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 2012 and 2011 is as reported by the Hamilton Utilities Corporation and Hamilton Renewable Power Inc.

	<u>2012</u>	<u>2011</u>
Net income from H.U.C.	\$ 8,837	\$ 9,713
Net loss from H.R.P.I.	<u>(228)</u>	<u>(100)</u>
Net income from Government Business Enterprises	<u>\$ 8,609</u>	<u>\$ 9,613</u>

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

	<u>2012</u>	<u>2011</u>
Investment in H.U.C.	\$ 230,837	\$ 222,000
Investment in H.R.P.I.	<u>(227)</u>	<u>1</u>
	<u>\$ 230,610</u>	<u>\$ 222,001</u>

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (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, 2012 and December 31, 2011 respectively.

	<u>2012</u>	<u>2011</u>
<b>Financial Position</b>		
Current assets	\$ 182,428	\$ 142,216
Capital assets	384,181	355,792
Intangible assets	12,865	3,711
Goodwill	18,923	18,923
Future payments in lieu of taxes	16,324	16,426
Total assets	<u>614,721</u>	<u>537,068</u>
Current liabilities (including current portion of long term debt)	97,333	202,718
Non-current liabilities	237,073	65,852
Total liabilities	<u>334,406</u>	<u>268,570</u>
Minority Interest	49,478	46,498
Net assets	<u>\$ 230,837</u>	<u>\$ 222,000</u>
<b>Results of operations</b>		
Revenues	\$ 575,218	\$ 535,435
Operating expenses	(531,711)	(502,217)
Financing expenses	(8,506)	(9,566)
Investing expenses	(1,442)	(1,646)
Other income	1,011	587
Equity earnings from operations	<u>34,570</u>	<u>22,593</u>
Payment in lieu of taxes	(7,352)	(4,869)
Income from discontinued operations	(33)	4,937
Minority Interest	(5,523)	(3,599)
Net Income before dividends	21,662	19,062
Dividends paid	(11,802)	(7,300)
Other comprehensive income	(1,084)	(1,566)
Refundable dividend tax on hand	61	(483)
Net income	<u>\$ 8,837</u>	<u>\$ 9,713</u>

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (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, 2012 and December 31, 2011 respectively.

	<u>2012</u>	<u>2011</u>
<b>Financial Position</b>		
Current assets	\$ 1,285	\$ 1,472
Capital assets	9,833	10,228
Other assets	32	32
	<u>11,150</u>	<u>11,732</u>
Total assets		
Current liabilities (including current portion of long term debt)	1,322	1,274
Future payment in lieu of taxes	551	491
Long term debt	3,504	3,966
	<u>5,377</u>	<u>5,731</u>
Total liabilities		
Shareholder's equity	6,000	6,000
Net assets	<u>\$ (227)</u>	<u>\$ 1</u>
<b>Results of operations</b>		
Revenues	\$ 3,671	\$ 4,058
Expenses	(3,272)	(3,422)
Dividends paid	(627)	(736)
Net loss	<u>\$ (228)</u>	<u>\$ (100)</u>

Hamilton Utilities Corporation's non-current liabilities includes long term debt of senior unsecured debentures of \$149,181,000 bearing interest at 3.03%, due July 25, 2022.

Hamilton Utilities Corporation's non-current liabilities includes long term debt of senior unsecured debentures of \$39,647,000 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

For the year ended December 31, 2012 (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>2012</u>	<u>2011</u>
<b>Revenue</b>		
Dividend revenue from H.U.C.	\$ 11,802	\$ 7,300
Property and other taxes received by the City from H.U.C.	528	516
Sale of Methane to H.R.P.I.	886	901
<b>Expenditures</b>		
Hydro purchased by the City from H.U.C.	29,664	31,085
Water and sewer billing contracted service with H.U.C.	3,891	3,798
Thermal and Electrical Energy purchased from H.U.C.	1,950	2,044
Thermal Energy purchased from H.R.P.I.	401	426
<b>Assets</b>		
Accounts receivable from H.U.C.	-	70
Water user charges receivable from H.U.C.	10,085	11,194
Accounts receivable from H.R.P.I.	532	336
Long term receivable from H.R.P.I.	3,966	4,677
<b>Liabilities</b>		
Accounts Payable – H.U.C.	221	441

### 5. Deferred revenue - obligatory reserve funds

	<u>2012</u>	<u>2011</u>
Development charge reserve funds (Note 6)	\$ 52,748	\$ 37,954
Subdivider contributions	51	50
Recreational land dedicated under the Planning Act	15,916	10,392
Gasoline tax revenue: Provincial	25,707	24,505
Federal	20,113	22,417
Building Permit Revenue	13,254	9,842
Other (Pan Am Games)	20,778	20,309
	<u>\$ 148,567</u>	<u>\$ 125,469</u>

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 6. Continuity of deferred revenue

	<u>2012</u>	<u>2011</u>
Balance at the beginning of the year	\$ 153,174	\$ 139,243
Development charge reserve funds	14,794	(29,471)
Subdivider contributions	1	1
Recreational land dedicated under the Planning Act	5,524	338
Gasoline tax revenue: Provincial	1,202	4,002
Federal	(2,304)	13,911
Building Permit Revenue	3,412	2,466
Other (Pan Am Games)	469	20,309
Deferred General	9,484	2,375
Balance at the end of the year	<u>\$ 185,756</u>	<u>\$ 153,174</u>

### 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 2013 to 2027 with interest rates varying between 1.61% and 6.75% and obligations for leased tangible capital assets with payments from 2013 to 2051 at a discount rate of 5%. The balance of long term liabilities consists of the following:

	<u>2012</u>	<u>2011</u>
Long term debt incurred by the City	\$ 338,539	\$ 274,704
Long term debt incurred by the City for which other entities have assumed responsibility	<u>(11,818)</u>	<u>(14,336)</u>
Net long term debt	\$ 326,721	\$ 260,368
Long term liabilities for leased tangible capital assets incurred by the City	<u>7,917</u>	<u>9,071</u>
Net long term liabilities	<u>\$ 334,638</u>	<u>\$ 269,439</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, 2012 is \$11,818,000 (2011 - \$14,336,000).

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.

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 7. Long term liabilities – municipal operations (continued)

- (c) Of the \$326,721,000 long term debt (2011 - \$260,368,000) 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>2012</u>	<u>2011</u>
General revenues	\$ 272,160	\$ 257,444
Reserves and reserve funds	-	1,891
Wastewater user charges	54,557	1,026
Non-consolidated entities	4	7
	<u>\$ 326,721</u>	<u>\$ 260,368</u>

- (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	Wastewater User Charges	Non- consolidated Entities	Total 2012
2013	\$ 29,024	\$ 3,739	\$ 1	\$ 32,764
2014	30,026	3,742	1	33,769
2015	31,076	3,746	1	34,823
2016	32,190	3,750	1	35,941
2017	29,899	3,754	-	33,653
2018 and thereafter	119,945	35,826	-	155,771
Total	<u>\$ 272,160</u>	<u>\$ 54,557</u>	<u>\$ 4</u>	<u>\$ 326,721</u>

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

	<u>2012</u>
2013	\$ 1,153
2014	1,153
2015	1,153
2016	547
2017	344
2018 and thereafter	3,567
Total	<u>\$ 7,917</u>

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

	<u>2012</u>	<u>2011</u>
Principal repayments	\$ 28,387	\$ 44,031
Interest expense	12,589	12,623
	<u>\$ 40,976</u>	<u>\$ 56,654</u>

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 7. Long term liabilities – municipal operations (continued)

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

	<u>2012</u>	<u>2011</u>
Principal repayments	\$ 1,153	\$ 951
Interest expense	154	497
	<u>\$ 1,307</u>	<u>\$ 1,448</u>

### 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 CityHousing Hamilton Corporation that are financed by mortgages. The mortgages mature in the years 2013 to 2027 with interest rates varying between 1.65% and 8.00%. The mortgage obligations for CityHousing Hamilton are \$84,449,000 (2011 - \$84,908,000).

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

	<u>2012</u>
2013	\$ 6,970
2014	29,598
2015	7,954
2016	9,875
2017	11,527
2018 and thereafter	18,525
	<u>\$ 84,449</u>

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

	<u>2012</u>	<u>2011</u>
Principal repayments	\$ 4,211	\$ 4,287
Interest expense	3,862	3,694
	<u>\$ 8,073</u>	<u>\$ 7,981</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 \$31,391,000 (2011 - \$34,628,000), are 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 long term debt remains the obligation of the Province of Ontario.

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (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>2012</u>	<u>2011</u>
<b>Accrued Benefit Obligation</b>		
Sick leave benefit plan	\$ 49,486	\$ 47,722
Long term disability	16,755	15,148
Workplace safety and insurance board liabilities (WSIB)	69,009	62,904
Retirement benefits	126,049	124,834
Vacation benefits	24,366	24,161
Pension benefit plans (Note 9f)	<u>91,252</u>	<u>110,049</u>
	<b>376,917</b>	<b>384,818</b>
Net unamortized actuarial loss	<u>(69,403)</u>	<u>(95,825)</u>
<b>Accrued Liability</b>	<b><u>\$ 307,514</u></b>	<b><u>\$ 288,993</u></b>

The City has established reserves for some of these liabilities totalling \$64,995,000 (2011 - \$62,550,000) as described in the following notes

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

	<u>2012</u>	<u>2011</u>
<b>Liability for Employee Future Benefits and Other Obligations</b>		
<b>balance at beginning of the year</b>	<b>\$ 288,993</b>	<b>\$ 272,986</b>
Change in pension valuation allowance	-	280
Benefit expense	21,599	20,937
Interest expense	13,231	12,042
Amortization of actuarial loss on accrued benefit obligations	8,346	8,509
Amortization of actuarial loss (gain) on earnings on pension assets	1,107	(452)
Benefit payments	<u>(25,762)</u>	<u>(25,309)</u>
<b>Liability for Employee Future Benefits and Other Obligations</b>		
<b>balance at end of the year</b>	<b><u>\$ 307,514</u></b>	<b><u>\$ 288,993</u></b>



## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (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>2012</u>	<u>2011</u>
Change in pension valuation allowance	\$ -	\$ 280
Benefit expense	<b>21,599</b>	20,937
Interest expense	<b>13,231</b>	12,042
Amortization of net actuarial loss	<b>8,346</b>	8,509
	<u><b>\$ 43,176</b></u>	<u>\$ 41,768</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	2.0%	4.0%	NA	9.4
Long term disability	4.0%	NA	2.0%	3.0%	NA	8.0
Workplace safety and insurance	4.5%	NA	2.5%	4.0%	NA	8.0
Retirement Benefits Health and Dental	4.5%	NA	2.0%	4.0%	3.5% (1)	13.3 to 14.1
Pensions Benefits (non-OMERS)	4.5%	5.5%	2.0%	NA (2)	NA	7.5 to 10.0

Notes: (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%.

(2) There is no estimate for future salary and wage increases in the non-OMERS pension plans as the active employees have been transferred to OMERS.

#### (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, 2012 has estimated the accrued benefit obligation at \$49,486,000 (2011 - \$47,722,000). Changes in valuation assumptions have resulted in an increase in the liability to \$49,486,000 from the expected liability of \$39,185,000. The actuarial loss as at December 31, 2012 of \$10,301,000 is being amortized over 9.4 years, which is 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 \$9,109,000 (2011 - \$9,179,000).

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## City of Hamilton

### Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

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#### 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, 2012 has estimated the accrued benefit obligation at \$16,755,000 (2011 - \$15,148,000). Changes in valuation assumptions have resulted in a decrease in the liability to \$16,755,000 from the expected liability of \$18,374,000. The actuarial gain as at December 31, 2012 of \$1,619,000 is being amortized over 8.0 years, which is 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 \$14,848,000 (2011 - \$14,575,000).

##### (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, 2012 estimated the accrued benefit obligation for workplace safety & insurance existing claims and future pension awards at \$69,009,000 (2011 - \$62,904,000). Changes in valuation assumptions have resulted in an increase in the liability to \$69,009,000 from the expected liability of \$63,116,000. The actuarial loss of \$5,893,000 is being amortized over 8.0 years, which is 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 \$39,697,000 (2011 - \$37,488,000).

##### (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, 2012 estimated the accrued benefit obligation at \$126,049,000 (2011 - \$124,834,000). The cost of a plan amendment and changes in valuation assumptions have resulted in an increase in the liability to \$126,049,000 from the expected liability of \$89,623,000. The actuarial loss of \$36,426,000 is being amortized over 13.3 to 14.1 years, which is 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, 2012 has been estimated at \$24,366,000 (2011 - \$24,161,000). Reserves established to provide for this liability are included on the Consolidated Statement of Financial Position in the amount of \$1,341,000 (2011 - \$1,308,000).

##### (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, 2012 estimated the combined accrued benefit obligation of the pension plans at \$91,252,000 (2011 - \$110,049,000). Changes in valuation resulted in an increase in the liability to \$91,252,000 from an expected liability of \$72,850,000. The actuarial loss of \$18,402,000 is being amortized over 7.5 to 10.0 years, which is the expected average remaining life expectancy of the plan members. The unamortized actuarial loss in the period amounted to \$16,969,000 (2011 - \$14,442,000).

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 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 6,730 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, 2012 indicates a "going concern" Actuarial Deficit based on the plan's current member and employer contribution rates. Contributions were made in the 2012 calendar year at rates ranging from 8.3% to 13.9% depending on the member's designated retirement age and level of earnings. As a result \$44,460,000 (2011 - \$39,362,000) was contributed to OMERS for current service.

#### (b) Other pension plans

Approximately 467 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. For funding purposes, one of the pension plans is in a net asset position and two of the pension plans are in a net liability position.

The actuarial valuation of the Hamilton Wentworth Retirement Fund ("HWRF") pension plan as at December 31, 2012 is based on a number of assumptions about future events including mortality, inflation rates, and interest rates. The unamortized actuarial gains and losses on plan assets and the accrued benefit obligation are 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>2012</u>	<u>2011</u>
Accrued pension benefit obligation - HWRF	\$ 79,463	\$ 83,872
Pension plan assets:		
Marketable securities	<u>(59,865)</u>	<u>(59,371)</u>
	19,598	24,501
Unamortized actuarial loss	<u>(3,974)</u>	<u>(7,407)</u>
Accrued pension liability - HWRF	<u>\$ 15,624</u>	<u>\$ 17,094</u>

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 10. Pension agreements (continued)

#### (b) Other pension plans (continued)

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

	<u>2012</u>	<u>2011</u>
Expected pension fund assets at end of year	\$ 57,046	\$ 62,698
Actual pension fund assets at end of year	<u>59,865</u>	<u>59,371</u>
Actuarial gain (loss) on pension fund assets	<u>\$ 2,819</u>	<u>\$ (3,327)</u>
Expected accrued pension benefit obligation at end of year	\$ 79,627	\$ 83,121
Actual accrued pension benefit obligation at end of year	<u>79,463</u>	<u>83,872</u>
Actuarial (gain) loss on accrued pension benefit obligation – HWRF	<u>\$ 164</u>	<u>\$ (751)</u>

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

	<u>2012</u>	<u>2011</u>
Amortization of net actuarial loss on accrued pension benefit obligation	\$ 56	\$ (32)
Amortization of net actuarial gain on pension plan assets	<u>395</u>	<u>3</u>
Net Amortization	<u>451</u>	<u>(29)</u>
Interest on average accrued pension benefit obligation	\$ 3,598	\$ 3,750
Expected return on average pension plan assets	<u>(3,116)</u>	<u>(3,411)</u>
Net Interest	<u>482</u>	<u>339</u>
Total expenses	<u>\$ 933</u>	<u>\$ 310</u>

Payments of \$3,069,000 (2011 - \$2,457,000) 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, 2012 will be funded by the City with payments as follows:

2013	\$ 1,705
2014	1,705
2015	1,705
2016	535
2017	535
2018 and thereafter	<u>2,139</u>
Total	<u>\$ 8,324</u>

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 10. Pension agreements (continued)

#### (b) Other pension plans (continued)

The actuarial valuation of the Hamilton Municipal Retirement Fund ("HMRF") pension plan as at December 31, 2012 is based on a number of assumptions about future events including mortality, inflation rates, salary and wage increases and interest rates. The unamortized actuarial gains and losses on plan assets and accrued benefit obligation are 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>2012</u>	<u>2011</u>
Accrued pension benefit obligation - HMRF	\$ 82,411	\$ 88,701
Pension plan assets:		
Marketable securities	<u>(78,259)</u>	<u>(78,088)</u>
	4,152	10,613
Unamortized actuarial loss	<u>(3,261)</u>	<u>(10,525)</u>
Accrued pension liability - HMRF	<u>\$ 891</u>	<u>\$ 88</u>

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

	<u>2012</u>	<u>2011</u>
Expected pension fund assets at end of year	\$ 74,489	\$ 82,465
Actual pension fund assets at end of year	<u>78,259</u>	<u>78,088</u>
Actuarial gain (loss) on pension fund assets - HMRF	<u>\$ 3,770</u>	<u>\$ (4,377)</u>
Expected accrued pension benefit obligation at end of year	\$ 84,838	\$ 88,701
Actual accrued pension benefit obligation at end of year	<u>82,411</u>	<u>88,701</u>
Actuarial (gain) loss on accrued pension benefit obligation - HMRF	<u>\$ 2,427</u>	<u>\$ -</u>

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

	<u>2012</u>	<u>2011</u>
Change in pension valuation allowance	\$ -	\$ (68)
Amortization of net actuarial loss on accrued pension benefit obligation	481	481
Amortization of net actuarial gain on pension plan assets	<u>588</u>	<u>190</u>
Net Amortization	<u>1,069</u>	<u>671</u>
	<u>2012</u>	<u>2011</u>
Interest on average accrued pension benefit obligation	\$ 3,819	\$ 3,986
Expected return on average pension plan assets	<u>(4,084)</u>	<u>(4,500)</u>
Net Interest	<u>(265)</u>	<u>(514)</u>
Total expenses	<u>\$ 804</u>	<u>\$ 89</u>

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 10. Pension agreements (continued)

#### (b) Other pension plans (continued)

The actuarial valuation of the HSR pension plan as at December 31, 2012 is based on a number of assumptions about future events including mortality, inflation rates, salary and wage increases and interest rates. The unamortized actuarial gains and losses on plan assets and accrued benefit obligation are 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>2012</u>	<u>2011</u>
Accrued pension benefit obligation	\$ 230,409	\$ 230,619
Pension plan assets:		
Marketable securities	<u>(162,908)</u>	<u>(155,685)</u>
	67,501	74,934
Unamortized actuarial loss	<u>(11,167)</u>	<u>(20,511)</u>
Accrued pension liability - HSR	<u>\$ 56,334</u>	<u>\$ 54,423</u>

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

	<u>2012</u>	<u>2011</u>
Expected pension fund assets at end of year	\$ 155,319	\$ 164,256
Actual pension fund assets at end of year	<u>162,908</u>	<u>155,685</u>
Actuarial gain (loss) on pension fund assets	<u>\$ 7,589</u>	<u>\$ (8,571)</u>
Expected accrued pension benefit obligation at end of year	\$ 230,611	\$ 233,203
Actual accrued pension benefit obligation at end of year	<u>230,409</u>	<u>230,619</u>
Actuarial (gain) loss on accrued pension benefit obligation – HSR	<u>\$ 202</u>	<u>\$ 2,584</u>

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

	<u>2012</u>	<u>2011</u>
Amortization of net actuarial loss on accrued pension benefit obligation	1,429	1,661
Amortization of net actuarial gain (loss) on pension plan assets	<u>125</u>	<u>(644)</u>
Net Amortization	1,554	1,017
Interest on average accrued pension benefit obligation	\$ 10,149	\$ 10,227
Expected return on average pension plan assets	<u>(8,324)</u>	<u>(8,751)</u>
Net Interest	<u>1,825</u>	<u>1,476</u>
Total expenses	<u>\$ 3,379</u>	<u>\$ 2,493</u>

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 10. Pension agreements (continued)

#### (b) Other pension plans (continued)

Payments of \$1,468,000 (2011 – \$1,413,000) 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, 2012 will be funded by the City with payments as follows:

2013	\$ 1,524
2014	1,524
2015	1,524
2016	1,352
2017	1,352
2018 and thereafter	10,129
Total	<u>\$ 17,405</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, 2012 the remaining capacity of the site is estimated at 7,023,000 cubic metres, representing 53% of the total capacity. In 2012 approximately 43% of waste generated was diverted from landfills (2011 – 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 2013 capital budget estimates, adjusted by 3% inflation, unexpended capital projects that were in progress in 2012 and estimates of operational support costs. These costs were then discounted back to December 31, 2012 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.

Estimated expenses for closure and post-closure care are \$49,113,000 (2011 - \$50,230,000). The expenses remaining to be recognized are \$17,146,000 (2011 - \$16,873,000). The liability of \$31,967,000 (2011 - \$33,357,000) 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 \$853,000 (2011 - \$666,000) was established to finance the future cost for closed landfill sites.

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (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>2012</u>	<u>2011</u>
Reserves and discretionary reserve funds set aside for specific purposes by Council are comprised of the following:		
Working funds	\$ 61,370	\$ 54,915
Contingencies	847	1,297
Replacement of equipment	62,025	54,271
Sick leave (Note 9)	9,109	9,179
Workplace Safety and Insurance Board (WSIB)(Note 9)	39,697	37,488
Pension Plans	4,935	4,955
Operating programs	84,827	81,056
Tangible capital assets	<u>336,946</u>	<u>339,902</u>
<b>Total reserves</b>	<b>599,756</b>	<b>583,063</b>
Hamilton Future Fund (Note 13)	<u>76,949</u>	<u>73,506</u>
<b>Total reserves and discretionary reserve funds</b>	<b><u>\$ 676,705</u></b>	<b><u>\$ 656,569</u></b>
Operating surplus		
Flamborough recreation sub-committees	\$ 253	\$ 235
Business improvement areas	361	361
Housing Operations	442	527
<b>Total operating surplus</b>	<b><u>\$ 1,056</u></b>	<b><u>\$ 1,123</u></b>
Capital surplus		
Municipal Operations	\$ 24,191	\$ (249)
Housing Operations	14,105	20,107
<b>Total capital surplus</b>	<b><u>\$ 38,296</u></b>	<b><u>\$ 19,858</u></b>
Unfunded liabilities		
Employee benefit obligations (Note 9)	\$ (287,476)	\$ (269,461)
Solid Waste Landfill Liabilities	(31,967)	(33,357)
<b>Total unfunded liabilities</b>	<b><u>\$ (319,443)</u></b>	<b><u>\$ (302,818)</u></b>
Investment in Government Business Enterprises (Note 4)	<u>\$ 230,610</u>	<u>\$ 222,001</u>
Investment in tangible capital assets	<u>\$4,184,595</u>	<u>\$4,084,246</u>
<b>Accumulated surplus</b>	<b><u>\$4,811,819</u></b>	<b><u>\$4,680,979</u></b>



## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (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>2012</u>	<u>2011</u>
Balance at the beginning of the year	\$ 73,506	\$ 72,990
<b>Revenues</b>		
Investment Income	<u>3,044</u>	<u>3,196</u>
<b>Operating Expenses</b>		
Career Development & Placement	-	(8)
Repayment of Waste Management Projects	<u>6,855</u>	<u>6,605</u>
Net income	<u>\$ 6,855</u>	<u>\$ 6,597</u>
<b>Tangible capital assets</b>		
Waste Management Projects	<u>(1,387)</u>	<u>(1,276)</u>
Roads and Bridges	<u>(1,731)</u>	<u>(1,906)</u>
2015 Pan Am Games	<u>(3,221)</u>	<u>(1,004)</u>
Career Development Resource Centre	<u>(2)</u>	<u>(159)</u>
Housing Partnership Fund	-	(132)
Urban Development Bank	-	(165)
West Harbour Initiatives	-	(4,427)
Other	<u>(115)</u>	<u>(208)</u>
	<u>\$ (6,456)</u>	<u>\$ (9,277)</u>
Balance at the end of the year	<u>\$ 76,949</u>	<u>\$ 73,506</u>

### 14. Taxation

	Budget 2012 (unaudited)	<b>Actual <u>2012</u></b>	Actual <u>2011</u>
Taxation from real property	\$ 910,273	\$ 914,365	\$ 893,209
Taxation from other governments payments in lieu of taxes	<u>15,268</u>	<u>15,060</u>	<u>15,267</u>
	925,541	<b>929,425</b>	908,476
Less: Taxation collected on behalf of school boards	<u>(186,936)</u>	<u>(190,161)</u>	<u>(188,152)</u>
Net taxes available for municipal purposes	<u>\$ 738,605</u>	<u>\$ 739,264</u>	<u>\$ 720,324</u>

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).

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 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 2012 the City received payments from the provincial and federal governments in the amount of \$377,676,000 (2011 - \$458,737,000) as follows:

	<u>2012</u>	<u>2011</u>
Government of the Province of Ontario	\$ 292,405	\$ 351,294
Government of Canada	<u>85,271</u>	<u>107,443</u>
Total	<u>\$ 377,676</u>	<u>\$ 458,737</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 2012, the City issued payments as government transfers in the amount of \$211,142,000 (2011 - \$231,697,000) as follows:

	<u>2012</u>	<u>2011</u>
Payments for social assistance entitlements	\$ 136,331	\$ 142,611
Payments for housing subsidies	57,459	57,950
Grants to agencies and institutions	<u>17,352</u>	<u>31,136</u>
Total	<u>\$ 211,142</u>	<u>\$ 231,697</u>

## City of Hamilton

# Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 16. Contractual obligations

- (a) The City has outstanding contractual obligations of approximately \$336,929,000 at December 31, 2012 for capital works (2011 - \$247,167,000). 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, 2012 amounting to \$4,354,000 (2011 - \$4,525,000) are not reflected in the Consolidated Financial Statements. Payments made to the Ontario Realty Corporation amounting to \$171,000 in 2012 (2011 - \$124,000) 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, 2012 of \$3,460,000 (2011 - \$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 \$371,000 in 2012 (2011 - \$308,000) 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, 2012 amounting to \$8,524,000 (2011 - \$8,688,000) 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 \$585,000 in 2012 (2011 - \$160,000) are reported in the Consolidated Statement of Operations.
- (e) The City has an agreement 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 \$6,537,000 for 2012 (2011 - \$6,540,000) 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 \$7,989,000 for 2012 (2011 - \$7,739,000) are reported in the Consolidated Statement of Operations.
- (g) The City has an agreement with GFL Environmental East Corp for the provision of curbside/roadside collection of green cart, leaf and yard, bulk and bin waste. The term of the agreement is seven years from April 3, 2006 to March 31, 2013. The contract fees amounting to \$9,880,000 for 2012 (2011 - \$9,586,000) are reported in the Consolidated Statement of Operations.
- (h) 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 five years for the period of July 1, 2012 to June 30, 2017 with an option to renew for a further term up to five years. The annual contract fees amounting to \$11,379,000 (2011 - \$10,919,000) are reported in the Consolidated Statement of Operations.
- (i) 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 \$283,000 (2011 - \$175,000) is reported on the Consolidated Statement of Operations.

## City of Hamilton

### Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

#### 16. Contractual obligations (continued)

- (j) The City has executed lease agreements for administrative office space and radio communication equipment and infrastructure requiring annual payments in future years as they become due and payable in the amount of \$39,812,000 (2011 - \$46,186,000). The minimum lease payments for these leases over the next five years and thereafter are:

2013	\$ 6,899
2014	5,805
2015	5,490
2016	4,430
2017	4,457
2018 and thereafter	12,731
Total	<u>\$ 39,812</u>

- (k) The City has a credit agreement dated March 14, 2012 with a Canadian chartered bank to borrow up to \$117,740,000 in the form of unsecured lines of credit. At year-end, no amounts were drawn on the letters of credit (2011 - Nil).

- (l) 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 (2011 - Nil). The Corporation has issued a \$9,100,000 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 \$ 21,623,000 (2011 - \$20,666,000). Claim expenses for the year in the amount of \$10,216,000 (2011 - \$7,993,000) are reported as expenses in the Consolidated Statement of Operations.

## City of Hamilton Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (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, 2012 is \$11,818,000 (2011 - \$14,336,000).
- (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 2012 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 2012 (2011 - Nil). 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, 2012. An estimated liability has been recorded on the Consolidated Statement of Financial Position to fund these settlements. Subsequent to December 31, 2012, there were settlements with two of the unionized employee groups.

### 19. Tangible Capital Assets

Details of the tangible capital assets are included in the Schedule of Tangible Capital Assets (page 2-36 and 2-37). The City has tangible capital assets valued at cost in the amount of \$7,037,017,000 (2011 - \$6,747,186,000) and a net book value of \$4,613,151,000 (2011 - \$4,445,630,000). The net book value of the tangible capital assets valued as at December 31, 2012 is as follows:

	<u>2012</u>	<u>2011</u>
General		
Land	\$ 252,555	\$ 235,428
Land improvements	131,206	113,353
Buildings	564,255	473,450
Vehicles	118,460	118,843
Computer hardware and software	5,503	4,335
Other	65,122	66,925
Infrastructure		
Roads	1,201,843	1,196,811
Bridges and structures	169,941	171,716
Water and wastewater facilities	323,503	215,272
Underground and other networks	<u>1,544,543</u>	<u>1,508,056</u>
Net Book Value	<b>4,376,931</b>	4,104,189
Assets under construction	<b>236,220</b>	341,441
Balance at the end of the year	<u><b>\$4,613,151</b></u>	<u>\$4,445,630</u>

Included are leased tangible capital assets with a net book value of \$7,917,000 (2011 - \$9,071,000). 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.

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# City of Hamilton

## Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

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### 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 2-38 and 2-39).

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### 21. Budget figures

The 2012 operating budget and capital financing for the housing corporation was approved by the CityHousing Hamilton Board at a meeting on December 14, 2011. The 2012 operating budget and capital financing for municipal operations was approved by City Council at a meeting on April 11, 2012.

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. A summary reconciliation follows:

# City of Hamilton

## Notes to Consolidated Financial Statements

For the year ended December 31, 2012 (all numbers in columns are in thousands of dollars)

### 21. Budget figures (continued)

	<u>2012</u>
<b>Revenue</b>	
Council Approved Gross Revenue Operating Budget - Municipal	1,422,327
Council Approved Gross Revenue Capital Budget - Municipal	<u>430,252</u>
	1,852,579
Board Approved Gross Revenue Operating Budget - Housing Corporation	58,442
Board Approved Gross Revenue Capital Budget - Housing Corporation	<u>7,963</u>
	66,405
<b>Adjustments to Revenues</b>	
Less: Transfers from reserves and reserve funds Operating Budget Municipal Operations	(38,436)
Less: Transfers from reserves and reserve funds Capital Budget Municipal Operations	(162,574)
Less: Transfers from current fund to capital fund - Municipal Operations	(111,261)
Less: Transfers from current fund to capital fund - Housing Corporations	(7,963)
Less: Long term debt financing Capital Budget	(24,779)
Add: Donated tangible capital assets	57,000
Less: Reclassification - Municipal Operations	(149)
Add: Reserve & reserve funds	13,600
Less: Elimination for consolidation of Housing Corporation	<u>(23,530)</u>
	(298,092)
<b>Consolidated</b>	<u>1,620,892</u>
<b>Expenses</b>	
Council Approved Gross Expenditure Operating Budget - Municipal	1,422,327
Council Approved Gross Expenditure Capital Budget - Municipal	<u>430,252</u>
	1,852,579
Board Approved Gross Expenditure Operating Budget - Housing Corporation	58,442
Board Approved Gross Expenditure Capital Budget - Housing Corporation	<u>7,963</u>
	66,405
<b>Adjustments to Expenditures</b>	
Less: Debt principal repayment - Municipal Operations	(28,387)
Less: Debt principal repayment - Housing Corporation	(4,211)
Less: Transfers to reserves and reserve funds - Municipal Operations	(61,606)
Less: Transfers to capital from current funds - Municipal Operations	(111,261)
Less: Tangible capital assets - Municipal Operations	(406,896)
Less: Tangible capital assets - Housing Corporation	(7,963)
Less: Reclassification - Municipal Operations	(906)
Add: Change in employee future benefits and other obligations	18,014
Less: Change in solid waste landfill liability	(1,390)
Add: Amortization expense for tangible capital assets	170,000
Less: Elimination for consolidation of Housing Corporation	<u>(31,557)</u>
	(466,163)
<b>Consolidated</b>	<u>1,452,821</u>

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

As at December 31, 2012 (all numbers in columns are in thousands of dollars)

**2012 Schedule of Tangible Capital Assets**

	General						Infrastructure				Assets Under Construction	TOTAL
	Land	Land Improvements	Buildings	Vehicles	Computer	Other	Roads	Bridges & Other Structures	W/WW Facilities	W/WW/SW Linear Network		
<b>Cost</b>												
Balance, Jan 1, 2012	\$ 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
Additions, Betterments & Transfers in 2012	18,226	25,760	115,686	21,146	3,719	6,367	59,182	903	121,675	43,755	175,636	592,055
Disposals & Writedowns in 2012	(1,437)	155	(12,728)	(4,984)	(2,455)	(4,043)	(12,125)	(184)	(11,319)	(2,707)	(6,833)	(58,660)
Donations & Contributions in 2012	338	20	-	-	-	-	11,472	-	602	18,028	-	30,460
WIP Transfers to Service in 2012	-	-	-	-	-	-	-	-	-	-	(274,024)	(274,024)
Balance, Dec 31, 2012	\$ 252,555	\$ 242,897	\$ 1,026,096	\$ 262,518	\$ 9,627	\$ 97,817	\$ 2,079,803	\$ 214,694	\$ 613,353	\$ 2,001,437	\$ 236,220	\$ 7,037,017
<b>Accumulated Amortization</b>												
Balance, Jan 1, 2012	\$ -	\$ 103,609	\$ 449,688	\$ 127,513	\$ 4,028	\$ 28,568	\$ 824,463	\$ 42,259	\$ 287,123	\$ 434,305	\$ -	\$ 2,301,556
Amortization in 2012	-	7,780	22,515	21,398	2,552	8,170	64,157	2,839	13,427	25,296	-	168,134
Acc'd Amortization Transfers in 2012	-	214	-	-	-	-	-	(214)	-	-	-	-
Amortization on Disposals in 2012	-	88	(10,362)	(4,853)	(2,456)	(4,043)	(10,660)	(131)	(10,700)	(2,707)	-	(45,824)
Balance, Dec 31, 2012	\$ -	\$ 111,691	\$ 461,841	\$ 144,058	\$ 4,124	\$ 32,695	\$ 877,960	\$ 44,753	\$ 289,850	\$ 456,894	\$ -	\$ 2,423,866
<b>Net Book Value Dec 31, 2012</b>	\$ 252,555	\$ 131,206	\$ 564,255	\$ 118,460	\$ 5,503	\$ 65,122	\$ 1,201,843	\$ 169,941	\$ 323,503	\$ 1,544,543	\$ 236,220	\$ 4,613,151
<b>Assets Under Construction</b>	\$ -	\$ 16,546	\$ 39,377	\$ 88	\$ 3,106	\$ 28,932	\$ 11,103	\$ 540	\$ 101,621	\$ 34,907	\$ 236,220	
<b>Total</b>	\$ 252,555	\$ 147,752	\$ 603,632	\$ 118,548	\$ 8,609	\$ 94,054	\$ 1,212,946	\$ 170,481	\$ 425,124	\$ 1,579,450		\$ 4,613,151



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

As at December 31, 2012 (all numbers in columns are in thousands of dollars)

**2011 Schedule of Tangible Capital Assets**

	General						Infrastructure				Assets Under Construction	TOTAL	
	Land	Land Improvements	Buildings	Vehicles	Computer	Other	Roads	Bridges & Other Structures	W/WW Facilities	W/WW/SW Linear Network			
<b>Cost</b>													
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	
<b>Accumulated Amortization</b>													
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	
<b>Net Book Value Dec 31, 2011</b>	\$ 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	
<b>Assets Under Construction</b>	\$ -	\$ 16,614	\$ 67,856	\$ -	\$ 2,299	\$ 22,142	\$ 15,898	\$ 2,425	\$ 192,694	\$ 21,513	\$ 341,441		
<b>Total</b>	\$ 235,428	\$ 129,967	\$ 541,306	\$ 118,843	\$ 6,634	\$ 89,067	\$ 1,212,709	\$ 174,141	\$ 407,966	\$ 1,529,569		\$ 4,445,630	

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

As at December 31, 2012 (all numbers in columns are in thousands of dollars)

**2012 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 2012
<b>Revenue</b>										
Taxation	\$ 739,264	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 739,264
Government grants and contributions	515	4,948	44,064	18,802	49,279	196,608	30,036	4,328	612	349,192
User charges	3,416	6,547	50,163	171,539	3,144	12,190	402	23,338	9,736	280,475
Development charges and subdivider contributions	1,560	(907)	5,399	37,668	6	(4)	(43)	1,172	(1)	44,850
Donations of tangible capital assets	-	-	11,472	18,630	-	-	-	358	-	30,460
Investment income	31,646	790	3,037	5,615	(127)	457	957	1,257	1,430	45,062
Income from Government Business Enterprises	8,609	-	-	-	-	-	-	-	-	8,609
Other	19,693	19,569	9,741	1,080	231	15	38,077	860	2,011	91,277
<b>Total</b>	<b>\$ 804,703</b>	<b>\$ 30,947</b>	<b>\$ 123,876</b>	<b>\$ 253,334</b>	<b>\$ 52,533</b>	<b>\$ 209,266</b>	<b>\$ 69,429</b>	<b>\$ 31,313</b>	<b>\$ 13,788</b>	<b>\$ 1,589,189</b>
<b>Expenses</b>										
Salaries and benefits	\$ 49,079	\$ 233,751	\$ 88,743	\$ 35,217	\$ 65,287	\$ 73,538	\$ 10,038	\$ 68,033	\$ 25,108	\$ 648,794
Interest on long term debt	109	856	7,618	2,519	1	849	3,671	629	153	16,405
Materials supplies services	47,278	15,395	40,290	25,197	7,763	8,870	30,546	24,493	5,904	205,736
Contracted services	10,559	2,768	37,626	63,210	3,580	55,103	22,903	8,193	3,061	207,003
Rents and financial expenses	1,803	2,072	4,112	6,926	1,623	2,416	1,206	4,732	1,455	26,345
External transfers	88	6,881	-	-	190	133,027	39,589	5,274	882	185,931
Amortization	6,628	6,153	84,118	43,857	1,837	1,830	4,340	16,561	2,811	168,135
Interfunctional transfers	(31,833)	2,278	13,251	6,938	4,065	997	-	4,209	95	-
<b>Total</b>	<b>\$ 83,711</b>	<b>\$ 270,154</b>	<b>\$ 275,758</b>	<b>\$ 183,864</b>	<b>\$ 84,346</b>	<b>\$ 276,630</b>	<b>\$ 112,293</b>	<b>\$ 132,124</b>	<b>\$ 39,469</b>	<b>\$ 1,458,349</b>
<b>Annual Surplus (Deficit)</b>	<b>\$ 720,992</b>	<b>\$ (239,207)</b>	<b>\$ (151,882)</b>	<b>\$ 69,470</b>	<b>\$ (31,813)</b>	<b>\$ (67,364)</b>	<b>\$ (42,864)</b>	<b>\$ (100,811)</b>	<b>\$ (25,681)</b>	<b>\$ 130,840</b>

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

As at December 31, 2012 (all numbers in columns are in thousands of dollars)

**2011 Schedule of Operations for Business Segments**

	<b>General Government</b>	<b>Protection Services</b>	<b>Transportation services</b>	<b>Environmental services</b>	<b>Health services</b>	<b>Social and family services</b>	<b>Social housing</b>	<b>Recreation and cultural services</b>	<b>Planning and development</b>	<b>TOTAL 2011</b>
<b>Revenue</b>										
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	25,091	9,468	287,057
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
Investment income	32,403	650	4,270	5,575	(80)	423	953	1,473	1,266	46,933
Income from Government Business Enterprises	9,613	-	-	-	-	-	-	-	-	9,613
Other	18,601	17,847	8,939	1,109	146	25	34,737	4,951	1,982	88,337
<b>Total</b>	<b>\$ 797,778</b>	<b>\$ 33,949</b>	<b>\$ 129,469</b>	<b>\$ 342,189</b>	<b>\$ 50,978</b>	<b>\$ 209,288</b>	<b>\$ 72,886</b>	<b>\$ 57,133</b>	<b>\$ 14,294</b>	<b>\$ 1,707,964</b>
<b>Expenses</b>										
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	-
<b>Total</b>	<b>\$ 69,535</b>	<b>\$ 259,867</b>	<b>\$ 282,336</b>	<b>\$ 194,973</b>	<b>\$ 79,593</b>	<b>\$ 276,048</b>	<b>\$ 117,027</b>	<b>\$ 134,542</b>	<b>\$ 37,699</b>	<b>\$ 1,451,620</b>
<b>Annual Surplus (Deficit)</b>	<b>\$ 728,243</b>	<b>\$ (225,918)</b>	<b>\$ (152,867)</b>	<b>\$ 147,216</b>	<b>\$ (28,615)</b>	<b>\$ (66,760)</b>	<b>\$ (44,141)</b>	<b>\$ (77,409)</b>	<b>\$ (23,405)</b>	<b>\$ 256,344</b>

## **Section 3**

# **City of Hamilton Financial Statements for the Trust Funds Cemetery, Library and General Trusts December 31, 2012**

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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

As at December 31, 2012

### Statement of Financial Position

As at December 31, 2012

	<u>2012</u>	<u>2011</u>
<b>Financial Assets</b>		
Cash	\$ 1,865,292	\$ 2,863,600
Accrued interest receivable	879,062	714,772
Investments (Note 2)	12,310,488	10,890,984
Deposits Hamilton Community Foundation (Note 3)	1,312,470	1,312,470
Due From City of Hamilton - Cemetery	686,024	614,108
Due From City of Hamilton - Library Trust Funds	366,669	365,643
Due From City of Hamilton - Other Trust Funds	80,841	52,604
<b>Total Financial Assets</b>	<u>\$ 17,500,846</u>	<u>\$ 16,814,181</u>
<b>Liabilities</b>		
Deposits	<u>200,479</u>	<u>181,698</u>
<b>Accumulated surplus</b>	<u>\$ 17,300,367</u>	<u>\$ 16,632,483</u>

### Statement of Operations

Year ended December 31, 2012

<b>Revenues</b>		
Cemetery lots and interments	\$ 592,651	\$ 602,087
Investment income	694,347	572,213
Other revenue	82,701	24,159
<b>Total revenue</b>	<u>\$ 1,369,699</u>	<u>\$ 1,198,459</u>
<b>Expenses</b>		
Other	\$ 41,136	\$ 105,741
Transfer to other trust funds	660,679	656,580
<b>Total expenses</b>	<u>\$ 701,815</u>	<u>\$ 762,321</u>
<b>Annual surplus</b>	<u>\$ 667,884</u>	<u>\$ 436,138</u>
<b>Accumulated surplus at the beginning of the year</b>	<u>16,632,483</u>	<u>16,196,345</u>
<b>Accumulated surplus at the end of the year</b>	<u>\$ 17,300,367</u>	<u>\$ 16,632,483</u>

See accompanying notes to the financial statements



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# City of Hamilton

## Trust Funds

### Notes To The Financial Statements

As at December 31, 2012

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#### 1. Significant accounting policies

The financial statements of the City of Hamilton Trust Funds are the representation of management prepared in accordance Canadian public sector accounting standards. 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, 2012

#### 2. Investments

The total investments recorded at the lower of cost or market value in the Statement of Financial Position are \$12,310,488 (2011 - \$10,890,984). These investments have a market value of \$13,530,237 (2011 - \$12,129,027) 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 Statement of Financial Position at cost plus accumulated accrued interest.

#### 4. Accumulated Surplus

	<u>2012</u>	<u>2011</u>
<b>The accumulated surplus consists of:</b>		
Cemeteries	<u>\$ 13,700,325</u>	<u>\$ 13,242,919</u>
Library		
M. Walden Thompson Estate	20,114	19,673
Special Gift Fund Central	2,085,199	1,955,114
Permanent Endowment Fund	621,505	587,449
Keetha McLaren Memorial Fund	30,890	28,064
F. Walden Library Bequest	63,098	62,317
Waterdown Library Fundraising	<u>42,457</u>	<u>41,431</u>
	<u>\$ 2,863,263</u>	<u>\$ 2,694,048</u>
Other		
Fieldcote Farmer (Ancaster)	359,742	344,086
Knowles Bequest (Dundas)	264,915	262,413
F. Walden Dundurn Castle (Hamilton)	5,605	5,470
Ellen Grafton (Dundas)	7,248	7,153
Fieldcote Livingstone-Clarke (Ancaster)	5,155	5,155
Fieldcote Shaver (Ancaster)	5,155	5,155
Municipal Election (Hamilton)	5,499	5,366
Balfour Estate Chedoke (Hamilton)	<u>83,460</u>	<u>60,718</u>
	<u>\$ 736,779</u>	<u>\$ 695,516</u>
	<u>\$ 17,300,367</u>	<u>\$ 16,632,483</u>

**City of Hamilton**  
**Trust Funds – Cemetery**

As at December 31, 2012

**Statement of Financial Position**

As at December 31, 2012

	<u>2012</u>	<u>2011</u>
<b>Financial Assets</b>		
Cash	\$ 1,257,326	\$ 2,272,894
Due From City of Hamilton	686,024	614,108
Investments	<u>11,957,454</u>	<u>10,537,615</u>
<b>Total Financial Assets</b>	<u>\$ 13,900,804</u>	<u>\$ 13,424,617</u>
<b>Liabilities</b>		
Deposits	<u>\$ 200,479</u>	<u>\$ 181,698</u>
<b>Accumulated surplus</b>	<u>\$ 13,700,325</u>	<u>\$ 13,242,919</u>

**Statement of Operations**

Year ended December 31, 2012

<b>Revenues</b>		
Cemetery lots and interments	\$ 592,651	\$ 602,087
Investment income	<u>536,681</u>	<u>518,931</u>
<b>Total revenue</b>	<u>\$ 1,129,332</u>	<u>\$ 1,121,018</u>
<b>Expenses</b>		
Other	\$ 11,247	\$ 9,185
Transfer to other trust funds	<u>660,679</u>	<u>643,187</u>
<b>Total expenses</b>	<u>\$ 671,926</u>	<u>\$ 652,372</u>
<b>Annual surplus</b>	<u>\$ 457,406</u>	<u>\$ 468,646</u>
<b>Accumulated surplus at the beginning of the year</b>	<u>13,242,919</u>	<u>12,774,273</u>
<b>Accumulated surplus at the end of the year</b>	<u>\$ 13,700,325</u>	<u>\$ 13,242,919</u>

## City of Hamilton Trust Funds – Library

As at December 31, 2012

### Statement of Financial Position

As at December 31, 2012

	<u>2012</u>	<u>2011</u>
<b>Financial Assets</b>		
Cash	\$ 305,062	\$ 301,163
Accrued interest receivable	879,062	714,772
Deposits Hamilton Community Foundation	1,312,470	1,312,470
Due From City of Hamilton	<u>366,669</u>	<u>365,643</u>
<b>Total Financial Assets</b>	<u>\$ 2,863,263</u>	<u>\$ 2,694,048</u>
<b>Accumulated surplus</b>	<u>\$ 2,863,263</u>	<u>\$ 2,694,048</u>

### Statement of Operations

Year ended December 31, 2012

<b>Revenues</b>		
Investment income (loss)	\$ 66,666	\$ (3,850)
Other revenue	<u>129,963</u>	<u>35,926</u>
<b>Total revenue</b>	<u>\$ 196,629</u>	<u>\$ 32,076</u>
<b>Expenses</b>		
Other	<u>\$ 27,414</u>	<u>\$ 31,118</u>
<b>Total expenses</b>	<u>\$ 27,414</u>	<u>\$ 31,118</u>
<b>Annual surplus</b>	<u>\$ 169,215</u>	<u>\$ 958</u>
<b>Accumulated surplus at the beginning of the year</b>	<u>2,694,048</u>	<u>2,693,090</u>
<b>Accumulated surplus at the end of the year</b>	<u>\$ 2,863,263</u>	<u>\$ 2,694,048</u>

See accompanying notes to the financial statements

**City of Hamilton**  
**Trust Funds – Other**

As at December 31, 2012

**Statement of Financial Position**

As at December 31, 2012

	<u>2012</u>	<u>2011</u>
<b>Financial Assets</b>		
Cash	\$ 302,904	\$ 289,543
Investments	353,034	353,369
Due From City of Hamilton	<u>80,841</u>	<u>52,604</u>
<b>Total Financial Assets</b>	<u>\$ 736,779</u>	<u>\$ 695,516</u>
<b>Accumulated surplus</b>	<u>\$ 736,779</u>	<u>\$ 695,516</u>

**Statement of Operations**

Year ended December 31, 2012

<b>Revenues</b>		
Investment income	\$ 22,738	\$ 21,206
Other revenue	<u>21,000</u>	<u>24,159</u>
<b>Total revenue</b>	<u>\$ 43,738</u>	<u>\$ 45,365</u>
<b>Expenses</b>		
Transfer to other trust funds	\$ -	\$ 13,393
Other	<u>2,475</u>	<u>65,438</u>
<b>Total expenses</b>	<u>\$ 2,475</u>	<u>\$ 78,831</u>
<b>Annual surplus (deficit)</b>	<u>\$ 41,263</u>	<u>\$ (33,466)</u>
<b>Accumulated surplus at the beginning of the year</b>	<u>695,516</u>	<u>728,982</u>
<b>Accumulated surplus at the end of the year</b>	<u>\$ 736,779</u>	<u>\$ 695,516</u>

## **Section 4**

# **City of Hamilton Financial Statements for the Trust Funds – Homes for the Aged December 31, 2012**

## Contents

	<b><u>Section - Page</u></b>
Independent Auditor's Report	4-1 to 4-2
Statement of Financial Position	4-3
Statement of Operations	4-3
Notes to the Financial Statements	4-4

## **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**

As at December 31, 2012

**Statement of Financial Position**

As at December 31, 2012

	Macassa Lodge Resident Trusts	Wentworth Lodge Resident Trusts	Macassa Lodge Other Trusts	Wentworth Lodge Other Trusts	<b>Total 2012</b>	Total 2011
<b>Financial assets</b>						
Cash	\$ 39,870	\$ 32,924	\$ 69,314	\$ 503,637	<b>\$ 645,745</b>	\$ 637,359
<b>Liabilities</b>						
Due to City of Hamilton	\$ -	\$ -	\$ -	\$ 271	<b>\$ 271</b>	\$ 2,016
<b>Accumulated surplus</b>	<b>\$ 39,870</b>	<b>\$ 32,924</b>	<b>\$ 69,314</b>	<b>\$ 503,366</b>	<b>\$ 645,474</b>	<b>\$ 635,343</b>

**Statement of Operations**

Year ended December 31, 2012

	Macassa Lodge Resident Trusts	Wentworth Lodge Resident Trusts	Macassa Lodge Other Trusts	Wentworth Lodge Other Trusts	<b>Total 2012</b>	Total 2011
<b>Revenue</b>						
Residents' deposits	\$ 127,480	\$ 138,758	\$ 6,802	\$ 28,803	<b>\$ 301,843</b>	\$ 303,813
Investment income	-	-	858	6,648	<b>7,506</b>	7,479
Donations	-	-	2,221	3,844	<b>6,065</b>	1,325
	<u>127,480</u>	<u>138,758</u>	<u>9,881</u>	<u>39,295</u>	<b><u>315,414</u></b>	<u>312,617</u>
<b>Expenses</b>						
Maintenance payments	16,013	31,082	-	-	<b>47,095</b>	53,442
Residents' charges	102,142	95,806	5,385	26,218	<b>229,551</b>	246,712
Payments to estates	9,697	4,270	-	-	<b>13,967</b>	46,973
Payments on discharge	-	-	-	-	-	415
Program purchases	-	-	-	14,670	<b>14,670</b>	26,542
	<u>127,852</u>	<u>131,158</u>	<u>5,385</u>	<u>40,888</u>	<b><u>305,283</u></b>	<u>374,084</u>
<b>Annual surplus (deficit)</b>	(372)	7,600	4,496	(1,593)	<b>10,131</b>	(61,467)
<b>Accumulated surplus at the beginning of the year</b>	<u>40,242</u>	<u>25,324</u>	<u>64,818</u>	<u>504,959</u>	<b><u>635,343</u></b>	<u>696,810</u>
<b>Accumulated surplus at the end of the year</b>	<b>\$ 39,870</b>	<b>\$ 32,924</b>	<b>\$ 69,314</b>	<b>\$ 503,366</b>	<b>\$ 645,474</b>	<b>\$ 635,343</b>

See accompanying notes to the financial statements.

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**City of Hamilton**  
**Trust Funds – Homes for the Aged**  
**Notes to the Financial Statements**

As at December 31, 2012

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**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.

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**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 Canadian public sector accounting standards.

**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.

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AUDIT

# The Corporation of the City of Hamilton

**Audit Findings Report**

For the year ended December 31, 2012

**KPMG LLP**, Licensed Public Accountants

[kpmg.ca](http://kpmg.ca)

## Contents

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# Executive summary

## Overview

The purpose<sup>1</sup> of this Audit Findings Report is to assist you, as a member of the Audit, Finance and Administration Committee, in your review of the results of our audit of the consolidated financial statements of the Corporation of the City of Hamilton ("the City") as at and for the year ended December 31, 2012.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings and answering your questions.

## Status

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- obtaining updates for legal matters and subsequent events
- completing our discussions with the Audit, Finance and Administration Committee;
- obtaining evidence of the Council's approval of the financial statements; and
- receipt of signed management representation letter

Please refer to the Appendices for our draft auditors' report. We will update you on significant matters, if any, arising from the completion of the audit, including completion of the above procedures. Our auditors' report will be dated upon completion of any remaining procedures and the final approval of the financial statements by Council.

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<sup>1</sup> This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit, Finance and Administration Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

## Significant audit, accounting and reporting matters

Included in this report are significant matters we have highlighted for discussion at the upcoming Audit, Finance and Administration Committee meeting. We look forward to discussing these matters and our findings with you.

### Changes from the Audit Plan

There have been no changes from the Audit Planning Report previously presented to you.

### Matters related to management's judgment and estimates

We have highlighted below significant matters related to management's judgment and estimates that we would like to bring to your attention:

<b>Employee future benefits and other obligations</b>
<ul style="list-style-type: none"> <li>• The City provides certain employee benefits which will require funding in future periods. These benefits include sick leave, benefits under the Workplace Safety and Insurance Board ("WSIB") Act, long-term disability and retiree benefits.</li> <li>• Reliance is placed on the actuarial valuations and extrapolations performed by actuaries in determining the liability at the end of each fiscal year.</li> </ul>
<b>KPMG comments regarding effect on the audit</b>
<ul style="list-style-type: none"> <li>• KPMG obtained a copy of the most recent actuarial valuation update and evaluated management's expert and their work for use as audit evidence.</li> <li>• KPMG assessed the assumptions used in the preparation of the actuarial valuations</li> <li>• KPMG determined that the work of management's expert was reasonable and could be used as audit evidence.</li> </ul>

### **Solid waste landfill liabilities**

- The City owns and operates one open landfill site and owns and monitors 12 closed landfill sites. The present value of the expected closure and post closure care costs of the open landfill site and the present value of expected monitoring and capital rehabilitations costs of the closed landfill sites have been reported as a liability on the consolidated statement of Financial Position.
- The liability for these future expenses has been estimated by City.

### **KPMG comments regarding effect on the audit**

- KPMG obtained a copy of the most recent estimate calculation for this liability and evaluated management's assumptions and calculations.
- KPMG determined that management's assumptions were reasonable in the circumstances.

### **Public liability insurance**

- The City has recorded an insurance claims liability in relation to outstanding insurance claims.
- The City has 5,391 (2011 – 5,168) identified claims in total, of which one claim (2011 – 1) is in excess of the \$250,000 deductible. The City has accrued an amount for each claim based upon the likelihood of payout on the claim.

### **KPMG comments regarding effect on the audit**

- KPMG obtained the detailed listing from the City's Risk Management staff with regards to the insurance provision and recalculated the insurance liability based on the listing provided.
- KPMG reviewed the criteria used for the accrual with Risk Management staff to determine compliance with PSAB standards.
- KPMG discussed with management cases that had a significant increase in claim costs compared to previous periods, any unusual cases or events, and the process for monitoring and managing the risks.



## Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

<b>Portfolio investments</b>
<ul style="list-style-type: none"> <li>• Portfolio investments include restructured third-party sponsored and bank sponsored asset backed commercial papers (ABCPs).</li> <li>• Management has reviewed the need for a valuation allowance on these investments.</li> <li>• Management used a third party expert to determine the fair market value of the ABCPs at the end of each fiscal year to evaluate whether an additional valuation allowance needs to be recorded on these investments.</li> <li>• Fair market value was determined to be lower than net book value of the investments. The difference is due to one particular investment.</li> <li>• Management has reviewed the investment and evaluated whether the decline in value is of a temporary nature and has determined that the decline is temporary and pending the outcome of a lawsuit appeal.</li> <li>• Management has evaluated the likelihood of success of the appeal as likely to be in favour of the City.</li> </ul>
<b>KPMG comments regarding effect on the audit</b>
<ul style="list-style-type: none"> <li>• KPMG vouched all investment balances and activity to confirmations and investment statements provided by external providers.</li> <li>• KPMG evaluated management's expert and determined that the work of management's expert was reasonable and could be used as audit evidence</li> <li>• KPMG discussed with the external expert the basis upon which fair market value was determined.</li> <li>• KPMG reviewed the valuation of these investments in accordance with PSAB standards and concurred with management's assessment.</li> </ul>

## Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of the individual making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed below are not contrary to positions KPMG has taken.

The following are the matters we plan to discuss with you:

<b>Significant accounting policies</b>	<p>Significant accounting policies or practices are disclosed in Note 1 to the financial statements.</p> <ul style="list-style-type: none"> <li>• The accounting policies are appropriate to the particular circumstances of the City.</li> <li>• The City has applied the significant accounting policies consistently on a year to year basis.</li> </ul>
<b>Critical accounting estimates</b>	<p>Critical accounting estimates are the employee future benefits and other obligations, solid waste landfill liabilities, and donated tangible assets and are disclosed as such in Note 1 (c) to the financial statements</p>
<b>Critical disclosures and financial statement presentation</b>	<p>The financial statements include disclosures and presentation requirements under the relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.</p> <p>There are no critical disclosures other than those related to critical accounting estimates.</p>

## Misstatements

### Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements, including disclosures
- uncorrected misstatements, including disclosures.

### Corrected misstatements

The representation letter in the Appendices includes all corrected misstatements communicated to management identified as a result of the audit procedures performed.

### Uncorrected misstatements

We have not identified misstatements that remain uncorrected.

## Control deficiencies

### **Background and professional standards**

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

### **Identification**

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

## Documents containing or referring to the audited financial statements

### **KPMG not engaged to consent to the use of our auditors' report**

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

Accordingly, as of the date of this Audit Findings Report, we have read the following documents containing, or incorporating by reference, the audited financial statements and our related auditors' report:

- 2012 Financial Report

There are no unresolved matters to report as a result of reading the above documents as of the date of this Audit Findings Report.

Should other such documents become available prior to the date of our auditors' report we will communicate any unresolved matters, if any, at such time.

## Appendices

**Draft auditors' report**

**Independence letter**

**Management representation letter**

Draft auditors' report



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## INDEPENDENT AUDITORS' 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 ("the entity"), which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' 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 consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audit 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 consolidated financial position of the Corporation of the City of Hamilton as at December 31, 2012, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Comparative Information*

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2011 has been restated.

The consolidated financial statements of the Corporation of the City of Hamilton as at and for the year ended December 31, 2011, excluding the restatement described in Note 1 to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on June 13, 2012.

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2012, we audited the restatement described in Note 1 to the consolidated financial statements that was applied to restate the comparative information as at and for the year ended December 31, 2011. In our opinion, the restatement is appropriate and has been properly applied.

Chartered Accountants, Licensed Public Accountants,

DATE  
Hamilton, Canada

## Independence letter



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**PRIVATE & CONFIDENTIAL**

The Members of the Audit, Finance and Administration Committee  
City of Hamilton  
71 Main Street West  
Hamilton, Ontario L8P 4Y5

May 27, 2013

Ladies and Gentlemen:

Professional standards specify that we communicate to you in writing, at least annually, all relationships between The Corporation of the City of Hamilton ("the Municipality") (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
  - holding a financial interest, either directly or indirectly, in a client
  - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
  - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
  - economic dependence on a client.



The Corporation of the City of Hamilton  
May 27, 2013

## PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the Municipality (and its related entities) from January 1, 2012 up to the date of this letter:

Description of Service
<p><b>Audits for the year ended December 31, 2012</b></p> <ul style="list-style-type: none"> <li>• The Corporation of the City of Hamilton</li> <li>• Hamilton Public Library</li> <li>• Hamilton Entertainment and Convention Facilities Inc (HECFI)</li> <li>• CityHousing Hamilton</li> <li>• CANUSA Games</li> <li>• Hamilton Renewable Power Incorporated</li> <li>• City of Hamilton Trust Funds – various</li> <li>• City of Hamilton Pension Plans – various</li> <li>• City of Hamilton Business Improvement Areas – various</li> <li>• Provincial Offences Administration</li> <li>• Mohawk 4Ice Centre</li> <li>• Canadian Football Hall of Fame and Museum</li> <li>• Program funding audits for various provincial Ministries and the Federal Government</li> <li>• Compliance audit of the Transfer of Federal Gas Tax Revenues</li> </ul> <p><b>Other audit and non audit services billed</b></p> <ul style="list-style-type: none"> <li>• Service delivery review</li> <li>• Review for the operation of the HECFI facilities</li> <li>• City of Hamilton Accounts Payable review</li> <li>• Tax advisory services</li> </ul>

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding to the threats to independence listed above:

- We did not assume the role of management by instituting policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions

## OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Municipality (and its related entities) that may reasonably be thought to bear on our independence up to the date of this letter.



The Corporation of the City of Hamilton  
May 27, 2013

**CONFIRMATION OF INDEPENDENCE**

We confirm that we are independent with respect to the Municipality (and its related entities) within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of the date of this letter.

**OTHER MATTERS**

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants, Licensed Public Accountants  
Lois Ouellette  
Partner  
(905) 687-3276

## Management representation letter

KPMG LLP  
Chartered Accountants  
Commerce Place  
21 King Street West, Suite 700  
Hamilton, Ontario L8P 4W7  
Canada

May 27, 2013

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of The Corporation of the City of Hamilton ("the Entity") as at and for the period ended December 31, 2012.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**GENERAL:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 12, 2012, for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
  - b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of council and committees of council that may affect the financial statements, and access to such relevant information
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

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- d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

**FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:**

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

**SUBSEQUENT EVENTS:**

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**RELATED PARTIES:**

- 5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**ESTIMATES:**

- 6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



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**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission (“SEC”) Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

**MISSTATEMENTS:**

- 8) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

Yours very truly,

THE CORPORATION OF THE CITY OF HAMILTON

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By: Brian McMullen, Acting Director of Financial Planning & Policy

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By: Tony Del Monaco, Acting Manager of Accounting Services

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## Attachment I – Definitions

### **MATERIALITY**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### **FRAUD & ERROR**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **RELATED PARTIES**

In accordance with Canadian public sector accounting standards a *related party* is defined as:

- Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members (see paragraph .04).

In accordance with Canadian public sector accounting standards a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

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**Attachment II - Misstatements**

DRAFT



eAudit (2012, 2011 and 2010)  
 Summary of Audit Misstatements  
 FSA / IA / SEW  
 (08/12)

**City of Hamilton**  
**Summary of Corrected Audit Misstatements**  
**For Year Ended December 31, 2012**

Amounts in

ID	Description of misstatement	Accounts	Debit	(Credit)	Statement of Operations Effect - Debit (Credit)	Statement of Financial Position Effect - Debit (Credit)				
					Statement of Operations Debit (Credit)	Net assets	Financial assets	Non-financial assets	Liabilities	
<b>Corrected misstatements - Final</b>										
AJE1	To reclassify customer overpayments on accounts (credit balances) included in accounts receivable balances at year end	Dr. Taxes receivable Cr. Deferred Revenue-general	4,162	(4,162)	-		4,162			(4,162)
<b>Total effect of corrected audit misstatements - Final</b>					-	0	4162	-		(4,162)

[www.kpmg.ca](http://www.kpmg.ca)

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