

FINANCIAL REPORT

2004



Hamilton

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

**City of Hamilton
Financial Report
2004**

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Note: Other financial information available from the City of Hamilton includes:

- 2004 Financial Information Return
- 2004 Financial Statements for the Pension Fund for the Hamilton Wentworth Retirement Fund Pension Plan
- 2004 Financial Statements for the Pension Fund for the Hamilton Municipal Retirement Fund Pension Plan
- 2004 Financial Statements for the Pension Fund for the Employees of the Hamilton Street Railway
- 2004 Financial Statements for Hamilton Utilities Corporation, Hamilton Housing Corporations, Hamilton Entertainment and Convention Facilities Inc. ("HECFI"), Hamilton Public Library, Tourism Hamilton, Hamilton Business Improvement Areas,

City of Hamilton
Four Year Financial and Statistical Review
2004

City of Hamilton

Four Year Financial and Statistical Review (unaudited)

(All amounts are reported in thousands of dollars except statistical information, ratios and per capita figures)

	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's
Current Fund Operations - Municipal Revenue				
Taxation/PIL	\$547,765	\$514,529	\$485,462	\$478,421
User fees and service charges	204,024	192,089	190,820	167,890
Grants	241,241	218,453	215,273	200,799
Investment Income	8,290	8,751	9,201	6,388
Development Charges & Subdivider Contributions	2,671	2,837	3,546	1,566
Other	50,649	51,202	49,638	45,947
	<u>1,054,640</u>	<u>987,861</u>	<u>953,940</u>	<u>901,011</u>
Object of Operating Expenditures				
Salaries, Wages and Employee Benefits	\$434,375	\$417,224	\$401,529	\$355,345
Long Term Debt Interest Charges	22,148	23,950	25,310	24,905
Materials	159,343	159,619	167,644	130,029
Contracted Services	106,362	98,950	97,938	77,195
Rents and Financial expenses	14,350	18,104	19,549	38,732
External Transfers	202,524	197,501	201,007	188,264
	<u>939,102</u>	<u>915,348</u>	<u>912,977</u>	<u>814,470</u>
Operating Expenditures by Function				
General government	\$65,114	\$70,952	\$72,614	\$69,624
Protection services	179,003	167,901	164,335	128,069
Transportation services	145,291	137,845	127,196	124,472
Environmental services	98,854	95,874	100,755	83,790
Health services	44,717	41,703	35,585	34,724
Social and family services	246,167	242,054	241,655	226,461
Social housing	50,111	51,406	53,064	39,872
Recreation and cultural services	86,659	85,667	86,955	80,548
Planning and development	23,186	21,946	30,818	26,910
	<u>939,102</u>	<u>915,348</u>	<u>912,977</u>	<u>814,470</u>
Financing and Transfers				
Debt principal repayments	\$17,930	\$16,117	\$12,613	\$12,506
Transfer to reserves and reserve funds	43,121	20,132	460	34,838
Transfer to capital operations	54,138	47,468	46,944	48,332
Increase in amounts to be recovered	449	(10,703)	(19,054)	(9,194)
	<u>115,638</u>	<u>73,014</u>	<u>40,963</u>	<u>86,482</u>
Objects of Operating Expenditures as percentage of total				
Salaries, Wages and Employee Benefits	46.3%	45.6%	44.0%	43.6%
Long Term Debt Charges (interest)	2.4%	2.6%	2.8%	3.1%
Materials	17.0%	17.4%	18.4%	16.0%
Contracted Services	11.3%	10.8%	10.7%	9.5%
Rents and Financial expenses	1.4%	2.0%	2.1%	4.7%
External Transfers	21.6%	21.6%	22.0%	23.1%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Note: Amounts reported may have been restated from previous presentations of the consolidated financial statements to conform to 2004 Public Sector Accounting Board ("PSAB") requirements.

City of Hamilton

Four Year Financial and Statistical Review (unaudited)

(All amounts are reported in thousands of dollars except statistical information, ratios and per capita figures)

	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's
Capital Fund Operations - Municipal				
Sources of Financing				
Government grants and contributions	\$30,515	\$15,638	\$ 9,525	\$ 6,034
Development charges & subdivider contributions	20,686	16,167	8,263	18,111
Sale of land and other capital assets	4,887	4,083	5,288	3,175
Investment income	7,872	8,326	6,458	3,027
Other	4,534	3,036	5,283	2,318
	<u>68,494</u>	<u>47,250</u>	<u>34,817</u>	<u>32,665</u>
Capital Expenditure by Function				
General government	9,480	14,513	16,259	1,245
Protection services	5,158	11,209	7,323	9,707
Transportation services	72,401	56,422	47,052	41,887
Environmental services	62,508	65,660	82,980	64,956
Health services	267	2,581	473	2,855
Social and family services	1,565	1,158	1,127	57
Recreation and cultural services	29,676	13,186	9,562	9,811
Planning and development	6,963	2,745	4,061	2,604
	<u>188,018</u>	<u>167,474</u>	<u>168,837</u>	<u>133,122</u>
Financing and Transfers				
Long Term Debt Issued-Municipal	50,000	-	60,173	54,999
Transfers from current fund	54,138	47,468	46,944	48,332
Transfers from reserve funds	27,133	32,152	99,494	80,117
Increase (decrease) in amounts to be recovered - Solid waste management facilities	(3,629)	(3,317)	7,665	11,072
	<u>127,642</u>	<u>76,303</u>	<u>214,276</u>	<u>194,520</u>
Capital Fund Balance - Municipal				
Opening Capital Fund Balance	73,688	117,609	37,353	(56,710)
Closing Capital Fund Balance	81,805	73,688	117,609	37,353
Change in Capital Fund	8,117	(43,921)	80,256	94,063
Reserve and Reserve Funds - Municipal				
Revenue				
Investment Income	\$13,378	\$14,548	\$10,448	\$12,893
Transfers				
Transfers from current fund	43,121	20,132	460	34,838
Transfers to capital fund	(27,133)	(32,152)	(99,494)	(80,117)
Proceeds from Hamilton Utilities Corporation	-	-	137,000	-
	<u>15,988</u>	<u>(12,020)</u>	<u>37,966</u>	<u>(45,279)</u>
Reserves and Reserve Fund Balance - Municipal				
Opening Reserve and Reserve Fund Balance	334,818	332,290	283,876	316,262
Closing Reserve and Reserve Fund Balance	364,184	334,818	332,290	283,876
Change in Reserve and Reserve Fund Balance	29,366	2,528	48,414	(32,386)

Note: Amounts reported may have been restated from previous presentations of the consolidated financial statements to conform to 2004 Public Sector Accounting Board ("PSAB") requirements.

City of Hamilton

Four Year Financial and Statistical Review (unaudited)

(All amounts are reported in thousands of dollars except statistical information, ratios and per capita figures)

	2004 \$000's	2003 \$000's	2002 \$000's	2001 \$000's
Municipal Position				
Fund Balances - Municipal				
Current Fund - Municipal Operations	\$346	\$446	\$947	\$947
Capital Fund - Municipal Operations	81,805	73,688	117,609	37,353
Reserves set aside for specific purposes by Council, legislation regulation or agreement	364,184	334,818	332,290	283,876
Current Fund - Investment in Government Business Enterprise	165,557	157,537	151,563	280,066
Total	<u>611,892</u>	<u>566,489</u>	<u>602,409</u>	<u>602,242</u>
Fund Balances - Housing				
Current Fund - Housing Operations	3,885	3,377	3,252	2,746
Capital Fund - Housing Operations	8,994	8,351	7,652	6,200
	<u>12,879</u>	<u>11,728</u>	<u>10,904</u>	<u>8,946</u>
Amounts to be recovered in the Future	<u>(514,095)</u>	<u>(496,028)</u>	<u>(517,483)</u>	<u>(391,193)</u>
	110,676	82,189	95,830	219,995
Obligatory Reserve Funds (not included in fund balances)	33,677	38,408	42,131	33,828
	2004 \$000's	2003 \$000's	2002 \$000's	2001 \$000's
Long Term Debt - Municipal				
Long Term Debt incurred by the City	\$309,754	\$395,900	\$408,445	\$403,301
Long Term Debt incurred by the City for which other entities have assumed responsibility	(58,148)	(71,263)	(73,338)	(77,734)
Sinking funds accumulated to the end of the year to retire the City's related long term debt	(49,503)	(146,331)	(129,499)	(153,307)
Net long term debt	202,103	178,306	205,608	172,260
Long Term Debt recovered from:				
General Tax Rates	181,613	151,158	173,634	130,580
Reserves and reserve funds	12,619	17,028	18,259	21,445
User Rates	7,816	9,986	12,080	14,110
Nonconsolidated entities	55	134	1,635	6,125
Total	<u>202,103</u>	<u>178,306</u>	<u>205,608</u>	<u>172,260</u>
Long term debt as a % of Reserves	55.50%	53.30%	61.90%	60.70%
Charges for long term debt - principal	17,930	16,117	12,613	12,506
Charges for long term debt - interest	22,148	23,950	25,310	24,905
	<u>40,078</u>	<u>40,067</u>	<u>37,923</u>	<u>37,411</u>
Charges for long term debt as a % of Operating Expenditures including Principal	4.19%	4.30%	4.10%	4.52%

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City of Hamilton

Four Year Financial and Statistical Review (unaudited)

(All amounts are reported in thousands of dollars except statistical information, ratios and per capita figures)

	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's
Taxation				
Taxation from real property	\$708,705	\$684,541	\$662,717	\$666,390
Taxation from other governments/payments in lieu of taxes	12,182	13,573	13,826	13,699
Taxation collected on behalf of school boards	(173,122)	(183,585)	(191,081)	(201,668)
Net taxes available for municipal purposes	547,765	514,529	485,462	478,421
Taxable Assessment (CVA)				
Residential, farm, multi-residential	27,851,262	25,203,723	22,666,233	22,417,711
Commercial, industrial and other	4,357,953	4,214,503	3,821,692	3,769,529
Total Taxable Assessment	32,209,215	29,418,226	26,487,925	26,187,240
Increase in taxable assessment	9.49%	11.06%	1.15%	N/A
Commercial, industrial and other as a percentage of total taxable assessment	13.53%	14.33%	14.43%	14.39%
Tax Rate Information (per \$100 of assessed value)				
Residential and farm				
for City purposes	1.030402	1.047141	1.087788	1.029306
for School purposes	0.296000	0.335000	0.373000	0.373000
Total Tax Rate-Residential and farm	1.326402	1.382141	1.460788	1.402306
Commercial				
for City purposes	2.040197	2.200225	2.438765	2.496685
for School purposes	2.023612	2.534236	2.700862	2.952614
Total Tax Rate-Commercial	4.063809	4.734461	5.139627	5.449299
Industrial				
for City purposes	4.028175	4.095271	4.543645	4.696065
for School purposes	2.023612	3.116434	3.354418	4.238670
Total Tax Rate-Industrial	6.051787	7.211705	7.898063	8.934736
Tax Levies				
for City purposes	527,420	495,494	477,072	461,250
for School purposes	167,990	190,351	187,638	199,086
Total Taxes Levied	695,410	685,845	664,710	660,336
Tax arrears				
Taxes receivable	70,613	79,230	75,545	84,418
Taxes receivable per capita	138	155	149	172
Taxes receivable as a percentage of current years' levies	10.2%	11.6%	11.4%	12.8%
Statistical Information				
Population	513,326	509,546	506,360	490,270
Households	200,812	198,569	196,558	194,155
Hectares	111,700	111,700	111,700	111,700
Building Permit Values	595,166,715	664,394,769	664,334,643	515,321,064
Housing Starts	1,467	1,160	1,849	1,511
New Residential Units/Building Permits	2,522	2,760	3,213	2,681
Average Monthly Social Assistance Case Load	10,585	10,614	11,187	11,583
Continuous Full Time Employees	5,583	5,807	5,895	4,462

Note: Amounts reported may have been restated from previous presentations of the consolidated financial statements to conform to 2004 Public Sector Accounting Board ("PSAB") requirements.

City of Hamilton
Consolidated Financial Statements
2004

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Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Members of Council, Inhabitants and Ratepayers
of the City of Hamilton

We have audited the consolidated statement of financial position of the City of Hamilton as at December 31, 2004 and the consolidated statements of financial activities and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the City's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2004 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Budget figures are provided for comparative purposes and have not been subject to audit procedures. Accordingly, we do not express any opinion regarding the budget figures.

Hamilton, Ontario
May 18, 2005


Grant Thornton LLP
Chartered Accountants

City of Hamilton

Consolidated Statement of Financial Position

As at December 31, 2004 (all numbers are in thousands of dollars)

	<u>2004</u>	<u>2003</u> (Note 1)
Assets		
Cash and temporary investments (Note 2)	\$ 10,657	\$ 13,253
Taxes receivable	70,613	79,230
Accounts receivable	83,961	63,996
Other assets	8,627	7,633
Long term receivables (Note 3)	17,650	8,334
Investments (Note 2)	463,376	436,759
Investment in Hamilton Utilities Corporation (H.U.C.) (Note 4)	<u>165,557</u>	<u>157,537</u>
Total assets	\$ 820,441	\$ 766,742
Liabilities		
Accounts payable and accrued liabilities	\$ 150,093	\$ 135,042
Deferred revenue - general	9,569	13,758
Deferred revenue - obligatory reserve funds (Note 5)	33,677	38,408
Long term debt – Municipal Operations (Note 7)	202,103	178,306
Long term debt – Housing Corporations (Note 8)	75,111	76,763
Employee benefits and other obligations (Note 9)	199,308	198,743
Solid waste management facilities liabilities (Note 11)	<u>39,904</u>	<u>43,533</u>
Total liabilities	<u>709,765</u>	<u>684,553</u>
Municipal position		
Current fund - Municipal Operations (Note 12)	346	446
Current fund - Equity in investment in Hamilton Utilities Corporation (Note 12)	165,557	157,537
Capital fund – Municipal Operations (Note 12)	81,805	73,688
Reserves and Reserve Funds – Municipal Operations (Note 12)	364,184	334,818
Current fund – Housing Corporations (Note 12)	3,885	3,377
Capital fund – Housing Corporations (Note 12)	<u>8,994</u>	<u>8,351</u>
Fund balances	624,771	578,217
Liabilities to be recovered in the future (Note 14)	<u>(514,095)</u>	<u>(496,028)</u>
Total municipal position	<u>110,676</u>	<u>82,189</u>
Total liabilities and municipal position	\$ 820,441	\$ 766,742

Contractual obligations (Note 21)

Contingent liabilities (Note 23)

See accompanying notes to the consolidated financial statements

City of Hamilton

Consolidated Statement of Financial Activities

For the year ended December 31, 2004 (all numbers are in thousands of dollars)

	Budget 2004 (unaudited)	Actual 2004	Actual 2003 (Note 1)
Revenue			
Taxation (Note 15)	\$ 540,348	\$ 547,765	\$ 514,529
Government grants and contributions	259,867	271,756	234,091
User charges	206,367	204,024	192,089
Development charges and subdivider contributions	22,879	23,357	19,004
Sale of land and other capital assets	360	4,887	4,083
Investment income	20,711	29,540	31,625
Other	87,153	84,235	83,005
Total revenue	<u>1,137,685</u>	<u>1,165,564</u>	<u>1,078,426</u>
Expenditures			
General government	78,637	74,594	85,465
Protection services	185,964	184,161	179,110
Transportation services	225,503	217,692	194,267
Environmental services	251,798	161,362	161,534
Health services	48,933	44,984	44,284
Social and family services	241,642	247,732	243,212
Social housing	79,610	76,383	77,811
Recreation and cultural services	126,869	116,336	98,853
Planning and development	37,755	30,149	24,691
Total expenditures	<u>1,276,711</u>	<u>1,153,393</u>	<u>1,109,227</u>
Net revenue (expenditures)	<u>(139,026)</u>	<u>12,171</u>	<u>(30,801)</u>
Financing			
Debt principal repayment - Municipal	(17,930)	(17,930)	(16,117)
Debt principal repayment - Housing	(1,629)	(1,629)	(1,538)
Long-term debt issued - Municipal	102,447	50,000	-
Increase (decrease) in amounts to be recovered - Municipal	-	(4,078)	7,386
Net financing	<u>82,888</u>	<u>26,363</u>	<u>(10,269)</u>
Net income from municipal electric utilities	-	8,020	5,974
Change in fund balances	<u>\$ (56,138)</u>	<u>\$ 46,554</u>	<u>\$ (35,096)</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 2004 (all numbers are in thousands of dollars)

	<u>2004</u>	<u>2003</u> (Note 1)
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net revenue (expenditures)	\$ 12,171	\$ (30,801)
Decrease (increase) in taxes receivable	8,617	(3,685)
Decrease (increase) in accounts receivable	(19,965)	(7,289)
Decrease (increase) in other assets	(994)	280
Increase (decrease) in accounts payable and accrued liabilities	15,051	(20,615)
Increase (decrease) in deferred revenue - general	(4,189)	799
Increase (decrease) in deferred revenue - obligatory reserve fund	(4,731)	(3,723)
Increase (decrease) in employee benefit obligations and other liabilities	565	13,231
Increase (decrease) in solid waste facilities management liabilities	<u>(3,629)</u>	<u>(3,317)</u>
	<u>2,896</u>	<u>(55,120)</u>
Investing activities		
Decrease (increase) in investments	(26,617)	67,331
Decrease (increase) in long term receivables	<u>(9,316)</u>	<u>(1,175)</u>
	<u>(35,933)</u>	<u>66,156</u>
Financing activities		
Long term debt issued – Municipal Operations	50,000	-
Debt principal repayment – Municipal Operations	(17,930)	(16,117)
Debt principal repayment – Housing Corporations	<u>(1,629)</u>	<u>(1,538)</u>
	<u>30,441</u>	<u>(17,655)</u>
Net increase (decrease) in cash and cash equivalents	(2,596)	(6,619)
Cash and cash equivalents		
Beginning of year	<u>13,253</u>	<u>19,872</u>
End of year	<u>\$ 10,657</u>	<u>\$ 13,253</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Schedule of Current Fund - Municipal Operations

For the year ended December 31, 2004 (all numbers are in thousands of dollars)

	Budget 2004 (unaudited)	Actual 2004	Actual 2003 (Note 1)
Revenue			
Taxation	\$ 540,348	\$ 547,765	\$ 514,529
Government grants and contributions	237,051	241,241	192,089
User Charges	206,367	204,024	218,453
Development charges and subdivider contributions	-	2,671	2,837
Investment income	7,311	8,290	8,751
Other	49,408	50,649	51,202
Total revenue	<u>1,040,485</u>	<u>1,054,640</u>	<u>987,861</u>
Expenditures			
General government	70,101	65,114	70,952
Protection services	182,906	179,003	167,901
Transportation services	141,034	145,291	137,845
Environmental services	111,694	98,854	95,874
Health services	48,253	44,717	41,703
Social and family services	241,442	246,167	242,054
Social housing	53,766	50,111	51,406
Recreation and cultural services	88,581	86,659	85,667
Planning and development	27,256	23,186	21,946
Total expenditures	<u>965,033</u>	<u>939,102</u>	<u>915,348</u>
Net revenue	<u>75,452</u>	<u>115,538</u>	<u>72,513</u>
Financing and transfers			
Debt principal repayments - Municipal	(17,930)	(17,930)	(16,117)
Transfers to reserves and reserve funds - Municipal	(12,038)	(34,215)	(16,536)
Transfers to capital fund - Municipal	(45,484)	(54,138)	(47,468)
Increase (decrease) in in amounts to be recovered	-	(449)	10,703
Net financing and transfers	<u>(75,452)</u>	<u>(106,732)</u>	<u>(69,418)</u>
Change in current fund before Operating surplus	-	8,806	3,095
Operating Surplus – Net transfer to reserves			
Water and Wastewater operations	-	(2,984)	(6,020)
Tax supported operations	-	(5,922)	2,424
Net transfer to reserves	<u>-</u>	<u>(8,906)</u>	<u>(3,596)</u>
Change in current fund after surplus	-	(100)	(501)
Current fund balance, beginning of year	446	446	947
Current fund balance, end of year	<u>\$ 446</u>	<u>\$ 346</u>	<u>\$ 446</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Schedule of Capital Fund - Municipal Operations

For the year ended December 31, 2004 (all numbers are in thousands of dollars)

	Budget 2004 (unaudited)	Actual 2004	Actual 2003 (Note 1)
Revenue			
Government grants and contributions	\$ 22,816	\$ 30,515	\$ 15,638
Development charges and subdivider contributions	22,879	20,686	16,167
Sale of land and other capital assets	360	4,887	4,083
Investment income	-	7,872	8,326
Other	9,532	4,534	3,036
Total revenue	<u>55,587</u>	<u>68,494</u>	<u>47,250</u>
Expenditures			
General government	8,536	9,480	14,513
Protection services	3,058	5,158	11,209
Transportation services	84,469	72,401	56,422
Environmental services	140,104	62,508	65,660
Health services	680	267	2,581
Social and family services	200	1,565	1,158
Recreation and cultural services	38,288	29,677	13,186
Planning and development	10,499	6,963	2,745
Total expenditures	<u>285,834</u>	<u>188,019</u>	<u>167,474</u>
Net expenditures	<u>(230,247)</u>	<u>(119,525)</u>	<u>(120,224)</u>
Financing and transfers			
Long term debt issued - Municipal	102,447	50,000	-
Transfers from current fund - Municipal	45,484	54,138	47,468
Transfers from reserves and reserve funds - Municipal	67,126	27,133	32,152
Decrease in amounts to be recovered - solid waste management facilities	-	(3,629)	(3,317)
Net financing and transfers	<u>215,057</u>	<u>127,642</u>	<u>76,303</u>
Change in capital fund balance	(15,190)	8,117	(43,921)
Capital fund balance, beginning of year	<u>73,688</u>	<u>73,688</u>	<u>117,609</u>
Capital fund balance, end of year	<u>\$ 58,498</u>	<u>\$ 81,805</u>	<u>\$ 73,688</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Schedule of Reserves and Reserve Funds – Municipal Operations

For the year ended December 31, 2004 (all numbers are in thousands of dollars)

	Budget 2004 (unaudited)	Actual 2004	Actual 2003 (Note 1)
Revenue			
Investment income	\$ 13,400	\$ 13,378	\$ 14,548
Total revenue	<u>13,400</u>	<u>13,378</u>	<u>14,548</u>
Transfers			
Transfers from current fund - Municipal	12,038	43,121	20,132
Transfers to capital fund - Municipal	<u>(67,126)</u>	<u>(27,133)</u>	<u>(32,152)</u>
Total net transfers	<u>(55,088)</u>	<u>15,988</u>	<u>(12,020)</u>
Change in reserves and reserve funds balance	(41,688)	29,366	2,528
Reserves and reserve funds			
Beginning of year	<u>334,818</u>	<u>334,818</u>	<u>332,290</u>
End of year	\$ <u>293,130</u>	\$ <u>364,184</u>	\$ <u>334,818</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Schedule of Combined Funds - Housing Corporation

Operations

For the year ended December 31, 2004 (all numbers are in thousands of dollars)

	Budget 2004 (unaudited)	Current 2004	Capital 2004	Total 2004	Total 2003 (Note 1)
Revenue					
Investment income	\$ -	\$ -	\$ -	\$ -	\$ 4
Other	<u>28,213</u>	<u>28,793</u>	<u>259</u>	<u>29,052</u>	<u>28,763</u>
Total revenue	<u>28,213</u>	<u>28,793</u>	<u>259</u>	<u>29,052</u>	<u>28,767</u>
Expenditures					
Administration	5,133	5,807	-	5,807	4,662
Municipal Taxes	10,073	10,046	-	10,046	9,768
Insurance	537	550	-	549	420
Utilities	7,465	8,254	-	8,254	7,911
Interest on debt	7,977	7,726	-	7,726	8,064
Amortization	1,947	2,094	-	2,094	1,939
Maintenance	6,558	5,889	-	5,889	6,740
Rent supplement	-	1,262	-	1,262	1,031
Miscellaneous	275	466	-	466	463
Building Rehabilitation	<u>6,358</u>	<u>-</u>	<u>6,275</u>	<u>6,275</u>	<u>6,249</u>
Gross expenditures	<u>46,323</u>	<u>42,094</u>	<u>6,275</u>	<u>48,369</u>	<u>47,247</u>
Less: funding from current fund -					
Municipal Operations – social housing	<u>(20,479)</u>	<u>(22,097)</u>	<u>-</u>	<u>(22,097)</u>	<u>(20,842)</u>
Net expenditures	<u>25,844</u>	<u>19,997</u>	<u>6,275</u>	<u>26,272</u>	<u>26,405</u>
Net revenue (expenditures)	<u>2,369</u>	<u>8,796</u>	<u>(6,016)</u>	<u>2,780</u>	<u>2,362</u>
Financing and transfers					
Transfers from to funds	-	(6,722)	6,722	-	-
Debt principal repayment	<u>(1,629)</u>	<u>(1,629)</u>	<u>-</u>	<u>(1,629)</u>	<u>(1,538)</u>
Change in fund balances	\$ 740	\$ 445	\$ 706	\$ 1,151	\$ 824
Fund balances, beginning of year	<u>11,728</u>	<u>3,440</u>	<u>8,288</u>	<u>11,728</u>	<u>10,904</u>
Fund balances, end of year	<u>\$ 12,468</u>	<u>\$ 3,885</u>	<u>\$ 8,994</u>	<u>\$ 12,879</u>	<u>\$ 11,728</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (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 generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

Certain comparative figures in these consolidated statements have been reclassified from statements previously presented to conform to the presentation adopted for the current year. The adoption of these changes has resulted in the following revisions to the 2003 comparative figures in the consolidated financial statements.

Liabilities:

Employee benefits and other obligations	\$ 76,259
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Municipal Position:

Liabilities to be recovered in the future	(76,259)
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Significant aspects of the accounting policies adopted by the City are as follows:

(a) Reporting entity

- (i) The consolidated financial statements reflect the assets, liabilities, revenues, expenditures and changes in fund balances and in financial position of the reporting entity. The current fund, capital fund and reserves and reserve funds 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.
- The Hamilton Entertainment and Convention Facilities Inc.
- The Hamilton Public Library Board
- The Hamilton Street Railway Company
- Municipal Non-Profit (Hamilton) Housing Corporation
- Hamilton Housing Corporation
- Dundas Valley Non-Profit Housing Corporation
- Barton Street Village Business Improvement Area
- Concession Street Business Improvement Area
- Downtown Hamilton Business Improvement Area
- International Village Business Improvement Area
- King Street West Business Improvement Area
- Main Street West Esplanade Business Improvement Area
- Downtown Stoney Creek Business Improvement Area
- Ottawa Street Business Improvement Area
- Waterdown Business Improvement Area
- Westdale Business Improvement Area
- Dundas Business Improvement Area
- Flamborough Recreation Sub-Committees

Interdepartmental and organizational transactions and balances are eliminated.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

1. (a) Reporting entity (continued)

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.

Hamilton Housing Corporation was incorporated 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 Hamilton Housing 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. Effective July 1, 2004 Hamilton Housing Corporation, Hamilton Housing Company Limited, Ancaster Senior Citizen Apartments Limited and Coronation Park Housing Company Limited were amalgamated into one corporation operating as Hamilton Housing Corporation.

The City's three housing corporations have been consolidated on a line-by-line basis to conform with the City's accounting principles after eliminating inter-organizational transactions and balances.

The statements exclude trust assets that are administered for the benefit of external parties (Note 19).

The statements exclude sinking funds and their related operations that are administered by the City (Note 20).

- (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 Statements of Financial Activities. 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:

- Child and Adolescent Services
- Drug and Alcohol Assessment
- Anonymous Testing
- Alcohol, Drug and Gaming Services-Problem Gambling
- Mental Health Promotion
- Remedial Measures
- Heart Health Program
- Prenatal Nutrition & Support
- Mental Health –Good Shepherd
- Injection Drug Use Outreach Program
- Young Offenders Assessment

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

1. (a) Reporting entity (continued)

- (iv) The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of various school boards are not reflected in the municipal fund balances of the 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. Expenditures are recognized in the period goods and services are acquired and a liability is incurred or transfers are due.

(c) Fund accounting

Funds within the consolidated financial statements consist of the current (operating) fund, capital fund and reserve and reserve funds. Transfers between funds are recorded as adjustments to the appropriate municipal fund balance.

The current or operating fund reflects the financial activities associated with the provision of municipal government services.

The capital fund reflects the financial activities associated with the acquisition, construction and funding of capital assets.

The reserves and reserve fund reflects funds authorized by City Council to be set aside for the funding of future operations or capital expenditures.

(d) Capital assets

The historical cost and accumulated depreciation for capital assets are not reported for municipal purposes. Capital assets are reported as an expenditure on the Consolidated Statement of Financial Activities in the year of acquisition.

(e) 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 expenditures are incurred, deferred revenues are brought into revenue in the fiscal period they are expended.

(f) Inventory

Inventory is valued at the lower of cost and net realizable value.

(g) Foreign currency translation

Gains and losses on foreign currency are charged to operations when they are realized.

(h) 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.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

1. Significant accounting policies (continued)

(i) Investment income

Investment income earned on surplus current, reserves and reserve funds (other than obligatory reserve funds) are reported as revenue in the period earned. Investment income earned on development charge reserve funds is added to the fund balance and forms part of the deferred revenue balances.

(j) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles for municipal governments and generally accepted accounting principles 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 expenditures during the reporting period. Where estimation uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

(k) Pension costs and obligations

Pension obligations for any excess of accrued pension plan benefits over pension plan assets are reported on the Consolidated Statement of Financial Position. The pension obligations are determined using management's best estimates of expected investment yields, wage and salary escalation, mortality rates, termination and retirement ages. Adjustments arising from pension plan amendments, experience gains and losses and assumption changes are amortized to earnings over the average remaining services lives of the pension plan members.

2. Cash and investments

	<u>2004</u>	<u>2003</u>
Cash and temporary investments are comprised of:		
Cash on hand	\$ 217	\$ 240
Cash held in banks	8,877	12,266
Temporary investments	<u>1,563</u>	<u>747</u>
	<u>\$ 10,657</u>	<u>\$ 13,253</u>
Long term portfolio investments are comprised of:		
Unrestricted investments	\$ 297,563	\$ 263,956
Restricted investments (obligatory reserve funds)	33,667	38,408
Designated investments (Hamilton Future Fund)	<u>132,146</u>	<u>134,395</u>
	<u>\$ 463,376</u>	<u>\$ 436,759</u>

Long term portfolio investments includes investments in City debentures - unrestricted investments of \$13,379,000 (2003 - \$12,112,000) and investments in City debentures - designated investments (Hamilton Future Fund) of \$2,494,000 (2003 - \$2,494,000).

The total long-term investments listed above have a market value of \$487,649,000 (2003- \$453,652,000).

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

3. Long term receivables

The City has long-term receivables in the amount of \$17,650,000 (2003 - \$8,334,000). The long term receivables are comprised of:

	<u>2004</u>	<u>2003</u>
Development charge deferral agreements	\$ 1,277	\$ 786
Mortgages receivable:		
Art Gallery of Hamilton loan	5,000	-
Downtown convert to rent program	7,118	4,388
Hamilton Firefighters Drum Corps loan	144	176
Hamilton Housing Corporation loan	1,054	-
Sheraton Hotel loan	1,722	1,747
Other City loan programs	150	394
Loans to other agencies and organizations	3,435	3,287
Less: Provision for loans with concessionary terms	<u>(2,250)</u>	<u>(2,444)</u>
	<u>\$ 17,650</u>	<u>\$ 8,334</u>

Development charge deferral agreements and mortgage receivables are loans which are secured by property, with interest rates varying from 0% to 10% and terms of one year to sixty-five years.

Loans to other agencies and organizations consist of loans to the Hamilton Region Conservation Authority, Canadian Football Hall of Fame, Wentworth Minor Football Association and the Catholic Children's Aid Society, with interest rates varying from 0% to 8.5% for terms of one year to twenty-one years.

4. Investment in 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. Hamilton Utilities Corporation is a subsidiary corporation of the City and is accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises.

During 2004 the Hamilton Renewable Power Inc. ("H.R.P.I.") was established with the City's acceptance of a dividend in kind in the form of one common share from H.U.C. H.R.P.I. has no equity and reported no income in 2004. Consequently, no amounts are reported on the City's Consolidated Statement of Financial Position or the Consolidated Statement of Financial Activities.

The amounts related to municipal electric utilities as reported in the Consolidated Statement of Financial Activities for 2004 and 2003 is as reported by the Hamilton Utilities Corporation.

	<u>2004</u>	<u>2003</u>
Net income from municipal electric utilities	<u>\$ 8,020</u>	<u>\$ 5,974</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

4. Investment in Government Business Enterprises (continued)

The City's investment in Hamilton Utilities Corporation is reported in the Consolidated Statement of Financial Position as:

	<u>2004</u>	<u>2003</u>
Investment in Hamilton Utilities Corporation	\$ 165,557	\$ 157,537
Current fund – Equity investment in H.U.C.	165,557	157,537

The following table provides condensed supplementary financial information for Hamilton Utilities Corporation.

	<u>2004</u>	<u>2003</u>
Financial position		
Current assets	\$ 130,890	\$ 101,901
Capital assets	231,450	231,451
Regulatory assets	-	2,147
Deferred debt issuance costs	<u>2,279</u>	<u>2,583</u>
Total assets	<u>364,619</u>	<u>338,082</u>
Current liabilities		
(including current portion of long term debt)	74,076	61,183
Long term liabilities	<u>124,986</u>	<u>119,362</u>
Total liabilities	<u>199,062</u>	<u>180,545</u>
Net assets	<u>\$ 165,557</u>	<u>\$ 157,537</u>
Results of operations		
Revenues	\$ 72,031	\$ 71,243
Operating expenses	(49,749)	(51,138)
Financing expenses	(7,343)	(7,463)
Other income	<u>1,795</u>	<u>774</u>
Equity earnings from operations	16,734	13,416
Payment in lieu of taxes	<u>(5,714)</u>	<u>(5,192)</u>
Dividends paid	11,020	8,224
	<u>(3,000)</u>	<u>(2,250)</u>
	<u>\$ 8,020</u>	<u>\$ 5,974</u>

The above information is as reported by Hamilton Utilities Corporation at December 31, 2004 and December 31, 2003 respectively. The notes to H.U.C.'s consolidated financial statements include commitments, contingencies and subsequent events that are disclosed in the City's notes to the consolidated financial statements as contractual obligations (note 21) and contingent liabilities (note 23).

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (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 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>2004</u>	<u>2003</u>
Revenue		
Dividend revenue	\$ 3,000	\$ 2,250
Property taxes and other taxes received by the City	703	881
Expenditures		
Hydro purchased by the City	12,213	13,918
Water and sewer billing contracted service	2,649	2,482
Assets		
Water user charges receivable	13,642	13,597

5. Deferred revenue - obligatory reserve funds

	<u>2004</u>	<u>2003</u>
Development charge reserve funds (Note 6)	\$ 30,511	\$ 33,715
Subdivider contributions	162	418
Recreational land dedicated under the Planning Act	2,971	4,275
Gasoline tax revenue	33	-
	<u>\$ 33,677</u>	<u>\$ 38,408</u>

6. Continuity of development charge reserve funds

	<u>2004</u>	<u>2003</u>
Balance at the beginning of the year	\$ 33,715	\$ 38,195
Development charge collections	17,950	11,503
Investment Income	1,173	1,358
Capital fund expenditures	(19,656)	(14,614)
Current fund expenditures	(2,671)	(2,727)
Balance at the end of the year	<u>\$ 30,511</u>	<u>\$ 33,715</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

7. Long term debt – municipal operations

(a) The balance of net long term debt consists of the following:

	<u>2004</u>	<u>2003</u>
Long term debt incurred by the City	\$ 309,754	\$ 395,900
Long term debt incurred by the City for which other entities have assumed responsibility	(58,148)	(71,263)
Sinking funds accumulated to the end of the year to retire the City's related long term debt	<u>(49,503)</u>	<u>(146,331)</u>
Net long term debt	<u>\$ 202,103</u>	<u>\$ 178,306</u>

(b) In addition to long term debt incurred for City purposes, the City assumed the responsibility for the charges on 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 nonconsolidated 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 nonconsolidated boards. The total amount of this contingent liability outstanding at December 31, 2004 is \$58,148,000 (2003 - \$71,263,000).

The annual principal and interest payment required to service these liabilities are within the annual debt repayment prescribed by the Ministry of Municipal Affairs and Housing.

(c) Of the \$202,103,000 long term debt (2003 - \$178,306,000) 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>2004</u>	<u>2003</u>
General revenues	\$ 181,613	\$ 151,158
Reserves and reserve funds	12,619	17,028
Wastewater user charges	7,816	9,986
Nonconsolidated entities	<u>55</u>	<u>134</u>
	<u>\$ 202,103</u>	<u>\$ 178,306</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

7. Long term debt – municipal operations (continued)

The total City principal repayments in each of the next five years and thereafter are due as follows:

	General Revenues	Reserves and Reserve Funds	Wastewater User Charges	Non consolidated entities	<u>2004 Total</u>
2005	\$ 13,697	\$ 1,315	\$ 2,262	\$ 12	\$ 17,286
2006	14,250	1,375	2,366	10	18,001
2007	11,037	1,443	573	10	13,063
2008	11,647	1,518	603	10	13,778
2009	10,924	1,600	2,012	4	14,540
2010 and thereafter	<u>120,058</u>	<u>5,368</u>	<u>-</u>	<u>9</u>	<u>125,435</u>
Total	<u>\$ 181,613</u>	<u>\$ 12,619</u>	<u>\$ 7,816</u>	<u>\$ 55</u>	<u>\$ 202,103</u>

(d) Total charges for the year for long term debt which are reported on the Consolidated Statement of Financial Activities are as follows:

	<u>2004</u>	<u>2003</u>
Principal repayments	\$ 17,930	\$ 16,117
Interest	<u>22,148</u>	<u>23,950</u>
	<u>\$ 40,078</u>	<u>\$ 40,067</u>

(e) Total charges for the year for long term debt were recovered as follows:

	<u>2004</u>	<u>2003</u>
General tax rates	\$ 34,886	\$ 34,778
Reserves and reserve funds	2,542	2,622
Wastewater user charges	<u>2,650</u>	<u>2,667</u>
	<u>\$ 40,078</u>	<u>\$ 40,067</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

8. Long term debt – housing corporations

- (a) The balance of long term debt – housing corporations reported on the Consolidated Statement of Financial Position represents capital assets of the City's Housing Corporations that are financed by mortgages. The mortgages mature in the years 2005 to 2024 with interest rates varying between 4.25% and 8.65%. The mortgage obligations of the housing corporations are as follows:

	<u>2004</u>	<u>2003</u>
Municipal Non-Profit (Hamilton) Housing Corporation	\$ 67,471	\$ 68,988
Dundas Valley Non Profit Housing Corporation	4,547	4,668
Hamilton Housing Corporation	<u>3,093</u>	<u>3,107</u>
	<u>\$ 75,111</u>	<u>\$ 76,763</u>

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

	<u>2004</u>
2005	\$ 9,132
2006	1,779
2007	1,871
2008	1,967
2009	2,068
2010 and thereafter	<u>58,294</u>
	<u>\$ 75,111</u>

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

	<u>2004</u>	<u>2003</u>
Principal repayments	\$ 1,629	\$ 1,538
Interest	<u>3,987</u>	<u>4,346</u>
	<u>\$ 5,616</u>	<u>\$ 5,884</u>

The principal repayments of \$1,629,000 (2003 - \$1,538,000) are reflected on the Consolidated Statement of Financial Activities. The interest charges of \$3,987,000 (2003 - \$4,346,000) are recorded as expenditures in the Consolidated Statement of Financial Activities.

- (d) Other long term debt incurred by the City of Hamilton's housing corporations, representing capital assets financed by debentures issued by the Ontario Housing Corporation of \$52,899,000 (2003 - \$54,962,000), is 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

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

9. Employee 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>2004</u>	<u>2003</u>
Accrued Benefit Obligation		
Vested sick leave liability	\$ 18,073	\$ 26,289
Long Term Disability	7,432	5,913
Workers Safety and Insurance Board liabilities (WSIB)	36,349	35,949
Retirement Benefits	84,576	58,701
Vacation pay liabilities	16,089	15,236
Accrued Pension Liability (Note 10)	<u>36,224</u>	<u>42,791</u>
	198,743	184,879
Net unamortized actuarial gain	<u>565</u>	<u>13,864</u>
Accrued Liability	<u>\$ 199,308</u>	<u>\$ 198,743</u>

The City has established reserves to provide for some of these liabilities and other amounts have been recorded as liabilities. These amounts totalling \$54,055,000 (2003 - \$47,340,000) are described in the following notes.

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

	<u>2004</u>
Liability for Employee Benefits and Other Obligations	
balance at beginning of the year	\$ 198,743
Benefit expenditure	10,338
Interest expenditure	8,747
Amortization of actuarial loss on accrued benefit obligations	99
Amortization of actuarial gain on earnings on pension assets	(1,254)
Benefit payments	<u>(17,365)</u>
Liability for Employee Benefits and Other Obligations	
balance at end of the year	<u>\$ 199,308</u>

The expenditures related to these employee benefits and other obligations are reported in the Consolidated Statement of Financial Activities. These expenditures are summarized as follows:

	<u>2004</u>
Benefit expenditure	\$ 10,338
Interest expenditure	8,747
Amortization of net actuarial gains	<u>(1,155)</u>
	<u>\$ 17,930</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

9. Employee benefits and other obligations (continued)

(a) Liability for vested sick leave

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, 2004 has estimated the accrued benefit obligation at \$18,073,000. The assumptions used to calculate the accrued benefit obligation include a discount rate of 6%, an inflation rate of 3.0% and future salary and wage increases of 4%. Changes in valuation assumptions have resulted in a decrease in the liability to \$18,073,000 from the expected liability of \$28,022,000. The actuarial gain of \$9,949,000 is being amortized over twelve to fourteen years representing 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 \$8,404,000 (2003 - \$7,906,000).

(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, 2004 has estimated the accrued benefit obligation at \$7,432,000 (2003 - \$5,913,000). The accrued benefit obligation is calculated using a discount rate of 6%, an inflation rate of 3.0% and future salary and wage increases of 4%. Reserves established to provide for this liability are included on the Consolidated Statement of Financial Position in the amount of \$7,432,000 (2003 - \$5,913,000).

(c) Liability for workplace safety and insurance

The City is liable for compensation related to workplace injuries as stipulated by the Workplace Safety & Insurance Board (WSIB) Act. An actuarial valuation as at December 31, 2002 estimated the accrued benefit obligation for existing Workplace Safety & Insurance Board present and future pension awards at December 31, 2004 at \$36,349,000 (2003 - \$35,949,000). The accrued benefit obligation is calculated using a discount rate of 6%, an inflation rate of 3.0% and future salary and wage increases of 4%. Reserves in the amount of \$26,165,000 (2003 - \$21,983,000) and deposits in the amount of \$1,563,000 (2003 - \$736,000) provided for this liability are included on the Consolidated Statement of Financial Position.

(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, 2004 estimated the accrued benefit obligation at \$84,476,000. The accrued benefit obligation was determined using a discount rate of 6.0% and inflation rate of 3%. Medical costs were assumed to increase at a rate of 7.5% in 2005 and reduce by 0.5% per year to 4.5% in 2011 and thereafter. Dental costs were assumed to increase at 4.5% per year. Changes in valuation assumptions have resulted in an increase in the liability to \$84,476,000 from the expected liability of \$59,275,000. The actuarial loss of \$25,301,000 is being amortized over nine to eleven years representing the expected average remaining life expectancy of the plan members in various groups.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

9. Employee benefits and other obligations (continued)

(e) Liability for accrued vacation

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, 2004 has been estimated at \$16,089,000 (2003 - \$15,236,000). The accrued liability in the amount of \$12,054,000 (2003 - \$11,538,000) has been recorded for this liability with the remaining unfunded liability of \$4,035,000 (2003 - \$3,698,000) reported as liabilities to be recovered in the future on the Consolidated Statement of Financial Position.

(f) Liability for pensions

The City provides pension plans other than the Ontario Municipal Employees Retirement System (OMERS) as described in note 10. Two of these plans have a deficit and actuarial valuations at December 31, 2002 estimated the combined accrued benefit obligation as at December 31, 2004 of \$36,224,000 (2003 - \$42,790,000). The actuarial valuations are based on a number of assumptions about future events including mortality, inflation rates, salary and wage increases and interest rates. The inflation rate is estimated at 3.0% but there is no estimate for future salary and wage increases as there are no active employees in the pension plans. The discount rate used to determine the accrued benefit obligation is 6% and the return on pension plan assets is 7% per annum. Changes in valuation assumptions results in a decrease in the liability to \$36,224,000 from an expected liability of \$52,141,000. The net unamortized actuarial gain of \$15,917,000 is being amortized over eleven years representing the expected average remaining life expectancy of the plan members.

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 5,256 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, 2003 indicates that current member and employer contribution rates are sufficient to fund future benefits. Contributions were made in the 2004 calendar year at rates ranging from 6.0% to 9.8% depending on the proposed retirement age and the level of earnings. As a result \$20,566,000 (2003 - \$6,140,000) was contributed to OMERS for current service. Effective January 1, 2006 contribution rates are proposed to increase an additional 1% to 2% for all levels of earnings.

(b) Other pension plans

Approximately 524 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. One of the pension plans is in a deficit position and two of the pension plans are in surplus positions under the valuations for funding purposes. The actuarial valuations of the pension plans for accounting purposes provides different results than the valuations for funding purposes resulting in deficits in two of the pension plans and a surplus in the other pension plan.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

10. Pension agreements – Other pension plans (continued)

While the City and employees may be required to contribute equal amounts into the pension plans, the City retains the risk of the accrued pension benefit obligation.

The actuarial valuation of the Hamilton Wentworth Retirement Fund (“HWRF”) pension plan as at December 31, 2004 is an extrapolation of the valuation results as at December 31, 2002 using updated actuarial assumptions. The assumptions used represent the City's best estimates. The inflation rate is 3.0% per annum and there are no estimates for salary increases as the HWRF is a closed plan. Pension plan assets are expected to increase at 7% per annum and the accrued pension benefit obligation is discounted at 6% per annum. The 2004 net unamortized actuarial gain on plan assets and loss on the accrued benefit obligation is being amortized over eleven years (2003 - twelve 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>2004</u>	<u>2003</u>
Accrued pension benefit obligation	\$ 108,740	\$ 111,636
Pension plan assets:		
Marketable securities	<u>(70,661)</u>	<u>(70,006)</u>
Net pension benefit liability	38,079	41,630
Unamortized actuarial gains	<u>5,370</u>	<u>4,602</u>
Accrued pension liability - HWRF	<u>\$ 43,449</u>	<u>\$ 46,232</u>

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

	<u>2004</u>	<u>2003</u>
Expected pension fund assets at end of year	\$ 69,509	\$ 64,213
Actual pension fund assets at end of year	<u>70,661</u>	<u>70,006</u>
Actuarial gain on pension fund assets – HWRF	<u>\$ 1,152</u>	<u>\$ 5,793</u>
Expected accrued pension benefit obligation, end of year	\$ 108,740	\$ 110,445
Actual accrued pension benefit obligation, end of year	<u>108,740</u>	<u>111,636</u>
Actuarial loss on accrued pension benefit obligation – HWRF	<u>\$ -</u>	<u>\$ 1,191</u>

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

	<u>2004</u>	<u>2003</u>
Amortization of actuarial loss on accrued pension benefit obligation	\$ 99	\$ -
Amortization of actuarial gain on pension plan assets	<u>(483)</u>	<u>-</u>
Net Amortization	<u>(384)</u>	<u>-</u>
Interest on average accrued pension benefit obligation	6,419	6,526
Expected return on average pension plan assets	<u>(4,718)</u>	<u>(4,389)</u>
Net Interest	<u>1,701</u>	<u>2,137</u>
	<u>\$ 1,317</u>	<u>\$ 2,137</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

10. Pension agreements – Other pension plans (continued)

Payments of \$4,100,000 (2003 - \$3,928,000) 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, 2004 will be funded by the City with payments as follows:

2005	\$	5,111
2006		5,095
2007		5,150
2008		4,040
2009		4,386
2010 and thereafter		<u>29,954</u>
	\$	<u>53,736</u>

The actuarial valuation of the Hamilton Municipal Retirement Fund (“HMRF”) pension plan as at December 31, 2004 is an extrapolation of the valuation results as at December 31, 2002 using updated actuarial assumptions. The assumptions used represent the City’s best estimates. The inflation rate is 3.0% per annum and there are no estimates for salary increases as the HWRF is a closed plan. Pension plan assets are expected to increase at 7% per annum and the accrued pension benefit obligation is discounted at 6% per annum. The accrued pension liability reported in the Consolidated Statement of Financial Position is comprised as follows:

	<u>2004</u>	<u>2003</u>
Accrued pension benefit obligation	\$ 105,716	\$ 108,552
Pension plan assets:		
Marketable securities	<u>(107,571)</u>	<u>(107,392)</u>
Net Pension benefit liability (asset)	(1,855)	1,160
Unamortized actuarial gains	<u>10,547</u>	<u>9,262</u>
Accrued pension liability - HMRF	\$ <u>8,692</u>	\$ <u>10,422</u>

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

	<u>2004</u>	<u>2003</u>
Expected pension fund assets at end of year	\$ 105,514	\$ 98,130
Actual pension fund assets at end of year	<u>107,571</u>	<u>107,392</u>
Actuarial gain on pension fund assets – HMRF	\$ <u>2,057</u>	\$ <u>9,262</u>
Expected accrued pension benefit obligation, end of year	\$ 105,716	\$ 108,552
Actual accrued pension benefit obligation, end of year	<u>105,716</u>	<u>108,552</u>
Actuarial loss on accrued pension benefit obligation – HMRF	\$ -	\$ -

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

	<u>2004</u>	<u>2003</u>
Amortization of actuarial gain on pension plan assets	\$ (772)	\$ -
Interest on average accrued pension benefit obligation	6,241	6,414
Expected return on average pension plan assets	<u>(7,200)</u>	<u>(6,731)</u>
Net Interest	<u>(959)</u>	<u>(317)</u>
	\$ <u>(1,731)</u>	\$ <u>(317)</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

10. Pension agreements – Other pension plans (continued)

The actuarial valuation of the HSR pension plan as at December 31, 2004 is an extrapolation of the valuation results as at December 31, 2002 with updated actuarial assumptions. The assumptions used represent the City's best estimates. The inflation rate is 3.0% per annum and salary increases are 4.00% per annum. Pension plan assets are expected to increase at 7% per annum and the accrued pension benefit obligation is discounted at 6% per annum.

	<u>2004</u>	<u>2003</u>
Accrued pension benefit obligation	\$ 140,793	\$ 135,838
Pension plan assets:		
Marketable securities	<u>(163,804)</u>	<u>(156,869)</u>
Net pension benefit asset	(23,011)	(21,031)
Unamortized actuarial gains	<u>15,483</u>	<u>13,535</u>
Accrued pension benefit asset - HSR	<u>\$ 7,528</u>	<u>\$ 7,496</u>

The accrued pension benefit asset for the HSR pension plan has not been reported on the Consolidated Statement of Financial Position as there is uncertainty about the City's right to the future benefit from this asset.

11. Solid waste management facilities 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 11,800,000 cubic metres of waste. As at December 31, 2004 the remaining capacity of the site is estimated at 4,120,000 cubic metres, representing 35% of the total capacity. The City's Solid Waste Management Master Plan includes a solid waste diversion target of 65% by 2008. The open site is estimated to reach its capacity and close in 2023 (19 years).

The closure costs for the open Glanbrook landfill site and post closure care costs for the closed sites were based upon 2005 capital budget estimates, adjusted by 3% inflation, unexpended capital projects that were in progress in 2004 and estimates of operational support. These costs were then discounted back to December 31, 2004 using a discount factor of 6%. Post closure care for Glanbrook 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.

The liability of \$39,904,000 (2003 - \$43,533,000) for closure of the operational site and post closure care of the closed sites has been reported on the Consolidated Statement of Financial Position.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

12. Municipal fund balances

(a) The current fund balance is comprised of the following:

	<u>2004</u>	<u>2003</u>
Current Fund - Municipal Operations:		
Flamborough recreation sub-committees	\$ 139	\$ 158
Business improvement areas	<u>207</u>	<u>288</u>
	<u>\$ 346</u>	<u>\$ 446</u>
Current Fund - Equity in investment in H.U.C. (Note 4)	<u>\$ 165,557</u>	<u>\$ 157,537</u>

(b) The capital fund balance is comprised of the following:

Funds available for future capital fund expenditures	\$ 234,592	\$ 200,551
Funding yet to be provided from:		
Taxation or user charges	(6,311)	(6,299)
Long term debt	(102,616)	(66,723)
Reserves and reserve funds	(27,094)	(33,446)
Grants, subsidies and other unspecified revenue	<u>(16,766)</u>	<u>(20,395)</u>
	<u>\$ 81,805</u>	<u>\$ 73,688</u>

(c) Reserves and discretionary reserve funds set aside for specific purposes by Council are comprised of the following:

Working funds	\$ 42,600	\$ 40,386
Contingencies	2,091	136
Replacement of equipment	19,956	14,448
Sick leave (Note 9)	8,404	7,906
Workplace Safety and Insurance Board (WSIB)(Note 9)	26,165	21,983
Pension Plans	361	353
Self insurance (Note 22)	161	565
Current purposes	13,862	10,248
Capital purposes	<u>118,438</u>	<u>104,398</u>
Total reserves	232,038	200,423
Hamilton Future Fund (Note 13)	<u>132,146</u>	<u>134,395</u>
Total reserves and discretionary reserve funds	<u>\$ 364,184</u>	<u>\$ 334,818</u>

(d) The fund balances of the consolidated housing corporations are comprised of the following:

Current fund	\$ 3,885	\$ 3,377
Capital fund	<u>8,994</u>	<u>8,351</u>
	<u>\$ 12,879</u>	<u>\$ 11,728</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (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 when the proceeds of the note receivable from Hamilton Utilities Corporation was known. The Hamilton Future Fund will be used to create and protect a permanent legacy for current and future generations of Hamiltonians to enjoy economic prosperity and improved quality of life.

At December 31, 2004, the Hamilton Future Fund consists of a permanent fund of \$100,000,000 (2003 - \$100,000,000) and a fund of \$32,146,000 (2003 - \$34,395,000) that has been designated for specific projects to enhance the economy, enhance the social fabric of life and enhance community life in the City of Hamilton.

The continuity of the Hamilton Future Fund is as follows:

	<u>2004</u>	<u>2003</u>
Balance at the beginning of the year	\$ 134,395	\$ 134,916
Revenues		
Investment Income	5,992	6,342
Current Expenditures		
Property Tax Reduction	(3,285)	(4,000)
Business Tax Reduction Program	(318)	(578)
Contribution to Art Gallery of Hamilton	(500)	(500)
Parent-Child Homemaking Services	(225)	(313)
Other	<u>(271)</u>	<u>(133)</u>
	(4,599)	(5,524)
Capital expenditures		
Airport Looping	(2,671)	-
Hughson Street Improvements	(264)	-
City Housing	(158)	-
YWCA Renovations	(270)	(540)
Dieppe Memorial Park	-	(350)
Powerline Trail	-	(300)
Other	<u>(279)</u>	<u>(149)</u>
	<u>(3,642)</u>	<u>(1,339)</u>
Balance at the end of the year	<u>\$ 132,146</u>	<u>\$ 134,395</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

14. Liabilities to be recovered in the future	<u>2004</u>	<u>2003</u>
Municipal operations		
Long term debt	\$ 202,103	\$ 178,306
Employee benefit obligations (Note 9)	187,254	187,205
Stores inventory	9,523	10,021
Solid waste management (Note 11)	<u>39,904</u>	<u>43,533</u>
	438,784	419,065
Housing corporations		
Capital Assets	<u>75,311</u>	<u>76,963</u>
	\$ 514,095	\$ 496,028

15. Taxation	Budget 2004 (unaudited)	Actual 2004	Actual 2003
Taxation from real property	\$ 700,570	\$ 708,705	\$ 684,541
Taxation from other governments payments in lieu of taxes	<u>12,900</u>	<u>12,182</u>	<u>13,573</u>
	713,470	720,887	698,114
Less: taxation collected on behalf of school boards (Note 16)	<u>(173,122)</u>	<u>(173,122)</u>	<u>(183,585)</u>
Net taxes available for municipal purposes	<u>\$ 540,348</u>	<u>\$ 547,765</u>	<u>\$ 514,529</u>

16. Collections for the school boards

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).

17. Current fund expenditures by object – municipal operations

The following is a summary of the current fund expenditures as reported in the Schedule of Current Fund – Municipal Operations:

	<u>2004</u>	<u>2003</u>
Salaries, wages and benefits	\$ 434,375	\$ 417,224
Interest on long term debt	22,148	23,950
Materials	159,343	159,619
Contracted services	106,362	98,950
Rents and financial expenses	14,350	18,104
External transfers	<u>202,524</u>	<u>197,501</u>
	\$ 939,102	\$ 915,348

Current fund expenditures for the housing operations are reported in the Schedule of Combined Funds – Housing Corporations.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

18. 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 Financial Activities 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 2004 the City received payments from the provincial and federal governments in the amount of \$258,259,000 (2003 - \$218,925,000) as follows:

	<u>2004</u>	<u>2003</u>
Government of the Province of Ontario	\$ 229,907	\$ 192,776
Government of Canada	<u>28,352</u>	<u>26,149</u>
	<u>\$ 258,259</u>	<u>\$ 218,925</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 Financial Activities 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 2004, the City issued payments as government transfers in the amount of \$199,561,000 (2003 - \$189,091,000) as follows:

	<u>2004</u>	<u>2003</u>
Payments for social assistance entitlements	\$ 147,040	\$ 135,753
Payments for housing subsidies	42,891	44,293
Grants to agencies and institutions	<u>9,630</u>	<u>9,045</u>
	<u>\$ 199,561</u>	<u>\$ 189,091</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

19. Trust funds

Cemetery, library trust and general trust funds administered by the City amounting to \$12,240,000 (2003 - \$12,142,000) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Financial Activities. Separate financial statements have been prepared.

Homes for the Aged trust funds administered by the City amounting to \$912,000 (2003 - \$974,000) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Financial Activities. Separate financial statements have been prepared.

20. Sinking funds

Sinking funds administered by the City amounting to \$65,456,000 (2003 - \$171,071,000) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Financial Activities. Separate financial statements have been prepared.

21. Contractual obligations

- (a) The City has outstanding contractual obligations of approximately \$186,541,000 at December 31, 2004 for capital works (2003 - \$106,646,000). 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, 2004 amounting to \$5,240,000 (2003 - \$5,370,000) are not reflected in the Consolidated Financial Statements. Payments made to the Ontario Realty Corporation amounting to \$130,000 in 2004 (2003 - \$79,000) are reported in the Consolidated Statement of Financial Activities.
- (c) The City has an agreement with a developer to design and install services in the Binbrook community and Glanbrook Industrial Park of the City of Hamilton. The City is committed to repaying the developer \$8,068,000 plus interest on the outstanding balance by 2026 with an option to extend until 2031 for the Binbrook services. The City is committed to repaying the developer \$1,056,000 plus interest by 2006 for the industrial park. The outstanding future obligations at December 31, 2004 amounting to \$7,572,000 (2003 - \$8,009,000) are 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 \$1,017,000 in 2004 (2003 - \$807,000) are reported in the Consolidated Statement of Financial Activities.
- (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 \$8,150,000 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, 2004 amounting to \$7,805,000 (2003 - \$7,714,000) 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 \$368,000 in 2004 (2003 - \$222,000) are reported in the Consolidated Statement of Financial Activities.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

21. Contractual obligations (continued)

- (e) The City has agreements with Canadian Waste Services Inc. for the transfer, hauling and disposal on the City's solid waste. The term of the agreement is fourteen years for the period of January 1, 1996 to December 31, 2009. The contract fees amounting to \$7,468,000 for 2004 (2003 - \$7,499,000) are reported in the Consolidated Statement of Financial Activities. Contract fees for future years are based on the rate per tonne of solid waste processed adjusted annually for an industry specific modified escalation clause.
- (f) The City has agreements with American Water Services, a subsidiary of American Water Works Company Inc., for the management and operation of the City's water and wastewater treatment facilities and outstations. The term of the facilities agreement is ten years for the period January 1, 1995 to December 31, 2004. The term of the outstation agreement is for the period January 1, 2001 to December 31, 2004. The annual contract fees amounting to \$24,772,000 in 2004 (2003 - \$23,283,000) are reported in the Consolidated Statement of Financial Activities.
- (g) 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. As such, no expenditures are reported on the Consolidated Statement of Financial Activities.
- (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 and expires on June 30, 2008. The annual contract fees amounting to \$7,691,000 (2003 - \$7,557,000) are reported in the Consolidated Statement of Financial Activities. Contract fees for future years are not expected to change significantly.
- (i) The City has executed lease agreements for administrative office space, modernization of building automation systems, computer equipment and radio communication equipment and infrastructure requiring annual payments in future years as they become due and payable in the amount of \$37,296,000 (2003 - \$29,320,000). The minimum lease payments for these leases over the next five years and thereafter are:
- | | |
|---------------------|------------------|
| 2005 | \$ 8,850 |
| 2006 | 7,646 |
| 2007 | 5,210 |
| 2008 | 3,108 |
| 2009 | 2,095 |
| 2010 and thereafter | <u>10,387</u> |
| | <u>\$ 37,296</u> |
- (j) The City has a credit agreement dated February 11, 2003 with a Canadian chartered bank to borrow up to \$65,000,000 in the form of unsecured lines of credit.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

21. Contractual obligations (continued)

- (k) Hamilton Utilities Corporation (H.U.C.) has a credit agreement dated July 17, 2003 with a Canadian chartered bank to borrow up to \$93,500,000, of which \$70,000,000 (2003 - \$70,000,000) is in the form of unsecured lines of credit and \$23,500,000 (2003 - \$23,500,000) is in the form of unsecured revolving credit. H.U.C. issued a letter of credit of \$16,500,000 (2003 - \$16,500,000) in favour of the Independent Electricity Market Operator (IMO) as security for the purchase of electricity through the IMO. At year end, no amounts were drawn on these letters of credit (2003 - \$0).

- (l) Hamilton Utilities Corporation (H.U.C.) has an agreement to purchase a fixed quantity of natural gas at a fixed price over five years. The agreement dated April 1, 2003 has a total commitment over the term of \$4,460,000 and the remaining commitment at December 31, 2004 is \$3,066,000 (2003 - \$3,991,000). This commitment is part of a risk management strategy to provide H.U.C. with sufficient quantities of natural gas at a fixed price to meet the requirements to produce, sell and distribute electrical energy pursuant to an agreement with the City.

22. 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 \$1,000,000 for any individual claim or for any number of claims arising out of a single occurrence with aggregate maximum deductible of \$3,000,000. Outside insurance coverage is in place for claims in excess of these limits 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 \$16,522,000 (2003 - \$12,971,000). Claim expenses for the year in the amount of \$10,885,000 (2003 - \$5,081,000) are reported as expenditures in the Consolidated Statement of Financial Activities. In addition, the City has an insurance reserve to supplement the self-insurance program for potential cost overruns arising from unforeseen claim awards and unanticipated premium increases. The balance as reported in the Consolidated Statement of Financial Position (Note 12) at December 31, 2004 is \$161,000 (2003 - \$565,000).

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

23. 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, 2004 is \$58,148,000 (2003 - \$71,263,000).
- (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 2004 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 2004 (2003 - \$0). 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, 2004. Subsequent to December 31, 2004, there have been a number of settlements with some of the unionized employee groups. An estimated liability has been recorded on the Consolidated Statement of Financial Position to fund these settlements.
- (d) A class-action lawsuit claiming \$500 million in restitutionary payments plus interest was served on the Toronto Hydro-Electric Commission on November 18, 1998. The action was initiated against Toronto Hydro as the representative for all municipal electric utilities in Ontario that levied late payment charges to their consumers at any time after April 1, 1981. A Supreme Court of Canada decision was rendered in May 2004 regarding a similar class-action lawsuit against Enbridge Gas Distribution Inc. (Enbridge) and it has been reported in the news media that Enbridge was ordered to pay compensation to customers who were charged usurious late payment fees. Management of H.U.C. have advised their auditors that it is too early to quantify the effect, if any, on the financial statements of H.U.C. Consequently, no provision was made in the statements.
- (e) There are other legal actions against the City as of December 31, 2004. The outcome and potential liability arising from these actions are yet to be determined and, therefore, no provision has been made in the financial statements.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2004 (all numbers in columns are in thousands of dollars)

24. Budget figures

(a) Municipal operations

The budget figures reflected in the Consolidated Financial Statements were approved by Council at a meeting on April 29, 2004. Capital budget figures are based on the capital forecast for the current year. Actual revenues and expenditures may be significantly different from the budget as the timing of the capital project may occur in a different year than originally budgeted.

(b) Housing corporations

The budget figures reflected in the Consolidated Financial Statements were approved by the Housing Board at a meeting on November 13, 2003. Capital budget figures are based on the capital forecast for the current year. Actual revenues and expenditures may be significantly different from the budget as the timing of the capital project may occur in a different year than originally budgeted.

25. Subsequent Event

Subsequent to the financial statement date, Hamilton Utilities Corporation's wholly-owned subsidiary, Hamilton Hydro Inc., merged with St. Catharines Hydro Utility Services Inc creating Horizon Utilities Corporation. The City owns 78.9% of the new corporation as of March 1, 2005.