

FINANCIAL REPORT

2006



Hamilton

City of Hamilton
71 Main Street West
Hamilton, Ontario
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**City of Hamilton
Financial Report
2006**

Contents

City of Hamilton Six Year Financial and Statistical Review	Attach.
Consolidated Financial Statements	Attach.
Financial Statements for the Trust Funds for the Homes for the Aged	Attach.
Financial Statements for the Trust Funds (Cemeteries, Library and General)	Attach.

City of Hamilton
Six Year Financial and Statistical Review
2006

City of Hamilton

Six Year Financial and Statistical Review (unaudited)

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

	2006	2005	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Current Fund Operations						
Revenue						
Taxation/PIL	\$ 591,842	\$ 575,584	\$ 547,765	\$ 514,529	\$ 485,462	\$ 478,421
User fees and service charges	224,536	218,097	205,580	192,089	190,820	167,890
Grants	268,834	249,684	241,241	218,453	215,273	200,799
Investment & Dividend Income	12,174	34,387	8,290	8,751	9,201	6,388
Development Charges & Subdivider Contributions	3,762	2,350	1,652	2,837	3,546	1,566
Other	80,193	76,510	77,887	79,720	77,074	72,783
	<u>1,181,341</u>	<u>1,156,612</u>	<u>1,082,415</u>	<u>1,016,379</u>	<u>981,376</u>	<u>927,847</u>
Object of Operating Expenditures						
Salaries, wages and employee benefits	\$ 493,281	\$ 466,359	\$ 440,183	\$ 421,892	\$ 405,682	\$ 360,217
Long Term Debt Interest Charges	19,266	20,296	26,281	27,668	29,909	29,830
Materials	194,325	194,754	168,143	191,201	197,581	160,497
Contracted Services	124,616	119,185	132,592	98,950	97,938	77,195
Rents and Financial expenses	14,603	13,233	15,612	19,135	20,286	39,449
External Transfers	192,401	182,160	176,288	176,659	180,425	167,209
	<u>1,038,492</u>	<u>995,987</u>	<u>959,099</u>	<u>935,505</u>	<u>931,821</u>	<u>834,397</u>
Operating Expenditures by Function						
General government	\$ 61,137	\$ 62,358	\$ 65,136	\$ 70,952	\$ 72,614	\$ 69,624
Protection to persons and property	194,308	190,923	178,981	167,901	164,335	128,069
Transportation services	149,597	148,653	145,291	137,845	127,196	124,472
Environmental services	109,550	100,950	98,854	95,874	100,755	83,790
Health and emergency services	57,425	51,744	44,717	41,703	35,585	34,724
Social and family services	261,622	250,584	246,167	242,054	241,655	226,461
Social housing	78,974	73,619	70,108	71,563	71,908	59,799
Recreation and cultural services	98,387	91,662	86,659	85,667	86,955	80,548
Planning and development	27,492	25,494	23,186	21,946	30,818	26,910
	<u>1,038,492</u>	<u>995,987</u>	<u>959,099</u>	<u>935,505</u>	<u>931,821</u>	<u>834,397</u>
Financing and Transfers						
Debt principal repayments	\$ 22,660	\$ 17,319	\$ 19,559	\$ 17,655	\$ 14,018	\$ 13,789
Transfer to reserves and reserve funds	28,226	63,922	42,102	20,132	460	34,838
Transfer to capital operations	88,065	81,990	60,860	54,103	53,622	53,845
Change in amounts to be recovered	3,494	(1,322)	449	(10,703)	(19,054)	(9,194)
	<u>142,445</u>	<u>161,909</u>	<u>122,970</u>	<u>81,187</u>	<u>49,046</u>	<u>93,278</u>

Note: Amounts reported may have been restated from previous presentations of the consolidated financial statements to conform to 2006 Public Sector Accounting Board ("PSAB") requirements for local governments.

City of Hamilton

Six Year Financial and Statistical Review (unaudited)

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

	2006	2005	2004	2003	2002	2001
Objects of Operating Expenditures as percentage of total						
Salaries, wages and employee benefits	47.5%	46.8%	45.9%	45.1%	43.5%	43.2%
Long Term Debt Charges (interest)	1.9%	2.0%	2.7%	3.0%	3.2%	3.6%
Materials	18.7%	19.6%	17.6%	20.4%	21.2%	19.2%
Contracted Services	12.0%	12.0%	13.8%	10.6%	10.5%	9.3%
Rents and Financial expenses	1.4%	1.3%	1.6%	2.0%	2.2%	4.7%
External Transfers	18.5%	18.3%	18.4%	18.9%	19.4%	20.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Capital Fund Operations	2006	2005	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Sources of Financing						
Government grants and contributions	\$ 96,800	\$ 66,596	\$ 30,515	\$ 15,638	\$ 9,525	\$ 6,034
Development charges & subdivider contributions	27,560	41,359	20,686	16,167	8,263	18,111
Sale of land and other capital assets	5,207	4,038	4,887	4,083	5,288	3,175
Investment income	10,321	7,893	8,065	8,326	6,458	3,027
Other	3,555	5,650	4,793	3,286	5,514	2,748
	143,443	125,536	68,946	47,500	35,048	33,095
Capital Expenditure by Function						
General government	\$ 20,421	\$ 11,369	\$ 9,480	\$ 14,513	\$ 16,259	\$ 1,245
Protection to persons and property	7,765	1,249	5,158	11,209	7,323	9,707
Transportation services	91,714	124,545	72,401	56,422	47,052	41,887
Environmental services	121,316	107,828	62,508	65,660	82,980	64,956
Health and emergency services	1,146	1,046	267	2,581	473	2,855
Social and family services	5,174	15,704	1,565	1,158	1,127	57
Social housing	7,929	5,821	6,275	6,249	5,457	2,329
Recreation and cultural services	17,837	25,180	29,676	13,186	9,562	9,811
Planning and development	5,156	13,197	7,157	2,745	4,061	2,604
	278,458	305,939	194,487	173,723	174,294	135,451
Financing and Transfers						
Long Term Debt Issued-Municipal	\$ 40,000	\$ 85,000	\$ 50,000	\$ -	\$ 60,173	\$ 54,999
Transfers from current fund	88,065	81,990	60,860	54,103	53,622	53,845
Transfers from reserve funds	33,398	74,578	27,133	32,152	99,494	80,117
Increase (decrease) in amounts to be recovered - Solid waste management facilities	(1,573)	(1,295)	(3,629)	(3,317)	7,665	11,072
	159,890	240,273	134,364	82,938	220,954	200,033

Note: Amounts reported may have been restated from previous presentations of the consolidated financial statements to conform to 2006 Public Sector Accounting Board ("PSAB") requirements for local governments.

City of Hamilton

Six Year Financial and Statistical Review (unaudited)

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

	2006	2005	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Capital Fund Balance						
Opening Capital Fund Balance	\$ 150,669	\$ 90,799	\$ 81,976	\$ 125,261	\$ 43,553	\$ (54,124)
Closing Capital Fund Balance	175,544	150,669	90,799	81,976	125,261	43,553
Change in Capital Fund	24,875	59,870	8,823	(43,285)	81,708	97,677
Reserve and Reserve Funds						
Revenue						
Investment Income	\$ 18,772	\$ 18,062	\$ 13,184	\$ 14,548	\$ 10,448	\$ 12,893
Transfers						
Transfers from current fund	\$ 28,226	\$ 63,922	\$ 42,102	\$ 20,132	\$ 460	\$ 34,838
Transfers to capital fund	(33,398)	(74,578)	(27,133)	(32,152)	(99,494)	(80,117)
Proceeds from Hamilton Utilities Corporation	-	-	-	-	137,000	-
	(5,172)	(10,656)	14,969	(12,020)	37,966	(45,279)
Reserves and Reserve Fund Balance						
Opening Reserve and Reserve Fund Balance	\$ 365,071	\$ 357,665	\$ 329,512	\$ 332,290	\$ 283,876	\$ 316,262
Closing Reserve and Reserve Fund Balance	378,671	365,071	357,665	334,818	332,290	283,876
Change in Reserve and Reserve Fund Balance	13,600	7,406	28,153	2,528	48,414	(32,386)
Obligatory Reserve Funds (not included in Reserves and Reserve Fund balances)						
	\$ 45,098	\$ 33,918	\$ 40,196	\$ 38,408	\$ 42,131	\$ 33,828
Municipal Position						
Fund Balances						
Current Fund	\$ 3,351	\$ 2,947	\$ 4,231	\$ 3,886	\$ 4,199	\$ 3,693
Capital Fund	175,544	150,669	90,799	81,976	125,261	43,553
Reserves set aside for specific purposes by Council, legislation regulation or agreement	378,671	365,071	357,665	334,818	332,290	283,876
Current Fund - Investment in Government Business Enterprise	180,719	169,716	165,491	157,537	151,563	280,066
Total	738,285	688,403	618,186	578,217	613,313	611,188
Amounts to be recovered in the Future	\$ (601,999)	\$ (581,675)	\$ (514,095)	\$ (496,028)	\$ (517,483)	\$ (391,193)
Net Municipal Position	\$ 136,286	\$ 106,728	\$ 104,091	\$ 82,189	\$ 95,830	\$ 219,995

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City of Hamilton

Six Year Financial and Statistical Review (unaudited)

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

	2006	2005	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Long Term Debt – Municipal						
Long Term Debt incurred by the City	\$ 321,962	\$ 378,615	\$ 309,754	\$ 395,900	\$ 408,445	\$ 403,301
Long Term Debt incurred by the City for which other entities have assumed responsibility	(34,807)	(55,829)	(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		(54,316)	(49,503)	(146,331)	(129,499)	(153,307)
Net long term debt	287,155	268,470	202,103	178,306	205,608	172,260
Long Term Debt recovered from:						
General Tax Rates	\$ 274,006	\$ 251,570	\$ 181,613	\$ 151,158	\$ 173,634	\$ 130,580
Reserves and reserve funds	9,929	11,304	12,619	17,028	18,259	21,445
User Rates	3,187	5,553	7,816	9,986	12,080	14,110
Nonconsolidated entities	33	43	55	134	1,635	6,125
Total	287,155	268,470	202,103	178,306	205,608	172,260
Long term debt as a % of Reserves	75.80%	73.50%	56.50%	53.30%	61.90%	60.70%
Charges for long term debt – principal	\$ 20,447	\$ 15,483	\$ 17,930	\$ 16,117	\$ 12,613	\$ 12,506
Charges for long term debt – interest	15,100	16,407	22,148	23,950	25,310	24,905
	35,547	31,890	40,078	40,067	37,923	37,411
Charges for long term debt as a % of Operating Expenditures including Principal	3.36%	3.15%	4.10%	4.21%	4.02%	4.42%
Long Term Debt – Housing						
Mortgages	\$ 80,147	\$ 73,275	\$ 75,111	\$ 76,763	\$ 77,256	\$ 78,660
Non-consolidated debentures	\$ 48,427	\$ 50,703	\$ 52,899	\$ 54,962	\$ 56,901	\$ 58,723
	2006	2005	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Taxation						
Taxation from real property	\$ 755,576	\$ 734,654	\$ 708,705	\$ 684,541	\$ 662,717	\$ 666,390
Taxation from other governments/payments in lieu of taxes	11,349	11,594	12,182	13,573	13,826	13,699
Taxation collected on behalf of school boards	(175,083)	(170,664)	(173,122)	(183,585)	(191,081)	(201,668)
Net taxes available for municipal purposes	591,842	575,584	547,765	514,529	485,462	478,421

Note: Amounts reported may have been restated from previous presentations of the consolidated financial statements to conform to 2006 Public Sector Accounting Board ("PSAB") requirements for local governments.

City of Hamilton

Six Year Financial and Statistical Review (unaudited)

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

	2006	2005	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Unweighted Taxable Assessment						
Residential	\$ 33,323,846	\$ 28,336,259	\$ 27,850,664	\$ 25,203,032	\$ 22,665,677	\$ 22,417,711
Non-Residential	<u>4,843,489</u>	<u>4,457,946</u>	<u>4,340,529</u>	<u>4,195,080</u>	<u>3,815,350</u>	<u>3,769,529</u>
Total Taxable Assessment (unweighted)	38,167,335	32,794,205	32,191,193	29,398,112	26,481,027	26,187,240
Weighted Taxable Assessment						
Residential	\$ 36,318,802	\$ 30,912,621	\$ 30,434,037	\$ 27,614,254	\$ 25,093,627	\$ 25,143,124
Non-Residential	<u>11,655,946</u>	<u>10,039,924</u>	<u>9,884,946</u>	<u>9,937,186</u>	<u>9,663,183</u>	<u>10,374,783</u>
Total Taxable Assessment (weighted)	47,974,748	40,952,545	40,318,983	37,551,440	34,756,810	35,517,907
Residential vs. Non-Residential Percentage of Total Weighted Taxable Assessment						
Residential	76%	75%	75%	74%	72%	71%
Non-Residential	24%	25%	25%	26%	28%	29%
Taxable Assessment Growth (weighted)	1.0%	1.6%	1.7%	1.4%	1.3%	0.8%
Tax Levies						
	2006	2005	2004	2003	2002	2001
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
for City purposes	\$ 574,371	\$ 555,348	\$ 527,420	\$ 495,494	\$ 477,072	\$ 461,250
for School purposes	<u>172,220</u>	<u>166,832</u>	<u>167,990</u>	<u>190,351</u>	<u>187,638</u>	<u>199,086</u>
Total Taxes Levied	746,591	722,180	695,410	685,845	664,710	660,336
Tax arrears						
Taxes receivable	\$ 54,026	\$ 58,689	\$ 70,613	\$ 79,230	\$ 75,545	\$ 84,418
Taxes receivable per capita	105	113	138	155	149	172
Taxes receivable as a percentage of current years' levies	7.2%	8.1%	10.2%	11.6%	11.4%	12.8%

Note: Amounts reported may have been restated from previous presentations of the consolidated financial statements to conform to 2006 Public Sector Accounting Board ("PSAB") requirements for local governments.

City of Hamilton

Six Year Financial and Statistical Review (unaudited)

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

	2006	2005	2004	2003	2002	2001
Statistical Information						
Population	515,214	518,745	513,326	509,546	506,360	490,270
Households	200,064	203,236	200,812	198,569	196,558	194,155
Total Hectares	111,700	111,700	111,700	111,700	111,700	111,700
Building Permit Values	\$682,547,814	\$640,879,601	\$595,166,715	\$664,394,769	\$664,334,643	\$515,321,064
Housing Starts	1,407	1,683	1,467	1,160	1,849	1,511
New Residential Units - Building Permits	3,057	2,787	3,003	2,760	3,213	2,681
Average Monthly Social Assistance Case Load	10,128	10,290	10,585	10,614	11,187	11,583
Continuous Full Time Employees	5,931	5,732	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 2006 Public Sector Accounting Board ("PSAB") requirements for local governments.

City of Hamilton
Consolidated Financial Statements
2006

Contents

	<u>Page</u>
Consolidated Financial Statements	
Auditors' Report	1
Consolidated Statement of Financial Position	2
Consolidated Statement of Financial Activities	3
Consolidated Statement of Changes in Financial Position	4
Schedule of Current Fund Operations	5
Schedule of Capital Fund Operations	6
Schedule of Reserves and Reserve Funds	7
Notes to the Consolidated Financial Statements	8-32

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, 2006 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, 2006 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
April 27, 2007

Grant Thornton LLP

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Chartered Accountants
Licensed Public Accountants

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City of Hamilton

Consolidated Statement of Financial Position

As at December 31, 2006 (all numbers are in thousands of dollars)

	<u>2006</u>	<u>2005</u> (Note 1)
Assets		
Cash and temporary investments (Note 2)	\$ 22,341	\$ 17,460
Taxes receivable	54,026	58,689
Accounts receivable	67,372	72,919
Other assets	7,899	9,604
Long term receivables (Note 3)	21,684	16,990
Investments (Note 2)	636,190	578,650
Investment in Government Business Enterprises (Note 4)	<u>180,719</u>	<u>169,716</u>
Total assets	<u>\$ 990,231</u>	<u>\$ 924,028</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 190,336	\$ 182,935
Deferred revenue - general	15,696	18,472
Deferred revenue - obligatory reserve funds (Note 5)	45,098	33,918
Long term debt – Municipal Operations (Note 7)	287,155	268,470
Long term debt – Housing Corporations (Note 8)	80,147	73,275
Employee benefits and other obligations (Note 9)	198,477	201,621
Solid waste management facilities liabilities (Note 11)	<u>37,036</u>	<u>38,609</u>
Total liabilities	<u>853,945</u>	<u>817,300</u>
Municipal position		
Current fund (Note 12)	3,351	2,947
Current fund - Equity in investment in Government Business Enterprises (Note 12)	180,719	169,716
Capital fund (Note 12)	175,544	150,669
Reserves and Reserve Funds (Note 12)	<u>378,671</u>	<u>365,071</u>
Fund balances	738,285	688,403
Liabilities to be recovered in the future (Note 14)	<u>(601,999)</u>	<u>(581,675)</u>
Total municipal position	<u>136,286</u>	<u>106,728</u>
Total liabilities and municipal position	<u>\$ 990,231</u>	<u>\$ 924,028</u>

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, 2006 (all numbers are in thousands of dollars)

	Budget 2006 (unaudited)	Actual 2006	Actual 2005 (Note 1)
Revenue			
Taxation (Note 15)	\$ 591,066	\$ 591,842	\$ 575,584
Government grants and contributions	295,987	365,634	316,280
User charges	229,800	224,536	218,097
Development charges and subdivider contributions	38,776	31,322	43,709
Sale of land and other capital assets	2,500	5,207	4,038
Investment and dividend income	23,812	41,267	60,342
Other	83,714	83,748	82,160
Total revenue	<u>1,265,655</u>	<u>1,343,556</u>	<u>1,300,210</u>
Expenditures			
General government	72,626	81,558	73,727
Protection services	206,544	202,073	192,172
Transportation services	265,668	241,311	273,198
Environmental services	289,919	230,866	208,778
Health services	59,460	58,571	52,790
Social and family services	247,217	266,796	266,288
Social housing	85,722	86,903	79,440
Recreation and cultural services	126,957	116,224	116,842
Planning and development	38,447	32,648	38,691
Total expenditures	<u>1,392,560</u>	<u>1,316,950</u>	<u>1,301,926</u>
Net revenue (expenditures)	<u>(126,905)</u>	<u>26,606</u>	<u>(1,716)</u>
Financing			
Debt principal repayment - Municipal	(20,447)	(20,447)	(15,483)
Debt principal repayment - Housing	(2,213)	(2,213)	(1,836)
Long-term debt issued - Municipal	100,558	40,000	85,000
Increase (decrease) in amounts to be recovered - Municipal	-	(5,067)	27
Net financing	<u>77,898</u>	<u>12,273</u>	<u>67,708</u>
Net income from Government Business Enterprises	-	11,003	4,225
Change in fund balances	<u>\$ (49,007)</u>	<u>\$ 49,882</u>	<u>\$ 70,217</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, 2006 (all numbers are in thousands of dollars)

	<u>2006</u>	<u>2005</u> (Note 1)
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net revenue (expenditures)	\$ 26,606	\$ (1,716)
Decrease (increase) in taxes receivable	4,663	11,924
Decrease (increase) in accounts receivable	5,547	11,042
Decrease (increase) in other assets	1,705	(977)
Increase (decrease) in accounts payable and accrued liabilities	7,401	32,842
Increase (decrease) in deferred revenue - general	(2,776)	8,903
Increase (decrease) in deferred revenue - obligatory reserve fund	11,180	(6,278)
Increase (decrease) in employee benefit obligations and other liabilities	(3,144)	2,313
Increase (decrease) in solid waste facilities management liabilities	<u>(1,573)</u>	<u>(1,295)</u>
	<u>49,609</u>	<u>56,758</u>
Investing activities		
Decrease (increase) in investments	(57,540)	(115,274)
Decrease (increase) in long term receivables	(4,694)	660
Decrease (increase) in capital assets – Housing Corporations	<u>166</u>	<u>(3,022)</u>
	<u>(62,068)</u>	<u>(117,636)</u>
Financing activities		
Long term debt issued – Municipal Operations	40,000	85,000
Debt principal repayment – Municipal Operations	(20,447)	(15,483)
Debt principal repayment – Housing Corporations	<u>(2,213)</u>	<u>(1,836)</u>
	<u>17,340</u>	<u>67,681</u>
Net increase (decrease) in cash and cash equivalents	4,881	6,803
Cash and cash equivalents		
Beginning of year	<u>17,460</u>	<u>10,657</u>
End of year	<u>\$ 22,341</u>	<u>\$ 17,460</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Schedule of Current Fund Operations

For the year ended December 31, 2006 (all numbers are in thousands of dollars)

	Budget 2006 (unaudited)	Actual 2006	Actual 2005 (Note 1)
Revenue			
Taxation	\$ 591,066	\$ 591,842	\$ 575,584
Government grants and contributions	255,762	268,834	249,684
User Charges	229,800	224,536	218,097
Development charges and subdivider contributions	-	3,762	2,350
Investment and dividend income	8,972	12,174	34,387
Other	78,218	80,193	76,510
Total revenue	<u>1,163,818</u>	<u>1,181,341</u>	<u>1,156,612</u>
Expenditures			
General government	55,219	61,137	62,358
Protection services	198,809	194,308	190,923
Transportation services	160,364	149,597	148,653
Environmental services	124,607	109,550	100,950
Health services	58,288	57,425	51,744
Social and family services	246,967	261,622	250,584
Social housing	79,035	78,974	73,619
Recreation and cultural services	98,261	98,387	91,662
Planning and development	29,154	27,492	25,494
Total expenditures	<u>1,050,704</u>	<u>1,038,492</u>	<u>995,987</u>
Net revenue	<u>113,114</u>	<u>142,849</u>	<u>160,625</u>
Financing and transfers			
Debt principal repayments	(22,660)	(22,660)	(17,319)
Transfers to reserves and reserve funds	(16,127)	(22,093)	(46,747)
Transfers to capital fund	(76,540)	(88,065)	(81,990)
Increase (decrease) in amounts to be recovered	-	(3,494)	1,322
Net financing and transfers	<u>(115,327)</u>	<u>(136,312)</u>	<u>(143,734)</u>
Change in current fund before Operating surplus	(2,213)	6,537	15,891
Operating Surplus – Net transfer to reserves			
Water and Wastewater operations	-	(5,833)	(12,431)
Tax supported operations	-	(300)	(4,744)
Net transfer to reserves	<u>-</u>	<u>(6,133)</u>	<u>(17,175)</u>
Change in current fund after surplus	(2,213)	404	(1,284)
Current fund balance, beginning of year	2,947	2,947	4,231
Current fund balance, end of year	<u>\$ 734</u>	<u>\$ 3,351</u>	<u>\$ 2,947</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Schedule of Capital Fund Operations

For the year ended December 31, 2006 (all numbers are in thousands of dollars)

	Budget 2006 (unaudited)	Actual 2006	Actual 2005 (Note 1)
Revenue			
Government grants and contributions	\$ 40,225	\$ 96,800	\$ 66,596
Development charges and subdivider contributions	38,776	27,560	41,359
Sale of land and other capital assets	2,500	5,207	4,038
Investment income	2,000	10,321	7,893
Other	5,496	3,555	5,650
Total revenue	<u>88,997</u>	<u>143,443</u>	<u>125,536</u>
Expenditures			
General government	17,407	20,421	11,369
Protection services	7,735	7,765	1,249
Transportation services	105,304	91,714	124,545
Environmental services	165,312	121,316	107,828
Health services	1,172	1,146	1,046
Social and family services	250	5,174	15,704
Social Housing	6,687	7,929	5,821
Recreation and cultural services	28,696	17,837	25,180
Planning and development	9,293	5,156	13,197
Total expenditures	<u>341,856</u>	<u>278,458</u>	<u>305,939</u>
Net expenditures	<u>(252,859)</u>	<u>(135,015)</u>	<u>(180,403)</u>
Financing and transfers			
Long term debt issued	100,558	40,000	85,000
Transfers from current fund	76,578	88,065	81,990
Transfers from reserves and reserve funds	50,383	33,398	74,578
Decrease in amounts to be recovered - solid waste management facilities	-	(1,573)	(1,295)
Net financing and transfers	<u>227,519</u>	<u>159,890</u>	<u>240,273</u>
Change in capital fund balance	(25,340)	24,875	59,870
Capital fund balance, beginning of year	<u>150,669</u>	<u>150,669</u>	<u>90,799</u>
Capital fund balance, end of year	<u>\$ 125,329</u>	<u>\$ 175,544</u>	<u>\$ 150,669</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Schedule of Reserves and Reserve Funds

For the year ended December 31, 2006 (all numbers are in thousands of dollars)

	Budget 2006 (unaudited)	Actual 2006	Actual 2005 (Note 1)
Revenue			
Investment income	\$ 12,840	\$ 18,772	\$ 18,062
Total revenue	<u>12,840</u>	<u>18,772</u>	<u>18,062</u>
Transfers			
Transfers from current fund	16,127	28,226	63,922
Transfers to capital fund	<u>(50,383)</u>	<u>(33,398)</u>	<u>(74,578)</u>
Total net transfers	<u>(34,256)</u>	<u>(5,172)</u>	<u>(10,656)</u>
Change in reserves and reserve funds balance	(21,416)	13,600	7,406
Reserves and reserve funds			
Beginning of year	<u>365,071</u>	<u>365,071</u>	<u>357,665</u>
End of year	<u>\$ 343,655</u>	<u>\$ 378,671</u>	<u>\$ 365,071</u>

See accompanying notes to the consolidated financial statements.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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.

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
City Housing Hamilton 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.

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

Notes to Consolidated Financial Statements

As at December 31, 2006 (all numbers in columns are in thousands of dollars)

1. (a) Reporting entity (continued)

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 January 1, 2006, the articles of incorporation reflected a name change to City Housing Hamilton Corporation.

The City's housing corporation has 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) and 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

- (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.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (all numbers in columns are in thousands of dollars)

1. Significant accounting policies (continued)

(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, 2006 (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>2006</u>	<u>2005</u>
Cash and temporary investments are comprised of:		
Cash on hand	\$ 234	\$ 236
Cash held in banks	20,258	15,242
Temporary investments	<u>1,849</u>	<u>1,982</u>
	<u>\$ 22,341</u>	<u>\$ 17,460</u>
Long term portfolio investments are comprised of:		
Unrestricted investments	\$ 508,711	\$ 433,629
Restricted investments (obligatory reserve funds)	45,098	33,918
Designated investments (Hamilton Future Fund)	<u>82,381</u>	<u>111,103</u>
	<u>\$ 636,190</u>	<u>\$ 578,650</u>

Long term portfolio investments includes investments in City debentures - unrestricted investments of \$15,380,000 (2005 - \$22,058,000) and investments in City debentures - designated investments (Hamilton Future Fund) of \$0 (2005 - \$2,494,000).

The total long-term investments listed above have a market value of \$654,551,000 (2005 - \$603,998,000).

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (all numbers in columns are in thousands of dollars)

3. Long term receivables

The City has long-term receivables in the amount of \$21,684,000 (2005 - \$16,990,000). The long term receivables are comprised of:

	<u>2006</u>	<u>2005</u>
Development charge deferral agreements	\$ 3,486	\$ 1,797
Mortgages receivable:		
Downtown convert to rent program	4,845	4,002
Hamilton Renewable Power Inc.	3,420	1,303
Art Gallery of Hamilton loan	2,062	2,757
Sheraton Hotel loan	1,670	1,696
Hamilton Housing Corporation loan	1,029	1,041
Hamilton Firefighters Drum Corps loan	80	112
Other City loan programs	91	110
Loans to other agencies and organizations	7,101	5,872
Less: Provision for loans with concessionary terms	<u>(2,100)</u>	<u>(1,700)</u>
	<u>\$ 21,684</u>	<u>\$ 16,990</u>

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-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, Theatre Aquarius, Glendale Golf Club, HSB Specialty and the Catholic Children's Aid Society, with interest rates varying from 0% to 8.25% for terms of one year to twenty-three years.

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 Financial Activities for 2006 and 2005 is as reported by the Hamilton Utilities Corporation and Hamilton Renewable Power Inc.

	<u>2006</u>	<u>2005</u>
Net income from H.U.C.	\$ 11,217	\$ 4,435
Net loss from H.R.P.I.	(214)	(210)
Net income from Government Business Enterprises	<u>\$ 11,003</u>	<u>\$ 4,225</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (all numbers in columns are in thousands of dollars)

4. Investment in Government Business Enterprises (continued)

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

	<u>2006</u>	<u>2005</u>
Investment in H.U.C.	\$ 181,209	\$ 169,992
Investment in H.R.P.I.	<u>(490)</u>	<u>(276)</u>
	<u>\$ 180,719</u>	<u>\$ 169,716</u>
Current fund – Equity investment in H.U.C.	\$ 181,209	\$ 169,992
Current fund – Equity investment in H.R.P.I.	<u>(490)</u>	<u>(276)</u>
	<u>\$ 180,719</u>	<u>\$ 169,716</u>

The following table provides condensed supplementary financial information for Hamilton Utilities Corporation reported by H.U.C. at December 31, 2006 and December 31, 2005 respectively.

	<u>2006</u>	<u>2005</u>
Financial position		
Current assets	\$ 125,041	\$ 140,368
Capital assets	297,437	286,864
Goodwill	18,923	18,923
Deferred debt issuance costs	1,674	1,968
Future payments in lieu of taxes	<u>3,014</u>	<u>1,525</u>
Total assets	<u>446,089</u>	<u>449,648</u>
Current liabilities (including current portion of long term debt)	93,941	112,117
Long term liabilities	<u>135,943</u>	<u>134,334</u>
Total liabilities	229,884	246,451
Minority Interest	<u>34,996</u>	<u>33,205</u>
Net assets	<u>\$ 181,209</u>	<u>\$ 169,992</u>
Results of operations		
Revenues	\$ 100,048	\$ 94,652
Operating expenses	(66,819)	(67,036)
Financing expenses	(8,070)	(7,784)
Other income	<u>4,202</u>	<u>1,765</u>
Equity earnings from operations	29,361	21,597
Payment in lieu of taxes	(9,971)	(6,920)
Minority Interest	<u>(3,148)</u>	<u>(2,308)</u>
Net Income	16,242	12,369
Dividends paid	(5,016)	(23,088)
Contributed Surplus	-	15,218
Refundable Dividend tax on hand	<u>(9)</u>	<u>(64)</u>
	<u>\$ 11,217</u>	<u>\$ 4,435</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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, 2006 and December 31, 2005 respectively.

	<u>2006</u>	<u>2005</u>
Financial position		
Current assets	\$ 597	\$ 133
Capital assets	4,599	1,500
Other assets	<u>53</u>	<u>53</u>
Total assets	<u>5,249</u>	<u>1,686</u>
Current liabilities		
(including current portion of long term debt)	391	659
Long term liabilities	<u>3,148</u>	<u>1,303</u>
Total liabilities	3,539	1,962
Shareholders equity	<u>2,200</u>	<u>-</u>
Net assets	<u>\$ (490)</u>	<u>\$ (276)</u>
Results of operations		
Revenues	\$ 356	\$ -
Expenses	<u>570</u>	<u>210</u>
Net Loss	<u>\$ (214)</u>	<u>\$ (210)</u>

The notes to Hamilton Utilities Corporation's consolidated financial statements and Hamilton Renewable Power Inc.'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, 2006 (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>2006</u>	<u>2005</u>
Revenue		
Dividend revenue from H.U.C.	\$ 5,016	\$ 23,088
Property taxes and other taxes received by the City from H.U.C.	554	664
Expenditures		
Hydro purchased by the City from H.U.C.	22,372	22,996
Water and sewer billing contracted service with H.U.C.	2,901	2,790
Assets		
Water user charges receivable from H.U.C.	14,825	16,342
Accounts receivable from H.R.P.I.	1,053	516
Long term receivable from H.R.P.I.	2,290	1,303

5. Deferred revenue - obligatory reserve funds

	<u>2006</u>	<u>2005</u>
Development charge reserve funds (Note 6)	\$ 18,348	\$ 12,404
Subdivider contributions	882	286
Recreational land dedicated under the Planning Act	4,892	3,575
Gasoline tax revenue: Provincial	9,404	1,811
Federal	413	9,560
Building Permit Revenue	6,170	6,282
Federal Public Transit Fund	4,989	-
	<u>\$ 45,098</u>	<u>\$ 33,918</u>

6. Continuity of development charge reserve funds

	<u>2006</u>	<u>2005</u>
Balance at the beginning of the year	\$ 12,404	\$ 30,511
Development charge collections	31,123	21,442
Investment Income	385	511
Capital fund expenditures	(21,633)	(37,710)
Current fund expenditures	(3,931)	(2,350)
Balance at the end of the year	<u>\$ 18,348</u>	<u>\$ 12,404</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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>2006</u>	<u>2005</u>
Long term debt incurred by the City	\$ 321,962	\$ 378,615
Long term debt incurred by the City for which other entities have assumed responsibility	(34,807)	(55,829)
Sinking funds accumulated to the end of the year to retire the City's related long term debt	-	(54,316)
Net long term debt	<u>\$ 287,155</u>	<u>\$ 268,470</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, 2006 is \$34,807,000 (2005 - \$55,829,000).

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 \$287,155,000 long term debt (2005 - \$268,470,000) 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>2006</u>	<u>2005</u>
General revenues	\$ 274,006	\$ 251,570
Reserves and reserve funds	9,929	11,304
Wastewater user charges	3,187	5,553
Nonconsolidated entities	33	43
	<u>\$ 287,155</u>	<u>\$ 268,470</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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	Nonconsolidated Entities	2006 Total
2007	\$ 17,757	\$ 1,443	\$ 573	\$ 10	\$ 19,783
2008	18,437	1,518	602	10	20,567
2009	19,156	1,600	634	4	21,394
2010	19,799	1,787	708	3	22,297
2011	35,631	1,690	670	4	37,995
2012 and thereafter	\$ 163,226	\$ 1,891	\$ -	\$ 2	\$ 165,119
Total	\$ 274,006	\$ 9,929	\$ 3,187	\$ 33	\$ 287,155

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

	<u>2006</u>	<u>2005</u>
Principal repayments	\$ 20,447	\$ 15,483
Interest	15,100	16,407
	<u>\$ 35,547</u>	<u>\$ 31,890</u>

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

	<u>2006</u>	<u>2005</u>
General tax rates	\$ 28,629	\$ 26,610
Reserves and reserve funds	4,273	2,632
Wastewater user charges	2,645	2,648
	<u>\$ 35,547</u>	<u>\$ 31,890</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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 2007 to 2024 with interest rates varying between 4.12% and 7.23%. The mortgage obligations of the housing corporations are as follows:

	<u>2006</u>	<u>2005</u>
Municipal Non-Profit (Hamilton) Housing Corporation	\$ 64,013	\$ 65,799
Dundas Valley Non Profit Housing Corporation	4,267	4,419
Portuguese Non Profit	8,848	-
Hamilton Housing Corporation	<u>3,019</u>	<u>3,057</u>
	<u>\$ 80,147</u>	<u>\$ 73,275</u>

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

2007	\$ 10,972
2008	8,116
2009	36,085
2010	1,061
2011	6,147
2012 and thereafter	<u>17,766</u>
	<u>\$ 80,147</u>

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

	<u>2006</u>	<u>2005</u>
Principal repayments	\$ 2,213	\$ 1,836
Interest	<u>4,166</u>	<u>3,889</u>
	<u>\$ 6,379</u>	<u>\$ 5,725</u>

The principal repayments of \$2,213,000 (2005 - \$1,836,000) are reflected on the Consolidated Statement of Financial Activities. The interest charges of \$4,166,000 (2005 - \$3,889,000) 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 \$48,427,000 (2005 - \$50,703,000), 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, 2006 (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>2006</u>	<u>2005</u>
Accrued Benefit Obligation		
Vested sick leave liability	\$ 20,605	\$ 19,290
Long term disability	11,108	9,199
Workplace safety and insurance board liabilities (WSIB)	37,400	36,849
Retirement benefits	84,498	84,733
Vacation pay liabilities	20,318	19,637
Accrued pension liability (Note 10)	<u>6,550</u>	<u>24,120</u>
	180,479	193,828
Net unamortized actuarial gain	<u>17,998</u>	<u>7,793</u>
Accrued Liability	<u>198,477</u>	<u>201,621</u>

The City has established reserves to provide for some of these liabilities and other amounts have been recorded as liabilities. These amounts totaling \$63,822,000 (2005 - \$58,954,000) are described in the following notes.

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

	<u>2006</u>	<u>2005</u>
Liability for Employee Benefits and Other Obligations		
balance at beginning of the year	\$ 201,621	\$ 199,308
Benefit expenditure	11,186	13,710
Interest expenditure	8,338	8,917
Amortization of actuarial loss on accrued benefit obligations	1,157	1,157
Amortization of actuarial gain on earnings on pension assets	(2,308)	(1,546)
Benefit payments	<u>(21,517)</u>	<u>(19,925)</u>
Liability for Employee Benefits and Other Obligations		
balance at end of the year	<u>198,477</u>	<u>201,621</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>2006</u>	<u>2005</u>
Benefit expenditure	\$ 11,186	\$ 13,710
Interest expenditure	8,338	8,917
Amortization of net actuarial gains	<u>(1,151)</u>	<u>(389)</u>
	<u>\$ 18,373</u>	<u>\$ 22,238</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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, 2006 has estimated the accrued benefit obligation at \$20,605,000. 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 \$20,605,000 from the expected liability of \$29,030,000. The actuarial gain as at December 31, 2006 of \$8,425,000 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 \$9,459,000 (2005 - \$8,893,000).

(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, 2006 has estimated the accrued benefit obligation at \$11,108,000. 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 \$11,108,000 (2005 - \$9,199,000).

(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, 2004 estimated the accrued benefit obligation for existing Workplace Safety & Insurance Board present and future pension awards at December 31, 2006 at \$37,400,000 (2005 - \$36,849,000). 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 \$28,936,000 (2005 - \$27,251,000) to provide 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, 2006 estimated the accrued benefit obligation at \$84,498,000. 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 6.5% in 2006 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 \$84,498,000 from the expected liability of \$62,836,000. The actuarial loss of \$21,662,000 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, 2006 (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, 2006 has been estimated at \$20,318,000 (2005 - \$19,637,000). The accrued liability in the amount of \$13,200,000 (2005 - \$12,672,000) has been recorded for this liability. Reserves established to provide for this liability are included on the Consolidated Statement of Financial Position in the amount of \$1,118,000 (2005 - \$939,000).

(f) Liability for pensions

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, 2004 estimated the combined accrued benefit obligation of the pension plans as at December 31, 2006 of \$6,550,000 (2005 - \$24,120,000). 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 resulted in a decrease in the liability to \$6,550,000 from an expected liability of \$37,785,000 at December 31, 2006. The net unamortized actuarial gain of \$31,235,000 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 5,599 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, 2005 indicates a "going concern" Actuarial Deficit based on the plan's current member and employer contribution rates. Contributions were made in the 2006 calendar year at rates ranging from 6.5% to 10.7% depending on the member's designated retirement age and the level of earnings. As a result \$24,456,000 (2005 - \$21,547,000) was contributed to OMERS for current service.

(b) Other pension plans

Approximately 522 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 a net asset position in two of the pension plans and a net liability in the other pension plan.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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, 2006 is an extrapolation of the valuation results as at December 31, 2004 using updated actuarial assumptions. The assumptions used represent the City’s best estimates. The inflation rate is 3% 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 net unamortized actuarial gain on plan assets and loss on the accrued benefit obligation is 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>2006</u>	<u>2005</u>
Accrued pension benefit obligation	\$ 102,625	\$ 105,723
Pension plan assets:		
Marketable securities	<u>(79,704)</u>	<u>(73,697)</u>
Net pension benefit liability	22,921	32,026
Unamortized actuarial gains	<u>11,262</u>	<u>7,590</u>
Accrued pension liability - HWRF	<u>34,183</u>	<u>39,616</u>

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

	<u>2006</u>	<u>2005</u>
Expected pension fund assets at end of year	\$ 75,273	\$ 70,989
Actual pension fund assets at end of year	<u>79,704</u>	<u>73,697</u>
Actuarial gain on pension fund assets – HWRF	<u>4,431</u>	<u>2,708</u>
Expected accrued pension benefit obligation at end of year	\$ 102,625	\$ 105,723
Actual accrued pension benefit obligation at end of year	<u>102,625</u>	<u>105,723</u>
Actuarial loss on accrued pension benefit obligation - HWRF	<u>-</u>	<u>-</u>

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

	<u>2006</u>	<u>2005</u>
Amortization of actuarial loss on accrued pension benefit obligation	\$ 99	\$ 99
Amortization of actuarial gain on pension plan assets	<u>(858)</u>	<u>(587)</u>
Net Amortization	<u>(759)</u>	<u>(488)</u>
Interest on average accrued pension benefit obligation	\$ 6,068	\$ 6,246
Expected return on average pension plan assets	<u>(5,037)</u>	<u>(4,790)</u>
Net Interest	<u>1,031</u>	<u>1,456</u>
	<u>272</u>	<u>968</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (all numbers in columns are in thousands of dollars)

10. Pension agreements – Other pension plans (continued)

Payments of \$5,705,000 (2005 - \$4,801,000) 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, 2006 will be funded by the City with payments as follows:

2007	\$ 6,140
2008	5,409
2009	5,799
2010	5,601
2011 and thereafter	<u>30,521</u>
Total	<u>\$ 53,470</u>

The actuarial valuation of the Hamilton Municipal Retirement Fund (“HMRF”) pension plan as at December 31, 2006 is an extrapolation of the valuation results as at December 31, 2004 using updated actuarial assumptions. The assumptions used represent the City’s best estimates. The inflation rate is 3% per annum and there are no estimates for salary increases as the HMRF 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>2006</u>	<u>2005</u>
Accrued pension benefit obligation	\$ 100,003	\$ 102,880
Pension plan assets:		
Marketable securities	<u>(116,374)</u>	<u>(110,786)</u>
Net Pension benefit asset	<u>(16,371)</u>	<u>(7,906)</u>
Unamortized actuarial gains	<u>19,973</u>	<u>14,497</u>
Accrued pension asset - HMRF	<u>3,602</u>	<u>6,591</u>

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

	<u>2006</u>	<u>2005</u>
Expected pension fund assets at end of year	\$ 109,448	\$ 105,878
Actual pension fund assets at end of year	<u>116,374</u>	<u>110,786</u>
Actuarial gain on pension fund assets – HMRF	<u>6,926</u>	<u>4,908</u>
Expected accrued pension benefit obligation at end of year	\$ 100,003	\$ 102,880
Actual accrued pension benefit obligation at end of year	<u>100,003</u>	<u>102,880</u>
Actuarial loss on accrued pension benefit obligation - HMRF	<u>-</u>	<u>-</u>

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

	<u>2006</u>	<u>2005</u>
Amortization of actuarial gain on pension plan assets	\$ (1,450)	\$ (959)
Interest on average accrued pension benefit obligation	\$ 5,909	\$ 6,076
Expected return on average pension plan assets	<u>(7,447)</u>	<u>(7,218)</u>
Net Interest	<u>(1,538)</u>	<u>(1,142)</u>
Total expenditure	<u>(2,988)</u>	<u>(2,101)</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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, 2006 is an extrapolation of the valuation results as at December 31, 2004 with updated actuarial assumptions. The assumptions used represent the City's best estimates. The inflation rate is 3% per annum and salary increases are 4.0% 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>2006</u>	<u>2005</u>
Accrued pension benefit obligation	\$ 151,977	\$ 146,241
Pension plan assets:		
Marketable securities	<u>(191,891)</u>	<u>(175,671)</u>
Net pension benefit asset	<u>(39,914)</u>	<u>(29,430)</u>
Unamortized actuarial gains	<u>30,985</u>	<u>21,652</u>
Accrued pension benefit asset - HSR	<u>8,929</u>	<u>7,778</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 11,857,000 cubic metres of waste. As at December 31, 2006 the remaining capacity of the site is estimated at 6,624,000 cubic metres, representing 56% 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 (17 years).

The closure costs for the open Glanbrook landfill site and post closure care costs for the closed sites were based upon 2007 capital budget estimates, adjusted by 3% inflation, unexpended capital projects that were in progress in 2006 and estimates of operational support costs. These costs were then discounted back to December 31, 2006 using a discount factor of 5%. 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 \$37,036,000 (2005 - \$38,609,000) 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, 2006 (all numbers in columns are in thousands of dollars)

12. Municipal fund balances

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

	<u>2006</u>	<u>2005</u>
Current Fund - Municipal Operations:		
Flamborough recreation sub-committees	\$ 170	\$ 164
Business improvement areas	<u>128</u>	<u>128</u>
	\$ 298	\$ 292
Current Fund – Housing Operations	<u>\$ 3,053</u>	<u>\$ 2,655</u>
	<u>\$ 3,351</u>	<u>\$ 2,947</u>
Current Fund - Equity in investment in Government Business Enterprises (Note 4)	<u>\$ 180,719</u>	<u>\$ 169,716</u>

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

Capital Fund – Municipal Operations	\$ 164,653	\$ 140,546
Capital Fund – Housing Operations	<u>10,891</u>	<u>\$ 10,123</u>
	<u>\$ 175,544</u>	<u>\$ 150,669</u>
Funds available for future capital fund expenditures	\$ 316,248	\$ 285,225
Funding yet to be provided from:		
Taxation or user charges	(1,174)	(101)
Long term debt	(112,968)	(109,894)
Reserves and reserve funds	(12,043)	(14,504)
Grants, subsidies and other unspecified revenue	<u>(14,519)</u>	<u>(10,057)</u>
	<u>\$ 175,544</u>	<u>\$ 150,669</u>

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

Working funds	\$ 50,562	\$ 49,798
Contingencies	2,192	2,092
Replacement of equipment	22,190	21,333
Sick leave (Note 9)	9,459	8,893
Workplace Safety and Insurance Board (WSIB)(Note 9)	28,936	27,251
Pension Plans	6,759	377
Self insurance (Note 22)	177	169
Current purposes	25,380	22,011
Capital purposes	<u>150,635</u>	<u>122,044</u>
Total reserves	296,290	253,968
Hamilton Future Fund (Note 13)	<u>82,381</u>	<u>111,103</u>
Total reserves and discretionary reserve funds	<u>\$ 378,671</u>	<u>\$ 365,071</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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>2006</u>	<u>2005</u>
Balance at the beginning of the year	\$ 111,103	\$ 132,146
Revenues		
Investment Income	<u>4,776</u>	<u>7,406</u>
Current Expenditures		
Property Tax Reduction	(1,933)	(1,640)
Contribution to Art Gallery of Hamilton	(260)	(260)
Parent-Child Homemaking Services	-	(182)
Mohawk College Grant	(375)	-
Workers Art & Heritage Centre	(450)	-
Other	(593)	(137)
Repayment of Waste Management Projects	<u>1,826</u>	<u>745</u>
	<u>(1,785)</u>	<u>(1,474)</u>
Capital expenditures		
Waste Management Projects	(17,330)	(15,258)
Roads and Bridges	(13,097)	-
McMaster University Research Park	-	(5,000)
Career Development Resource Centre	-	(1,844)
Airport	-	(2,329)
Housing	(729)	(1,242)
Hughson Street Improvements	-	(778)
Waterfront Trail Extension	-	(446)
Scenic Waterfall Program	(311)	-
Other	<u>(246)</u>	<u>(78)</u>
	<u>(31,713)</u>	<u>(26,975)</u>
Balance at the end of the year	<u>\$ 82,381</u>	<u>\$ 111,103</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (all numbers in columns are in thousands of dollars)

14. Liabilities to be recovered in the future		<u>2006</u>	<u>2005</u>
Municipal operations			
Long term debt		\$ 287,155	\$ 268,470
Employee benefit obligations (Note 9)		185,276	188,949
Stores inventory		9,327	9,147
Solid waste management (Note 11)		<u>37,036</u>	<u>38,609</u>
		518,794	505,175
Housing corporations			
Capital Assets		<u>83,205</u>	<u>76,500</u>
		<u>\$ 601,999</u>	<u>\$ 581,675</u>

15. Taxation	Budget <u>2006</u> (unaudited)	<u>Actual</u> <u>2006</u>	<u>Actual</u> <u>2005</u>
Taxation from real property	\$ 751,586	\$ 755,576	\$ 734,654
Taxation from other governments payments in lieu of taxes	<u>11,700</u> 763,286	<u>11,349</u> 766,925	<u>11,594</u> 746,248
Less: taxation collected on behalf of school boards (Note 16)	<u>(172,220)</u>	<u>(175,083)</u>	<u>(170,664)</u>
Net taxes available for municipal purposes	<u>\$ 591,066</u>	<u>\$ 591,842</u>	<u>\$ 575,584</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

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

	<u>2006</u>	<u>2005</u>
Salaries, wages and benefits	\$ 493,281	\$ 466,359
Interest on long term debt	19,266	20,296
Materials	194,325	194,754
Contracted services	124,616	119,185
Rents and financial expenses	14,603	13,233
External transfers	<u>192,401</u>	<u>182,160</u>
Total current expenditures	<u>\$ 1,038,492</u>	<u>\$ 995,987</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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 2006 the City received payments from the provincial and federal governments in the amount of \$367,269,000 (2005 - \$351,270,000) as follows:

	<u>2006</u>	<u>2005</u>
Government of the Province of Ontario	\$ 325,571	\$ 306,935
Government of Canada	<u>41,698</u>	<u>44,335</u>
Total	<u>\$ 367,269</u>	<u>\$ 351,270</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 2006, the City issued payments as government transfers in the amount of \$211,964,000 (2005 - \$203,189,000) as follows:

	<u>2006</u>	<u>2005</u>
Payments for social assistance entitlements	\$ 151,844	\$ 149,003
Payments for housing subsidies	47,796	44,509
Grants to agencies and institutions	<u>12,324</u>	<u>9,677</u>
Total	<u>\$ 211,964</u>	<u>\$ 203,189</u>

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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 \$14,204,000 (2005 - \$13,342,000) 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 \$834,000 (2005 - \$856,000) 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 \$0 for 2006 (2005 - \$71,820,000) 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 \$558,779,000 at December 31, 2006 for capital works (2005 - \$229,011,000). City Council has authorized the financing of these obligations.
- (b) The City has agreements with the Ministry of Government Services, an agency of the Provincial Government of Ontario, for various capital projects. The outstanding future obligations at December 31, 2006 amounting to \$5,091,000 (2005 - \$5,158,000) are not reflected in the Consolidated Financial Statements. Payments made to the Ontario Realty Corporation amounting to \$68,000 in 2006 (2005 - \$82,000) 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, 2006 amounting to \$4,985,000 (2005 - \$7,031,000) 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 \$3,543,000 in 2006 (2005 - \$962,000) 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, 2006 amounting to \$8,190,000 (2005 - \$7,996,000) 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 \$126,000 in 2006 (2005 - \$153,000) are reported in the Consolidated Statement of Financial Activities.

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (all numbers in columns are in thousands of dollars)

21. Contractual obligations (continued)

- (e) The City has agreements with Waste Management 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 \$6,925,000 for 2006 (2005 - \$7,445,000) 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 an agreement with Halton Recycling Limited for the provision of curbside/roadside and automated recycling cart collection. The agreement ends on March 29, 2008. The contract fees amounting to \$6,099,000 for 2006 (2005 - \$6,294,000) are reported in the Consolidated Statement of Financial Activities
- (g) 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 \$8,673,000 (2005 - \$8,286,000) are reported in the Consolidated Statement of Financial Activities. Contract fees for future years are not expected to change significantly.
- (h) 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. Beginning in 2006, percentage revenue from the airport operation is remitted to the City and an amount of \$83,000 is reported on the Consolidated Statement of Financial Activities.
- (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 \$31,490,000 (2005 - \$37,871,000). The minimum lease payments for these leases over the next five years and thereafter are:
- | | |
|---------------------|-------------------------|
| 2007 | \$ 9,537 |
| 2008 | 6,342 |
| 2009 | 5,483 |
| 2010 | 4,745 |
| 2011 | 2,688 |
| 2012 and thereafter | <u>2,695</u> |
| | <u>\$ 31,490</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, 2006 (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 January 20, 2006 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 January 19, 2009. 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 dept 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 (2005 - \$0).

The Corporation has issued a \$23,500,000 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.

- (l) Hamilton Utilities Corporation (H.U.C.) has an agreement to purchase a fixed quantity of natural gas at a fixed priced 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, 2006 is \$1,233,000 (2005 - \$2,146,000). 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 \$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 \$20,060,000 (2005 - \$20,460,000). Claim expenses for the year in the amount of \$5,973,000 (2005 - \$10,346,000) 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, 2006 is \$177,000 (2005 - \$169,000).

City of Hamilton

Notes to Consolidated Financial Statements

As at December 31, 2006 (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, 2006 is \$34,807,000 (2005 - \$55,829,000).
- (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 2005 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 2006 (2005 - \$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, 2006. An estimated liability has been recorded on the Consolidated Statement of Financial Position to fund these settlements. Subsequent to December 31, 2006, there has been a settlement with one of the unionized employee groups.
- (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 April 2004 regarding a similar class-action lawsuit against Enbridge Gas Distribution Inc. (Enbridge) and Enbridge was ordered to pay compensation to customers who were charged certain late payment fees. A hearing was held in September 2006 to consider the settlement but no ruling has yet been issued. 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, 2006. 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.

24. Budget figures

The budget figures for the housing corporation reflected in the Consolidated Financial Statements were approved by the Housing Board at a meeting on December 5, 2005. The budget figures for municipal operations reflected in the Consolidated Financial Statements were approved by Council at a meeting on April 12, 2006. 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.
