



## **Audit, Finance & Administration Committee REPORT 11-008**

Wednesday, June 8, 2011

9:30 a.m.

Council Chambers

City Hall

71 Main Street West

Hamilton, Ontario

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**Present:** Councillors B. Clark (Chair), B. Johnson (Vice Chair), M. Pearson and R. Powers

**Absent with  
Regrets:** Councillor B. Morelli – Personal

**Also Present:** R. Rossini, General Manager, Finance & Corporate Services  
T. Tollis, City Treasurer  
A. Zuidema, Director, Corporate Initiatives  
A. Pekaruk, Director, Audit Services  
G. Lupton, Director, Energy, Fleet, Facilities & Traffic  
M. Gallagher, Deputy Clerk  
B. McMullen, Manager, Accounting Services  
L. Zinkewich, Senior Project Manager  
A. Mastandrea, Procurement Manager  
G. Boychuk, Chief Investment Officer  
S. Paparella, Legislative Assistant, Office of the City Clerk

### **THE AUDIT, FINANCE AND ADMINISTRATION COMMITTEE PRESENTS REPORT 11-008, AND RESPECTFULLY RECOMMENDS:**

1. **Tax Appeals under Sections 357 and 358 of the Municipal Act, 2001 (FCS11003(c)) (City Wide) (Item 5.1)**
  - (a) That Appendix "A" attached to Report 11-008, respecting the Tax Write-Offs processed under Section 357 of the Municipal Act, 2001, as amended, in the amount of \$117,757, be approved;

(b) That Appendix "B" attached to Report 11-008, respecting the Tax Appeals due to a Gross or Manifest Clerical Error, Pursuant to Section 358 of the Municipal Act, 2001, as amended, in the amount of \$168,763, be approved.

**2. Fair Wage Complaint Contract C13-01-09 – Audit Results (FCS11037) (City Wide) (Item 5.2)**

That no further action be taken, respecting the complaint against Besseling Mechanical Inc., regarding the City's Fair Wage Policy.

**3. Fair Wage Complaint Contract C14-04-09 – Audit Results (FCS11043) (City Wide) (Item 5.3)**

That no further action be taken, respecting the complaint against Brenner Mechanical Inc., regarding the City's Fair Wage Policy.

**4. 2010 Annual Report on Commodity Price Hedging (FCS11041) (City Wide) (Item 5.4)**

That Report FCS11041, respecting the 2010 Annual Report on Commodity Pricing Hedging, be received.

**5. Central Fleet Repair and Maintenance Contracts (PW11043) (City Wide) (Item 5.5)**

That Report PW11043, respecting the Central Fleet Repair and Maintenance Contracts, be received.

**6. 2010 City of Hamilton Financial Report and Audited Financial Statements (FCS11048) (City Wide) (Item 7.2)**

That the 2010 City of Hamilton Financial Report and Audited Financial Statements, attached as Appendix "C" to Report 11-008, be approved.

**7. Grants Sub-committee Report 11-003, dated June 2, 2011 (Item 8.1)**

**(a) Convention and Sport Grants Review (GRA11006) (City Wide) (Item 4.1)**

That Report GRA11006, respecting the Convention and Sport Grants Review, be received.

**(b) 2011 Community Partnership Program – Culture Stream Funding for Late Applications (GRA11007) (City Wide) (Item 5.1)**

- (i) That funding in the amount of \$2,025 for the Shen Yun Performing Arts to showcase traditional Chinese music and dance submitted by the Falun Dafa Association, be funded from the Community Partnership Program - Culture budget, be approved.
- (ii) That funding in the amount of \$1,891 for the gritLIT Festival to celebrate literature in Hamilton submitted by the Hamilton Literary Festival Association, to be funded from the Community Partnership Program - Culture budget, be approved.
- (iii) That funding in the amount of \$1,484 for the Bursary Program to assist with program and touring fees for low-income families submitted by the Hamilton Children's Choir, to be funded from the Community Partnership Program – Culture budget, be approved.
- (iv) That funding in the amount of \$9,450 for the Diverse Art and Culture in Hamilton program to provide opportunities for immigrant and low-income artists and cultural workers submitted by the Immigrant Culture and Art Association, \$4,169 to be funded from the Community Partnership Program - Culture budget and \$5,281 funded from the Community Partnership Program Contingency budget, be approved.
- (v) That funding in the amount of \$1,500 for 2011 – 2012 Concert Program to present instrumental and singing concerts submitted by The John Laing Singers, to be funded from the Community Partnership Program – Culture budget, be approved.
- (vi) That funding in the amount of \$178 for Community Choir program to present 9-12 singing performances submitted by The Kaleidoscope Singers, to be funded from the Community Partnership Program – Culture budget, be approved.

**(c) 2011 Community Partnership Program – Special Events Funding for Late Applications (GRA11008) (City Wide) (Item 5.2)**

- (i) That funding in the amount of \$1,607 for the Comunita Racalmutese Maria SS Del Monte's Annual Parade & Celebration, June 24-26, 2011 at Bayfront Park, to be funded from the Community Partnership Program – Special Events budget, be approved.

- (ii) That funding in the amount of \$1,040 for Volunteer Hamilton's National Volunteer Week, which took place April 10-16, 2011, to be funded from the Community Partnership Program – Special Events budget, be approved.
  - (iii) That funding in the amount of \$1,476 for Locke Street Merchants Association's Locke Street Festival, September 10-11, 2011, to be funded from the Community Partnership Program – Special Events budget, be approved.
  - (iv) That the funding request in the amount of \$5,000 from the Rockton Agricultural Fair for its annual Rockton World's Fair, October 7-10, 2011, be denied.
- (d) 2011 Community Partnership Program – Theatre Aquarius (GRA11009) (City Wide) (Item 5.3)**
- (i) That funding in the amount of \$73,534 for Theatre Aquarius (\$30,761 to be funded from the Community Partnership Program – Culture budget and \$42,773 to be funded from the Community Partnership Program – Committed budget), be approved for 2011.
  - (ii) That the \$75,534 and its associated base budget (currently for Theatre Aquarius) be transferred from the Community Partnership Program budget to the Boards and Agencies budget for 2012.
  - (iii) That staff be directed to advise Theatre Aquarius that for 2012 and beyond they must apply for funding consideration through the Boards and Agencies process rather than through the Community Partnership Program.
- (e) Ancaster Community Services – Transfer of 2011 Community Partnership Information and Referral Program funding to the Community Services Outreach Program (GRA11010) (City Wide) (Item 5.4)**
- That the \$9,884 allocated to the Information and Referral Program at Ancaster Community Services from the 2011 Community Partnership Program budget, be transferred to the 2011 base of the Ancaster Community Services Outreach Program.

**(f) Glanbrook Support – Gentle Fit (Item 6.2)**

That \$11,560, to be funded one time only through the Community Partnership Program reserves, for the Glanbrook Support - Gentle Fit, as a pilot program, be approved.

**8. Governance Review Sub-committee Report 11-003, dated May 26, 2011 (Item 8.2)**

**City of Hamilton Flag Protocol (Item 4.2)**

That the City of Hamilton Flag Protocol attached as Appendix “D” to Report 11-008, be approved.

**9. HMRF/HWRF Pension Administration Sub-committee Report 11-001, dated June 6, 2011 (Item 8.3)**

**(a) Appointment of the Chair and Vice Chairs**

- (i) That Councillor M. Pearson be appointed as Chair of the HMRF/HWRF Pension Administration Committee for the 2010-2014 term of Council.
- (ii) That Jim Garchinski be appointed as Vice Chair (HWRF Representative) of the HMRF/HWRF Pension Administration Committee for the 2010-2014 term of Council.
- (iii) That Don Skarratt be appointed as Vice Chair (HMRF Representative) of the HMRF/HWRF Pension Administration Committee for the 2010-2014 term of Council.

**(b) Appointment of HWRF Member (Item B)**

That Robert Slack be appointed, as a Hamilton-Wentworth Retirement Fund representative (HWRF), to the HMRF/HWRF Pension Administration Sub-Committee.

**(c) Master Trust Pension Investment Performance, December 31, 2010 (FCS10078(a)) (City Wide) (Item 4.1)**

That Report FCS10078(a), respecting the Master Trust Pension Investment Performance as of December 31, 2010, be received.

**(d) Performance Review and Investment Manager Evaluation, City of Hamilton, Master Trust, by AON Hewitt, September 30, 2010 (Item 4.2)**

That the Performance Review and Investment Manager Evaluation, City of Hamilton, Master Trust, by Aon Hewitt, September 30, 2010, be received.

**(e) Performance Review and Investment Manager Evaluation, City of Hamilton, Master Trust, by AON Hewitt, March 31, 2011 (Item 4.4)**

That the Performance Review and Investment Manager Evaluation, City of Hamilton, Master Trust, by AON Hewitt, March 31, 2011, be received.

**(f) 2011 Master Trust Pension Statement of Investment Policies and Procedures (FCS11033) (City Wide) (Item 5.1(b))**

(a) That the 2011 Master Trust Statement of Investment Policies and Procedures (attached as Appendix "E" to Report 11-008), be approved;

(b) That the 2009 approved Master Trust Statement of Investment Policies and Procedures be rescinded and replaced with the 2011 Master Trust Statement of Investment Policies and Procedures (attached as Appendix "E" to Report 11-008);

(c) That staff be directed to have Aon Hewitt conduct a manager search for one or two specialty fixed income managers at a cost not to exceed \$14,000, to be funded from the City of Hamilton HHWR Master Trust Account (Account # 85-0004/7.1).

**FOR THE INFORMATION OF COUNCIL:**

**(a) CHANGES TO THE AGENDA (Item 1)**

The Committee Clerk advised of the following changes to the agenda:

- (i) Added as Item 8.1 – Grants Sub-committee Report 11-003, dated June 2, 2011
- (ii) Added as Item 8.2 – Governance Review Sub-committee Report 11-003, dated May 26, 2011
- (iii) Added as Item 8.3 – HMRF/HWRF Pension Administration Sub-committee Report 11-001, dated June 6, 2011

- (iv) On the Agenda Face Pages - The numbering for Items 7.1 and 7.2 have been reversed. In the Agenda, Item 7.1 is the Auditor General Report and Item 7.2 is the 2010 City of Hamilton Financial Report and Audited Financial Statements.

The agenda for the May 18, 2011 meeting of the Audit, Finance & Administration Committee was approved, as amended.

**(b) DECLARATIONS OF INTEREST (Item 2)**

There were no declarations of interest.

**(c) APPROVAL OF MINUTES OF PREVIOUS MEETINGS (Item 3)**

**(i) May 18, 2011 (Item 3.1)**

The Minutes of the May 18, 2011 meeting of the Audit, Finance & Administration Committee were approved, as presented.

**(d) DELEGATIONS REQUESTS (Item 4)**

**(i) David Sa, Saco Insurance & Real Estate, respecting Abnormal Water Consumption at 600 Main Street East, Hamilton (Item 4.1)**

The delegation request, submitted by David Sa, Saco Insurance & Real Estate, respecting Abnormal Water Consumption at 600 Main Street East, Hamilton, was approved.

**(e) PUBLIC HEARINGS/DELEGATIONS (Item 6)**

**(i) Luigi Cino, Cino Auto Repair Inc. respecting Concerns regarding Tenders C12-1109 - for the Provision of Various Car and Light Duty Truck Auto Service for Central Fleet and Transit Services; and, C90509 - For Provision of Vehicle Maintenance and Repair Service for Hamilton Police Service Vehicles**

Unfortunately, Mr. Cino was provided with the incorrect meeting time. Therefore, Councillor Pearson put forward the following motion, on Mr. Cino's behalf.

That the approved delegation for Luigi Cino, Cino Auto Repair Inc., respecting Concerns regarding Tenders C12-1109 - for the Provision of Various Car and Light Duty Truck Auto Service for Central Fleet and Transit Services; and, C90509 - For Provision of Vehicle Maintenance and

Repair Service for Hamilton Police Service Vehicles, be tabled to the June 22, 2011 meeting of the Audit, Finance & Administration Committee.

**(f) Auditor General Model (CM11006) (City Wide) (Item 7.1)**

Sub-section (e) of Report CM11006 was amended by deleting the words “as part of” and replacing them with the words “be referred to” to read as follows:

- (e) That the current staff complement in Audit Services be increased by 2 FTE's, to accommodate value for money audits, and *be referred to* the 2012 budget process for consideration.

Report CM11006, respecting the Auditor General Model, was tabled, as amended, pending the Audit, Finance & Administration Committee's receipt of a report respecting the Implementation Plan for the hybrid Auditor General Model, which is to include a by-law and Terms of Reference.

**(g) 2010 City of Hamilton Financial Report and Audited Financial Statements (FCS11048) (City Wide) (Item 7.2)**

Melanie Dugard and Barb Carnegie, of Grant Thornton LLP, were in attendance to provide a presentation and answer any questions. Committee determined that the presentation was not required.

Staff was directed to prepare a report to advise Committee as to what funding has been set aside and the amounts that will be required to support the financial obligations that the City will be required to pay out; such as sick leave and vacation accrued, for the approximately 35% of the workforce expected to retire within the next five years, and report back to the Audit, Finance & Administration Committee.

**(h) GENERAL INFORMATION/OTHER BUSINESS (Item11)**

Staff was directed to prepare a report, respecting Fair Taxation for Condominiums corporations, and report to the Audit, Finance & Administration Committee by the fourth quarter of 2011

**(i) OUTSTANDING BUSINESS**

The following Outstanding Business List Item was identified as completed and deleted from the List:

Item K Sergio De Feo, of De Feo's Auto Service, regarding the Tender Process.



**(j) PRIVATE & CONFIDENTIAL (Item 12)**

**(i) Closed Session Minutes – May 18, 2011 (Item 12.1)**

As the Audit, Finance & Administration Committee determined that no discussion, respecting the Closed Session Minutes of the May 18, 2011, meeting of the Audit, Finance & Administration Committee was required, the Minutes were approved in Open Session, as shown below:

The Closed Session Minutes of the April 6, 2011, meeting of the Audit, Finance & Administration Committee were approved, as presented.

That the Closed Session Minutes of the April 6, 2011 meeting of the Audit, Finance & Administration Committee, will remain confidential and restricted from public disclosure, in accordance with exemptions provided in the Municipal Freedom of Information and Protection of Privacy Act."

**(k) AJOURNMENT (Item 13)**

There being no further business, the Audit, Finance and Administration Committee adjourned at 11:05 a.m.

Respectfully submitted,

Councillor B. Clark, Chair  
Audit, Finance and Administration Committee

Stephanie Paparella  
Legislative Assistant  
June 8, 2011

City of Hamilton  
 Corporate Services Department  
 Taxation Division  
 Section "357" Appeals of the Municipal Act, 2001

Appeal No.	Property Address	Roll Number	Explanation	YEAR
357-10-256	21 Wendakee Dr	003010198000000	Demolition of old house new home completed	2010
357-10-271	1100 Highway 8	003220469000000	Demolition of old house new home under construction	2010
357-10-307	914 Queenston Rd	003360122000000	Demolition of hotel / tavern	2010
357-10-287	9 Robb Ave	003490248000000	Major Renovations due to sewer back up	2010
357-10-286	521 Regional Rd 20	003810316000000	Demolitions of original house upon completion of new house	2010
357-10-244	153 Chatham St	010091515300000	Exempt City purchased land for extension of Frid St	2010
357-10-187	118 Market St	020123072400000	Tax Class Conversion Hotel converted to retirement residences	2010
357-10-303	145 John St S	020142033700000	Tax Class Conversion main floor converted to residential	2010
357-09-324	160 King St E	020152000700000	Exemption denied - does meet the criteria for exemption	2009
357-09-371	130-150 King St E	020152000100000	Major Renovations of large blocks of hotel suites	2009
357-10-129	231 Burlington St E	020181082400000	Exempt Mission Services is a place of worship should be exempt	2010
357-10-313	232 Cannon St E	030214500100000	Renovations application denied according to Schedule 26 of Bill 187	2010
357-10-314	0 Douglas St	030221092100000	Exempt property vested after tax sale	2010
357-10-315	0 Douglas St	030221092200000	Exempt property vested after tax sale	2010
357-10-292	244 Kenilworth Ave N	040331009400000	Tax Class Conversion new owners using property for their home	2010
357-10-321	179 Parkdale Ave N	050383094500000	Major Renovations application denied	2010
357-10-327	103 Edwina Place	070643057000000	Demolition of inground pool September 2010	2010
357-10-249	100 West 5th St	081001006100000	Tax Class Conversion provincial property tax class should be CGN	2010
357-10-296	13 Chatterson Dr	140245303000000	Major Renovations new owners found mould in basement	2010
357-10-297	1343-1349 Sandhill Dr	140410419000000	Tax Class Conversion no longer any manufacturing on premises	2010
357-10-298	491 Book Rd W	140410716000000	Tax Class Conversion owners no longer now using the building for residential tenant	2010
357-10-299	1064 Garner Rd E	140420278000000	Tax Class Conversion new owners not operating a home based business	2010
357-10-301	20 Carriage Lane	260210160010000	Demolition of house	2010
357-10-285	271 6th Con Rd E	303610504000000	Exempt - church tenant vacated property now 100% place of worship	2010
357-10-337	103 Carlisle Rd	303910548000000	Gross or Manifest Error incorrect measurement of garage	2010
357-10-176	9300 Airport Rd	902310322000000	Exempt - Shell's lease expired now reverted back to the airport	2010
357-10-177	9300 Airport Rd	902310322000000	Exempt Imperial Oil's lease expired now reverted back to the airport	2010
			<b>Total</b>	

Amount
-1,000.20
-46.40
-1,098.66
-27.74
-872.49
-815.85
-64,905.51
-403.13
0.00
-18,785.35
-1,833.15
0.00
-635.95
-635.95
-1,324.71
0.00
-31.96
-1,070.82
-152.75
-14,201.77
-4,046.65
-2,231.92
-2,446.09
-951.53
-112.18
-52.74
-73.67
<b>-117,757.17</b>

City of Hamilton  
 Corporate Services Department  
 Taxation Division  
 Section "358" Appeals of the Municipal Act, 2001  
 Realty Tax Applications for overcharges

B- overcharge (Assessment Roll)  
 B1 -overcharged-application denied  
 E - Exempt

Appeal No.	Property Address	Roll Number	Reason	Explanation	Year	Amount
358-09-105	216 Stinson St	030206005500000	E	Property owned by Good Sheppard Supreme Court granted exemption	2007	-12,443.63
358-11-004	216 Stinson St	030206055000000	E		2008	-12,880.36
358-11-005	216 Stinson St	030206055000000	E		2009	-13,064.64
358-11-006	216 Stinson St	030206055000000	E		2010	-13,283.15
358-10-019	374 Barton St E	030215009700000	B1	application for tax class denied -vacant multi res property	2009	0.00
358-10-123	244 Kenilworth Ave N	040331009400000	B	new owners using property 100% residential	2009	-1,331.53
358-09-109	320 Tragina Ave N	040335514500000	E	Property owned by Good Sheppard Supreme Court granted exemption	2007	-23,517.69
358-11-009	320 Tragina Ave N	040335514500000	E		2008	-23,343.06
358-11-010	320 Tragina Ave N	040335514500000	E		2009	-25,073.16
358-11-011	320 Tragina Ave N	040335514500000	E		2010	-25,845.20
358-10-107	100 West 5th St	081001006100000	B1	Property owned by Provincial Government - correction to tax class	2008	-1,098.04
358-10-106	100 West 5th St	081001006100000	B1		2009	-1,086.02
358-10-125	1343-1349 Sandhill Dr	140410419000000	B	now all commercial no longer any manufacturing on premises	2009	-13,581.05
358-11-012	149 Colleen Cres	140230066000000	B	demotion of house in 09 not carried forward to 2010	2010	-1,989.54
358-10-129	103 Carlisle Rd	303910548000000	B	Incorrect measurement of the garage by assessor when build	2009	-112.27
358-10-130	103 Carlisle Rd	303910548000000	B		2008	-113.61
				<b>total</b>		<b>-168,762.95</b>



Hamilton

# **FINANCIAL REPORT**

## **2010**

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

**City of Hamilton**  
**Financial Report**  
2010

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## Section 1

# City of Hamilton Consolidated Financial Statements 2010



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## **Independent Auditor's Report**

<<NOTE: The Independent Auditor's Report will be inserted after the Financial Report is approved by the Audit, Finance and Administration Committee. >>

## City of Hamilton

### Consolidated Statement of Financial Position

As at December 31, 2010 (all numbers are in thousands of dollars)

	<u>2010</u>	<u>2009</u> (Note 1)
<b>Financial Assets</b>		
Cash and cash equivalents (Note 2)	\$ 147,837	\$ 53,737
Taxes receivable	71,937	69,028
Accounts receivable	110,536	85,700
Other assets	715	704
Long term receivables (Note 3)	24,922	23,630
Portfolio investments (Note 2)	710,181	750,163
Investment in Government Business Enterprises (Note 4)	<u>189,231</u>	<u>185,810</u>
<b>Total financial assets</b>	<b><u>\$ 1,255,359</u></b>	<b><u>\$ 1,168,772</u></b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 227,419	\$ 212,964
Deferred revenue - general	25,330	27,237
Deferred revenue - obligatory reserve funds (Note 5)	113,913	66,575
Long term liabilities – Municipal Operations (Note 7)	307,786	307,584
Long term liabilities – Housing Corporations (Note 8)	89,195	93,279
Employee future benefits and other obligations (Note 9)	272,986	262,171
Solid waste landfill liabilities (Note 11)	<u>26,611</u>	<u>26,952</u>
<b>Total liabilities</b>	<b><u>1,063,240</u></b>	<b><u>996,762</u></b>
<b>Net financial assets</b>	<b><u>\$ 192,119</u></b>	<b><u>\$ 172,010</u></b>
<b>Non-financial assets</b>		
Tangible capital assets (Note 19)	\$ 4,127,014	3,900,423
Inventories	9,539	9,018
Prepaid expenses	<u>12,241</u>	<u>13,545</u>
<b>Total non-financial assets</b>	<b><u>4,148,794</u></b>	<b><u>3,922,986</u></b>
<b>Accumulated surplus (Note 12)</b>	<b><u>\$ 4,340,913</u></b>	<b><u>\$ 4,094,996</u></b>

Contractual obligations (Note 16)

Contingent liabilities (Note 18)

## City of Hamilton

### Consolidated Statement of Operations

For the year ended December 31, 2010 (all numbers are in thousands of dollars)

	Budget 2010 (unaudited) (Note 21)	Actual 2010	Actual 2009 (Note 1)
<b>Revenue</b>			
Taxation (Note 14)	\$ 696,067	\$ 700,257	\$ 675,606
Government grants and contributions	501,850	520,896	376,283
User charges	265,524	265,116	254,358
Development charges and subdivider contributions	109,917	16,378	23,286
Donated tangible capital assets	40,000	41,193	43,645
Investment and dividend income	21,214	48,627	51,600
Net income from Government Business Enterprises (Note 4)	-	3,421	241
Other	90,598	88,523	87,446
<b>Total revenue</b>	<u>1,725,170</u>	<u>1,684,411</u>	<u>1,512,465</u>
<b>Expenses</b>			
General government	71,269	66,333	71,132
Protection services	236,274	244,619	235,325
Transportation services	273,996	279,212	330,170
Environmental services	188,104	176,263	165,823
Health services	76,973	76,791	74,437
Social and family services	299,366	295,554	301,016
Social housing	126,267	125,170	106,786
Recreation and cultural services	139,534	136,041	133,403
Planning and development	43,091	38,511	40,605
<b>Total expenses</b>	<u>1,454,837</u>	<u>1,438,494</u>	<u>1,458,697</u>
<b>Annual surplus</b>	\$ 270,333	\$ 245,917	\$ 53,768
<b>Accumulated surplus</b>			
<b>Beginning of year,</b>			
As previously reported	-	-	\$ 4,024,791
Prior period adjustment	-	-	<u>16,437</u>
<b>Accumulated surplus</b>			
<b>Beginning of year, as restated</b>	\$ 4,094,996	\$ 4,094,996	\$ 4,041,228
<b>End of year</b>	<u>\$ 4,365,329</u>	<u>\$ 4,340,913</u>	<u>\$ 4,094,996</u>

See accompanying notes to the consolidated financial statements.

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**City of Hamilton**  
**Consolidated Statement of Changes in Net Financial Assets**

For the year ended December 31, 2010 (all numbers are in thousands of dollars)

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	Budget <u>2010</u> (unaudited) (Note 21)	<b>Actual <u>2010</u></b>	Actual <u>2009</u> (Note 1)
<b>Operating activities</b>			
Annual surplus	\$ 245,917	<b>\$ 245,917</b>	\$ 53,768
Purchase of tangible capital assets	(648,513)	<b>(352,364)</b>	(308,147)
Proceeds from sale of tangible capital assets net of gains and losses	-	<b>3,199</b>	6,051
Amortization of tangible capital assets	160,000	<b>163,767</b>	157,177
Donated tangible capital assets	(40,000)	<b>(41,193)</b>	(43,645)
(Decrease) increase in inventories	-	<b>(521)</b>	185
Increase (decrease) in prepaid expenses	-	<b>1,304</b>	(3,076)
<b>Net increase (decrease) in net financial assets</b>	<b>(282,596)</b>	<b>20,109</b>	(137,687)
<b>Net financial assets</b>			
Beginning of year	<u>172,010</u>	<b><u>172,010</u></b>	<u>309,697</u>
End of year	<u>\$ (110,586)</u>	<b><u>\$ 192,119</u></b>	<u>\$ 172,010</u>

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See accompanying notes to the consolidated financial statements.

## City of Hamilton

### Consolidated Statement of Cash Flow

For the year ended December 31, 2010 (all numbers are in thousands of dollars)

	<u>2010</u>	<u>2009</u> (Note 1)
<b>Operating activities</b>		
Annual surplus	\$ 245,917	\$ 53,768
Increase in taxes receivable	(2,909)	(10,210)
(Increase) decrease in accounts receivable	(24,836)	7,735
(Increase) decrease in other assets	(11)	25
Increase in accounts payable and accrued liabilities	14,455	27,850
(Decrease) increase in deferred revenue - general	(1,907)	6,561
Increase (decrease) in deferred revenue - obligatory reserve fund	47,338	(819)
Increase in employee future benefit obligations and other liabilities	10,815	58,960
Decrease in solid waste landfill liabilities	(341)	(3,632)
(Decrease) increase in inventories	(521)	185
Increase (decrease) in prepaid expenses	1,304	(3,076)
<b>Non-cash activities</b>		
Amortization of tangible capital assets	163,767	157,177
Donated tangible capital assets	<u>(41,193)</u>	<u>(43,645)</u>
	<u>411,878</u>	<u>250,879</u>
<b>Investing activities</b>		
Decrease in investments	39,982	73,861
Increase in investment in Government Business Enterprises	(3,421)	(241)
Increase in long term receivables	<u>(1,292)</u>	<u>(255)</u>
	<u>35,269</u>	<u>73,365</u>
<b>Financing activities</b>		
Long term debt issued – Municipal Operations	27,494	-
Long term debt issued – Housing Operations	-	22,013
Debt principal repayment – Municipal Operations	(26,612)	(25,510)
Lease obligation payment – Municipal Operations	(680)	(1,096)
Debt principal repayment – Housing Corporation	<u>(4,084)</u>	<u>(2,902)</u>
	<u>(3,882)</u>	<u>(7,495)</u>
<b>Tangible capital assets</b>		
Purchase of tangible capital assets	(352,364)	(308,147)
Proceeds from sale of tangible capital assets net of gains and losses	3,199	6,051
	<u>(349,165)</u>	<u>(302,096)</u>
<b>Net increase in cash and cash equivalents</b>	<b>94,100</b>	<b>14,653</b>
<b>Cash and cash equivalents</b>		
Beginning of year	53,737	39,084
End of year	<u>\$ 147,837</u>	<u>\$ 53,737</u>

See accompanying notes to the consolidated financial statements.1-5

## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (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.

The City has restated certain liabilities, non-financial assets and accumulated surplus for 2009 as a result of ongoing reviews of initial valuations of tangible capital assets. The effect of the changes is as follows:

	<u>2009</u>
Liabilities	
Long term liabilities – Municipal Operations	
Previously reported	\$ 308,916
Prior period adjustment	<u>(1,332)</u>
Restated	<u>\$ 307,584</u>
Non-financial assets	
Tangible capital assets	
Previously reported	\$ 3,886,234
Prior period adjustment	<u>14,189</u>
Restated	<u>\$ 3,900,423</u>
Accumulated surplus	
Previously reported	\$ 4,079,475
Prior period adjustment	<u>15,521</u>
Restated	<u>\$ 4,094,996</u>

Significant accounting policies adopted by the City are as follows:

#### (a) Reporting entity

- (i) The consolidated financial statements reflect the assets, liabilities, revenues, expenses, changes in accumulated surplus, changes in net financial assets of the reporting entity. The consolidated financial statements include the activities of all committees of Council and the following boards and enterprises which are under the control of and accountable to Council:

- Hamilton Police Services Board
- Hamilton Tourism Inc.
- The Hamilton Entertainment and Convention Facilities Inc.
- The Hamilton Public Library Board
- The Hamilton Street Railway Company
- City Housing Hamilton Corporation
- Hamilton Business Improvement Areas including Ancaster BIA, Barton Street Village BIA, Concession Street BIA, Downtown Hamilton BIA, Dundas BIA, International Village BIA, King Street West BIA, Locke Street BIA, Main Street West Esplanade BIA, Downtown Stoney Creek BIA, Ottawa Street BIA, Waterdown BIA, and Westdale BIA
- Flamborough Recreation Sub-Committees

Interdepartmental and organizational transactions and balances are eliminated.

## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

### 1. Significant accounting policies (continued)

#### (a) Reporting entity (continued)

- (i) City Housing Hamilton Corporation was incorporated as Hamilton Housing Corporation on January 1, 2001 as a result of the provincial legislation, Social Housing Reform Act 2000, which transferred the operation of various local housing authorities to municipalities. The City of Hamilton assumed social housing responsibilities on December 1, 2001. The share capital of City Housing Hamilton Corporation is 100% owned by the City of Hamilton and a separate Board of Directors has been established to provide oversight responsibilities for the Corporation.

City Housing Hamilton Corporation has been consolidated on a line-by-line basis to conform with the City's accounting principles after eliminating inter-organizational transactions and balances.

Hamilton Utilities Corporation ("H.U.C.") and Hamilton Renewable Power Inc. ("H.R.P.I.") are subsidiary corporations of the City and are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises (Note 4). Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform to those of the City and inter-organizational transactions and balances are not eliminated.

City of Hamilton trust fund assets that are administered for the benefit of external parties are excluded from the consolidated financial statements. Separate financial statements have been prepared.

Cemetery trust, library trust and general trust funds administered by the City amounting to \$16,395,000 (2009 - \$15,473,000) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Operations. Homes for the Aged trust funds administered by the City amounting to \$697,000 (2009 - \$756,000) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Operations.

- (ii) The financial activities of certain entities associated with the City of Hamilton are not consolidated. The City's contributions to these entities are recorded in the Consolidated Statement of Operations. The entities that are not consolidated are as follows:

- Hamilton Region Conservation Authority
- Disabled and Aged Regional Transit System
- The Hamilton Municipal Retirement Fund
- The Hamilton-Wentworth Retirement Fund
- The Pension Fund of the Employees of the Hamilton Street Railway
- The Hamilton and Scourge Foundation Inc.
- Township of Glanbrook Non-Profit Housing Corporation



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## City of Hamilton

### Notes to Consolidated Financial Statements

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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**1. (a) Reporting entity** (continued)

- (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 31<sup>st</sup> 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, expenses, assets and liabilities with respect to the operations of various school boards are not reflected in the consolidated financial statements.

**(b) Basis of accounting**

Revenues are recorded on the accrual basis of accounting, whereby revenues are recognized as they are earned and measurable. Expenditures are recognized in the period goods and services are acquired and a liability is incurred or transfers are due.

**(c) 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 expenses 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.

**(d) Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on hand, cash held in financial institutions and temporary investments with maturities of 365 days or less.

**(e) Portfolio investments**

Portfolio investments are comprised of fixed income securities primarily federal, provincial and municipal government bonds and federal government treasury bills. Portfolio investments are valued at the lower of cost and fair value.

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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**1. Significant accounting policies** (continued)

**(f) Deferred revenue – obligatory reserve funds**

Receipts which are restricted by legislation of senior governments or by agreement with external parties are in nature restricted revenues and are reported as deferred revenues. When qualifying expenditures are incurred, deferred revenues are brought into revenue in the fiscal period they are expended.

**(g) Employee future benefits and other obligations**

Employee future benefits and other obligations for retirement, post employment and pension benefits are reported in the Consolidated Statement of Financial Position. The accrued benefit obligations are determined using management's best estimates of expected investment yields, wage and salary escalation, mortality rates, termination and retirement ages. The actuarial gain or loss is amortized over the expected average remaining life expectancy of the members of the employee groups.

**(h) Tangible capital assets**

Tangible capital assets are recorded at cost which includes all amounts directly attributable to acquisition, construction, development or betterment of the asset. Donated or contributed assets are capitalized and recorded at their estimated fair value upon acquisition. Leased tangible capital assets are valued at the present value of the future minimum lease payments. Certain tangible capital assets for which historical cost information is not available have been recorded at current replacement cost deflated by a relevant inflation factor.

Amortization for road linear assets is calculated on a consumption basis using road deterioration curves. All other tangible capital assets are amortized on a straight-line basis over their estimated useful lives. One half of the annual amortization is recorded as amortization expense in the year of acquisition or construction and in the year of disposal.

**(i) Inventories**

Inventories of goods held for resale and inventories of property held for resale are valued at the lower of cost and net realizable value. Inventories of property intended for resale are recorded as an expense if it is not reasonably expected that the sale will be completed within one year of the financial statement date.

**(j) Government transfers**

Government transfers are recognized in the financial statements as revenues in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**2. Cash and portfolio investments**

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents are comprised of:		
Cash on hand	\$ 200	\$ 222
Cash held in banks	142,188	48,126
Temporary investments	<u>5,449</u>	<u>5,389</u>
	<u>\$ 147,837</u>	<u>\$ 53,737</u>
Portfolio investments are comprised of:		
Unrestricted investments	\$ 523,278	\$ 610,162
Restricted investments (obligatory reserve funds)	113,913	66,575
Designated investments (Hamilton Future Fund)	<u>72,990</u>	<u>73,426</u>
	<u>\$ 710,181</u>	<u>\$ 750,163</u>

Portfolio investments have a market value of \$712,471,000 (2009 - \$791,918,000) and include City debentures - unrestricted investments of \$16,840,000 (2009 - \$19,981,000).

Portfolio investments includes restructured third-party sponsored and bank sponsored asset backed commercial paper ("ABCP") of \$67,879,000 (2009 - \$71,488,000) with a carrying value of \$86,276,000 (2009 - \$89,885,000).

**3. Long term receivables**

The City has long-term receivables in the amount of \$24,922,000 (2009 - \$23,630,000). The long term receivables are comprised of:

	<u>2010</u>	<u>2009</u>
<b>Development charge deferral agreements</b>	<b>\$ 8,364</b>	<b>\$ 5,447</b>
<b>Mortgages receivable:</b>		
Downtown convert to rent program	3,927	6,587
Hamilton Renewable Power Inc.	5,120	5,642
Sheraton Hotel loan	1,521	1,589
Other City loan programs	1,025	805
<b>Loans to other agencies and organizations</b>	<b>8,082</b>	<b>7,684</b>
<b>Less: Provision for loans with concessionary terms</b>	<b><u>(3,117)</u></b>	<b><u>(4,124)</u></b>
	<b><u>\$ 24,922</u></b>	<b><u>\$ 23,630</u></b>

Development charge deferral agreements and mortgage receivables are loans which are secured by property, with interest rates varying from 0% to 6.75% and terms of one year to thirty years.

Loans to other agencies and organizations consist of loans to the Hamilton Conservation Authority, Canadian Football Hall of Fame, Wentworth Minor Football Association, Catholic Children's Aid Society, Winona Peach Festival, Redeemer University College and the Bob Kemp Hospice, with interest rates varying from 0% to 5.18% for terms of one year to thirty years.

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**4. Investment in Government Business Enterprises**

Hamilton Utilities Corporation and Hamilton Renewable Power Inc. are subsidiary corporations of the City and are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises.

In compliance with provincial legislation enacted to restructure the electrical industry in Ontario, the Hamilton Utilities Corporation ("H.U.C.") was incorporated on June 1, 2000. All of the assets and liabilities of the predecessor hydro-electric systems were transferred to H.U.C. During 2004 Hamilton Hydro Energy Inc. was established with the City's acceptance of a dividend in kind in the form of one common share from H.U.C. Effective June 1, 2005, the articles of incorporation reflected the amendment of a name change to Hamilton Renewable Power Inc. ("H.R.P.I.").

The amounts related to government business enterprises as reported in the Consolidated Statement of Operations for 2010 and 2009 is as reported by the Hamilton Utilities Corporation and Hamilton Renewable Power Inc.

	<u>2010</u>	<u>2009</u>
Net income (loss) from H.U.C.	\$ 3,790	\$ (594)
Net (loss) income from H.R.P.I.	<u>(369)</u>	<u>835</u>
Net income from Government Business Enterprises	<u>\$ 3,421</u>	<u>\$ 241</u>

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

	<u>2010</u>	<u>2009</u>
Investment in H.U.C.	\$ 189,104	\$ 185,314
Investment in H.R.P.I.	<u>127</u>	<u>496</u>
	<u>\$ 189,231</u>	<u>\$ 185,810</u>

## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

### 4. Investment in Government Business Enterprises (continued)

The following table provides condensed supplementary financial information for Hamilton Utilities Corporation reported by H.U.C. at December 31, 2010 and December 31, 2009 respectively.

	<u>2010</u>	<u>2009</u>
<b>Financial position</b>		
Current assets	\$ 133,176	\$ 104,180
Capital assets	340,887	326,376
Intangible assets	4,448	5,069
Goodwill	18,923	18,923
Future payments in lieu of taxes	<u>11,168</u>	<u>10,450</u>
 Total assets	 <u>508,602</u>	 <u>464,998</u>
 Current liabilities (including current portion of long term debt)	 91,527	 92,062
Long term liabilities	<u>189,244</u>	<u>149,864</u>
Total liabilities	280,771	241,926
Minority Interest	<u>38,727</u>	<u>37,758</u>
Net assets	<u>\$ 189,104</u>	<u>\$ 185,314</u>
 <b>Results of operations</b>		
Revenues	\$ 105,749	\$ 102,636
Operating expenses	(77,754)	(74,227)
Financing expenses	(8,552)	(8,076)
Other income	<u>645</u>	<u>840</u>
Equity earnings from operations	20,088	21,173
 Payment in lieu of taxes	 (6,317)	 (6,923)
Income from discontinued operations	-	-
Minority Interest	<u>(2,681)</u>	<u>(2,853)</u>
 Net Income	 11,090	 11,397
Dividends paid	(7,300)	(7,259)
Change in accounting policy	-	(4,732)
	<u>\$ 3,790</u>	<u>\$ (594)</u>

## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (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, 2010 and December 31, 2009 respectively.

	<u>2010</u>	<u>2009</u>
<b>Financial position</b>		
Current assets	\$ 1,706	\$ 2,284
Capital assets	10,819	11,191
Other assets	<u>32</u>	<u>32</u>
Total assets	<u>12,557</u>	<u>13,507</u>
Current liabilities		
(including current portion of long term debt)	1,425	1,559
Future payment in lieu of taxes	443	332
Long term debt	<u>4,562</u>	<u>5,120</u>
Total liabilities	6,430	7,011
Shareholder's equity	<u>6,000</u>	<u>6,000</u>
Net assets	<u>\$ 127</u>	<u>\$ 496</u>
<b>Results of operations</b>		
Revenues	\$ 4,328	\$ 4,367
Expenses	(3,440)	(3,532)
Dividends paid	<u>(1,257)</u>	<u>-</u>
Net (loss) income	<u>\$ (369)</u>	<u>\$ 835</u>

Hamilton Utilities Corporation's long term debt is comprised of senior unsecured debentures bearing interest at 6.25%, due July 31, 2012.

The notes to Hamilton Utilities Corporation's consolidated financial statements and Hamilton Renewable Power Inc.'s consolidated financial statements include commitments and contingencies that are disclosed in the City's notes to the consolidated financial statements as contractual obligations (Note 16) and contingent liabilities (Note 18).

## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (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>2010</u>	<u>2009</u>
<b>Revenue</b>		
Dividend revenue from H.U.C.	\$ 7,300	\$ 7,259
Property and other taxes received by the City from H.U.C.	504	490
Sale of Methane to H.R.P.I.	872	879
<b>Expenditures</b>		
Hydro purchased by the City from H.U.C.	22,231	22,703
Water and sewer billing contracted service with H.U.C.	3,628	3,428
Thermal and Electrical Energy purchased from H.U.C.	1,996	1,936
Thermal Energy purchased from H.R.P.I.	406	438
<b>Assets</b>		
Water user charges receivable from H.U.C.	10,205	9,790
Accounts receivable from H.R.P.I.	536	266
Long term receivable from H.R.P.I.	5,120	5,642
<b>Liabilities</b>		
Accounts Payable – H.U.C.	272	196

### 5. Deferred revenue - obligatory reserve funds

	<u>2010</u>	<u>2009</u>
Development charge reserve funds (Note 6)	\$ 67,425	\$ 35,111
Subdivider contributions	49	48
Recreational land dedicated under the Planning Act	10,054	6,651
Gasoline tax revenue: Provincial	20,503	20,222
Federal	8,506	1,173
Building Permit Revenue	7,376	3,370
	<u>\$ 113,913</u>	<u>\$ 66,575</u>

### 6. Continuity of development charge reserve funds

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	\$ 35,111	\$ 36,633
Development charge collections	48,694	21,000
Investment Income	1,031	1,147
Tangible capital assets acquisitions and construction	(15,431)	(22,146)
Operating expenses	(1,980)	(1,523)
Balance at the end of the year	<u>\$ 67,425</u>	<u>\$ 35,111</u>

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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**7. Long term liabilities – municipal operations**

- (a) The long term liabilities – municipal operations consists of long term debt for serial debentures and loans that mature in the years 2011 to 2026 with interest rates varying between 2.15% and 6.75% and obligations for leased tangible capital assets with payments from 2011 to 2051 at a discount rate of 5%. Long term debt in the form of a loan of \$25,000,000 is callable if construction on eligible tangible capital assets is not 25% complete by March 31, 2012. The balance of long term liabilities consists of the following:

	<u>2010</u>	<u>2009</u>
Long term debt incurred by the City	\$ 327,770	\$ 330,011
Long term debt incurred by the City for which other entities have assumed responsibility	<u>(23,371)</u>	<u>(26,494)</u>
Net long term debt	<u>\$ 304,399</u>	<u>\$ 303,517</u>
Long term liabilities for leased tangible capital assets incurred by the City	<u>\$ 3,387</u>	<u>\$ 4,067</u>
Net long term liabilities	<u>\$ 307,786</u>	<u>\$ 307,584</u>

- (b) In addition to long term liabilities incurred for City purposes, the City assumed the responsibility for the charges on long term debt originally incurred by local municipalities with respect to functions which are now a City responsibility.

The City also incurs long term debt on behalf of school boards and other non-consolidated boards. The responsibility for raising the amounts required to service this debt lies with these respective bodies. The City is contingently liable for the long term debt with respect to the tile drainage and shoreline property assistance loans for debentures for which the responsibility for repayment of principal and interest has been assumed by school boards and non-consolidated boards. The total amount of this contingent liability outstanding at December 31, 2010 is \$23,371,000 (2009 - \$26,494,000).

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

- (c) Of the \$304,399,000 long term debt (2009 - \$303,517,000) 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>2010</u>	<u>2009</u>
General revenues	\$ 298,910	\$ 295,600
Reserves and reserve funds	3,678	5,368
Wastewater user charges	1,800	2,533
Non-consolidated entities	<u>11</u>	<u>16</u>
	<u>\$ 304,399</u>	<u>\$ 303,517</u>

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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

(d) The total City principal repayments of long term debt in each of the next five years and thereafter are due as follows:

	General Revenues	Reserves and Reserve Funds	Wastewater User Charges	Non-consolidated Entities	<b>2010 Total</b>
2011	\$ 41,466	\$ 1,787	\$ 774	\$ 4	<b>\$ 44,031</b>
2012	25,025	1,891	69	2	<b>26,987</b>
2013	24,410	-	72	1	<b>24,483</b>
2014	25,411	-	76	1	<b>25,488</b>
2015	26,462	-	79	1	<b>26,542</b>
2016 and thereafter	<u>\$ 156,136</u>	<u>\$ -</u>	<u>\$ 730</u>	<u>\$ 2</u>	<u><b>\$ 156,868</b></u>
Total	<u>\$ 298,910</u>	<u>\$ 3,678</u>	<u>\$ 1,800</u>	<u>\$ 11</u>	<u><b>\$ 304,399</b></u>

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

	<b>2010</b>
2011	\$ 344
2012	344
2013	344
2014	344
2015	344
2016 and thereafter	<u>\$ 1,667</u>
Total	<u><b>\$ 3,387</b></u>

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

	<b>2010</b>	<b>2009</b>
Principal repayments	\$ 26,612	\$ 25,509
Interest expense	<u>13,688</u>	<u>14,664</u>
	<u><b>\$ 40,300</b></u>	<u><b>\$ 40,173</b></u>

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

	<b>2010</b>	<b>2009</b>
Principal repayments	\$ 680	\$ 1,096
Interest expense	<u>220</u>	<u>378</u>
	<u><b>\$ 900</b></u>	<u><b>\$ 1,474</b></u>

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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**8. Long term liabilities – housing corporation**

(a) The balance of long term liabilities – housing corporation reported on the Consolidated Statement of Financial Position represents capital assets of the City’s Housing Corporation that are financed by mortgages. The mortgages mature in the years 2011 to 2027 with interest rates varying between 2.61% and 8.00%. The mortgage obligations for CityHousing Hamilton are \$89,195,000 (2009 - \$93,279,000).

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

2011	\$	6,819
2012		19,288
2013		5,740
2014		28,897
2015		6,311
2016 and thereafter		<u>22,140</u>
		<u>\$ 89,195</u>

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

	<u>2010</u>	<u>2009</u>
Principal repayments	\$ 4,084	\$ 2,902
Interest expense	<u>3,963</u>	<u>3,683</u>
	<u>\$ 8,047</u>	<u>\$ 6,585</u>

(d) Other long term liabilities incurred by the City’s housing corporation, representing capital assets financed by debentures issued by the Ontario Housing Corporation of \$37,743,000 (2009 - \$40,667,000), 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 these long term liabilities remains the obligation of the Province of Ontario.

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**9. Employee future benefits and other obligations**

The City provides certain employee benefits that require funding in future periods. An estimate of these liabilities has been recorded in the Consolidated Statement of Financial Position. These amounts are summarized as follows:

	<u>2010</u>	<u>2009</u>
<b>Accrued Benefit Obligation</b>		
Sick leave benefit plan	\$ 40,534	\$ 39,292
Long term disability	13,677	12,333
Workplace safety and insurance board liabilities (WSIB)	57,153	52,960
Retirement benefits	102,506	101,625
Vacation benefits	23,865	23,039
Pension benefit plans (Note 10)	<u>88,154</u>	<u>100,883</u>
	<b>325,889</b>	<b>330,132</b>
Pension valuation allowance	68	504
Net unamortized actuarial loss	<u>(52,971)</u>	<u>(68,465)</u>
<b>Accrued Liability</b>	<b><u>\$ 272,986</u></b>	<b><u>\$ 262,171</u></b>

The City has established reserves for some of these liabilities totaling \$58,110,000 (2009 - \$54,334,000) as described in the following notes.

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

	<u>2010</u>	<u>2009</u>
Liability for Employee Future Benefits and Other Obligations		
balance at beginning of the year	\$ 262,171	\$ 203,211
Cost of plan amendment	-	36,829
Change in pension valuation allowance	(436)	(10,836)
Benefit expense	17,681	14,712
Interest expense	12,090	12,936
Amortization of actuarial loss on accrued benefit obligations	5,462	5,617
Amortization of actuarial loss (gain) on earnings on		
pension assets	472	23,510
Benefit payments	<u>(24,454)</u>	<u>(23,808)</u>
Liability for Employee Future Benefits and Other Obligations		
balance at end of the year	<b><u>\$ 272,986</u></b>	<b><u>\$ 262,171</u></b>

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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**9. Employee future benefits and other obligations (continued)**

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

	<u>2010</u>	<u>2009</u>
Cost of plan amendment	\$ -	\$ 36,829
Change in pension valuation allowance	(436)	(10,836)
Benefit expense	17,681	14,712
Interest expense	12,090	12,936
Amortization of net actuarial loss	5,934	29,127
	<u>\$ 35,269</u>	<u>\$ 82,768</u>

Actuarial valuations are performed on post employment, retirement benefits and pension benefits to provide estimates of the accrued benefit obligations. These estimates are based on a number of assumptions about future events including interest rates, inflation rates, salary and wage increases, medical and dental cost increases and mortality. The assumptions are determined at the time of the actuarial valuations and are reviewed annually. Consequently, different assumptions may be used as follows:

	Discount Rate	Return on Assets	Inflation Rate	Salary Increases	Dental Increases	Life Expectancy (Years)
Vested sick leave	5%	NA	2%	3%	NA	12
Long term disability	5%	NA	2%	3%	NA	10
Workplace safety and insurance	5%	NA	2%	3%	NA	10
Retirement Benefits – Health and Dental	5%	NA	2%	3%	3.5% (1)	12
Pensions Benefits (non-OMERS)	5%	6%	2.25%	NA (2)	NA	12.8

Note (1): Medical costs are assumed to increase at a rate of 4% in 2011 and 3.5% in 2012 and thereafter.  
 Note (2): There is no estimate for future salary and wage increases as there are no active employees in the pension plans.

**(a) Liability for sick leave benefit plans**

The City provides a sick leave benefit plan for certain employee groups. Under the sick leave benefit plan of the City, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the City's employment. An actuarial valuation as at December 31, 2010 has estimated the accrued benefit obligation at \$40,534,000 (2009 - \$39,292,000). Changes in valuation assumptions have resulted in an increase in the liability to \$40,534,000 from the expected liability of \$34,016,000. The actuarial loss as at December 31, 2010 of \$6,518,000 is being amortized over 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 \$8,965,000 (2009 - \$8,741,000).

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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**9. Employee future benefits and other obligations (continued)**

**(b) Liability for long term disability**

The City provides benefits in the event of total disability for certain employee groups. An actuarial valuation of the City's self insured long term disability program as at December 31, 2010 has estimated the accrued benefit obligation at \$13,677,000 (2009 - \$12,333,000). Changes in valuation assumptions have resulted in a decrease in the liability to \$13,677,000 from the expected liability of \$16,064,000. The actuarial gain as at December 31, 2010 of \$2,387,000 is being amortized over 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 \$13,122,000 (2009 - \$11,516,000).

**(c) Liability for workplace safety and insurance**

The City is liable for compensation related to workplace injuries as stipulated by the Workplace Safety & Insurance Act. An actuarial valuation as at December 31, 2010 estimated the accrued benefit obligation for workplace safety & insurance existing claims and future pension awards at \$57,153,000 (2009 - \$52,960,000). Changes in valuation assumptions have resulted in an increase in the liability to \$57,153,000 from the expected liability of \$48,478,000. The actuarial loss of \$8,675,000 is being amortized over the expected average remaining life expectancy of the plan members in various groups. Reserves established to provide for this liability are included on the Consolidated Statement of Financial Position in the amount of \$34,746,000 (2009 - \$32,833,000).

**(d) Liability for retirement benefits**

The City provides certain health, dental and life insurance benefits between the time an employee retires under the Ontario Municipal Employees Retirement System (OMERS) or the normal retirement age and up to the age of 65 years. An actuarial valuation at December 31, 2010 estimated the accrued benefit obligation at \$102,506,000 (2009 - \$101,625,000). The cost of a plan amendment and changes in valuation assumptions have resulted in an increase in the liability to \$102,506,000 from the expected liability of \$77,980,000. The actuarial loss of \$24,526,000 is being amortized over the expected average remaining life expectancy of the plan members in various groups.

**(e) Liability for vacation benefits**

The City is liable for vacation days earned by its employees as at December 31 but not taken until a later date. The liability as at December 31, 2010 has been estimated at \$23,865,000 (2009 - \$23,039,000). Reserves established to provide for this liability are included on the Consolidated Statement of Financial Position in the amount of \$1,277,000 (2009 - \$1,244,000).

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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**9. Employee future benefits and other obligations** (continued)

**(f) Liability for pensions plans**

The City provides pension plans other than the Ontario Municipal Employees Retirement System (OMERS) as described in Note 10. The actuarial valuations at December 31, 2010 estimated the combined accrued benefit obligation of the pension plans at \$88,154,000 (2009 – \$100,883,000). Changes in valuation assumptions including a pension valuation allowance of \$68,000 resulted in an increase in the liability to \$88,154,000 from an expected liability of \$72,585,000. The actuarial loss of \$15,637,000 is being amortized over the expected average remaining life expectancy of the plan members.

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**10. Pension agreements**

**(a) Ontario Municipal Employees Retirement System**

The City makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of approximately 6,585 members of City staff and councilors. 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, 2010 indicates a “going concern” Actuarial Deficit based on the plan’s current member and employer contribution rates. Contributions were made in the 2010 calendar year at rates ranging from 6.4% to 13.1% depending on the member’s designated retirement age and level of earnings. As a result \$36,000,000 (2009 - \$31,546,000) was contributed to OMERS for current service.

**(b) Other pension plans**

Approximately 520 employees of the City are members of three defined benefit pension plans and will be future beneficiaries under their terms and conditions. Actuarial valuations of the pension plans for funding purposes are required under the Pension Benefits Act every three years. The actuarial valuations of the pension plans for accounting purposes provide different results than the valuations for funding purposes resulting in a net asset position in one of the pension plans and a net liability in two of the pension plans.

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**10. Pension agreements (continued)**

**(b) Other pension plans**

The actuarial valuation of the Hamilton Wentworth Retirement Fund ("HWRF") pension plan as at December 31, 2010 is based on a number of assumptions about future events including mortality, inflation rates, salary and wage increases and interest rates. The net unamortized actuarial gain on plan assets and loss on the accrued benefit obligation is being amortized over ten 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>2010</u>	<u>2009</u>
Accrued pension benefit obligation - HWRF	\$ 87,792	\$ 91,491
Pension plan assets:		
Marketable securities	<u>(64,743)</u>	<u>(63,504)</u>
	23,049	27,987
Unamortized actuarial loss	<u>(3,808)</u>	<u>(6,263)</u>
Accrued pension liability - HWRF	<u>\$ 19,241</u>	<u>\$ 21,724</u>

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

	<u>2010</u>	<u>2009</u>
Expected pension fund assets at end of year	\$ 62,543	\$ 59,885
Actual pension fund assets at end of year	<u>64,743</u>	<u>63,504</u>
Actuarial gain on pension fund assets	<u>2,200</u>	<u>\$ 3,619</u>
Expected accrued pension benefit obligation at end of year	\$ 87,792	\$ 94,959
Actual accrued pension benefit obligation at end of year	<u>87,792</u>	<u>91,491</u>
Actuarial gain on accrued pension benefit obligation	<u>\$ -</u>	<u>\$ 3,468</u>

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

	<u>2010</u>	<u>2009</u>
Amortization of net actuarial loss on accrued pension benefit obligation	\$ 21	\$ 406
Amortization of net actuarial gain on pension plan assets	<u>234</u>	<u>637</u>
Net Amortization	255	1,043
Interest on average accrued pension benefit obligation	4,373	4,723
Expected return on average pension plan assets	<u>(3,671)</u>	<u>(3,527)</u>
Net Interest	<u>702</u>	<u>1,196</u>
Total expenses	<u>\$ 957</u>	<u>\$ 2,239</u>

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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**10. Pension agreements (continued)**

**(b) Other pension plans**

Payments of \$3,440,000 (2009 - \$3,596,000) 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, 2010 will be funded by the City with payments as follows:

2011	\$	<b>1,202</b>
2012		<b>1,202</b>
2013		<b>756</b>
2014		<b>545</b>
2015		<b>528</b>
2016 and thereafter		<b>3,211</b>
Total		<b><u>\$ 7,444</u></b>

The actuarial valuation of the Hamilton Municipal Retirement Fund ("HMRF") pension plan as at December 31, 2010 is based on a number of assumptions about future events including mortality, inflation rates, salary and wage increases and interest rates. The net unamortized actuarial gain on plan assets and gain on the accrued benefit obligation is being amortized over 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>2010</u>	<u>2009</u>
Accrued pension benefit obligation HMRF	\$ <b>91,150</b>	\$ 94,430
Pension plan assets:		
Marketable securities	<u>(85,667)</u>	<u>(85,607)</u>
	<b>5,483</b>	8,823
Unamortized actuarial loss	<u>(5,551)</u>	<u>(9,328)</u>
Accrued pension asset	<u>(68)</u>	<u>(505)</u>
Pension valuation allowance	<u>68</u>	<u>\$ 505</u>
Accrued pension liability - HMRF	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

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

	<u>2010</u>	<u>2009</u>
Expected pension fund assets at end of year	\$ <b>82,702</b>	\$ 80,733
Actual pension fund assets at end of year	<u>85,667</u>	<u>85,607</u>
Actuarial gain on pension fund assets – HMRF	<b><u>2,965</u></b>	<b><u>4,874</u></b>
Expected accrued pension benefit obligation at end of year	\$ <b>91,150</b>	\$ 97,130
Actual accrued pension benefit obligation at end of year	<u>91,150</u>	<u>94,430</u>
Actuarial gain on accrued pension benefit obligation - HMRF	<b><u>-</u></b>	<b><u>2,700</u></b>

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

	<u>2010</u>	<u>2009</u>
Change in pension valuation allowance	\$ <b>(436)</b>	\$ (1,414)
Amortization of net actuarial loss on accrued pension benefit obligation	<b>375</b>	583
Amortization of net actuarial gain on pension plan assets	<u>437</u>	<u>812</u>
Net Amortization	<b>812</b>	1,395

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## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

### 10. Pension agreements (continued)

(b) Other pension plans	<u>2010</u>	<u>2009</u>
Interest on average accrued pension benefit obligation	\$ 4,526	\$ 4,819
Expected return on average pension plan assets	<u>(4,902)</u>	<u>(4,800)</u>
Net Interest	<u>(376)</u>	<u>19</u>
Total expenses	<u>\$ -</u>	<u>\$ -</u>

The actuarial valuation of the HSR pension plan as at December 31, 2010 is based on a number of assumptions about future events including mortality, inflation rates, salary and wage increases and interest rates. 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>2010</u>	<u>2009</u>
Accrued pension benefit obligation	\$ 222,328	\$ 219,778
Pension plan assets:		
Marketable securities	<u>(162,706)</u>	<u>(155,707)</u>
	59,622	64,071
Unamortized actuarial loss	<u>(6,279)</u>	<u>(12,723)</u>
Accrued pension liability – HSR	<u>\$ 53,343</u>	<u>\$ 51,348</u>

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

	<u>2010</u>	<u>2009</u>
Expected pension fund assets at end of year	\$ 157,001	\$ 147,502
Actual pension fund assets at end of year	<u>162,706</u>	<u>155,707</u>
Actuarial gain on pension fund assets	<u>5,705</u>	<u>\$ 8,205</u>
Expected accrued pension benefit obligation at end of year	\$ 222,328	\$ 212,546
Actual accrued pension benefit obligation at end of year	<u>222,328</u>	<u>219,778</u>
Actuarial loss on accrued pension benefit obligation	<u>\$ -</u>	<u>\$ (7,232)</u>

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

	<u>2010</u>	<u>2009</u>
Prior period plan amendment	\$ -	\$ 36,829
Change in valuation allowance	\$ -	\$ (9,422)
Amortization of net actuarial loss on accrued pension benefit obligation	\$ 937	\$ 413
Amortization of net actuarial (loss) gain on pension plan assets	<u>(198)</u>	<u>22,061</u>
Net Amortization	739	22,474
Interest on average accrued pension benefit obligation	10,783	10,327
Expected return on average pension plan assets	<u>(9,108)</u>	<u>(8,586)</u>
Net Interest	<u>1,675</u>	<u>1,741</u>
Total expenses	<u>\$ 2,414</u>	<u>\$ 51,622</u>

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**10. Pension agreements (continued)**

**(b) Other pension plans**

Payments of \$419,000 (2009 – 274,000) have been applied to reduce the HSR pension plan deficit as actuarially determined for funding purposes. The pension deficit for the HSR pension plan as at December 31, 2010 will be funded by the City with payments as follows:

2011	\$	416
2012		416
2013		416
2014		416
2015		416
2016 and thereafter		<u>3,474</u>
Total		<u>\$ 5,554</u>

**11. Solid waste landfill liabilities**

The City owns and operates one open landfill site and it owns and maintains twelve (12) closed landfill sites. The active landfill site in the Glanbrook community was opened in 1980 covering 220 hectares with a capacity of 13,258,000 cubic metres of waste. As at December 31, 2010 the remaining capacity of the site is estimated at 7,326,000 cubic metres, representing 55% of the total capacity. In 2010 approximately 43% of waste generated was diverted from landfills (2009 – 41%). The open landfill site is estimated to reach its capacity and close in 2036.

The closure costs for the open Glanbrook landfill site and post closure care costs for the closed sites were based upon 2011 capital budget estimates, adjusted by 3% inflation, unexpended capital projects that were in progress in 2010 and estimates of operational support costs. These costs were then discounted back to December 31, 2010 using a discount factor of 5%. Post closure care for the Glanbrook site is estimated to be required for 25 years from the date of site closure. Studies continue to be undertaken to assess the liability associated with the City's closed landfill sites and the estimates will be updated as new information arises.

The liability of \$26,611,000 (2009 - \$26,952,000) for closure of the operational site and post closure care of the closed sites has been reported on the Consolidated Statement of Financial Position. A reserve of \$500,000 was established in 2010 to finance the future cost for closed landfill sites.

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**12. Accumulated Surplus**

The accumulated surplus balance is comprised of balances in reserves and discretionary reserve funds, operating surplus, capital surplus, unfunded liabilities to be recovered in the future investment in government business enterprises and investment in tangible capital assets.

	<u>2010</u>	<u>2009</u>
Reserves and discretionary reserve funds set aside for specific purposes by Council are comprised of the following:		
Working funds	\$ 48,628	\$ 38,394
Contingencies	1,265	1,233
Replacement of equipment	40,061	36,635
Sick leave (Note 9)	8,965	8,741
Workplace Safety and Insurance Board (WSIB)(Note 9)	34,746	32,833
Pension Plans	4,942	5,044
Self insurance (Note 17)	202	197
Operating programs	62,905	44,591
Tangible capital assets	<u>328,499</u>	<u>242,962</u>
<b>Total reserves</b>	<b>530,213</b>	<b>410,630</b>
Hamilton Future Fund (Note 13)	<u>72,990</u>	<u>73,426</u>
<b>Total reserves and discretionary reserve funds</b>	<b>\$ <u>603,203</u></b>	<b>\$ <u>484,056</u></b>
Operating surplus –		
Flamborough recreation sub-committees	\$ 215	\$ 197
Business improvement areas	258	188
Housing Operations	<u>478</u>	<u>421</u>
<b>Total operating surplus</b>	<b>\$ <u>951</u></b>	<b>\$ <u>806</u></b>
Capital surplus -		
Municipal Operations	\$ 85,294	\$ 184,761
Housing Operations	<u>22,542</u>	<u>20,731</u>
<b>Total capital surplus</b>	<b>\$ <u>107,836</u></b>	<b>\$ <u>205,492</u></b>
Unfunded liabilities -		
Employee benefit obligations (Note 9)	\$ (256,473)	(246,298)
Solid Waste Landfill Liabilities	<u>(26,611)</u>	<u>(26,952)</u>
<b>Total unfunded liabilities</b>	<b>\$ <u>(283,084)</u></b>	<b>\$ <u>(273,250)</u></b>
Investment in Government		
Business Enterprises (Note 4)	<u>\$ 189,231</u>	<u>\$ 185,810</u>
Investment in tangible capital assets	<u>\$ 3,722,776</u>	<u>\$ 3,492,082</u>
<b>Accumulated surplus</b>	<b>\$ <u>4,340,913</u></b>	<b>\$ <u>4,094,996</u></b>

## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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### 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>2010</u>	<u>2009</u>
Balance at the beginning of the year	\$ 73,426	\$ 74,928
<b>Revenues</b>		
Investment Income	<u>3,712</u>	<u>4,245</u>
<b>Operating expenses</b>		
Rental Supplement DOOR Program	-	(1,000)
Hamilton Artists Grant	-	(723)
Career Development & Placement	(7)	
Repayment of Waste Management Projects	<u>6,268</u>	<u>5,657</u>
	<u>6,261</u>	<u>3,934</u>
<b>Tangible capital assets</b>		
Waste Management Projects	(3,299)	(2,601)
Roads and Bridges	(807)	(4,751)
Municipal Wireless Project	-	(116)
Waterfront Trail Extension	-	(213)
Scenic Waterfall Program	-	(2,000)
2015 Pan Am Games	(5,573)	-
Career Development Resource Centre	(161)	-
Housing Partnership Fund	(341)	-
Urban Development Bank	(109)	-
Other	<u>(119)</u>	<u>-</u>
	<u>(10,409)</u>	<u>(9,681)</u>
Balance at the end of the year	<u>\$ 72,990</u>	<u>\$ 73,426</u>

### 14. Taxation

	Budget <u>2010</u> (unaudited)	Actual <u>2010</u>	Actual <u>2009</u>
Taxation from real property	\$ 863,577	\$ 871,170	\$ 843,029
Taxation from other governments payments in lieu of taxes	<u>14,000</u> 877,577	<u>14,835</u> 886,005	<u>14,553</u> 857,582
Less: Taxation collected on behalf of school boards	<u>(181,510)</u>	<u>(185,748)</u>	<u>(181,976)</u>
Net taxes available for municipal purposes	<u>\$ 696,067</u>	<u>\$ 700,257</u>	<u>\$ 675,606</u>

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**14. Taxation (continued)**

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).

**15. Government transfers**

**(a) Government transfers - grants, subsidies and contributions**

The City receives grants, subsidies and contributions from provincial and federal governments for general purposes, to finance specific program expenditures and to finance capital expenditures. Under the accrual basis of accounting these cash payments are recorded as grant revenues on the Consolidated Statement of Operations to the extent that the cash received is required to meet expenditures under the program. Any amount that is paid in excess of the program requirements is recorded as Deferred Revenue - General on the Consolidated Statement of Financial Position. Any amounts owed by the other governments are recorded as Accounts Receivable on the Consolidated Statement of Financial Position. Amounts received for payments-in-lieu of taxes are not reported as government transfers.

During 2010, the City received payments from the provincial and federal governments in the amount of \$514,927,000 (2009 - \$391,718,000) as follows:

	<u>2010</u>	<u>2009</u>
Government of the Province of Ontario	\$ 440,338	\$ 326,396
Government of Canada	<u>74,589</u>	<u>65,322</u>
Total	<u>\$ 514,927</u>	<u>\$ 391,718</u>

**(b) Government transfers - payments for social assistance entitlements, housing subsidies and grants**

The City makes discretionary and non-discretionary disbursements to individuals, institutions and agencies. These payments are recorded as expenditures in the Consolidated Statement of Operations to the extent that the payments meet the accrual basis of accounting. Amounts paid for Canada Pension Plan and investments in government debentures are not reported as government transfers. During 2010, the City issued payments as government transfers in the amount of \$252,541,000 (2009 - \$246,538,000) as follows:

	<u>2010</u>	<u>2009</u>
Payments for social assistance entitlements	\$ 162,678	\$ 170,776
Payments for housing subsidies	53,677	60,984
Grants to agencies and institutions	<u>36,186</u>	<u>14,778</u>
Total	<u>\$ 252,541</u>	<u>\$ 246,538</u>

## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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### 16. Contractual obligations

- (a) The City has outstanding contractual obligations of approximately \$769,105,000 at December 31, 2010 for capital works (2009 - \$306,953,000) 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, 2010 amounting to \$4,648,000 (2009 - \$4,797,000) are not reflected in the Consolidated Financial Statements. Payments made to the Ontario Realty Corporation amounting to \$148,000 in 2010 (2009 - \$72,000) are reported in the Consolidated Statement of Operations.
- (c) The City is legislated under the Development Charges Act to fund Government of Ontario ("GO") Transit's Growth and Capital Expansion Plan for 2005 to 2014. The obligation at December 31, 2010 of \$3,460,000 (2009: \$3,460,000) is reported in the Consolidated Statement of Financial Position. Payments are collected through development charges and remitted to Metrolinx, an agency of the Government of the Province of Ontario. Payments made to Metrolinx in the amount of \$467,000 in 2010 (2009: \$238,000) are reported in the Consolidated Statement of Operations.
- (d) The City has an agreement with a developer to design and install services in the Binbrook community 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 outstanding future obligations at December 31, 2010 amounting to \$587,000 (2009 - \$1,594,000) 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 \$1,881,000 in 2010 (2009 - \$283,000) are reported in the Consolidated Statement of Operations.
- (e) 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, 2010 amounting to \$8,421,000 (2009 - \$8,572,000) 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 \$571,000 in 2010 (2009 - \$266,000) are reported in the Consolidated Statement of Operations.
- (f) The City has agreements with BFI for the transfer, hauling and disposal of the City's solid waste. The term of the agreement is ten years and two months for the period of January 1, 2010 to February 29, 2020. The contract fees amounting to \$6,275,000 for 2010 are reported in the Consolidated Statement of Operations.
- (g) The City has an agreement with National Waste Services Inc. for the provision of curbside/roadside and automated recycling cart collection. The term of the agreement is five years for the period of March 31, 2008 to March 31, 2013. The contract fees amounting to \$6,321,000 for 2010 (2009 - \$6,147,000) are reported in the Consolidated Statement of Operations.

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**16. Contractual obligations** (continued)

(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 three years for the period of July 1, 2009 to June 30, 2012 with an option to renew for a further term up to five years. The annual contract fees amounting to \$11,168,000 (2009 - \$10,170,000) are reported in the Consolidated Statement of Operations.

(i) The City has lease agreements with Tradeport International Corporation for the management and operation of the City's airport. The term of the agreement is forty years for the period July 1, 1996 to June 30, 2036. Under the terms of the agreement, Tradeport is responsible for capital management and all operating costs. Revenue in the amount of \$217,000 (2009 - \$175,000) is reported on the Consolidated Statement of Operations.

(j) The City has executed lease agreements for administrative office space, computer equipment and radio communication equipment and infrastructure and golf cars requiring annual payments in future years as they become due and payable in the amount of \$58,803,000 (2009 - \$50,460,000). The minimum lease payments for these leases over the next five years and thereafter are:

2011	\$ 9,460
2012	8,310
2013	7,208
2014	6,411
2015	6,204
2016 and thereafter	<u>21,210</u>
	<u>\$ 58,803</u>

(k) 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. At year-end, no amounts were drawn on the letters of credit.

(l) 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 June 30, 2013. Interest rates payable on the Amended Credit Facility are based on a margin above prime or the BA rate, as the case may be, determined by reference to the Corporation's 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 (2009 - Nil). The Corporation has issued a \$9,101,000 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.

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**17. Public liability insurance**

The City has undertaken a portion of the risk for public liability, as a means of achieving cost effective risk management. As a result, the City is self-insured for public liability claims up to \$250,000 for any individual claim or for any number of claims arising out of a single occurrence. Outside insurance coverage is in place for claims in excess of \$250,000 to a maximum of \$25,000,000 per claim or occurrence.

## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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### 17. Public liability insurance (continued)

The City has reported liabilities for insurance claims on the Consolidated Statement of Financial position in the amount of \$22,112,000 (2009 - \$20,249,000). Claim expenses for the year in the amount of \$6,135,000 (2009 - \$9,775,000) are reported as expenses in the Consolidated Statement of Operations. 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, 2010 is \$202,000 (2009 - \$197,000).

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### 18. Contingent liabilities

- (a) The City is contingently liable for the repayment of principal and interest on long term debt issued on behalf of school boards and other unconsolidated boards (Note 7(b)). The responsibility for raising the amounts required to service this debt lies with these respective bodies. The total amount of this contingent liability outstanding at December 31, 2010 is \$23,371,000 (2009 - \$26,494,000).
- (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 2010 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 2010 (2009 - Nil). The amount of any additional loss will be recorded in the year in which the settlement occurs.
- (c) The City has outstanding contractual obligations with its unionized employee groups as of December 31, 2010. An estimated liability has been recorded on the Consolidated Statement of Financial Position to fund these settlements. Subsequent to December 31, 2010, there was a settlement with one of the unionized employee groups.
- (d) Pursuant to its order dated July 22, 2010 (the "Order"), the Ontario Superior Court of Justice approved the settlement of a class-action lawsuit which was served on the Toronto Hydro-Electric Commission on November 18, 1998. The original class action lawsuit of \$500 million against Toronto Hydro as the representative for all municipal electric utilities ("MEU") in Ontario that levied late payment charges on overdue utility bills at any time after April 1, 1981. The Order formalized the settlement against the defendant MEUs in the amount of \$17 million plus costs and taxes to be paid for all claims. Hamilton Utilities Corporation's share of \$1,100,000 is payable on June 30, 2011. On February 22, 2011, the Ontario Energy Board issued a decision and approved the recovery of all costs and damages arising from the settlement of this class action over a twelve month period commencing on May 1, 2011. H.U.C. has recorded the settlement as an operating expense and the regulatory recovery as electricity distribution revenue.



## City of Hamilton Notes to Consolidated Financial Statements

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

### 19. Tangible Capital Assets

The City has tangible capital assets valued at cost in the amount of \$6,398,562,000 (2009 - \$5,955,260,000) and a net book value of \$4,127,014,000 (2009 - \$3,900,423,000).

Amortization is calculated on a consumption basis using a decelerated deterioration curve for roads and a straight-line basis for all other assets. Estimated useful lives range from 4 years to 100 years as follows:

General - Land improvements	20 to 30 years
General - Buildings	40 years
General - Vehicles	4 to 17 years
General - Computer hardware and software	3 to 5 years
General - Other - Machinery and equipment	6 to 100 years
Infrastructure - Roads	18 to 50 years
Infrastructure - Bridges and other structures	40 to 75 years
Infrastructure - Water and wastewater facilities	40 years
Infrastructure - Underground and other networks	18 to 100 years

The cost, accumulated amortization, net book value and amortization expense have been reported in these consolidated financial statements.

Details of the tangible capital assets are included in the Schedule of Tangible Capital Assets (page 1-34 and 1-35). The net book value of the tangible capital assets valued as at December 31, 2010 is as follows:

	<u>2010</u>	<u>2009</u>
<b>General</b>		
Land	\$ 218,870	\$ 193,416
Land improvements	104,292	106,577
Buildings	364,989	291,476
Vehicles	127,757	125,461
Computer hardware and software	4,857	4,323
Other	64,490	61,396
<b>Infrastructure</b>		
Roads	1,212,319	1,244,350
Bridges and structures	159,313	160,935
Water and wastewater facilities	158,535	151,110
Underground and other networks	<u>1,440,216</u>	<u>1,380,969</u>
<b>Net Book Value</b>	<b>\$ 3,855,638</b>	<b>\$ 3,720,013</b>
<b>Assets under construction</b>	<u>271,376</u>	<u>180,410</u>
	<b>\$ 4,127,014</b>	<b>\$ 3,900,423</b>

In addition, the City has works of arts and historical treasures including sculptures, fine art, murals, cemetery crosses, cenotaphs, cannons and artillery that are preserved by the City but are not recorded as tangible capital assets.

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## City of Hamilton

### Notes to Consolidated Financial Statements

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

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#### 20. Reporting by Business Segment

The Consolidated Financial Statements provide a summary of the revenues and expenses for all of the services provided to the residents and businesses in the City of Hamilton as defined in the reporting entity (Note 1).

Revenues and expenses are reported by the following functions and services:

- General government: Office of the Mayor and council, corporate administration including fleet and facilities
- Protection services: police, fire, conservation authorities
- Transportation services: roads, winter maintenance, traffic, parking, transit
- Environmental services: water, wastewater, storm water, waste management collection, diversion & disposal
- Health services: public health, cemeteries and emergency medical services/ambulance
- Social and family services: general assistance, hostels, homes for the aged, services to aged persons, child care services
- Social housing: public housing, non-profit housing, rent supplement programs
- Recreation and cultural services: parks, recreation programs, recreation facilities, golf courses, marinas, museums, libraries, tourism and HECFI.
- Planning and development: planning, zoning, commercial and industrial development and residential development

Financial information about the City's business segments is included in the Schedule of Operations for Business Segments (pages 1-36 and 1-37).

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#### 21. Budget figures

The 2010 operating budget and capital financing for the housing corporation was approved by the CityHousing Hamilton Board at a meeting on January 7, 2010. The 2010 operating budget and capital financing for municipal operations was approved by City Council at a meeting on April 14, 2010.

The budget figures conform to the accounting standards adopted in CICA Public Sector Accounting Handbook section *PS1200 Financial Statement Presentation*. As such, the budget figures presented in the consolidated financial statements differ from the presentation approved by City Council.

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

2010 Schedule of Tangible Capital Assets

	General						Infrastructure					TOTAL
	Land	Land Improvements	Buildings	Vehicles	Computer	Other	Roads	Bridges & Other Structures	W/WW Facilities	Linear Network W/WW/SW	Assets Under Construction	
<b>Cost</b>												
Balance, Dec 31, 2009	\$ 193,416	\$ 197,508	\$ 716,126	\$ 244,774	\$ 10,331	\$ 88,715	\$ 1,932,173	\$ 199,353	\$ 420,142	\$ 1,772,312	\$ 180,410	\$ 5,955,260
Additions & Betterments in 2010	23,270	4,055	89,882	23,648	3,339	10,024	35,586	1,039	16,766	52,938	217,363	477,910
Disposals & Writedowns in 2010	(70)	(64)	(3,762)	(26,686)	(4,521)	(4,911)	(7,242)	(6)	(132)	(2,010)	(852)	(50,256)
Donations and Transfers in 2010	2,254	457	-	22	-	-	9,386	-	-	29,074	-	41,193
WIP Transfer to TCA in 2010	-	-	-	-	-	-	-	-	-	-	(125,545)	(125,545)
Balance, Dec 31, 2010	\$ 218,870	\$ 201,956	\$ 802,246	\$ 241,758	\$ 9,149	\$ 93,828	\$ 1,969,903	\$ 200,386	\$ 436,776	\$ 1,852,314	\$ 271,376	\$ 6,298,562
<b>Accumulated amortization</b>												
Balance, Dec 31, 2009	\$ -	\$ 90,931	\$ 424,650	\$ 119,313	\$ 6,008	\$ 27,319	\$ 687,823	\$ 38,418	\$ 269,032	\$ 391,343	\$ -	\$ 2,054,837
Amortization in 2010	-	6,768	16,276	20,111	2,805	6,930	76,243	2,660	9,209	22,765	-	163,767
Amortization on Disposals in 2010	-	(35)	(3,669)	(25,423)	(4,521)	(4,911)	(6,482)	(5)	-	(2,010)	-	(47,056)
Balance, Dec 31, 2010	\$ -	\$ 97,664	\$ 437,257	\$ 114,001	\$ 4,292	\$ 29,338	\$ 757,584	\$ 41,073	\$ 278,241	\$ 412,098	\$ -	\$ 2,171,548
<b>Net Book Value Dec 31, 2010</b>	\$ 218,870	\$ 104,292	\$ 364,989	\$ 127,757	\$ 4,857	\$ 64,490	\$ 1,212,319	\$ 159,313	\$ 158,535	\$ 1,440,216	\$ 271,376	\$ 4,127,014
<b>Assets Under Construction</b>	\$ -	\$ 16,708	\$ 73,599	\$ 1,158	\$ 1,734	\$ 11,185	\$ 15,087	\$ 13,536	\$ 124,162	\$ 14,207	\$ 271,376	
<b>Total</b>	\$ 218,870	\$ 121,000	\$ 438,588	\$ 128,915	\$ 6,591	\$ 75,675	\$ 1,227,406	\$ 172,849	\$ 282,697	\$ 1,454,423	\$	\$ 4,127,014

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

2009 Schedule of Tangible Capital Assets

	General						Infrastructure						TOTAL
	Land	Land Improvements	Buildings	Vehicles	Computer	Other	Roads	Bridges & Other Structures	W/WW Facilities	Linear Network W/WW/SW	Assets Under Construction		
<b>Cost</b>													
Balance, Dec 31, 2008	\$ 170,956	\$ 191,867	\$ 678,487	\$ 215,873	\$ 9,946	\$ 76,344	\$ 1,888,986	\$ 198,637	\$ 410,271	\$ 1,702,657	\$ 89,391	\$ 5,633,415	
Additions & Betterments in 2009	17,928	5,663	39,887	37,931	2,528	16,178	45,230	724	6,593	42,530	155,482	370,674	
Disposals & Writedowns in 2009	(1,034)	(407)	(2,248)	(9,130)	(2,143)	(3,807)	(7,500)	(8)	(121)	(1,613)	(1,936)	(29,947)	
Donations and Transfers in 2009	5,566	385	-	100	-	-	5,457	-	3,399	28,738	-	43,645	
WIP Transfer to TCA in 2009	-	-	-	-	-	-	-	-	-	-	(62,527)	(62,527)	
Balance, Dec 31, 2009	\$ 193,416	\$ 197,508	\$ 716,126	\$ 244,774	\$ 10,331	\$ 88,715	\$ 1,932,173	\$ 199,353	\$ 420,142	\$ 1,772,312	\$ 180,410	\$ 5,955,260	
<b>Accumulated amortization</b>													
Balance, Dec 31, 2008	\$ -	\$ 84,517	\$ 411,210	\$ 108,530	\$ 5,222	\$ 24,592	\$ 620,138	\$ 35,776	\$ 260,106	\$ 371,466	\$ -	\$ 1,921,556	
Amortization in 2009	-	6,618	15,688	18,948	2,929	6,534	73,289	2,649	9,032	21,490	-	157,177	
Amortization on Disposals in 2009	-	(204)	(2,248)	(8,165)	(2,143)	(3,807)	(5,604)	(7)	(106)	(1,613)	-	(23,896)	
Balance, Dec 31, 2009	\$ -	\$ 90,931	\$ 424,650	\$ 119,313	\$ 6,008	\$ 27,319	\$ 687,823	\$ 38,418	\$ 269,032	\$ 391,343	\$ -	\$ 2,054,837	
<b>Net Book Value Dec 31, 2009</b>	\$ 193,416	\$ 106,577	\$ 291,476	\$ 125,461	\$ 4,323	\$ 61,396	\$ 1,244,350	\$ 160,935	\$ 151,110	\$ 1,380,969	\$ 180,410	\$ 3,900,423	
<b>Assets Under Construction</b>	\$ -	\$ 9,120	\$ 72,984	\$ -	\$ 769	\$ 8,973	\$ 11,183	\$ 4,128	\$ 58,341	\$ 14,912	\$ 180,410		
<b>Total</b>	\$ 193,416	\$ 115,697	\$ 364,460	\$ 125,461	\$ 5,092	\$ 70,369	\$ 1,255,533	\$ 165,063	\$ 209,451	\$ 1,395,881	\$ 180,410	\$ 3,900,423	

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**2010 Schedule of Operations for Business Segments**

	General Government	Protection Services	Transportation services	Environmental services	Health services	Social and family services	Social housing	Recreation and cultural services	Planning and development	TOTAL 2010
<b>Revenue</b>										
Taxation	\$ 700,257	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 700,257
Government grants and contributions	30,220	17,212	40,737	126,066	44,879	194,681	48,883	17,631	587	520,896
User charges	3,934	7,004	52,981	160,277	3,753	12,091	328	15,520	9,228	265,116
Development charges and subdivider contributions	32,100	613	3,107	6,560	208	381	1,253	1,591	2,814	48,627
Donated tangible capital assets	-	673	18,245	(6,854)	11	40	(13)	2,299	1,977	16,378
Investment and dividend income	-	22	10,817	29,074	-	-	-	1,280	-	41,193
Income from Government Business	3,421	-	-	-	-	-	-	-	-	3,421
Other	17,667	17,565	8,082	1,109	153	13	32,786	9,504	1,644	88,523
<b>Total</b>	<b>\$ 787,599</b>	<b>\$ 43,089</b>	<b>\$ 133,969</b>	<b>\$ 316,232</b>	<b>\$ 49,004</b>	<b>\$ 207,206</b>	<b>\$ 83,237</b>	<b>\$ 47,825</b>	<b>\$ 16,250</b>	<b>\$ 1,684,411</b>
<b>Expenses</b>										
Salaries and benefits	\$ 43,273	\$ 212,623	\$ 86,697	\$ 38,188	\$ 58,979	\$ 67,836	\$ 9,347	\$ 67,401	\$ 22,590	\$ 606,934
Interest on long term debt	128	821	8,847	1,692	2	1,089	4,013	1,031	248	17,871
Materials and supplies	31,399	16,164	43,968	32,188	7,228	7,758	39,284	26,495	6,156	210,640
Contracted services	14,426	2,264	30,225	62,254	3,185	54,024	10,945	15,182	4,689	197,194
Rents and financial expenses	3,345	1,485	1,028	1,782	1,677	2,471	271	1,984	775	14,818
External transfers	-	4,483	-	-	31	159,586	57,107	5,228	835	227,270
Amortization	4,850	5,102	95,558	35,117	1,531	1,596	4,190	13,094	2,729	163,767
Interfunctional transfers	(31,088)	1,677	12,889	5,042	4,158	1,194	13	5,626	489	-
<b>Total</b>	<b>\$ 66,333</b>	<b>\$ 244,619</b>	<b>\$ 279,212</b>	<b>\$ 176,263</b>	<b>\$ 76,791</b>	<b>\$ 295,554</b>	<b>\$ 125,170</b>	<b>\$ 136,041</b>	<b>\$ 38,511</b>	<b>\$ 1,438,494</b>
<b>Annual Surplus</b>	<b>\$ 721,266</b>	<b>\$ (201,530)</b>	<b>\$ (145,243)</b>	<b>\$ 139,969</b>	<b>\$ (27,787)</b>	<b>\$ (88,348)</b>	<b>\$ (41,933)</b>	<b>\$ (88,216)</b>	<b>\$ (22,261)</b>	<b>\$ 245,917</b>

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

As at December 31, 2010 (all numbers in columns are in thousands of dollars)

**2009 Schedule of Operations for Business Segments**

	General Government	Protection Services	Transportation services	Environmental services	Health services	Social and family services	Social housing	Recreation and cultural services	Planning and development	TOTAL 2009
<b>Revenue</b>										
Taxation	\$ 675,606	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 675,606
Government grants and contributions	73,943	3,475	14,834	17,111	45,129	184,411	34,797	2,215	368	376,283
User charges	5,836	6,446	45,261	152,271	2,776	11,728	1,336	18,111	10,593	254,358
Development charges and subdivider contributions	5,349	998	18,182	(7,668)	174	-	-	6,251	-	23,286
Donated tangible capital assets	100	4,352	32,939	-	-	-	-	6,254	-	43,645
Investment and dividend income	34,045	768	3,661	5,162	921	617	1,504	1,902	3,020	51,600
Income from Government Business	241	-	-	-	-	-	-	-	-	241
Other	17,164	16,801	5,974	(795)	368	94	32,038	14,064	1,738	87,446
<b>Total</b>	<b>\$ 812,284</b>	<b>\$ 32,840</b>	<b>\$ 120,851</b>	<b>\$ 166,081</b>	<b>\$ 49,368</b>	<b>\$ 196,850</b>	<b>\$ 69,675</b>	<b>\$ 48,797</b>	<b>\$ 15,719</b>	<b>\$ 1,512,465</b>
<b>Expenses</b>										
Salaries and benefits	\$ 44,987	\$ 201,964	\$ 136,818	\$ 37,354	\$ 56,798	\$ 64,276	\$ 9,086	\$ 68,430	\$ 23,694	\$ 643,407
Interest on long term debt	311	898	9,010	1,888	3	1,158	3,738	1,117	272	18,395
Materials and supplies	42,871	14,771	34,547	31,500	7,975	8,637	36,773	25,993	6,321	209,388
Contracted services	13,397	3,290	41,831	52,881	3,419	53,304	8,821	10,564	3,993	191,500
Rents and financial expenses	3,417	1,331	1,990	805	931	3,617	792	1,682	902	15,467
External transfers	-	4,913	-	-	22	168,047	42,812	5,913	1,656	223,363
Amortization	4,394	4,855	91,020	33,597	1,473	1,563	4,785	12,815	2,675	157,177
Interfunctional transfers	(38,245)	3,303	14,954	7,798	3,816	414	(21)	6,889	1,092	-
<b>Total</b>	<b>\$ 71,132</b>	<b>\$ 235,325</b>	<b>\$ 330,170</b>	<b>\$ 165,823</b>	<b>\$ 74,437</b>	<b>\$ 301,016</b>	<b>\$ 106,786</b>	<b>\$ 133,403</b>	<b>\$ 40,605</b>	<b>\$ 1,458,697</b>
<b>Annual Surplus</b>	<b>\$ 741,152</b>	<b>\$ (202,485)</b>	<b>\$ (209,319)</b>	<b>\$ 258</b>	<b>\$ (25,069)</b>	<b>\$ (104,166)</b>	<b>\$ (37,111)</b>	<b>\$ (84,606)</b>	<b>\$ (24,886)</b>	<b>\$ 53,768</b>

**City of Hamilton**  
**Financial Statements for the**  
**Trust Funds**  
**Cemetery, Library and General Trusts**  
December 31, 2010

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## City of Hamilton Trust Funds - Consolidated

As at December 31, 2010

### Statement of Financial Position

	<u>2010</u>	<u>2009</u>
<b>Financial Assets</b>		
Cash	\$ 1,601,627	\$ 1,109,528
Accrued interest receivable	768,476	702,968
Investments (Note 2)	11,932,022	11,537,278
Deposits Hamilton Community Foundation (Note 3)	1,253,959	1,253,959
Due from City of Hamilton – Cemetery	373,233	323,573
Due from City of Hamilton – Library Trust Funds	363,586	363,263
Due from City of Hamilton – Other Trust Funds	<u>102,388</u>	<u>182,407</u>
<b>Total financial assets</b>	<b><u>\$ 16,395,290</u></b>	<b><u>\$ 15,472,976</u></b>
<b>Liabilities</b>		
Deposits	<u>\$ 198,945</u>	<u>\$ 253,362</u>
<b>Accumulated surplus</b>	<b><u>\$ 16,196,345</u></b>	<b><u>\$ 15,219,614</u></b>

### Statement of Operations

<b>Revenue</b>		
Cemetery lots and interments	\$ 1,134,144	\$ 666,100
Investment income	845,259	832,736
Transfer from other trust funds	-	9,831
Other revenue	<u>21,000</u>	<u>21,000</u>
<b>Total revenue</b>	<b><u>\$ 2,000,403</u></b>	<b><u>\$ 1,529,667</u></b>
<b>Expenses</b>		
Investment loss	\$ 112	\$ 226
Other	190,743	65,530
Transfer to other trust funds	<u>832,817</u>	<u>769,885</u>
<b>Total expenses</b>	<b><u>\$ 1,023,672</u></b>	<b><u>\$ 835,641</u></b>
<b>Annual surplus</b>	<b><u>\$ 976,731</u></b>	<b><u>\$ 694,026</u></b>
<b>Accumulated surplus at the beginning of the year</b>	<b><u>15,219,614</u></b>	<b><u>14,525,588</u></b>
<b>Accumulated surplus at the end of the year</b>	<b><u>\$ 16,196,345</u></b>	<b><u>\$ 15,219,614</u></b>

See accompanying notes to the financial statements

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# City of Hamilton

## Trust Funds

### Notes To The Financial Statements

As at December 31, 2010

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#### 1. Significant accounting policies

The financial statements of the City of Hamilton Trust Funds are the representation of management prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgements.

##### (a) Basis of Consolidation

These statements reflect the revenues, expenditures, assets and liabilities of the following trust funds:

- Fieldcote Farmer (Ancaster)
- Dundas Knowles Bequest
- Hamilton F. Walden Dundurn Castle
- Dundas Ellen Grafton
- Ancaster Parks Fund
- Ancaster Fieldcote Livingstone-Clarke
- Ancaster Fieldcote Shaver
- Hamilton Balfour Estate Chedoke
- Cemetery Trust Funds
- Municipal Election Surplus
- Ontario Home Renewal Program ("OHRP")
- Library - M. Walden Thompson Bequest
- Library - Central Library Special Gift Fund
- Library - Permanent Endowment Fund
- Library - Keetha McLaren Memorial Fund
- Library - F. Walden Library Bequest
- Library - Dundas Fundraising
- Library - Waterdown Fundraising

##### (b) Basis of Accounting

- (i) Sources of financing and expenditures are reported on the accrual basis of accounting.
- (ii) The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable.
- (iii) Revenues on the cemetery lots are recognized upon transfer of title of the deed.

## City of Hamilton

### Trust Funds

### Notes To The Financial Statements

As at December 31, 2010

#### 2. Investments

The total investments recorded at the lower of cost or market value in the balance sheet are \$11,932,022 (2009 - \$11,537,278). These investments have a market value of \$12,220,284 (2009- \$12,196,151) at the end of the year.

#### 3. Deposits – Hamilton Community Foundation

The library trust funds have funds invested with the Hamilton Community Foundation. These investments are recorded on the balance sheet at market value.

#### 4. Accumulated Surplus

2010

2009

The accumulated surplus consists of:

Cemeteries	<u>\$ 12,774,273</u>	<u>\$ 11,784,382</u>
Library		
M. Walden Thompson Estate	18,891	19,003
Special Gift Fund Central	1,950,196	1,897,725
Permanent Endowment Fund	594,190	571,485
Keetha McLaren Memorial Fund	27,808	26,972
F. Walden Library Bequest	61,582	60,763
Waterdown Library Fundraising	<u>40,423</u>	<u>39,379</u>
	<u>2,693,090</u>	<u>2,615,327</u>
Other		
Fieldcote Farmer (Ancaster)	343,144	344,673
Knowles Bequest (Dundas)	260,082	259,541
F. Walden Dundurn Castle (Hamilton)	5,337	5,199
Ellen Grafton (Dundas)	7,064	7,010
Fieldcote Livingstone-Clarke (Ancaster)	5,155	5,155
Fieldcote Shaver (Ancaster)	5,155	5,155
Municipal Election (Hamilton)	2,091	11,112
Balfour Estate Chedoke (Hamilton)	<u>100,954</u>	<u>182,060</u>
	<u>728,982</u>	<u>819,905</u>
	<u>\$ 16,196,345</u>	<u>\$ 15,219,614</u>

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**City of Hamilton**  
**Trust Funds - Cemetery**

As at December 31, 2010

---

**Statement of Financial Position**

	<u>2010</u>	<u>2009</u>
<b>Financial Assets</b>		
Cash	\$ 1,032,167	\$ 543,950
Due from City of Hamilton	363,586	323,573
Investments	<u>11,577,465</u>	<u>11,170,221</u>
<b>Total financial assets</b>	<b><u>\$ 12,973,218</u></b>	<b><u>\$ 12,037,744</u></b>
<b>Liabilities</b>		
Deposits	<u>\$ 198,945</u>	<u>\$ 253,362</u>
<b>Accumulated surplus</b>	<b><u>\$ 12,774,273</u></b>	<b><u>\$ 11,784,382</u></b>

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**Statement of Operations**

	<u>2010</u>	<u>2009</u>
<b>Revenue</b>		
Cemetery lots and interments	\$ 1,134,144	\$ 666,100
Investment income	<u>672,613</u>	<u>610,842</u>
<b>Total revenue</b>	<b><u>\$ 1,806,757</u></b>	<b><u>\$ 1,276,942</u></b>
<b>Expenses</b>		
Other	\$ 11,654	\$ 11,562
Transfer to other trust funds	<u>805,212</u>	<u>701,041</u>
<b>Total expenses</b>	<b><u>\$ 816,866</u></b>	<b><u>\$ 712,603</u></b>
<b>Annual surplus</b>	<b><u>\$ 989,891</u></b>	<b><u>\$ 564,339</u></b>
<b>Accumulated surplus at the beginning of the year</b>	<b><u>11,784,382</u></b>	<b><u>11,220,043</u></b>
<b>Accumulated surplus at the end of the year</b>	<b><u>\$ 12,774,273</u></b>	<b><u>\$ 11,784,382</u></b>

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See accompanying notes to the financial statements

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**City of Hamilton**  
**Trust Funds - Library**

As at December 31, 2010

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**Statement of Financial Position**

	<u>2010</u>	<u>2009</u>
<b>Financial Assets</b>		
Cash	\$ 297,423	\$ 295,137
Accrued interest receivable	768,476	702,968
Deposits Hamilton Community Foundation	1,253,959	1,253,959
Due from City of Hamilton	<u>373,232</u>	<u>363,263</u>
<b>Total financial assets</b>	<u>\$ 2,693,090</u>	<u>\$ 2,615,327</u>
<b>Accumulated surplus</b>	<u>\$ 2,693,090</u>	<u>\$ 2,615,327</u>

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**Statement of Operations**

	<u>2010</u>	<u>2009</u>
<b>Revenue</b>		
Investment income	\$ 146,900	\$ 212,589
Other revenue	<u>-</u>	<u>9,831</u>
<b>Total revenue</b>	<u>\$ 146,900</u>	<u>\$ 222,420</u>
<b>Expenses</b>		
Investment loss	\$ 112	\$ 226
Other	69,025	27,316
Transfer to other trust funds	<u>-</u>	<u>68,844</u>
<b>Total expenses</b>	<u>\$ 69,137</u>	<u>\$ 96,386</u>
<b>Annual surplus</b>	<u>\$ 77,763</u>	<u>\$ 126,034</u>
<b>Accumulated surplus at the beginning of the year</b>	<u>2,615,327</u>	<u>2,489,293</u>
<b>Accumulated surplus at the end of the year</b>	<u>\$ 2,693,090</u>	<u>\$ 2,615,327</u>

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See accompanying notes to the financial statements

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**City of Hamilton**  
**Trust Funds - Other**

As at December 31, 2010

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**Statement of Financial Position**

	<u>2010</u>	<u>2009</u>
<b>Financial Assets</b>		
Cash	\$ 272,037	\$ 270,441
Investments	354,557	367,057
Due from City of Hamilton	<u>102,388</u>	<u>182,407</u>
<b>Total financial assets</b>	<b><u>\$ 728,982</u></b>	<b><u>\$ 819,905</u></b>
<b>Accumulated surplus</b>	<b><u>\$ 728,982</u></b>	<b><u>\$ 819,905</u></b>

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**Statement of Operations**

	<u>2010</u>	<u>2009</u>
<b>Revenue</b>		
Investment income	\$ 25,746	\$ 9,305
Other revenue	<u>21,000</u>	<u>21,000</u>
<b>Total revenue</b>	<b><u>\$ 46,746</u></b>	<b><u>\$ 30,305</u></b>
<b>Expenses</b>		
Transfer to other trust funds	\$ 27,605	\$ -
Other	<u>110,064</u>	<u>26,652</u>
<b>Total expenses</b>	<b><u>\$ 137,669</u></b>	<b><u>\$ 26,652</u></b>
<b>Annual (deficit) surplus</b>	<b><u>\$ (90,923)</u></b>	<b><u>\$ 3,653</u></b>
<b>Accumulated surplus at the beginning of the year</b>	<b><u>819,905</u></b>	<b><u>816,252</u></b>
<b>Accumulated surplus at the end of the year</b>	<b><u>\$ 728,982</u></b>	<b><u>\$ 819,905</u></b>

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See accompanying notes to the financial statements

## Section 3

**City of Hamilton**  
**Financial Statements for the**  
**Trust Funds – Homes for the Aged**  
December 31, 2010

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## City of Hamilton Trust Funds – Homes for the Aged

As at December 31, 2010

### Statement of Financial Position

	Macassa Lodge Resident Trusts	Wentworth Lodge Resident Trusts	Macassa Lodge Other Trusts	Wentworth Lodge Other Trusts	<b>Total 2010</b>	Total 2009
<b>Financial assets</b>						
Cash	\$ 50,179	\$ 57,518	\$ 63,404	\$ 528,983	<b>\$ 700,084</b>	\$ 755,607
<b>Liabilities</b>						
Due to City	\$ -	\$ -	\$ -	\$ 3,274	<b>\$ 3,274</b>	\$ -
Accumulated surplus	<u>\$ 50,179</u>	<u>\$ 57,518</u>	<u>\$ 63,404</u>	<u>\$ 525,709</u>	<b><u>\$ 696,810</u></b>	<u>\$ 755,607</u>

### Statement of Operations

Year ended December 31, 2010

	Macassa Lodge Resident Trusts	Wentworth Lodge Resident Trusts	Macassa Lodge Other Trusts	Wentworth Lodge Other Trusts	<b>Total 2010</b>	Total 2009
<b>Revenue</b>						
Residents' deposits	\$ 129,025	\$ 132,798	\$ 8,624	\$ 13,106	<b>\$ 283,553</b>	\$ 238,763
Investment income	329	487	464	4,171	<b>5,451</b>	6,482
Donations	-	-	889	1,963	<b>2,852</b>	21,659
	<u>129,354</u>	<u>133,285</u>	<u>9,977</u>	<u>19,240</u>	<b><u>291,856</u></b>	<u>266,904</u>
<b>Expenses</b>						
Maintenance payments	13,576	48,244	-	-	<b>61,820</b>	53,946
Residents' charges	105,372	95,381	4,611	10,548	<b>215,912</b>	235,347
Payments to estates	6,165	9,722	-	-	<b>15,887</b>	15,800
Payments on discharge	-	-	-	-	-	237
Program purchases	-	-	-	57,034	<b>57,034</b>	4,792
	<u>125,113</u>	<u>153,347</u>	<u>4,611</u>	<u>67,582</u>	<b><u>350,653</u></b>	<u>310,122</u>
<b>Annual surplus</b>	4,241	(20,062)	5,366	(48,342)	<b>(58,797)</b>	(43,218)
<b>Accumulated surplus at the beginning of the year</b>	<u>45,938</u>	<u>77,580</u>	<u>58,038</u>	<u>574,051</u>	<b><u>755,607</u></b>	<u>798,825</u>
<b>Accumulated surplus at the end of the year</b>	<u>\$ 50,179</u>	<u>\$ 57,518</u>	<u>\$ 63,404</u>	<u>\$ 525,709</u>	<b><u>\$ 696,810</u></b>	<u>\$ 755,607</u>

See accompanying notes to the financial statements.

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

As at December 31, 2010

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**1. Purpose of Trust Funds**

The various Trust Funds administered by the City of Hamilton are established for the following purposes:

**Macassa and Wentworth Lodge Resident Trusts**

These Trust Funds are established for residents to receive their funds and to pay for their various charges including monthly maintenance payments.

**Macassa and Wentworth Lodge Other Trusts**

These Trust Funds are established for the receipts of funds from donations and fund raising activities. The funds are to be used for the benefit of lodge residents over and above normal capital and operating expenses of the lodges.

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**2. Significant accounting policies**

The financial statements of the Trust Funds of The City of Hamilton are the representation of management prepared in accordance with accounting principles prescribed for Ontario municipalities by the Ministry of Municipal Affairs and Housing.

**Basis of accounting**

Sources of financing and expenses are reported on the accrual basis of accounting.

The accrual basis of accounting recognizes revenues as they become available and measurable. Expenses are recognized as they are incurred and measurable.

## City of Hamilton Flag Protocol

**PURPOSE:** To provide direction with respect to Flag etiquette, the half-staffing and the raising of flags at Hamilton City Hall and City of Hamilton owned facilities.

**SCOPE:** This protocol applies to all properties and facilities owned and operated by the City of Hamilton, as well as the locations of all city-run events, except those where the policies of another government body would take precedence.

**RESPONSIBILITY:** The Mayor or his/her designate will be authorized to order the raising or lowering of flags at properties and facilities owned and operated by the City of Hamilton.

Corporate Communications will advise the Mayor or his/her designate of any actions for ensuring the flag protocol is adhered to and will prepare appropriate communications to inform the community of the lowering of the Flag. (i.e. press release/information on the City of Hamilton Website).

The Public Works Department will be responsible for the co-ordination and notification of appropriate staff for the raising or lowering of the flags as determined by the Mayor.

### **GOVERNING RULES AND REGULATIONS:**

#### **Protocol**

Protocol is the official form of ceremony, etiquette and diplomatic formality observed on State occasions. Protocol sets corporate standards for the Council and City Departments. Protocol events and activities are designed to be politically and culturally sensitive as well as to enhance the profile of the City of Hamilton.

It is recommended that flags be flown in front of City Hall in the following order beginning on the extreme left as viewed from the front of the building:

1. Canadian Flag
2. Provincial Flag
3. Municipal Flag

In the event multiple flags are flown together, the flags should be identical in size and height and flown from separate flagpoles. Flag protocol dictates that is improper to fly two or more flags on the same mast (e.g. One beneath the other) and therefore, shall be flown on separate flag poles.

### **Flying of the Flag at Half-staff**

Flags are flown at half-staff as a sign of mourning and respect upon death.

If there is more than one flag flying in unison, all flags flown together should be flown at half-staff.

Half-staffing will occur immediately upon notification of a death until sunset on the day of the funeral for the/a:

1. Sovereign or a member of the Royal Family related in the first degree to the Sovereign
2. Governor General of Canada (current/former)
3. Lieutenant Governor of Ontario (current/former)
4. Canadian Prime Minister (current/former)
5. Ontario Premier (current/former)
6. Mayor (current/former)
7. Member of Council (current and former of Hamilton, Ancaster, Dundas, Flamborough, Stoney Creek, Glanbrook)
8. Local Member of Federal or Provincial Government and Senators (current/former)
9. Current City Employees including Police, EMS and Fire Services to be lowered at the employee's immediate workplace. Should the workplace not fly flags, the flags flown at City Hall will be lowered to half-staff.

Half-staffing will also occur on:

1. Remembrance Day (November 11<sup>th</sup>)
2. Worker's Day of Mourning (April 28<sup>th</sup>)
3. Events/special circumstances such as events deemed to represent a significant tragedy or a loss of life, including publicly announced Canadian Forces fatal casualty on any Canadian or Canadian-involved mission at home or abroad

### **Flag Raising for Special Event**

Flag raising can enhance public awareness and support activities such as fund-raising drives, multi-cultural events. Requests for flag-raising for a special event, including fund-raising, multi-cultural events, are to be submitted to the Mayor's Office in writing at least four weeks prior to the requested date and must include the following:

1. Request for ceremony
2. Name, address, contact, title and phone number of organization
3. Date and time of the flag-raising ceremony
4. Name of flag to be raised
5. If request is to fly a cultural or fund-raising flag, flag must be provided to the City of Hamilton and will then be returned

Flags flown by special request, if the request is granted by the Mayor's office, will be flown for an appropriate period specified on a courtesy flag pole which will be located on the main floor of Hamilton City Hall.

At no time will the City of Hamilton display flags deemed to be inappropriate, offensive in nature or those supporting discrimination, prejudice, political, commercial entities or religious movements.

One request per organization per calendar year will be permitted. Requests will be considered on a first come first serve basis.

As a gesture of respect and friendship, the City of Hamilton will fly the appropriate flag on the occasion of a visiting dignitary. The flag will be flown for the duration of the visit to the City of Hamilton. However, where only the Canadian Flag is flown, it will not be displaced by a flag representing another nation.

### **Disposal of Flags**

When a flag becomes worn, noticeably faded or otherwise unfit to be flown, it should be disposed of in a respectful manner and immediately replaced.

**Statement of Investment  
Policies and Procedures**

City of Hamilton Defined  
Benefit Pension Plans Master  
Trust

March 2011

APPROVED on this                      day  
of                      , 2011

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## Section 1—Overview

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### 1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the “Policy”) provides the framework for the investment of the assets of the City of Hamilton Defined Benefit Pension Plans Master Trust (the “Master Trust”).

This Policy is based on the “prudent person portfolio approach” to ensure the prudent investment and administration of the assets of the Master Trust are within the parameters set out in the *Pension Benefits Act, (Ontario)* and the Regulations thereunder.

### 1.02 Background of the Master Trust

The inception date of the Master Trust is November 1, 1999, when three defined benefit pension plans (the Hamilton Municipal Retirement Fund (Registration number 0027512), the Hamilton Street Railway Pension Plan (Registration number 0253344), and the Hamilton Wentworth Retirement Fund (Registration number 1073352)) commingled their assets in the Master Trust for investment purposes. These Plans hold units of the Master Trust and share, on a pro-rata basis, in all income, expenses and capital gains and losses of the Master Trust.

For reference purposes, the details of the Statement of Investment Policies and Procedures for each of the above mentioned pension plans participating in the Master Trust have been attached to Appendix A of this policy.

### 1.03 Objective of The Plans

The objective of the Plans is to provide members of the Plans with retirement benefits prescribed under the terms thereof.

### 1.04 Investment and Risk Philosophy

The primary investment objective is to provide an economic return on assets sufficient to fund plan liabilities over the long-term, while adhering to prudent investment practices.

The investment philosophies and strategies must take into account both return and risk objectives of the Plans and the City of Hamilton.

In recognition of the risk and return objectives of the Plans and the City of Hamilton, an initial Asset Allocation Policy was developed based on the Plans’ current funded status and the characteristics of the Plans and City of Hamilton. It is recognized, however, that the Plans return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio to lower risk allocations dynamically as the Plans’ funded statuses improve.



**1.05 Administration**

The General Manager, Finance and Corporate Services for the City of Hamilton (the General Manager) is the designated contact person at the City for administrative purposes.

## Section 2—Asset Mix and Diversification Policy

---

### 2.01 Master Trust Return Expectations

Each of the Investment Managers appointed to invest the assets of the Master Trust (the “Investment Managers”) is directed to achieve a satisfactory long-term real rate of return through a diversified portfolio, consistent with acceptable risks, performance objectives and prudent management.

The overall goal of this Policy is to maximize the return of the Fund while bearing a reasonable level of risk relative to the liabilities in order to ensure the solvency of the Fund over time. The weights applied to each of the asset classes are based on the targets in the *Initial Asset Allocation* outlined in Section 2.03 and adjusted based on the target allocation in the *Dynamic Investment Policy Schedule* in Section 2.03.

### 2.02 Expected Volatility

The volatility of the Master Trust is directly related to its asset mix, specifically, the balance between Canadian bonds, Canadian equities and foreign equities. Since the Investment Managers do not have the authority to make any type of leveraged investment on behalf of the Master Trust, the volatility of the Master Trust should be similar to the volatility of the Benchmark Portfolio set out in Section 4.02 (Performance Measurement).

### 2.03 Asset Mix

(a) In order to achieve the long term objective within the risk/return considerations described in Section 1.04, the following asset mix policy (Benchmark Portfolio) and ranges were selected for the *Initial Asset Allocation*:

Assets	Minimum %	Initial Target Weight %	Maximum %	Asset Category
Canadian Equity	25	30	35	Return-Seeking
Global Equity	25	30	35	Return-Seeking
Total Equities	50	60	70	Return-Seeking
Fixed Income	30	40	50	Liability-Hedging

For purpose of the total asset mix described above, the Investment Managers’ asset class pooled funds are deemed to be 100% invested, even though these funds may contain a portion held in cash and cash equivalent instruments.

- (b) Return-Seeking Assets: These assets generally will consist of all non-fixed income investments, such as equities and alternatives, with a main focus on price appreciation with generally higher expected long-term returns.
- (c) Liability-Hedging Assets: These assets generally will be fixed-income investments, such as bonds, with similar duration characteristics as the pension liabilities (i.e., these assets generally behave like pension liabilities). Since these assets focus mainly on current income, their expected long-term returns will generally be lower than return-seeking assets.
- (d) Sub-Allocations and Rebalancing Ranges: The sub-allocations and rebalancing ranges within the return-seeking portfolio will be reviewed from time to time as the total return-seeking allocation changes due to the Dynamic Investment Policy Schedule below. The rebalancing ranges for the total return-seeking assets and liability-hedging assets (fixed income) are also determined by the Dynamic Investment Policy Schedule below.
- (e) In recognition of the risk and return objectives of the Plans and the City of Hamilton, an initial Asset Allocation Policy was developed based on the Plans' current funded statuses and the characteristics of the Plans and City of Hamilton. It is recognized, however, that the Plans' return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio dynamically as the Plans' funded statuses improve.

Based on an assessment of the Plans' long-term goals and desired risk levels, the Investment Committee has developed an investment policy that dynamically adjusts the allocation to return-seeking assets and liability-hedging assets as the Plans' funded statuses improve. Funded status may change due to any combination of investment returns, contributions, benefit payments, fund expenses, and changes to liabilities (including discount rate changes). This policy is based on the results of the 2010 Dynamic Investment Policy Study and is as follows:

Funded Ratio <sup>12</sup>	Return -Seeking Allocation		
	Minimum	Target	Maximum
<65%	50%	60%	70%
65%	50%	60%	70%
66%	50%	60%	70%
67%	50%	60%	70%
68%	50%	60%	70%
69%	50%	60%	70%
70%	50%	60%	70%
71%	49%	59%	69%
72%	47%	57%	67%
73%	46%	56%	66%
74%	44%	54%	64%
75%	43%	53%	63%
76%	41%	51%	61%
77%	40%	50%	60%
78%	38%	48%	58%
79%	37%	47%	57%
80%	35%	45%	55%
81%	34%	44%	54%
82%	32%	42%	52%
83%	31%	41%	51%

Return -Seeking Allocation			
Funded Ratio <sup>1,2</sup>	Minimum	Target	Maximum
84%	29%	39%	49%
85%	28%	38%	48%
86%	26%	36%	46%
87%	25%	35%	45%
88%	23%	33%	43%
89%	22%	32%	42%
90%	20%	30%	40%
91%	19%	29%	39%
92%	17%	27%	37%
93%	16%	26%	36%
94%	14%	24%	34%
95%	13%	23%	33%
96%	11%	21%	31%
97%	10%	20%	30%
98%	8%	18%	28%
99%	7%	17%	27%
100%	5%	15%	25%
>100%	5%	15%	25%

<sup>1</sup> Funded ratio defined on a Wind-up basis.

<sup>2</sup> Funded ratio will change based on any combination of investment returns, contributions, benefits payments, expenses and changes in liabilities.

Sub-Allocations: The sub-allocations within the liability hedging and return seeking categories will be drawn down approximately based on the table below. However, allocations to illiquid assets may be adjusted at a slower rate. Sub-allocations should be within 5% of their targets. The sub-allocations would be adjusted proportionately when the return-seeking allocation is between levels listed in the table below.

	Return Seeking		Liability Hedging	
	Canadian Equity	Global Equity	Long-Term Bonds	Real Return Bonds
15% return seeking	8%	7%	11%	74%
20% return seeking	10%	10%	12%	68%
25% return seeking	13%	12%	14%	61%
30% return seeking	15%	15%	15%	55%
35% return seeking	18%	17%	17%	48%
40% return seeking	20%	20%	18%	42%
45% return seeking	23%	22%	20%	35%
50% return seeking	25%	25%	21%	29%
55% return seeking	28%	27%	23%	22%
60% return seeking	30%	30%	25%	15%

Duration Strategy: Based on the Dynamic Investment Policy Study completed in 2010, the portfolio interest rate dollar duration will increase as the funded status improves and the allocation to liability hedging assets increases. Interest rate derivatives may be used on either a strategic or opportunistic basis to mitigate risk by increasing the hedge ratio up to 100%. This will be at the discretion of the Investment Committee and based on the duration of the plan liabilities.

Rebalancing and Monitoring: A systematic rebalancing procedure will be utilized to ensure that the asset allocation of the Fund stays within the ranges defined above. As

the return-seeking asset allocation changes, the sub-category allocations will be kept approximately proportional to the initial allocation specified above. However, the allocations to illiquid investments may be adjusted more slowly. The funded ratio and asset allocation will be reviewed regularly or when significant cash flows occur, but no less than on a monthly basis. The Fund will be rebalanced as necessary, making use of benefit payments and contributions to the extent possible and considering the transaction costs involved in the rebalancing.

#### **2.04 Management Structure**

The Master Trust employs a mix of active and passive management styles. Active management provides the opportunity to outperform specific investment benchmarks and it can provide lower absolute volatility of returns. Passive, or index, management minimizes the risk of underperformance relative to a benchmark index and is generally less expensive than active management. This approach also diversifies the manager risk, making the Master Trust less reliant on the skills of a single Investment Manager.

Because holding large amounts of foreign assets can expose the Master Trust to fluctuations in the level of the Canadian dollar, a portion of the foreign assets may be hedged back into Canadian dollars..

## Section 3—Permitted and Prohibited Investments

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### 3.01 General Guidelines

The investments of the Master Trust must comply with the requirements and restrictions set out in the *Income Tax Act (Canada)* and the *Pension Benefits Act (Ontario)*, and their respective Regulations.

### 3.02 Permitted Investments

In general, and subject to the restrictions in this Section 3, the Investment Managers may invest in any of the following asset classes and in any of the investment instruments listed below:

- (a) **Canadian and Foreign Equities**
  - (i) Common and convertible preferred stock the shares of which are (a) listed on a prescribed stock exchange in Canada; or (b) listed on a prescribed stock exchange outside Canada;
  - (ii) Debentures convertible into common or convertible preferred stock, provided such instruments are traded on a recognized public exchange or through established investment dealers;
  - (iii) Rights, warrants and special warrants for common or convertible preferred stock the shares of which are (a) listed on a prescribed stock exchange in Canada; or (b) listed on a prescribed stock exchange outside Canada;
  - (iv) Private placement equities, where the security will be eligible for trading on a recognized public exchange within a reasonable and defined time frame;
  - (v) Instalment receipts, American Depository Receipts, Global Depository Receipts and similar exchange traded instruments;
  - (vi) Units of real estate investment trusts (REITs);
  - (vii) Exchange traded index-participation units (e.g., iUnits; SPDRs);
  - (viii) Income trusts registered as reporting issuers under the Securities Act, domiciled in a Canadian jurisdiction that provides limited liability protection to unit holders; and
  - (ix) Units of limited partnerships which are listed on the TSX exchange.

- (b) **Canadian and Foreign Fixed Income**
- (i) Bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness of Canadian or developed market foreign issuers whether denominated and payable in Canadian dollars or a foreign currency, provided such instruments are traded on a recognized public exchange or through established investment dealers, subject to Section 3.04 below;
  - (ii) Real return bonds;
  - (iii) Mortgages secured against Canadian real estate subject to Section 3.05 below;
  - (iv) Mortgage-backed securities, *guaranteed under the National Housing Act*;
  - (v) Term deposits and *guaranteed investment certificates*;
  - (vi) Private placements of bonds subject to Section 3.03 below; and,
  - (vii) Investment in bond and debenture issues of the City of Hamilton and affiliated bodies is neither encouraged nor discouraged. The decision by the Investment Manager(s) to invest in such issues is entirely their responsibility and they should be governed by the same degree of due diligence and prudence that they would apply when assessing any other investment.
- (c) **Cash and Short Term Investments**
- (i) Cash on hand and demand deposits;
  - (ii) Canadian and U.S. Treasury bills and bonds (with remaining maturities not exceeding 365 days) issued by the federal and provincial governments and their agencies;
  - (iii) Sovereign short-term debt instruments of developed countries, with maturities not exceeding 365 days;
  - (iv) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances;
  - (v) Commercial paper and term deposits; and
  - (vi) Other money market instruments (maturity not exceeding 365 days).
- (d) **Derivatives**
- The following uses of non-leveraged derivative instruments are permitted:
- (i) Covered put and/or call options with respect to publicly traded securities that are held in the portfolio

- (ii) The Manager of an index portfolio may utilize fully backed, i.e. non-leveraged, derivative strategies designed to replicate the performance of specific market indices, i.e.- exchange-traded equity index futures contracts;
  - (iii) Investment Managers may use currency futures contracts and forward contracts to hedge foreign currency exposure; and
  - (iv) Interest rate derivatives can be used to hedge the interest rate risk in the liabilities.
- (e) **Other Investments**
- (i) Investments in open-ended or closed-ended pooled funds provided that the assets of such funds are permissible investments under this Policy, and
  - (ii) Deposit accounts of the Custodian can be used to invest surplus cash holdings.
- (f) **Index Mandates**
- (i) For managers of index mandates, permitted investment vehicles may include all instruments that may form part of the respective index.

### 3.03 Minimum Quality Requirements

- (a) **Quality Standards**
- Within the investment restrictions for individual portfolios, all portfolios should hold a prudently diversified exposure to the intended market.
- (i) The minimum quality standard for individual bonds and debentures is 'BBB' or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.
  - (ii) The minimum quality standard for individual short term investments is 'R-1' low or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.
  - (iii) The minimum quality standard for individual preferred shares is 'P-1' or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.
  - (iv) All investments shall be reasonably liquid (i.e. in normal circumstances they should be capable of liquidation within 1 month).
- (b) **Split Ratings**
- In cases where the Recognized Bond Rating Agencies do not agree on the credit rating, the bond will be classified according to the methodology used by DEX, which states:
- (i) If two agencies rate a security, use the lower of the two ratings;
  - (ii) If three agencies rate a security, use the most common; and



(iii) If all three agencies disagree, use the middle rating

(c) **Downgrades in Credit Quality**

A Manager will take the following steps in the event of a downgrade in the credit rating of a portfolio asset by a Recognized Rating Agency to below the purchase standards set out in Section 3.03 (a) Quality Standards:

- (i) The client will be notified of the downgrade by telephone at the earliest possible opportunity;
- (ii) Within ten business days of the downgrade, the Manager will advise the Client in writing of the course of action taken or to be taken by the Manager, and its rationale; and
- (iii) Immediately upon downgrade, the Manager will place the asset on a Watch List subject to monthly review by the Manager with the Client until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in the above guidelines.

(d) **Rating Agencies**

For the purposes of this Policy, the following rating agencies shall be considered to be 'Recognized Bond Rating Agencies':

- (i) Dominion Bond Rating Service;
- (ii) Standard and Poor's;
- (iii) Moody's Investors Services; and
- (iv) Fitch Ratings

(e) **Private Placement Bonds**

Private placement bonds are permitted subject to **all** of the following conditions:

- (i) The issues acquired must be 'A' or equivalent rated;
- (ii) The total investment in such issues must **not** exceed 10% of the market value of the Investment Manager(s) bond portfolio;
- (iii) The Investment Manager's portfolio may **not** hold more than 5% of the market value of any one private placement;
- (iv) The Investment Manager(s) must be satisfied that there is sufficient liquidity to ensure sale at a reasonable price; and
- (v) The minimum issue size for any single security must be at least \$150 million.

### 3.04 Maximum Quantity Restrictions

#### (a) Total Fund Level

No one equity holding shall represent more than 10% of the total book value of the Master Trust's assets.

#### (b) Individual Investment Manager Level

The Investment Manager(s) shall adhere to the following restrictions:

##### (i) *Equities*

- (A) No one equity holding shall represent more than the greater of 10% of the market value of any one Manager's equity portfolio.
- (B) No one equity holding shall represent more than 10% of the voting shares of a corporation.
- (C) No one equity holding shall represent more than 10% of the available public float of such equity security.
- (D) Income Trusts shall not comprise more than 15% of any Investment Manager's Canadian equity portfolio.

##### (ii) *Bonds and Short Term*

- (A) Except for federal and provincial bonds (including government guaranteed bonds), no more than 10% of a manager's bond portfolio may be invested in the bonds of a single issuer and its related companies.
- (B) Except for federal and provincial bonds, no one bond holding shall represent more than 10% of the market value of the total outstanding for that bond issue.
- (C) No more than 8% of the market value of a manager's bond portfolio shall be invested in bonds rated 'BBB' or equivalent.
- (D) This Policy will permit the continued holding of instruments whose ratings are downgraded below BBB after purchase, provided that such instruments are disposed of in an orderly fashion.
- (E) No more than 10% of the market value of a manager's bond portfolio shall be invested in bonds denominated in a currency other than Canadian dollars.
- (F) No more than 10% percent of the market value of the bond portfolio may be held in real return bonds.

##### (iii) *Other*

The use of derivative securities shall be supported at all times by the explicit allocation of sufficient assets to back the intended derivative strategy. For greater certainty, Investment Managers are not permitted to leverage the assets of the Master Trust. The use of derivative securities is

only permitted for the uses described in this Policy. Purchase or sale of any of these instruments for speculative purposes is prohibited.

Notwithstanding the limits described in this Section, the single security limits do not apply to an Investment Manager's index mandate.

### **3.05 Prior Permission Required**

The following investments are permitted **provided that** prior permission for such investments has been obtained from the General Manager:

- (a) Investments in private placement equities (except for the foreign equity managers investing in pooled funds where the pooled fund policy permits private placement equities).
- (b) Direct investments in mortgages.
- (c) Direct investments in any one parcel of real property that has a book value less than or equal to 5% of the book value of the Master Trust's assets. The aggregate book value of all investments in real property and Canadian resource properties shall not exceed 25% of the book value of the Master Trust's assets.
- (d) Direct investments in venture capital financing or private equity partnerships; and
- (e) Derivatives other than those described in 3.02(d).

### **3.06 Prohibited Investments**

The Investment managers shall not:

- (a) Invest in companies for the purpose of managing them;
- (b) Invest in securities that would result in the imposition of a tax on the Fund under the Income Tax Act (Canada) unless they provide a prior written acknowledgement that such investments will result in a tax and receive prior written permission for such investments from the Committee; or;
- (c) Make any investments not specifically permitted by this Policy.

### **3.07 Securities Lending**

The investments of the Master Trust may be loaned, for the purpose of generating revenue for the Fund, subject to the provisions of the *Pension Benefits Act (Ontario)* and the *Income Tax Act (Canada)*, and applicable regulations.

For securities held in segregated accounts, such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and bankers' acceptances of chartered banks. For bonds, the security held must have a market value of at least 105% of the market value of the loaned securities. For equities, the security held must have a market value of at least 105% of the market value of the loaned securities for Canadian and Non-North American equities, and 102% for U.S. equities. This market value relationship must be calculated at least daily.

The terms and conditions of any securities lending program will be set out in a contract with the custodian. The custodian shall, at all times, ensure that the Chief Investments Officer has a current list of those institutions that are approved to borrow the Fund's investments.

Lending of the portion of the Master Trust's assets held in a pooled fund is governed by the terms of the conditions set out in the pooled fund Statement of Investment Policies and Goals or similar document.

### **3.08 Borrowing**

The Master Trust shall not borrow money, except to cover short-term contingency and the borrowing is for a period that does not exceed ninety days, subject to the *Pension Benefits Act (Ontario)*, the *Income Tax Act (Canada)* and the written permission of the General Manager.

### **3.09 Conflicts Between the Policy and Pooled Fund Investment Policies**

While the guidelines in this Policy are intended to guide the management of the Master Trust, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between the Policy and the investment policy of a pooled fund. In that case, the Investment Manager is expected to notify General Manager upon the initial review of the Policy and whenever a change in the pooled fund policy creates a conflict. However, it is understood that the pooled fund policy shall dominate.

## Section 4—Monitoring and Control

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### 4.01 Delegation of Responsibilities

The General Manager, Finance and Corporate Services, for the City of Hamilton is the designated contact person for administrative matters. Overall responsibility for the Master Trust ultimately rests with City Council. However, City Council has delegated certain administrative duties and responsibilities to internal and external agents.

(a) **Chief Investments Officer**

The Chief Investments Officer is responsible for:

- (i) monitoring the Master Trust asset mix and rebalancing as required, including executing asset mix changes required per the Dynamic Policy schedules outlined in section 2.03;
- (ii) day-to-day liaison including contract management with external Investment Managers and the Investment Consultant;
- (iii) monitoring and budgeting for cash flow within the pension fund;
- (iv) researching, recommending and implementing improvements to asset management of the Master Trust, and
- (v) directing and implementing strategy for self managed portfolios, if any.

(b) **Investment Managers**

The Investment Managers will:

- (i) invest the assets of the Master Trust in accordance with this Policy;
- (ii) meet with the Chief Investments Officer as required and provide written reports regarding the Investment Manager's past performance, their future strategies and other issues as requested;
- (iii) notify the Master Trust, in writing of any significant changes in the Investment Manager's philosophies and policies, personnel or organization and procedures;
- (iv) will provide periodically, but no less than quarterly, lists of assets and such other information as may be requested by the Chief Investments Officer; and,
- (v) file quarterly compliance reports (see section 4.03).

(c) **Custodian/Trustee**

The custodian/trustee will:

- (i) Fulfil the regular duties of a Custodian/Trustee as required by law;
- (ii) maintain safe custody over the assets of the Master Trust Plans;
- (iii) execute the instructions of the Chief Investments Officer and the Investment Managers; and,
- (iv) record income and provide financial statements to the Chief Investments Officer monthly, or as required.

(d) **Investment Consultant**

The investment consultant will:

- (i) assist the Chief Investments Officer in developing a prudent long-term asset mix, and specific investment objectives and policies;
- (ii) monitor, analyse and report on the Master Trust's investment performance and to support the Chief Investments Officer on any investment related matters;
- (iii) monitor and report the funded status of the Plans on a monthly basis to the Chief Investments Officer;
- (iv) assist with the selection of Investment Managers, custodians and other suppliers; and
- (v) meet with the Chief Investments Officer as required.

(e) **Actuary**

The actuary will:

- (i) perform actuarial valuations of the Plan as required; and,
- (ii) advise the Chief Investment Officer on any matters relating to Plan design, membership and contributions.

#### **4.02 Performance Measurement**

For purposes of evaluating the performance of the Master Trust and the Investment Managers, all rates of returns are measured over moving four-year periods. Return objectives are net of fees and include realized and unrealized capital gains or losses plus income from all sources. Returns will be measured quarterly and will be calculated as time-weighted rates of return.

(a) **Active Canadian Equity Managers**

Investment results of the active Canadian Equity Managers are to be tested regularly against a Benchmark Portfolio comprising:

Benchmark	%
S&P/TSX Composite Index	100

(b) **Active Global Equity Managers**

Investment results of the active and index Global Equity Managers are to be tested regularly against a long-term Benchmark Portfolio comprising:

Benchmark	%
MSCI World Index (C\$)	100

(c) **Active and Index Canadian Bond Managers – Long Bonds**

Investment results of the active and index Canadian Bond Managers for Long Bonds are to be tested regularly against a Benchmark Portfolio comprising:

Benchmark	%
DEX Universe Long Bond Index	100

(d) **Active and Index Canadian Bond Managers – Real Return Bonds**

Investment results of the active and index Canadian Bond Managers for Real Return Bonds are to be tested regularly against a Benchmark Portfolio comprising:

Benchmark	%
DEX Universe Real Return Bond Index	100

#### **4.03 Compliance Reporting by Investment Manager**

The Investment Managers are required to complete and deliver a compliance report to the Chief Investments Officer and the Investment Consultant each quarter. The compliance report will indicate whether or not the Investment Manager was in compliance with this Policy during the quarter.

In the event that an Investment Manager is not in compliance with this Policy, the Investment Manager is required to advise the Chief Investments Officer immediately, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation.

The Master Trust invests in pooled funds with separate investment policies. In that case, the Investment Manager must confirm compliance to the pooled fund policy. In addition, should a conflict arise between a pooled fund policy and this Policy, the Investment Manager is required to advise the Chief Investments Officer immediately and detail the nature of the conflict.

#### **4.04 Standard of Professional Conduct**

The Investment Managers are expected to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.

The Investment Managers will manage the assets with the care, diligence and skill that an investment manager of ordinary prudence would use in dealing with pension plan assets. The Investment Managers will also use all relevant knowledge and skill that they possess or ought to possess as prudent investment managers.



## Section 5—Administration

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### 5.01 Conflicts of Interest

#### (a) Responsibilities

This standard applies to the City's staff, as well as to all agents employed by the City, in the execution of their responsibilities under the *Pension Benefits Act (Ontario)* (the "Affected Persons").

An "agent" is defined to mean a company, organization, association or individual, as well as its employees who are retained by the Administrator to provide specific services with respect to the investment, administration and management of the assets of the Master Trust.

#### (b) Disclosure

In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Master Trust assets.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the Administrator.

No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the employee deals in the course of performance of his or her duties and responsibilities for the Master Trust.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the General Manager immediately. The General Manager, in turn, will decide what action is appropriate under the circumstances.

No Affected Person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure, unless otherwise determined permissible by decision of the General Manager.

## **5.02 Related Party Transactions**

The Chief Investments Officer, on behalf of the Master Trust, may not enter into a transaction with a related party unless:

- (a) the transaction is both required for operation and or administration of the Master Trust and the terms and conditions of the transaction are not less favourable than market terms and conditions;
- (b) securities of the related party are acquired at a public exchange; or,
- (c) the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Master Trust.

For the purposes of this Section 5.02, only the market value of the combined assets of the Fund shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Master Trust. Transactions less than (0.5%) of the combined market value of the assets of the plan are considered nominal.

A "related party" is defined to mean the administrator of the plan, including any officer, director or employee of the administrator. It also includes, the Investment Managers and their employees, a union representing employees of the employer, a member of the Master Trust, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency, or a bank, trust company or other financial institution that holds the assets of the Master Trust.

## **5.03 Selecting Investment Managers**

In the event that a new Investment Manager must be selected or additional Investment Manager(s) added to the existing Investment Manager, the Chief Investments Officer will undertake an Investment Manager search with or without the assistance of a third-party investment consultant depending on the expertise required. The criteria used for selecting an Investment Manager will be consistent with the investment and risk philosophy set out in Section 1.05 (Investment and Risk Philosophy).

## **5.04 Directed Brokerage Commissions**

Investment Managers may use directed brokerage to pay for research and other investment related services provided they comply with, and provide the disclosure required by, the Soft Dollar Standards promulgated by the CFA Institute.

### **5.05 Monitoring of Asset Mix**

In order to ensure that the Master Trust operates within the minimum and maximum guidelines stated in this Policy as outlined in Section 2, the Chief Investments Officer shall monitor the asset mix on a calendar quarterly basis. Rebalancing between the investment mandates can take place over a reasonably short period of time after an imbalance has been identified. Rebalancing may be effected by redirecting the net cash flows to and from the Master Trust, or by transferring cash or securities between portfolios/managers.

### **5.06 Monitoring of Investment Managers**

An important element in the success of this policy is the link between the Investment Managers and the Chief Investments Officer. It is expected that the Investment Managers will communicate with the Chief Investments Officer whenever necessary between regularly scheduled meetings.

Regular meetings between the active Canadian Equity, Canadian Bond, and Global Equity Managers and the Chief Investments Officer will be scheduled annually. Meetings will be scheduled with the Index managers as required. At each meeting, it is expected that the managers will prepare a general economic and capital markets overview, which will be distributed prior to the meeting. They should also address the following issues in their presentations:

- review the previous period's strategy and investment results,
- discuss how the condition of the capital markets affects the investment strategy of their respective portfolios,
- economic and market expectations,
- anticipated changes in the asset mix within the limits provided in this Policy, and,
- discuss compliance and any exceptions.

### **5.07 Dismissal of an Investment Manager**

Reasons for considering the termination of the services of an Investment Manager include, but are not limited to, the following factors:

- (a) performance results which are below the stated performance benchmarks;
- (b) changes in the overall structure of the Master Trusts' assets such that the Investment Manager's services are no longer required;
- (c) change in personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk level of the portfolio; and/or
- (d) failure to adhere to this Policy.

### **5.08 Voting Rights**

The Administrator has delegated voting rights acquired through the investments held by the Master Trust to the custodian of the securities to be exercised in accordance with the Investment Manager's instructions. Investment Managers are expected to exercise all voting rights related to investments held by the Master Trust in the interests of the

members of the underlying pension plans. At least annually, the Investment Managers shall report their voting activities to the Chief Investments Officer.

#### **5.09 Valuation of Investments Not Regularly Traded**

The following principles will apply for the valuation of investments that are not traded regularly:

- (a) **Equities**  
Average of bid-and-ask prices from two major investment dealers, at least once every calendar quarter.
- (b) **Bonds**  
Same as for equities.
- (c) **Mortgages**  
Unless in arrears, the outstanding principal plus/minus the premium/discount resulting from the differential between face rate and the currently available rate for a mortgage of similar quality and term, determined at least once every month.
- (d) **Real Estate**  
A certified written appraisal from a qualified independent appraiser at least every two years.

#### **5.10 Policy Review**

This Policy may be reviewed and revised at any time, but at least once every calendar year it must be formally reviewed. Should the Investment Manager(s) wish to review this policy at any time, it is his/her responsibility to contact the Chief Investments Officer with specific recommendations.

The appropriateness of the Dynamic Investment Policy asset allocation parameters should be reviewed on an ongoing basis. A new Dynamic Investment Policy Study (Dynamic Asset-Liability Modeling Study) may be undertaken if any of the following events occur:

- (a) The plan gets significantly closer to the end-state of the flight path, including if the flight path funded ratio measurement changes significantly (over 15%) from the starting point of the 2010 study, which was 69%;
- (b) There are significant changes to the regulations that affect the key metrics used in making decisions in the 2010 Dynamic Investment Policy Study or should affect the asset allocation in the future;
- (c) Capital market conditions change significantly such that the assumptions embedded in the 2010 Dynamic Investment Policy Study are no longer reasonable; or
- (d) The sponsor's risk posture changes significantly.

## Appendix A – Statement of Investment Policies & Procedures

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# SIP&P - Hamilton Municipal Retirement Fund

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## Overview

### 1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the "Policy") provides the framework for the investment of the assets of the Hamilton Municipal Retirement Fund, registration number 0027512 (the "Plan");

The objective of this Policy is to ensure that the assets of the Plan, together with expected contributions made by both the City of Hamilton and the Plan members, shall be invested in a continued prudent and effective manner.

This Policy is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of the assets of the Plan (the "Fund") are within the parameters set out in the *Pension Benefits Act, (Ontario)* and the Regulations thereunder.

### 1.02 Background of the Plan

The Hamilton Municipal Retirement Fund is a contributory defined benefit plan. The plan has been closed to new entrants since 1965. Municipal employees hired after June 30, 1965 participate in the OMERS Pension Plan. Therefore, this is a closed fund and will terminate upon retirement of the last retiree or successor.

### 1.03 Plan Profile

#### a) Contributions

Under the terms of the Plan text:

For normal retirement age 60 class: 7% of contributory earnings up to YMPE plus 8.5% of contributory earnings in excess of the YMPE.

For normal retirement age 65 class: 6% of contributory earnings up to the YMPE plus 7.5% of contributory earnings in excess of the YMPE.

Effective August 1, 1998, employee contributions to the Plan ceased.

#### b) Benefits

2% of average annual earnings in best 5 years before retirement for each year of credited service up to 35 years reduced by 0.675% of the 5-year average earnings up to the final year's YMPE for each year of contributory service after January 1, 1966. Reduction suspended from date of retirement to age 65 for CPP benefit. On an ad hoc basis, annual increases will not be less than the increase provided by OMERS, up to 100% of the increase in the Consumer Price Index.

#### c) Liabilities

As of the most recent actuarial valuation of the Plan as at December 31, 2008, there was no active member, 3 deferred members and 283 retirees and beneficiaries.

As of December 31, 2008, the going-concern liability of the plan was \$92,043,500 compared to the actuarial value of assets of \$103,121,000. On a solvency basis, the liability was \$83,959,000, while the assets (at market) were \$83,963,900.

#### **1.04 Objective of the Plan**

The objective of the Plans is to provide members of the Plans with retirement benefits prescribed under the terms thereof.

#### **1.05 Investment and Risk Philosophy**

The primary investment objective is to provide an economic return on assets sufficient to fund plan liabilities over the long-term, while adhering to prudent investment practices.

The investment philosophies and strategies must take into account both return and risk objectives of the Plan and the City of Hamilton.

In recognition of the risk and return objectives of the Plan and the City of Hamilton, an initial Asset Allocation Policy was developed based on the Plan's current funded status and the characteristics of the Plan and City of Hamilton. It is recognized, however, that the Plan return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio to lower risk allocations dynamically as the Plan's funded statuses improve.

#### **1.06 Administration**

The General Manager, Finance and Corporate Services for the City of Hamilton is the designated contact at the City for administrative purposes.

#### **1.07 Pooling of Assets**

For investment purposes, the assets of the Plan are combined with the assets of the Hamilton-Wentworth Retirement Fund and the Hamilton Street Railway Company. The combined assets are included in the City of Hamilton Defined Benefit Plans Master Trust.

#### **1.08 Master Trust SIP&P**

The Master Trust SIP&P is the policy that should be followed while investing the assets, both commingled and uncommingled, of the Hamilton Municipal Retirement Fund.

# SIP&P - Hamilton Street Railway Pension Plan

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## Overview

### 1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the "Policy") provides the framework for the investment of the assets of the Hamilton Street Railway Company Pension Plan, registration number 0253344 (the "Plan");

The objective of this Policy is to ensure that the assets of the Plan, together with expected contributions made by both the Hamilton Street Railway Company (the "Company") and the Plan members, shall be invested in a continued prudent and effective manner.

This Policy is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of the assets of the Plan (the "Fund") are within the parameters set out in the *Pension Benefits Act, (Ontario)* and the Regulations thereunder.

### 1.02 Background of the Plan

The effective date of the Plan is January 1, 1994, when two predecessor plans, the Canada Coach Lines and the Hamilton Street Railway plans, were merged. The Plan is a contributory defined benefit Plan. Effective January 1, 2009, the Plan is closed to all new members. Furthermore, active members no longer accrue credited service under this Plan with respect to service after December 31, 2008.

### 1.03 Plan Profile

#### a) Contributions

Under the terms of the Plan text, members' contributions should be 7.5% of earnings less contributions which are made to the Canada Pension Plan.

#### b) Benefits

Members receive a pension equal to 1.5% of average pensionable earnings up to the average Year's Maximum Pensionable Earnings (YMPE) as established under the Canada Pension Plan, plus 2% of the excess, multiplied by years of credited service. The "average pensionable earnings" are defined as the average of best five years' earnings as a contributory member. The average YMPE is the average of the YMPE for the last thirty-six months of the plan membership.

In the event that pensions accrued under the prior plan exceed the pension accrued under this plan for service prior to July 1, 1980, then the pension is increased accordingly.

Benefits are subject to annual indexing at the rate of 100% of the change in the Consumer Price Index for the prior calendar year less 1.5%. The maximum adjustment is 6% per annum and the minimum 0%.



c) **Liabilities**

As of the most recent actuarial valuation of the Plan as at January 1, 2010, there were 547 active members, 22 deferred members and 518 retirees and beneficiaries. The average age of the active members was approximately 49.0 years with average pensionable earnings of \$59,353.

As of January 1, 2010, the going-concern liability of the plan was \$179,856,000 compared to the actuarial value of assets of \$175,818,000. Approximately 49.0% of the accrued liability was related to active members, approximately 50.7% was related to retirees, approximately 0.3% was related to deferred members. On a solvency basis, the liability was \$175,021,000, while the assets (at market) were \$177,484,000. The going-concern deficit is being eliminated through a series of special payments. .

**1.04 Objective of the Plan**

The objective of the Plans is to provide members of the Plans with retirement benefits prescribed under the terms thereof.

**1.05 Investment and Risk Philosophy**

The primary investment objective is to provide an economic return on assets sufficient to fund plan liabilities over the long-term, while adhering to prudent investment practices.

The investment philosophies and strategies must take into account both return and risk objectives of the Plan and the City of Hamilton.

In recognition of the risk and return objectives of the Plan and the City of Hamilton, an initial Asset Allocation Policy was developed based on the Plan's current funded status and the characteristics of the Plan and City of Hamilton. It is recognized, however, that the Plan return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio to lower risk allocations dynamically as the Plan's funded statuses improve.

**1.06 Administration**

The General Manager, Finance and Corporate Services for the City of Hamilton is the designated contact at the City for administrative purposes.

**1.07 Pooling of Assets**

For investment purposes, the assets of the Plan are combined with the assets of the Hamilton-Wentworth Retirement Fund and the Hamilton Municipal Retirement Fund. The combined assets are included in the City of Hamilton Defined Benefit Plans Master Trust

**1.08 Master Trust SIP&P**

The Master Trust SIP&P is the policy that should be followed while investing the assets, both commingled and uncommingled, of the Hamilton Street Railway Pension Plan.

# SIP&P - The Hamilton-Wentworth Retirement Fund Pension Plan

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## Overview

### 1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the "Policy") provides the framework for the investment of the assets of the Hamilton-Wentworth Retirement Fund, registration number 1073352 (the "Plan");

The objective of this Policy is to ensure that the assets of the Plan, together with expected contributions made by both the Regional Municipality of Hamilton-Wentworth and the Plan members, shall be invested in a continued prudent and effective manner.

This Policy is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of the assets of the Plan (the "Fund") are within the parameters set out in the *Pension Benefits Act, (Ontario)* and the Regulations thereunder.

### 1.02 Background of the Plan

The Plan is a contributory, defined benefit Plan. Effective January 1, 1985 all active Region Other Participants, excluding Police Civilians, were transferred to OMERS. The liability to transfer such members to OMERS was met by monthly payments of \$115,187 until December 31, 2000 and monthly payments of \$361, concluding September 30, 2003. The outstanding balance of such payments is taken as adjustment to the assets of the Plan. There are no active members remaining in the Plan.

### 1.03 Plan Profile

#### a) Contributions

Under the terms of the Plan text:

For normal retirement age 60 class:

- 1) Senior Police Officers: contributions should be 7% of earnings up to the YMPE plus 8.5% of contributory earnings in excess of YMPE.
- 2) Other Police Officers: contributions should be 6.5% of earnings up to YMPE plus 8% of contributory earnings up to YMPE plus 8% of contributory earnings in excess of YMPE.

For a normal retirement age of 65 contributions should be 5.75% of earnings.

#### b) Benefits

2% of average annual earnings in best 5 years before retirement for each year of credited service up to 35 years reduced by 0.7% of the 5-year average earnings up to

the final year's YMPE for each year of contributory service after January 1, 1966. Reduction suspended from date of retirement to age 65 for CPP benefit. On an ad

hoc basis, annual increases will not be less than the increase provided by OMERS, up to 100% of the increase in the Consumer Price Index.

c) ***Liabilities***

As of the most recent actuarial valuation of the Plan as at December 31, 2007, there were no active members, no deferred members and 271 retirees and beneficiaries.

As of December 31, 2007, the going-concern liability of the plan was \$80,074,000 compared to the actuarial value of assets of \$76,045,000. On a solvency basis, the liability was \$84,477,000, while the assets were \$82,500,000. Both deficits are being eliminated through a series of special payments.

**1.04 Objective of the Plan**

The objective of the Plans is to provide members of the Plans with retirement benefits prescribed under the terms thereof.

**1.05 Investment and Risk Philosophy**

The primary investment objective is to provide an economic return on assets sufficient to fund plan liabilities over the long-term, while adhering to prudent investment practices.

The investment philosophies and strategies must take into account both return and risk objectives of the Plan and the City of Hamilton.

In recognition of the risk and return objectives of the Plan and the City of Hamilton, an initial Asset Allocation Policy was developed based on the Plan's current funded status and the characteristics of the Plan and City of Hamilton. It is recognized, however, that the Plan return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio to lower risk allocations dynamically as the Plan's funded statuses improve.

**1.06 Administration**

The General Manager, Finance and Corporate Services for the City of Hamilton is the designated contact at the City for administrative purposes.

**1.07 Pooling of Assets**

For investment purposes, the assets of the Plan are combined with the assets of the Hamilton Street Railway Company and the Hamilton Municipal Retirement Fund. The combined assets are included in the City of Hamilton Defined Benefit Plans Master Trust.

**1.08 Master Trust SIP&P**

The Master Trust SIP&P is the policy that should be followed while investing the assets, both commingled and uncommingled, of the Hamilton-Wentworth Retirement Fund Pension Plan.

## Appendix B – Compliance Reports

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**The City of Hamilton Master Trust  
Index Bond Manager**

Compliance Report for the Quarter Ended \_\_\_\_\_  
(date)

		GUIDELINES	POLICY COMPLIED WITH
ASSET MIX (at Market Value)		%	YES/NO *
FIXED INCOME	BONDS	100%	
CASH	SHORT-TERM & CASH	0%	
<b>CONSTRAINTS</b>			
GENERAL	Investment Policy Section 3.01 – General Guidelines		
BONDS	Investment Policy Section 3.02 (b) – Bonds		
CASH	Investment Policy Section 3.02 (c) – Cash		
DERIVATIVES	Investment Policy Section 3.02 (c) – Derivatives		
OTHER	Investment Policy Section 3.02 (e) – Other Investments		
INDEX	Investment Policy Section 3.02 (f) – Index Mandates		
QUALITY REQUIREMENTS	Investment Policy Section 3.03 – Minimum Quality Requirements		
QUANTITY RESTRICTIONS	Investment Policy Section 3.04 – Maximum Quantity Restrictions		
PRIOR PERMISSION	Investment Policy Section 3.05 – Prior Permission Required		
PROHIBITED INVESTMENTS	Investment Policy Section 3.06 – Prohibited Investments		
SECURITIES LENDING	Investment Policy Section 3.07 – Securities Lending		
RESPONSIBILITIES	Investment Policy Section 4.01 (b) – Delegation of Responsibilities – Investment Managers		
STANDARDS OF PROFESSIONAL CONDUCT	Investment Policy Section 4.04 - Standards of Professional Conduct		
CONFLICTS OF INTEREST	Investment Policy Section 5.01 - Conflicts of Interest		
VOTING RIGHTS	Investment Policy Section 5.08 - Voting Rights		

\* If policy not complied with, comment on specifics

COMPLETED BY: \_\_\_\_\_ SIGNED BY: \_\_\_\_\_

**The City of Hamilton Master Trust  
Index Equity Manager**

Compliance Report for the Quarter Ended \_\_\_\_\_  
(date)

		GUIDELINES	POLICY COMPLIED WITH
ASSET MIX (at Market Value)		%	YES/NO *
<b>EQUITIES</b>			
	U.S.		
	EAFE		
	TOTAL FOREIGN		
<b>CASH</b>	SHORT-TERM & CASH		
<b>CONSTRAINTS</b>			
<b>GENERAL</b>	Investment Policy Section 3.01 – General Guidelines		
<b>EQUITIES</b>	Investment Policy Section 3.02 (a) – Canadian and Foreign Equities		
<b>CASH</b>	Investment Policy Section 3.02 (c) – Cash and Short Term Investments		
<b>DERIVATIVES</b>	Investment Policy Section 3.02 (d) – Derivatives		
<b>OTHER INVESTMENTS</b>	Investment Policy Section 3.02 (e) – Other Investments		
<b>INDEX</b>	Investment Policy Section 3.02 (f) – Index Mandates		
<b>QUALITY REQUIREMENTS</b>	Investment Policy Section 3.03 – Minimum Quality Requirements		
<b>QUANTITY RESTRICTIONS</b>	Investment Policy Section 3.04 – Maximum Quantity Restrictions		
<b>PRIOR PERMISSION</b>	Investment Policy Section 3.05 – Prior Permission Required		
<b>PROHIBITED INVESTMENTS</b>	Investment Policy Section 3.06 – Prohibited Investments		
<b>SECURITIES LENDING</b>	Investment Policy Section 3.07 – Securities Lending		
<b>BORROWING</b>	Investment Policy Section 3.08 – Borrowing		
<b>RESPONSIBILITIES</b>	Investment Policy Section 4.01 (b) – Delegation of Responsibilities – Investment Managers		
<b>STANDARDS OF PROFESSIONAL CONDUCT</b>	Investment Policy Section 4.04 - Standards of Professional Conduct		
<b>CONFLICTS OF INTEREST</b>	Investment Policy Section 5.01 - Conflicts of Interest		
<b>VOTING RIGHTS</b>	Investment Policy Section 5.08 - Voting Rights		

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**The City of Hamilton Master Trust  
Active Bond Manager**

**Compliance Report for the Quarter Ended \_\_\_\_\_  
(date)**

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ASSET MIX (at Market Value)		%	YES/NO *
FIXED INCOME	BONDS	100%	
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**The City of Hamilton Master Trust  
Active Equity Manager**

Compliance Report for the Quarter Ended \_\_\_\_\_  
(date)

		GUIDELINES	POLICY COMPLIED WITH
ASSET MIX (at Market Value)		%	YES/NO *
EQUITIES	CANADIAN		
	U.S.		
	EAFE		
	TOTAL FOREIGN		
CASH	SHORT-TERM & CASH		
<b>CONSTRAINTS</b>			
GENERAL	Investment Policy Section 3.01 – General Guidelines		
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