

Appendix A

ASSURANCE AND ADVISORY
BUSINESS SERVICES

ASSURANCE SERVICES

Financial Statements

City of Toronto Sinking Funds

December 31, 2006

 **ERNST & YOUNG**

AUDITORS' REPORT

To the Chair and Members of the
City of Toronto Sinking Funds Committee

We have audited the balance sheet of the **City of Toronto Sinking Funds** as at December 31, 2006 and the statements of operations and changes in unrestricted surplus and cash flows for the year then ended. These financial statements are the responsibility of the Sinking Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Sinking Funds as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
April 10, 2007.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

City of Toronto Sinking Funds

BALANCE SHEET

As at December 31

	2006	2005
	\$	\$
	[in thousands]	
ASSETS		
Current		
Cash	2,696	2,117
Accrued interest	1,922	3,936
Total current assets	4,618	6,053
Investments <i>[note 3]</i>	615,819	660,338
	620,437	666,391
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	8	20
Distributions payable <i>[note 5]</i>	—	13,506
Total current liabilities	8	13,526
Actuarial requirements <i>[note 4]</i>	593,711	630,219
Total liabilities	593,719	643,745
Net assets		
Unrestricted surplus <i>[note 5]</i>	26,718	22,646
	620,437	666,391

See accompanying notes

City of Toronto Sinking Funds

**STATEMENT OF OPERATIONS AND CHANGES IN
UNRESTRICTED SURPLUS**

Year ended December 31

	2006	2005
	\$	\$
	[in thousands]	
REVENUES		
Contributions	133,372	109,059
Investment income	36,907	37,042
	<u>170,279</u>	<u>146,101</u>
EXPENSES		
Provision for actuarial requirements <i>[note 4]</i>	163,492	141,507
Distribution of surplus contributions <i>[note 5]</i>	2,715	20,916
	<u>166,207</u>	<u>162,423</u>
Excess of revenues over expenses (expenses over revenues) for the year	4,072	(16,322)
Unrestricted surplus, beginning of year	22,646	38,968
Unrestricted surplus, end of year	26,718	22,646

See accompanying notes

City of Toronto Sinking Funds

STATEMENT OF CASH FLOWS

Year ended December 31

	2006	2005
	\$	\$
	[in thousands]	
OPERATING ACTIVITIES		
Excess of revenues over expenses (expenses over revenues) for the year	4,072	(16,322)
Deduct non-cash item		
Amortized discount on investments	(6,680)	(10,230)
	(2,608)	(26,552)
Changes in non-cash working capital balances related to operations		
Accrued interest	2,014	381
Accounts payable and accrued liabilities	(12)	7
Distributions payable	(13,506)	13,506
Net change in actuarial requirements	(36,508)	41,507
Cash provided by (used in) operating activities	(50,620)	28,849
INVESTING ACTIVITIES		
Purchase of investments	(913,846)	(999,938)
Proceeds from maturities of investments	945,751	922,880
Proceeds from sale of investments	19,294	50,021
Cash provided by (used in) investing activities	51,199	(27,037)
Net increase in cash during the year	579	1,812
Cash, beginning of year	2,117	305
Cash, end of year	2,696	2,117

See accompanying notes



**SCHEDULE OF PROJECTION OF
DEBENTURE MATURITIES**

Year ended December 31, 2006

The following is a list of the projected maturities of the sinking fund debentures, held within the City of Toronto:

	\$
	[in thousands]
2007	105,000
2008	125,000
2010	260,000
2011	200,000
2013	120,000
2014	228,000
2015	300,000
2016	475,000
2017	100,000
2018	125,000
2021	150,000
	<hr/> 2,188,000 <hr/>

See accompanying notes

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

1. PURPOSE OF FUNDS

The City of Toronto Sinking Funds [the "Sinking Funds"] accumulate amounts through periodic contributions from contributors, which are calculated such that the contributions and interest earnings should be sufficient to retire the principal amount of the sinking fund debt [schedule] when it matures. When the accumulated sinking fund exceeds the par value of the related debenture, the excess may be refunded or applied against other sinking fund accounts of the same contributor[s].

The Sinking Funds are unincorporated and are governed under the City of Toronto Act, 1997 (No. 2) Statutes of Ontario, 1997, Chapter 26 and, as such, are exempt from income taxes under Section 149(1) of the Income Tax Act (Canada).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized below:

Revenue recognition

Contributions are recognized as revenue in the year receivable.

Investment income includes interest and dividends and is recorded when earned.

Management estimates and actuarial requirements

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and surplus at the reporting date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The area where the most judgment is applied is with respect to the actuarial requirements of the Sinking Funds. The actuarial requirements are the accumulated contributions to date together with interest thereon compounded at the actuarial rate of 6% per annum on debt issued from 1993 to 1996, and 4% or 5% per annum on debt issued in 1997 and thereafter. The actuarial requirements are expected to accumulate to an amount sufficient to pay the related debentures upon maturity.

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

Investments

Investments are recorded at cost net of amortization for any bond premiums or discounts. Write-downs are made for other than temporary declines in the value of the investments on a portfolio basis.

Sinking Funds debenture issues are grouped by actuarial interest rates. These rates represent the investment earning assumptions for each of the respective funds and are used in determining the annual contributions required to retire the outstanding debt.

Investments are primarily purchased with the intention of holding them until maturity and are recorded at cost adjusted annually for amortization of discounts or premiums using the constant yield method. If certain debentures provide for early redemption and market conditions are favourable, investments may be sold to redeem the debentures. Investments may also be sold to acquire securities with a better rate of return.

3. INVESTMENTS

Investments consist of the following:

	2006 \$	2005 \$
	[in thousands]	
Debt issued or guaranteed by		
Provincial governments	446,183	379,008
City of Toronto	100,055	146,357
Other Canadian municipalities	40,486	71,670
Corporate debt	29,095	63,303
Book value	615,819	660,338
Par value	\$910,907	\$912,808
Market value	\$662,094	\$714,932
Weighted average yield	5.34%	5.47%
Average term to maturity	8.19 years	8.16 years
Excess of market value over book value	\$46,275	\$54,594

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

4. ACTUARIAL REQUIREMENTS

The change in the actuarial requirements for the year is as follows:

	2006	2005
	\$	\$
	[in thousands]	
Actuarial requirements, beginning of year	630,219	588,712
Add provision for actuarial requirements	163,492	141,507
	793,711	730,219
Less par value of debentures matured in the year	200,000	100,000
Actuarial requirements, end of year	593,711	630,219

5. NET ASSETS

Net assets consist of the following:

	2006	2005
	\$	\$
	[in thousands]	
City of Toronto		
General	24,169	19,469
Water supply	177	148
	24,346	19,617
Toronto District School Board	2,372	3,029
	26,718	22,646

Included in the total above, and part of the unrestricted surplus as shown on the statement of operations and changes in unrestricted surplus, are surplus funds of \$6,127,667 [2005 - \$2,715,339] that were available to be distributed as a result of the maturity of two debt issues in 2006 [2005 - one debt issue in 2005 plus one debt issue from 2004]. The distribution of these funds to the City of Toronto and to the Toronto District School Board is subject to approval by the City of Toronto Sinking Funds Committee and the City of Toronto Council.

In April 2006, the City of Toronto Sinking Funds Committee approved the distribution of the 2005 surplus amount of \$2,715,339, which was approved by the City of Toronto Council in May 2006. Of this amount, \$1,341,160 was paid to the City of Toronto and \$1,374,179 was paid to the Toronto District School Board in 2006.

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

In October 2005, the City of Toronto Sinking Funds Committee approved the distribution of the 2004 surplus amount of \$7,409,828, which was approved by the City of Toronto Council in November 2005. Of this amount, \$4,440,193 was paid to the City of Toronto and \$2,969,635 was paid to the Toronto District School Board in 2005.

In December 2004, the City of Toronto Sinking Funds Committee approved the distribution of the 2003 surplus amount of \$13,505,961, which was approved by the City of Toronto Council in February 2005. This distribution was not paid to the City of Toronto and the Toronto District School Board until February 2006 and was recorded in distributions payable in the balance sheet as at December 31, 2005.

6. FINANCIAL INSTRUMENTS

Financial risk

Financial risk is the risk to the Sinking Funds' income that arises from fluctuations in market rates and interest rates and the degree of volatility of these rates with respect to their investments.

Fair values

The fair values of the Sinking Funds' financial instruments approximate their carrying values unless otherwise noted.

