

Financial Statements

**The Fund of the Toronto Fire Department  
Superannuation and Benefit Fund**

[Ontario Registration Number 0351601]

December 31, 2006

 **ERNST & YOUNG**

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## AUDITORS' REPORT

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To the Administrator of the  
Toronto Fire Department Superannuation and Benefit Fund

We have audited the statement of net assets available for benefits of **The Fund of the Toronto Fire Department Superannuation and Benefit Fund** as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements have been prepared to comply with Regulation 76(2) of the Ontario Pension Benefits Act. These financial statements are the responsibility of the Fund's administrator. 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 the Fund's administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Fund as at December 31, 2006 and the changes in its net assets available for benefits for the year then ended in accordance with the basis of accounting as disclosed in note 2 to the financial statements.

These financial statements, which have not been, and were not intended to be prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Administrator of the Toronto Fire Department Superannuation and Benefit Fund and the Financial Services Commission of Ontario for complying with Regulation 76(2) of the Ontario Pension Benefits Act. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purposes.

*Ernst + Young LLP*

Toronto, Canada,  
May 18, 2007.

Chartered Accountants  
Licensed Public Accountants

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**The Fund of the Toronto Fire Department Superannuation and Benefit Fund**  
[Ontario Registration Number 0351601]

**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**

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As at December 31

	2006	2005
	\$	\$
<b>ASSETS</b>		
Cash	2,415,912	1,474,983
Investments, at market value [note 3[a]]	360,582,741	352,215,232
Accrued income	996,779	1,023,077
Accounts receivable	77,763	78,278
Pending securities transaction	31,565	—
	<b>364,104,760</b>	<b>354,791,570</b>
<b>LIABILITIES</b>		
Benefits and accounts payable	1,239,619	1,252,070
Administration expenses payable	251,902	222,269
Pending securities transaction	—	78,618
	<b>1,491,521</b>	<b>1,552,957</b>
<b>Net assets available for benefits</b>	<b>362,613,239</b>	<b>353,238,613</b>

*See accompanying notes*

On behalf of the Board:

Chair

City Treasurer

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**The Fund of the Toronto Fire Department Superannuation and Benefit Fund**

**STATEMENT OF CHANGES IN NET ASSETS  
AVAILABLE FOR BENEFITS**

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Year ended December 31

	2006	2005
	\$	\$
<b>INCREASE IN NET ASSETS</b>		
Investment income		
Interest	8,547,598	9,506,187
Dividends	9,310,751	4,054,586
Realized net gain on sale of investments	14,840,750	33,176,470
Net change in unrealized gain on investments	8,190,604	—
Sponsor contributions <i>[note 6]</i>	—	1,453,209
<b>Total increase in net assets</b>	<b>40,889,703</b>	<b>48,190,452</b>
<b>DECREASE IN NET ASSETS</b>		
Pension payments	30,236,075	30,294,111
Administrative expenses <i>[note 5]</i>	1,279,002	1,229,125
Net change in unrealized loss on investments	—	9,106,435
<b>Total decrease in net assets</b>	<b>31,515,077</b>	<b>40,629,671</b>
<b>Net increase in net assets for the year</b>	<b>9,374,626</b>	<b>7,560,781</b>
Net assets available for benefits, beginning of year	353,238,613	345,677,832
<b>Net assets available for benefits, end of year</b>	<b>362,613,239</b>	<b>353,238,613</b>

*See accompanying notes*

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**The Fund of the Toronto Fire Department Superannuation and Benefit Fund**

**NOTES TO FINANCIAL STATEMENTS**

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December 31, 2006

**1. DESCRIPTION OF THE FUND**

**General**

The Toronto Fire Department Superannuation and Benefit Fund [the "Plan"] is registered under the Pension Benefits Act, R.S.O. 1990, Registration Number 0351601.

The Plan is a defined benefit pension plan established in 1891 covering employees of the Toronto Fire Department who were hired prior to July 1, 1968. From that date, pensions for new employees must be provided through the Ontario Municipal Employees Retirement System.

**Funding policy**

The Financial Services Commission of Ontario requires that the City of Toronto [the "City"], being the sponsor of the Plan, fund the benefits determined under the Plan. The determination of the value of the benefits is made on the basis of an annual actuarial valuation.

**Retirement pension**

A normal pension is available based on the number of years of credited service up to 35 years times 2% of the best five years' average earnings reduced by Canada Pension Plan's ["C.P.P."] reduction calculated at 0.7% of the lesser of the Year's Maximum Pensionable Earnings in the year of retirement and the two preceding years times the number of years and completed months of contributory service since January 1, 1966. The C.P.P. reduction does not take effect until the member attains age 65.

**Disability pension**

A disability pension is available calculated in the same manner as the normal pension except that C.P.P. reduction is immediate if the former member is receiving C.P.P. disability benefits.

**Death benefits**

If death occurs before retirement, the benefit will be paid to the member's spouse or other named beneficiary. The pension equivalent of 66 2/3% of pension credit earned up to the date of death shall be paid to the surviving spouse for life.

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**The Fund of the Toronto Fire Department Superannuation and Benefit Fund**

**NOTES TO FINANCIAL STATEMENTS**

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December 31, 2006

**Income taxes**

The Plan is a Registered Pension Trust as defined in the Income Tax Act (Canada) and, as such, is not subject to income taxes

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

The accompanying financial statements present the net assets of The Fund of the Toronto Fire Department Superannuation and Benefit Fund [the "Fund"] which are available for the payment of pension benefits and the changes in these net assets during the year.

The financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed by the Financial Services Commission of Ontario for financial statements under Regulation 76(2) of the Ontario Pension Benefits Act. The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles because it excludes the actuarial liabilities of the Plan. Consequently, these financial statements do not purport to show the adequacy of the Plan's assets to meet its pension obligations.

**Use of estimates**

The preparation of the financial statements in conformity with Canadian 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 changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

**Investments**

The Fund's investments in bonds and debentures, equities and pooled funds are under the ongoing management of external investment managers retained by the Benefit Fund Committee. During the year, CIBC Mellon was engaged as the custodian for all investments.

Investments are stated at market value and are recorded on a trade-date basis. Market value is determined using listed market values.

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# The Fund of the Toronto Fire Department Superannuation and Benefit Fund

## NOTES TO FINANCIAL STATEMENTS

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December 31, 2006

### Income recognition

Income on investments is recorded on the accrual basis and gains and losses are realized on disposal. Interest and dividend income earned by the foreign equity pooled funds is reinvested in the respective pooled fund. The net change in unrealized gain on investments is calculated as at the year-end date and is shown on the statement of changes in net assets available for benefits.

### Foreign currency translation

The market values of foreign currency denominated investments included in the statement of net assets available for benefits are translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from translations are included in the net change in unrealized gain or loss on investments.

Foreign currency denominated transactions, as well as cost amounts included in note 3, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

### Contributions

Sponsor contributions received subsequent to the year end, but which are applicable to the current year, are recorded as receivables.

Sponsor contributions due in future years to meet liabilities for past services which are unfunded as a result of experience deficiencies and plan improvements will be credited to revenue as received.

### 3. INVESTMENTS

[a] Investments consist of the following:

	2006		2005	
	Market value \$	Book value \$	Market value \$	Book value \$
Bonds and debentures	164,909,558	166,251,406	167,536,158	166,439,108
Canadian equities	98,781,574	92,494,584	106,557,146	100,452,730
Foreign equities	87,616,237	82,383,617	71,702,805	76,900,554
Short-term investments				
Investment managers	3,231,772	3,231,772	1,103,559	1,103,559
Internally managed	6,043,600	6,043,600	5,315,564	5,315,564
	<b>360,582,741</b>	<b>350,404,979</b>	<b>352,215,232</b>	<b>350,211,515</b>

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The Fund of the Toronto Fire Department Superannuation and Benefit Fund

NOTES TO FINANCIAL STATEMENTS

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December 31, 2006

[b] Bond managers' holdings:

	2006		2005	
	Market value \$	Book value \$	Market value \$	Book value \$
<b>Bonds and debentures</b>				
Beutel Goodman	80,474,803	78,275,919	82,074,804	78,810,547
Connor Clark & Lund	84,434,755	87,975,487	85,461,354	87,628,561
	<b>164,909,558</b>	<b>166,251,406</b>	167,536,158	166,439,108
<b>Short-term</b>				
Beutel Goodman	300,630	300,630	222,981	222,981
Connor Clark & Lund	30,560	30,560	29,448	29,448
	<b>331,190</b>	<b>331,190</b>	252,429	252,429



The Fund of the Toronto Fire Department Superannuation and Benefit Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

[c] Equity managers' holdings:

	2006		2005	
	Market value \$	Book value \$	Market value \$	Book value \$
<b>Canadian short-term</b>				
Howson Tattersall Investment Counsel Ltd.	2,684,670	2,684,670	740,835	740,835
McLean Budden Ltd.	4,205	4,205	4,061	4,061
Connor Clark & Lund	5,488	5,488	24,516	24,516
State Street Global Advisors	206,219	206,219	81,718	81,718
<b>Total equity managers' short-term holdings</b>	<b>2,900,582</b>	<b>2,900,582</b>	<b>851,130</b>	<b>851,130</b>
<b>Canadian equities</b>				
Howson Tattersall Investment Counsel Ltd.	16,620,420	13,706,436	18,966,494	14,758,427
McLean Budden Ltd.	36,152,389	26,819,996	42,175,726	34,599,085
Connor Clark & Lund	46,008,765	51,968,152	45,414,926	51,095,218
	<b>98,781,574</b>	<b>92,494,584</b>	<b>106,557,146</b>	<b>100,452,730</b>
<b>Foreign equities</b>				
State Street Global Advisors	87,616,237	82,383,617	71,702,805	76,900,554
<b>Total equity managers' equity holdings</b>	<b>186,397,811</b>	<b>174,878,201</b>	<b>178,259,951</b>	<b>177,353,284</b>

The Fund of the Toronto Fire Department Superannuation and Benefit Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

[d] Bonds and debentures

The market and book values of bonds and debentures at December 31, 2006 and 2005 are summarized below. The average yields of bonds and debentures are the weighted average market rates of these investments during the year.

	2006			2005		
	Market value \$	Book value \$	Average yield %	Market value \$	Book value \$	Average yield %
<b>Federal and guaranteed</b>						
0-5 years	91,857,286	95,366,904	4.03	110,799,595	113,088,991	3.31
5-10 years	21,392,393	21,140,804	4.04	2,023,622	1,984,298	5.25
>10 years	—	—	—	1,420,049	1,426,378	8.00
	<b>113,249,679</b>	<b>116,507,708</b>		<b>114,243,266</b>	<b>116,499,667</b>	
<b>Provincial and guaranteed</b>						
0-5 years	3,409,526	3,313,536	4.45	511,633	529,835	6.10
5-10 years	16,974,703	16,785,684	4.22	10,882,372	10,674,036	7.71
>10 years	1,622,842	1,526,314	4.50	5,038,821	4,640,997	5.99
	<b>22,007,071</b>	<b>21,625,534</b>		<b>16,432,826</b>	<b>15,844,868</b>	
<b>Municipal and guaranteed</b>						
5-10 years	97,573	94,676	4.50	—	—	—
	<b>97,573</b>	<b>94,676</b>		<b>—</b>	<b>—</b>	<b>—</b>
<b>Corporate</b>						
0-5 years	5,933,541	5,874,972	4.33	10,361,546	10,091,114	6.04
5-10 years	9,804,643	9,565,816	4.63	5,761,997	5,456,460	6.40
>10 years	13,817,051	12,582,700	5.02	20,736,523	18,546,999	7.70
	<b>29,555,235</b>	<b>28,023,488</b>		<b>36,860,066</b>	<b>34,094,573</b>	
	<b>164,909,558</b>	<b>166,251,406</b>		<b>167,536,158</b>	<b>166,439,108</b>	

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**The Fund of the Toronto Fire Department Superannuation and Benefit Fund**

**NOTES TO FINANCIAL STATEMENTS**

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December 31, 2006

[e] Individually significant investments

The market value or book value of the following individual investments exceeds 1% of the market value or book value of total Fund investments as at December 31, 2006:

	<b>Market value \$</b>	<b>Book value \$</b>
<b>Federal bonds and debentures</b>		
Government of Canada	28,814,927	28,532,221
CC&L Bond Pool	84,434,755	87,975,487
<b>Provincial bonds and debentures</b>		
Province of Ontario	12,858,506	12,402,467
Province of BC	5,479,008	5,511,582
Ontario Hydro	3,669,557	3,711,485
<b>Canadian equities</b>		
McLean Budden Canadian Equity Growth Fund	36,152,389	26,819,996
<b>Foreign equities</b>		
State Street Global Advisors [EAFE]	87,616,237	82,383,617

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**The Fund of the Toronto Fire Department Superannuation and Benefit Fund**

**NOTES TO FINANCIAL STATEMENTS**

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December 31, 2006

**4. INVESTMENT RISKS**

The Plan's investment performance is subject to market and other risks. Market risk is the risk that the value of the investments will fluctuate as a result of changes in market prices. A discussion of other risks follows:

[i] Interest rate risk

Interest rate risk relates to the adverse consequences of interest rate changes on the Plan's net assets available for benefits and changes in net assets available for benefits. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets. The value of the Plan's assets is affected by changes in nominal interest rate.

[ii] Credit risk

Credit risk relates to the potential exposure that the other party to a financial instrument will fail to discharge an obligation and cause the Plan to incur a financial loss. Concentration of credit risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions.

[iii] Foreign exchange risk

The Plan is exposed to foreign currency fluctuations to the extent that its foreign investments are denominated in foreign currency.

The Fund of the Toronto Fire Department Superannuation and Benefit Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

5. ADMINISTRATIVE EXPENSES

The Fund's administrative expenses consist of the following:

	2006			2005
	Management \$	Custodial \$	Total \$	Total \$
<b>Bond managers</b>				
Beutel Goodman	178,845	10,270	189,115	190,826
Connor Clark & Lund	117,447	5,866	123,313	157,570
	<b>296,292</b>	<b>16,136</b>	<b>312,428</b>	<b>348,396</b>
<b>Equity managers</b>				
McLean Budden Ltd.	99,977	3,586	103,563	110,634
Connor Clark & Lund	149,071	3,706	152,777	181,757
Howson Tattersall Investment Counsel Ltd.	76,727	5,098	81,825	83,725
State Street Global Advisors	312,959	157,905	470,864	377,977
	<b>638,734</b>	<b>170,295</b>	<b>809,029</b>	<b>754,093</b>
<b>Other</b>				
CIBC Mellon holding account	—	1,878	1,878	1,494
<b>Total management and custodial fees</b>	<b>935,026</b>	<b>188,309</b>	<b>1,123,335</b>	<b>1,103,983</b>
Investment consulting fees			75,231	74,130
Actuary fees			62,418	32,250
Chair honorarium			7,500	7,500
Members' honorariums			3,900	3,625
Financial charges			6,618	7,637
			<b>155,667</b>	<b>125,142</b>
<b>Total administrative expenses</b>			<b>1,279,002</b>	<b>1,229,125</b>

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**The Fund of the Toronto Fire Department Superannuation and Benefit Fund**

**NOTES TO FINANCIAL STATEMENTS**

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December 31, 2006

**6. CONTRIBUTIONS**

During the year ended January 1, 1998, City Council approved a full contribution holiday effective August 1, 1998. The normal contribution rate for members and the Sponsor each is equal to 7.5% of salary less the amount of the members' contributions under the C.P.P.

Effective January 1, 1995, members are not required to contribute to the Fund after they have attained 35 years of credited service.

During the year, the Sponsor contributed nil [2005 - \$1,453,209] to the Plan with respect to unfunded liabilities for past service and actuarial deficiencies.



ERNST & YOUNG LLP

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