

Financial Statements

**The Fund of the Toronto Civic Employees'
Pension & Benefit Fund**

[Ontario Registration Number 0351593]

December 31, 2006

 **ERNST & YOUNG**

AUDITORS' REPORT

To the Administrator of the
Toronto Civic Employees' Pension & Benefit Fund

We have audited the statement of net assets available for benefits of **The Fund of the Toronto Civic Employees' Pension & 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 described 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 Civic Employees' Pension & 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.

Toronto, Canada,
May 18, 2007.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

The Fund of the Toronto Civic Employees' Pension & Benefit Fund
[Ontario Registration Number 0351593]

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31

	2006	2005
	\$	\$
ASSETS		
Cash	4,439,327	4,428,563
Investments, at market value <i>[note 3[a]]</i>	496,377,227	468,324,731
Accrued income	650,885	693,015
Accounts receivable	97,639	69,253
Pending securities transaction	—	2,141,228
	501,565,078	475,656,790
LIABILITIES		
Benefits and other payable	127,357	86,376
Administrative expenses payable	561,788	611,365
Pending securities transaction	209,996	—
	899,141	697,741
Net assets available for benefits	500,665,937	474,959,049

See accompanying notes

On behalf of the Board:

Chair

City Treasurer



The Fund of the Toronto Civic Employees' Pension & Benefit Fund

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

Year ended December 31

	2006	2005
	\$	\$
INCREASE IN NET ASSETS		
Investment income		
Interest	10,848,448	12,100,774
Dividends	7,340,329	7,593,765
Realized net gain on sale of investments	38,691,260	27,559,781
Net change in unrealized gain on investments	6,886,969	4,605,362
Total increase in net assets	63,767,006	51,859,682
DECREASE IN NET ASSETS		
Pension payments	36,534,699	37,143,727
Administrative expenses <i>[note 5]</i>	1,525,419	1,470,797
Total decrease in net assets	38,060,118	38,614,524
Net increase in net assets during the year	25,706,888	13,245,158
Net assets available for benefits, beginning of year	474,959,049	461,713,891
Net assets available for benefits, end of year	500,665,937	474,959,049

See accompanying notes

The Fund of the Toronto Civic Employees' Pension & Benefit Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

1. DESCRIPTION OF THE PLAN

The description below is a summary of the Toronto Civic Employees' Pension & Benefit Fund [the "Plan"]. For more complete information, reference should be made to the Plan Agreement.

General

The Plan is registered under the Pension Benefits Act, R.S.O. 1990, Registration Number 0351593. The Plan is a defined benefit plan which operates on behalf of the members who became employees of the former municipality of Metropolitan Toronto 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 the Canada Pension Plan [the "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.

The Fund of the Toronto Civic Employees' Pension & Benefit Fund

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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 Civic Employees' Pension & 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 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 as approved by the Pension Committee. CIBC Mellon has been engaged as the custodian of all investment securities.

Investments are stated at market value and are recorded on a trade-date basis. The full amount of unrealized market appreciation (depreciation) of the investments is recognized during the year. Bonds and equities are valued at year-end quoted market prices where available. Where market prices are not available, estimated market values are calculated using comparable securities.

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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 funds. Gains and losses on these pooled funds are realized only on disposition of units of the pooled funds.

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 in effect on the dates of the related transactions.

Contributions

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

3. INVESTMENTS

[a] Investments consist of the following:

	<u>2006</u>		<u>2005</u>	
	<u>Book</u>	<u>Market</u>	<u>Book</u>	<u>Market</u>
	<u>value</u>	<u>value</u>	<u>value</u>	<u>value</u>
	\$	\$	\$	\$
Bonds and debentures	228,364,795	225,450,820	218,429,243	217,214,289
Canadian equities	84,653,128	97,127,363	92,726,827	111,329,573
Foreign equities	151,331,867	163,020,315	136,605,463	133,579,422
Short-term investments				
Investment managers	4,982,304	4,982,304	5,515,204	5,515,204
Internally managed	5,796,425	5,796,425	686,243	686,243
	<u>475,128,519</u>	<u>496,377,227</u>	<u>453,962,980</u>	<u>468,324,731</u>

The Fund of the Toronto Civic Employees' Pension & Benefit Fund

NOTES TO FINANCIAL STATEMENTS

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[b] Bond managers' holdings:

	2006		2005	
	Book value \$	Market value \$	Book value \$	Market value \$
Bonds and debentures				
CIBC Asset Management Ltd.	116,152,968	113,775,045	113,899,537	112,185,046
PH&N Investment Management Ltd.	112,211,827	111,675,775	104,529,706	105,029,243
Total bonds and debentures	228,364,795	225,450,820	218,429,243	217,214,289
Short-term				
CIBC Asset Management Ltd.	1,344	1,344	1,339	1,339
PH&N Investment Management Ltd.	517,519	517,519	2,711,345	2,711,345
Total short-term	518,863	518,863	2,712,684	2,712,684

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[c] Equity managers' holdings:

	2006		2005	
	Book value \$	Market value \$	Book value \$	Market value \$
Canadian equities				
Howson Tattersall Investment Counsel Ltd.	10,067,662	11,438,906	11,455,374	14,507,664
Highstreet Asset Management	29,846,495	41,969,329	33,424,576	50,245,097
TD Quantitative Capital	44,738,971	43,719,128	47,846,877	46,576,812
Total Canadian equities	84,653,128	97,127,363	92,726,827	111,329,573
Foreign equities				
Frank Russell Overseas Equity			19,428,040	26,831,162
Sanford C. Bernstein	62,906,175	86,299,741	58,471,753	65,285,269
TD Quantitative Capital	88,425,692	76,720,574	58,705,670	41,462,991
Total foreign equities	151,331,867	163,020,315	136,605,463	133,579,422
Total equity managers' equity holdings	235,984,995	260,147,678	229,332,290	244,908,995
Short-term				
Howson Tattersall Investment Counsel Ltd.	1,392,865	1,392,865	1,905,060	1,905,060
Highstreet Asset Management	182,558	182,558	895,797	895,797
Russell Overseas Equity Fund			1,663	1,663
Total equity managers' short-term holdings	1,575,423	1,575,423	2,802,520	2,802,520

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[d] Fixed income investments:

The book and market values of fixed income investments at December 31, 2006 and 2005 are summarized below. The average yield is a weighted average of the market rates on these investments at year end.

	2006			2005		
	Book value \$	Market value \$	Average yield %	Book value \$	Market value \$	Average yield %
Government of Canada						
0 - 5 years	22,269,733	22,357,835	4.07	22,396,823	22,341,526	3.77
5 - 10 years	6,170,319	6,125,089	4.08	15,109,633	15,147,325	4.96
> 10 years	12,157,280	12,514,444	4.14	4,256,169	4,364,676	8.00
	40,597,332	40,997,368		41,762,625	41,853,527	
Provincial and guaranteed						
5 - 10 years	6,241,230	6,213,406	4.31	717,509	742,856	4.74
> 10 years	16,601,350	17,241,891	4.61	20,031,017	21,718,114	6.77
	22,842,580	23,455,297		20,748,526	22,460,970	
Corporate						
0 - 5 years	164,924,883	160,998,155	5.19	155,918,092	152,899,792	4.46
	164,924,883	160,998,155		155,918,092	152,899,792	4.46
Total bonds and debentures	228,364,795	225,450,820		218,429,243	217,214,289	

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[e] The following information is provided in respect of individual investments with a cost or market value in excess of 1% of the cost or market value of the Fund, as required by the Ontario Pension Benefits Act:

	2006	
	Book value \$	Market value \$
Bonds and debentures		
Government of Canada	29,153,174	29,460,198
Province of Ontario	17,828,866	18,314,681
Canada Housing Trust	11,444,428	11,537,170
CIBC Pooled Canadian Bond Fund	116,152,966	113,775,044
PH&N Investment Group Series 0	48,771,903	47,223,096
Canadian equities		
TD Emerald 300 Canadian Equity Index Fund	44,738,971	43,719,128
Foreign equities		
Sanford C. Bernstein Europe, Australia & Far East Pooled Equity Fund	62,906,175	86,299,741
TD Emerald US Equity Fund	88,425,692	76,720,574

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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 rates.

[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.

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5. ADMINISTRATIVE EXPENSES

The Fund's investment management and custodial fees are as follows:

	2006			2005
	Management \$	Custodial \$	Total \$	Total \$
Bond managers				
CIBC Asset Management Ltd.	59,885	7,244	67,129	116,836
PH&N Investment Management Ltd.	201,610	11,844	213,454	215,370
	261,495	19,088	280,583	332,206
Equity managers				
Highstreet	145,011	7,548	152,559	162,844
Howson Tattersall Investment Counsel Ltd.	61,828	5,080	66,908	68,883
Russell Overseas Equity Fund	249,491	2,677	252,168	248,319
TD Quantitative Capital	66,945	6,206	73,151	74,281
Sanford C. Bernstein EAFE Pooled Equity	512,256	5,147	517,403	434,259
	1,035,531	26,658	1,062,189	988,586
Other				
CIBC Mellon Operating Account	—	1,569	1,569	1,316
Total management and custodial fees	1,297,026	47,315	1,344,341	1,322,108
Investment consulting fees			100,366	98,697
Actuary fees			64,496	34,307
Chair honorarium			7,500	7,500
Other			8,716	8,185
			181,078	148,689
Total administrative expenses			1,525,419	1,470,797

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6. FUNDING POLICY

Members are required to contribute 7% of their salary in each pay period less the amount of their contribution under the C.P.P. and the City contributes an equal amount in respect of current service. During the year ended December 31, 1998, City Council approved a contribution reduction of 2% effective January 1, 1998 and a full contribution holiday effective August 1, 1998.

Effective January 1, 1995, members were not required to contribute to the Fund after they have attained 35 years of credited service. All active members attained 35 years service as of June 30, 2003.



ERNST & YOUNG LLP

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