

Appendix A

ASSURANCE AND ADVISORY
BUSINESS SERVICES

ASSURANCE SERVICES

Financial Statements

City of Toronto Sinking Funds

December 31, 2007

 **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, 2007 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, 2007 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 18, 2008.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

City of Toronto Sinking Funds

BALANCE SHEET

As at December 31

	2007	2006
	\$	\$
	[in thousands]	
ASSETS		
Current		
Cash	1,139	2,696
Investments <i>[note 3]</i>	759,790	617,741
	<u>760,929</u>	<u>620,437</u>
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	16	8
Distributions payable <i>[note 5]</i>	6,128	—
Total current liabilities	<u>6,144</u>	<u>8</u>
Actuarial requirements <i>[note 4]</i>	687,531	593,711
Total liabilities	<u>693,675</u>	<u>593,719</u>
Net assets		
Unrestricted surplus <i>[note 5]</i>	67,254	26,718
	<u>760,929</u>	<u>620,437</u>

See accompanying notes

Its operations are as



City of Toronto Sinking Funds

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

Year ended December 31

	2007	2006
	\$	\$
	[in thousands]	
REVENUES		
Contributions	169,977	133,372
Investment income	31,154	36,907
	<u>201,131</u>	<u>170,279</u>
EXPENSES		
Provision for actuarial requirements <i>[note 4]</i>	198,820	163,492
Distribution of surplus contributions <i>[note 5]</i>	6,128	2,715
	<u>204,948</u>	<u>166,207</u>
Excess of revenues over expenses (expenses over revenues) for the year	(3,817)	4,072
Unrestricted surplus, beginning of year, as originally stated	26,718	22,646
Change in accounting policy <i>[note 2]</i>	44,353	—
Unrestricted surplus, beginning of year, as restated	<u>71,071</u>	<u>22,646</u>
Unrestricted surplus, end of year	<u>67,254</u>	<u>26,718</u>

See accompanying notes

City of Toronto Sinking Funds

STATEMENT OF CASH FLOWS

Year ended December 31

	2007	2006
	\$	\$
	[in thousands]	
OPERATING ACTIVITIES		
Excess of revenues over expenses (expenses over revenues) for the year	(3,817)	4,072
Add (deduct) non-cash items		
Amortized discount on investments	(18,569)	(6,680)
Changes in unrealized gain on investments	3,745	—
	<u>(18,641)</u>	<u>(2,608)</u>
Changes in non-cash working capital balances related to operations		
Accounts payable and accrued liabilities	8	(12)
Distributions payable	6,128	(13,506)
Net change in actuarial requirements	93,820	(36,508)
Cash provided by (used in) operating activities	<u>81,315</u>	<u>(52,634)</u>
INVESTING ACTIVITIES		
Purchase of investments	(600,587)	(911,832)
Proceeds from maturities of investments	509,472	945,751
Proceeds from sale of investments	8,243	19,294
Cash provided by (used in) investing activities	<u>(82,872)</u>	<u>53,213</u>
Net increase (decrease) in cash during the year	(1,557)	579
Cash, beginning of year	2,696	2,117
Cash, end of year	<u>1,139</u>	<u>2,696</u>

See accompanying notes



**SCHEDULE OF PROJECTION OF
DEBENTURE MATURITIES**

Year ended December 31, 2007

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

	<u>\$</u>
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
2022	400,000
	<u>2,483,000</u>

See accompanying notes

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

1. PURPOSE OF FUNDS

The City of Toronto Sinking Funds [the "Sinking Funds"] accumulates 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 is unincorporated and is governed under the City of Toronto Act, 1997 (No. 2) Statutes of Ontario, 1997, Chapter 26 and, as such, is 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. They are the representation of management and necessarily involve the use of best estimates and careful judgment. The significant accounting policies are summarized below:

New and future accounting policy changes

Effective January 1, 2007, the Sinking Funds adopted the recommendations of CICA 3855: *Financial Instruments – Recognition and Measurement* and CICA 3861: *Financial Instruments – Disclosure and Presentation*. CICA 3855 establishes standards for recognizing and measuring financial instruments including the accounting treatment for changes in fair value. As required by CICA 3855, investments are presented at fair value and other financial assets and liabilities continue to be presented at amortized cost, which approximates fair value.

As required by the transitional provisions of CICA 3855, the change in accounting policy was adopted retroactively, without restatement of the prior year's financial statements. The impact on the balance sheet as at January 1, 2007 of recording the investments at fair value is an increase to the investment balance of \$44,353,000 and an increase in unrestricted surplus of \$44,353,000. Accrued interest of \$1,922,000 has been classified as investments as at December 31, 2006 to be consistent with the presentation of investments at December 31, 2007.

The CICA has issued two new standards, CICA 3862: *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.



City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

The CICA has issued a new accounting standard, CICA 1535: *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

These three changes in accounting policies, which will be adopted effective January 1, 2008, will only require additional disclosures in the financial statements.

Revenue recognition

Contributions are recognized as revenue in the year receivable.

Investments and investment income

The value of investments recorded in the financial statements is determined as follows:

- [a] Short-term notes and treasury bills are valued based on cost plus accrued income, which approximates fair value.
- [b] Publicly traded bonds and debentures are determined based on the latest bid prices.

Transactions are recorded on a settlement-date basis. Transaction costs are expensed as incurred.

Investments are primarily purchased with the intention of holding them until maturity. Investments have been designated as held for trading because investments may be sold to redeem the debentures if certain debentures provide for early redemption and market conditions are favourable. Investments may also be sold to acquire securities with a better rate of return.

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

Investment income includes interest and realized and unrealized gains and losses and is included in the statement of operations and changes in unrestricted surplus.



City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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.

3. INVESTMENTS

Investments consist of the following:

	2007 \$	2006 \$
	[in thousands]	
Debentures issued or guaranteed by		
Provincial governments	503,064	483,669
City of Toronto	101,070	106,489
Other Canadian municipalities	41,995	42,710
Corporate debt	113,661	29,226
Market value	759,790	662,094
Par value	997,258	910,907
Amortized cost	719,182	617,741
Weighted averaged yield	5.31%	5.34%
Average term to maturity	8.25 years	8.19 years
Excess of market value over amortized cost	40,608	44,353



City of Toronto Sinking Funds**NOTES TO FINANCIAL STATEMENTS**

December 31, 2007

4. ACTUARIAL REQUIREMENTS

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

	2007	2006
	\$	\$
	[in thousands]	
Actuarial requirements, beginning of year	593,711	630,219
Add provision for actuarial requirements	198,820	163,492
	792,531	793,711
Less par value of debentures matured in the year	105,000	200,000
Actuarial requirements, end of year	687,531	593,711

5. NET ASSETS

Unrestricted surplus consists of the following:

	2007	2006
	\$	\$
	[in thousands]	
City of Toronto		
General	25,522	24,169
Water supply	207	177
	25,729	24,346
Toronto District School Board	917	2,372
Total unrestricted surplus based on amortized cost	26,646	26,718
Unrealized gain on investments	40,608	—
Total net assets	67,254	26,718

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 in the amount of \$3,400,591 [2006 - \$6,127,667] that were available to be distributed as a result of the maturity of one debt issue in 2007 [2006 - two debt issues in 2006]. 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.

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

In November 2007, the City of Toronto Sinking Funds Committee approved the distribution of the 2006 surplus amount of \$6,127,667, which was approved by the City of Toronto Council in December 2007. Of this amount, \$4,535,783 was payable to the City of Toronto and \$1,591,884 was payable to the Toronto District School Board. These distributions were not paid to the City of Toronto and the Toronto District School Board until January 2008 and were recorded in distributions payable in the balance sheet as at December 31, 2007.

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.

6. FINANCIAL INSTRUMENTS

The Sinking Funds is subject to market risk and interest rate price risk with respect to its investment portfolio.



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ERNST & YOUNG LLP

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