

Financial Statements

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

[Ontario Registration Number 0351593]

December 31, 2007

## 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, 2007 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 909, Section 76 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, 2007 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 909, Section 76 of the Ontario Pensions 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 30, 2008.

*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

	2007	2006
	\$	\$
		<i>[as restated - note 8]</i>
<b>ASSETS</b>		
Cash	951,568	4,439,327
Investments, at market value <i>[note 3[a]]</i>	466,457,444	493,489,209
Accrued income	589,472	650,885
Accounts receivable	79,668	97,639
	<b>468,078,152</b>	<b>498,677,060</b>
<b>LIABILITIES</b>		
Benefits and other payables	135,931	127,357
Administrative expenses payable	564,302	561,788
Pending securities transaction	13,498	209,996
	<b>713,731</b>	<b>899,141</b>
<b>Net assets available for benefits</b>	<b>467,364,421</b>	<b>497,777,919</b>

*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

	2007	2006
	\$	\$
		<i>[as restated - note 8]</i>
<b>INCREASE IN NET ASSETS</b>		
Investment income		
Interest	11,458,732	10,848,448
Dividends	5,501,394	4,452,311
Realized net gain on sale of investments	28,885,206	38,691,260
Net change in unrealized gain on investments	—	6,886,969
<b>Total increase in net assets</b>	<b>45,845,332</b>	<b>60,878,988</b>
<b>DECREASE IN NET ASSETS</b>		
Pension payments	37,431,070	36,534,699
Administrative expenses <i>[note 5]</i>	1,385,645	1,525,419
Transaction costs	56,008	—
Net change in unrealized loss on investments	37,386,107	—
<b>Total decrease in net assets</b>	<b>76,258,830</b>	<b>38,060,118</b>
<b>Net increase (decrease) in net assets during the year</b>	<b>(30,413,498)</b>	<b>22,818,870</b>
Net assets available for benefits, beginning of year	497,777,919	474,959,049
<b>Net assets available for benefits, end of year</b>	<b>467,364,421</b>	<b>497,777,919</b>

*See accompanying notes*

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

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2007

### **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 [the "YMPE"] 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. The Plan has been amended in 2007 such that for all members, the CPP offset has been revised from 0.7% to 0.675% and, in addition, for those members that retired after January 1, 2000, the average YMPE is based on five years instead of three.

#### **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**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2007

### **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 "Plan"] 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 909, Section 76 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 these financial statements 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 Plan'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.

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

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2007

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.

#### **Adoption of new accounting standard**

In accordance with "EIC-168: Accounting by Pension Plans for Transaction Costs" issued by the Canadian Institute of Chartered Accountants ["CICA"], beginning January 1, 2007, investment transaction costs should be expensed as incurred. Prior to January 1, 2007, transaction costs were included in the cost of investments on purchases. As a result, when investments are subsequently fair valued, the transaction costs reduce or increase unrealized gains and losses for investments currently held, and realized gains and losses for investments that have been sold. Subsequent to the adoption of EIC-168, transaction costs are now separately presented on the Statement of Changes in Net Assets Available for Benefits. The change in accounting policy has been applied retrospectively, without restatement of prior periods.

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

### NOTES TO FINANCIAL STATEMENTS

December 31, 2007

#### 3. INVESTMENTS

[a] Investments consist of the following:

The book value of investments includes transaction costs of \$56,008 as at December 31, 2007.

	2007		2006	
	Book value \$	Market value \$	Book value \$	Market value \$
			<i>[as restated - note 8]</i>	
Bonds and debentures	237,860,591	231,326,556	228,364,795	225,450,820
Canadian equities	84,209,918	90,419,106	84,653,128	97,127,363
Foreign equities	154,055,137	138,241,927	151,331,867	163,020,315
Short-term investments				
Investment managers	3,268,573	3,268,573	2,094,286	2,094,286
Internally managed	3,201,282	3,201,282	5,796,425	5,796,425
	<b>482,595,501</b>	<b>466,457,444</b>	472,240,501	493,489,209

[b] Bond managers' holdings:

	2007		2006	
	Book value \$	Market value \$	Book value \$	Market value \$
<b>Bonds and debentures</b>				
CIBC Asset Management Ltd.	121,945,264	117,736,130	116,152,968	113,775,045
PH&N Investment Management Ltd.	115,915,327	113,590,426	112,211,827	111,675,775
<b>Total bonds and debentures</b>	<b>237,860,591</b>	<b>231,326,556</b>	228,364,795	225,450,820
<b>Short-term investments</b>				
CIBC Asset Management Ltd.	1,348	1,348	1,344	1,344
PH&N Investment Management Ltd.	1,784,645	1,784,645	517,519	517,519
<b>Total short-term investments</b>	<b>1,785,993</b>	<b>1,785,993</b>	518,863	518,863

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

### NOTES TO FINANCIAL STATEMENTS

December 31, 2007

[c] Equity managers' holdings:

	<u>2007</u>		<u>2006</u>	
	Book value \$	Market value \$	Book value \$	Market value \$
<b>Canadian equities</b>				
Howson Tattersall Investment Counsel Ltd.	12,600,475	10,784,677	10,067,662	11,438,906
Highstreet Asset Management	28,751,241	40,340,867	29,846,495	41,969,329
TD Quantitative Capital	42,858,202	39,293,562	44,738,971	43,719,128
<b>Total Canadian equities</b>	<b>84,209,918</b>	<b>90,419,106</b>	84,653,128	97,127,363
<b>Foreign equities</b>				
Frank Russell Overseas Equity				
Sanford C. Bernstein	65,341,660	70,760,727	62,906,175	86,299,741
TD Quantitative Capital	88,168,237	66,854,312	88,425,692	76,720,574
Howson Tattersall Investment Counsel Ltd.	545,240	626,889	—	—
<b>Total foreign equities</b>	<b>154,055,137</b>	<b>138,241,928</b>	151,331,867	163,020,315
<b>Total equity managers' equity holdings</b>	<b>238,265,055</b>	<b>228,661,034</b>	235,984,995	260,147,678
<b>Short-term investments</b>				
Howson Tattersall Investment Counsel Ltd.	1,082,729	1,082,729	1,392,865	1,392,865
Highstreet Asset Management	381,277	381,277	182,558	182,558
TD Quantitative Capital	18,574	18,574	—	—
<b>Total equity managers' Short-term holdings</b>	<b>1,482,580</b>	<b>1,482,580</b>	1,575,423	1,575,423

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

### NOTES TO FINANCIAL STATEMENTS

December 31, 2007

[d] Fixed income investments:

The book and market values of fixed income investments at December 31, 2007 and 2006 are summarized below. The average yield is a weighted average of the market rates on these investments at year end.

	2007			2006		
	Book value \$	Market value \$	Average yield %	Book value \$	Market value \$	Average yield %
Government of Canada						
0 - 5 years	<b>19,194,984</b>	<b>19,273,537</b>	<b>4.12</b>	22,269,733	22,357,835	4.07
5 - 10 years	<b>731,692</b>	<b>735,812</b>	<b>3.99</b>	6,170,319	6,125,089	4.08
> 10 years	<b>2,134,469</b>	<b>2,173,286</b>	<b>4.09</b>	12,157,280	12,514,444	4.14
	<b>22,061,145</b>	<b>22,182,635</b>		40,597,332	40,997,368	
Provincial and guaranteed						
5 - 10 years	<b>9,334,940</b>	<b>9,445,204</b>	<b>4.44</b>	6,241,230	6,213,406	4.31
> 10 years	<b>18,576,805</b>	<b>19,099,105</b>	<b>4.64</b>	16,601,350	17,241,891	4.61
	<b>27,911,745</b>	<b>28,544,309</b>		22,842,580	23,455,297	
Corporate						
0 - 5 years	<b>187,887,701</b>	<b>180,599,612</b>	<b>5.70</b>	164,924,883	160,998,155	5.19
	<b>187,887,701</b>	<b>180,599,612</b>		164,924,883	160,998,155	
<b>Total bonds and debentures</b>	<b>237,860,591</b>	<b>231,326,556</b>		228,364,795	225,450,820	

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2007

[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:

	<u>2007</u>	
	<u>Book value</u>	<u>Market value</u>
	\$	\$
<b>Bonds and debentures</b>		
Province of Ontario	20,047,209	20,582,144
Canada Housing Trust	19,194,984	19,273,537
CIBC Pooled Cdn Bond Fund	121,945,264	117,736,130
PH&N Invt Grp Ser 0	59,807,746	56,725,959
PH&N Mortgage	6,134,681	6,137,510
<hr/>		
<b>Canadian equities</b>		
TD Emerald 300 Canadian Equity Index Fund	42,858,202	39,283,562
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<b>Foreign equities</b>		
Sanford C. Bernstein Europe, Australia & Far East Pooled Equity Fund	65,341,660	70,760,727
TD Emerald US Equity Fund	88,168,237	66,854,312
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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.

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2007

[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.

The Plan has established guidelines that must be adhered to by the investment managers. These guidelines stipulate the lowest acceptable credit rating for bonds, the maximum that can be invested in these bonds and the maximum that can be invested in Canadian and foreign equities.

In addition, the guidelines stipulate the optimum asset-mix percentages with minimum and maximum limits for each class.

[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 Plan does not use financial instruments to hedge these risks.

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

### NOTES TO FINANCIAL STATEMENTS

December 31, 2007

#### 5. ADMINISTRATIVE EXPENSES

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

	2007			2006
	Management	Custodial	Total	Total
	\$	\$	\$	\$
<b>Bond managers</b>				
CIBC Asset Management Ltd.	60,628	7,239	67,867	67,129
PH&N Investment Management Ltd.	204,897	12,456	217,353	213,454
	<b>265,525</b>	<b>19,695</b>	<b>285,220</b>	280,583
<b>Equity managers</b>				
Highstreet Asset Management Inc.	140,892	8,544	149,436	152,559
Howson Tattersall Investment Counsel Ltd.	59,557	7,040	66,597	66,908
Russell Overseas Equity Fund	—	—	—	252,168
TD Quantitative Capital	77,092	7,459	84,551	73,151
Sanford C. Bernstein EAFE Pooled Equity	517,002	5,492	522,494	517,403
	<b>794,543</b>	<b>28,535</b>	<b>823,078</b>	1,062,189
<b>Other</b>				
CIBC Mellon Operating Account		1,281	1,281	1,569
<b>Total management and custodial fees</b>	<b>1,060,068</b>	<b>49,511</b>	<b>1,109,579</b>	1,344,341
Investment consulting fees			105,364	100,366
Actuary fees			149,502	64,496
Chair honorarium			7,500	7,500
Other			13,700	8,716
			<b>276,066</b>	181,078
<b>Total administrative expenses</b>			<b>1,385,645</b>	1,525,419

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

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2007

#### **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 Plan after they have attained 35 years of credited service. All active members attained 35 years service as of June 30, 2003.

#### **7. AUDIT FEES**

The annual audit fee for the Plan is not included in the accounts of the Plan. The annual audit fee is the responsibility of the City.

#### **8. RESTATEMENT OF PRIOR YEAR'S FINANCIAL STATEMENTS**

The Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits for 2006 have been restated to reflect an overstatement of investments and investment income that was detected in fiscal 2007. As a result of the restatement, 2006 investments, dividend income, and net assets available for benefits decreased by \$2,888,018.