

Financial Statements

**City of Toronto Sinking Funds**

December 31, 2008

## 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, 2008 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, 2008 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,  
March 20, 2009.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants

## City of Toronto Sinking Funds

### BALANCE SHEET

As at December 31

	2008	2007
	\$	\$
	[in thousands]	
<b>ASSETS</b>		
<b>Current</b>		
Cash	4,229	1,139
Investments <i>[note 3]</i>	875,819	759,790
	<b>880,048</b>	<b>760,929</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	15	16
Distributions payable <i>[note 4]</i>	—	6,128
<b>Total current liabilities</b>	<b>15</b>	<b>6,144</b>
Sinking fund requirements <i>[note 5]</i>	792,054	687,531
<b>Total liabilities</b>	<b>792,069</b>	<b>693,675</b>
<b>Net assets</b>		
Unrestricted surplus <i>[note 4]</i>	87,979	67,254
	<b>880,048</b>	<b>760,929</b>

*See accompanying notes*

## City of Toronto Sinking Funds

### STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED SURPLUS

Year ended December 31

	2008	2007
	\$	\$
	[in thousands]	
<b>REVENUES</b>		
Contributions	194,946	169,977
Investment income	55,302	31,154
	<u>250,248</u>	<u>201,131</u>
<b>EXPENSES</b>		
Provision for sinking fund requirements <i>[note 5]</i>	229,523	198,820
Distribution of surplus contributions <i>[note 4]</i>	—	6,128
	<u>229,523</u>	<u>204,948</u>
<b>Excess of revenues over expenses (expenses over revenues) for the year</b>	<b>20,725</b>	<b>(3,817)</b>
Unrestricted surplus, beginning of year	67,254	26,718
Change in accounting policy <i>[note 2]</i>	—	44,353
Unrestricted surplus, beginning of year	<u>67,254</u>	<u>71,071</u>
<b>Unrestricted surplus, end of year</b>	<b><u>87,979</u></b>	<b><u>67,254</u></b>

*See accompanying notes*

## City of Toronto Sinking Funds

### STATEMENT OF CASH FLOWS

Year ended December 31

	2008	2007
	\$	\$
	[in thousands]	
<b>OPERATING ACTIVITIES</b>		
Excess of revenues over expenses		
(expenses over revenues) for the year	20,725	(3,817)
Add (deduct) non-cash items		
Amortized discount on investments	(16,024)	(18,569)
Accrued interest	(1,009)	(1,027)
(Increase) decrease in unrealized gain on investments	(15,235)	3,745
	<u>(11,543)</u>	<u>-19,668</u>
Changes in non-cash working capital balances		
related to operations		
Accounts payable and accrued liabilities	(1)	8
Distributions payable	(6,128)	6,128
<b>Cash used in operating activities</b>	<u>(17,672)</u>	<u>(13,532)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(2,380,070)	(600,587)
Proceeds from maturities of investments	2,252,685	510,499
Proceeds from sale of investments	43,624	8,243
<b>Cash used in investing activities</b>	<u>(83,761)</u>	<u>(81,845)</u>
<b>FINANCING ACTIVITIES</b>		
Increase in sinking fund requirements	104,523	93,820
<b>Cash provided by financing activities</b>	<u>104,523</u>	<u>93,820</u>
<b>Net increase (decrease) in cash during the year</b>	<b>3,090</b>	<b>-1,557</b>
Cash, beginning of year	1,139	2,696
<b>Cash, end of year</b>	<u><b>4,229</b></u>	<u><b>1,139</b></u>

See accompanying notes

**SCHEDULE OF PROJECTION OF  
DEBENTURE MATURITIES**

Year ended December 31

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

	<b>2008</b>
	\$
	<u>[in thousands]</u>
2010	260,000
2011	200,000
2013	120,000
2014	228,000
2015	300,000
2016	475,000
2017	500,000
2018	425,000
2021	150,000
	<u>2,658,000</u>

*See accompanying notes*

## City of Toronto Sinking Funds

# NOTES TO FINANCIAL STATEMENTS

December 31, 2008

### 1. PURPOSE OF FUNDS

The City of Toronto Sinking Funds [the "Sinking Funds"] accumulates amounts through periodic contributions from the City of Toronto and the Toronto District School Board, which are calculated so that the contributions and interest income should be sufficient to retire the principal amount of the sinking fund debt [schedule 1] 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:

#### Revenue recognition

Contributions are recognized as revenue in the year receivable.

#### Financial instruments

Effective January 1, 2007, the Sinking Funds adopted the recommendations of The Canadian Institute of Chartered Accountants' ["CICA"] Handbook Section 3855: *Financial Instruments – Recognition and Measurement* and CICA 3861: *Financial Instruments – Disclosure and Presentation*. As required by the transitional provisions of CICA 3855, the change in accounting policy was adopted retroactively. 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 and an increase in unrestricted surplus of \$44,353.

The Sinking Funds has chosen to continue to apply CICA 3861: *Financial Instruments – Disclosure and Presentation* in place of CICA 3862: *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*.

## City of Toronto Sinking Funds

# NOTES TO FINANCIAL STATEMENTS

December 31, 2008

Financial assets include cash and investments. 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 sinking fund 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.

Financial liabilities are presented at amortized cost, which approximates fair value.

### **Management estimates and sinking fund 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 sinking fund requirements of the Sinking Funds. The sinking fund requirements are the accumulated contributions to date together with interest thereon compounded at the sinking fund 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 sinking fund 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, 2008

#### Changes in accounting policies

Effective January 1, 2008, the Sinking Funds adopted the recommendations of CICA 1535: *Capital Disclosures*, which require the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the Sinking Funds' objectives, policies and processes for managing capital. The adoption of these recommendations only required additional disclosures, which are provided in note 7.

#### Future changes in accounting policies

In February 2008, the Accounting Standards Board amended CICA 1000: *Financial Statement Concepts* to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the balance sheet. The amendments are effective for financial statements for fiscal years beginning on or after October 1, 2008. These amendments are not expected to have an impact on the financial statements.

### 3. INVESTMENTS

Investments consist of the following:

	2008 \$	2007 \$
	[in thousands]	
<b>Debentures issued or guaranteed by</b>		
Provincial governments	562,489	503,064
City of Toronto	107,526	101,070
Other Canadian municipalities	34,446	41,995
Corporate debt	171,358	113,661
<b>Market value</b>	<b>875,819</b>	<b>759,790</b>
<b>Par value</b>	<b>1,073,141</b>	<b>997,258</b>
<b>Amortized cost</b>	<b>819,976</b>	<b>719,182</b>
<b>Weighted averaged yield</b>	<b>6.19%</b>	<b>5.31%</b>
<b>Average term to maturity</b>	<b>7.24 years</b>	<b>8.25 years</b>
<b>Excess of market value over amortized cost</b>	<b>55,843</b>	<b>40,608</b>

## City of Toronto Sinking Funds

### NOTES TO FINANCIAL STATEMENTS

December 31, 2008

#### 4. NET ASSETS

Unrestricted surplus consists of the following:

	2008	2007
	\$	\$
	[in thousands]	
City of Toronto		
General	30,735	25,522
Water supply	—	207
	<u>30,735</u>	<u>25,729</u>
Toronto District School Board	1,401	917
Total unrestricted surplus based on amortized cost	<u>32,136</u>	26,646
Unrealized gain on investments	<u>55,843</u>	40,608
<b>Total net assets</b>	<u><b>87,979</b></u>	<u>67,254</u>

Included in total net assets, and part of the unrestricted surplus shown on the statement of operations and changes in unrestricted surplus, are surplus funds of \$9,463 [2007 - \$3,401] that were available to be distributed as a result of the maturity of one debt issue in 2008 [2007 - one debt issue]. 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 December 2008, the City of Toronto Sinking Funds Committee approved the distribution of the 2007 surplus amount of \$3,401, which is to be considered for approval by the City of Toronto Council in 2009.

In November 2007, the City of Toronto Sinking Funds Committee approved the distribution of the 2006 surplus amount of \$6,128, which was approved by the City of Toronto Council in December 2007. Of this amount, \$4,536 was payable to the City of Toronto and \$1,592 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.

## City of Toronto Sinking Funds

### NOTES TO FINANCIAL STATEMENTS

December 31, 2008

#### 5. SINKING FUND REQUIREMENTS

The change in the sinking fund requirements for the year is as follows:

	2008 \$	2007 \$
	[in thousands]	
<b>Sinking fund requirements, beginning of year</b>	<b>687,531</b>	593,711
Add provision for sinking fund requirements	<b>229,523</b>	198,820
	<b>917,054</b>	792,531
Less par value of debentures matured in the year	<b>125,000</b>	105,000
<b>Sinking fund requirements, end of year</b>	<b>792,054</b>	687,531

#### 6. FINANCIAL INSTRUMENTS

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

#### 7. CAPITAL MANAGEMENT

In managing capital, the Sinking Funds focus on liquid resources available for reinvestment. The Sinking Funds objective is to have sufficient liquid resources to meet its debenture obligations when they mature, despite adverse financial events. The need for sufficient liquid resources is considered in the investment process. As at December 31, 2008, the Sinking Funds has met its objective of having sufficient liquid resources to meet its current obligations.

#### 8. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 financial statements.

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