

Financial Statements

City of Toronto Sinking Funds

December 31, 2009

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, 2009 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, 2009 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 12, 2010.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

City of Toronto Sinking Funds

BALANCE SHEET

As at December 31

	2009	2008
	\$	\$
	[in thousands]	
ASSETS		
Current		
Cash	1,600	4,229
Investments, at market value <i>[note 3]</i>	1,131,441	875,819
	1,133,041	880,048
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	20	15
Distributions payable <i>[note 4]</i>	3,401	—
Total current liabilities	3,421	15
Sinking fund requirements <i>[note 5]</i>	1,041,715	792,054
Total liabilities	1,045,136	792,069
Net assets		
Unrestricted surplus <i>[note 4]</i>	87,905	87,979
	1,133,041	880,048

See accompanying notes

City of Toronto Sinking Funds

STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED SURPLUS

Year ended December 31

	2009	2008
	\$	\$
	[in thousands]	
REVENUES		
Contributions	209,523	194,946
Investment income	43,465	55,302
	<u>252,988</u>	<u>250,248</u>
EXPENSES		
Provision for sinking fund requirements <i>[note 5]</i>	<u>249,661</u>	<u>229,523</u>
Excess of revenues over expenses for the year	<u>3,327</u>	<u>20,725</u>
Unrestricted surplus, beginning of year	87,979	67,254
Distribution of surplus contributions <i>[note 4]</i>	(3,401)	—
Unrestricted surplus, beginning of year	<u>84,578</u>	<u>67,254</u>
Unrestricted surplus, end of year	<u>87,905</u>	<u>87,979</u>

See accompanying notes

City of Toronto Sinking Funds

STATEMENT OF CASH FLOWS

Year ended December 31

	2009	2008
	\$	\$
	[in thousands]	
OPERATING ACTIVITIES		
Excess of revenues over expenses for the year	3,327	20,725
Add (deduct) items not involving cash		
Amortized discount on investments	(24,209)	(16,024)
Accrued interest	(1,204)	(1,009)
Unrealized gain (loss) on investments	1,326	(15,235)
	<u>(20,760)</u>	<u>(11,543)</u>
Changes in non-cash working capital balances related to operations		
Accounts payable and accrued liabilities	5	(1)
Distributions payable	3,401	(6,128)
Cash used in operating activities	<u>(17,354)</u>	<u>(17,672)</u>
INVESTING ACTIVITIES		
Purchase of investments	(1,793,729)	(2,380,070)
Proceeds from maturities of investments	1,469,821	2,252,685
Proceeds from sale of investments	92,373	43,624
Cash used in investing activities	<u>(231,535)</u>	<u>(83,761)</u>
FINANCING ACTIVITIES		
Increase in sinking fund requirements	249,661	104,523
Distribution of surplus contributions	(3,401)	—
Cash provided by financing activities	<u>246,260</u>	<u>104,523</u>
Net increase (decrease) in cash during the year	(2,629)	3,090
Cash, beginning of year	4,229	1,139
Cash, end of year	<u>1,600</u>	<u>4,229</u>

See accompanying notes

**SCHEDULE OF PROJECTION OF
DEBENTURE MATURITIES**

Year ended December 31, 2009

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

	\$
	<u>[in thousands]</u>
2011	200,000,000
2013	120,000,000
2014	228,000,000
2015	300,000,000
2016	475,000,000
2017	500,000,000
2018	425,000,000
2019	400,000,000
2021	150,000,000
	<u>2,798,000,000</u>

See accompanying notes

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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*] 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

The Sinking Funds has chosen to continue to apply The Canadian Institute of Chartered Accountants' ["CICA"] Handbook Section 3861: *Financial Instruments – Disclosure and Presentation* in place of CICA 3862: ["CICA *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*].

Financial assets include cash and investments. The value of investments recorded in the financial statements is valued based on the latest bid prices.

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

Investments are 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.

City of Toronto Sinking Funds

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December 31, 2009

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.

Future accounting policy changes

The Public Sector Accounting Board ["PSAB"] issued an exposure draft in March 2010 which sets out financial reporting proposals that would apply to government not-for-profit organizations. Specifically, PSAB proposes to incorporate into the Public Sector Accounting ["PSA"] Handbook the 4400 series from the CICA Handbook without making substantive changes at this time; amend the Introduction of Accounting Standards that apply only to not-for-profit organizations currently in the PSA Handbook to set out the applicability of standards in the PSA Handbook to government not-for-profit organizations; and amend the Introduction to Public Sector Accounting Standards to direct government not-for-profit organizations to apply the standards for not-for-profit organizations in the PSA Handbook for fiscal periods beginning on or after January 1, 2012 with retroactive application with restatement of prior periods. PSAB expects the final standards will be incorporated into the PSA Handbook in late 2010. Government not-for-profit organizations currently use the standards developed by the Accounting Standards Board that are used by private sector not-for-profit organizations. If these proposals are adopted, government not-for-profit organizations will continue to apply the 4400 series of standards using the PSA Handbook.

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

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3. INVESTMENTS

Investments consist of the following:

	2009 \$	2008 \$
	[in thousands]	
Debentures issued or guaranteed by		
Provincial governments	696,242	562,489
City of Toronto	121,437	107,526
Other Canadian municipalities	43,360	34,446
Corporate debt	270,402	171,358
Market value	1,131,441	875,819
Par value	1,323,968	1,073,141
Amortized cost	1,075,708	819,976
Weighted averaged yield	5.46%	6.19%
Average term to maturity	5.89 years	7.24 years
Excess of market value over amortized cost	55,733	55,843

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

4. NET ASSETS

Unrestricted surplus consists of the following:

	2009 \$	2008 \$
[in thousands]		
City of Toronto	35,930	30,735
Toronto District School Board	1,404	1,401
Total unrestricted surplus based on amortized cost	37,334	32,136
Unrealized gain on investments	50,571	55,843
Total net assets	87,905	87,979

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 [2008 - \$9,463] that were available to be distributed as a result of the maturity of one debt issue in 2009 [2008 - 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 March 2010, the City of Toronto Sinking Funds Committee approved the distribution of the 2008 surplus amount of \$9,463, which is to be considered for approval by the City of Toronto Council in 2010.

In December 2008, the City of Toronto Sinking Funds Committee approved the distribution of the 2007 surplus amount of \$3,401, which was approved by the City of Toronto Council in April 2009. These distributions were not paid and, accordingly, were recorded as distributions payable as at December 31, 2009.

City of Toronto Sinking Funds

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

5. SINKING FUND REQUIREMENTS

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

	2009 \$	2008 \$
	[in thousands]	
Sinking fund requirements, beginning of year	792,054	687,531
Add provision for sinking fund requirements	249,661	229,523
	1,041,715	917,054
Less par value of debentures matured during the year	—	125,000
Sinking fund requirements, end of year	1,041,715	792,054

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, 2009, the Sinking Funds has met its objective of having sufficient liquid resources to meet its current obligations.

8. SUBSEQUENT EVENT

On April 1, 2010, the Sinking Funds received a deposit of \$600 million for the prepayment of future contributions previously approved under certain specific by-laws. The City intends to repeal the by-laws with respect to future contributions that would have been required at a future meeting of City of Toronto Council.